

Stock Update

Favourable tailwinds

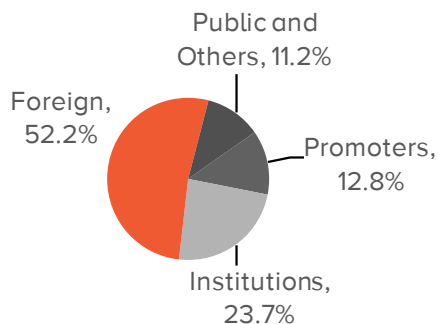
Infosys

Reco: Buy | CMP: Rs735

Company details

Price target:	Rs840
Market cap:	Rs321,164 cr
52-week high/low:	Rs748/440
NSE volume: (No of shares)	44.8 lakh
BSE code:	500209
NSE code:	INFY
Sharekhan code:	INFY
Free float: (No of shares)	408.7 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.2	21.0	28.4	74.6
Relative to Sensex	7.5	13.9	14.4	47.2

Key points

- ♦ **Rupee depreciation led to upgrade:** The recent sharp rupee depreciation (around 5% in the past one month) is likely to result in higher upside in EBIT margin and EPS for Infosys, considering 67% revenue booking from USD, lesser cash flow hedges and lower offshore revenue mix (45.4% in Q4FY2018). Since the beginning of Q2FY2019, USD/INR rates have witnessed correction of close to 5.6% and are currently hovering around Rs. 72 levels vs. USD. We have incorporated INR/USD rate of Rs. 70 for FY2019 and Rs. 71.5 for FY2020E. However, the appreciation of USD against major currencies (such as EUR, GBP and AUD) could create cross-currency headwinds to dollar revenue. Hence, we have cut our USD revenue growth estimates and revised upward EBIT margin for FY2019E and FY2020E. Effectively, our earnings estimates have improved by 0.2%/0.5% in FY2019E/FY2020E primarily on reset of INR/USD assumptions.
- ♦ **Earnings acceleration to continue:** Infosys has been delivering consistent performance given its sharp focus on execution, delivery excellence and strong leadership bench, despite a spate of exits of top executives in the past one year (nine senior management level exits including the recent resignation by CFO M.D. Ranganath). Under the new leadership, the company has been focusing on accelerating large deal wins (TCV of large deals was at eight-quarter high in Q1FY2019), adding large accounts (added six clients in the \$100 million bucket in the past four quarters) and investments on digital competencies (reset margin guidance band to create a more sustainable growth engine). Though investments on sales resources and creating digital capabilities would drag operating profitability, we believe the sharp depreciation of rupee would help Infosys to report FY2019 operating margin ahead of its own guidance band (22-24%). Given the ramp-up of large deals, healthy deal pipelines and improving demand environment in the U.S., we expect Infosys' revenue growth to accelerate in the coming years.

- ♦ **Valuation: Maintain Buy with a revised PT of Rs. 840:** We have revised upward our earnings estimates for FY2019E/FY2020E on account of the currency reset. We have also introduced FY2021 numbers in this note. At the CMP, the stock is trading at 17x its FY2020E EPS estimates.

With a strong leadership bench, addition of large accounts and rupee tailwind, we expect Infosys to deliver revenue and earnings CAGR of 14% and 12%, respectively, over FY2018-FY2020E. We maintain our Buy rating on the stock with a revised price target (PT) of Rs. 840.

Valuations

Particulars	Rs cr			
	FY18	FY19E	FY20E	FY21E
Total revenue	70,522.0	81,438.1	91,329.8	99,535.6
EBITDA margin (%)	24.3	24.0	24.2	24.3
Net profit	14,597.0	16,028.5	18,467.4	20,042.9
EPS (Rs)	33.0	36.9	42.5	46.1
P/E (x)	22.3	19.9	17.3	15.9
EV/EBITDA (x)	7.5	6.5	5.7	5.0
RoE (%)	23.9	24.6	27.7	28.5
RoCE (%)	30.2	33.3	36.9	38.3

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