

INFOSYS

Sacrificing margin for digital future

India Equity Research | IT

Infosys' USD2,805mn revenue (up 1.8% QoQ in USD, 0.6% in CC) and 24.7% margin in Q4FY18 came in line with Street's estimates. Key highlights: i) 6-8% FY19 CC revenue growth guidance versus 5.8% in FY18; ii) however, margin guidance was pruned to 22.0-24.0% (24.3% in FY18) due to investment in digital business, which we believe will help Infosys gain market share; iii) strong deal momentum with USD905mn/ USD3bn TCV deal wins in Q4FY18/ FY18; and iv) USD2bn cash to be distributed to shareholders in FY19, over & above regular dividend. Lower margin guidance and softer-than-expected commentary are likely to be perceived negatively by Street. However, we maintain Infosys as our top pick led by: a) strong deal win momentum; b) digital-focused strategy in place; c) undemanding valuations (14.9x FY20E EPS); and d) high dividend yield. Maintain 'BUY' with revised TP of INR1,419 (INR1,475 earlier).

New digital-focused strategy: Long-term positive

Mr. Salil Parekh, the new CEO, has refreshed Infosys' strategic direction focusing on: 1) scaling agile digital business; 2) energizing core via AI & automation; 3) re-skilling employees; and 4) expanding localisation. It will increase investments to achieve these objectives, which has led to lowering of FY19 operating margin guidance to 22-24% from 23-25% for FY18. Infosys will also sell subsidiaries Skava and Panaya. We believe, investments towards digital, although margin dilutive, will be positive for long-term growth given rising relevance of these services for clients.

Energy & communication robust; outsourcing in Europe rising

Energy & communication services (ECS) continued its robust momentum riding strong traction in new offerings. As process digitization & IoT are aiding manufacturing post modest growth, legacy modernization & care management are spearheading healthcare traction. Infosys reiterated higher outsourcing level in Europe.

Outlook and valuations: Digital to drive growth; maintain 'BUY'

We believe, renewed focus on digital will help Infosys drive revenue outperformance in coming years. We cut FY19E and FY20E EPS 0.7% and 4.2%, respectively, as: i) investments in building sales and digital capabilities will lead to 90bps and 70bps margin dilution, respectively; and ii) INR130bn payback to shareholders reduces other income. We maintain 'BUY/SO' with revised TP of INR1,419.

Financials

(INR mn)

Year to March	Q4FY18	Q3FY18	% Chg	Q4FY17	% Chg	FY18	FY19E	FY20E
Net revenues	180,830	177,940	1.6	171,200	5.6	705,220	785,735	862,259
EBITDA	49,300	48,170	2.3	46,580	5.8	190,100	205,791	228,725
Adjusted Profit	36,900	36,970	(0.2)	36,030	2.4	145,960	154,749	171,489
Adj. diluted EPS	17.0	16.2	4.5	15.8	7.6	64.7	71.2	78.9
Diluted P/E (x)						18.1	16.5	14.9
EV/EBITDA (x)						12.1	10.9	9.9
EV/Revenues (x)						3.3	2.9	2.6

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Low
Sector Relative to Market	Overweight

MARKET DATA (R: INFY.BO, B: INFO IN)

CMP	: INR 1,171
Target Price	: INR 1,419
52-week range (INR)	: 1,221 / 860
Share in issue (mn)	: 2,184.1
M cap (INR bn/USD mn)	: 2,559 / 37,409
Avg. Daily Vol.BSE/NSE('000)	: 5,448.6

SHARE HOLDING PATTERN (%)

	Current	Q2FY18	Q1FY18
Promoters *	12.9	12.7	12.7
MF's, FI's & BK's	21.8	22.1	20.2
FII's	35.0	34.1	37.5
Others	30.3	31.0	29.5
* Promoters pledged shares (% of share in issue)	:	NIL	

RELATIVE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	0.7	(2.1)	15.7
3 months	(0.9)	8.2	25.5
12 months	(1.7)	10.3	9.8

Sandip Agarwal

+91 22 6623 3474
sandip.agarwal@edelweissfin.com

Pranav Kshatriya

+91 22 4040 7495
pranav.kshatriya@edelweissfin.com

Nikunj Mandowara

+91 22 2286 7431
nikunj.mandowara@edelweissfin.com

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New strategy heavily geared towards digital

Digital revenue, at Q4FY18 end, stood at 26.8%, up 3.6% QoQ CC. Considering tremendous opportunities in fast-growing digital business, Mr. Salil Parekh has forged a new strategy that revolves around four key pillars: 1) **scaling agile digital business**-focus heavily on enhancing digital capabilities; 2) **energizing company's core by embracing automation and AI** to drive productivity improvement; 3) **re-skilling employees** towards more relevant technologies; and 4) **expanding localization** in markets such as US, Europe and Australia. The company is also in the process of selling its subsidiaries—Skava and Panaya—on strategic review of its portfolio of businesses.

Margin guidance revised down due to investments in digital

Despite significant INR appreciation, Infosys did a commendable job of maintaining its operating margin at upper-end of guided range of 23-25%. While the company exited Q4FY18 with EBIT margin of 24.7%, FY18 margin stood at 24.3%. With the company aggressively chasing capabilities in digital, it has pruned its operating guidance range to 22-24% for FY19. Infosys aspires to invest heavily in building capabilities in under-tapped digital areas, revitalizing sales for tapping new market opportunities, re-skilling employees in new technologies and expanding localization in key markets such as US.

Insurance, energy & communication sustain strong momentum

ECS continued its robust growth momentum on back of strong traction in new areas like analytics in energy, IoT in communication, cyber security in telcos and smart meter opportunities in utilities. Legacy modernization, digital health, analytics and care management are also resulting in higher traction in healthcare. Growth in insurance also continues to be strong as insurance companies are under pressure to innovate fast and Infosys' offerings such as McCamish and Nia gather steam. Digitization of end-to-end processes with focus on integrating mobile, IoT and back-end systems are driving growth in manufacturing vertical.

Cash distribution remains robust; further USD2bn distribution in FY19

Infosys maintained its stance of distributing 70% of its free cash flow to shareholders. In addition, the company has also identified INR130bn (USD2bn) to be paid to shareholders in the following manner: 1) special dividend of INR26bn in June 2018; and 2) INR104bn in FY19. Distribution of 70% of free cash flow alongwith additional INR130bn implies a robust dividend yield of 6.6% for FY19.

Outlook and valuations: Digital to drive growth; maintain 'BUY'

We believe, management's renewed focus on digital will help Infosys drive revenue outperformance in coming years. We cut FY19E and FY20E EPS 0.7% and 4.2% as the company invests towards building sales and digital capabilities, leading to 90bps and 70bps margin dilution, respectively, and INR130bn payback to shareholders reduces other income. We maintain '**BUY/SO**' with revised TP of INR1,419.

Key highlights

- Reported revenue of USD2,805mn, up 1.8% QoQ (0.6% in CC), versus Street's estimate of 2.2% QoQ growth.
- EBITDA margin rose 20bps QoQ to 27.3%.
- Net profit stood at INR36.9bn, down 0.2% QoQ. Adjusted net margin declined 40bps QoQ to 20.4%.

Chart 1: Volume growth (QoQ)

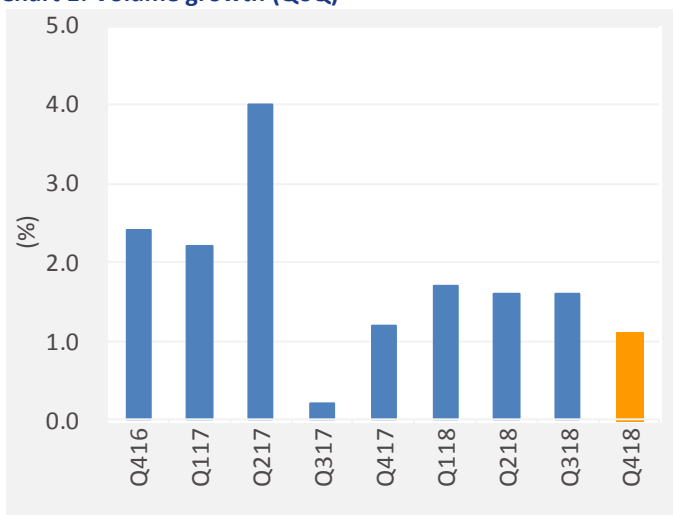
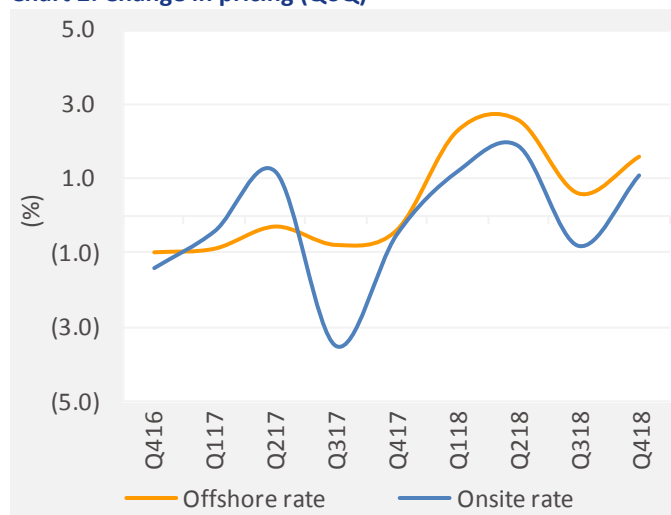


Chart 2: Change in pricing (QoQ)



Source: Company, Edelweiss research

- **FY19 guidance:** Infosys issued CC revenue growth guidance of 6.0-8.0% for FY19, translating into 7.0-9.0% USD growth on rates based on March 31, 2018. The company reduced operating margin guidance to 22-24% for FY19 (from 23-25% for FY18).

Table 1: FY19 revenue guidance

Guidance (USD mn)	FY19	FY18	Y-o-Y growth (%)
Lower band	11,705	10,939	7.0
Upper band	11,924	10,939	9.0

Source: Company, Edelweiss research

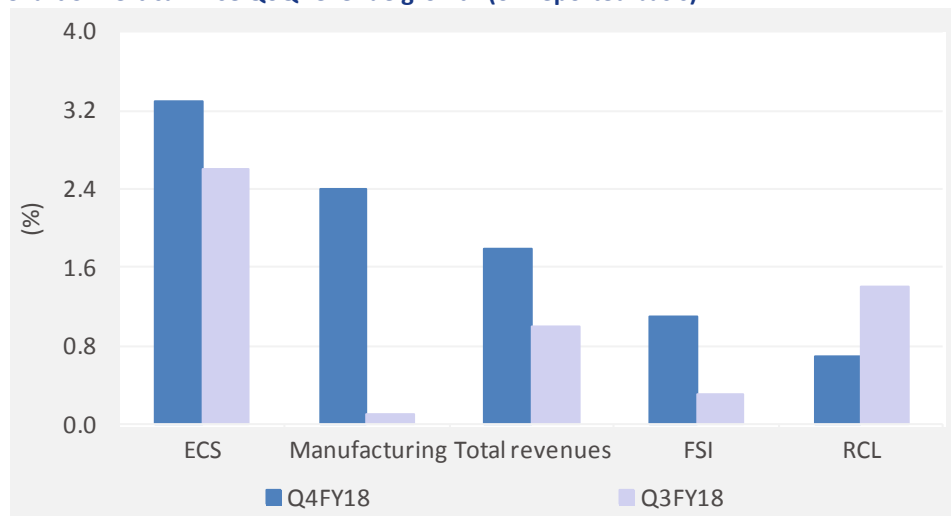
- **Performance across client categories:** While top client's revenue jumped 7.8%, top-10 clients rose 1.8% QoQ. Beyond top-10 clients grew 1.8% QoQ (in USD terms).
- **Pricing:** While onsite pricing rose 1.6% QoQ, offshore pricing grew 1.1% QoQ. On blended basis, pricing rose 1.0% QoQ on reported basis.
- **Horizontals:** Growth was led by IMS, Testing services, BPM and Software development, which reported 7.6%, 6.1%, 3.7 and 2.5% QoQ growth in USD terms, respectively. While product engineering services grew 1.8% QoQ, Application maintenance declined 2.0% QoQ.
- **New client addition:** Infosys added 73 clients during the quarter (79 in Q3FY18). Total number of active clients stood at 1,204 (1,191 in Q3FY18).

Table 2: Movement across client buckets

	Q417	Q118	Q218	Q318	Q418
More than 1 mn USD	598	606	620	630	634
More than 5 mn USD	282	279	286	290	295
More than 10 mn USD	189	190	186	198	198
More than 25 mn USD	91	97	100	101	105
More than 50 mn USD	56	56	55	56	57
More than 75 mn USD	31	31	31	34	35
More than 100 mn USD	19	18	19	20	20

Source: Company, Edelweiss research

- **Vertical-wise performance:** ECS, Manufacturing & Hi-tech, FSI and RCL grew 3.3%, 2.4%, 1.1% and 0.7% QoQ in USD terms, and 1.8%, 1.5%, 0.1% and -0.7% QoQ in CC terms, respectively.

Chart 3: Vertical-wise QoQ revenue growth (on reported basis)

Source: Company, Edelweiss research

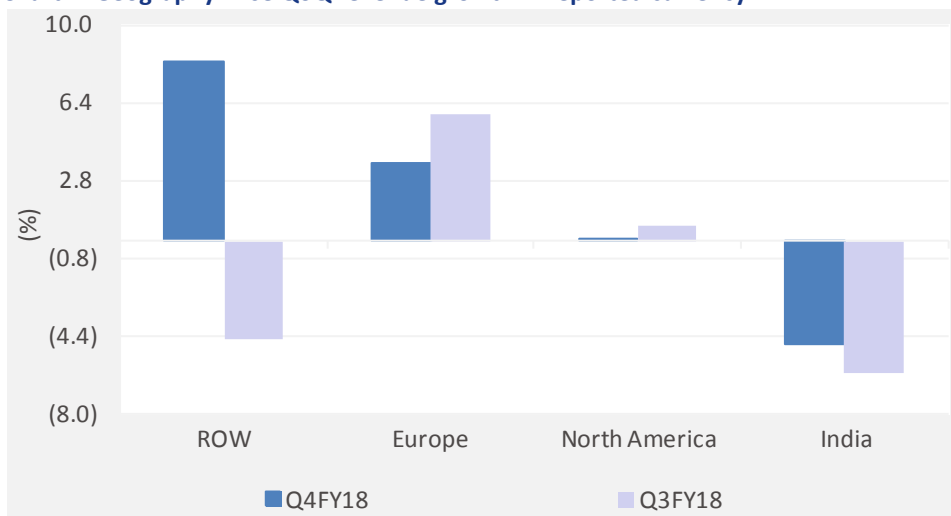
Table 3: Vertical-wise QoQ revenue growth (in CC)

Constant currency growth (%)	Q4FY18	Q3FY18
ECS	1.8	2.5
MFG & Hi-Tech	1.5	(0.1)
FSI	0.1	0.1
RCL	(0.7)	1.2

Source: Company, Edelweiss research

- **Geo split:** Europe and North America grew 3.6% and 0.1% QoQ in USD terms, respectively. While India declined 4.8% QoQ, Rest of World posted robust growth of 8.3% QoQ, in USD terms.

Chart 4: Geography-wise QoQ revenue growth in reported currency



Source: Company, Edelweiss research

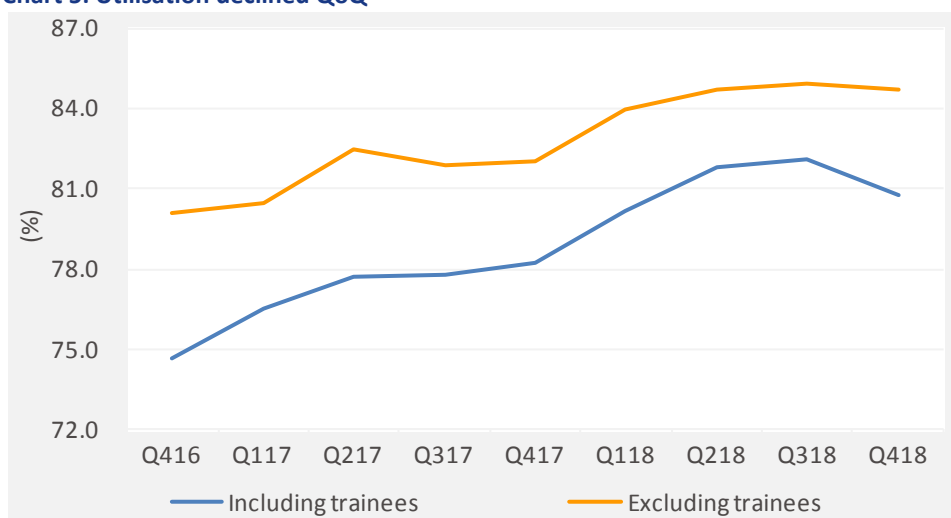
Table 4: Geography-wise QoQ revenue growth (in CC)

Constant currency growth (%)	Q4FY18	Q3FY18
ROW	6.3	(4.0)
North America	0.1	0.7
Europe	(0.2)	4.7
India	(4.9)	(5.9)

Source: Company, Edelweiss research

- Utilisation:** Including trainees, utilisation declined by 130bps QoQ to 80.8%; excluding trainees, it stood at 84.7%, down 20bps QoQ.

Chart 5: Utilisation declined QoQ



Source: Company

- Attrition (annualised consolidated):** Rose by 80bps to 19.5%. Annualised standalone attrition rate rose by 80bps to 16.6%.

Financials snapshot

(INR mn)

Year to March	Q4FY18	Q3FY18	Growth %	Q4FY17	Growth %	FY18	FY19E	FY20E
Net revenues	180,830	177,940	1.6	171,200	5.6	705,220	785,735	862,259
Software Development Expenses	110,960	109,520	1.3	103,240	7.5	432,690	489,584	540,411
Gross profit	69,870	68,420	2.1	67,960	2.8	272,530	296,151	321,849
Selling and marketing expenses	9,470	8,770	8.0	8,890	6.5	35,580	37,715	38,802
General and administration expenses	11,100	11,480	(3.3)	12,490	(11.1)	46,850	52,644	54,322
Overhead expenditure	20,570	20,250	1.6	21,380	(3.8)	82,430	90,360	93,124
EBITDA	49,300	48,170	2.3	46,580	5.8	190,100	205,791	228,725
Depreciation & Amortisation	4,580	4,980	(8.0)	4,460	2.7	18,620	18,754	19,316
EBIT	44,720	43,190	3.5	42,120	6.2	171,480	187,037	209,409
Other Income Net	5,340	9,620	(44.5)	7,210	(25.9)	31,220	23,506	23,263
PBT	50,060	52,810	(5.2)	49,330	1.5	202,700	210,543	232,672
Provision for taxation	13,160	1,520	765.8	13,300	(1.1)	42,420	55,794	61,183
Reported Profit	36,900	51,290	(28.1)	36,030	2.4	160,280	154,749	171,489
Adjusted profit	36,900	36,970	(0.2)	36,030	2.4	145,960	154,749	171,489
Diluted shares	2,175	2,276		2,286		2,256	2,175	2,175
Diluted EPS	17.0	16.2	4.5	15.8	7.6	64.7	71.2	78.9
As % of net revenues	0	0		0		1	1	1
Gross profit	38.6	38.5		39.7		38.6	37.7	37.3
Selling & marketing exp	5.2	4.9		5.2		5.0	4.8	4.5
Admin exp	6.1	6.5		7.3		6.6	6.7	6.3
EBITDA	27.3	27.1		27.2		27.0	26.2	26.5
Adjusted net profit	20.4	20.8		21.0		20.7	19.7	19.9
Reported net profit	20.4	28.8		21.0		22.7	19.7	19.9
Tax rate	26.3	2.9		27.0		20.9	26.5	26.3

Company Description

Infosys is the second-largest IT services company in India providing consulting and IT services to clients globally. It is also among the fastest growing IT services organization in the world and a leader in the offshore services space with a pioneer in Global delivery model. Infosys provides business consulting, application development and maintenance and engineering services to 1,204 active clients spread across Banking, Financial Services, Insurance, Retail, Manufacturing, and Utilities verticals and 50 countries. The company has also its own proprietary core banking software - Finacle used by some of the leading banks in India, Middle East, Africa and Europe. Infosys' total employee force stands at 204,107 and the company's TTM revenues stood at INR705.2bn (USD10.9bn).

Investment Theme

Infosys, in the recent past, lost market share to peers like TCS and HCL Technologies due to lack of strong presence in Infrastructure management services, lack of presence in emerging geographies and its aversion to provide flexibility in structuring contracts and offer discounted pricing to clients. The restructuring exercise also led to some distractions which led to slower growth compared to peers. We believe, on the back of the investments made it is likely to reduce the gap in revenue growth with peers and is best placed to expand its margins due to current low level of utilisation and possibility of increase in offshore execution coupled with higher contribution from non-linear business.

Key Risks

Key risks to our investment theme include – slower pick up in IT spend particularly on the discretionary side, appreciation of INR against USD, Euro and GBP.

Financial Statements

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.8	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	66.0	66.0
Company				
Gross additions	44,235	44,110	52,500	55,000
Freshers Added (BPO)	2,321	9,000	2,000	2,000
Emp. Added (BPO:Support)	312	750	2,415	2,614
Emp. Added (Banking grp)	497	997	175	182
Average attrition	15.0	16.6	13.3	12.8
Efforts				
IT Srvs - Onsite eff	29.9	29.3	30.0	29.0
IT Srvs- Offsh. eff	70.2	70.7	70.0	71.0
Utilisation				
IT Srvs - Onsite Utiliztn	95.0	95.0	95.0	95.0
IT Sers-Offsh. Utiliztn	80.9	79.3	79.0	79.0
Financial assumptions				
Cash conversion cycle	(23)	(17)	(9)	(9)
Cash yield (%)	9.5	11.1	9.0	9.0
Debtor days	81	86	86	83
Payable days	104	103	96	92

Income statement

(INR mn)

Year to March	FY17E	FY18E	FY19E	FY20E
Revenues	684,850	705,220	785,735	862,259
Cost of revenues	415,525	432,690	489,584	540,411
Gross profit	269,325	272,530	296,151	321,849
S&M expenses	35,910	35,580	37,715	38,802
G&A expenses	47,390	46,850	52,644	54,322
Total SG&A expenses	83,300	82,430	90,360	93,124
EBITDA	186,025	190,100	205,791	228,725
Depreciation & amortization	17,005	18,620	18,754	19,316
EBIT	169,020	171,480	187,037	209,409
Add: Other income	30,490	31,220	23,506	23,263
Profit before tax	199,510	202,700	210,543	232,672
Less: Provision for Tax	55,980	42,420	55,794	61,183
Reported Profit	143,530	160,280	154,749	171,489
Adjusted Profit	143,530	145,960	154,749	171,489
No. of Shares outstanding	2,286	2,256	2,175	2,175
Adjusted Basic EPS	62.8	64.7	71.2	78.9
No. of Dil. shares outstanding	2,286	2,256	2,175	2,175
Adjusted Diluted EPS	62.8	64.7	71.2	78.9
Adjusted Cash EPS	70.2	72.9	79.8	87.7
Dividend per share (DPS)	26	53	78	44
Dividend Payout Ratio (%)	48.0	86.7	127.8	65.5

Common size metrics- as % of net revenues

Year to March	FY17E	FY18E	FY19E	FY20E
Cost of revenues	60.7	61.4	62.3	62.7
Gross margin	39.3	38.6	37.7	37.3
G&A expenses	6.9	6.6	6.7	6.3
S&M expenses	5.2	5.0	4.8	4.5
SG&A expenses	12.2	11.7	11.5	10.8
EBITDA margin	27.2	27.0	26.2	26.5
EBIT margin	24.7	24.3	23.8	24.3
Net profit margins	21.0	20.7	19.7	19.9

Growth metrics (%)

Year to March	FY17E	FY18E	FY19E	FY20E
Revenues	9.7	3.0	11.4	9.7
EBITDA	8.9	2.2	8.3	11.1
PBT	6.5	1.6	3.9	10.5
Net profit	6.4	1.7	6.0	10.8
EPS	6.4	3.0	10.0	10.8

Balance sheet		(INR mn)			
As on 31st March	FY17E	FY18E	FY19E	FY20E	
Share capital	11,440	10,880	10,880	10,880	
Reserves & Surplus	678,380	638,360	608,918	668,047	
Shareholders' funds	689,820	649,240	619,798	678,927	
Long Term Liabilities & Prov.	1,530	3,200	3,200	3,200	
Deferred tax liability (net)	(60,490)	(68,110)	(68,110)	(68,110)	
Sources of funds	630,860	584,330	554,888	614,017	
Gross Block	197,180	215,650	232,284	250,289	
Net Block	117,160	121,430	123,141	120,741	
Intangible assets	44,280	24,580	24,580	24,580	
Total Fixed assets	161,440	146,010	147,721	145,321	
Non current investments	63,820	78,160	78,160	78,160	
Cash and cash equivalents	325,950	262,250	220,654	286,743	
Sundry debtors	159,700	174,030	197,097	197,054	
Loans & advances	51,400	43,290	43,290	43,290	
Other assets	8,680	21,640	21,640	21,640	
Total current assets (ex cash)	219,780	238,960	262,027	261,984	
Trade payable	122,490	121,920	134,544	139,060	
Other Current Liab. & ST Prov.	17,640	19,130	19,130	19,130	
Total current liab. & prov.	140,130	141,050	153,674	158,190	
Net current assets (ex cash)	79,650	97,910	108,353	103,794	
Uses of funds	630,860	584,330	554,888	614,017	
Book Value per share	302	288	285	312	

Free cash flow					
Year to March	FY17E	FY18E	FY19E	FY20E	
Reported Profit	143,530	160,280	154,749	171,489	
Add: Depreciation	17,005	18,620	18,754	19,316	
Less: Changes in WC	14,430	18,260	10,443	(4,559)	
Operating cash flow	140,630	215,410	163,060	195,364	
Less: Capex	27,600	30,770	14,597	16,915	
Free cash flow	113,030	184,640	148,463	178,449	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Infosys	37,409	16.5	14.9	11.3	9.9	24.4	26.4
Cyient	1,101	15.5	13.5	9.3	7.9	18.6	19.1
ECLERX SERVICES	740	15.7	13.0	9.1	6.8	21.1	21.9
HCL Technologies	20,313	14.6	12.9	10.4	8.9	24.4	23.5
Hexaware Technologies	1,845	21.6	18.2	15.3	13.1	26.4	26.9
Persistent Systems	826	13.4	11.5	7.5	6.0	18.0	18.2
Tata Consultancy Services	86,506	21.6	19.4	15.5	13.8	31.9	31.6
Tech Mahindra	9,441	15.6	13.6	10.5	8.8	18.6	19.1
Wipro	19,903	16.0	14.7	12.4	11.3	18.5	18.4
Median	-	15.7	13.6	10.5	8.9	21.1	21.9
AVERAGE	-	16.7	14.6	11.2	9.6	22.4	22.8

Source: Edelweiss research

Cash flow metrics					
Year to March	FY17	FY18	FY19E	FY20E	
Operating cash flow	140,630	215,410	163,060	195,364	
Investing cash flow	(170,740)	8,350	(14,597)	(16,915)	
Financing cash flow	(70,610)	(244,160)	(197,729)	(112,360)	
Net cash Flow	(100,720)	(20,400)	(49,266)	66,089	
Capex	(27,600)	(30,770)	(14,597)	(16,915)	
Dividend paid	(69,390)	(115,200)	(197,729)	(112,360)	

Profitability and efficiency ratios

Year to March	FY17	FY18	FY19E	FY20E	
ROAE (%)	22.0	21.8	24.4	26.4	
ROACE (%)	30.5	30.3	33.2	35.7	
Debtors Days	81	86	86	83	
Payable Days	104	103	96	92	
Cash Conversion Cycle	(23)	(17)	(9)	(9)	
Current Ratio	3.9	3.6	3.1	3.5	

Operating ratios

Year to March	FY17	FY18	FY19E	FY20E	
Total Asset Turnover	1.1	1.2	1.4	1.5	
Fixed Asset Turnover	4.4	4.6	5.4	5.9	
Equity Turnover	1.0	1.1	1.2	1.3	

Valuation parameters

Year to March	FY17	FY18	FY19E	FY20E	
Adj. Diluted EPS (INR)	62.8	64.7	71.2	78.9	
Y-o-Y growth (%)	6.4	3.0	10.0	10.8	
Diluted P/E (x)	18.7	18.1	16.5	14.9	
P/B (x)	3.9	4.1	4.1	3.8	
Dividend Yield (%)	2.2	4.5	6.6	3.8	
Adjusted Cash EPS (INR)	70.2	72.9	79.8	87.7	
EV / Sales (x)	3.3	3.3	2.9	2.6	
EV / EBITDA (x)	12.6	12.5	11.3	9.9	

Additional Data

Directors Data

Nandan Nilekani	Non-Executive Chairman of the Board	Kiran Mazumdar-Shaw	Independent Director
U. B. Pravin Rao	Chief Operating Officer	Roopa Kudva	Independent Director
Dr. Punita Kumar-Sinha	Independent Director	Ravi Venkatesan	Independent Director
DN Prahlad	Independent Director	D. Sundaram	Independent Director
Salil Parekh	Chief Executive Officer and Managing Director		

Auditors - BSR & Co., Chartered Accountants

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Life insurance corp	7.73	Blackrock	5.74
Gopalakrishnan senap	3.24	Hdfc asset managemen	2.83
Vanguard group	2.78	Icici prudential ass	1.89
Murthy rohan	1.46	Sbi funds management	1.35
Government of singap	1.24	Icici prudential lif	1.22

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
16 Mar 2018	Nandini S	Sell	41000.00
14 Feb 2018	Ravi Kumar S.	Sell	28187.00
14 Feb 2018	Rajesh K. Murthy	Sell	24225.00
23 Jan 2018	DINESH RAO	Sell	20000.00
30 Jun 2017	Dr.Vishal Sikka	Buy	24812.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Cyient	BUY	SP	H	ECLERX SERVICES	HOLD	SP	M
HCL Technologies	BUY	SP	H	Hexaware Technologies	HOLD	SP	M
Info Edge	BUY	SP	M	Infosys	BUY	SO	L
Just Dial	HOLD	SU	M	L&T Infotech Ltd	BUY	SO	M
L&T Technology Services Ltd	BUY	SO	M	Persistent Systems	BUY	SP	L
Tata Consultancy Services	HOLD	SP	L	Tech Mahindra	BUY	SP	M
Wipro	HOLD	SP	L				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.

Board: (91-22) 4009 4400, Email: research@edelweissfin.com

Aditya Narain

Head of Research

aditya.narain@edelweissfin.com

Coverage group(s) of stocks by primary analyst(s): IT

Cyient, ECLERX SERVICES, HCL Technologies, Hexaware Technologies, Infosys, Info Edge, Just Dial, L&T Infotech Ltd, L&T Technology Services Ltd, Persistent Systems, Tata Consultancy Services, Tech Mahindra, Wipro

Recent Research

Date	Company	Title	Price (INR)	Recos
12-Apr-18	IT	Most bullish in a decade; <i>Sector Update</i>		
04-Apr-18	IT	Steady performance with improving outlook; <i>Q4FY18 Result Preview</i>		
27-Mar-18	Tejas Network	FY18 revenue likely to decline; outlook strong; <i>EdelFlash</i>		

Distribution of Ratings / Market Cap

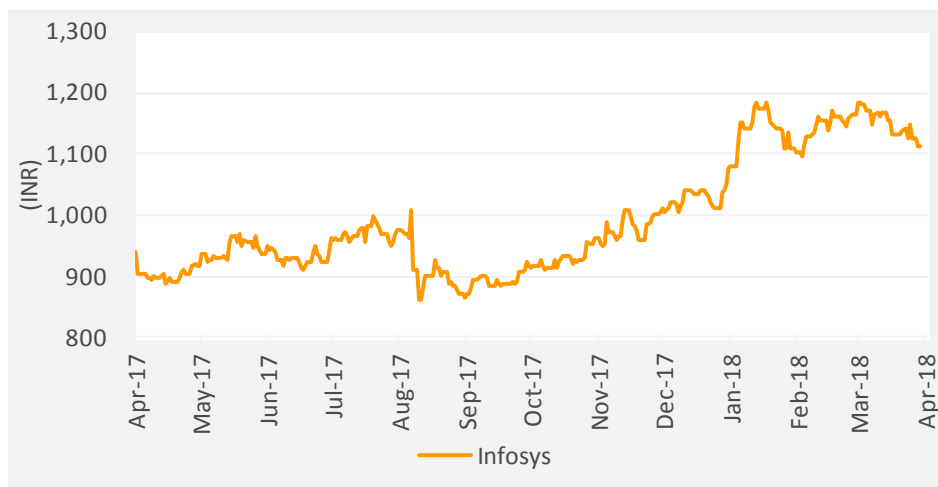
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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