

Infosys

Performance highlights

(₹ cr)	1QFY18	4QFY18	% chg (qoq)	1QFY17	% chg (yoy)
Net revenue	17,078	17,120	(0.2)	16,782	1.8
EBITDA	4,561	4,658	(2.1)	4,416	3.3
EBITDA margin (%)	26.7	27.2	(50)bps	26.3	39bps
Adj. PAT	3,534	3,603	(1.9)	3,436	2.9

Source: Company, Angel Research

Infosys posted better than expected results for 1QFY2018, mainly driven by better than expected volume growth during the quarter. On sales front, the company posted a 3.2% sequential growth in USD revenues to US\$2,651mn v/s. US\$2,657mn expected, mostly volume lead. In constant currency (CC) terms, the company posted a 2.6% qoq growth. EBIT margin came in at 24.1% v/s. 23.6% expected, a qoq dip of 50bps. Consequently, Adj. PAT came in at `3,534cr v/s. `3,443cr expected, de-growth of 1.9% qoq. For FY2018, the company has kept the guidance of 6.5-8.5% CC growth and EBIT margin guidance of 23-25%. **We maintain our Buy rating on the stock with a target price of `1,179.**

Quarterly highlights: On sales front, the company posted a 3.2% sequential growth in USD revenues to US\$2,651mn v/s. US\$2,657mn expected, mostly volume lead. In constant currency (CC) terms, the company posted a 2.6% qoq growth. In terms of geography, in CC terms, USA, Europe, India and ROW posted a qoq growth of 1.3%, 3.1%, 11.2% and 6.9% respectively. EBIT margin came in at 24.1% v/s. 23.6% expected, a qoq dip of 50bps. Impact of wage hikes and visa expenses, apart from rupee appreciation were the major drag on profitability. However, the fall was lower than expected on the back of better than expected volume growth. Consequently, PAT came in at `3,534cr v/s. `3,443cr expected, de-growth of 1.9% qoq. Adj. PAT posted a qoq dip of 1.9%. During the quarter, it had written down the entire carrying value of the investment in its associate DWA Nova LLC, an Infosys Innovation Fund Investment (`71cr).

Outlook and valuation: For FY2018, Infosys has reiterated the revenue growth guidance in the range of 6.5-8.5% in CC terms, while EBIT is expected to be around 23-25%. **We maintain our BUY rating on the stock.**

Key financials (Consolidated, IFRS)

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E
Net sales	62,441	68,484	73,963	80,619
% chg	17.1	9.7	8.0	9.0
Adj. net profit	13,491	14,353	14,785	15,916
% chg	9.4	6.4	3.0	7.7
EBITDA margin (%)	27.4	27.2	26.0	26.0
EPS (₹)	59.0	62.5	64.4	69.3
P/E (x)	16.5	15.5	15.1	14.0
P/BV (x)	3.6	3.2	3.0	2.7
RoE (%)	21.8	20.8	19.7	19.6
RoCE (%)	20.7	20.3	20.1	20.4
EV/Sales (x)	3.0	2.8	2.4	2.2
EV/EBITDA (x)	11.1	10.2	9.4	8.4

Source: Company, Angel Research; Note: CMP as of July 14, 2017

Please refer to important disclosures at the end of this report

BUY

CMP	₹972
Target Price	₹1,179

Investment Period	12 Months
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Stock Info

Sector	IT
Market Cap (₹ cr)	2,23,275
Net Debt (₹ cr)	-32,666
Beta	0.7
52 Week High / Low	1,278/900
Avg. Daily Volume	1,39,748
Face Value (₹)	5
BSE Sensex	32,021
Nifty	9,886
Reuters Code	INFY.BO
Bloomberg Code	INFY@IN

Shareholding Pattern (%)

Promoters	12.8
MF / Banks / Indian Fls	20.9
FII / NRIs / OCBs	55.5
Indian Public / Others	10.8

Abs.(%)	3m	1yr	3yr
Sensex	8.9	14.6	28.0
Infosys	5.1	(17.3)	20.5

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 1QFY2018 performance (IFRS, consolidated)

(₹ cr)	1QFY18	4QFY17	% chg (qoq)	1QFY17	% chg (yoy)	FY17	FY16	% chg (yoy)
Net revenue	17,078	17,120	(0.2)	16,782	1.8	68,484	62,441	9.7
Cost of revenue	10,450	10,324	1.2	10,312	1.3	41,550	37,689	10.2
Gross profit	6,628	6,796	(2.5)	6,470	2.4	26,934	24,752	8.8
SG&A expenses	2,067	2,138	(3.3)	2,054	0.6	8,330	7,723	7.9
EBITDA	4,561	4,658	(2.1)	4,416	3.3	18,604	17,029	9.2
Depreciation	450	446	0.9	369	22.0	1,703	1,409	20.9
EBIT	4,111	4,212	(2.4)	4,047	1.6	16,901	15,620	8.2
Other income	814	746	9.1	753	8.1	3,080	3,122	(1.3)
PBT	4,925	4,958	(0.7)	4,800	2.6	19,981	18,742	6.6
Income tax	1,371	1,330	3.1	1,362	0.7	5,598	5,251	6.6
Exceptional item	71	25		2		30	3	
Reported PAT	3,483	3,603	(3.3)	3,436	1.4	14,353	13,494	6.4
Adjusted PAT	3,534	3,603	(1.9)	3,436	2.9	14,353	13,491	6.4
EPS	15.5	15.8	(1.9)	15.2	1.8	62.8	59.0	6.4
Gross margin (%)	38.8	39.7	(89)bp	38.6	26bps	39.3	39.6	(31)bp
EBITDA margin (%)	26.7	27.2	(50)bp	26.3	39bps	27.2	27.3	(11)bp
EBIT margin (%)	24.1	24.6	(50)bp	24.1	(2)bps	24.7	25.0	(34)bp
PAT margin (%)	20.7	21.0	(35)bp	20.5	22bp	21.0	21.6	(65)bp

Source: Company, Angel Research

Exhibit 2: 1QFY2018 – Actual Vs Angel estimates

(₹ cr)	Actual	Estimate	% Var.
Net revenue	17,078	17,131	(0.3)
EBITDA margin (%)	26.7	26.2	52bps
PAT	3,534	3,443	2.6

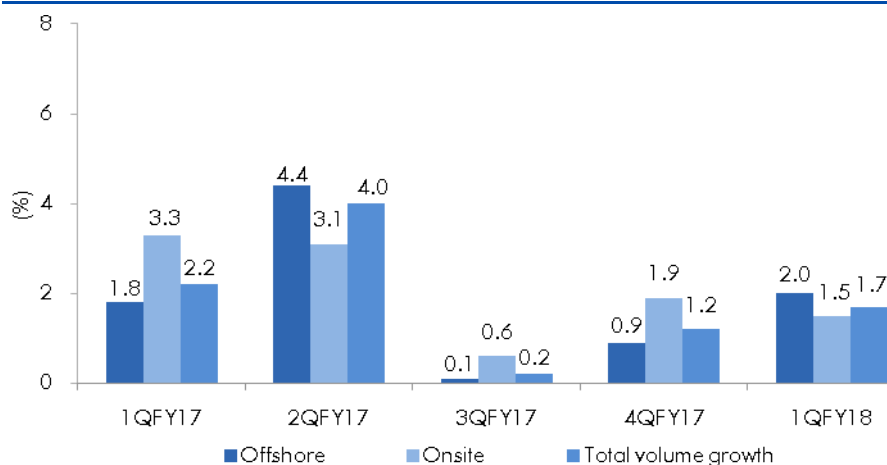
Source: Company, Angel Research

Revenues just in-line with expectation

Infosys posted better than expected results mainly driven by better than expected volume growth during the quarter. On sales front, the company posted a 3.2% sequential growth in USD revenues to US\$2,651mn v/s. US\$2,657mn expected, mostly volume lead. In constant currency (CC) terms, the company posted a 2.6% qoq growth. In rupee terms, revenues came in at `17,078cr v/s. `17,131cr expected, down 0.2% qoq.

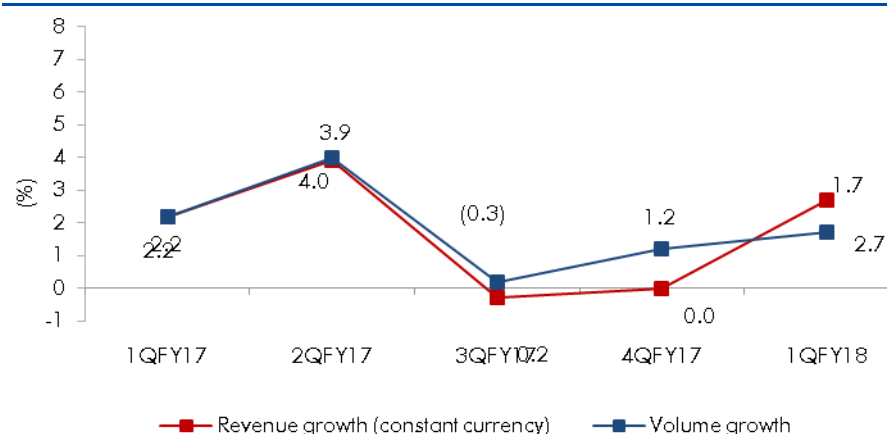
In terms of the geographies, on CC terms, USA posted 1.2% qoq growth, while Europe posted a growth of 4.6% qoq. India and ROW posted a growth of 16.1% and 7.4% qoq respectively. In terms of Industries, FSI posted a CC qoq growth of 2.0%, MFG & Hi-Tech posted a qoq growth of 1.5%. Other verticals like RCL & ECS posted a qoq growth of 2.6% and 4.9% respectively.

Exhibit 3: Trend in volume growth qoq (Effort wise)



Source: Company, Angel Research

Exhibit 4: Trend in volume and USD revenue growth (QoQ)



Source: Company, Angel Research

Industry wise, revenue from FSI, the company's anchor vertical, which contributed 33.3% to revenues, grew by 2.6% qoq; in CC terms, revenue from FSI grew by 2.0% qoq. The Manufacturing industry vertical, which contributed 22.2% to revenues, grew by 2.0% qoq. In CC terms, the revenue from this vertical posted a qoq growth of 1.5%.

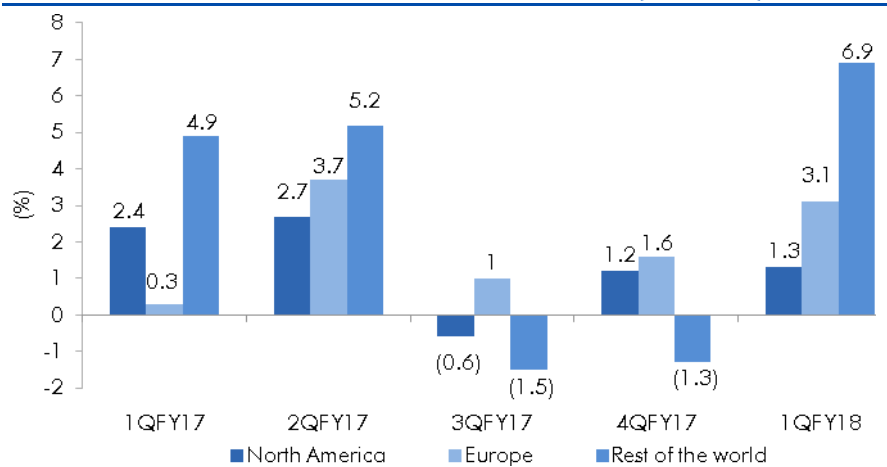
The Retail, CPG and Logistics segment (RCL; contributed 22.7% to revenues) reported a 3.2% qoq growth. In CC terms, the revenue from RCL grew by 2.6% qoq. The Energy Utilities and Communications & Services segment contributed 21.8% to revenue, reporting a growth of 5.5% qoq in revenue and 4.9% qoq on CC basis.

Exhibit 5: Growth trend in industry segments (Reported basis)

Particulars	% to revenue	% growth QoQ	% growth YoY
FSI	33.3	2.6	7.6
Banking and financial services	27.1	2.1	5.6
Insurance	6.2	4.9	17.4
Manufacturing	22.2	2.3	3.2
RCL	22.7	3.2	(0.6)
Retail and CPG	14.2	3.9	(2.9)
Transport and logistics	1.9	(2.0)	6.0
Life Sciences	4.6	3.2	3.7
Healthcare	2.0	3.2	1.0
ECS	21.8	5.1	14.4
Energy and utilities	5.2	7.3	17.3
Communication and services	10.4	8.4	17.3
Others	6.2	(1.6)	7.7

Source: Company, Angel Research

In terms of geographies, revenue from North America grew by 1.3% qoq in CC terms, while other geographies such as Europe grew by 3.1% qoq and RoW grew by 6.9% qoq (both in CC terms). India posted 11.2% qoq growth in CC terms.

Exhibit 6: USD growth trend in geographies QoQ (CC basis)


Source: Company, Angel Research

Hiring and utilization

Infosys added 8,645 gross employees in 1QFY2018, of which 3,967 were lateral additions. The net reduction number for the quarter stood at 601. Attrition (for consolidated entity) moved up in 1QFY2018; it came down to 21.0% (LTM) v/s. 17.1% in 4QFY2017.

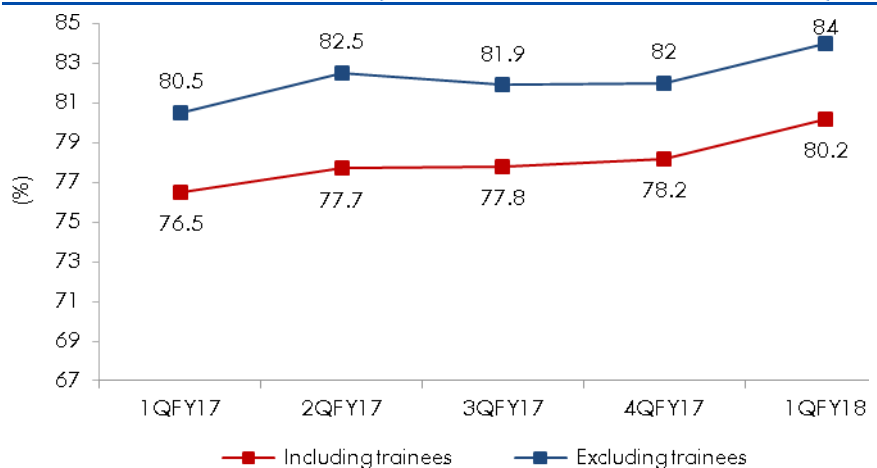
Exhibit 7: Employee metrics

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18
Gross addition	13,268	12,717	9,120	9,130	8,645
Net addition	3,006	2,779	(66)	601	(1,811)
Attrition – LTM basis (%)*	21.0	20.0	18.4	17.1	21.0

Source: Company, Angel Research, Note-* including subsidiaries

The utilization rate including trainees grew by 200bps qoq to 80.2% (78.2% in 4QFY2017); while excluding trainees, it grew by 200bps qoq to 84.0%.

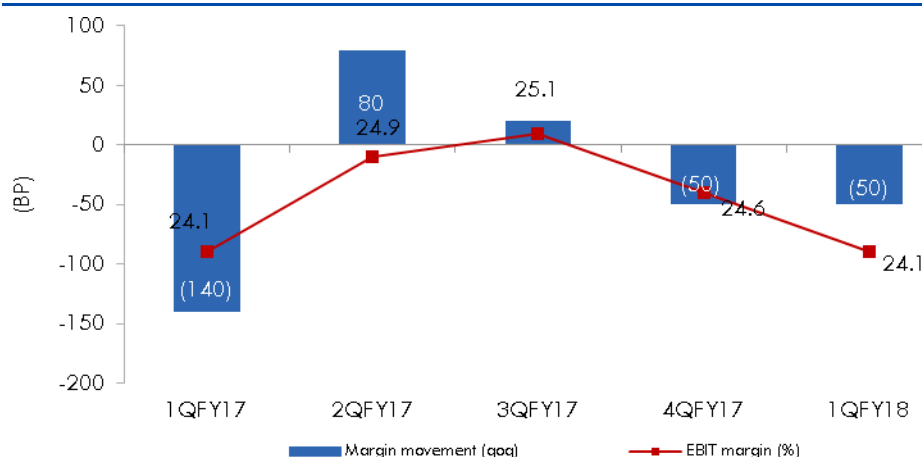
Exhibit 8: Trend in utilization (Services and Consulting + Projects)



Source: Company, Angel Research

Margins dips

On the operating front, EBIT margin came in at 24.1% v/s. 23.6% expected, a qoq dip of 50bps. Impact of wage hikes and visa expenses, apart from rupee appreciation were the major drags on profitability. However, the fall was lower than expected on the back of better than expected volume growth. Margin pressures arising out of higher variable pay, visa expenses were partly offset by higher utilization (+90bp) and better realization (+50bps).

Exhibit 9: Trend in EBIT margin


Source: Company, Angel Research

Client pyramid

Infosys added 59 new clients (gross additions) during the quarter, taking its total active client base to 1,164. The client addition was across the board. The company added 5 clients in the US\$100+mn, 6 clients in the US\$20+mn.

Exhibit 10: Client metrics

Particulars	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18
Top client (% of revenue)	3.6	3.5	3.1	3.3	3.3
Gross Client addition	95	78	77	71	59
Active client	1126	1136	1152	1162	1164
US\$1mn–5mn	306	300	316	316	327
US\$5mn–10mn	88	91	80	93	89
US\$10mn–20mn	93	97	97	98	93
US\$20mn–50mn	35	35	36	35	41
US\$50mn–100mn	21	24	22	25	25
US\$100mn–200mn	11	12	14	13	18
US\$200mn–300mn	6	5	5	5	5
US\$300mn plus	1	1	1	1	1

Source: Company, Angel Research

Concall Highlights

- Revenue growth in the BFSI vertical is expected to bounce back 2HFY2018 onwards because of a lag between an improving macroeconomic situation in the US & that translating into higher spend.
- Changes in the regulatory landscape around visa usage are anticipated. However, the company has been driving local hiring, and reducing dependency on H1B visas.
- Infosys maintained its guidance of EBIT margin band of 23-25% for the medium term.

Investment arguments

Revenue guidance reiterated for FY2018: The Management has given the revenue growth guidance for FY2018, which is moderate. The company has guided for 6.5-8.5% CC growth. This implies CC revenue growth of 2.2-3.0% qoq for the future quarters. The company faced multiple challenges in FY2017 among which execution issues in Consulting and the loss of the RBS contract were the major ones, resulting in a loss of revenue growth momentum. For FY2017, the company posted 8.3% growth in CC terms v/s. a guidance of 8.4-8.8% growth (in CC terms). Currently, we have factored a growth for FY2018 (INR and USD growth of 8.0% and 8.0% respectively). Over FY2017-19E, we expect USD and INR revenue to grow at a CAGR of 8.5% and 8.5% respectively.

Operating margin likely to be range bound in near term: For FY2018, the company has reiterated its guidance for EBIT margins of 23-25%, mainly factoring in currency impact and investment in onsite facility. For FY2017, the EBIT margins came in at 24.7%, which was against the guidance of 24-26%. Over FY2017-19E, we expect an EBIT CAGR of 6.1%, with FY2018E and FY2019E EBIT margins expected to come in at 23.6% respectively. The moderation in margin is expected to be for the near term, as the company plans to move towards automation, in order to safeguard its EBIT margin pressures.

Outlook and valuation

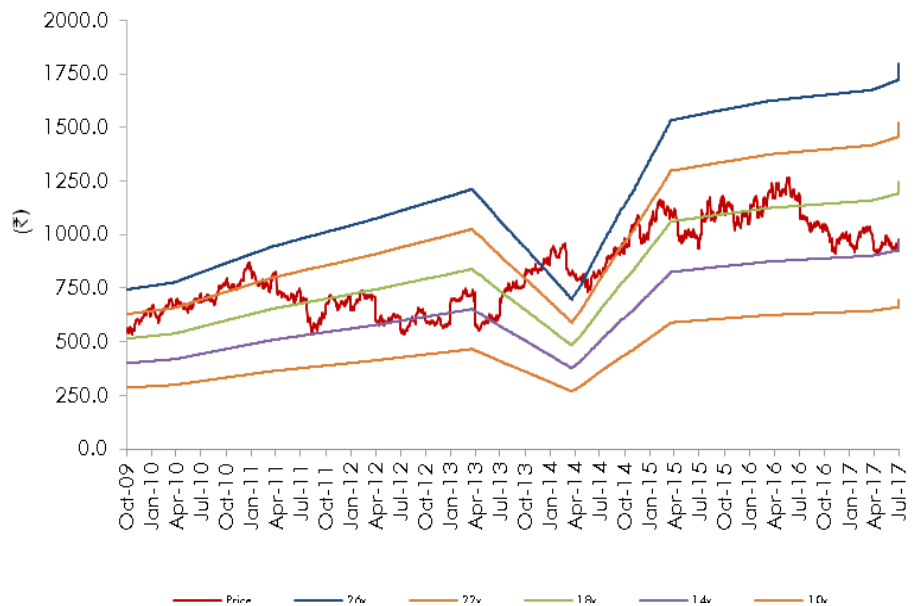
The company has downgraded its USD revenue growth guidance for FY2018 to 6.5-8.5% on CC basis. We expect the company to post ~8.0% USD revenue growth in FY2018. The company has changed its capital allocation policy from paying out 50% of PAT to 70% of Free Cash Flow. Additionally, it would payout US\$2bn in FY2018, however, the mode and timeline would become clear over time. The stock currently trades at a valuation of 14.0x its FY2019E earnings. **We recommend a BUY on the stock with a Target Price of ₹1,179.**

Exhibit 11: Key assumptions

Parameters	FY2018E	FY2019E
Revenue growth – USD terms (%)	8.0	9.0
USD-INR rate	67.1	67.1
Revenue growth – INR terms (%)	8.0	9.0
EBITDA margin (%)	26.0	26.0
Tax rate (%)	28.0	28.0
EPS growth (%)	3.0	7.7

Source: Company, Angel Research

Exhibit 12: One-year forward PE (x)



Source: Company, Angel Research

Exhibit 13: Recommendation summary

Company	Reco	CMP (₹)	Tgt. price (₹)	Upside (%)	FY2019E EBITDA (%)	FY2019E P/E (x)	FY2017-19E EPS CAGR (%)	FY2019E EV/Sales (x)	FY2019E RoE (%)
HCL Tech	Buy	851	1,014	19.1	20.9	12.6	6.2	1.8	20.6
Infosys	Buy	972	1,179	21.3	26.0	14.0	5.3	2.2	19.6
TCS	Accumulate	2,399	2,651	10.5	27.6	15.4	7.8	3.0	29.8
Tech Mahindra	Buy	388	533	37.5	15.0	10.2	8.6	1.0	16.3
Wipro	Accumulate	260	280	7.9	20.3	13.6	4.4	1.2	13.4

Source: Company, Angel Research

Company Background

Infosys is the second largest IT company in India, employing over 2,00,364 professionals (as of FY2017). The company services more than 1,000 clients across various verticals, such as financial services, manufacturing, telecom, retail and healthcare. Infosys has the widest portfolio of service offerings amongst Indian IT companies, spanning across the entire IT service value chain - from traditional Application Development and Maintenance to Consulting and Package Implementation to Products and Platforms.

Profit and loss statement (IFRS, consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E
Net sales	50,133	53,319	62,441	68,484	73,963	80,619
Cost of revenue	30,767	31,817	37,595	41,550	37,721	41,116
Gross profit	19,366	21,502	24,846	26,934	28,476	31,038
% of net sales	38.6	40.3	39.8	39.3	38.5	38.5
Selling and mktg exp.	2,625	2,941	3,431	3,591	4,068	4,434
% of net sales	5.2	5.5	5.5	5.2	5.5	5.5
General and admin exp.	3,107	3,663	4,292	4,739	5,177	5,643
% of net sales	6.2	6.9	6.9	6.9	7.0	7.0
EBITDA	13,634	14,898	17,123	18,604	19,230	20,961
% of net sales	27.2	27.9	27.4	27.2	26.0	26.0
Dep and amortization	1,374	1,066	1,503	1,703	1,775	1,935
% of net sales	2.7	2.0	2.4	2.5	2.4	2.4
EBIT	12,260	13,832	15,620	16,901	17,455	19,026
% of net sales	24.5	25.9	25.0	24.7	23.6	23.6
Other income	2,669	3,427	3,122	3,080	3,080	3,080
Profit before tax	14,929	17,259	18,742	19,981	20,535	22,106
Provision for tax	4,062	4,929	5,251	5,598	5,750	6,190
% of PBT	27.2	28.6	28.0	28.0	28.0	28.0
PAT	10,648	12,330	13,491	14,383	14,785	15,916
Exceptional item	219	-	-	(30)	-	-
Adj. PAT	10,867	12,330	13,491	14,353	14,785	15,916
EPS (₹)	47.3	53.7	59.0	62.5	64.4	69.3

Balance sheet (IFRS, consolidated)

Y/E March (` cr)	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E
Current assets						
Cash and cash equivalents	25,950	30,367	32,697	22,625.0	32,430.8	37,082.0
Available for sale fin. assets	2,197	874	75	9,970	9,970	9,970
Invest. in certificates of deposit	859	93	103	71	71	71
Trade receivables	8,351	9,713	11,330	12,322	12,426	13,544
Unbilled revenue	2,811	2,845	3,029	3,648	3,648	3,648
Derivative financial instrum.	215	101	116	284	284	284
Prepayments and other CA	2,636	3,296	4,448	4,856	4,290	4,676
Total current assets	43,019	47,289	51,798	53,776	63,119	69,275
Non-current assets						
Property, plant and equipm.	7,887	9,125	10,530	11,716	11,916	12,116
Goodwill	2,157	3,091	3,764	3,652	2,157	2,158
Intangible assets	342	638	985	776	342	343
Available for sale fin. Assets	1,252	1,345	1,811	6,382	1,252	1,253
Deferred income tax assets	656	537	536	540	656	657
Income tax assets	1,522	4,089	5,230	5,716	5,716	5,716
Other non-current assets	220	238	735	797	1,793	1,794
Total non-current assets	14,036	19,063	23,591	29,579	23,832	24,037
Total assets	57,055	66,352	75,389	83,355	86,951	93,312
Current liabilities						
Trade payables	173	140	386	367	173	174
Derivative financial instrum.	-	3	5	2	-	1
Current income tax liabilities	2,187	2,818	3,410	3,885	3,787	3,788
Client deposits	40	27	28	32	40	41
Unearned revenue	660	1,052	1,332	1,777	660	661
Employee benefit obligations	954	1,069	1,341	1,359	954	955
Provisions	379	478	512	405	379	380
Other liabilities	4,745	5,796	6,225	6,186	5,545	5,546
Total current liabilities	9,138	11,383	13,239	14,013	11,538	11,546
Non-current liabilities						
Deferred income tax liabilities	64	160	256	207	64	65
Employee benefit obligations	323	46	115	153	323	324
Other liabilities	-	-	-	-	-	-
Total non-current liabilities	387	206	371	360	387	388
Total liabilities	9,525	11,589	13,610	14,373	11,925	11,934
Equity						
Share capital	286	572	1,144	1,144	1,144	1,144
Share premium	3,090	3,090	2,241	2,356	2,356	2,356
Retained earnings	43,584	50,531	57,655	65,056	70,955	77,306
Other components of equity	570	570	739	426	571	572
Total equity	47,530	54,763	61,779	68,982	75,026	81,378
Total liabilities and equity	57,055	66,352	75,389	83,355	86,951	93,312

Cash flow statement (IFRS, consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E
Pre tax profit from operations	12,260	13,832	15,620	16,901	17,455	19,026
Depreciation	1,374	1,066	1,503	1,703	1,775	1,935
Pre tax cash from operations	13,634	14,898	17,123	18,604	19,230	20,961
Other income/prior period ad	2,669	3,427	3,122	3,080	3,080	3,080
Net cash from operations	16,303	18,325	20,245	21,684	22,310	24,041
Tax	4,062	4,929	5,251	5,598	5,750	6,190
Cash profits	12,241	13,396	14,994	16,086	16,560	17,851
(Inc)/dec in current assets	(2,271)	(1,942)	(2,968)	(2,187)	462	(1,504)
Inc/(dec) in current liabilities	2,852	2,245	1,856	774	(2,475)	8
(Inc)/dec in net trade WC	581	303	(1,112)	(1,413)	(2,013)	(1,496)
Cashflow from operating actv.	12,822	13,699	13,882	14,673	14,548	16,355
(Inc)/dec in fixed assets	(2,793)	(2,304)	(2,908)	(2,889)	(1,975)	(2,135)
(Inc)/dec in investments	(1,317)	2,089	789	(9,863)	-	-
(inc)/dec in sale of financial assets	(858)	(93)	(466)	(4,571)	5,130	(1)
(Inc)/dec in deferred tax assets	(583)	(2,448)	(1,140)	(490)	(116)	(1)
Inc/(dec) in other non current liab.	119	(181)	165	(11)	27	1
(Inc)/dec in other non current ass.	(138)	(1,248)	(1,517)	259	933	(3)
Cashflow from investing actv.	(5,570)	(4,185)	(5,077)	(17,565)	3,999	(2,139)
Inc/(dec) in debt	-	-	-	-	-	-
Inc/(dec) in equity/premium	1,099	450	889	515	(218)	(1,040)
Dividends	4,233	5,547	7,364	7,695	8,523	8,524
Cashflow from financing actv.	(3,134)	(5,097)	(6,475)	(7,180)	(8,741)	(9,565)
Cash generated/(utilised)	4,118	4,417	2,330	(10,072)	9,806	4,651
Cash at start of the year	21,832	25,950	30,367	32,697	22,625	32,431
Cash at end of the year	25,950	30,367	32,697	22,625	32,431	37,082

Key ratios

Y/E March	FY2014	FY2015	FY2016	FY2017	FY2018E	FY2019E
Valuation ratio (x)						
P/E	20.5	18.1	16.5	15.5	15.1	14.0
P/CEPS	18.2	16.7	14.9	13.9	13.5	12.5
P/BVPS	4.7	4.1	3.6	3.2	3.0	2.7
Dividend yield (%)	1.6	1.9	2.6	2.6	3.3	3.6
EV/Sales	3.9	3.6	3.0	2.8	2.4	2.2
EV/EBITDA	14.2	12.9	11.1	10.2	9.4	8.4
EV/Total assets	3.4	2.9	2.5	2.3	2.1	1.9
Per share data (₹)						
EPS	47	54	59	63	64	69
Cash EPS	53	58	65	70	72	78
Dividend	16	19	25	25	32	35
Book value	207	239	269	300	327	354
Dupont analysis						
Tax retention ratio (PAT/PBT)	0.7	0.7	0.7	0.7	0.7	0.7
Cost of debt (PBT/EBIT)	1.2	1.2	1.2	1.2	1.2	1.2
EBIT margin (EBIT/Sales)	0.2	0.3	0.3	0.2	0.2	0.2
Asset turnover ratio (Sales/Assets)	0.9	0.8	0.8	0.8	0.9	0.9
Leverage ratio (Assets/equity)	1.2	1.2	1.2	1.2	1.2	1.1
Operating ROE	22.4	22.5	21.8	20.9	19.7	19.6
Return ratios (%)						
RoCE (pre-tax)	21.5	20.8	20.7	20.3	20.1	20.4
Angel RoIC	43.7	39.5	36.7	33.3	39.2	41.2
RoE	22.9	22.5	21.8	20.8	19.7	19.6
Turnover ratios(x)						
Asset turnover (fixed assets)	6.4	5.8	5.9	5.8	6.2	6.7
Receivables days	81	86	84	85	79	78

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4. Broking relationship with company covered under Research

No
No
No
No

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)