

Market statistics

Current stock price (₹)	927
Shares O/S (cr.)	229.7
Mcap (₹ cr)	212,873
52W H/L (₹)	1,045/862
6m avg. volume	5,886,788
Bloomberg	INFO.IN

Infosys delivered weak revenue growth but a healthy margin/PAT beat. Silver Linings in 2Q were (a) Some growth in the BFSI vertical (2.6% QoQ) and (2) Continuity in top account mining. Management guidance implies 0.5-1.7% 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.

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

2Q18 quarter: Weaker revenue growth compared to expectation but tight cost control and operational efficiencies helped margins. Infosys' 2QFY18 performance seems better than peers' in the light of senior management changes.

Infosys joins the pack of IT companies missing revenue growth: Like peers Infosys missed revenue expectations, but its operating margin and net income were ahead of our estimates and consensus. Revenues were US\$2,728mn (up 2.9% QoQ and 2.2% in cc terms) vs. our estimate of US\$2,734mn. TCS grew 1.7% QoQ and Wipro 0.3% QoQ in cc terms. EBIT was Rs42.5bn. EBIT margin surprised positively at 24.2% (up 10bps QoQ).

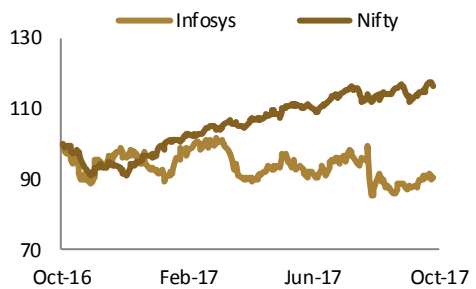
Infosys has lowered its FY18 revenue guidance in constant currency terms to 5.5%-6.5% yoy (vs. 6.5%-8.5% yoy previously): In USD terms guidance is 6.5%-7.5% YoY (vs. 7.1%-9.1% YoY previously). Operating margin guidance remains unchanged at 23%-25%. Management guidance implies 0.5 to 1.7% CQGR in FY18E.

Conference call details: Except for weakness in retail, the company indicated that it does not see anything unusual in the business. It attributed the lowered guidance to seasonal weakness in 2H and account-specific issues. Highlights of the commentary were a) healthy operating metrics, such as large deal wins in 2Q18 of US\$731mn (5 large deals won in 2Q) of total contract value; b) stable margins despite the impact of wage hikes – this was largely helped by greater operating efficiency, such as improved utilization, mix shift to offshore, lower subcontracting costs, etc.; c) no major changes to strategy; d) the Chairman has conducted a review of all the external investigations into certain anonymous complaints the company had received and reaffirmed the previous findings that there is no merit to the allegations of wrongdoing.

Volume and Pricing – Volume lower-than-expected, pricing better: Total volume was up 1.6 QoQ; onsite volume down 0.7% QoQ, while offshore volume up 2.6% QoQ. Blended pricing was up 70bps QoQ in cc terms. Management believes pricing pressure in commoditized services is a structural trend.

Valuation and Outlook: INFY trades at 14.1/12.9x FY18/19E (21/26% discount to 5 year/10 year valuations). We expect USD revenue/EPS growth at 8.3/7% CAGR over FY17-19E, and maintain a BUY. We have increased our FY18/19E earnings by ~1%. We are positive on account of TCV deals won, client wins, client mining momentum, margin levers on account of non-linear initiatives.

Infosys vs Nifty



Capital efficiency & valuations

Particulars	FY17	FY18E	FY19E
RoE (%)	22.0	20.3	20.2
EPS (₹)	62.5	65.4	71.5
CEPS (₹)	70.0	73.5	80.2
P/E (x)	16.4	14.1	12.9
P/BV (x)	3.4	2.8	2.5
EV/EBITDA (x)	11.4	9.6	8.4
Income growth (%)	9.7	3.1	10.3
EBITDA growth (%)	8.9	1.9	11.8
PAT growth (%)	6.4	2.4	9.4

ANALYST

Naushil Shah

+91-22 4224 5125

naushil.shah@trustgroup.co.in

**Exhibit 1: Quarterly details**

` mn	2QFY17	1QFY18	2QFY18	QoQ (%)	YoY (%)	Comments
Revenues (in US\$mn)	2,587	2,651	2,728	2.9	5.5	Revenue was up 2.2% in cc terms (includes 1.6% volume growth QoQ)
Revenues	173,100	170,780	175,670	2.9	1.5	Pricing was up 70bps QoQ on a cc basis
- Operating costs	125,770	125,170	128,650	2.8	2.3	
EBITDA	47,330	45,610	47,020	3.1	(0.7)	EBIT margin increased due to operational efficiencies
EBITDA margin (%)	27.3	26.7	26.8	6bps	(58)bps	
- Interest expense	-	-	-			
- Depreciation	4,240	4,500	4,560	1.3	7.5	
+ Other income, net (incl forex)	7,600	8,140	8,830	8.5	16.2	
PBT	50,690	49,250	51,290	4.1	1.2	
- Taxes	14,600	13,710	14,030	2.3	(3.9)	
Effective tax rate (%)	28.8	27.8	27.4	(48)bps	(145)bps	Tax rate to remain in the range of ~29%
PAT	36,090	35,540	37,260	4.8	3.2	
Net margin (%)	20.8	20.8	21.2	40bps	36bps	
Reported profits	36,060	34,830	37,260	7.0	3.3	

Source: Company

Exhibit 2: Change in estimates

` mn	FY18E			FY19E		
	Old	New	% Chg	Old	New	% Chg
Revenue (US\$ mn)	10,989	10,909	(0.7)	12,174	11,981	(1.6)
Revenue	712,768	705,901	(1.1)	791,298	778,796	(1.6)
EBITDA margin (%)	26.6	26.9	25bps	26.9	27.2	25bps
EPS (₹)	64.7	65.4	1.1	71.0	71.5	0.7

Source: Trust Research

Geography wise Revenues: Europe was up 4.1% on cc basis QoQ with North America was up 1.9% in cc terms. RoW increased 2.3% QoQ in cc terms.

Exhibit 3: Geographical wise Performance

Geographical mix	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
North America	63.3	62.5	61.9	62.0	61.5	62.0	62.3	61.1	60.6
Europe	22.9	23.2	23.4	23.0	22.5	22.2	22.1	22.4	23.2
India	2.3	2.8	3.0	2.7	3.4	3.4	3.2	3.6	3.3
RoW	11.5	11.5	11.7	12.3	12.6	12.4	12.4	12.9	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	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Application dev. & maintenance	33.6	33.2	33.4	33.9	33.7	32.5	32.1	32.1	31.6
----> Application development	14.0	14.1	13.7	14.4	15.6	15.5	15.3	15.4	15.6
----> Application maintenance	19.6	19.1	19.7	19.5	18.1	17.0	16.8	16.7	16.0
Business process management	5.9	5.8	5.8	7.0	6.6	6.8	5.1	5.0	5.1
Consulting service & PI	32.8	33.8	33.2	32.1	32.1	32.4	32.6	32.6	32.5
Infrastructure management	8.7	7.5	8.0	8.3	8.4	8.6	8.5	8.4	9.0
Product engineering services	3.3	3.4	3.4	3.5	3.7	3.9	4.0	4.1	4.1
Testing services	9.0	9.2	9.0	9.1	9.2	9.1	9.0	9.3	9.4
Others	3.9	4.1	4.0	3.1	3.3	3.5	3.2	3.1	3.1
Total Services	97.2	97.0	96.8	97.0	97.0	96.8	94.5	94.6	94.8
Products	2.8	3.0	3.2	3.0	3.0	3.2	5.5	5.4	5.2
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 1.7% QoQ, while FSI (Financial Services and Insurance) grew 2.6%. ECS (Energy, Utilities, Communications and Services) grew 3% respectively. MFG (Manufacturing) grew 1.2%.

Exhibit 5: Vertical Segmentation

Vertical Mix	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
BFSI	32.8	33.5	32.8	32.8	32.8	33.3	33.5	33.3	33.4
----> Insurance	5.6	5.9	5.4	5.6	5.7	6.1	6.1	6.2	6.4
----> Banking & financial services	27.2	27.6	27.4	27.2	27.4	27.2	27.4	27.1	27.0
Manufacturing	23.8	22.8	22.7	22.8	22.5	22.5	22.4	22.2	22.0
Retail	14.9	14.7	15.0	15.5	14.9	14.6	14.1	14.2	13.8
Telecom	7.9	8.0	8.6	9.4	9.4	9.1	9.9	10.4	10.4
Energy & utility	4.7	5.1	5.2	4.7	4.8	5.0	5.0	5.2	5.5
Transportation & logistic	1.9	1.9	1.8	1.9	1.9	2.0	2.0	1.9	2.0
Healthcare & Lifesciences	7.8	7.7	7.7	6.8	6.7	6.9	6.6	6.6	6.8
Others	6.2	6.3	6.2	6.1	6.7	6.6	6.5	6.2	6.1
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 81.8% (80.2% in 1QFY18). Employee utilisation rate, excluding trainees stood at 84.7% (84% in 1QFY18). Going forward, Infosys would use utilization as a margin lever. The company's headcount decreased by 1,13 (net basis) to take the strength to 198,440. Attrition increased 30bps QoQ to 17.2% in 2Q.

Exhibit 6: Employee strength

Employees	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Total employees	187,976	193,383	194,044	197,050	199,829	199,763	200,364	198,553	198,440
Software professionals	177,110	182,045	182,329	184,644	187,595	187,919	188,665	186,882	186,806
----> Billable	162,758	167,013	171,109	173,154	176,334	178,548	178,474	178,494	180,397
----> Banking product group	5,369	5,199	5,122	4,910	4,958	4,941	4,753	4,770	4,498
----> Trainees	8,983	9,833	6,098	6,580	6,303	4,430	5,438	3,618	1,911
Sales & support	10,866	11,338	11,715	12,405	12,234	11,844	11,699	11,671	11,634
Gross addition	17,595	14,027	9,034	13,268	12,717	9,120	9,130	8,645	10,514
Net addition	8,453	5,407	661	3,006	2,779	(66)	601	(1,811)	(113)
Lateral employees	7,452	6,115	5,266	5,260	5,752	4,000	3,967	NA	NA

Source: Company



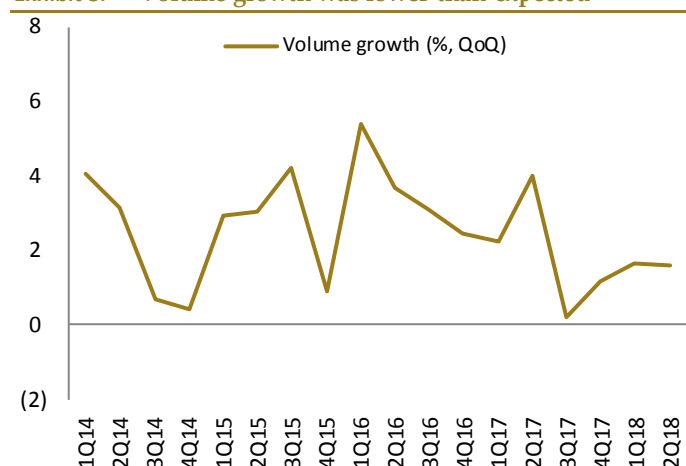
Client Concentration: The company added 72 new clients in Q2 taking the total list to 1,173 clients (9 on a net-basis). INFO lost 1 client in the US\$50mn+ taking the list to 55.

Exhibit 7: Client details

Client metrics	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Active clients	1,011	1,045	1,092	1,126	1,136	1,152	1,162	1,164	1,173
Clients added	82	75	89	95	78	77	71	59	72
1 million dollar +	542	555	558	574	577	591	598	606	620
5 million dollar +	258	261	268	268	277	275	282	279	286
10 million dollar +	169	171	177	180	186	195	189	190	186
25 million dollar +	85	89	88	87	89	90	91	97	100
50 million dollar +	50	51	52	52	54	54	56	56	55
75 million dollar +	31	28	31	31	30	32	31	31	31
100 million dollar +	14	13	14	17	18	18	19	18	18
200 million dollar +	6	6	6	6	6	6	6	NA	NA
300 million dollar +	1	1	1	1	1	1	1	NA	NA
Top client (%)	3.8	3.5	3.6	3.6	3.5	3.1	3.3	3.3	3.4
Top-5 clients (%)	14.0	13.9	13.7	13.7	13.1	12.3	12.2	NA	NA
Top-10 clients (%)	22.8	22.6	21.8	22.0	21.8	20.1	20.2	20.0	19.5
Repeat business (%)	97.6	96.8	95.8	98.8	97.5	96.7	96.2	99.4	98.7

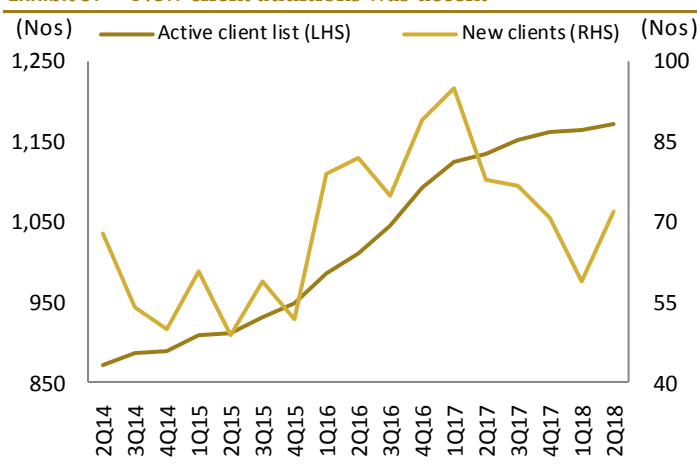
Source: Company

Exhibit 8: Volume growth was lower-than-expected



Source: Company, Trust

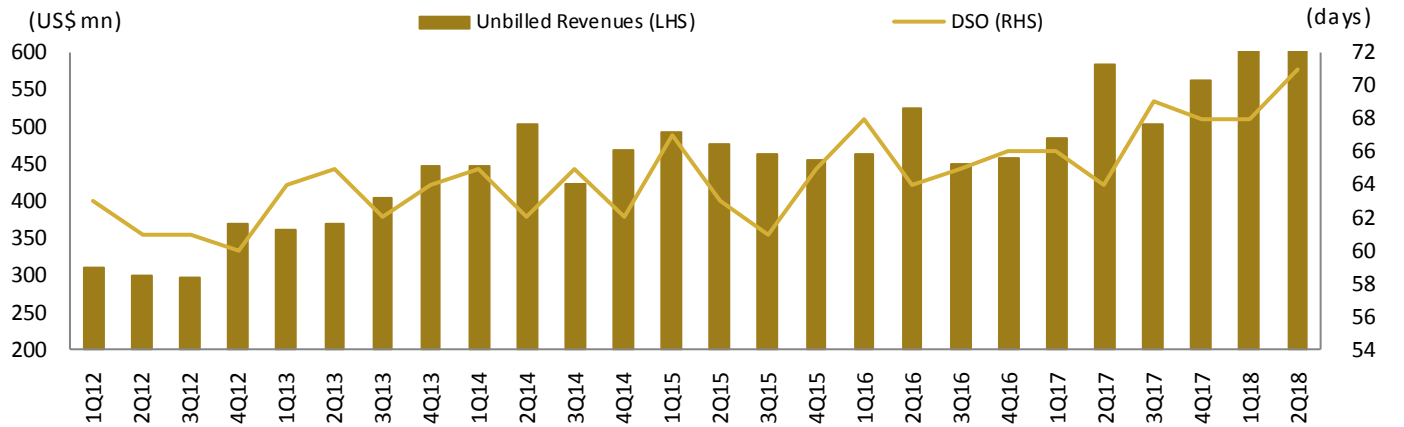
Exhibit 9: New client additions was decent



Source: Company, Trust

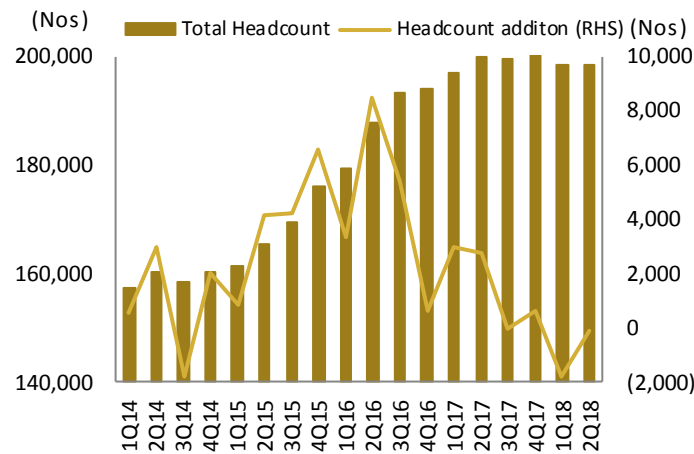


Exhibit 10: Unbilled revenue inched higher, DSO days increased 3 days to 71 QoQ



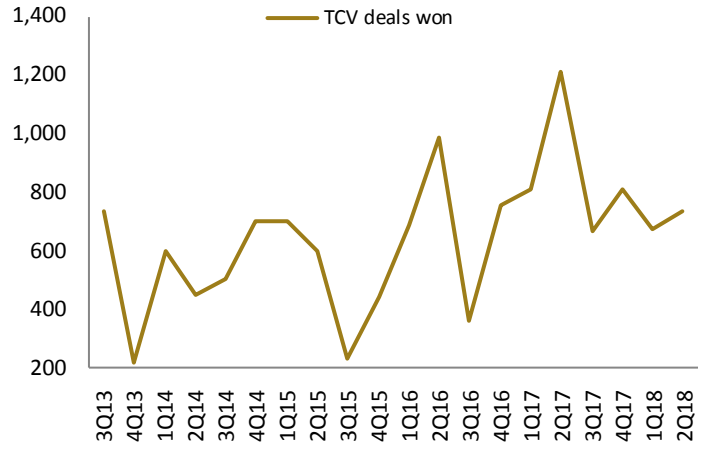
Source: Company, Trust

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	705,901	778,796
Op. Expenses	384,180	453,620	498,800	516,241	566,728
EBITDA	149,010	170,790	186,050	189,659	212,068
Other Income	34,270	31,250	30,790	32,180	32,176
Depreciation	10,690	14,590	17,030	18,351	19,460
EBIT	172,590	187,450	199,810	203,488	224,784
Interest	-	-	-	-	-
PBT	172,590	187,450	199,810	203,488	224,784
Tax	49,290	52,510	55,980	56,565	64,063
PAT	123,300	134,940	143,830	146,922	160,721
Ex. ordinary	10	20	300	-	-
Adj Pat	123,290	134,920	143,530	146,922	160,721

Key Parameters

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Per share (₹)					
EPS	53.8	58.7	62.5	65.4	71.5
CEPS	58.5	65.1	70.0	73.5	80.2
BVPS	223.9	269.0	300.3	335.9	371.5
DPS	21.2	24.3	25.8	29.0	30.0
Payout (%)	46.2	48.1	48.0	52.9	50.2
Valuation (x)					
P/E	18.5	20.5	16.4	14.1	12.9
P/BV	4.5	4.5	3.4	2.8	2.5
EV/EBITDA	13.6	14.3	11.4	9.6	8.4
Dividend Yield (%)	2.1	2.0	2.5	3.1	3.2
Return ratio (%)					
EBITDA Margin	27.9	27.4	27.2	26.9	27.2
PAT Margin	23.1	21.6	21.0	20.8	20.6
ROAE	25.9	24.0	22.0	20.3	20.2
ROACE	36.2	33.3	30.6	28.2	28.3
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	4.0	4.2
Growth Ratios (%)					
Income growth	6.4	17.1	9.7	3.1	10.3
EBITDA growth	9.3	14.6	8.9	1.9	11.8
PAT growth	13.5	9.4	6.4	2.4	9.4
Turnover Ratios					
F.A Turnover x	5.2	4.4	4.5	4.5	4.9
Debtors Days	61	62	63	65	64
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	743,381	823,474
Total Shareholders Fund	507,360	617,790	689,820	754,821	834,914
Non- current liabilities	(4,860)	(1,650)	(1,800)	(3,640)	(3,640)
Deferred tax liabilities	(5,360)	(5,360)	(5,400)	(7,240)	(7,240)
Other LT liabilities & prov	500	3,710	3,600	3,600	3,600
Current Liabilities	155,030	132,390	140,130	145,657	160,121
Trade payables	1,400	3,860	3,670	4,221	4,854
Other cur liabilities & Prov	153,630	128,530	136,460	141,436	155,268
Total Liabilities	657,530	748,530	828,150	896,838	991,395
Assets					
Non- current Assets	185,110	231,580	291,100	296,124	305,095
Fixed assets	121,220	142,940	153,680	157,869	160,049
Non-current investments	13,980	26,490	72,500	72,500	72,500
Long-term loans & adv	49,060	52,300	57,160	58,019	64,011
Other non-current assets	850	9,850	7,760	7,736	8,535
Current assets	472,420	516,950	537,050	581,794	667,381
Current investments	8,720	750	99,700	99,700	99,700
Trade receivables	97,130	113,300	123,220	127,642	140,823
Cash & bank balances	303,670	326,970	226,250	263,554	326,574
Short-term loans & adv	62,900	75,930	87,880	90,897	100,283
Total Assets	657,530	748,530	828,150	896,838	991,395

Cash flow Statement

Year End-March	FY15	FY16	FY17	FY18E	FY19E
PBT	172,590	187,440	199,810	203,488	224,784
Depreciation	10,690	10,060	16,540	18,351	19,460
Others	920	(20)	(300)	-	-
CF before W.cap	184,200	197,480	216,050	221,839	244,244
Inc/dec in W.cap	11,600	22,540	19,440	2,748	14,893
Op CF after W.cap	172,600	174,940	196,610	219,091	229,351
Less Taxes	49,290	52,510	55,980	56,565	64,063
Net CF From Operations	123,310	122,430	140,630	162,526	165,288
Inc/(dec) in F.A + CWIP	38,520	27,230	27,600	22,540	21,640
(Pur)/sale of Investments	(20,610)	3,930	143,140	20,760	-
CF from Invst Activities	(17,910)	(31,160)	(170,740)	(43,300)	(21,640)
Equity Raised	(1,435)	160	(1,220)	(4,127)	(0)
Dividend	59,795	68,130	69,390	77,795	80,628
CF from Fin Activities	(61,230)	(67,970)	(70,610)	(81,921)	(80,628)
Net inc/(dec) in cash	44,170	23,300	(100,720)	37,304	63,020
Op. bal of cash	259,500	303,670	326,970	226,250	263,554
Cl. balance of cash	303,670	326,970	226,250	263,554	326,574



Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
Naren Shah	Head Of Equity		naren.shah@trustgroup.in	+91-22-4084-5074
Sales Trading & Dealing				
Rajesh Ashar	Sales Trader		rajesh.ashar@trustgroup.in	+91-22-4224-5123
Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
Sales				
Mayur Joshi	Sales		mayur.joshi@trustgroup.in	+91-22-4424-5028
Research Team				
Binyam Taddese	Analyst	Rates & Credit Research	binyam.taddese@trustgroup.in	+91-22-4224-5037
Naushil Shah	Analyst	Technology, Media & Telecom	naushil.shah@trustgroup.in	+91-22-4224-5125
Tushar Chaudhari	Analyst	Commodities, Auto & Mid-caps	tushar.chaudhari@trustgroup.in	+91-22-4224-5119
Ritu Chaudhary	Associate	FMCG & Consumer Durable	ritu.chaudhary@trustgroup.in	+91-22-4224-5183



DISCLAIMER

This document has been prepared by Trust Financial Consultancy Services Private Limited (hereinafter referred to as TFCSP) to provide information about the company (ies) and/sector(s), if any, covered in the report. This report is for personal information of the selected recipient/s and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and TFCSP is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your general information and should not be reproduced or redistributed to any other person in any form. This report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

Information and opinions presented in this report were obtained or derived from sources that TFCSP believes to be reliable, but TFCSP makes no representations or warranty, express or implied, as to their accuracy or completeness or correctness. TFCSP accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to TFCSP. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by TFCSP and are subject to change without notice. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance.

Other Disclosures by Trust Financial Consultancy Services Private Limited (hereinafter referred to as TFCSP) under SEBI (Research Analysts) Regulations, 2014 with reference to the subject companies(s) covered in this report:

TFCSP is engaged in the business of Retail & Institutional Stock Broking. TFCSP is a member of the National Stock Exchange of India Limited, BSE Limited and Metropolitan Stock Exchange of India Limited.

The associate/subsidiary companies of TFCSP are engaged in the businesses of Merchant Banking, portfolio management, lending, wealth management etc.

TFCSP's activities were neither suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years.

TFCSP has not been debarred from doing business by any Stock Exchange / SEBI or any other authority.

No disciplinary action has been taken by any regulatory authority against TFCSP impacting its equity research analysis activities.

TFCSP and its associate/subsidiary companies may have managed or co-managed public offering of securities, may have received compensation for merchant banking or brokerage services, may have received any compensation for products or services other than merchant banking or brokerage services from the subject company in the past 12 months.

TFCSP and its associate/subsidiary companies have not received any compensation or other benefits from the subject company or third party in connection with the research report.

Subject Company may have been a client of TFCSP or its associate/subsidiary companies during twelve months preceding the date of distribution of the research report. TFCSP and/or its associate/subsidiary companies and/or employees may have interests/positions, financial or otherwise of over 1 % at the end of the month immediately preceding the date of publication of the research in the securities mentioned in this report.

TFCSP is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014. SEBI Reg. No. INH000001543.

Analyst Certification: The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject company securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of TFCSP research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues

Disclosure of Interest Statement	Name of Company
Analyst Ownership of Stock	No
Served as Director or Employee	No

Stock Ratings are defined as follows :- Recommendation Interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	15% to -15%
Sell	Less than -15%

Regional Disclosures (outside India): This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject TFCSP or its associate/subsidiary companies to registration or licensing requirements within such jurisdictions.