

Infosys (INFTEC)

₹ 1167

Stabilise, build momentum, accelerate...

We attended Infosys' analyst day, wherein the management detailed its four pillar strategy- 1) scaling agile digital business (current run rate-US\$2.8 billion in revenue), energising the client's core technology landscape via AI & automation, reskilling its employees, and expanding localisation in markets like the US, Europe and Australia. Taking into account, the changes Infosys has undergone in last 12-24 months, it has outlined its strategy roadmap over three years. In the first year FY19- stabilise the business, second year FY20- build momentum and in the third year FY21- accelerate growth. The execution towards the above strategy would be closely watched. We maintain our HOLD recommendation on the stock with a target price of ₹ 1180.

Five dimensions of Digital to capture client's priorities...

Infosys emphasised the five dimensions of digital, which would help capture the changing demands of clients towards digital. These five dimensions are- 1) Experience- Reskilling of talent pool, strategic design consulting capabilities, 2) Insight- Artificial intelligence (AI), data analytics and leveraging IP led differentiation, 3) Innovate- involves digital product engineering, IoT and innovation across vertical industries, 4) Accelerate- Transformation from legacy to modernisation and digital system integration and 5) Assure- focus on cyber security, security architecture capabilities. Through these five dimensions, the company is looking to address the Agile Digital market worth US\$160-200 billion, which is growing at 15%. In FY18, digital contribution to overall revenues was at 25.5% to \$2.8 billion.

Three-year roadmap - Stabilise, build momentum, accelerate...

Infosys cited the roadmap for three years to stabilise, build momentum and accelerate. It expects it to lead to a better Infosys and be more relevant to its top clients. Although the company declined to comment on growth quantitatively over three years, it has guided for constant currency revenue in the range of 6-8% for FY19E in the recent earnings commentary. In terms of EBIT margin, it has lowered its EBIT margin range to 22-24% for FY19E from its earlier range of 23-25% for FY18 on account of increased investment in digital led growth, additional investment in localisation, revitalisation of the sales team and repurposing of talent.

Retains capital allocation policy; to return part of excess cash...

The company has retained its policy of dividend payout of 70% of FCF to shareholders. In addition, Infosys has decided to return additional US\$2 billion cash to shareholders (\$400 million through special dividend and remaining \$1.6 billion to be decided by board through dividend or buyback). This implies ~5% of market cap. This could restrict the downside in the stock, in our view.

Execution on dictated strategy to be watched; maintain HOLD...

The management detailed its four pillar strategy of growth and three-year roadmap to meet its objectives. Although the four pillar strategy captures the essence of the changing IT landscape towards client digital transformation journey, execution on the same front needs to be closely tracked. We estimate Infosys will report rupee revenue CAGR of 9.3% in FY18-20E. We maintain our **HOLD** rating on the stock and revise our target price to ₹ 1180 (16x FY20E EPS, in line with its five-year average).

Rating matrix		
Rating	:	Hold
Target	:	₹ 1180
Target Period	:	12 months
Potential Upside	:	1%

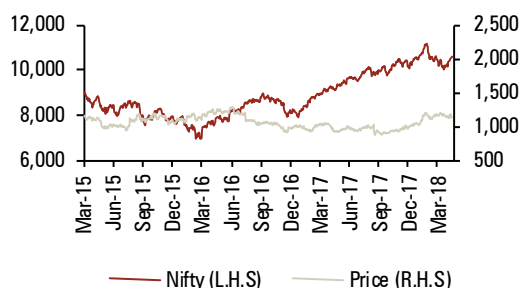
What's Changed?	
Target	Changed from ₹ 1110 to ₹ 1180
EPS FY19E	Unchanged
EPS FY20E	Unchanged
Rating	Unchanged

Key Financials				
₹ Crore	FY17	FY18E	FY19E	FY20E
Net Sales	68,485	70,522	76,916	84,203
EBITDA	18,605	19,010	20,075	22,061
Net Profit	14,353	16,029	14,681	16,036
EPS (₹)	62.8	71.0	67.5	73.7

Valuation summary				
	FY17	FY18E	FY19E	FY20E
P/E	18.6	16.4	17.3	15.8
Target P/E	18.8	16.6	17.5	16.0
EV / EBITDA	12.8	13.0	12.1	10.9
P/BV	3.9	4.3	3.8	3.5
RoNW (%)	20.8	26.4	22.2	22.4
RoCE (%)	28.8	33.3	31.3	31.5

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	266,720.7
Total Debt	-
Cash and Investments (FY17)	29,007.0
EV (₹ Crore)	237,713.7
52 week H/L	1220 / 862
Equity capital	1,144.0
Face value	₹ 5

Price Chart



Research Analysts

Deepak Purswani, CFA
 deepak.purswani@icicisecurities.com

Deepti Tayal
 deepti.tayal@icicisecurities.com

Financial summary

Profit and loss statement ₹ Crore				
(Year-end March)	FY17	FY18E	FY19E	FY20E
Total operating Income	68,485	70,522	76,916	84,203
Growth (%)	9.7	3.0	9.1	9.5
COGS (employee expenses)	41,550	43,269	47,304	51,785
Admin expenses	4,739	4,685	5,384	5,894
S&M expenses	3,591	3,558	4,153	4,463
Total Operating Expenditure	49,880	51,512	56,841	62,142
EBITDA	18,605	19,010	20,075	22,061
Growth (%)	8.9	2.2	5.6	9.9
Depreciation	1,703	1,862	2,000	2,105
Other Income	3,079	3,193	2,677	2,708
PBT	19,951	20,270	20,678	22,586
Total Tax	5,598	4,242	5,997	6,550
PAT	14,353	16,029	14,681	16,036
Growth (%)	6.4	11.7	(8.4)	9.2
EPS (₹)	62.8	71.0	67.5	73.7
Growth (%)	6.4	13.1	(4.9)	9.2

Source: Company, ICICI Direct Research

Balance sheet ₹ Crore				
(Year-end March)	FY17	FY18E	FY19E	FY20E
Equity Capital	1,144	1,088	1,088	1,088
Reserve and Surplus	67,838	59,553	64,930	70,523
Total Shareholders funds	68,982	60,640	66,018	71,611
Employee benefit obligations	-	-	-	-
Debt	-	-	-	1
Deferred Tax Liability	207	207	207	207
Other non current liabilities	153	153	153	153
Total Liabilities	69,342	61,000	66,378	71,972
Assets	-	-	-	-
Property, plant and equipment	11,716	12,354	12,854	13,249
Goodwill	3,652	3,652	3,652	3,652
Intangibles	776	776	776	776
Available for sale assets	6,382	6,382	6,382	6,382
Other assets	7,124	7,124	7,124	7,124
Cash	22,625	13,274	16,985	20,853
Investment in CD	-	-	-	-
Trade receivables	12,322	12,689	13,839	15,150
Unbilled revenue	3,648	3,757	4,097	4,485
Prepayment & O.fin.assets	4,856	5,000	5,454	5,971
Other current assets	10,254	10,254	10,254	10,254
Total Current Assets	53,705	44,973	50,628	56,713
Trade payables	367	378	412	451
Unearned revenue	1,777	1,830	1,996	2,185
OCL & provisions	11,869	12,053	12,631	13,289
Total Current Liabilities	14,013	14,261	15,039	15,925
Net Current Assets	39,692	30,712	35,590	40,788
Application of Funds	69,342	61,000	66,378	71,972

Source: Company, ICICI Direct Research

Cash flow statement ₹ Crore				
(Year-end March)	FY17	FY18E	FY19E	FY20E
Profit after Tax	14,353	16,029	14,681	16,036
Add: Depreciation	1,703	1,862	2,000	2,105
(Inc)/dec in Current Assets	(2,214)	(619)	(1,945)	(2,216)
Inc/(dec) in CL and Provisions	270	248	778	886
Taxes paid	(5,653)	(4,242)	(5,997)	(6,550)
CF from operating activities	14,063	14,326	12,837	14,103
(Inc)/dec in Investments*	(9,976)	3,193	2,677	2,708
(Inc)/dec in Fixed Assets	(2,760)	(2,500)	(2,500)	(2,500)
CF from investing activities	(17,074)	693	177	208
Dividend paid & dividend tax	(6,939)	(11,371)	(9,304)	(10,443)
Others	-	-	-	-
CF from financing activities	(6,939)	(24,371)	(9,304)	(10,443)
Net Cash flow	(9,950)	(9,352)	3,711	3,868
Exchange difference	(122)	-	-	-
Opening Cash	32,697	22,625	13,274	16,985
Closing Cash	22,625	13,274	16,985	20,853

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY17	FY18E	FY19E	FY20E
Per share data (₹)				
EPS	63	71	68	74
Cash EPS	70	79	77	83
BV	302	269	304	329
DPS	25.8	43.5	35.5	39.9
Cash Per Share	99	59	78	96
Operating Ratios (%)				
EBIT Margin	25	24	24	24
PBT Margin	29.1	28.7	26.9	26.8
PAT Margin	21	23	19	19
Debtor days	66	66	66	66
Unbilled revenue	18	19	19	19
Creditor days	2	2	2	2
Return Ratios (%)				
RoE	21	26	22	22
RoCE	29	33	31	31
RoIC	46	45	46	49
Valuation Ratios (x)				
P/E	19	16	17	16
EV / EBITDA	13	13	12	11
EV / Net Sales	3	4	3	3
Market Cap / Sales	4	4	3	3
Price to Book Value	4	4	4	4
Solvency Ratios				
Debt/EBITDA	-	-	-	0
Debt / Equity	-	-	-	0
Current Ratio	3	3	3	3
Quick Ratio	2.7	2.7	2.7	2.7

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct Research endeavours to provide objective opinions and recommendations. ICICI Direct Research assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

We /I, Deepak Purswani, CFA MBA (Finance), Deepti Tayal, MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock broking and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with Sebi Registration Number – INH000000990. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

It is confirmed that Deepak Purswani, CFA MBA (Finance), Deepti Tayal, MBA, Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

It is confirmed that Deepak Purswani, CFA MBA (Finance), Deepti Tayal, MBA, Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.