

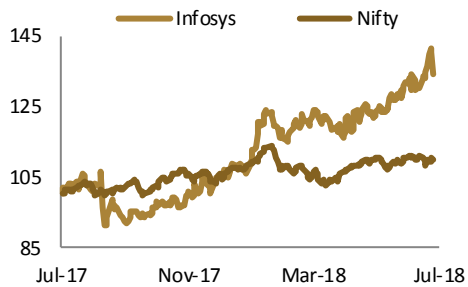
Market statistics

Current stock price (₹)	1309
Shares O/S (cr.)	218.4
Mcap (₹ cr)	285,924
52W H/L (₹)	1,358/862
6m avg. volume	48,38,767
Bloomberg	INFO.IN

Shareholding pattern

Promoters	12.90
Domestic Institution	22.51
Foreign Institution	51.94
Non-institution	12.65
of which more than 1%	

Infosys vs Nifty



Capital efficiency & valuations

Particulars	FY18	FY19E	FY20E
RoE (%)	24.0	25.0	26.0
EPS (₹)	73.7	73.4	79.2
CEPS (₹)	82.2	81.6	88.4
P/E (x)	15.3	17.8	16.5
P/BV (x)	3.8	4.5	4.1
EV/EBITDA (x)	11.9	13.0	11.6
Income growth (%)	3.0	11.2	9.3
EBITDA growth (%)	2.2	9.2	11.1
PAT growth (%)	12.2	(0.4)	7.9

Infosys delivered a slightly weak quarter in terms of revenue growth and margin. Silver Linings in 1Q were (a) Large deal TCV continued to gradually increase over the last five quarters, and reached US\$1.1bn (against US\$905mn in Q4FY18) in Q1FY19, out of which 40% was from financial services, (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.

1QFY19 quarter: Infosys reported slightly weak revenue growth and margin, with constant currency revenue growth of 2.3% QoQ and 0.9% QoQ on reported basis to US\$2,831mn. Revenue growth was led by overall volume growth of 2.6% while blended pricing remained flattish QoQ. EBIT margin was lower by 101bps QoQ to 23.7%, owing to salary hikes (85% of employee) and additional investments in digital, localization and revitalization of sales. EBIT margins were negatively impacted by wage hike (100 bps) and additional expenses including subcontracting cost and spending on digital (140 bps), partially offset by rupee tailwind (100bps) and operational efficiencies (40 bps). As a result, net income during the quarter declined by 2.1% QoQ.

Retains guidance, strong TCV wins: The management has maintained its cc revenue growth guidance (6-8% YoY) and EBIT margin guidance (22-24%) for FY19. Despite decent margin performance in Q1FY19, the management did not revise its margin guidance upwards due to investments in digital area, focus on talent model and acceleration of sales activities. However, the key margin levers for the remainder of the year would be – (a) higher digital revenue contribution, (b) automation of core and (c) improvement of onsite mix, utilization and pyramid structure. Large deal TCV continued to gradually increase over the last five quarters, and reached US\$1.1bn (against US\$905mn in Q4FY18) in Q1FY19, out of which 40% was from financial services. The management has indicated that the deal pipeline remains healthy; hence it expects the deal win momentum to continue going ahead.

Building growth engines, expect BFSI to improve: The management indicated that it will continue to stick to its investment plans on digital technology, localization and acceleration of go to-market strategy in FY2019. Though these investments will put pressure on operating profitability, we believe it would be largely mitigated by operational efficiencies, higher revenues from digital (that currently contributes 28.4% of total revenues, grew 25.6% YoY in Q1FY19) and benefits from rupee depreciation. The BFSI vertical revenue growth (down 0.2% on cc terms) remained soft during Q1FY19 due to insourcing and reduction in IT spending from clients. However, the management remains optimistic for the up-tick in BFSI revenue, led by recent two large deal wins in the US, a strong deal pipeline, robust demand in insurance space and higher adoption of digital technologies by regional banks and recovery in Europe.

Valuation and Outlook: INFY trades at 17.8/16.5x FY19/20E. We expect USD revenue/EPS growth at 8.1/3.6% CAGR over FY18-20E, and maintain a BUY. We have increased our FY19E/20E earnings by 2%/4% respectively mainly on account of INR-US\$ currency reset. 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

Naushil Shah

+91-22 4224 5125

naushil.shah@trustgroup.co.in

**Exhibit 1: Quarterly details**

` mn	1QFY18	4QFY18	1QFY19	QoQ (%)	YoY (%)	Comments
Revenues (in US\$mn)	2,651	2,805	2,831	0.9	6.8	Revenue was up 2.3% in cc terms (includes 2.6% volume growth QoQ)
Revenues	170,780	180,830	191,280	5.8	12.0	Blended pricing was flattish QoQ
- Operating costs	125,170	131,530	141,550	7.6	13.1	
EBITDA	45,610	49,300	49,730	0.9	9.0	EBIT margins were impacted by wage hike (100 bps), subcontracting cost & spend on digital (140 bps), offset by INR tailwind (100bps) and operational efficiencies (40 bps)
EBITDA margin (%)	26.7	27.3	26.0	(126)bps	(71)bps	
- Interest expense	-	-	-			
- Depreciation	4,500	4,580	4,360	(4.8)	(3.1)	
+ Other income, net (incl forex)	8,140	5,340	7,260	36.0	(10.8)	
PBT	49,250	50,060	52,630	5.1	6.9	
- Taxes	13,710	13,160	13,810	4.9	0.7	
Effective tax rate (%)	27.8	26.3	26.2	(5bps)	(160)bps	Tax rate to remain in the range of ~27-28%
PAT	35,540	36,900	38,820	5.2	9.2	
Net margin (%)	20.8	20.4	20.3	(11.1)bps	(51.6)bps	
Reported profits	34,830	36,900	36,120	(2.1)	3.7	Reduction in fair value of Rs2.7bn in respect of Panaya recognized in the consolidated P&L

Source: Company

Exhibit 2: Change in estimates

` mn	FY19E			FY20E		
	Old	New	% Chg	Old	New	% Chg
Revenue (US\$ mn)	11,870	11,685	(1.6)	12,994	12,794	(1.5)
Revenue	771,521	784,529	1.7	844,627	857,205	1.5
EBITDA margin (%)	26.2	26.5	30bps	26.5	26.9	35bps
EPS (₹)	71.9	73.4	2.1	76.1	79.2	4.1

Source: Trust Research

Geography wise Revenues: Europe was up 2.1% on cc basis QoQ with North America was up 2% in cc terms. RoW increased 5.3% QoQ in cc terms.

Exhibit 3: Geographical wise Performance

Geographical mix	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
North America	62.0	61.5	62.0	62.3	61.1	60.6	60.4	59.4	60.0
Europe	23.0	22.5	22.2	22.1	22.4	23.2	24.4	24.8	24.3
India	2.7	3.4	3.4	3.2	3.6	3.3	3.0	2.8	2.6
RoW	12.3	12.6	12.4	12.4	12.9	12.9	12.2	13.0	13.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company



Vertical wise Performance: BFSI was down 0.2% in cc terms QoQ, while Retail increased 6.4%. Energy, utilities, Resources & services was up 5.3%, while Manufacturing, Communication & Hitech were up 2.5%, 1.3% and 1.7% respectively in cc terms QoQ.

Exhibit 4: Vertical Segmentation

Vertical Mix	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
BFSI	32.8	33.1	33.3	33.5	33.0	33.4	33.1	32.6	31.8
Retail	15.5	14.9	14.6	14.1	16.2	13.8	14.1	15.9	16.6
Communication	9.4	9.4	9.1	9.9	12.6	10.4	10.5	12.9	12.7
Energy, utilities, Resources	4.7	4.8	5.0	5.0	11.3	5.5	5.8	12.0	12.4
Manufacturing	22.8	22.5	22.5	22.4	9.3	22.0	21.8	9.6	9.6
Hitech					7.3			7.4	7.4
Healthcare & Lifesciences	6.8	6.7	6.9	6.6	6.6	6.8	6.5	6.7	6.6
Others	6.1	6.7	6.6	6.5	3.7	6.1	6.1	2.9	2.9
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 81.5% (80.8% in 4QFY18). Employee utilisation rate, excluding trainees stood at 85.7% (84.7% in 4QFY18). Going forward, Infosys would use utilization as a margin lever. The company's headcount increased by 5,798 (net basis) to take the strength to 209,905. Attrition increased 400bps QoQ to 20.6% in 1Q.

Exhibit 5: Employee strength

Employees	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Total employees	197,050	199,829	199,763	200,364	198,553	198,440	201,691	204,107	209,905
Software professionals	184,644	187,595	187,919	188,665	186,882	186,806	189,998	192,179	197,637
----> Billable	173,154	176,334	178,548	178,474	178,494	180,397	180,842	182,619	NA
----> Banking product group	4,910	4,958	4,941	4,753	4,770	4,498	4,367	4,308	NA
----> Trainees	6,580	6,303	4,430	5,438	3,618	1,911	4,789	5,252	NA
Sales & support	12,405	12,234	11,844	11,699	11,671	11,634	11,693	11,928	12,268
Gross addition	13,268	12,717	9,120	9,130	8,645	10,514	12,622	12,329	17,709
Net addition	3,006	2,779	(66)	601	(1,811)	(113)	3,251	2,416	5,798
Lateral employees	5,260	5,752	4,000	3,967	NA	NA	NA	NA	NA

Source: Company

Client Concentration: The company added 70 new clients in Q1 taking the total list to 1,214 clients (10 on a net-basis). INFO added 4 and 2 clients in the US\$100mn+ and US\$10mn+ taking the list to 24 and 200 respectively.

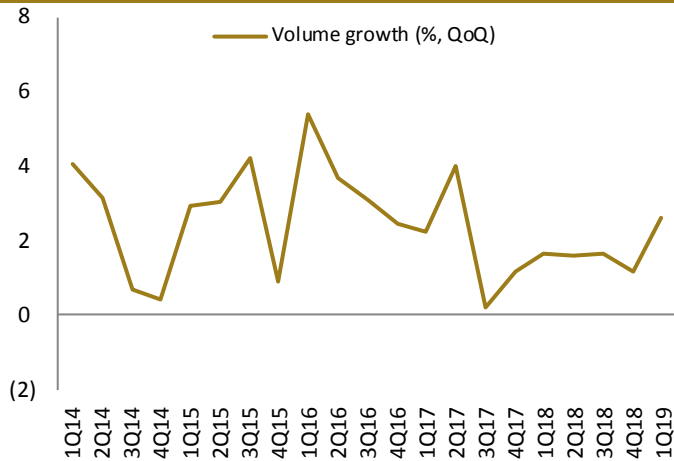
Exhibit 6: Client details

Client metrics	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q4FY18
Active clients	1,126	1,136	1,152	1,162	1,164	1,173	1,191	1,204	1,214
Clients added	95	78	77	71	59	72	79	73	70
1 million dollar +	574	577	591	598	606	620	630	634	627
5 million dollar +	268	277	275	282	279	286	290	295	NA
10 million dollar +	180	186	195	189	190	186	198	198	200
25 million dollar +	87	89	90	91	97	100	101	105	NA
50 million dollar +	52	54	54	56	56	55	56	57	56
75 million dollar +	31	30	32	31	31	31	34	35	NA
100 million dollar +	17	18	18	19	18	18	20	20	24
Top client (%)	3.6	3.5	3.1	3.3	3.3	3.4	3.4	3.6	3.7
Top-10 clients (%)	22.0	21.8	20.1	20.2	20.0	19.5	19.2	19.2	19.2
Repeat business (%)	98.8	97.5	96.7	96.2	99.4	98.7	98.3	97.6	99.5

Source: Company

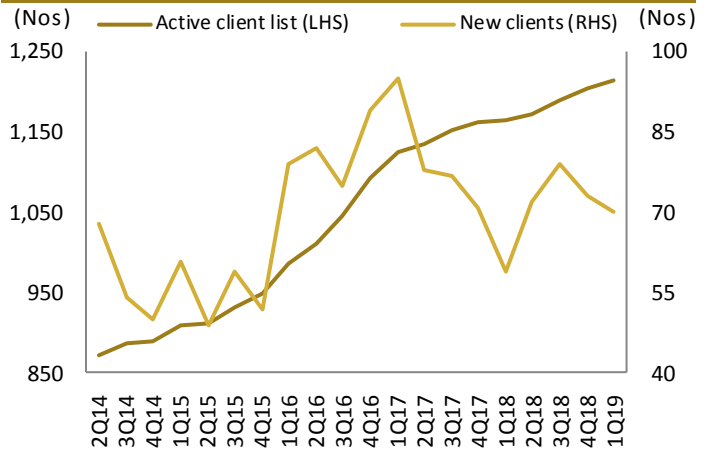


Exhibit 7: Volume growth was as per expectation



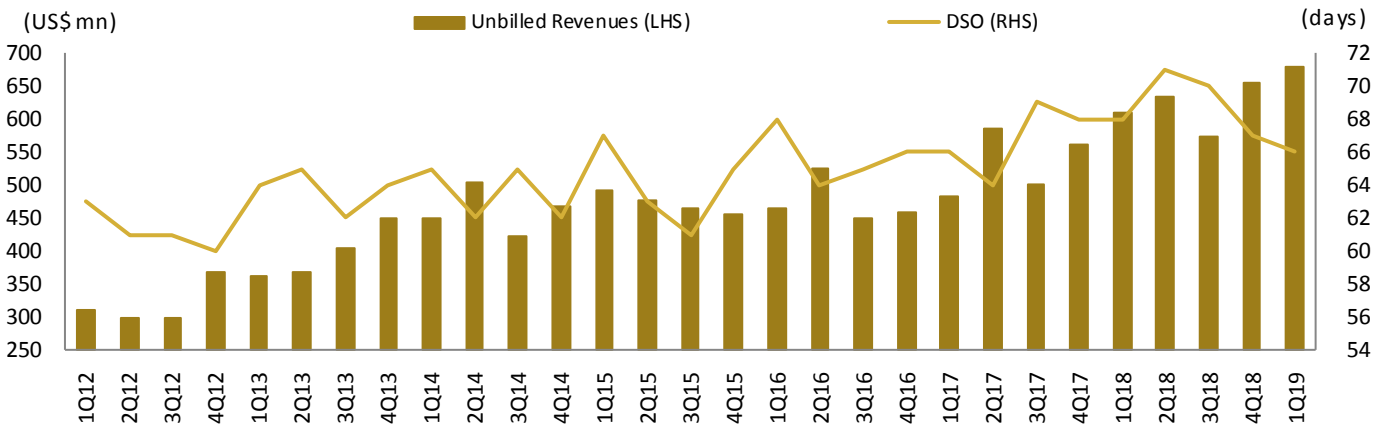
Source: Company, Trust

Exhibit 8: New client additions was robust



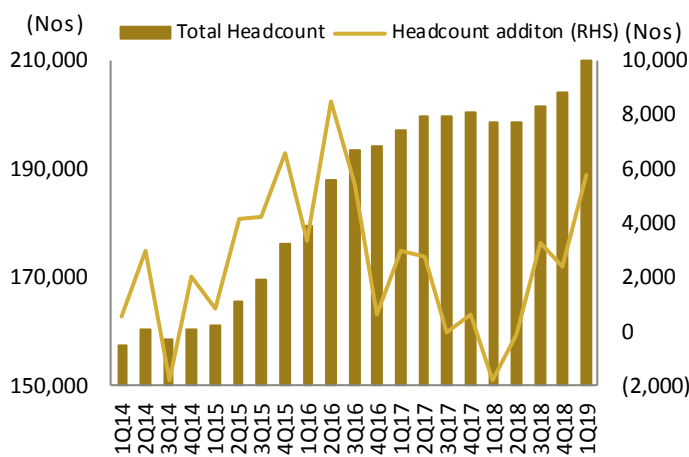
Source: Company, Trust

Exhibit 9: Unbilled revenue increased, DSO days decreased 1 day to 66 QoQ



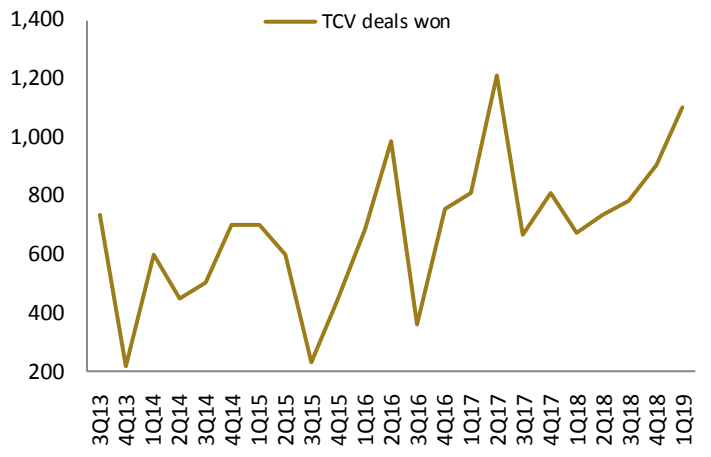
Source: Company, Trust

Exhibit 10: Utilisation used as a lever this quarter



Source: Company, Trust

Exhibit 11: 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	784,529	857,205
Op. Expenses	453,620	498,800	515,120	576,979	626,659
EBITDA	170,790	186,050	190,100	207,550	230,546
Other Income	31,250	30,790	31,930	29,340	33,216
Depreciation	14,590	17,030	18,620	17,884	20,202
EBIT	187,450	199,810	203,410	219,006	243,560
Interest	-	-	-	-	-
PBT	187,450	199,810	203,410	219,006	243,560
Tax	52,510	55,980	42,420	58,732	70,632
PAT	134,940	143,830	160,990	160,274	172,928
Ex. ordinary	20	300	710	2,700	-
Adj Pat	134,920	143,530	160,280	157,574	172,928

Key Parameters

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Per share (₹)					
EPS	58.7	62.5	73.7	73.4	79.2
CEPS	65.1	70.0	82.2	81.6	88.4
BVPS	269.0	300.3	297.3	289.0	320.2
DPS	24.3	25.8	43.5	38.0	41.0
Payout (%)	48.1	48.0	69.8	60.6	60.6
Valuation (x)					
P/E	20.5	16.4	15.3	17.8	16.5
P/BV	4.5	3.4	3.8	4.5	4.1
EV/EBITDA	14.3	11.4	11.9	13.0	11.6
Dividend Yield (%)	2.0	2.5	3.9	2.9	3.1
Return ratio (%)					
EBIDTA Margin	27.4	27.2	27.0	26.5	26.9
PAT Margin	21.6	21.0	22.8	20.1	20.2
ROAE	24.0	22.0	24.0	25.0	26.0
ROACE	33.3	30.6	30.4	34.2	36.6
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	3.5	2.9	3.0
Growth Ratios (%)					
Income growth	17.1	9.7	3.0	11.2	9.3
EBITDA growth	14.6	8.9	2.2	9.2	11.1
PAT growth	9.4	6.4	12.2	(0.4)	7.9
Turnover Ratios					
F.A Turnover x	4.4	4.5	4.9	5.3	5.6
Debtors Days	62	63	65	66	65
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	620,332	688,491
Total Shareholders Fund	617,790	689,820	649,240	631,212	699,371
Non- current liabilities	(1,650)	(1,800)	(4,210)	(4,390)	(4,390)
Deferred tax liabilities	(5,360)	(5,400)	(12,820)	(13,000)	(13,000)
Other LT liabilities & prov	3,710	3,600	8,610	8,610	8,610
Current Liabilities	132,390	140,130	141,050	166,058	180,865
Trade payables	3,860	3,670	6,940	7,981	9,178
Other cur liabilities & Prov	128,530	136,460	134,110	158,077	171,687
Total Liabilities	748,530	828,150	786,080	792,880	875,847
Assets					
Non- current Assets	231,580	291,100	285,910	305,742	325,075
Fixed assets	142,940	153,680	143,540	148,836	153,634
Long-term loans & adv	52,300	57,160	60,700	66,631	72,804
Other non-current assets	9,850	7,760	81,670	90,275	98,637
Current assets	516,950	537,050	500,170	486,798	550,431
Current investments	750	99,700	64,070	64,070	64,070
Trade receivables	113,300	123,220	131,420	141,860	155,001
Cash & bank balances	326,970	226,250	198,180	175,918	206,859
Short-term loans & adv	75,930	87,880	106,500	104,950	124,501
Total Assets	748,530	828,150	786,080	792,880	875,847

Cash flow Statement

Year End-March	FY16	FY17	FY18	FY19E	FY20E
PBT	187,440	199,810	203,410	219,006	243,560
Depreciation	10,060	16,540	11,200	17,884	20,202
Others	(20)	(300)	(710)	2,700	-
CF before W.cap	197,480	216,050	213,900	239,590	263,762
Inc/dec in W.cap	22,540	19,440	31,130	(1,582)	32,420
Op CF after W.cap	174,940	196,610	182,770	241,172	231,342
Less Taxes	52,510	55,980	42,420	58,732	70,632
Net CF From Operations	122,430	140,630	140,350	182,440	160,709
Inc/(dec) in F.A + CWIP	27,230	27,600	8,480	23,180	25,000
(Pur)/ sale of Investments	3,930	143,140	(40,920)	5,920	-
CF from Invst Activities	(31,160)	(170,740)	32,440	(29,100)	(25,000)
Equity Raised	160	(1,220)	(88,459)	(78,500)	(0)
Dividend	68,130	69,390	112,401	97,102	104,769
CF from Fin Activities	(67,970)	(70,610)	(200,860)	(175,602)	(104,769)
Net inc/(dec) in cash	23,300	(100,720)	(28,070)	(22,262)	30,941
Op. bal of cash	303,670	326,970	226,250	198,180	175,918
Cl. balance of cash	326,970	226,250	198,180	175,918	206,859



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				
Vijay Shah	Sales		vijay.shah@trustgroup.in	+91-22-4084-5090
Mayur Joshi	Sales		mayur.joshi@trustgroup.in	+91-22-4084-5028
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

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