

Infosys (INFO) kept the hopes of a demand recovery live with an in-line 4QFY18 results/FY19 guidance. However, the unexpected lowering of the EBIT margin band to 22-24% (from the current 23-25%) was a disappointment, especially given the currency tailwinds. The reasons for reset appear to be micro – increased investments in digital capability + capacity expansion to quickly develop a services-driven digital business (vs. the product/platform approach under Vishal Sikka); macro variables are stable – INFO indicated minimal pricing pressures and FY19 wage inflation is similar to FY18. We expect the margin impact to be concentrated in the near-term and stabilise over FY20; INR depreciation could be an incremental support. Thus, while we have cut our FY19/FY20 EPS forecasts by 3%/2%, we stay positive on the stock. An 11% dividend+potential buyback yield is a key downside support.

- **4QFY18 – Slight revenue miss but good margin defence.** Consolidated revenue grew 1.8% QoQ to USD 2.8bn; constant currency (CC) growth was 0.6%, marginally below our/consensus estimates (1.3%/1.0%). Volume grew a modest 1.1% while pricing was stable (-0.2% QoQ in CC). Growth was driven by Energy, Utilities and Communication vertical (+1.8% QoQ in CC); BFSI was flat. EBIT margin expanded 46bps QoQ to 24.7%, in-line; PAT at INR 36.9bn was a tad below estimates (INR 37.4bn) despite higher than expected other income/hedge gains.
- **FY19 guidance – cautious optimism.** The 7-9% FY19 USD revenue growth guidance (6-8% in CC) is in-line with expectations and implies a 1.7-2.4% CQGR over FY19. INFO also announced the acquisition of WongDoody, a US-based digital creative firm, that could add an incremental USD25mn (JMFfe) in FY19, not built in the guidance. Besides a healthy exit – 6.4%/9.2% in CC/reported USD – the order booking TCV of USD 905mn in 4QFY18 (USD 3bn over FY18), a six-quarter high suggest demand stability. Management indicated a strong momentum in Energy and Communications while weaknesses in verticals such as Retail and BFS appear to be centric only in select accounts in North America. We have raised FY18-20 USD revenues estimates to 8.5% (8% earlier).
- **Margin weakness - structural or transient?** We sense a shift in approach to a more service-centric digital portfolio, similar to peers, from the product/platform led approach under Vishal Sikka. Thus, the planned investments to rapidly build the requisite skill-pool (likely through increased lateral hiring) to catch-up with peers who are ahead in their portfolio build. We expect the margin impact of these investments to be concentrated in the near-term, also as the traditional levers are close to optimal levels; the incremental impact beyond FY19 could be lower and gradual. Our revised FY19/FY20 EPS estimates factor in EBIT margin of 23.7%/23.9% at INR/ USD assumptions of 65.5/66.5. Our forecasts do not build the fresh USD 2bn potential buyback and/or dividend plan.
- **Maintain BUY.** While there could be a weakness in the immediate term for the stock on margin disappointment, we expect it to be transient. A steady, albeit slow, recovery in demand + an 11% dividend+potential buy-back yield should keep investors engaged, in our view. Our PT is unchanged at 1,300 and values INFO at 16x 12-months forward PER.

Financial Summary					(INR mn)
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
Net Sales	6,84,850	7,05,220	7,76,691	8,56,731	9,44,578
Sales Growth	9.7%	3.0%	10.1%	10.3%	10.3%
EBITDA	1,86,050	1,90,100	2,03,394	2,24,591	2,48,716
EBITDA Margin	27.2%	27.0%	26.2%	26.2%	26.3%
Adjusted Net Profit	1,43,530	1,60,280	1,54,272	1,73,846	1,95,538
Diluted EPS (INR)	62.8	71.0	70.9	79.9	89.9
Diluted EPS Growth	6.4%	13.1%	-0.1%	12.7%	12.5%
ROIC	42.6%	43.1%	40.6%	43.7%	46.4%
ROE	22.0%	23.9%	22.4%	22.3%	22.2%
P/E (x)	18.7	16.5	16.5	14.6	13.0
P/B (x)	3.9	4.1	3.5	3.1	2.7
EV/EBITDA (x)	12.5	12.5	11.4	9.9	8.6
Dividend Yield	2.2%	2.9%	2.4%	2.6%	2.8%

Source: Company data, JM Financial. Note: Valuations as of 13/Apr/2018

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,300
Upside/(Downside)	11.0%
Previous Price Target	1,300
Change	0.0%

Key Data – INFO IN

Current Market Price	INR1,171
Market cap (bn)	INR2,558.6/US\$39.2
Free Float	77%
Shares in issue (mn)	2,261.4
Diluted share (mn)	2,174.8
3-mon avg daily val (mn)	INR5,964.9/US\$91.5
52-week range	1,221/860
Sensex/Nifty	34,193/10,481
INR/US\$	65.2

Price Performance

%	1M	6M	12M
Absolute	-1.0	25.9	25.8
Relative*	-2.0	19.5	8.4

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters
S&P Capital IQ and FactSet

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. Key financials

(INR mn)	4QFY17	FY17	1QFY18	2QFY18	3QFY18	4QFY18	FY18	Comments
Consolidated revenues (USDmn)	2,569	10,208	2,651	2,728	2,755	2,805	10,939	
Change (QoQ/ YoY)	0.7%	7.4%	3.2%	2.9%	1.0%	1.8%	7.2%	
Consolidated revenues (INR mn)	1,71,200	6,84,850	1,70,780	1,75,670	1,77,940	1,80,830	7,05,220	▪ In cc terms, consol. revenue grew 0.6%/6.4% QoQ/YoY for the quarter and 5.8% YoY for FY18
Change (QoQ/ YoY)	-0.9%	9.7%	-0.2%	2.9%	1.3%	1.6%	3.0%	
Cost of revenue	1,03,240	4,15,500	1,04,500	1,07,710	1,09,520	1,10,960	4,32,690	▪ Growth in revenue was supported by 1.1% QoQ growth in volume while price realisation remained flat (-0.2% QoQ)
Gross profit	67,960	2,69,350	66,280	67,960	68,420	69,870	2,72,530	
Gross margin	39.7%	39.3%	38.8%	38.7%	38.5%	38.6%	38.6%	
Total operating expenses	21,380	83,300	20,670	20,940	20,250	20,570	82,430	▪ Revenues from Digital services for the quarter stood at 26.8% while for the full year, it contributed 25.5% (USD 2.79bn) to the overall revenue
EBITDA	46,580	1,86,050	45,610	47,020	48,170	49,300	1,90,100	
EBITDA margin	27.2%	27.2%	26.7%	26.8%	27.1%	27.3%	27.0%	▪ EBIT margin expanded by 40bps QoQ due to reduction in onsite mix and other expense (+70bps QoQ) partially offset by increase in compensation cost (-30bps)
Depreciation & amortization	4,460	17,030	4,500	4,560	4,980	4,580	18,620	
EBIT	42,120	1,69,020	41,110	42,460	43,190	44,720	1,71,480	▪ Other income includes an impairment loss of INR 1,180mn in respect of Panaya ('disposal group held for sale')
EBIT margin	24.6%	24.7%	24.1%	24.2%	24.3%	24.7%	24.3%	
Other income	7,210	30,540	7,430	8,830	9,620	5,340	31,220	▪ PAT declined marginally by 0.2% QoQ adjusted for INR 14,320mn reversal of income tax provision in 3QFY18 on account of conclusion of Advance Pricing Agreement with the US IRS
Profit Before Tax	49,330	1,99,560	48,540	51,290	52,810	50,060	2,02,700	
Income tax expense	13,300	55,980	13,710	14,030	1,520	13,160	42,420	
Net income from operations	36,030	1,43,580	34,830	37,260	51,290	36,900	1,60,280	
Share of minority interest	0	50	0	0	0	0	0	
PAT	36,030	1,43,530	34,830	37,260	51,290	36,900	1,60,280	
Change (QoQ/ YoY)	-2.8%	6.4%	-3.3%	7.0%	37.7%	-28.1%	11.7%	
Adjusted Diluted EPS	15.8	62.8	15.2	16.3	22.5	17.0	71.0	
Change (QoQ/ YoY)	-2.8%	6.4%	-3.3%	7.0%	38.3%	-24.7%	13.2%	

Source: Company, JM Financial

Management commentary: Key takeaways

- **Vertical commentary: BFSI** – INFO exuded confidence in banks undergoing digital transformation and spends shifting to newer initiatives, helping it gain wallet share. Certain top accounts in the U.S. are witnessing softness, however, regional banks in the US and Europe continue to drive growth. Insurance companies are under pressure to innovate fast and reduce spend and INFO expects growth driven by large deals around offerings like McCamish and Nia. **Retail/CPG** – Retail continues to slowdown in the US especially due to store closures and the 'Amazon' effect. However, management stated growth momentum in Europe and RoW due to accelerated digital transformation. **Manufacturing** – Demand is moderate with higher activity in Europe.
- **Strategy refresh:** Salil Parekh, the new CEO, enunciated executing INFO's strategy around the four pillars of (i) Scaling Digital business, (ii) energising client's core technology landscape via AI and automation, (iii) re-skilling the employees, and (iv) expanding localisation in markets such as the US, Europe and Australia.
- **FY19 wage hikes:** The annual wage hike will be effective from April 2018 for 85% of employees and from July 2018 for the rest. Offshore wage hikes are expected to be between mid to high single digit.
- **Disposal of past acquisitions:** INFO announced a decision to divest the subsidiaries Kaliidus/Skava and Panaya as an outcome of the strategic review of its portfolio. It plans to complete the sale by FY19-end. These were acquired in FY15/FY16 for a consideration of USD 319mn. INFO has taken an impairment charge of USD 18mn on these acquisitions in 4QFY18. Assets and liabilities amounting to USD 316mn and USD 50mn respectively have been reclassified as "held for sale".
- **Capital Allocation:** The board has decided to retain current policy of returning up to 70% of FCF. In addition, it has identified c.USD 2bn to be paid to shareholders as (i) special dividend of INR 10 per share (USD 0.15 per ADR) amounting to c.USD 400mn in June 2018 and (ii) c.USD 1,600mn to be paid in a form to be decided later by the board (buyback and/or dividend).

Exhibit 2. Movement in margin drivers

	4QFY17	3QFY18	4QFY18	Change (%)	Comments
				QoQ	YoY
INR/USD	66.64	64.59	64.47	-0.2%	-3.3%
Consolidated revenues (INR mn)	1,71,200	1,77,940	1,80,830	1.6%	5.6%
IT services revenues (INR mn)	1,53,053	1,59,078	1,62,205	2.0%	6.0%
A. EXECUTION METRICS					
Utilisation (ex-trainees)	82.0%	84.9%	84.7%	-28bp	263bp
Average realization (USD/person-month)					
- Onsite	11,906	12,176	12,371	1.6%	3.9%
- Offshore	3,888	4,105	4,150	1.1%	6.7%
- Blended	6,291	6,446	6,511	1.0%	3.5%
Billed effort- IT + Cons. (person-month)					
- Onsite	1,10,574	1,12,349	1,12,519	0.2%	1.8%
- Offshore	2,58,408	2,75,029	2,79,274	1.5%	8.1%
- Total	3,68,982	3,87,378	3,91,793	1.1%	6.2%
B. COST DRIVERS					
Wage costs	82,600	88,100	89,470	1.6%	8.3%
As % of revenues	48.2%	49.5%	49.5%	-3bp	123bp
Other cost of revenues	20,640	21,420	21,490	0.3%	4.1%
As % of revenues	12.1%	12.0%	11.9%	-15bp	-17bp
Gross profit	67,960	68,420	69,870	2.1%	2.8%
Gross margin	39.7%	38.5%	38.6%	19bp	-106bp
Sales and marketing expenses	8,890	8,770	9,470	8.0%	6.5%
As % of revenues	5.2%	4.9%	5.2%	31bp	4bp
G&A expenses	12,490	11,480	11,100	-3.3%	-11.1%
As % of revenues	7.3%	6.5%	6.1%	-31bp	-116bp
EBITDA	46,580	48,170	49,300	2.3%	5.8%
EBITDA margin	27.2%	27.1%	27.3%	19bp	6bp

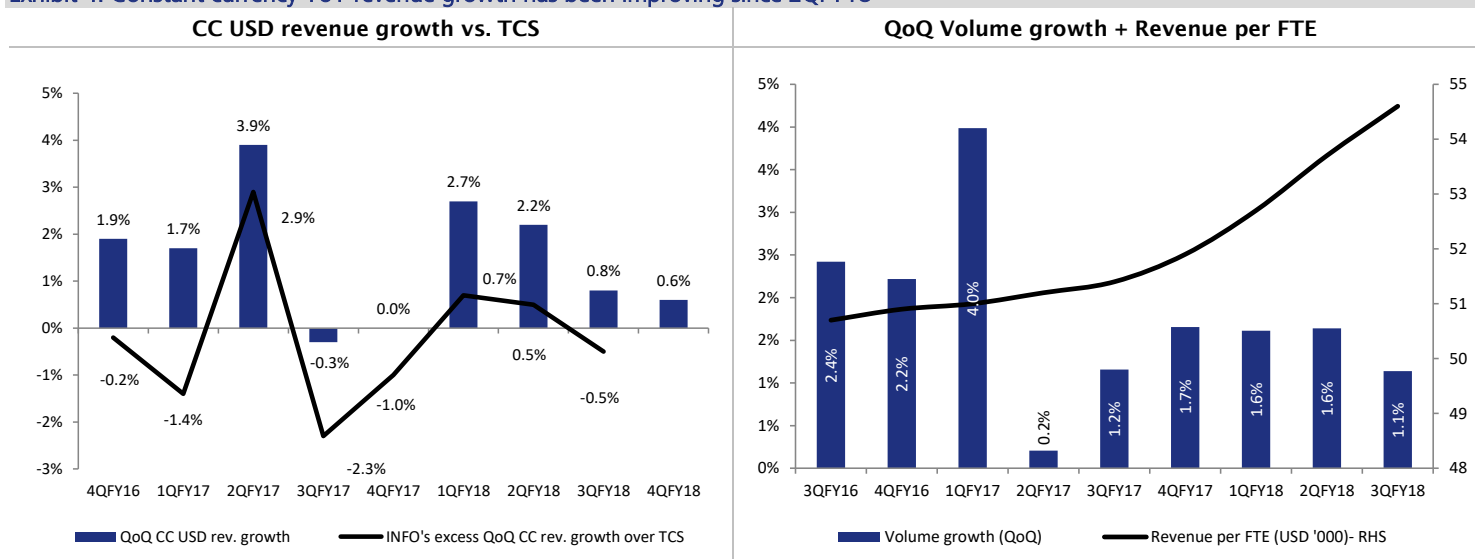
Source: Company, JM Financial

Exhibit 3. Key manpower and execution metrics

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	Comments
Manpower base						
Total (Infosys cons)	2,00,364	1,98,553	1,98,440	2,01,691	2,04,107	Attrition increased to 19.5% in 4QFY18 vs. 18.7% in 3QFY18 while the management pointed out that 'high-performer attrition' was lower at 9.4% vs. 14.1% in 3QFY18
Cons IT services	1,67,225	1,65,742	1,65,470	1,68,265	1,70,361	
BPO services	33,139	32,811	32,970	33,426	33,746	
Net addition	601	-1,811	-113	3,251	2,416	
As % of opening base	0.3%	-0.9%	-0.1%	1.6%	1.2%	
Utilisation - Including trainees	78.8%	80.8%	82.3%	82.5%	81.3%	Revenue per employee increased by 6.2% YoY to USD 54,600 as the revenue grew by 7.2% YoY while the headcount grew by 1.9% YoY
Utilisation - Excluding trainees	82.6%	84.5%	85.1%	85.4%	85.1%	
Attrition (TTM) - Infosys cons	19.1%	19.1%	19.5%	19.5%	20.1%	
Attrition (QA) - Infosys India	13.5%	16.9%	17.2%	15.8%	16.6%	

Source: Company, JM Financial

Exhibit 4. Constant currency YoY revenue growth has been improving since 2QFY18



Source: Company, JM Financial

Exhibit 5. FY19 revenue growth guidance

	Guidance		Comments
FY19 Guidance	Lower	Higher	
Revenue (INR bn)	763,048	777,152	FY19 guidance at 6%-8% is in-line with street's expectations while EBIT margin guidance at 22%-24% is below 23%-25% band guided for FY18
Revenue (USD mn)	11,705	11,924	
INR/USD assumption	65.18		The guidance implies 1.7-2.4% CQGR over FY19

Source: Company, JM Financial

Exhibit 6. Services portfolio

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	Comments
Distribution						
Business IT Services	61.9%	62.0%	62.3%	61.9%	62.7%	
Application Development	15.3%	15.4%	15.6%	15.4%	15.5%	
Application Maintenance	16.8%	16.7%	16.0%	16.2%	15.6%	
Infrastructure Management Services	8.5%	8.4%	9.0%	8.8%	9.3%	
Testing Services	9.0%	9.3%	9.4%	9.4%	9.8%	
Business Process Management	5.1%	5.0%	5.1%	5.3%	5.4%	
Product Engineering Services	4.0%	4.1%	4.1%	4.0%	4.0%	
Others	3.2%	3.1%	3.1%	2.8%	3.1%	
Consulting & Systems Integration	32.6%	32.6%	32.5%	32.8%	32.4%	
Products, Platforms and Solutions	5.5%	5.4%	5.2%	5.3%	4.9%	
Total services	94.5%	94.6%	94.8%	94.7%	95.1%	Management exuded confidence of a strong demand on the back of opportunities in newer areas like analytics in energy, IoT in communication, cyber security in Telcos and smart meter opportunities in utilities
Total revenues	100.0%	100.0%	100.0%	100.0%	100.0%	
Revenue (USD mn and QoQ growth)						
Business IT Services	1,590	1,644	1,700	1,705	1,759	Growth was led by IMS (+7.6% QoQ) followed by Testing Services (+6.1% QoQ), BPM (+3.7% QoQ) and Application Development (+2.5% QoQ)
Application Development	393	408	426	424	435	
Change QoQ	-0.6%	3.9%	4.2%	-0.3%	2.5%	
Application Maintenance	432	443	436	446	438	
Change QoQ	-0.5%	2.6%	-1.4%	2.3%	-2.0%	Products, Platforms and Solutions witnessed a decline of 5.9% QoQ while Application Maintenance declined by 2% QoQ
Infrastructure Management Services	218	223	246	242	261	
Change QoQ	-0.5%	2.0%	10.3%	-1.3%	7.6%	
Testing Services	231	247	256	259	275	
Change QoQ	-0.4%	6.6%	4.0%	1.0%	6.1%	Management pointed out at having some challenges in consulting and it expects few more quarters before this business stabilizes
Business Process Management	131	133	139	146	151	
Change QoQ	4.8%	1.2%	5.0%	5.0%	3.7%	
Product Engineering Services	103	109	112	110	112	
Change QoQ	3.3%	5.8%	2.9%	-1.5%	1.8%	
Others	82	82	85	77	87	
Change QoQ	7.4%	0.0%	2.9%	-8.8%	12.7%	
Consulting & Systems Integration	837	864	887	904	909	
Products, Platforms and Solutions	554	143	142	146	137	

Source: Company, JM Financial

Exhibit 7. Vertical portfolio

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	Comments
Distribution						
Banking & financial services	27.4%	27.1%	27.0%	26.3%	26.2%	
Insurance	6.1%	6.2%	6.4%	6.8%	6.8%	
Manufacturing	22.4%	22.2%	22.0%	21.8%	21.9%	
Retail & CPG	14.1%	14.2%	13.8%	14.1%	13.3%	
Transport & Logistics	2.0%	1.9%	2.0%	2.1%	2.5%	
Life Sciences	4.6%	4.6%	4.8%	4.6%	4.7%	
Healthcare	2.0%	2.0%	2.0%	1.9%	1.9%	
Energy & Utilities	5.0%	5.2%	5.5%	5.8%	5.9%	
Communication and Services	9.9%	10.4%	10.4%	10.5%	10.8%	
Others	6.5%	6.2%	6.1%	6.1%	6.0%	Management indicated at banking spends starting to divert from the run-the-bank to newer initiatives like digital, cloud, RPA, AI and automation however, certain top accounts in the US are witnessing some softness
Revenue (USDmn and QoQ growth)						
Financial Services and Insurance	861	883	911	912	926	
Change QoQ	1.3%	2.6%	3.2%	0.1%	1.5%	
Manufacturing	575	589	600	601	614	
Change QoQ	0.3%	2.3%	2.0%	0.1%	2.3%	
Retail, Logistics, CPG and Life Sciences	583	602	617	625	628	
Change QoQ	-2.7%	3.2%	2.5%	1.4%	0.5%	
Energy & Utilities, Comm. and Services	550	578	600	617	637	
Change QoQ	4.1%	5.1%	3.8%	2.8%	3.2%	Of the ten large deals secured in 4QFY18, four were in financial services
						The management expects continued challenges in retail sector which continues to face a slowdown in the US due to store closures and the Amazon effect

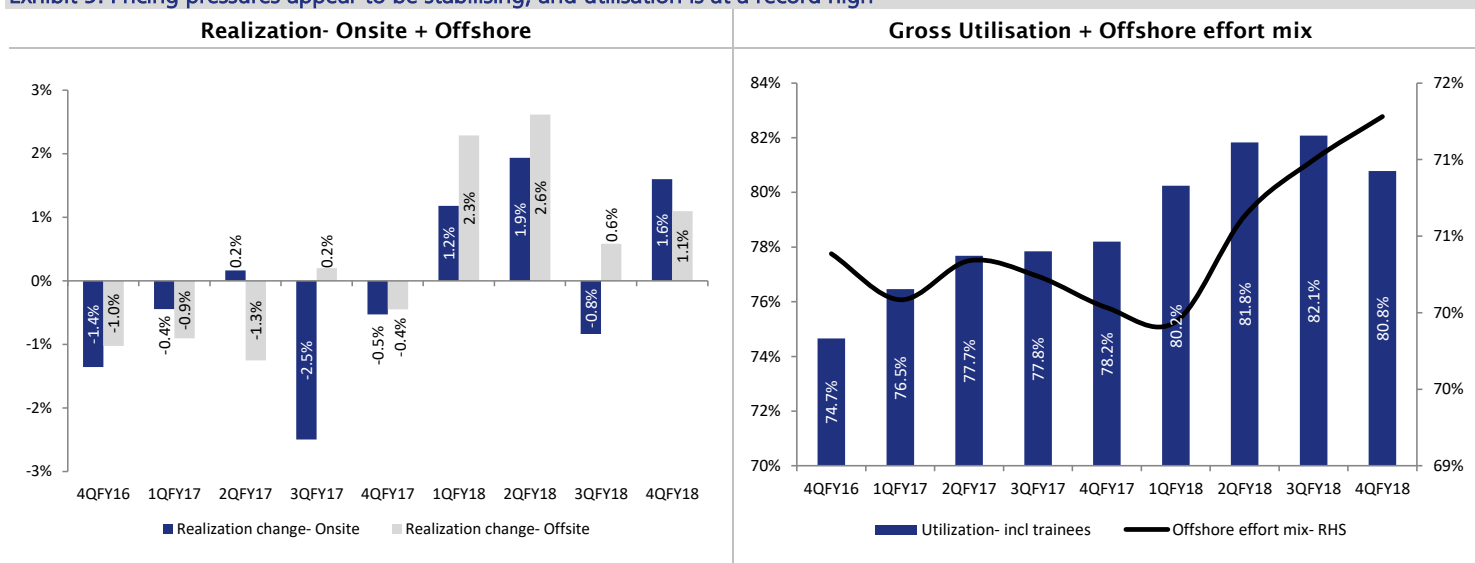
Source: Company, JM Financial

Exhibit 8. Key client metrics

	4FYQ17	1QFY17	2QFY18	3QFY18	4QFY18	Comments
Client base						
Active clients	1,162	1,164	1,173	1,191	1,204	
Net client addition	10	2	9	18	13	
Clients attrition	61	57	63	61	60	
Revenue per active client (USD mn)	2.21	2.28	2.33	2.31	2.33	
Revenue concentration						
Top client	3.3%	3.3%	3.4%	3.4%	3.6%	▪ Infosys added a total of 283 clients during FY18 with one being in the USD 100mn+ bracket
Top 10 clients	20.2%	20.0%	19.5%	19.2%	19.2%	
Non-Top10 clients	79.8%	80.0%	80.5%	80.8%	80.8%	▪ Revenue from Top client increase by 8.8% YoY and from Top 25 by 9.3% YoY while it decreased by 1% for Top 10 clients
Repeat business	96.2%	99.4%	98.7%	98.3%	97.6%	
Revenue growth						
Top client	7.2%	3.2%	6.0%	1.0%	7.8%	▪ A total of ten large deals were signed this quarter with a TCV of USD 905mn (highest in the last 6 quarters) totalling to c. USD 3bn for full year
Top-10 clients	1.2%	2.2%	0.3%	-0.6%	1.8%	
Non-top-10 clients	0.6%	3.5%	3.5%	1.4%	1.8%	
Repeat business	0.2%	6.6%	2.2%	0.6%	1.1%	
Relationship distribution						
USD 1mn+ Clients	598	606	620	630	634	▪ 32% of the USD 905mn TCV for 4QFY18 was net-new while the rest being renewals; For the full year, the percentage of net-new was c.30%
Change QoQ	7	8	14	10	4	
USD 5mn+ Clients	282	279	286	290	295	▪ Share of repeat business has been consistently declining over the last four quarters of FY18 with repeat business for FY18 at 98.5% vs. 97.3% in FY17
Change QoQ	7	-3	7	4	5	
USD 10mn+ Clients	189	190	159	198	198	
Change QoQ	-6	1	-31	39	0	
USD 25mn+ Clients	91	97	100	101	105	
Change QoQ	1	6	3	1	4	
USD 50mn+ Clients	56	56	55	56	57	
Change QoQ	2	0	-1	1	1	
USD 75mn+ Clients	31	31	31	34	35	
Change QoQ	-1	0	0	3	1	
USD 100mn+ Clients	19	18	19	20	20	
Change QoQ	1	-1	1	1	0	

Source: Company, JM Financial

Exhibit 9. Pricing pressures appear to be stabilising; and utilisation is at a record high



Source: Company, JM Financial

Maintain BUY; target price unchanged at INR 1,300

Exhibit 10. What has changed in our forecasts and assumptions?

	Old			New			Change		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Exchange rate (INR/USD)	65.50	66.50	-	65.44	66.50	67.50	-0.1%	0.0%	-
Consolidated revenue (USD mn)	11,757	12,753	-	11,869	12,883	13,994	0.9%	1.0%	-
Growth in USD revenues (YoY)	7.5%	8.5%	-	8.5%	8.5%	8.6%	103bp	8bp	-
Consolidated revenue (INR mn)	7,70,111	8,48,048	-	7,76,691	8,56,731	9,44,578	0.9%	1.0%	-
EBITDA margin	27.6%	27.8%	-	26.2%	26.2%	26.3%	-146bp	-158bp	-
EBIT margin	25.2%	25.5%	-	23.7%	23.9%	24.1%	-153bp	-163bp	-
PAT (INR mn)	1,59,308	1,78,327	-	1,54,272	1,73,846	1,95,538	-3.2%	-2.5%	-
EPS	72.90	81.60	-	70.94	79.94	89.91	-2.7%	-2.0%	-

Source: JM Financial

Exhibit 11. How we differ from consensus

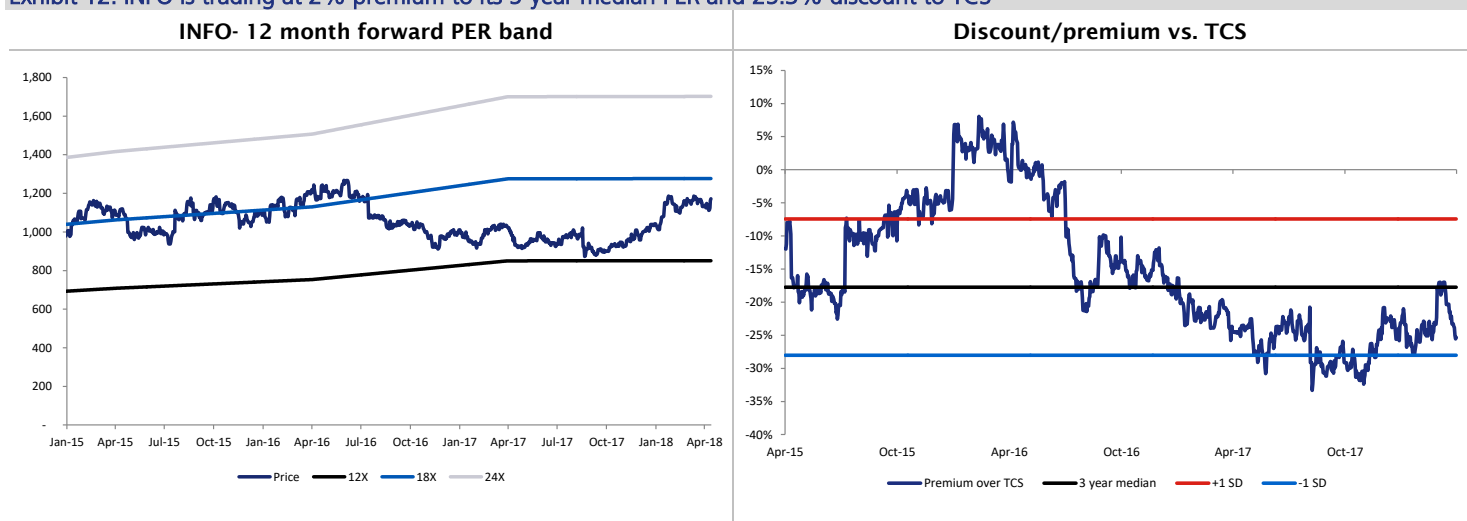
	Consensus estimates			JMFe			Difference		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Sales (INR mn)	7,66,790	8,36,432	9,33,951	7,76,691	8,56,731	9,44,578	1.3%	2.4%	1.1%
EBITDA (INR mn)	2,05,237	2,24,277	2,24,209	2,03,394	2,24,591	2,48,716	-0.9%	0.1%	10.9%
EBITDA margin	26.8%	26.8%	24.0%	26.2%	26.2%	26.3%	-58bp	-60bp	232bp
Net Income (INR mn)	1,54,655	1,69,430	1,94,262	1,54,272	1,73,846	1,95,538	-0.2%	2.6%	0.7%
EPS (INR)	70.4	77.0	82.0	70.9	79.9	89.9	0.8%	3.8%	9.6%

Source: JM Financial, Bloomberg

Key Risks

- Key downside risks to our price target are: (1) INR appreciation beyond the levels we currently assume and/or adverse cross-currency movements; (2) a further economic slowdown in key markets, affecting the corporate IT spending pattern and volumes; (3) higher-than-expected pricing pressures;
- Upside could come from: (1) INR depreciation more than the level we assume; (2) faster-than-anticipated recovery in project awards/ramp-ups or large deal wins ahead of numbers or contract value factored into our estimates; and (3) acquisitions/large deal wins not currently built into our model.

Exhibit 12. INFO is trading at 2% premium to its 5-year median PER and 25.3% discount to TCS



Source: JM Financial, Bloomberg

Financial Tables (Consolidated)

Income Statement (INR mn)					
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
Net Sales	6,84,850	7,05,220	7,76,691	8,56,731	9,44,578
Sales Growth	9.7%	3.0%	10.1%	10.3%	10.3%
Other Operating Income	0	0	0	0	0
Total Revenue	6,84,850	7,05,220	7,76,691	8,56,731	9,44,578
Cost of Goods Sold/Op. Exp	4,15,500	4,32,690	4,83,365	5,35,949	5,93,483
Personnel Cost	0	0	0	0	0
Other Expenses	83,300	82,430	89,932	96,191	1,02,379
EBITDA	1,86,050	1,90,100	2,03,394	2,24,591	2,48,716
EBITDA Margin	27.2%	27.0%	26.2%	26.2%	26.3%
EBITDA Growth	8.9%	2.2%	7.0%	10.4%	10.7%
Depn. & Amort.	17,030	18,620	19,570	20,161	21,017
EBIT	1,69,020	1,71,480	1,83,824	2,04,429	2,27,699
Other Income	30,540	31,220	26,070	32,095	38,338
Finance Cost	0	0	0	0	0
PBT before Excep. & Forex	1,99,560	2,02,700	2,09,894	2,36,525	2,66,038
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	1,99,560	2,02,700	2,09,894	2,36,525	2,66,038
Taxes	55,980	42,420	55,622	62,679	70,500
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	50	0	0	0	0
Reported Net Profit	1,43,530	1,60,280	1,54,272	1,73,846	1,95,538
Adjusted Net Profit	1,43,530	1,60,280	1,54,272	1,73,846	1,95,538
Net Margin	21.0%	22.7%	19.9%	20.3%	20.7%
Diluted Share Cap. (mn)	2,286.1	2,256.4	2,174.8	2,174.8	2,174.8
Diluted EPS (INR)	62.8	71.0	70.9	79.9	89.9
Diluted EPS Growth	6.4%	13.1%	-0.1%	12.7%	12.5%
Total Dividend + Tax	70,853	90,980	73,292	78,527	86,379
Dividend Per Share (INR)	25.8	33.4	28.0	30.0	33.0

Source: Company, JM Financial

Balance Sheet (INR mn)					
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
Shareholders' Fund	6,89,820	6,49,240	7,30,272	8,25,647	9,34,866
Share Capital	11,440	10,880	10,880	10,880	10,880
Reserves & Surplus	6,78,380	6,38,360	7,19,392	8,14,767	9,23,986
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	0	0	0	0	0
Def. Tax Liab. / Assets (-)	-3,330	-7,410	-7,410	-7,410	-7,410
Total - Equity & Liab.	6,86,490	6,41,830	7,22,862	8,18,237	9,27,456
Net Fixed Assets	1,61,440	1,46,010	1,50,119	1,55,974	1,63,092
Gross Fixed Assets	2,10,730	2,24,530	2,48,208	2,74,225	3,02,359
Intangible Assets	36,520	22,110	22,110	22,110	22,110
Less: Depn. & Amort.	85,810	1,00,630	1,20,200	1,40,361	1,61,378
Capital WIP	0	0	0	0	0
Investments	64,530	57,560	57,560	57,560	57,560
Current Assets	6,02,180	5,82,510	6,75,293	7,78,851	8,96,397
Inventories	0	0	0	0	0
Sundry Debtors	1,59,700	1,74,030	1,90,219	2,09,676	2,31,176
Cash & Bank Balances	3,25,950	2,62,250	3,35,929	4,16,481	5,08,185
Loans & Advances	0	0	0	0	0
Other Current Assets	1,16,530	1,46,230	1,49,144	1,52,694	1,57,037
Current Liab. & Prov.	1,41,660	1,44,250	1,60,109	1,74,149	1,89,593
Current Liabilities	5,200	10,140	10,140	10,140	10,140
Provisions & Others	1,36,460	1,34,110	1,49,969	1,64,009	1,79,453
Net Current Assets	4,60,520	4,38,260	5,15,183	6,04,702	7,06,804
Total - Assets	6,86,490	6,41,830	7,22,862	8,18,237	9,27,456

Source: Company, JM Financial

Cash Flow Statement (INR mn)					
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
Profit before Tax	1,99,560	2,02,700	2,09,894	2,36,525	0
Depn. & Amort.	17,030	18,620	19,570	20,161	21,017
Net Interest Exp. / Inc. (-)	-30,540	-31,220	-26,070	-32,095	-38,338
Inc (-) / Dec in WCcap.	-14,130	-25,900	-3,244	-8,968	-10,398
Others	0	0	0	0	0
Taxes Paid	-56,510	-46,500	-55,622	-62,679	-70,500
Operating Cash Flow	1,15,410	1,17,700	1,44,528	1,52,944	-98,219
Capex	-25,680	-3,190	-23,678	-26,017	-28,134
Free Cash Flow	89,730	1,14,510	1,20,849	1,26,927	-1,26,353
Inc (-) / Dec in Investments	-45,390	6,970	0	0	0
Others	25,440	15,680	26,070	32,095	38,338
Investing Cash Flow	-45,630	19,460	2,392	6,079	10,204
Inc / Dec (-) in Capital	0	-560	0	0	0
Dividend + Tax thereon	-71,500	-2,00,300	-73,240	-78,471	-86,319
Inc / Dec (-) in Loans	0	0	0	0	0
Others	-50	0	0	0	0
Financing Cash Flow	-71,550	-2,00,860	-73,240	-78,471	-86,319
Inc / Dec (-) in Cash	-1,770	-63,700	73,679	80,551	-1,74,334
Opening Cash Balance	3,27,720	3,25,950	2,62,250	3,35,929	4,16,481
Closing Cash Balance	3,25,950	2,62,250	3,35,929	4,16,481	2,42,147

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
Net Margin	21.0%	22.7%	19.9%	20.3%	20.7%
Asset Turnover (x)	1.0	1.0	1.1	1.1	1.1
Leverage Factor (x)	1.0	1.0	1.0	1.0	1.0
RoE	22.0%	23.9%	22.4%	22.3%	22.2%

Key Ratios

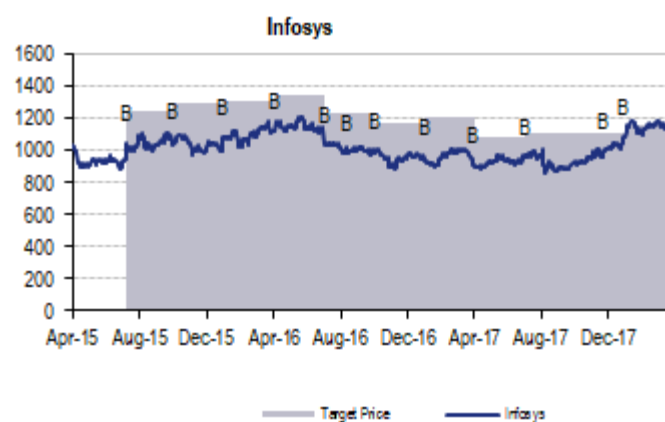
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
BV/Share (INR)	301.7	287.1	335.8	379.6	429.9
ROIC	42.6%	43.1%	40.6%	43.7%	46.4%
ROE	22.0%	23.9%	22.4%	22.3%	22.2%
Net Debt/Equity (x)	-0.5	-0.4	-0.5	-0.5	-0.5
P/E (x)	18.7	16.5	16.5	14.6	13.0
P/B (x)	3.9	4.1	3.5	3.1	2.7
EV/EBITDA (x)	12.5	12.5	11.4	9.9	8.6
EV/Sales (x)	3.4	3.4	3.0	2.6	2.3
Debtor days	85	90	89	89	89
Inventory days	0	0	0	0	0
Creditor days	3	5	4	4	4

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
22-Jul-15	Buy	1,240	
12-Oct-15	Buy	1,290	4.0
14-Jan-16	Buy	1,310	1.6
15-Apr-16	Buy	1,340	2.3
15-Jul-16	Buy	1,230	-8.2
27-Aug-16	Buy	1,230	0.0
14-Oct-16	Buy	1,170	-4.9
13-Jan-17	Buy	1,210	3.4
13-Apr-17	Buy	1,080	-10.7
14-Jul-17	Buy	1,110	2.8
4-Dec-17	Buy	1,110	0.0
12-Jan-18	Buy	1,150	3.6

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

(formerly known as JM Financial Securities Limited)

Corporate Identity Number: U67100MH2017PLC296081

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Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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