

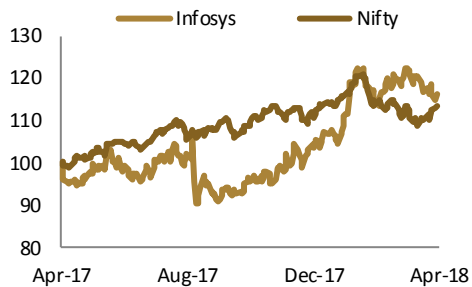
Market statistics

Current stock price (₹)	1169
Shares O/S (cr.)	218.4
Mcap (₹ cr)	255,323
52W H/L (₹)	1,220/862
6m avg. volume	4,901,999
Bloomberg	INFO.IN

Shareholding pattern

Promoters	12.90
Domestic Institution	21.71
Foreign Institution	34.93
Non-institution	30.46
of which more than 1%	

Infosys vs Nifty



Capital efficiency & valuations

Particulars	FY18	FY19E	FY20E
RoE (%)	24.0	23.1	22.5
EPS (₹)	73.7	71.9	76.1
CEPS (₹)	82.2	80.6	85.8
P/E (x)	15.3	16.2	15.4
P/BV (x)	3.8	3.6	3.3
EV/EBITDA (x)	11.9	11.4	10.2
Income growth (%)	3.0	9.4	9.5
EBITDA growth (%)	2.2	6.2	10.8
PAT growth (%)	12.2	(2.4)	5.8

Infosys delivered a decent quarter in terms of revenue growth and healthy margin beat. Silver Linings in 4Q 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.

4QFY18 quarter: Infosys reported slightly weak revenue growth but a healthy margin beat, with constant currency revenue growth of 0.6% QoQ and 1.8% QoQ on reported basis to US\$2,805mn. Revenue growth was led by overall volume growth of 1.1% (onsite up 0.2% and offshore up 1.5%), while blended pricing remained flattish QoQ. EBIT margin has improved by 46bps QoQ to 24.7%, led by cross currency benefits (20 bps), deduction in onsite mix (30bps), partially offset by higher variable pay, increase in subcontract cost (6.1% vs 5.9% in Q3FY18) and drop in price realization. Excluding one-time provision (impairment loss of Rs118 crore owing to Panaya re-classification in Q4FY18 and reversal of tax provision in Q3FY18), adjusted net income during the quarter increased by 3.0% QoQ.

Quarter details: Infosys will acquire Wong Doody Holding Company, Inc. for US\$75 million, a US-based digital creative and consumer insights agency. Total number of active clients reached to 1,204 at the end of Q4FY18. Infosys won ten large deals during the quarter. TCV wins for the quarter stood at US\$905mn vs US\$799mn in Q3FY18. Infosys aims to return US\$2bn (Rs130bn) to shareholders in FY19 through either buyback and dividends (of which ~Rs26bn is being distributed as special dividend of Rs10/share). Infosys anticipates completion of sale of Panaya and Skava by Mar'19.

Revenue guidance for FY19 at 6-8% in cc terms, but cut in margin guidance disappoints: The management has provided a cc revenue growth guidance of 6-8% YoY (vs NASSCOM's guidance of 7-9% for the industry) for FY19, in-line with our estimates. Despite a decent margin performance in Q4FY18, Infosys has lowered EBIT margin guidance to 22-24% for FY19 from 23-25% earlier. The management stated that the cut in margin guidance is due to a) investment in digital technologies, b) focus on local hires/US talent model, c) acceleration of sales activities and d) re-skilling the employees.

CEO lays out roadmap and pins hope on BFSI recovery: Mr. Salil Parekh (CEO & MD) mentioned that the focus remains around the execution of strategy around the four pillars: 1) scaling agile digital business (US\$2.8 billion, 25.5% of total revenues in FY18), 2) energizing the core (AI, NIA, automation, etc), 3) re-skilling employees, and 4) expanding the localization (in key markets like US, Europe, and Australia). Though softness persists in the tech spending among large US banks owing to higher capital allocation for internal spending, the management hopes its BFSI growth would be better in CY18 on account of its diversified portfolio (including regional banks, small banks and European banks) and shifting of spending from regulatory to growth-related areas.

Valuation and Outlook: INFY trades at 16.2/15.4x FY19/20E. We expect USD revenue/EPS growth at 9.0/1.6% CAGR over FY18-20E, and maintain a BUY. We have maintained our FY19E/20E earnings. We are positive on account of TCV deals won, client mining momentum, margin levers on account of non-linear initiatives. Strong capital allocation to act as a downside buffer.

ANALYST

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**Exhibit 1: Quarterly details**

` mn	4QFY17	3QFY18	4QFY18	QoQ (%)	YoY (%)	Comments
Revenues (in US\$mn)	2,569	2,755	2,805	1.8	9.2	Revenue was up 0.6% in cc terms (includes 1.1% volume growth QoQ)
Revenues	171,200	177,940	180,830	1.6	5.6	Blended pricing was falattish QoQ
- Operating costs	124,620	129,770	131,530	1.4	5.5	
EBITDA	46,580	48,170	49,300	2.3	5.8	EBIT margin increased due to operational efficiencies and cross-currency movements
EBITDA margin (%)	27.2	27.1	27.3	19bps	6bps	
- Interest expense	-	-	-			
- Depreciation	4,460	4,980	4,580	(8.0)	2.7	
+ Other income, net (incl forex)	7,460	9,620	5,340	(44.5)	(28.4)	An impairment loss of US\$18mn in respect of Panaya recognized in the consolidated P&L
PBT	49,580	52,810	50,060	(5.2)	1.0	
- Taxes	13,300	1,520	13,160	765.8	(1.1)	
Effective tax rate (%)	26.8	2.9	26.3	2,341bps	(54)bps	Tax rate to remain in the range of ~27-28%
PAT	36,280	51,290	36,900	(28.1)	1.7	
Net margin (%)	21.2	28.8	20.4	(841)bps	(79)bps	
Reported profits	36,030	51,290	36,900	(28.1)	2.4	

Source: Company

Exhibit 2: Change in estimates

` mn	FY19E			FY20E		
	Old	New	% Chg	Old	New	% Chg
Revenue (US\$ mn)	11,846	11,870	0.2	12,951	12,994	0.3
Revenue	769,968	771,521	0.2	841,832	844,627	0.3
EBITDA margin (%)	26.8	26.2	(55)bps	26.9	26.5	(35)bps
EPS (₹)	71.6	71.9	0.4	76.1	76.1	-

Source: Trust Research

Geography wise Revenues: Europe was down 0.2% on cc basis QoQ with North America was up 0.1% in cc terms. RoW increased 6.3% QoQ in cc terms.

Exhibit 3: Geographical wise Performance

Geographical mix	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
North America	61.9	62.0	61.5	62.0	62.3	61.1	60.6	60.4	59.4
Europe	23.4	23.0	22.5	22.2	22.1	22.4	23.2	24.4	24.8
India	3.0	2.7	3.4	3.4	3.2	3.6	3.3	3.0	2.8
RoW	11.7	12.3	12.6	12.4	12.4	12.9	12.9	12.2	13.0
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	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Application dev. & maintenance	33.4	33.9	33.7	32.5	32.1	32.1	31.6	31.6	31.1
----> Application development	13.7	14.4	15.6	15.5	15.3	15.4	15.6	15.4	15.5
----> Application maintenance	19.7	19.5	18.1	17.0	16.8	16.7	16.0	16.2	15.6
Business process management	5.8	7.0	6.6	6.8	5.1	5.0	5.1	5.3	5.4
Consulting service & PI	33.2	32.1	32.1	32.4	32.6	32.6	32.5	32.8	32.4
Infrastructure management	8.0	8.3	8.4	8.6	8.5	8.4	9.0	8.8	9.3
Product engineering services	3.4	3.5	3.7	3.9	4.0	4.1	4.1	4.0	4.0
Testing services	9.0	9.1	9.2	9.1	9.0	9.3	9.4	9.4	9.8
Others	4.0	3.1	3.3	3.5	3.2	3.1	3.1	2.8	3.1
Total Services	96.8	97.0	97.0	96.8	94.5	94.6	94.8	94.7	95.1
Products	3.2	3.0	3.0	3.2	5.5	5.4	5.2	5.3	4.9
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) declined 0.7% QoQ, while FSI (Financial Services and Insurance) grew 0.1%. ECS (Energy, Utilities, Communications and Services) grew 1.8% respectively. MFG (Manufacturing) increased 1.5%.

Exhibit 5: Vertical Segmentation

Vertical Mix	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
BFSI	32.8	32.8	32.8	33.3	33.5	33.3	33.4	33.1	33.0
----> Insurance	5.4	5.6	5.7	6.1	6.1	6.2	6.4	6.8	6.8
----> Banking & financial services	27.4	27.2	27.4	27.2	27.4	27.1	27.0	26.3	26.2
Manufacturing	22.7	22.8	22.5	22.5	22.4	22.2	22.0	21.8	21.9
Retail	15.0	15.5	14.9	14.6	14.1	14.2	13.8	14.1	13.3
Telecom	8.6	9.4	9.4	9.1	9.9	10.4	10.4	10.5	10.8
Energy & utility	5.2	4.7	4.8	5.0	5.0	5.2	5.5	5.8	5.9
Transportation & logistic	1.8	1.9	1.9	2.0	2.0	1.9	2.0	2.1	2.5
Healthcare & Lifesciences	7.7	6.8	6.7	6.9	6.6	6.6	6.8	6.5	6.6
Others	6.2	6.1	6.7	6.6	6.5	6.2	6.1	6.1	6.0
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 80.8% (82.1% in 3QFY18). Employee utilisation rate, excluding trainees stood at 84.7% (84.9% in 3QFY18). Going forward, Infosys would use utilization as a margin lever. The company's headcount increased by 2,416 (net basis) to take the strength to 204,107. Attrition increased 80bps QoQ to 16.6% in 4Q.

Exhibit 6: Employee strength

Employees	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Total employees	194,044	197,050	199,829	199,763	200,364	198,553	198,440	201,691	204,107
Software professionals	182,329	184,644	187,595	187,919	188,665	186,882	186,806	189,998	192,179
----> Billable	171,109	173,154	176,334	178,548	178,474	178,494	180,397	180,842	182,619
----> Banking product group	5,122	4,910	4,958	4,941	4,753	4,770	4,498	4,367	4,308
----> Trainees	6,098	6,580	6,303	4,430	5,438	3,618	1,911	4,789	5,252
Sales & support	11,715	12,405	12,234	11,844	11,699	11,671	11,634	11,693	11,928
Gross addition	9,034	13,268	12,717	9,120	9,130	8,645	10,514	12,622	12,329
Net addition	661	3,006	2,779	(66)	601	(1,811)	(113)	3,251	2,416
Lateral employees	5,266	5,260	5,752	4,000	3,967	NA	NA	NA	NA

Source: Company



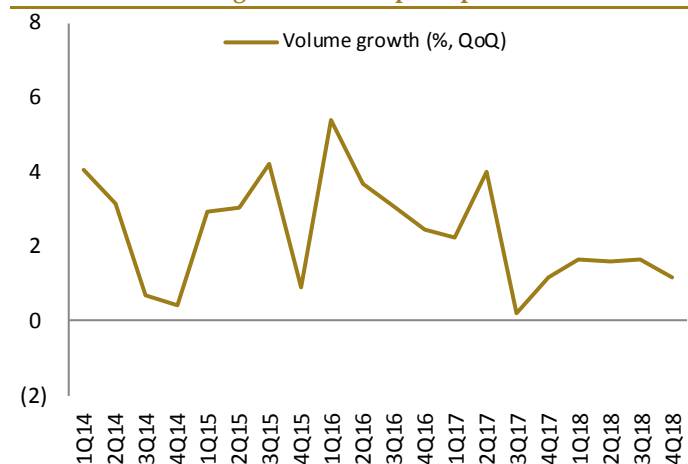
Client Concentration: The company added 73 new clients in Q4 taking the total list to 1,204 clients (13 on a net-basis). INFO added 1, 1, 4 and 5 clients in the US\$75mn+, US\$50mn+, US\$25mn+ and US\$5mn+ taking the list to 35, 57, 105 and 295 respectively.

Exhibit 7: Client details

Client metrics	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Active clients	1,092	1,126	1,136	1,152	1,162	1,164	1,173	1,191	1,204
Clients added	89	95	78	77	71	59	72	79	73
1 million dollar +	558	574	577	591	598	606	620	630	634
5 million dollar +	268	268	277	275	282	279	286	290	295
10 million dollar +	177	180	186	195	189	190	186	198	198
25 million dollar +	88	87	89	90	91	97	100	101	105
50 million dollar +	52	52	54	54	56	56	55	56	57
75 million dollar +	31	31	30	32	31	31	31	34	35
100 million dollar +	14	17	18	18	19	18	18	20	20
200 million dollar +	6	6	6	6	6	NA	NA	NA	NA
1300 million dollar +	1	1	1	1	1	NA	NA	NA	NA
Top client (%)	3.6	3.6	3.5	3.1	3.3	3.3	3.4	3.4	3.6
Top-5 clients (%)	13.7	13.7	13.1	12.3	12.2	NA	NA	NA	NA
Top-10 clients (%)	21.8	22.0	21.8	20.1	20.2	20.0	19.5	19.2	19.2
Repeat business (%)	95.8	98.8	97.5	96.7	96.2	99.4	98.7	98.3	97.6

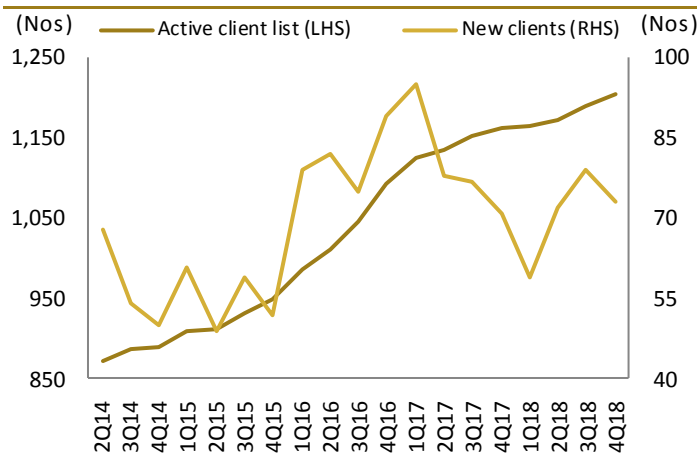
Source: Company

Exhibit 8: Volume growth was as per expectation



Source: Company, Trust

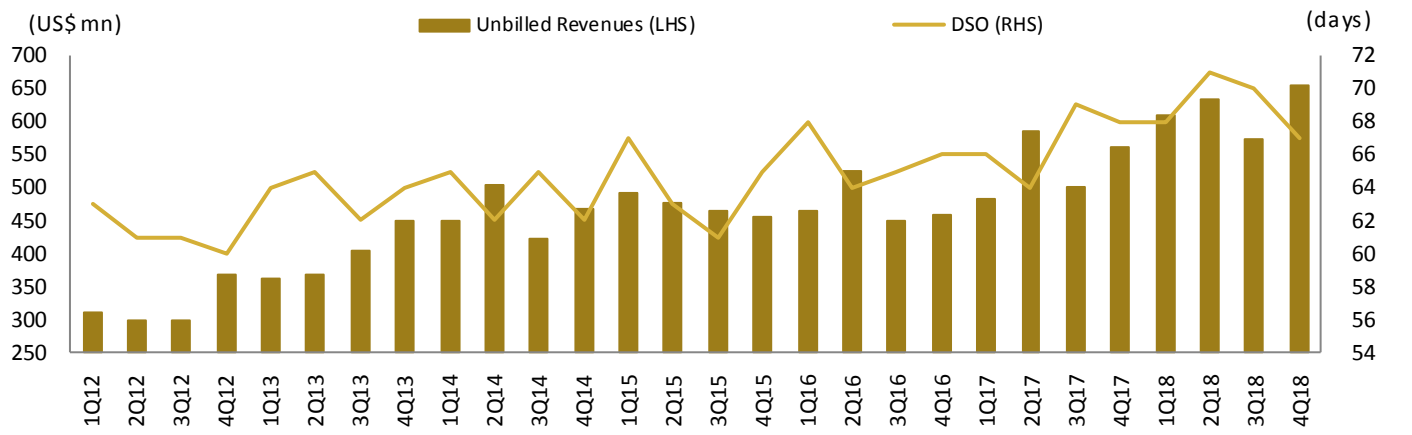
Exhibit 9: New client additions was robust



Source: Company, Trust

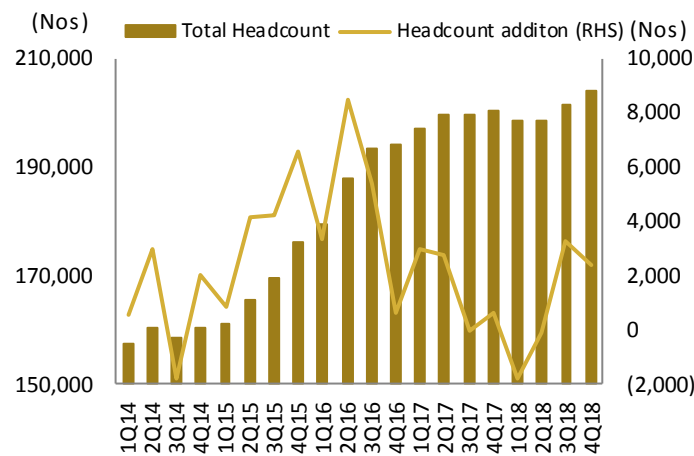


Exhibit 10: Unbilled revenue increased, DSO days decreased 3 days to 67 QoQ



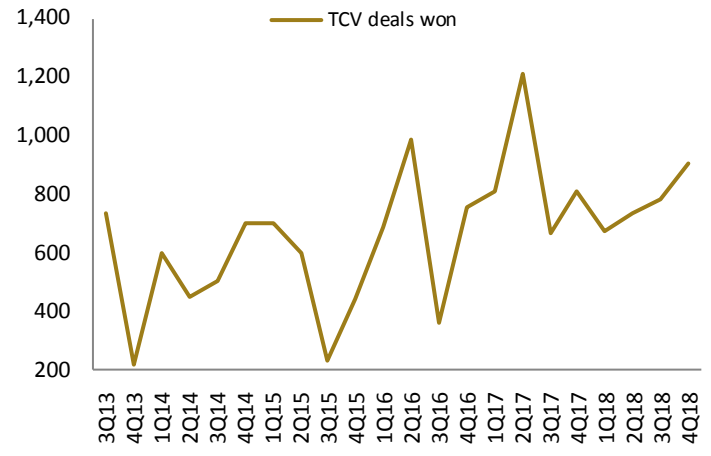
Source: Company, Trust

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	FY18	FY19E	FY20E
Revenues	624,410	684,850	705,220	771,521	844,627
Op. Expenses	453,620	498,800	515,120	569,565	620,908
EBITDA	170,790	186,050	190,100	201,955	223,719
Other Income	31,250	30,790	31,930	32,300	33,216
Depreciation	14,590	17,030	18,620	19,013	21,213
EBIT	187,450	199,810	203,410	215,242	235,722
Interest	-	-	-	-	-
PBT	187,450	199,810	203,410	215,242	235,722
Tax	52,510	55,980	42,420	58,115	69,538
PAT	134,940	143,830	160,990	157,127	166,184
Ex. ordinary	20	300	-	-	-
Adj Pat	134,920	143,530	160,990	157,127	166,184

Key Parameters

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Per share (₹)					
EPS	58.7	62.5	73.7	71.9	76.1
CEPS	65.1	70.0	82.2	80.6	85.8
BVPS	269.0	300.3	297.3	324.7	352.9
DPS	24.3	25.8	43.5	38.0	41.0
Payout (%)	48.1	48.0	69.8	61.8	63.0
Valuation (x)					
P/E	20.5	16.4	15.3	16.2	15.4
P/BV	4.5	3.4	3.8	3.6	3.3
EV/EBITDA	14.3	11.4	11.9	11.4	10.2
Dividend Yield (%)	2.0	2.5	3.9	3.3	3.5
Return ratio (%)					
EBIDTA Margin	27.4	27.2	27.0	26.2	26.5
PAT Margin	21.6	21.0	22.8	20.4	19.7
ROAE	24.0	22.0	24.0	23.1	22.5
ROACE	33.3	30.6	30.4	31.7	31.9
Leverage Ratios (x)					
Long Term D/E	-	-	-	-	-
Net Debt/Equity	(0.6)	(0.5)	(0.4)	(0.4)	(0.5)
Debt/EBITDA	-	-	-	-	-
Interest Coverage	-	-	-	-	-
Current ratio	3.9	3.8	3.5	3.5	3.5
Growth Ratios (%)					
Income growth	17.1	9.7	3.0	9.4	9.5
EBITDA growth	14.6	8.9	2.2	6.2	10.8
PAT growth	9.4	6.4	12.2	(2.4)	5.8
Turnover Ratios					
F.A Turnover x	4.4	4.5	4.9	5.3	5.6
Debtors Days	62	63	65	64	63
Payable days	0	0	0	0	0

Balance Sheet (₹ mn)

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	11,440	11,440	10,880	10,880	10,880
Reserves & Surplus	606,350	678,380	638,360	698,385	759,800
Total Shareholders Fund	617,790	689,820	649,240	709,265	770,680
Non-current liabilities	(1,650)	(1,800)	(4,210)	(4,210)	(4,210)
Deferred tax liabilities	(5,360)	(5,400)	(12,820)	(12,820)	(12,820)
Other LT liabilities & prov	3,710	3,600	8,610	8,610	8,610
Current Liabilities	132,390	140,130	141,050	164,026	179,290
Trade payables	3,860	3,670	6,940	7,981	9,178
Other cur liabilities & Prov	128,530	136,460	134,110	156,045	170,112
Total Liabilities	748,530	828,150	786,080	869,081	945,760
Assets					
Non-current Assets	231,580	291,100	285,910	300,831	319,239
Fixed assets	142,940	153,680	143,540	146,527	150,314
Long-term loans & adv	52,300	57,160	60,700	65,526.42	71,735
Other non-current assets	9,850	7,760	81,670	88,778	97,190
Current assets	516,950	537,050	500,170	568,250	626,520
Current investments	750	99,700	64,070	64,070	64,070
Trade receivables	113,300	123,220	131,420	139,508	152,727
Cash & bank balances	326,970	226,250	198,180	254,204	285,971
Short-term loans & adv	75,930	87,880	106,500	110,468	123,753
Total Assets	748,530	828,150	786,080	869,081	945,760

Cash flow Statement

Year End-March	FY16	FY17	FY18	FY19E	FY20E
PBT	187,440	199,810	203,410	215,242	235,722
Depreciation	10,060	16,540	11,200	19,013	21,213
Others	(20)	(300)	-	-	-
CF before W.cap	197,480	216,050	214,610	234,255	256,935
Inc/dec in W.cap	22,540	19,440	31,130	1,014	25,861
Op CF after W.cap	174,940	196,610	183,480	233,241	231,074
Less Taxes	52,510	55,980	42,420	58,115	69,538
Net CF From Operations	122,430	140,630	141,060	175,126	161,536
Inc/(dec) in F.A + CWIP	27,230	27,600	8,480	22,000	25,000
(Pur)/sale of Investments	3,930	143,140	(40,920)	-	-
CF from Invst Activities	(31,160)	(170,740)	32,440	(22,000)	(25,000)
Equity Raised	160	(1,220)	(89,169)	0	0
Dividend	68,130	69,390	112,401	97,102	104,769
CF from Fin Activities	(67,970)	(70,610)	(201,570)	(97,102)	(104,769)
Net inc/(dec) in cash	23,300	(100,720)	(28,070)	56,024	31,767
Op. bal of cash	303,670	326,970	226,250	198,180	254,204
Cl. balance of cash	326,970	226,250	198,180	254,204	285,971



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