

INFY raises its revenue guidance for FY19E in CC terms; Maintain BUY

The USD revenue rose 2.3% QoQ (2.7 % QoQ CC terms) to USD 2,987 million, (DCMe: USD 2,965 million), due to a healthy growth in US and Europe, despite headwind from cross currency movement. The INR revenue increased 3.9% QoQ to ₹ 214 billion (DCMe: ₹ 213.5 billion), helped by INR depreciation. The EBIT margin declined 109bps QoQ to 22.6% (DCMe: 23.5%), due to the negative impact of utilisation and onsite cost (-80bps), salary hike (-30bps), sales investment (-30bps), acquisition cost (-20bps), and Panaya amortization (-40bps). All of these offset the positive impact of INR depreciation (+50bps) and lease rental income (+40bps). The PAT declined 12.2% QoQ to ₹ 36 billion (DCMe: ₹ 41.6 billion), on account of lower margins and a reduction in fair value of asset held for sale (Skava and Panaya).

US and Europe continues to outperform among geographies

Revenue improved in the US/Europe by 2.6%/3.8%, QoQ, respectively. In India, it increased 5.2% QoQ and ROW improved 0.8% QoQ in CC terms. Among verticals, BFSI grew 3.6%, Energy rose 7.4%, and Manufacturing jumped 7.6%, in the quarter, from the preceding quarter. However, retail and communication declined 0.1% and 0.5%, respectively, QoQ (all in CC terms).

Digital growth continues

Digital revenue (contribution 32%) grew 4.1% QoQ (5% QoQ in CC terms) to USD 942 million, while core revenue (contribution 68%) rose 1.4% QoQ to USD 2,045 million. The company witnessed good traction in the digital strategy and continues investing to enhance digital capabilities. Client interest continued in Cyber security, Cloud, Automation, and Artificial Intelligence, etc., which is likely to help INFY to win large deals in the future.

Revised guidance for FY19 in CC terms

The company has increased its revenue growth guidance to 8.5%-9% from 6-8% earlier in CC terms, for FY19, which translates into a growth of 1%, for Q4FY19 in CC terms, at the upper end of its guidance. We estimate a USD revenue growth of 8% for FY19, which is towards the upper end of its guidance. The management maintains its EBIT margin guidance of 22%-24%, given the softness in margin in Q4FY19, due to the rupee appreciation, incremental wage compensation, and investments that are likely to be higher in H2, as compared to H1.

Q3FY19 Result (₹ Mn)

Particulars	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	214,048	177,945	20.3	205,960	3.9
Total Expense	159,873	129,761	23.2	152,513	4.8
EBITDA	54,175	48,184	12.4	53,447	1.4
Depreciation	5,804	4,973	16.7	4,654	24.7
EBIT	48,371	43,211	11.9	48,793	(0.9)
Other Income	2,866	9,624	(70.2)	7,404	(61.3)
Interest	0	0		0	
EBT	51,237	52,835	11.9	56,196	(8.8)
Tax	15,264	1,421	974.2	15,230	0.2
RPAT	35,973	51,414	(30.0)	40,966	(12.2)
APAT	35,973	51,414	(30.0)	40,966	(12.2)
			(bps)		(bps)
Gross Margin (%)	37.2	38.4	(121)	37.8	(53)
EBITDA Margin (%)	25.3	27.1	(177)	26.0	(64)
NPM (%)	16.8	28.9	(1209)	19.9	(308)
Tax Rate (%)	29.8	2.7	2710	27.1	269
EBIT Margin (%)	22.6	24.3	(169)	23.7	(109)

CMP	₹ 684
Target / Upside	₹ 840 / 23%
BSE Sensex	36,010
NSE Nifty	10,795

Scrip Details

Equity / FV	₹ 23,800mn / ₹ 5
Market Cap	₹ 2,731bn
	US\$ 39bn
52-week High/Low	₹ 755/₹ 533
Avg. Volume (no)	8,517,300
NSE Symbol	INFY
Bloomberg Code	INFO IN

Shareholding Pattern Dec'18(%)

Promoters	12.8
MF/Banks/FIs	22.4
FIIIs	34.5
Public / Others	30.3

Valuation (x)

	FY19E	FY20E	FY21E
P/E	16.9	14.8	13.5
EV/EBITDA	12.0	10.1	9.2
ROE (%)	25.7	29.6	30.8
RoACE (%)	25.7	29.6	30.8

Estimates (₹ mn)

	FY19E	FY20E	FY21E
Revenue	825,198	950,214	1,062,586
EBITDA	209,670	253,533	285,044
PAT	161,493	184,707	201,952
EPS (₹)	40.4	46.2	50.6

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View

During the quarter, INFY announced buyback of ₹ 82.6bn at a price of ₹ 800 per share (17% Premium) and also approved a special dividend of ₹ 4 per share. Company drops its plan to sell Panaya and Skava. We remain positive on INFY as increased revenue guidance and better exit rate for FY19 will help them achieve double digit revenue growth in FY20. We believe INFY to report an EBIT margin at the midpoint of its guidance range in FY19, on account of retention bonus, rupee appreciation, and continued investment. We downgrade our earnings estimates by 1.5%/1% for FY20/FY21, primarily because of margin headwind. The company has reported a healthy quarter, a tad better than that of TCS, and the discount for INFY versus TCS is currently 27% based on FY20 PER. We expect this discount to narrow, due to a healthy growth rate in the short term. We maintain our BUY rating on the stock, with a TP of ₹ 840 based 17x rolling one-year fwd. PER.

Exhibit 1: Q3FY19 Performance

(₹ mn)	Q3FY19	DCMe	% diff	Q2FY19	Q3FY18	QoQ	YoY
US\$ revenue	2987	2,965	0.7	2921	2755	2.3	8.4
Sales	214,048	213,526	0.2	205,960	175,656	3.9	21.9
EBIT	48,371	50,179	(3.6)	48,793	42,433	(0.9)	14.0
PAT	35,973	41,599	(13.5)	40,966	37,217	(12.2)	(3.3)
EPS	9.0	10.5	(14.2)	10.3	9.3	(12.2)	(3.3)
Margins (%)							
EBIT margin	22.6	23.5		23.7	24.2	(109)	(156)
PAT margin	16.8	19.5		19.9	21.2	(308)	(438)

Source: DART, Company

Exhibit 2: CC Revenue guidance implies a growth of -1 to 1% in Q4FY19

CC (USD mn)	Q1FY19	Q2FY19	Q3FY19	Q4FY19E	FY19E	% Chg YoY
Lower end						
Revenue	2,868	2,945	3,001	2,971	11,785	8.5
QoQ growth (%)	2.3	4.2	2.7	(1.0)		
Upper end						
CC (USD mn)	Q1FY19	Q2FY19	Q3FY19	Q4FY19E	FY19E	% Chg YoY
Revenue	2,868	2,945	3,001	3,031	11,845	9.0
QoQ growth (%)	2.3	4.2	2.7	1.0		

Source: DART, Company

Exhibit 3: Constant Currency Growth - Revenue

Constant Currency Growth	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Revenue (USD mn)	2,579	2,552	2,628	2,702	2,762	2,770	2,868	2,945	3,001
Growth % (QoQ)	(0.3)	0.0	2.7	2.2	0.8	0.6	2.3	4.2	2.7

Source: DART, Company

Exhibit 4: Constant Currency Growth - Geography

Geography CC Growth (QoQ)	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
North America	(0.6)	1.2	1.3	1.9	0.7	0.1	2.0	3.8	2.6
Europe	1.0	(1.6)	3.1	4.1	4.7	(0.2)	2.1	4.0	3.8
India	(0.1)	(6.9)	11.2	(5.1)	(5.9)	(4.9)	(4.1)	3.0	5.2
ROW	(1.5)	(1.3)	6.9	2.3	(4.0)	6.3	5.3	6.8	0.8

Source: DART, Company

Exhibit 5: Revenue per FTE

Revenue per FTE (USD '000)	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Revenue per FTE - Conso	51.2	51.4	51.9	52.7	53.7	54.6	54.9	54.7	54.3
Growth % (QoQ)	0.4	0.4	1.0	1.5	1.9	1.7	0.5	(0.4)	(0.7)

Source: DART, Company

Exhibit 6: Geographic split

Revenue (USD mn)	Q3FY18	Q2FY19	Q3FY19	QoQ (%)	YoY (%)
North America	1,664	1,761	1,804	2.4	8.4
Europe	672	701	723	3.1	7.5
India	83	73	78	6.3	(6.0)
Rest of World	336	386	382	(0.8)	13.8
as % of Total					
North America	60.4	60.3	60.4	10 bps	0 bps
Europe	24.4	24.0	24.2	20 bps	(20 bps)
India	3.0	2.5	2.6	10 bps	(40 bps)
Rest of World	12.2	13.2	12.8	(40 bps)	60 bps

Source: DART, Company

Exhibit 7: Vertical split

Revenue (USD mn)	Q3FY18	Q2FY19	Q3FY19	QoQ (%)	YoY (%)
BFSI	904	941	971	3.2	7.4
Retail	446	491	490	(0.2)	9.8
Communication	342	359	355	(1.1)	4.0
Energy & Utilities	331	359	382	6.4	15.6
Manufacturing	264	280	302	7.6	14.1
Hi-Tech	198	219	218	(0.5)	9.9
Life Sciences	182	187	185	(0.9)	1.9
Others	88	85	84	(1.3)	(5.1)
as % of Total					
BFSI	32.8	32.2	32.5	30 bps	(30 bps)
Retail	16.2	16.8	16.4	(40 bps)	20 bps
Communication	12.4	12.3	11.9	(40 bps)	(50 bps)
Energy & Utilities	12.0	12.3	12.8	50 bps	80 bps
Manufacturing	9.6	9.6	10.1	50 bps	50 bps
Hi-Tech	7.2	7.5	7.3	(20 bps)	10 bps
Life Sciences	6.6	6.4	6.2	(20 bps)	(40 bps)
Others	3.2	2.9	2.8	(10 bps)	(40 bps)

Source: DART, Company

Exhibit 8: Client concentration

Client Concentration	Q3FY18	Q2FY19	Q3FY19	QoQ (%)	YoY (%)
USD 50mn +	56	58	59	1.7	5.4
USD 100mn +	20	23	23	0.0	15.0
(USD mn)					
Top client	94	114	102	(10.9)	8.4
Top 10 clients	529	567	574	1.2	8.4
Non-Top 10	2,226	2,354	2,413	2.5	8.4
Total	2,755	2,921	2,987	2.3	8.4
(%)					
Top client	3.4	3.9	3.4	(50 bps)	0 bps
Top 10 clients	19.2	19.4	19.2	(20 bps)	0 bps
Repeat business	98.3	98.2	96.6	(160 bps)	(170 bps)
New client addition	79	73	101	38.4	27.8
Active clients	1191	1222	1251	2.4	5.0

Source: DART, Company

Exhibit 9: Contract split

Revenue (USD mn)	Q3FY18	Q2FY19	Q3FY19	QoQ (%)	YoY (%)
Fixed Price	1,416	1,519	1,583	4.2	11.8
Time & Material	1,339	1,402	1,404	0.1	4.9
% of Total Revenue					
Fixed Price	51.4	52.0	53.0	100 bps	160 bps
Time & Material	48.6	48.0	47.0	(100 bps)	(160 bps)

Source: DART, Company

Exhibit 10: Employee metrics

(Nos)	Q3FY18	Q2FY19	Q3FY19	QoQ (%)	YoY (%)
Total employees	201,691	217,739	225,501	3.6	11.8
Sales & support	9,738	10,468	10,947	4.6	12.4
Gross addition	12,622	19,721	18,773	(4.8)	48.7
Net addition	3,251	7,834	7,762	(0.9)	138.8
Attrition (%)	18.7	22.2	19.9	(230 bps)	120 bps
Utilization (%)					
Include Trainees	82.1	80.2	79.8	(40 bps)	(230 bps)
Exclude Trainees	84.9	85.6	83.8	(180 bps)	(115 bps)

Source: DART, Company

Exhibit 11: Estimate Revision

(₹ mn)	New			Earlier			Change (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Sales	825,198	950,214	1,062,586	825,533	950,790	1,066,973	(0.0)	(0.1)	(0.4)
EBIT	190,170	231,494	260,710	202,033	235,386	263,367	(5.9)	(1.7)	(1.0)
EBIT Margin (%)	23.0	24.4	24.5	24.5	24.8	24.7			
PBT	223,881	253,719	277,407	228,350	258,698	281,452	(2.0)	(1.9)	(1.4)
Tax	62,388	69,012	75,455	62,643	71,142	77,399			
Net profit	161,493	184,707	201,952	165,707	187,556	204,053	(2.5)	(1.5)	(1.0)
Net margin (%)	19.6	19.4	19.0	20.1	19.7	19.1			
EPS (₹)	40.4	46.2	50.6	41.5	46.9	51.1	(2.5)	(1.5)	(1.0)
Re/US\$	69.9	74.1	76.0	70.1	74.1	76.0	(0.3)	0.0	0.0

Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Revenue	705,106	825,198	950,214	1,062,586
Total Expense	515,083	615,528	696,681	777,541
COGS	432,643	514,833	580,698	650,438
Employees Cost	0	0	0	0
Other expenses	82,440	100,695	115,983	127,104
EBIDTA	190,023	209,670	253,533	285,044
Depreciation	18,629	19,501	22,039	24,335
EBIT	171,394	190,170	231,494	260,710
Interest	0	0	0	0
Other Income	31,201	33,712	22,225	16,698
Exc. / E.O. items	0	0	0	0
EBT	202,595	223,881	253,719	277,407
Tax	42,323	62,388	69,012	75,455
RPAT	160,272	161,493	184,707	201,952
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	160,272	161,493	184,707	201,952

Balance Sheet

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Sources of Funds				
Equity Capital	12,384	23,800	25,197	25,827
Minority Interest	0	0	0	0
Reserves & Surplus	636,809	583,544	615,548	645,923
Net Worth	649,193	607,344	640,745	671,750
Total Debt	0	0	0	0
Net Deferred Tax Liability	0	0	0	0
Total Capital Employed	649,193	607,344	640,745	671,750

Applications of Funds

Net Block	319,252	320,489	373,887	416,935
CWIP	0	0	0	0
Investments	0	0	0	0
Current Assets, Loans & Advances	479,529	466,592	460,681	458,717
Inventories	0	0	0	0
Receivables	131,403	152,871	174,354	196,089
Cash and Bank Balances	262,219	204,344	161,577	122,327
Loans and Advances	85,907	109,378	124,749	140,301
Other Current Assets	0	0	0	0
Less: Current Liabilities & Provisions	149,588	179,737	193,822	203,901
Payables	6,974	15,659	17,562	19,694
Other Current Liabilities	142,614	164,078	176,261	184,208
Net Current Assets	329,941	286,855	266,858	254,815
Total Assets	649,193	607,344	640,745	671,750

E – Estimates

Important Ratios

Particulars	FY18A	FY19E	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	38.6	37.6	38.9	38.8
EBIDTA Margin	26.9	25.4	26.7	26.8
EBIT Margin	24.3	23.0	24.4	24.5
Tax rate	20.9	27.9	27.2	27.2
Net Profit Margin	22.7	19.6	19.4	19.0
(B) As Percentage of Net Sales (%)				
COGS	61.4	62.4	61.1	61.2
Employee	0.0	0.0	0.0	0.0
Other	11.7	12.2	12.2	12.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage				
Inventory days	0	0	0	0
Debtors days	68	68	67	67
Average Cost of Debt				
Payable days	4	7	7	7
Working Capital days	171	127	103	88
FA T/O	2.2	2.6	2.5	2.5
(D) Measures of Investment				
AEPS (₹)	40.1	40.4	46.2	50.6
CEPS (₹)	44.8	45.3	51.8	56.6
DPS (₹)	43.5	31.0	40.0	40.0
Dividend Payout (%)	108.4	76.7	86.5	79.1
BVPS (₹)	162.5	152.0	160.4	168.1
RoANW (%)	23.9	25.7	29.6	30.8
RoACE (%)	23.9	25.7	29.6	30.8
RoAIC (%)	45.7	48.1	52.5	50.7
(E) Valuation Ratios				
CMP (₹)	684	684	684	684
P/E	17.0	16.9	14.8	13.5
Mcap (₹ Mn)	2,730,583	2,730,583	2,730,583	2,730,583
MCap/ Sales	3.9	3.3	2.9	2.6
EV	2,468,363	2,526,239	2,569,006	2,608,256
EV/Sales	3.5	3.1	2.7	2.5
EV/EBITDA	13.0	12.0	10.1	9.2
P/BV	4.2	4.5	4.3	4.1
Dividend Yield (%)	6.4	4.5	5.9	5.9
(F) Growth Rate (%)				
Revenue	2.9	17.0	15.1	11.8
EBITDA	2.1	10.3	20.9	12.4
EBIT	1.4	11.0	21.7	12.6
PBT	1.3	10.5	13.3	9.3
APAT	11.1	0.8	14.4	9.3
EPS	11.1	0.8	14.4	9.3

Cash Flow

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
CFO	173,586	164,593	183,381	198,812
CFI	(41,387)	(20,738)	(75,437)	(67,383)
CFF	(195,982)	(201,730)	(150,710)	(170,679)
FCFF	150,711	130,624	118,782	136,314
Opening Cash	326,001	262,219	204,344	161,577
Closing Cash	262,219	204,344	161,577	122,327

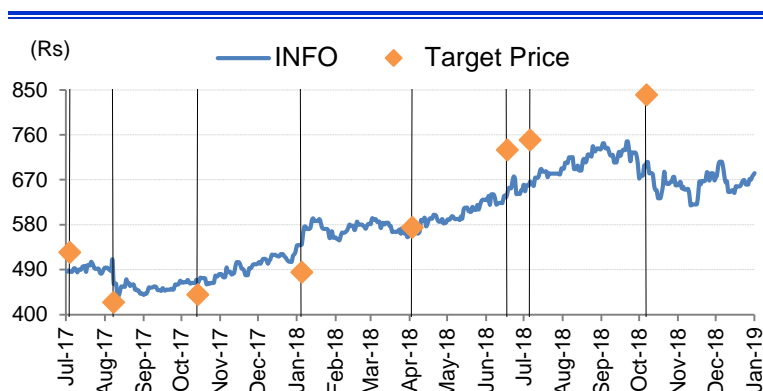
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Jul-17	Accumulate	525	486
Aug-17	Sell	425	462
Oct-17	Sell	440	463
Jan-18	Sell	485	541
Apr-18	Sell	575	586
Jun-18	Accumulate	730	645
Jul-18	Accumulate	750	666
Oct-18	Buy	840	705

*Price as on recommendation date

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