

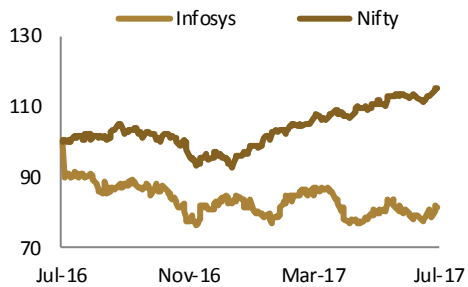
Market statistics

Current stock price (₹)	976
Shares O/S (cr.)	229.6
Mcap (₹ cr)	223,275
52W H/L (₹)	1,195/900
6m avg. volume	3,996,328
Bloomberg	INFO.IN

Shareholding pattern

Promoters	12.75
Domestic Institution	18.01
Foreign Institution	39.56
Non-institution	29.68
of which more than 1%	
Life Insurance Corporation of India	6.46
Government of Singapore – E	2.33

Infosys vs Nifty



Capital efficiency & valuations

Particulars	FY17	FY18E	FY19E
RoE (%)	22.0	20.6	21.0
EPS (₹)	62.5	64.7	71.0
CEPS (₹)	70.0	72.9	79.7
P/E (x)	16.4	15.1	13.7
P/BV (x)	3.4	3.0	2.7
EV/EBITDA (x)	11.4	10.4	9.0
Income growth (%)	9.7	4.1	11.0
EBITDA growth (%)	8.9	2.0	12.2
PAT growth (%)	6.4	1.3	9.8

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Infosys delivered better-than-expected 1Q numbers. Silver Linings in 1Q were (a) Some growth in the BFSI vertical (2% QoQ) and (2) Continuity in top account mining. Management guidance implies 1.7-2.9% CQGR in FY18E. Management believes the traditional IT services model is slowly phasing out and a structural change is taking place in the industry with pricing pressure in commoditized services, necessitating newer growth avenues including acquisitions in areas like automation. We maintain a Buy rating on INFO on account of TCV deals won, client wins, client mining momentum, margin levers on account of non-linear initiatives coupled with comforting valuations.

Results better than expectation: Infosys' revenue decreased by 0.2% QoQ to ₹170.8bn for 1QFY17 in INR term, whereas revenue in USD term increased by 3.2% (up 2.7% cc terms) QoQ to US\$2,651mn. Infosys reported an EBIT margin decrease of 53bps to 24.1% driven by wage hikes and INR appreciation, partly helped by pricing and better utilisation. Infosys reported EPS of ₹15.5, a decrease of 1.4% QoQ. Tax rate increased 101bps to 27.8%. The company added 59 new clients in Q1 taking the total list to 1,164 clients (2 on a net-basis).

US\$ revenue guidance maintained at 6.5-8.5% in cc terms for FY18: INFY has maintained its guided 6.5 to 8.5% CC YoY revenue growth for FY18E, vs 8.3% CC YoY in FY17. EBIT margin guidance at 23- 25% indicates a struggle with revenue growth, effort mix and currency. Management guidance implies 1.7 to 2.9% CQGR in FY18E.

Opportunities on more broad based growth and improving cost, efficiencies and cash flow. Client concentration remains constant in the larger clients. We believe that this also presents an opportunity to replicate this success across a broader set of accounts. In addition, opportunities for improvement also lie on the cost side where increased automation can sustain/increase the high levels of utilization, and reduce bench and subcontracting costs over the short to medium term.

Volume and Pricing - Volume lower-than-expected, pricing better: Total volume was up 1.7% QoQ; onsite volume up 2% QoQ, while offshore volume up 1.5% QoQ. Blended pricing was up 60bps QoQ. Management believes pricing pressure in commoditised services is a structural trend. Employee utilisation rate, including trainees stood at 80.2% (78.2% in 4QFY17). Employee utilisation rate, excluding trainees stood at 84% (82% in 4QFY17). Going forward, Infosys would use utilization as a margin lever. The company's headcount decreased by 1,811 (net basis) to take the strength to 198,553.

Changes in Capital Policy: Infosys has maintained its revised capital allocation policy with an increase in the total payout. The payout had been revised to 70% of FCF (effective FY18E) from 50% of profit earlier. We've factored in a FCF/PAT at 90% in FY17-19E, vs 65% in the last 4 years, and 80% in FY17. Additionally, INFY has also announced a US\$2bn payout via dividend/buyback in FY18E.

Valuation and Outlook: INFY trades at 15.1/13.7x FY18/19E (19/24% discount to 5 year/10 year valuations). We expect USD revenue/EPS growth at 9.2/6.6% CAGR over FY17-19E, and maintain a BUY. We have lowered our FY18/19E earnings by ~2%. We are positive on account of TCV deals won, client wins, client mining momentum, margin levers on account of non-linear initiatives.

**Exhibit 1: Quarterly details**

` mn	1QFY17	4QFY17	1QFY18	QoQ (%)	YoY (%)	Comments
Revenues (in US\$mn)	2,501	2,569	2,651	3.2	6.0	Revenue was up 2.7% in cc terms (includes 1.7% volume growth QoQ)
Revenues	167,820	171,200	170,780	(0.2)	1.8	Pricing was up 60bps QoQ on a cc basis
- Operating costs	123,350	124,620	125,170	0.4	1.5	
EBITDA	44,470	46,580	45,610	(2.1)	2.6	EBIT margin decreased 53bps to 24.1% driven by wage hikes and INR movements
EBITDA margin (%)	26.5	27.2	26.7	(50)bps	21bps	
- Interest expense	-	-	-			
- Depreciation	4,000	4,460	4,500	0.9	12.5	
+ Other income, net (incl forex)	7,530	7,460	8,140	9.1	8.1	
PBT	48,000	49,580	49,250	(0.7)	2.6	
- Taxes	13,620	13,300	13,710	3.1	0.7	
Effective tax rate (%)	28.4	26.8	27.8	101bps	(54)bps	Tax rate to remain in the range of ~29%
PAT	34,380	36,280	35,540	(2.0)	3.4	
Net margin (%)	20.5	21.2	20.8	(38.1)	32.4	
Reported profits	34,360	36,030	34,830	(3.3)	1.4	

Source: Company

Exhibit 2: Change in estimates

` mn	FY18E			FY19E		
	Old	New	% Chg	Old	New	% Chg
Revenue (US\$ mn)	11,030	10,989	(0.4)	12,219	12,174	(0.4)
Revenue	727,968	712,768	(2.1)	806,432	791,298	(1.9)
EBITDA margin (%)	26.8	26.6	(20)bps	27.1	26.9	(20)bps
EPS (₹)	66.2	64.7	(2.3)	72.6	71.0	(2.2)

Source: Trust Research

Geography wise Revenues: Europe was up 3.1% on cc basis QoQ with North America was up 1.3% in cc terms. RoW increased 6.9% QoQ in cc terms.

Exhibit 3: Geographical wise Performance

Geographical mix	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
North America	63.2	63.3	62.5	61.9	62.0	61.5	62.0	62.3	61.1
Europe	22.4	22.9	23.2	23.4	23.0	22.5	22.2	22.1	22.4
India	2.2	2.3	2.8	3.0	2.7	3.4	3.4	3.2	3.6
RoW	12.2	11.5	11.5	11.7	12.3	12.6	12.4	12.4	12.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

**Exhibit 4: Service offering segmentation**

Vertical Mix	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Application dev. & maintenance	33.9	33.6	33.2	33.4	33.9	33.7	32.5	32.1	32.1
----> Application development	14.0	14.0	14.1	13.7	14.4	15.6	15.5	15.3	15.4
----> Application maintenance	19.9	19.6	19.1	19.7	19.5	18.1	17.0	16.8	16.7
Business process management	6.0	5.9	5.8	5.8	7.0	6.6	6.8	5.1	5.0
Consulting service & PI	32.8	32.8	33.8	33.2	32.1	32.1	32.4	32.6	32.6
Infrastructure management	8.3	8.7	7.5	8.0	8.3	8.4	8.6	8.5	8.4
Product engineering services	3.5	3.3	3.4	3.4	3.5	3.7	3.9	4.0	4.1
Testing services	8.9	9.0	9.2	9.0	9.1	9.2	9.1	9.0	9.3
Others	3.4	3.9	4.1	4.0	3.1	3.3	3.5	3.2	3.1
Total Services	96.8	97.2	97.0	96.8	97.0	97.0	96.8	94.5	94.6
Products	3.2	2.8	3.0	3.2	3.0	3.0	3.2	5.5	5.4
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Vertical wise Performance: RCL (Retail, CPG, Logistics and Life Sciences) grew 2.6% QoQ, while FSI (Financial Services and Insurance) grew 2%. ECS (Energy, Utilities, Communications and Services) grew 4.9% respectively. MFG (Manufacturing) grew 1.5%.

Exhibit 5: Vertical Segmentation

Vertical Mix	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
BFSI	33.1	32.8	33.5	32.8	32.8	32.8	33.3	33.5	33.3
----> Insurance	6.0	5.6	5.9	5.4	5.6	5.7	6.1	6.1	6.2
----> Banking & financial services	27.1	27.2	27.6	27.4	27.2	27.4	27.2	27.4	27.1
Manufacturing	24.0	23.8	22.8	22.7	22.8	22.5	22.5	22.4	22.2
Retail	15.0	14.9	14.7	15.0	15.5	14.9	14.6	14.1	14.2
Telecom	8.4	7.9	8.0	8.6	9.4	9.4	9.1	9.9	10.4
Energy & utility	4.2	4.7	5.1	5.2	4.7	4.8	5.0	5.0	5.2
Transportation & logistic	1.5	1.9	1.9	1.8	1.9	1.9	2.0	2.0	1.9
Healthcare & Lifesciences	7.6	7.8	7.7	7.7	6.8	6.7	6.9	6.6	6.6
Others	6.2	6.2	6.3	6.2	6.1	6.7	6.6	6.5	6.2
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, Trust Research

Human Resources: Employee utilisation rate, including trainees stood at 80.2% (78.2% in 4QFY17). Employee utilisation rate, excluding trainees stood at 84% (82% in 4QFY17). Going forward, Infosys would use utilization as a margin lever. The company's headcount decreased by 1,811 (net basis) to take the strength to 198,553. Attrition increased 340bps QoQ to 16.9% in 1Q.

Exhibit 6: Employee strength

Employees	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Total employees	179,523	187,976	193,383	194,044	197,050	199,829	199,763	200,364	198,553
Software professionals	168,583	177,110	182,045	182,329	184,644	187,595	187,919	188,665	186,882
----> Billable	158,025	162,758	167,013	171,109	173,154	176,334	178,548	178,474	178,494
----> Banking product group	5,515	5,369	5,199	5,122	4,910	4,958	4,941	4,753	4,770
----> Trainees	5,043	8,983	9,833	6,098	6,580	6,303	4,430	5,438	3,618
Sales & support	10,940	10,866	11,338	11,715	12,405	12,234	11,844	11,699	11,671
Gross addition	11,889	17,595	14,027	9,034	13,268	12,717	9,120	9,130	8,645
Net addition	3,336	8,453	5,407	661	3,006	2,779	(66)	601	(1,811)
Lateral employees	5,886	7,452	6,115	5,266	5,260	5,752	4,000	3,967	NA

Source: Company



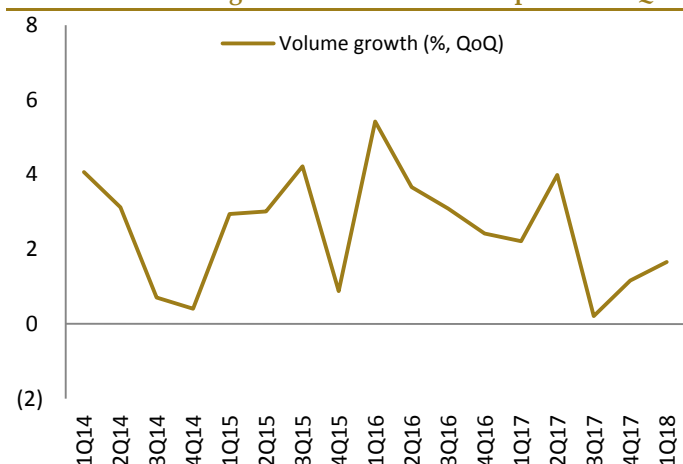
Client Concentration: The company added 59 new clients in Q1 taking the total list to 1,164 clients (2 on a net-basis). INFO lost 1 client in the US\$100mn+ taking the list to 18 and stopped giving data for US\$200mn+ and US\$300mn+ clients

Exhibit 7: Client details

Client metrics	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Active clients	987	1,011	1,045	1,092	1,126	1,136	1,152	1,162	1,164
Clients added	79	82	75	89	95	78	77	71	59
1 million dollar +	535	542	555	558	574	577	591	598	606
5 million dollar +	248	258	261	268	268	277	275	282	279
10 million dollar +	161	169	171	177	180	186	195	189	190
25 million dollar +	83	85	89	88	87	89	90	91	97
50 million dollar +	49	50	51	52	52	54	54	56	56
75 million dollar +	28	31	28	31	31	30	32	31	31
100 million dollar +	14	14	13	14	17	18	18	19	18
200 million dollar +	6	6	6	6	6	6	6	6	NA
300 million dollar +	1	1	1	1	1	1	1	1	NA
Top client (%)	3.7	3.8	3.5	3.6	3.6	3.5	3.1	3.3	3.3
Top-5 clients (%)	14.0	14.0	13.9	13.7	13.7	13.1	12.3	12.2	NA
Top-10 clients (%)	23.0	22.8	22.6	21.8	22.0	21.8	20.1	20.2	20.0
Repeat business (%)	98.4	97.6	96.8	95.8	98.8	97.5	96.7	96.2	99.4

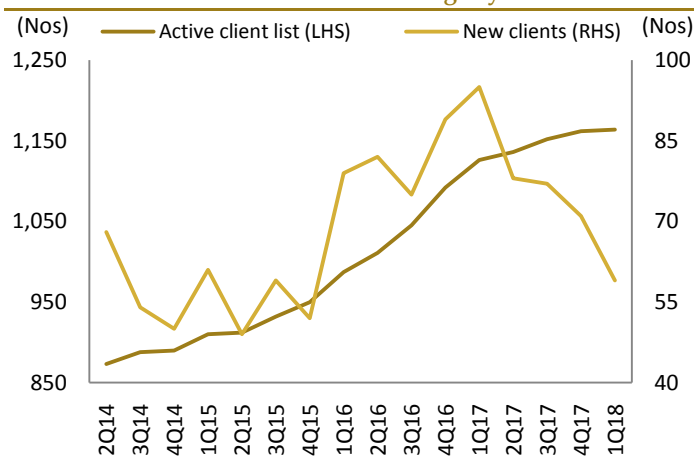
Source: Company

Exhibit 8: Volume growth was lower-than-expected in 4Q



Source: Company, Trust

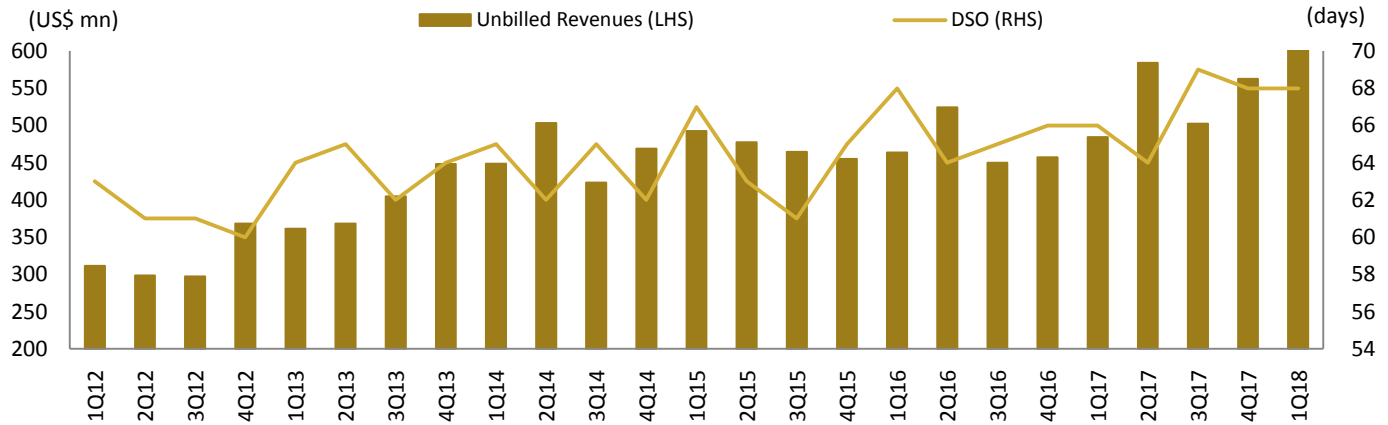
Exhibit 9: New client additions was slightly weak



Source: Company, Trust

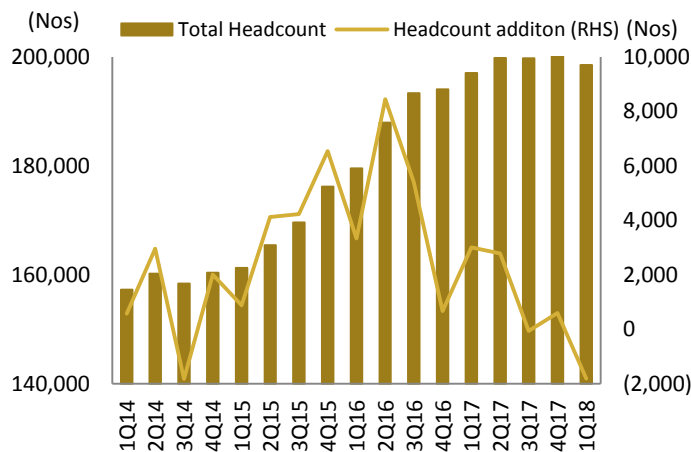


Exhibit 10: Unbilled revenue inched higher but DSO days remained flat at 68 QoQ



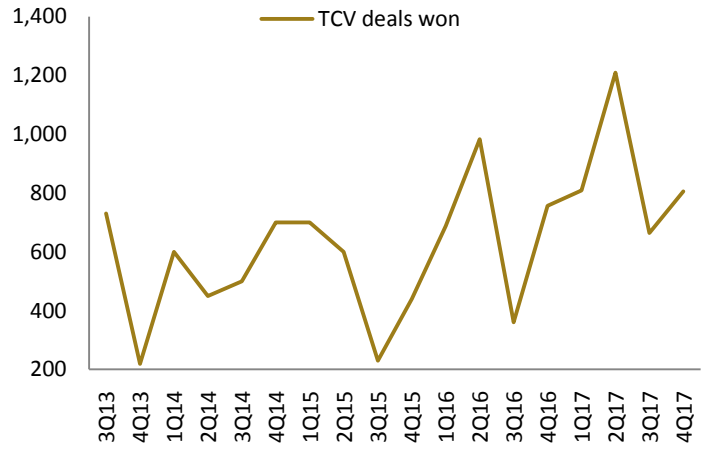
Source: Company, Trust

Exhibit 11: Utilisation used as a lever this quarter



Source: Company, Trust

Exhibit 12: TCV deals to help volume growth in future



Source: Company, Trust



Financials

Income Statement (₹ mn)

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Revenues	533,190	624,410	684,850	712,768	791,298
Op. Expenses	384,180	453,620	498,800	522,927	578,318
EBITDA	149,010	170,790	186,050	189,841	212,980
Other Income	34,270	31,250	30,790	31,064	32,176
Depreciation	10,690	14,590	17,030	18,407	19,561
EBIT	172,590	187,450	199,810	202,498	225,595
Interest	-	-	-	-	-
PBT	172,590	187,450	199,810	202,498	225,595
Tax	49,290	52,510	55,980	57,136	66,012
PAT	123,300	134,940	143,830	145,362	159,583
Ex. ordinary	10	20	300	-	-
Adj Pat	123,290	134,920	143,530	145,362	159,583

Key Parameters

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Per share (₹)					
EPS	53.8	58.7	62.5	64.7	71.0
CEPS	58.5	65.1	70.0	72.9	79.7
BVPS	223.9	269.0	300.3	320.9	356.8
DPS	21.2	24.3	25.8	28.0	30.0
Payout (%)	46.2	48.1	48.0	50.6	49.4
Valuation (x)					
P/E	18.5	20.5	16.4	15.1	13.7
P/BV	4.5	4.5	3.4	3.0	2.7
EV/EBITDA	13.6	14.3	11.4	10.4	9.0
Dividend Yield (%)	2.1	2.0	2.5	2.9	3.1
Return ratio (%)					
EBITDA Margin	27.9	27.4	27.2	26.6	26.9
PAT Margin	23.1	21.6	21.0	20.4	20.2
ROAE	25.9	24.0	22.0	20.6	21.0
ROACE	36.2	33.3	30.6	28.7	29.6
Leverage Ratios (x)					
Long Term D/E	-	-	-	-	-
Net Debt/Equity	(0.7)	(0.6)	(0.5)	(0.5)	(0.5)
Debt/EBITDA	-	-	-	-	-
Interest Coverage	-	-	-	-	-
Current ratio	3.0	3.9	3.8	3.8	4.0
Growth Ratios (%)					
Income growth	6.4	17.1	9.7	4.1	11.0
EBITDA growth	9.3	14.6	8.9	2.0	12.2
PAT growth	13.5	9.4	6.4	1.3	9.8
Turnover Ratios					
F.A Turnover x	5.2	4.4	4.5	4.4	4.8
Debtors Days	61	62	63	64	65
Payable days	0	0	0	0	0

Balance Sheet (₹ mn)

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Equity Share Capital	5,720	11,440	11,440	11,440	11,440
Reserves & Surplus	501,640	606,350	678,380	709,908	790,619
Total Shareholders Fund	507,360	617,790	689,820	721,348	802,059
Non- current liabilities	(4,860)	(1,650)	(1,800)	(3,190)	(3,190)
Deferred tax liabilities	(5,360)	(5,360)	(5,400)	(6,790)	(6,790)
Other LT liabilities & prov	500	3,710	3,600	3,600	3,600
Current Liabilities	155,030	132,390	140,130	147,488	163,297
Trade payables	1,400	3,860	3,670	4,221	4,854
Other cur liabilities & Prov	153,630	128,530	136,460	143,268	158,443
Total Liabilities	657,530	748,530	828,150	865,647	962,166
Assets					
Non- current Assets	185,110	231,580	291,100	299,408	312,403
Fixed assets	121,220	142,940	153,680	160,513	166,193
Non-current investments	13,980	26,490	72,500	72,500	72,500
Long-term loans & adv	49,060	52,300	57,160	58,584	65,038
Other non-current assets	850	9,850	7,760	7,811	8,672
Current assets	472,420	516,950	537,050	563,658	647,184
Current investments	8,720	750	99,700	99,700	99,700
Trade receivables	97,130	113,300	123,220	128,884	143,084
Cash & bank balances	303,670	326,970	226,250	243,293	302,507
Short-term loans & adv	62,900	75,930	87,880	91,781	101,893
Total Assets	657,530	748,530	828,150	863,067	959,586

Cash flow Statement

Year End-March	FY15	FY16	FY17	FY18E	FY19E
PBT	172,590	187,440	199,810	202,498	225,595
Depreciation	10,690	10,060	16,540	18,407	19,561
Others	920	(20)	(300)	-	-
CF before W.cap	184,200	197,480	216,050	220,905	245,156
Inc/dec in W.cap	11,600	22,540	19,440	3,682	15,819
Op CF after W.cap	172,600	174,940	196,610	217,223	229,337
Less Taxes	49,290	52,510	55,980	57,136	66,012
Net CF From Operations	123,310	122,430	140,630	160,087	163,325
Inc/(dec) in F.A + CWIP	38,520	27,230	27,600	25,240	25,240
(Pur)/sale of Investments	(20,610)	3,930	143,140	3,720	-
CF from Invst Activities	(17,910)	(31,160)	(170,740)	(28,960)	(25,240)
Equity Raised	(1,435)	160	(1,220)	(40,470)	(0)
Dividend	59,795	68,130	69,390	73,614	78,872
CF from Fin Activities	(61,230)	(67,970)	(70,610)	(114,084)	(78,872)
Net inc/(dec) in cash	44,170	23,300	(100,720)	17,043	59,213
Op. bal of cash	259,500	303,670	326,970	226,250	243,293
Cl. balance of cash	303,670	326,970	226,250	243,293	302,507



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