JM FINANCIAL

Infosys | BUY

Slow but steady

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Infosys (INFO) reported a modest 2.3% QoQ constant currency revenue growth in 1QFY19; the operational construct – 2.6% QoQ volume growth in services (highest in the last 10 quarters) and USD 1.1bn large deal wins (highest in the last 7 quarters) – lends comfort on the outlook. Management commentary was optimistic on pick-up of project activity in troubled verticals such as Retail and US Financial Services, and a healthy deal pipeline. The retention of EBIT margin guidance despite the INR depreciation could disappoint some, but we see that as prudent given the concurrent cross-currency headwind. INFO emphasised it is not linking its planned investments in capability build with the currency movement indicating a potential flow-through of currency gains into margin over the medium-term. We have broadly retained our FY19/FY20 EPS estimates that build a gradual revenue growth recovery and stable margins. Superior cash conversion (86% OCF/EBITDA in 1QFY19) and c.6% FY19 dividend+potential buyback yield keeps us positive on the stock. BUY.

- **1QFY19 – In-line performance.** Consolidated revenue grew 0.9% QoQ to USD 2.83bn; constant currency (CC) growth (2.3%) was only a tad below our/consensus estimates (2.5%/2.4%). Volume growth was strong (2.6%); pricing was stable QoQ in CC and acquisitions gave USD 2mn. EBIT margin was down 100bps net of currency (+100bps), operational efficiencies (+40bps), wage hike (-100bps) and higher subcontracting/planned investments (-140bps). EBIT was c1% below our estimates but PAT at INR 36.1bn was c5% below estimates due to a reduction in the value of assets held for sale (Panaya).

- **Management commentary on FY19 outlook was optimistic.** INFO retained the 6-8% FY19 CC revenue growth guidance despite the integration of WongDoody acquisition (that could add an incremental USD25mn (JMFe). However, the qualitative commentary was positive – increasing spend by US BFS clients + green-shoots in Retail and continued momentum in Energy and Communications; weaknesses in verticals such as Retail and BFS appear to be centric only in select accounts in North America. We have maintained our FY18-20 USD revenues CAGR estimates at 8.1%.

- **Margin flow of INR depreciation – will be or will not be?** INFO did not revise the FY19 margin band guidance despite the 4.8% INR depreciation though it hinted a potential flow-through if the weakness persists. INFO could be keeping the buffer for any fulfilment costs (unplanned headcount addition/subcontracting) that may arise if the recovery in demand is sharper than expectation (note 85.7% net utilisation is a 10-year high). Build out of sales leadership post the leadership exits over the last few years could be another area of near-term investments. Thus, our FY19/FY20 EPS estimates are broadly unchanged despite the INR reset. We have not adjusted our estimates for the announced 1:1 bonus share issue and the proposed USD 1.6bn potential buy-back/dividend.

- **Maintain BUY.** We believe a return of operational stability + a buoyant management commentary should revive the interest back in the stock; 23% PER discount and 20% relative U/P YTD vs. TCS [TCS IN; HOLD] are other positives. Our PT is unchanged at 1,420 and values INFO at 17x 12-month forward PER.

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,420
Upside/(Downside)	7.8%
Previous Price Target	1,420
Change	0.0%

Key Data – INFO IN	
Current Market Price	INR1,317
Market cap (bn)	INR2,877.4/US$42.0
Free Float	77%
Shares in issue (mn)	2,261.4
Diluted share (mn)	2,175.4
3-mon avg daily val (mn)	INR5,535.5/US$80.8
52-week range	1,358/853
Sensex/Nifty	36,542/11,019
INR/US$	68.5

Price Performance			
%	1M	6M	12M
Absolute	4.2	23.1	35.9
Relative*	1.9	16.6	19.2

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
Net Sales	6,84,850	7,05,220	8,03,748	8,77,770	9,54,747
Sales Growth	9.7%	3.0%	14.0%	9.2%	8.8%
EBITDA	1,86,050	1,90,100	2,12,604	2,33,605	2,55,563
EBITDA Margin	27.2%	27.0%	26.5%	26.6%	26.8%
Adjusted Net Profit	1,43,530	1,60,280	1,58,537	1,76,133	1,97,228
Diluted EPS (INR)	62.8	71.0	72.9	81.0	90.7
Diluted EPS Growth	6.4%	13.1%	2.6%	11.1%	12.0%
ROIC	42.6%	43.1%	43.6%	47.8%	50.4%
ROE	22.0%	23.9%	24.3%	25.0%	24.4%
P/E (x)	21.0	18.5	18.1	16.3	14.5
P/B (x)	4.4	4.6	4.4	3.8	3.3
EV/EBITDA (x)	14.3	14.3	12.7	11.2	9.8
Dividend Yield	2.0%	2.5%	2.1%	2.3%	2.5%

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

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)	1QFY18	2QFY18	3QFY18	4QFY18	FY18	1QFY19
Consolidated revenues (USDmn)	**2,651**	**2,728**	**2,755**	**2,805**	**10,939**	**2,831**
Change (QoQ/ YoY)	3.2%	2.9%	1.0%	1.8%	7.2%	0.9%
Consolidated revenues (INR mn)	**1,70,780**	**1,75,670**	**1,77,940**	**1,80,830**	**7,05,220**	**1,91,280**
Change (QoQ/ YoY)	-0.2%	2.9%	1.3%	1.6%	3.0%	12.0%
Cost of revenue	1,04,500	1,07,710	1,09,520	1,10,960	4,32,690	1,18,520
Gross profit	**66,280**	**67,960**	**68,420**	**69,870**	**2,72,530**	**72,760**
Gross margin	**38.8%**	**38.7%**	**38.5%**	**38.6%**	**38.6%**	**38.0%**
Total operating expenses	20,670	20,940	20,250	20,570	82,430	23,030
EBITDA	**45,610**	**47,020**	**48,170**	**49,300**	**1,90,100**	**49,730**
EBITDA margin	**26.7%**	**26.8%**	**27.1%**	**27.3%**	**27.0%**	**26.0%**
Depreciation & amortization	4,500	4,560	4,980	4,580	18,620	4,360
EBIT	**41,110**	**42,460**	**43,190**	**44,720**	**1,71,480**	**45,370**
EBIT margin	**24.1%**	**24.2%**	**24.3%**	**24.7%**	**24.3%**	**23.7%**
Other income	7,430	8,830	9,620	5,340	31,220	4,560
Profit Before Tax	48,540	51,290	52,810	50,060	2,02,700	49,930
Income tax expense	13,710	14,030	1,520	13,160	42,420	13,810
Net income from operations	**34,830**	**37,260**	**51,290**	**36,900**	**1,60,280**	**36,120**
Share of minority interest	0	0	0	0	0	0
PAT	**34,830**	**37,260**	**51,290**	**36,900**	**1,60,280**	**36,120**
Change (QoQ/ YoY)	**-3.3%**	**7.0%**	**37.7%**	**-28.1%**	**11.7%**	**3.7%**
Adjusted Diluted EPS	**15.2**	**16.3**	**22.5**	**17.0**	**71.0**	**16.6**
Change (QoQ/ YoY)	-3.3%	7.0%	38.3%	-24.7%	13.2%	-2.1%

Comments

- In terms of cc, revenue grew c.2.3% QoQ in 1QFY19
- Growth in revenue was supported by 2.6% QoQ growth in volume while price realisation was down 1.3% QoQ (flat in cc terms)
- EBIT margin contracted by 100bps QoQ to 23.7% mainly due to wage hike (-100bps), higher investments + increase in visa costs & other overheads (-140bps), partially offset by currency benefit (+100bps) and higher utilisation + onsite mix moderation (+40bps)
- Other income includes the reduction of INR 2,700mn in fair value of assets held for sale
- PAT rose 3.7% QoQ in spite of PAT margin declining by 152bps QoQ. The increase in the rupee amount of PAT is attributed primarily to increased volumes
- Drop in QoQ diluted EPS is on account of increase in dilutive share count

Source: Company, JM Financial

Management commentary: Key takeaways

- **Vertical commentary. BFSI –** Deal pipeline is increasing; pricing is stable and deal sizes are growing. European BFSI was soft in 1QFY19 but INFO expects it to improve in the coming quarters. Barring a couple of US based large clients, INFO is seeing IT spends expanding across clients in the US. **Retail –** 1QFY19 was helped by ramp-ups in deals won in earlier quarters and strong demand for digital. INFO indicated it is seeing some early signs of demand revival in the US retail clients. **Telecom –** INFO expects an upward momentum from IoT, SDN rollouts and cyber security even though there are headwinds from intensive competition and M&A activity. Energy, utilities, resources and services – INFO expects the growth in the vertical to remain robust with momentum in top accounts and ramp up of deals won in the prior quarters.

- **Margins outlook. The target margin** was retained at 22-24% as INFO plans to continue its investments in digital/onsite capacity built + sales front end addition. While it sees limited incremental upside from utilization that is at an all-time high, it expects improvement in per-capita realisation + automation as key near-term margin levers.

- **Deal wins.** INFO won 8 large deals with combined TCV of USD 1.1bn in 1QFY19 of which 7 were in North America and 1 was in Europe. Among verticals, 3 were in Energy, 3 in Retail; and 2 in FS (that were 40% of the TCV).

- **Digital.** Digital grew c.8%QoQ in CC terms in 1QFY19 to 28% revenue share. INFO is building a team of digital professionals who can work across spectrum of digital services. With maturing digital deal sizes, INFO is able to shift work offshore to drive up margins. A large share of the work INFO is doing in this space is around cloud migration.

- **Others.** INFO announced a 1:1 Bonus share issue. It maintained its policy of paying 70% FCF to the shareholders including USD 1.6bn in FY19 itself. 85% of Employees were covered under the wage hike effected in 1QFY19; the balance employees will get the hike in 2QFY19. INFO has also made changes in its disclosures on operating matrices.

Exhibit 2. Movement in margin drivers

	1QFY18	4QFY18	1QFY19	Change (%) QoQ	Change (%) YoY
INR/USD	**64.42**	**64.47**	**67.57**	**4.8%**	**4.9%**
Consolidated revenues (INR mn)	**1,70,780**	**1,80,830**	**1,91,280**	**5.8%**	**12.0%**
IT services revenues (INR mn)	1,53,019	1,62,205	1,71,769	5.9%	12.3%
A. EXECUTION METRICS					
Utilisation (ex-trainees)	84.0%	84.7%	85.7%	103bp	170bp
Average realization (USD/person-month)					
- Onsite	12,046	12,371	12,347	-0.2%	2.5%
- Offshore	3,977	4,150	4,050	-2.4%	1.8%
- Blended	**6,403**	**6,511**	**6,423**	**-1.4%**	**0.3%**
Billed effort- IT + Cons. (person-month)					
- Onsite	1,12,748	1,12,519	1,14,966	2.2%	2.0%
- Offshore	2,62,338	2,79,274	2,87,013	2.8%	9.4%
- Total	**3,75,086**	**3,91,793**	**4,01,980**	**2.6%**	**7.2%**
B. COST DRIVERS					
Wage costs	83,290	89,470	93,480	4.5%	12.2%
As % of revenues	48.8%	49.5%	48.9%	-1.2%	0.2%
Other cost of revenues	21,210	21,490	25,040	16.5%	18.1%
As % of revenues	12.4%	11.9%	13.1%	121bp	67bp
Gross profit	**66,280**	**69,870**	**72,760**	**4.1%**	**9.8%**
Gross margin	**38.8%**	**38.6%**	**38.0%**	**-60bp**	**-77bp**
Sales and marketing expenses	8,880	9,470	10,050	6.1%	13.2%
As % of revenues	5.2%	5.2%	5.3%	2bp	5bp
G&A expenses	11,790	11,100	12,980	16.9%	10.1%
As % of revenues	6.9%	6.1%	6.8%	65bp	-12bp
EBITDA	**45,610**	**49,300**	**49,730**	**0.9%**	**9.0%**
EBITDA margin	**26.7%**	**27.3%**	**26.0%**	**-126bp**	**-71bp**

Comments

- Operating margin of 23.7% was at the upper end of FY19 guided range of 22%-24%
- FY19 operating margin guidance was retained at 22%-24% with the management expecting gradual uptick in investments in digital and localisation affecting the margins in the rest of the year being offset by non-linear growth in digital revenue and operational efficiencies
- Wage hike was given to c.85% of the employees w.e.f. 1Apr'18 which resulted in 100bps impact on the margins
- Sub-contracting costs increased to 6.8% of the revenue from 6.1% last quarter driven primarily by utilisation level and onsite talent demand
- Management expects margins to improve as digital revenue share improves because gross margins for digital business is higher than that for core IT services business

Source: Company, JM Financial

Exhibit 3. Key manpower and execution metrics

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Manpower base					
Total (Infosys cons)	1,98,553	1,98,440	2,01,691	2,04,107	2,09,905
Cons IT services	1,65,742	1,65,470	1,68,265	1,70,361	1,75,247
BPO services	32,811	32,970	33,426	33,746	34,658
Net addition	-1,811	-113	3,251	2,416	5,798
As % of opening base	-0.9%	-0.1%	1.6%	1.2%	2.8%
Utilisation (IT Services & consulting) – Incl. trainees	80.2%	81.8%	82.1%	80.8%	81.5%
Utilisation (IT Services & consulting) – Excl. trainees	84.0%	84.7%	84.9%	84.7%	85.7%
Attrition (TTM) - Infosys cons	19.1%	19.5%	19.5%	20.1%	20.7%
Attrition (QA) - Infosys India	16.9%	17.2%	15.8%	16.6%	20.6%

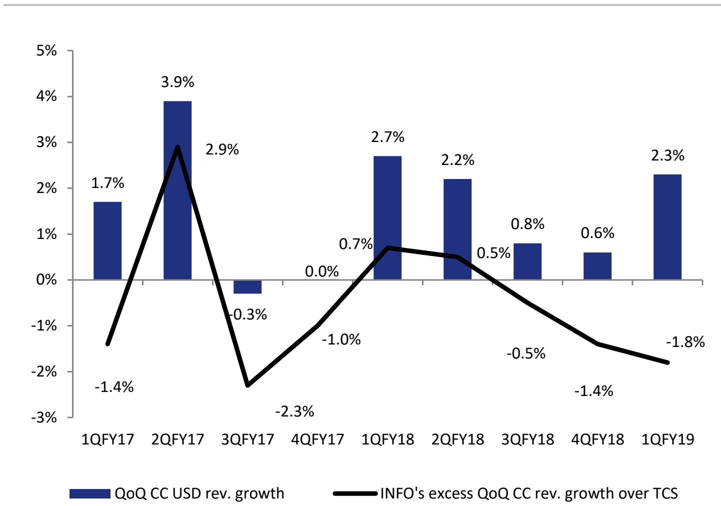
Comments

- Revenue per employee increased to USD 54,900 which was an all-time high
- Utilisation (ex-trainees) expanded by 103bps QoQ to an all-time high of 85.7%
- High attrition was partly attributed to seasonality with bulk of attrition in the experience range of 2-4years

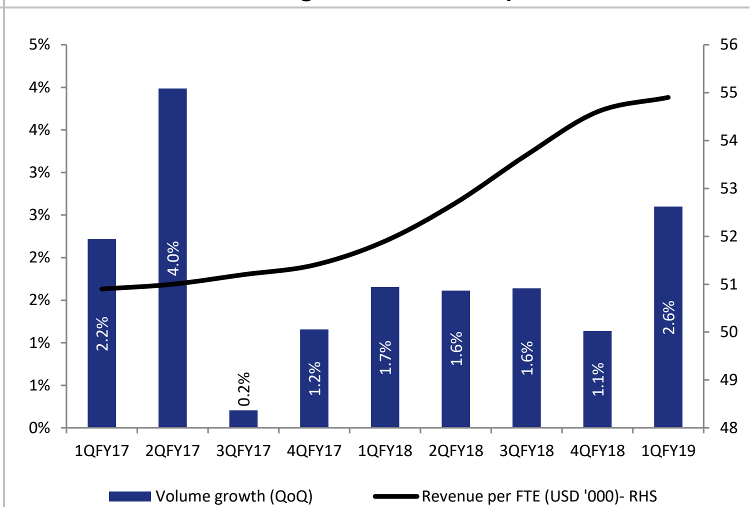
Source: Company, JM Financial

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

CC USD revenue growth vs. TCS



QoQ Volume growth + Revenue per FTE



Source: Company, JM Financial

Exhibit 5. Revenue by offering

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Revenue share (%)					
Services					
Digital	22.4%	23.6%	24.2%	25.3%	26.7%
Core	72.2%	71.2%	70.4%	69.8%	68.5%
Total	**94.6%**	**94.8%**	**94.6%**	**95.1%**	**95.2%**
Products and platforms					
Digital	1.5%	1.6%	1.9%	1.5%	1.7%
Core	3.9%	3.6%	3.5%	3.4%	3.1%
Total	**5.4%**	**5.2%**	**5.4%**	**4.9%**	**4.8%**
Consolidated					
Digital	23.9%	25.2%	26.1%	26.8%	28.4%
Core	76.1%	74.8%	73.9%	73.2%	71.6%
Revenue (USD mn and QoQ growth)					
Services					
Digital	594	644	667	710	756
Change QoQ	n.a.	8.4%	3.6%	6.4%	6.5%
Core	1,914	1,942	1,940	1,958	1,939
Change QoQ	n.a.	1.5%	-0.1%	0.9%	-1.0%
Total	**2,508**	**2,586**	**2,606**	**2,668**	**2,695**
Change QoQ	n.a.	3.1%	0.8%	2.4%	1.0%
Products and Platforms					
Digital	40	44	52	42	48
Change QoQ	n.a.	9.8%	19.9%	-19.6%	14.4%
Core	103	98	96	95	88
Change QoQ	n.a.	-5.0%	-1.8%	-1.1%	-8.0%
Total	**143**	**142**	**149**	**137**	**136**
Change QoQ	n.a.	-0.9%	4.9%	-7.6%	-1.1%
Consolidated					
Digital	634	687	719	752	804
Change QoQ	n.a.	8.5%	4.6%	4.5%	7.0%
Core	2,017	2,041	2,036	2,053	2,027
Change QoQ	n.a.	1.1%	-0.2%	0.9%	-1.3%
Total	**2,651**	**2,728**	**2,755**	**2,805**	**2,831**
Change QoQ	n.a.	2.9%	1.0%	1.8%	0.9%

Comments:

- Digital revenues now comprise 28% of the total revenues growing by 8% QoQ in cc terms and 25% YoY
- While digital revenues grew 7% QoQ on reported basis, core services declined by 1.3% in the same period
- Products and platforms declined by 1.1% QoQ on reported basis while Services business grew by 1.0% in the same period
- The management stated visibility of traction in the five areas of customer experience, data analytics, IoT, cloud and cyber security assurance
- INFO stated that a large part of the new deal wins for the quarter involved digital and also that the deal sizes are getting bigger

Source: Company, JM Financial

Exhibit 6. Vertical portfolio

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Distribution					
Financial Services	33.0%	33.1%	32.8%	32.5%	31.8%
Retail	16.2%	16.0%	16.2%	15.9%	16.6%
Communications	12.6%	12.4%	12.4%	12.9%	12.7%
Energy, Utilities, Resources and Servcies	11.3%	11.7%	12.0%	12.0%	12.4%
Manufacturing	9.3%	9.4%	9.6%	9.6%	9.6%
Hi Tech	7.3%	7.2%	7.2%	7.4%	7.4%
Life Sciences	6.6%	6.8%	6.6%	6.7%	6.6%
Others	3.7%	3.4%	3.2%	2.9%	2.9%
Revenue (USDmn and QoQ growth)					
Financial Services	874	903	904	913	899
change QoQ	n.a.	3.3%	0.1%	1.0%	-1.5%
Retail and CPG	431	435	447	447	469
change QoQ	n.a.	1.1%	2.7%	-0.1%	5.0%
Communications	334	339	343	362	360
change QoQ	n.a.	1.6%	1.0%	5.6%	-0.6%
Energy, Utilities, Resources and Servcies	300	320	331	337	351
change QoQ	n.a.	6.6%	3.4%	1.9%	4.3%
Manufacturing	247	256	263	269	272
change QoQ	n.a.	3.7%	3.0%	2.2%	1.0%
Hi Tech	194	197	198	207	211
change QoQ	n.a.	1.4%	0.8%	4.6%	1.6%
Life Sciences	175	185	181	188	186
change QoQ	n.a.	5.8%	-2.2%	4.1%	-0.9%
Others	97	93	88	82	83
change QoQ	n.a.	-4.1%	-5.1%	-7.1%	1.3%

Comments:

- Financial services declined by 1.5% QoQ mainly due to reduction in spend by a couple of accounts, however, INFO stated that 40% of the USD 1.1bn of large deals was in Financial services with 43% of those being net-new deals
- INFO added four new clients in the USD 100mn+ category with two of them being in the field of Financial Services
- Retail & CPG grew by 5% QoQ with the retail part showing some early signs of recovery
- IT budget in telecom sector continues to face headwinds due to competition in the industry and changing industry dynamics like M&A activities, vendor consolidation, cost cutting measures, importing and competition for legacy services impacting growth

Source: Company, JM Financial

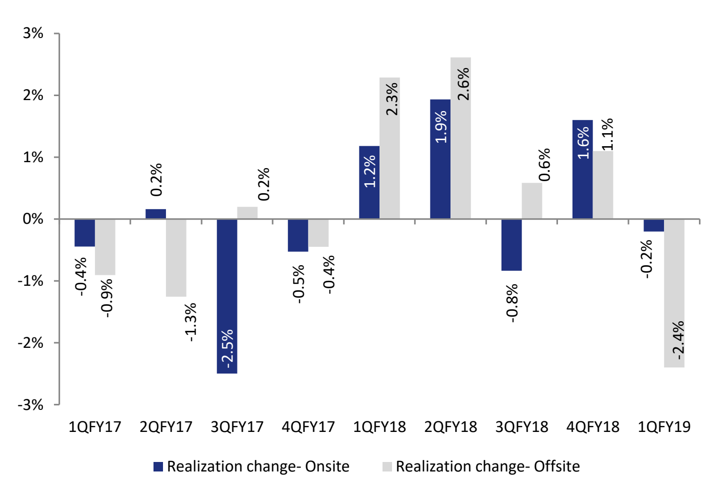
Exhibit 7. Key client metrics

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	Comments
Client base						
Active clients	1,164	1,173	1,191	1,204	1,214	
Net client addition	2	9	18	13	10	
Clients attrition	57	63	61	60	273	
Revenue per active client (USD mn)	2.28	2.33	2.31	2.33	2.33	
Revenue concentration						▪ 8 large deals were signed in the quarter with a combined TCV of USD 1.1bn; 7 of these large deals were in North America
Top client	3.3%	3.4%	3.4%	3.6%	3.7%	
Top 10 clients	20.0%	19.5%	19.2%	19.2%	19.2%	
Non-Top10 clients	80.0%	80.5%	80.8%	80.8%	80.8%	▪ 47% of the large deals signed in the quarter are net-new deals
Repeat business	99.4%	98.7%	98.3%	97.6%	99.5%	
Revenue growth						
Top client	3.2%	6.0%	1.0%	7.8%	3.7%	▪ Management stated that the acquisitions of Brilliant Basics and WongDoody are helping INFO expand portfolio with the impact already being visible across clients
Top-10 clients	2.2%	0.3%	-0.6%	1.8%	0.9%	
Non-top-10 clients	3.5%	3.5%	1.4%	1.8%	0.9%	
Repeat business	6.6%	2.2%	0.6%	1.1%	2.9%	
Relationship distribution						
USD 1mn+ Clients	606	620	630	634	627	▪ INFO stated that many clients in the US are increasing their spending and it expects INFO's US business to grow
Change QoQ	8	14	10	4	-7	
USD 10mn+ Clients	190	159	198	198	200	
Change QoQ	1	-31	39	0	2	
USD 50mn+ Clients	56	55	56	57	56	
Change QoQ	0	-1	1	1	-1	
USD 100mn+ Clients	18	19	20	20	24	
Change QoQ	-1	1	1	0	4	

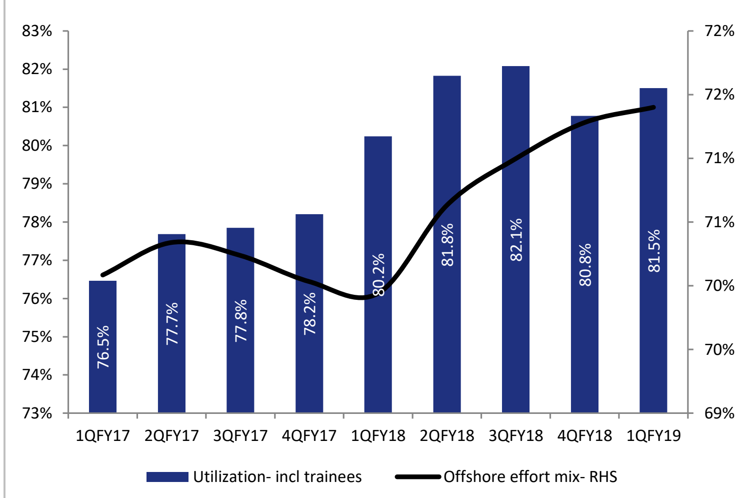
Source: Company, JM Financial

Exhibit 8. Pricing pressures appear to be stabilising; and utilisation is at a record high

Realization- Onsite + Offshore



Gross Utilisation + Offshore effort mix



Source: Company, JM Financial

Maintain BUY; target price unchanged at INR 1,420

Exhibit 9. What has changed in our forecasts and assumptions?

	Old			New			Change		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Exchange rate (INR/USD)	67.68	68.35	69.00	68.53	69.00	69.00	1.3%	1.0%	0.0%
Consolidated revenue (USD mn)	11,742	12,745	13,844	11,729	12,721	13,837	-0.1%	-0.2%	0.0%
Growth in USD revenues (YoY)	7.3%	8.5%	8.6%	7.2%	8.5%	8.8%	-12bp	-8bp	15bp
Consolidated revenue (INR mn)	7,94,693	8,71,126	9,55,219	8,03,748	8,77,770	9,54,747	1.1%	0.8%	0.0%
EBITDA margin	26.2%	26.3%	26.5%	26.5%	26.6%	26.8%	20bp	33bp	30bp
EBIT margin	23.7%	23.9%	24.2%	24.1%	24.3%	24.6%	36bp	37bp	34bp
PAT (INR mn)	1,57,854	1,76,797	1,98,697	1,58,537	1,76,133	1,97,228	0.4%	-0.4%	-0.7%
EPS	72.6	81.3	91.4	72.9	81.0	90.7	0.4%	-0.4%	-0.8%

Source: JM Financial

Exhibit 10. How we differ from consensus

	Consensus estimates			JMFe			Difference		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Sales (INR mn)	7,83,423	8,55,911	9,39,754	8,03,748	8,77,770	9,54,747	2.6%	2.6%	1.6%
EBITDA (INR mn)	2,06,358	2,25,916	2,47,343	2,12,604	2,33,605	2,55,563	3.0%	3.4%	3.3%
EBITDA margin	26.3%	26.4%	26.3%	26.5%	26.6%	26.8%	11bp	22bp	45bp
Net Income (INR mn)	1,55,145	1,69,451	1,86,303	1,58,537	1,76,133	1,97,228	2.2%	3.9%	5.9%
EPS (INR)	71.2	78.1	86.6	72.9	81.0	90.7	2.4%	3.6%	4.6%

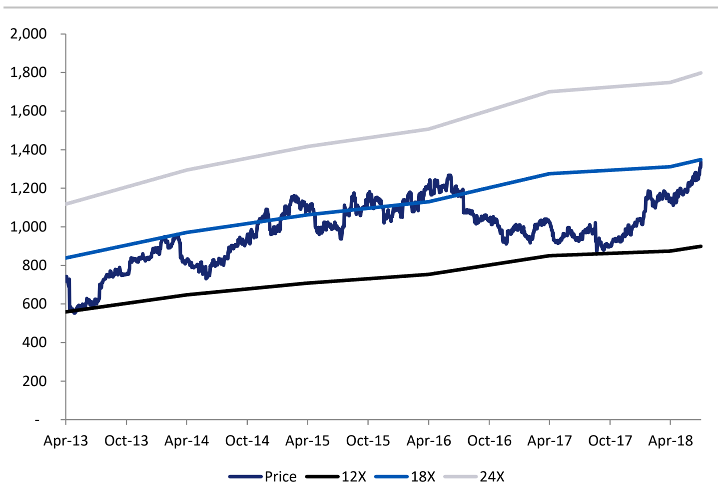
Source: JM Financial, Bloomberg

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 11. INFO is trading at 8% premium to its 5-year median PER of 16.2x and 23% discount to TCS

INFO- 12 month forward PER band



Discount/premium vs. 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	8,03,748	8,77,770	9,54,747
Sales Growth	9.7%	3.0%	14.0%	9.2%	8.8%
Other Operating Income	0	0	0	0	0
Total Revenue	**6,84,850**	**7,05,220**	**8,03,748**	**8,77,770**	**9,54,747**
Cost of Goods Sold/Op. Exp	4,15,500	4,32,690	4,96,173	5,41,834	5,89,535
Personnel Cost	0	0	0	0	0
Other Expenses	83,300	82,430	94,971	1,02,331	1,09,649
EBITDA	**1,86,050**	**1,90,100**	**2,12,604**	**2,33,605**	**2,55,563**
EBITDA Margin	27.2%	27.0%	26.5%	26.6%	26.8%
EBITDA Growth	8.9%	2.2%	11.8%	9.9%	9.4%
Depn. & Amort.	17,030	18,620	18,858	20,352	20,899
EBIT	1,69,020	1,71,480	1,93,746	2,13,253	2,34,663
Other Income	30,540	31,220	23,879	28,526	35,512
Finance Cost	0	0	0	0	0
PBT before Excep. & Forex	1,99,560	2,02,700	2,17,625	2,41,779	2,70,175
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	1,99,560	2,02,700	2,17,625	2,41,779	2,70,175
Taxes	55,980	42,420	59,088	65,646	72,947
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	1,58,537	1,76,133	1,97,228
Adjusted Net Profit	**1,43,530**	**1,60,280**	**1,58,537**	**1,76,133**	**1,97,228**
Net Margin	21.0%	22.7%	19.7%	20.1%	20.7%
Diluted Share Cap. (mn)	2,286.1	2,256.4	2,175.4	2,175.4	2,175.4
Diluted EPS (INR)	**62.8**	**71.0**	**72.9**	**81.0**	**90.7**
Diluted EPS Growth	6.4%	13.1%	2.6%	11.1%	12.0%
Total Dividend + Tax	70,853	90,980	73,310	78,546	86,401
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	6,56,035	7,53,696	8,64,603
Share Capital	11,440	10,880	10,880	10,880	10,880
Reserves & Surplus	6,78,380	6,38,360	6,45,155	7,42,816	8,53,723
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	-7,950	-7,950	-7,950
Total - Equity & Liab.	**6,86,490**	**6,41,830**	**6,48,085**	**7,45,746**	**8,56,653**
Net Fixed Assets	1,61,440	1,46,010	1,55,243	1,63,269	1,70,824
Gross Fixed Assets	2,10,730	2,24,530	2,50,311	2,78,688	3,07,143
Intangible Assets	36,520	22,110	23,940	23,940	23,940
Less: Depn. & Amort.	85,810	1,00,630	1,19,008	1,39,360	1,60,259
Capital WIP	0	0	0	0	0
Investments	64,530	57,560	56,230	56,230	56,230
Current Assets	6,02,180	5,82,510	6,25,864	7,30,220	8,49,110
Inventories	0	0	0	0	0
Sundry Debtors	1,59,700	1,74,030	1,97,173	2,14,247	2,33,036
Cash & Bank Balances	3,25,950	2,62,250	2,81,593	3,65,169	4,60,813
Loans & Advances	0	0	0	0	0
Other Current Assets	1,16,530	1,46,230	1,47,098	1,50,803	1,55,261
Current Liab. & Prov.	1,41,660	1,44,250	1,89,252	2,03,973	2,19,512
Current Liabilities	5,200	10,140	11,760	11,760	11,760
Provisions & Others	1,36,460	1,34,110	1,77,492	1,92,213	2,07,752
Net Current Assets	4,60,520	4,38,260	4,36,613	5,26,247	6,29,599
Total – Assets	**6,86,490**	**6,41,830**	**6,48,085**	**7,45,746**	**8,56,653**

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
Profit before Tax	1,43,530	1,60,290	1,58,537	1,76,133	1,97,228
Depn. & Amort.	17,030	18,630	18,858	20,352	20,899
Net Interest Exp. / Inc. (-)	-3,480	-8,290	-7,231	-7,755	-9,674
Inc (-) / Dec in WCap.	-19,440	-1,060	4,603	-9,192	-11,197
Others	59,520	44,310	59,088	65,646	72,947
Taxes Paid	-56,530	-68,290	-95,145	-1,05,705	-1,17,462
Operating Cash Flow	**1,40,630**	**1,45,590**	**1,38,710**	**1,39,478**	**1,52,742**
Capex	-27,600	-19,980	-28,091	-28,378	-28,455
Free Cash Flow	1,13,030	1,25,610	1,10,619	1,11,101	1,24,287
Inc (-) / Dec in Investments	-1,43,620	48,440	0	0	0
Others	480	2,650	0	0	0
Investing Cash Flow	**-1,70,740**	**31,110**	**-28,091**	**-28,378**	**-28,455**
Inc / Dec (-) in Capital	0	50	0	0	0
Dividend + Tax thereon	-69,390	-74,640	0	0	0
Inc / Dec (-) in Loans	0	0	0	0	0
Others	0	-1,30,460	0	0	0
Financing Cash Flow	**-69,390**	**-2,05,050**	**0**	**0**	**0**
Inc / Dec (-) in Cash	**-99,500**	**-28,350**	**1,10,619**	**1,11,101**	**1,24,287**
Opening Cash Balance	3,27,720	3,25,950	2,62,250	2,81,593	3,65,169
Closing Cash Balance	2,28,220	2,97,600	3,72,869	3,92,694	4,89,456

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
Net Margin	21.0%	22.7%	19.7%	20.1%	20.7%
Asset Turnover (x)	1.0	1.0	1.2	1.2	1.2
Leverage Factor (x)	1.0	1.0	1.0	1.0	1.0
RoE	22.0%	23.9%	24.3%	25.0%	24.4%

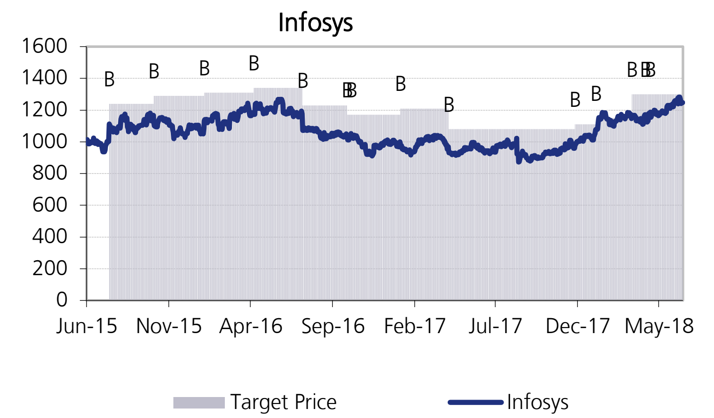
Key Ratios					
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
BV/Share (INR)	301.7	287.1	301.6	346.5	397.5
ROIC	42.6%	43.1%	43.6%	47.8%	50.4%
ROE	22.0%	23.9%	24.3%	25.0%	24.4%
Net Debt/Equity (x)	-0.5	-0.4	-0.4	-0.5	-0.5
P/E (x)	21.0	18.5	18.1	16.3	14.5
P/B (x)	4.4	4.6	4.4	3.8	3.3
EV/EBITDA (x)	14.3	14.3	12.7	11.2	9.8
EV/Sales (x)	3.9	3.9	3.4	3.0	2.6
Debtor days	85	90	90	89	89
Inventory days	0	0	0	0	0
Creditor days	3	5	5	5	4

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
21-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)
6-Oct-16	Buy	1,170	(4.9)
14-Oct-16	Buy	1,170	0.0
13-Jan-17	Buy	1,210	3.4
13-Apr-17	Buy	1,080	(10.7)
4-Dec-17	Buy	1110	2.8
12-Jan-18	Buy	1150	3.6
20-Mar-18	Buy	1300	13.0
14-Apr-18	Buy	1300	0.0
23-Apr-18	Buy	1300	0.0
18-Jun-18	Buy	1420	9.2

Recommendation History



APPENDIX I

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(formerly known as JM Financial Securities Limited)

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