

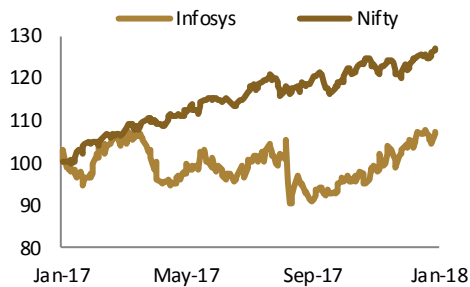
Market statistics

Current stock price (₹)	1078
Shares O/S (cr.)	218.3
Mcap (₹ cr)	235,517
52W H/L (₹)	1,089/862
6m avg. volume	6,424,110
Bloomberg	INFO.IN

Shareholding pattern

Promoters	12.90
Domestic Institution	21.7
Foreign Institution	34.93
Non-institution	30.5
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	FY18E	FY19E	FY20E
RoE (%)	25.0	24.2	22.8
EPS (₹)	74.1	71.6	76.1
CEPS (₹)	82.8	81.1	86.6
P/E (x)	14.5	15.1	14.2
P/BV (x)	3.9	3.4	3.1
EV/EBITDA (x)	11.3	10.2	9.1
Income growth (%)	3.1	9.0	9.3
EBITDA growth (%)	2.4	8.2	9.8
PAT growth (%)	12.7	(3.4)	6.3

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Infosys delivered a slightly weak revenue growth but a healthy margin/PAT beat. Silver Linings in 3Q were (a) Client wins in the large bracket, (2) Continuity in top account mining. 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.

3Q18 quarter: Infosys reported slightly weak revenue growth but a healthy margin/PAT beat, with constant currency revenue growth of 0.8% QoQ and 1% QoQ on reported basis to US\$2,557mn. Revenue growth was led by overall volume growth of 1.6% (onsite up 0.4% and offshore up 2.2%), while blended pricing declined by 0.7% QoQ. EBIT margin has improved by 10bps QoQ to 24.3%, despite wage hike in mid-level employees, led by cross currency benefits (50 bps) and cost efficiencies (60bps), partially offset by higher variable pay (80bps) and drop in price realisation (20bps). Tax provision (2.9% in Q3FY18 vs. 27.4% in Q2FY2018) during the quarter declined on account of closure of Advance Pricing Agreement with U.S. IRS, reversed tax provision of Rs1.4bn

Quarter details: Utilisation rate (ex-trainees) improved by 20bps QoQ to 84.9%. The company's days sales outstanding decreased by a day QoQ to 70 days. The company added 79 gross clients during the quarter vs 72 clients in Q2FY18. Total number of active clients reached to 1,191 at the end of Q3FY2018. Revenue per employee increased by 1.9% QoQ and 4.9% YoY. Infosys won eight large deals during the quarter. Total TCV wins for the quarter stood at US\$799mn versus US\$700mn in Q2FY18.

Infosys maintains its FY18 revenue guidance in constant currency terms at 5.5%-6.5%: In USD terms guidance is 6.5%-7.5% YoY. Operating margin guidance remains unchanged at 23-25%. Management guidance implies -0.6 to 3.1% in 4QFY18E.

Higher spends from BFSI clients in CY18: Management indicated IT budgets for CY18 would be a mixed bag. Discretionary spending may return in BFSI, manufacturing, retail and CPG and energy and utilities, while telecommunications and BPO clients would continue to focus on cost optimisation. Management remains optimistic of higher spends in the BFSI vertical in CY18, which have stemmed from (1) more digital spends, (2) gaining traction for platforms and (3) strong growth in the insurance segment.

CEO to lay out roadmap in 4QFY18, President, Rajesh Murthy resigns: The newly appointed CEO & MD, Mr. Salil Parekh, will review the strategy alongside four parameters (a) new market opportunities, (b) client relationships, (c) people engagement and (d) service offerings. Priorities of the roadmap for Infosys will be laid out in the investor meet in April. Meanwhile, Mr. Murthy, who managed the global energy, utilities, telecommunications and services business unit along with operations in Europe (which contributes ~24.4% of revenue) has resigned from the company citing 'personal reasons.'

Valuation and Outlook: INFY trades at 15.1/14.1x FY19/20E. We expect USD revenue/EPS growth at 9.2/1.3% CAGR over FY18-20E, and maintain a BUY. We have maintained our FY19 earnings. 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	3QFY17	2QFY18	3QFY18	QoQ (%)	YoY (%)	Comments
Revenues (in US\$mn)	2,551	2,728	2,755	1.0	8.0	Revenue was up 0.8% in cc terms (includes 1.6% volume growth QoQ)
Revenues	172,730	175,670	177,940	1.3	3.0	Pricing was down 70bps QoQ
- Operating costs	125,060	128,650	129,770	0.9	3.8	
EBITDA	47,670	47,020	48,170	2.4	1.0	EBIT margin increased due to operational efficiencies
EBITDA margin (%)	27.6	26.8	27.1	30bps	(53)bps	
- Interest expense	-	-	-			
- Depreciation	4,330	4,560	4,980	9.2	15.0	
+ Other income, net (incl forex)	8,200	8,830	9,620	8.9	17.3	
PBT	51,540	51,290	52,810	3.0	2.5	
- Taxes	14,460	14,030	1,520	(89.2)	(89.5)	
Effective tax rate (%)	28.1	27.4	2.9	(2,448)bps	(2,518)bps	Tax rate to remain in the range of ~27-28%
PAT	37,080	37,260	51,290	37.7	38.3	
Net margin (%)	21.5	21.2	28.8	761bps	736bps	
Reported profits	37,080	37,260	51,290	37.7	38.3	

Source: Company

Exhibit 2: Change in estimates

` mn	FY18E			FY19E		
	Old	New	% Chg	Old	New	% Chg
Revenue (US\$ mn)	10,909	10,931	0.2	11,981	11,846	(1.1)
Revenue	705,901	706,202	-	778,796	769,968	(1.1)
EBITDA margin (%)	26.9	27.0	10bps	27.2	26.8	(35)bps
EPS (₹)	65.4	74.1	13.3	71.5	71.6	0.1

Source: Trust Research

Geography wise Revenues: Europe was up 4.7% on cc basis QoQ with North America was up 0.7% in cc terms. RoW decreased 4% QoQ in cc terms.

Exhibit 3: Geographical wise Performance

Geographical mix	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
North America	62.5	61.9	62.0	61.5	62.0	62.3	61.1	60.6	60.4
Europe	23.2	23.4	23.0	22.5	22.2	22.1	22.4	23.2	24.4
India	2.8	3.0	2.7	3.4	3.4	3.2	3.6	3.3	3.0
RoW	11.5	11.7	12.3	12.6	12.4	12.4	12.9	12.9	12.2
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	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Application dev. & maintenance	33.2	33.4	33.9	33.7	32.5	32.1	32.1	31.6	314.6
----> Application development	14.1	13.7	14.4	15.6	15.5	15.3	15.4	15.6	15.4
----> Application maintenance	19.1	19.7	19.5	18.1	17.0	16.8	16.7	16.0	16.2
Business process management	5.8	5.8	7.0	6.6	6.8	5.1	5.0	5.1	5.3
Consulting service & PI	33.8	33.2	32.1	32.1	32.4	32.6	32.6	32.5	32.8
Infrastructure management	7.5	8.0	8.3	8.4	8.6	8.5	8.4	9.0	8.8
Product engineering services	3.4	3.4	3.5	3.7	3.9	4.0	4.1	4.1	4.0
Testing services	9.2	9.0	9.1	9.2	9.1	9.0	9.3	9.4	9.4
Others	4.1	4.0	3.1	3.3	3.5	3.2	3.1	3.1	2.8
Total Services	97.0	96.8	97.0	97.0	96.8	94.5	94.6	94.8	94.7
Products	3.0	3.2	3.0	3.0	3.2	5.5	5.4	5.2	5.3
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 1.2% QoQ, while FSI (Financial Services and Insurance) grew 0.1%. ECS (Energy, Utilities, Communications and Services) grew 2.5% respectively. MFG (Manufacturing) declined 0.1%.

Exhibit 5: Vertical Segmentation

Vertical Mix	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
BFSI	33.5	32.8	32.8	32.8	33.3	33.5	33.3	33.4	33.1
----> Insurance	5.9	5.4	5.6	5.7	6.1	6.1	6.2	6.4	6.8
----> Banking & financial services	27.6	27.4	27.2	27.4	27.2	27.4	27.1	27.0	26.3
Manufacturing	22.8	22.7	22.8	22.5	22.5	22.4	22.2	22.0	21.8
Retail	14.7	15.0	15.5	14.9	14.6	14.1	14.2	13.8	14.1
Telecom	8.0	8.6	9.4	9.4	9.1	9.9	10.4	10.4	10.5
Energy & utility	5.1	5.2	4.7	4.8	5.0	5.0	5.2	5.5	5.8
Transportation & logistic	1.9	1.8	1.9	1.9	2.0	2.0	1.9	2.0	2.1
Healthcare & Lifesciences	7.7	7.7	6.8	6.7	6.9	6.6	6.6	6.8	6.5
Others	6.3	6.2	6.1	6.7	6.6	6.5	6.2	6.1	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 82.1% (81.8% in 2QFY18). Employee utilisation rate, excluding trainees stood at 84.9% (84.7% in 2QFY18). Going forward, Infosys would use utilization as a margin lever. The company's headcount increased by 3,251 (net basis) to take the strength to 201,691. Attrition decreased 140bps QoQ to 15.8% in 3Q.

Exhibit 6: Employee strength

Employees	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Total employees	193,383	194,044	197,050	199,829	199,763	200,364	198,553	198,440	201,691
Software professionals	182,045	182,329	184,644	187,595	187,919	188,665	186,882	186,806	189,998
----> Billable	167,013	171,109	173,154	176,334	178,548	178,474	178,494	180,397	180,842
----> Banking product group	5,199	5,122	4,910	4,958	4,941	4,753	4,770	4,498	4,367
----> Trainees	9,833	6,098	6,580	6,303	4,430	5,438	3,618	1,911	4,789
Sales & support	11,338	11,715	12,405	12,234	11,844	11,699	11,671	11,634	11,693
Gross addition	14,027	9,034	13,268	12,717	9,120	9,130	8,645	10,514	12,622
Net addition	5,407	661	3,006	2,779	(66)	601	(1,811)	(113)	3,251
Lateral employees	6,115	5,266	5,260	5,752	4,000	3,967	NA	NA	NA

Source: Company



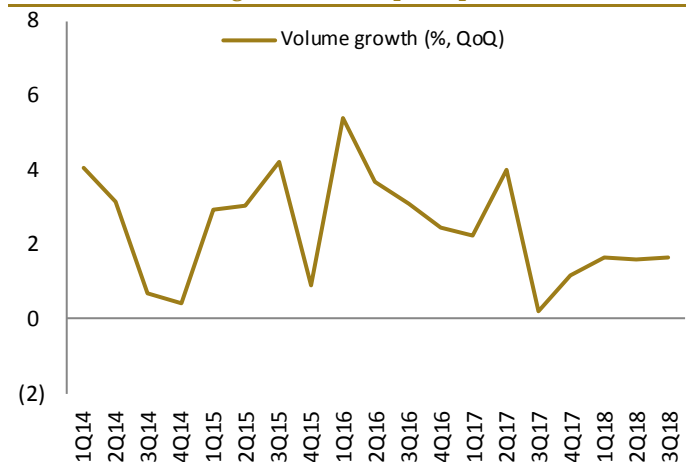
Client Concentration: The company added 79 new clients in Q3 taking the total list to 1,191 clients (18 on a net-basis). INFO added 1, 3, 1 and 1 clients in the US\$100mn+, US\$75mn+, US\$50mn+ and US\$25mn+ taking the list to 20, 34, 56 and 101 respectively.

Exhibit 7: Client details

Client metrics	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Active clients	1,045	1,092	1,126	1,136	1,152	1,162	1,164	1,173	1,191
Clients added	75	89	95	78	77	71	59	72	79
1 million dollar +	555	558	574	577	591	598	606	620	630
5 million dollar +	261	268	268	277	275	282	279	286	290
10 million dollar +	171	177	180	186	195	189	190	186	198
25 million dollar +	89	88	87	89	90	91	97	100	101
50 million dollar +	51	52	52	54	54	56	56	55	56
75 million dollar +	28	31	31	30	32	31	31	31	34
100 million dollar +	13	14	17	18	18	19	18	18	20
200 million dollar +	6	6	6	6	6	6	NA	NA	NA
300 million dollar +	1	1	1	1	1	1	NA	NA	NA
Top client (%)	3.5	3.6	3.6	3.5	3.1	3.3	3.3	3.4	3.4
Top-5 clients (%)	13.9	13.7	13.7	13.1	12.3	12.2	NA	NA	NA
Top-10 clients (%)	22.6	21.8	22.0	21.8	20.1	20.2	20.0	19.5	19.2
Repeat business (%)	96.8	95.8	98.8	97.5	96.7	96.2	99.4	98.7	98.3

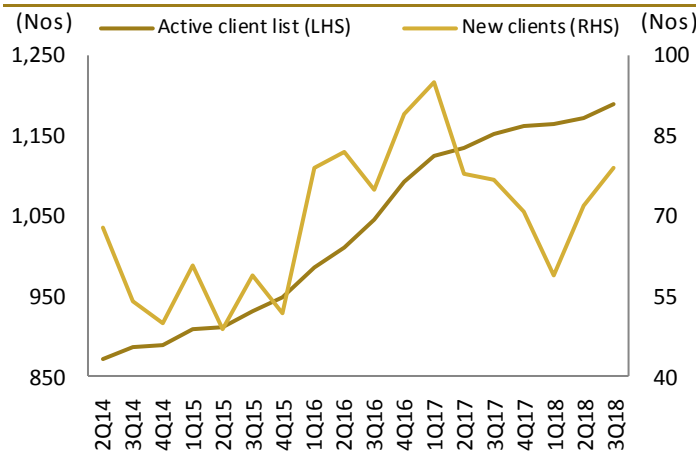
Source: Company

Exhibit 8: Volume growth was as per expectation



Source: Company, Trust

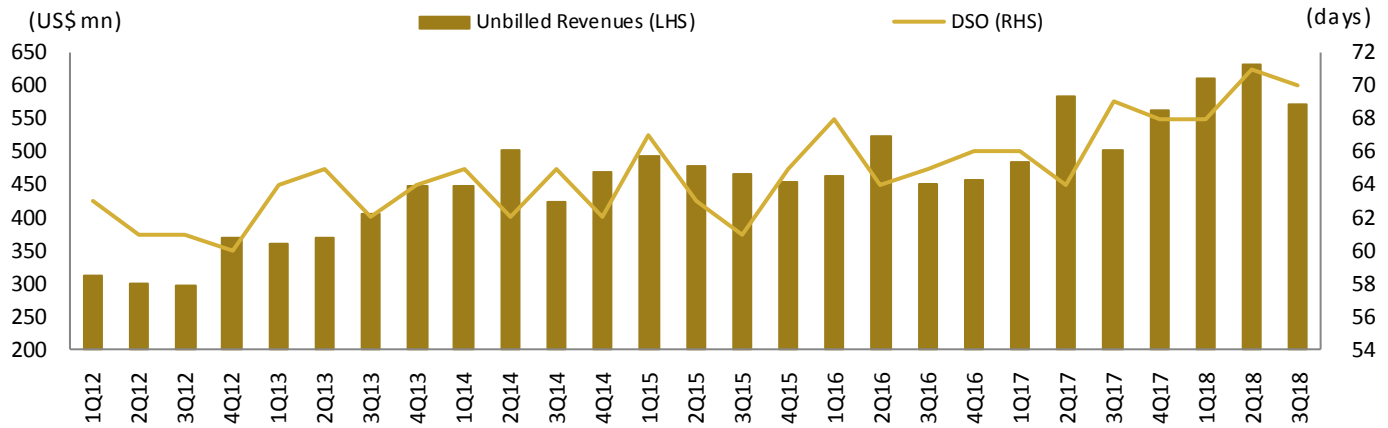
Exhibit 9: New client additions was robust



Source: Company, Trust

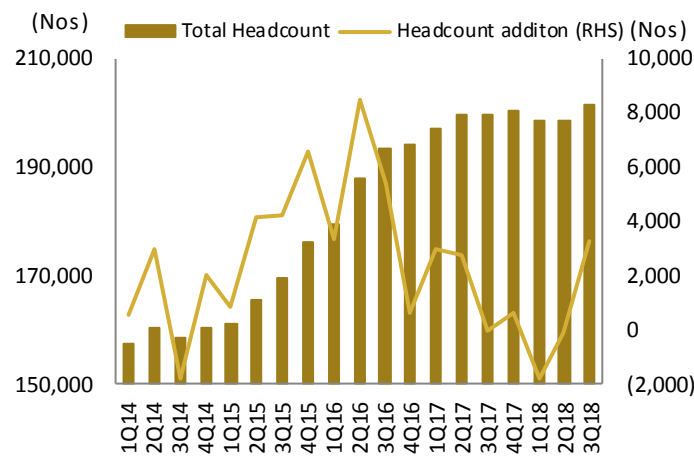


Exhibit 10: Unbilled revenue inched lower, DSO days decreased a day to 70 QoQ



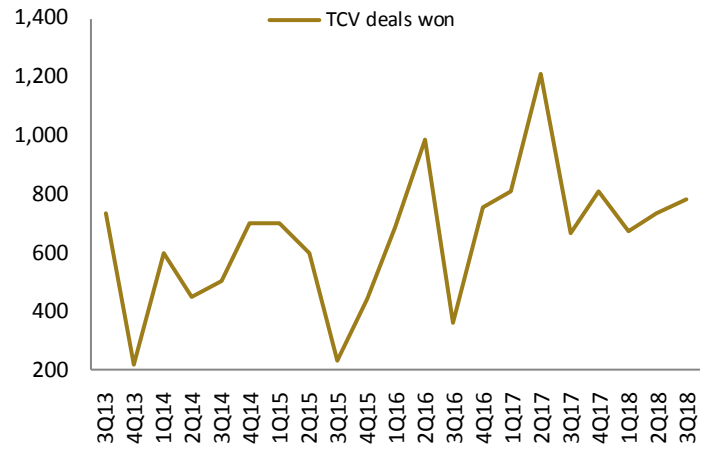
Source: Company, Trust

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	FY16	FY17	FY18E	FY19E	FY20E
Revenues	624,410	684,850	706,202	769,968	841,832
Op. Expenses	453,620	498,800	515,632	563,772	615,387
EBITDA	170,790	186,050	190,569	206,196	226,445
Other Income	31,250	30,790	33,510	30,180	32,216
Depreciation	14,590	17,030	19,048	20,832	23,032
EBIT	187,450	199,810	205,031	215,544	235,629
Interest	-	-	-	-	-
PBT	187,450	199,810	205,031	215,544	235,629
Tax	52,510	55,980	43,214	59,275	69,511
PAT	134,940	143,830	161,817	156,269	166,118
Ex. ordinary	20	300	-	-	-
Adj Pat	134,920	143,530	161,817	156,269	166,118

Key Parameters

Year End-March	FY16	FY17	FY18E	FY19E	FY20E
Per share (₹)					
EPS	58.7	62.5	74.1	71.6	76.1
CEPS	65.1	70.0	82.8	81.1	86.6
BVPS	269.0	300.3	277.7	314.2	351.6
DPS	24.3	25.8	29.0	30.0	33.0
Payout (%)	48.1	48.0	46.8	49.1	50.8
Valuation (x)					
P/E	20.5	16.4	14.5	15.1	14.2
P/BV	4.5	3.4	3.9	3.4	3.1
EV/EBITDA	14.3	11.4	11.3	10.2	9.1
Dividend Yield (%)	2.0	2.5	2.7	2.8	3.1
Return ratio (%)					
EBIDTA Margin	27.4	27.2	27.0	26.8	26.9
PAT Margin	21.6	21.0	22.9	20.3	19.7
ROAE	24.0	22.0	25.0	24.2	22.8
ROACE	33.3	30.6	31.6	33.3	32.4
Leverage Ratios (x)					
Long Term D/E	-	-	-	-	-
Net Debt/Equity	(0.6)	(0.5)	(0.4)	(0.4)	(0.4)
Debt/EBITDA	-	-	-	-	-
Interest Coverage	-	-	-	-	-
Current ratio	3.9	3.8	3.1	3.3	3.5
Growth Ratios (%)					
Income growth	17.1	9.7	3.1	9.0	9.3
EBITDA growth	14.6	8.9	2.4	8.2	9.8
PAT growth	9.4	6.4	12.7	(3.4)	6.3
Turnover Ratios					
F.A Turnover x	4.4	4.5	4.5	4.9	5.3
Debtors Days	62	63	65	64	63
Payable days	0	0	0	0	0

Balance Sheet (₹ mn)

Year End-March	FY16	FY17	FY18E	FY19E	FY20E
Equity Share Capital	11,440	11,440	10,880	10,880	10,880
Reserves & Surplus	606,350	678,380	595,703	675,313	757,105
Total Shareholders Fund	617,790	689,820	606,583	686,193	767,985
Non- current liabilities	(1,650)	(1,800)	(8,170)	(8,170)	(8,170)
Deferred tax liabilities	(5,360)	(5,400)	(11,770)	(11,770)	(11,770)
Other LT liabilities & prov	3,710	3,600	3,600	3,600	3,600
Current Liabilities	132,390	140,130	145,490	159,312	174,181
Trade payables	3,860	3,670	4,221	4,854	5,582
Other cur liabilities & Prov	128,530	136,460	141,269	154,458	168,599
Total Liabilities	748,530	828,150	743,903	837,335	933,996
Assets					
Non- current Assets	231,580	291,100	295,417	309,164	325,308
Fixed assets	142,940	153,680	156,112	157,280	159,248
Long-term loans & adv	52,300	57,160	58,044	63,285	69,192
Other non-current assets	9,850	7,760	81,262	88,599	96,868
Current assets	516,950	537,050	448,486	528,171	608,688
Current investments	750	99,700	30,800	30,800	30,800
Trade receivables	113,300	123,220	127,697	139,227	152,222
Cash & bank balances	326,970	226,250	198,550	258,470	304,533
Short-term loans & adv	75,930	87,880	91,439	99,673	121,134
Total Assets	748,530	828,150	743,903	837,335	933,996

Cash flow Statement

Year End-March	FY16	FY17	FY18E	FY19E	FY20E
PBT	187,440	199,810	205,031	215,544	235,629
Depreciation	10,060	16,540	19,048	20,832	23,032
Others	(20)	(300)	-	-	-
CF before W.cap	197,480	216,050	224,079	236,376	258,661
Inc/dec in W.cap	22,540	19,440	4,561	18,521	33,762
Op CF after W.cap	174,940	196,610	219,518	217,854	224,899
Less Taxes	52,510	55,980	43,214	59,275	69,511
Net CF From Operations	122,430	140,630	176,304	158,580	155,389
Inc/(dec) in F.A + CWIP	27,230	27,600	21,480	22,000	25,000
(Pur)/sale of Investments	3,930	143,140	(76,660)	-	-
CF from Invst Activities	(31,160)	(170,740)	55,180	(22,000)	(25,000)
Equity Raised	160	(1,220)	(183,507)	0	(0)
Dividend	68,130	69,390	75,677	76,660	84,326
CF from Fin Activities	(67,970)	(70,610)	(259,184)	(76,660)	(84,326)
Net inc/(dec) in cash	23,300	(100,720)	(27,700)	59,920	46,062
Op. bal of cash	303,670	326,970	226,250	198,550	258,470
Cl. balance of cash	326,970	226,250	198,550	258,470	304,533



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