

Rating matrix		
Rating	:	Buy
Target	:	₹ 780
Target Period	:	12 months
Potential Upside	:	11%

What's Changed?	
Target	Changed from ₹ 800 to ₹ 780
EPS FY19E	Changed from ₹ 38.2 to ₹ 35.0
EPS FY20E	Changed from ₹ 44.2 to ₹ 40.7
EPS FY21E	Introduced at ₹ 45.1
Rating	Unchanged

Quarterly Performance					
	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	21,400	17,794	20.3	20,609	3.8
EBIT	4,830	4,319	11.8	4,894	(1.3)
EBIT (%)	22.6	24.3	11.8	23.7	(1.3)
PAT	3,610	5,129	(29.6)	4,110	(12.2)

Key Financials				
₹ Crore	FY18	FY19E	FY20E	FY21E
Net Sales	70,522	82,749	91,425	98,777
EBITDA	19,010	20,936	23,588	25,485
Net Profit	14,597	15,228	17,705	19,602
EPS (₹)	32.3	35.0	40.7	45.1

Valuation summary				
	FY18	FY19E	FY20E	FY21E
P/E	21.7	20.0	17.2	15.5
Target P/E	24.1	22.3	19.2	17.3
EV / EBITDA	14.6	13.1	11.5	10.4
P/BV	4.9	4.3	3.9	3.6
RoNW (%)	22.5	21.3	23.0	23.4
RoCE (%)	30.9	29.9	31.1	31.7

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	304,473.2
Total Debt	-
Cash and Investments (FY18)	26,225.0
EV (₹ Crore)	278,248.2
52 week H/L	754 / 532
Equity capital	2,174.8
Face value	₹ 5

Price performance (%)				
	1M	3M	6M	12M
TCS	(6.2)	(9.6)	0.6	40.7
Infosys	(0.4)	(5.9)	5.2	34.6
Wipro	(1.5)	1.1	23.2	5.1
HCL Tech	(4.0)	(12.7)	0.1	3.6

Research Analysts	
Devang Bhatt	devang.bhatt@icicisecurities.com
Deepti Tayal	deepti.tayal@icicisecurities.com

Infosys (INFTEC)

₹ 700

Mixed bag performance...

- Infosys reported mixed results with revenues above our expectations and a margin miss. Constant currency (CC) revenues grew 2.7% QoQ (vs. our estimate of 2.2% QoQ) led by BFSI, energy & utilities and manufacturing. US\$ revenues grew 2.3% QoQ to \$2,987 million
- Reported EBIT margins fell 120 bps QoQ to 22.6%. However, adjusting for 40 bps one-time impact of Panaya and Skava, EBIT margins declined 70 bps QoQ to 23% led by a dip in utilisation, onsite mix (-80 bps), compensation (-30 bps), investments in sales (-30 bps) and acquisition impact (-20 bps). This was partly offset by rupee depreciation (+50 bps) & decline in other expenses (+40 bps)
- The board declared a special dividend of ₹ 4 per share and has announced a buyback under the open market route of ₹ 8,260 crore at a maximum price of ₹ 800 per share. We are not incorporating buyback in our estimates as of now

Deal wins & steady vertical outlook enhance revenue visibility for FY20E...

Infosys reported healthy growth in the quarter with BFSI, manufacturing and energy & utilities continuing growth momentum. BFSI witnessed growth momentum led by growth in the top account in North America while vertical saw some weakness in Europe. Further, 5% QoQ increase in digital revenues and core services (up 1.8% QoQ) coupled with Fluidio acquisition (~0.2%) also supported revenue growth. With improved visibility & better growth in Q3FY19, the company raised its constant currency revenue guidance to 8.5-9% from 6-8%. On deal wins, the company has won \$1.57 billion (of which 30% were new deal wins) while total TCV in 9MFY19 has doubled to \$4.7 billion compared to 9MFY18. This indicates new wins of ~\$2 billion, enhancing revenue growth visibility for FY20E. Hence, we expect Infosys' dollar revenues to grow at 8.3% CAGR to US\$13.9 billion in FY18-21E.

Margin to witness improved trajectory through FY19-21E...

EBIT margins came in below our expectations in the quarter. In the following quarter, it is expected to be impacted by rupee appreciation, continued investments in business, wage revision in wake of controlling attrition and transition cost of ramp up of deals. Thus, we tweak our margin estimates for FY19E and expect EBIT margin of 23%. Taking into account lower magnitude of investments in FY20E and productivity improvements, we expect EBIT margins to improve gradually to 23.5% each in FY20E and FY21E.

Digital witnessing good traction, average growth of 30% in 9MFY19...

Digital continues to drive the growth of the company with 33% YoY growth in CC terms. Further, digital contribution to revenues inching up (31.5% vs. 26.1% in Q3FY18) would drive the growth ahead. As indicated by the management, digital is seeing improved traction across clients, geographies and efforts in acceleration digital pace through investments while dedicated digital teams would prove to be beneficial for Infosys.

Healthy deal wins, attractive valuation; maintain BUY...

Miss at margins and rupee appreciation, prompts us to lower our margin estimates. However, steady growth outlook across most verticals, digital acceleration and deal ramp ups coupled with better valuation of ~15x FY21E EPS (vs ~19x FY21E EPS for TCS) prompt us to maintain our recommendation to **BUY** with a revised target price of ₹ 780 (~17x FY21E EPS).

Variance analysis

	Q3FY19	Q3FY19E	Q3FY18	YoY (%)	Q2FY19	QoQ (%)	Comments
Revenue	21,400	21,401	17,794	20.3	20,609	3.8	Constant currency revenues grew 2.7% QoQ (vs. our estimate of 2.2% QoQ) led by BFSI (3.6% QoQ), energy & utilities (7.4%) and manufacturing (7.6%)
Employee expenses	13,436	13,311	10,952	22.7	12,818	4.8	
Gross Profit	7,964	8,089	6,842	16.4	7,791	2.2	
Gross margin (%)	37.2	37.8	38.5	-124 bps	37.8	-59 bps	
Selling & marketing costs	1,156	1,134	877	31.8	1,088	6.3	
G&A expenses	1,398	1,391	1,148	21.8	1,346	3.9	
EBITDA	5,410	5,564	4,817	12.3	5,357	1.0	
EBITDA Margin (%)	25.3	26.0	27.1	-179 bps	26.0	-71 bps	
Depreciation	580	471	498	16.5	463	25.3	
EBIT	4,830	5,093	4,319	11.8	4,894	-1.3	
EBIT Margin (%)	22.6	23.8	24.3	-170 bps	23.7	-118 bps	Adjusted EBIT margins declined 70 bps QoQ due to dip in utilisation, onsite mix (-80 bps), compensation (-30 bps), investments in sales (-30 bps) and acquisition impact (-20 bps). The negatives were partly offset by rupee depreciation (+50 bps) & decline in other expenses (+40 bps)
Other income	753	733	962	-21.7	739	1.9	
PBT	5,583	5,826	5,281	5.7	5,633	-0.9	
Tax paid	1,522	1,573	152	901.3	1,523	-0.1	
Reported PAT	3,610	4,253	5,129	-29.6	4,110	-12.2	Adjusting for one-off item amounting to ₹ 451 crore related to Skava and additional depreciation of ₹ 88 crore, PAT was at ₹ 4,149 crore (vs. our estimate of ₹ 4,253 crore)

Key Metrics

Closing employees	225,501	220,000	201,691	11.8	217,739	3.6	Net addition of 21,394 employees in 9MFY19 (vs. 3743 in FY18)
LTM attrition-standalone (%)	17.8	19.5	15.8	200 bps	19.9	-210 bps	Attrition declined due to increased employee engagements
Utilisation -ex trainees (%)	83.8	85.2	84.9	-110 bps	85.6	-180 bps	
Average \$/₹	71.6	72.1	64.6	10.9	70.6	1.5	

Source: Company, ICICI Direct Research

Change in estimates

(₹ Crore)	Old	FY19E New	% Change	Old	FY20E New	% Change	FY21E Introduced	Comments
Revenue	83,117	82,749	-0.4	91,642	91,425	-0.2	98,777	Introducing FY21E and minor change in rupee revenue due to change in exchange rate assumption
EBIT	19,948	19,032	-4.6	22,635	21,485	-5.1	23,213	
EBIT Margin (%)	24.0	23.0	-100 bps	24.7	23.5	-120 bps	23.5	Revising EBIT margin estimates due to Q3 results and rupee appreciation
PAT	16,601	15,228	-8.3	19,227	17,705	-7.9	19,602	
EPS (₹)	38.2	35.0	-8.3	44.2	40.7	-7.9	45.1	

Source: Company, ICICI Direct Research

Assumptions

	FY18	Current FY19E	Earlier FY19E	Current FY20E	Earlier FY20E	Introduced FY21E	
Closing employees	204,107	225,326	210,326	237,020	222,570	247,911	
Utilisation -ex trainees (%)	84.6	85.0	85.0	85.0	85.0	85.0	
Average \$/₹	64.5	70.4	71.0	71.0	71.5	71.0	Change in exchange rate assumptions

Source: Company, ICICI Direct Research

Conference Call Highlights

- a. **Revenue outlook-** For FY19E, Infosys has raised its constant currency revenue guidance to 8.5-9% from 6-8% earlier. The company has indicated that budgets are expected to be flattish with higher investment in digital than in run the business
- b. **Margin trajectory:** The management expects Q4FY19E margins to be impacted by rupee appreciation, continued investments in business, wage revision in the wake of controlling attrition and transition cost of ramp up of deals. For FY19E, the company has retained EBIT margin band of 22-24%
- c. **Capital allocation plan:** The board has declared a special dividend of ₹ 4 per share. Also, the company has announced buyback under the open market route of ₹ 8,260 crore at a maximum price of ₹ 800/share
- d. **TCV:** Large deal TCV was strong with deal signings worth ~US\$1.5 billion in the quarter leading to total TCV of \$4.7 billion in 9MFY19. Infosys had 14 large deals with 10 in the US, three in Europe and one in RoW. Among verticals, financial services and manufacturing constituted four each, communication- two and retail, lifesciences, energy & utilities & other- one each
- e. **Vertical commentary:** BFSI (32.5% of revenue) continued its growth trajectory for a second consecutive quarter with 3.6% QoQ growth in constant currency in Q3FY19 (5.8% in Q2FY19). BFSI witnessed growth momentum led by growth in top account in North America while the vertical saw some weakness in Europe. Retail (16.4% of revenue) witnessed seasonal weakness and de-grew -0.1% sequentially in CC terms. Manufacturing and energy & utilities saw good growth in the quarter
- f. **Client update:** Top client (3.4% of revenue) and top 11-25 clients (33.9% of revenue) declined 10.9% and 1.8% sequentially. The active client base was at 1251 at Q3FY19 end with 101 clients added during the quarter
- g. **Employee update:** Net addition saw an accelerated up-tick of 21,394 employees in 9MFY19 (compared to net addition of 3743 in FY18) leading to employee strength of 225,501 in Q3FY19. Attrition (consolidated) and attrition (standalone) both witnessed a decline for a second straight quarter of 230 bps and 210 bps QoQ to 19.9% and 17.8%, respectively. The management indicated that increased employee engagements is driving down attrition levels. On the other hand, utilisation (ex-trainees) declined 180 bps QoQ to 83.8% due to seasonal quarter furloughs. The company has focused more on account scaling, introducing digital specialist, increased sales and reskilling of employees in new technology

Company Analysis

Exhibit 2: Geography wise split up

	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
<u>Revenue by geography (%)</u>						
North America	60.6	60.4	59.4	60.0	60.3	60.4
Europe	23.2	24.4	24.8	24.3	24.0	24.2
India	3.3	3.0	2.8	2.6	2.5	2.6
ROW	12.9	12.2	13.0	13.1	13.2	12.8

Growth QoQ in \$ terms (%)

North America	2.1	0.7	0.1	1.9	3.7	2.4
Europe	6.6	6.2	3.5	-1.1	1.9	3.1
India	-5.7	-8.2	-5.0	-6.3	-0.8	6.3
ROW	2.9	-4.5	8.5	1.7	4.0	-0.8

Source: Company, ICICI Direct Research

Exhibit 3: Vertical-wise split

	%contribution to revenues Q3FY19	%contribution to revenues Q2FY19	Constant currency growth QoQ (%)
<u>Revenue by verticals (%)</u>			
Financial Services	32.5	32.2	3.6
Retail	16.4	16.8	-0.1
Communication	11.9	12.3	-0.5
Energy, Utilities, Resources & Services	12.8	12.3	7.4
Manufacturing	10.1	9.6	7.6
Hi Tech	7.3	7.5	0.6
Life Sciences	6.2	6.4	0.0
Others	2.8	2.9	-1.3

Source: Company, ICICI Direct Research

Exhibit 4: Client & human resource matrix

	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
<u>Client metrics</u>						
5 Million \$ clients	620	630	634	627	633	651
25 Million \$ clients	186	198	198	200	205	214
50 Million \$ clients	55	56	57	56	58	59
100 Million \$ clients	19	20	20	24	23	23

Headcount, Utilization & Attrition

Total Employees	198440	201691	204107	209905	217739	225501
Utilization (Excluding trainees)	84.7	84.9	84.7	85.7	85.6	83.8
LTM Attrition (Standalone)	17.2	15.8	16.6	20.6	19.9	17.8

Source: Company, ICICI Direct Research

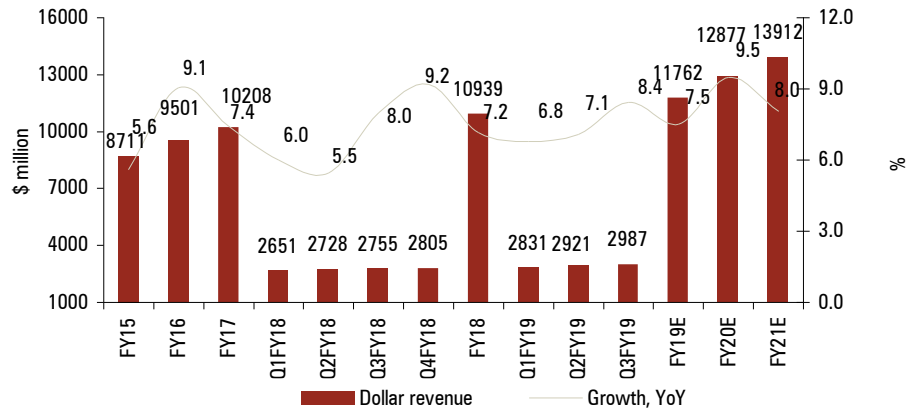
Growth was broad based across geographies

BFSI posted healthy growth for a second straight quarter while manufacturing and energy & utilities continue to do well. Retail was flat due to seasonal weakness

Attrition declined sequentially for a second consecutive quarter due to increased employee engagements. Utilisation declined 180 bps QoQ due to seasonal quarter furloughs

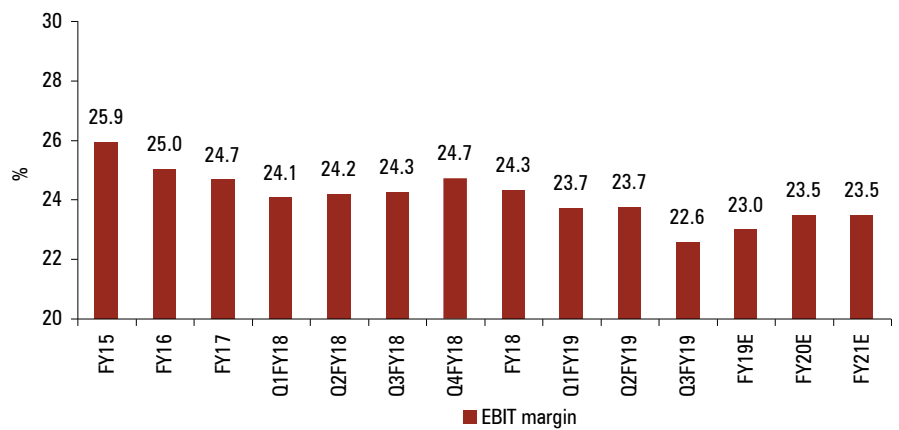
Financial story in charts

Exhibit 5: Dollar revenues may grow at 8.3% CAGR in FY18-21E



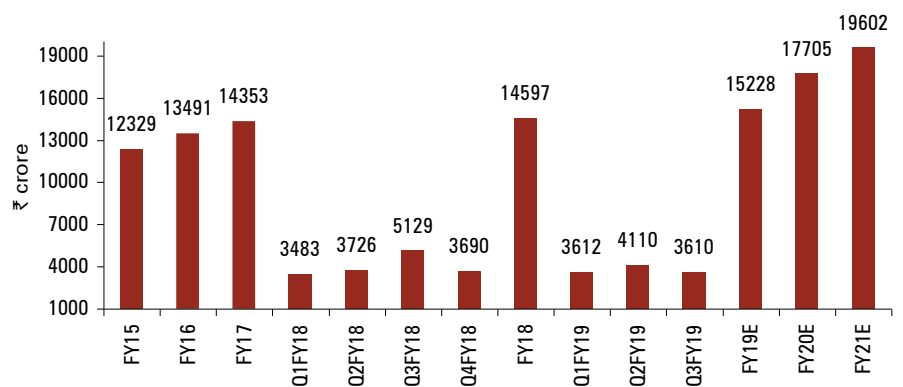
Source: Company, ICICI Direct Research

Exhibit 6: Change in margin estimates for FY19E and FY20E



Source: Company, ICICI Direct Research

Exhibit 7: PAT trend



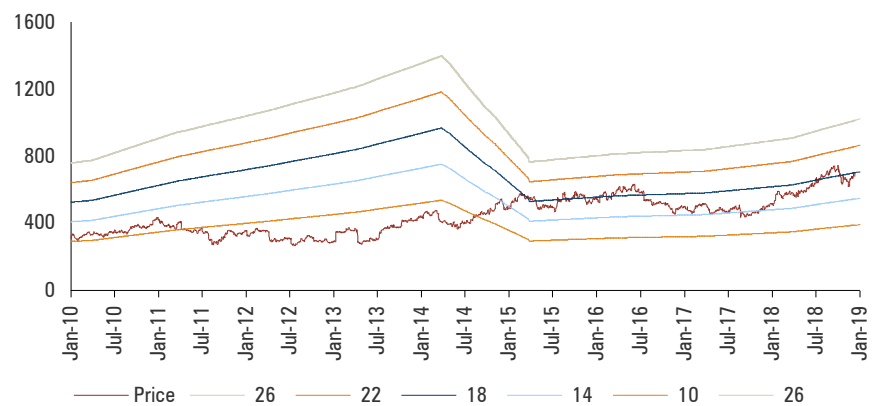
Source: Company, ICICI Direct Research

Outlook and valuation

Infosys reported a mixed bag Q3FY19 with revenues above our expectations and miss on the margin front. On the positive side, Infosys has raised its constant currency revenue guidance to 8.5-9% from 6-8% earlier for FY19E and maintained operating margin guidance of 22-24%. Further, strong large deal wins, healthy growth in BFSI and improvement in digital revenues was a positive. Large deal TCV was strong with deal signings worth ~US\$1.5 billion in the quarter. Digital (31.5% of revenues) grew 5% QoQ and 33.1% YoY in CC terms.

Miss at margins and rupee appreciation, prompts us to lower our margin estimates. However, steady growth outlook across most verticals, digital acceleration and deal ramp ups coupled with better valuation of ~15x FY21E EPS (vs ~19X FY21E EPS for TCS) prompt us to maintain our recommendation to BUY with a revised target price of ₹ 780 (~17x FY21E EPS).

Exhibit 8: One year forward rolling PE



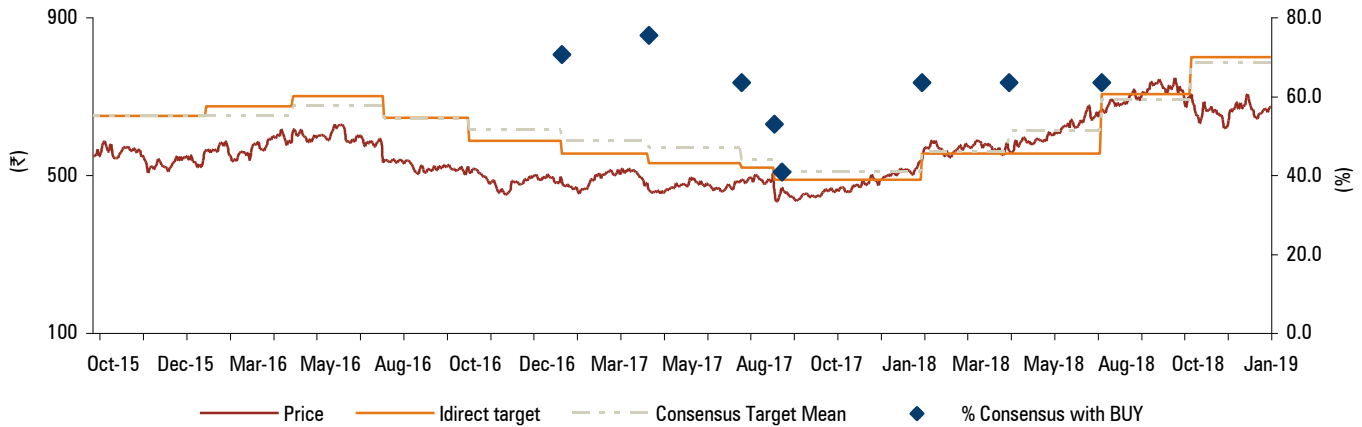
Source: Company, ICICI Direct Research

Exhibit 9: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	68,485	9.7	31.4	6.4	22.3	14.6	20.8	28.8
FY18	70,522	3.0	32.3	3.0	21.7	14.6	22.5	30.9
FY19E	82,749	17.3	35.0	8.3	20.0	13.1	21.3	29.9
FY20E	91,425	10.5	40.7	16.3	17.2	11.5	23.0	31.1
FY21E	98,777	8.0	45.1	10.7	15.5	10.4	23.4	31.7

Source: Company, ICICI Direct Research

Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Key events

Date	Event
Sep-18	Infosys forms a joint venture (JV) with Singapore-based global investment firm Temasek, the global investment company. As part of the transaction, Infosys will acquire a 60% stake in the joint venture and Temasek will hold 40%. Infosys would leverage its digital skills, learning capabilities and transformation experience to help enhance operations across Temasek's global business
Sep-18	Infosys signs definitive agreement to acquire Fluidio, the leading Salesforce advisor and consulting partner in Nordics. The consideration for the acquisition is ₹ 65 million (~₹ 545 crore). The deal value includes earn-out, management incentives and bonuses and is expected to close during Q3FY19
Sep-18	Infosys Public Services awarded a computer-aided design contract worth CAD \$80.3 million by Public Services and Procurement Canada (PSPC) to modernise and automate its procurement processes
Oct-18	Infosys announces voluntary delisting of its American Depositary Shares (ADSs) from the Euronext Paris and Euronext London exchanges
Nov-18	Infosys' American Depositary share (ADS) holders are seeking US\$3.7 million in depositor fees. The ADS holders have complained that the issue of bonus shares have added to their cost without any benefit. In another media report, Infosys has named Jayesh Sanghrajka as interim CFO
Dec-18	Infosys forms a joint venture with Hitachi, Ltd, Panasonic Corporation and Pasona Inc, enhancing its presence in Japan. As part of the agreement, Infosys would acquire 81% of the shareholding in Hitachi Procurement Service Co, Hitachi's fully owned subsidiary. The consideration for the 81% stake, subject to closing adjustments, is JPY 2,762 million (~₹ 175 crore). Hitachi, Panasonic and Pasona will be minority shareholders of the entity. Hitachi will transfer 2% each to Panasonic and Pasona and hold the remaining 15%. The transaction is expected to close by April 1, 2019
Dec-18	Infosys appoints Nilanjan Roy as chief financial officer, effective March 1, 2019. He replaces interim CFO Jayesh Sanghrajka, who would resume his responsibilities as deputy CFO

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	DWS Investment GmbH	30-Sep-18	17.2%	745.7	744.3
2	Life Insurance Corporation of India	30-Sep-18	6.9%	299.0	1.7
3	HDFC Asset Management Co., Ltd.	30-Nov-18	3.2%	138.2	14.9
4	Gopalakrishnan (Sudha)	30-Sep-18	3.2%	137.2	42.5
5	The Vanguard Group, Inc.	31-Mar-18	2.7%	116.9	6.9
6	BlackRock Institutional Trust Company, N.A.	31-Dec-18	2.4%	106.3	0.5
7	SBI Funds Management Pvt. Ltd.	30-Nov-18	2.1%	90.5	4.4
8	GIC Private Limited	30-Sep-18	2.0%	85.2	16.1
9	State Bank of India	7-Sep-18	1.9%	80.8	29.1
10	Murty (Rohan)	30-Sep-18	1.4%	60.8	0.4

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Mar-18	Sep-18	Dec-18
Promoter	12.90	12.82	12.82
Public	86.61	86.70	86.70
Others	0.49	0.48	0.47
Total	100.00	100.00	100.00

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
DWS Investment GmbH	7488.3m	744.3m	Nilekani (Nandan M)	-600.4m	-59.7m
Gopalakrishnan (Sudha)	427.1m	42.5m	ICICI Prudential Asset Management Co. Ltd.	-178.4m	-17.7m
Murty (Akshata)	392.0m	39.0m	Eastspring Investments (Singapore) Limited	-42.5m	-4.6m
State Bank of India	293.1m	29.1m	Invest AD	-30.5m	-3.0m
GIC Private Limited	161.9m	16.1m	Seafarer Capital Partners, LLC	-23.1m	-2.3m

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E	
Total operating Income	70,522	82,749	91,425	98,777	
Growth (%)	3.0	17.3	10.5	8.0	
COGS (employee expenses)	43,267	51,884	57,324	61,933	
Admin expenses	4,684	5,461	5,943	6,421	
S&M expenses	3,560	4,468	4,571	4,939	
Total Operating Expenditure	51,511	61,814	67,838	73,293	
EBITDA	19,010	20,936	23,588	25,485	
Growth (%)	2.2	10.1	12.7	8.0	
Depreciation	1,863	1,903	2,103	2,272	
Other Income	3,193	2,549	2,769	3,639	
PBT	20,270	20,861	24,254	26,852	
Total Tax	4,241	5,632	6,549	7,250	
PAT	14,597	15,228	17,705	19,602	
Growth (%)	1.7	4.3	16.3	10.7	
EPS (₹)	32.3	35.0	40.7	45.1	
Growth (%)	3.0	8.3	16.3	10.7	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E	
Equity Capital	2,258	2,175	2,175	2,175	
Reserve and Surplus	62,666	69,242	74,934	81,714	
Total Shareholders funds	64,924	71,417	77,109	83,889	
Employee benefit obligations	48	48	48	48	
Debt	-	-	-	-	
Deferred Tax Liability	541	541	541	541	
Other non current liabilities	272	272	272	272	
Total Liabilities	65,785	72,278	77,970	84,750	
Assets	-	-	-	-	
Property, plant and equipment	12,143	12,740	13,137	13,365	
Goodwill	2,211	2,211	2,211	2,211	
Intangibles	247	247	247	247	
Available for sale assets	5,756	5,756	5,756	5,756	
Other assets	9,516	9,516	9,516	9,516	
Cash	19,818	23,338	27,441	32,505	
Current Investments	6,407	6,407	6,407	6,407	
Trade receivables	13,142	15,421	17,037	18,407	
Unbilled revenue	4,261	5,000	5,028	5,532	
Prepayment & O.fin.assets	6,373	7,478	8,262	8,926	
Other current assets	16	16	16	16	
Total Current Assets	50,017	57,659	64,192	71,794	
Trade payables	694	814	900	972	
Unearned revenue	2,295	2,693	2,975	3,215	
OCL & provisions	11,116	12,344	13,215	13,953	
Total Current Liabilities	14,105	15,851	17,090	18,139	
Net Current Assets	35,912	41,808	47,103	53,655	
Application of Funds	65,785	72,278	77,970	84,750	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E	
Profit after Tax	14,597	15,228	17,705	19,602	
Add: Depreciation	1,863	1,903	2,103	2,272	
(Inc)/dec in Current Assets	(1,899)	(4,122)	(2,429)	(2,538)	
Inc/(dec) in CL and Provisions	1,793	1,746	1,239	1,050	
Taxes paid	(6,829)	(5,632)	(6,549)	(7,250)	
CF from operating activities	14,559	12,206	15,849	16,747	
(Inc)/dec in Investments	5,374	2,549	2,769	3,639	
(Inc)/dec in Fixed Assets	(1,998)	(2,500)	(2,500)	(2,500)	
CF from investing activities	3,111	49	269	1,139	
Dividend paid & dividend tax	(7,464)	(8,735)	(12,014)	(12,822)	
Others	5	-	-	-	
CF from financing activities	(20,505)	(8,735)	(12,014)	(12,822)	
Net Cash flow	(2,835)	3,520	4,104	5,064	
Exchange difference	81	-	-	-	
Opening Cash	22,625	19,818	23,338	27,441	
Closing Cash	19,818	23,338	27,441	32,505	

Source: Company, ICICI Direct Research

Key ratios		₹ Crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E	
Per share data (₹)					
EPS	32.3	35.0	40.7	45.1	
Cash EPS	36.5	39.4	45.5	50.3	
BV	144	164	177	193	
DPS	43.5	16.7	22.9	24.5	
Cash Per Share	44	54	63	75	
Operating Ratios (%)					
EBIT Margin	24.3	23.0	23.5	23.5	
PBT Margin	28.7	25.2	26.5	27.2	
PAT Margin	20.7	18.4	19.4	19.8	
Debtor days	68	68	68	68	
Unbilled revenue	20	20	20	20	
Creditor days	4	4	4	4	
Return Ratios (%)					
RoE	22	21	23	23	
RoCE	31	30	31	32	
RoIC	43	45	49	51	
Valuation Ratios (x)					
P/E	22	20	17	16	
EV / EBITDA	15	13	11	10	
EV / Net Sales	4	3	3	3	
Market Cap / Sales	4	4	3	3	
Price to Book Value	5	4	4	4	
Solvency Ratios					
Debt/EBITDA	-	-	-	-	
Debt / Equity	-	-	-	-	
Current Ratio	3	3	3	3	
Quick Ratio	2.8	2.7	2.7	2.7	

Source: Company, ICICI Direct Research

ICICI Direct coverage universe (IT)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE(%)		
	(₹)	TP(₹)	Rating		FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Cyient (INFENT)	597	720	Hold	6,958	36.0	42.7	46.5	17.2	14.5	13.3	11.1	8.7	7.9	21.4	21.6	20.9	17.3	18.2	17.6
Eclerx (ECLSER)	1,075	1,010	Hold	4,477	72.9	71.1	78.0	14.9	15.3	13.9	10.6	10.7	9.1	28.2	27.9	28.1	24.1	20.5	20.6
Firstsource (FIRSOU)	49	75	Buy	3,438	4.8	5.2	5.8	10.3	9.5	8.5	8.7	7.3	6.4	13.0	14.9	16.5	13.9	13.7	14.1
HCL Tech (HCLTEC)	930	1,045	Hold	134,817	62.6	74.7	80.5	15.3	12.8	11.9	11.5	9.1	7.9	27.4	32.0	31.0	23.8	26.5	24.8
Infosys (INFTEC)	700	780	Buy	304,473	32.3	35.0	40.7	21.7	20.0	17.2	14.6	13.1	11.5	30.9	29.9	31.1	22.5	21.3	23.0
KPIT Tech (KPISYS)	206	230	Hold	4,477	12.7	17.2	18.0	17.4	12.7	12.2	10.9	6.9	6.3	15.5	19.5	18.5	13.9	16.4	15.1
MindTree (MINCON)	843	880	Hold	14,274	34.3	44.6	51.9	24.8	19.1	16.4	18.3	12.2	10.4	24.9	29.5	30.5	20.8	23.3	23.8
NIIT Technologies (NIITEC)	1,167	1,365	Buy	6,787	45.6	67.1	75.9	24.5	16.6	14.7	12.0	9.1	7.4	19.4	24.5	24.5	15.8	20.3	20.1
Persistent (PSYS)	551	605	Hold	4,903	40.5	45.5	48.7	15.1	13.5	12.6	8.7	6.6	5.9	19.8	20.8	20.0	15.2	15.3	14.7
TCS (TCS)	1,815	1,750	Hold	690,701	67.4	83.0	87.9	27.2	22.1	20.9	19.9	16.2	14.6	37.6	44.0	41.7	29.6	34.3	32.4
Tech Mahindra (TECMAH)	682	820	Buy	68,494	42.7	48.5	54.4	16.3	14.4	12.8	13.5	9.3	7.8	21.5	22.1	21.2	20.2	19.7	18.3
Wipro (WIPRO)	314	360	Buy	145,465	16.8	20.1	23.8	19.2	16.0	13.6	12.3	10.1	8.4	16.9	16.9	17.5	16.6	16.2	16.6

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct 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 Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

We /I, Devang Bhatt, PGDBM, 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 Limited Sebi Registration is INZ000183631 for stock broker. ICICI Securities is a 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 Devang Bhatt, PGDBM, 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 Devang Bhatt, PGDBM, 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.