

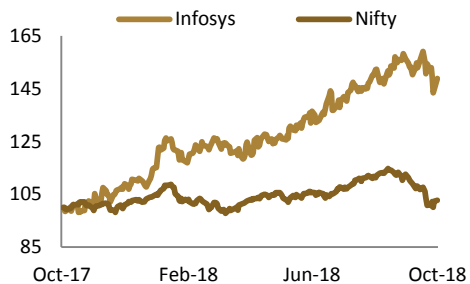
### Market statistics

Current stock price (₹)	696
Shares O/S (cr.)	436.8
Mcap (₹ cr)	304,214
52W H/L (₹)	755/458
6m avg. volume	9,031,507
Bloomberg	INFO.IN

### Shareholding pattern

Promoters	12.82
Domestic Institution	22.16
Foreign Institution	52.12
Non-institution	12.90
of which more than 1%	

### Infosys vs Nifty



### Capital efficiency & valuations

Particulars	FY18	FY19E	FY20E
RoE (%)	24.0	24.8	25.1
EPS (₹)	36.9	37.7	41.0
CEPS (₹)	41.1	41.9	45.8
P/E (x)	15.3	18.5	17.0
P/BV (x)	3.8	4.5	4.0
EV/EBITDA (x)	11.9	13.3	11.7
Income growth (%)	3.0	15.7	10.2
EBITDA growth (%)	2.2	13.0	11.8
PAT growth (%)	12.2	2.3	8.8

#### ANALYST

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Infosys delivered a strong quarter in terms of revenue growth, but weaker than-expected margin. Silver Linings in 2Q were (a) Large deal TCV continued to gradually increase over the last five quarters, and reached US\$2bn+ (against US\$1.1bn in Q1FY19), (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 and comforting valuations.

**2QFY19 quarter:** Infosys reported robust revenue growth but weaker-than-expected margin, with constant currency revenue growth of 4.2% QoQ and 3.2% QoQ on reported basis to US\$2,921mn. Revenue growth was led by overall volume growth of 2.8% while blended pricing was up 0.9% QoQ. EBIT margin was flat QoQ at 23.7% (lower than our estimates) despite rupee tailwind and absence of visa costs/wage revision of 85% of its employees, owing to 100bps impact due to higher variable pay, revised compensation for remaining 15% of employees and significant intervention to arrest the attrition along with 50bps impact due to higher subcontractor expenses and additional investments in digital and localisation. Management indicated that benefits of rupee depreciation (80bps) and operational efficiencies (70bps) were offset by the above headwinds during the quarter. Higher other income helped Infosys to beat our net profit estimates, registered growth of 13.8% QoQ during the quarter.

**Retains guidance, strong TCV wins:** The management has maintained its cc revenue growth guidance (6-8% YoY) for FY19. Management cited that Q3 is normally a seasonally weak quarter for the IT industry owing to furloughs and lower working days. However, we believe Infosys would comfortably achieve the mid-point of its revenue guidance range for FY19 given its acceleration in deal TCVs in the recent couple of quarters and improving demand environment in the U.S. Management also retained its margin guidance (22-24%) despite rupee tailwinds owing to skewed investment plans in digital during 2HFY19 compared to 1HFY19. Large deal TCVs continued to increase during the quarter and reached US\$2bn+ (US\$1.1bn in Q1FY19), which are record-high deal wins in the company's history. New deal wins during the quarter have accelerated to 63% in Q2FY19 against 45% in Q1FY19.

**Building growth engines:** Management indicated that it will continue to stick to its investment plans on digital technology, localization and acceleration of go to-market strategy in FY19. 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 31% of total revenues, grew 31% YoY in Q2FY19) and benefits from rupee depreciation.

**Acquisitions:** a) In Sep'18, Infosys entered into a definitive agreement to acquire 60% stake in Trusted Source Pte. Ltd. (a wholly owned subsidiary of Temasek Management Services) for a total consideration of up to SGD12mn; b) In Oct'18, Infosys acquired Fluidio Oy (Fluidio) for a total consideration of up to Euro 65mn, comprising cash consideration of Euro 45mn, contingent consideration of up to Euro 12mn and retention payouts of up to Euro 8mn, payable to the employees of Fluidio over the next three years, subject to their continuous employment with the group.

**Valuation and Outlook:** INFY trades at 18.5/17x FY19/20E. We expect USD revenue/EPS growth at 8.4/5.5% CAGR over FY18-20E, and maintain a BUY. We have increased our FY19E/20E earnings by 2.7%/3.5% 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.

**Exhibit 1: Quarterly details**

` mn	2QFY18	1QFY19	2QFY19	QoQ (%)	YoY (%)	Comments
<b>Revenues (in US\$mn)</b>	<b>2,728</b>	<b>2,831</b>	<b>2,921</b>	<b>3.2</b>	<b>7.1</b>	Revenue was up 4.2% in cc terms (includes 2.8% volume growth QoQ)
<b>Revenues</b>	<b>175,670</b>	<b>191,280</b>	<b>206,090</b>	<b>7.7</b>	<b>17.3</b>	Blended pricing was up 0.9% QoQ
- Operating costs	128,650	141,550	152,520	7.7	18.6	
<b>EBITDA</b>	<b>47,020</b>	<b>49,730</b>	<b>53,570</b>	<b>7.7</b>	<b>13.9</b>	EBIT margins were impacted by wage hike, subcontracting cost & spend on digital, offset by INR tailwind and operational efficiencies
<b>EBITDA margin (%)</b>	<b>26.8</b>	<b>26.0</b>	<b>26.0</b>	<b>(1)bps</b>	<b>(77)bps</b>	
- Interest expense	-	-	-			
- Depreciation	4,560	4,360	4,630	6.2	1.5	
+ Other income, net (incl forex)	8,830	7,260	7,390	1.8	(16.3)	
<b>PBT</b>	<b>51,290</b>	<b>52,630</b>	<b>56,330</b>	<b>7.0</b>	<b>9.8</b>	
- Taxes	14,030	13,810	15,230	10.3	8.6	
Effective tax rate (%)	27.4	26.2	27.0	80bps	(32)bps	Tax rate to remain in the range of ~27-28%
<b>PAT</b>	<b>37,260</b>	<b>38,820</b>	<b>41,100</b>	<b>5.9</b>	<b>10.3</b>	
Net margin (%)	21.2	20.3	19.9	(35)bps	(127)bps	
<b>Reported profits</b>	<b>37,260</b>	<b>36,120</b>	<b>41,100</b>	<b>13.8</b>	<b>10.3</b>	

Source: Company

**Exhibit 2: Change in estimates**

` mn	FY19E			FY20E		
	Old	New	% Chg	Old	New	% Chg
Revenue (US\$ mn)	11,685	11,732	0.4	12,794	12,850	0.4
Revenue	784,529	815,992	4.0	857,205	899,497	4.9
EBITDA margin (%)	26.5	26.3	(20)bps	26.9	26.7	(20)bps
EPS (₹)	36.7	37.7	2.7	39.6	41.0	3.5

Source: Trust Research

**Geography wise Revenues:** Europe was up 4% on cc basis QoQ with North America was up 3.8% in cc terms. RoW increased 6.8% QoQ in cc terms.

**Exhibit 3: Geographical wise Performance**

Geographical mix	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
North America	61.5	62.0	62.3	61.1	60.6	60.4	59.4	60.0	60.3
Europe	22.5	22.2	22.1	22.4	23.2	24.4	24.8	24.3	24.0
India	3.4	3.4	3.2	3.6	3.3	3.0	2.8	2.6	2.5
RoW	12.6	12.4	12.4	12.9	12.9	12.2	13.0	13.1	13.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company



**Vertical wise Performance:** BFSI was up 5.8% in cc terms QoQ, while Retail increased 5.9%. Energy, utilities, Resources & services was up 2.8%, while Manufacturing, Communication & Hitech were up 4.8%, 1.2% and 3.6% respectively in cc terms QoQ.

#### Exhibit 4: Vertical Segmentation

Vertical Mix	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
BFSI	33.1	33.3	33.5	33.0	33.1	33.1	32.6	31.8	32.2
Retail	14.9	14.6	14.1	16.2	16.0	14.1	15.9	16.6	16.8
Communication	9.4	9.1	9.9	12.6	12.4	10.5	12.9	12.7	12.3
Energy, utilities, Resources	4.8	5.0	5.0	11.3	11.7	5.8	12.0	12.4	12.3
Manufacturing	22.5	22.5	22.4	9.3	9.4	21.8	9.6	9.6	9.6
Hitech				7.3	7.2		7.4	7.4	7.5
Healthcare & Lifesciences	6.7	6.9	6.6	6.6	6.8	6.5	6.7	6.6	6.4
Others	6.7	6.6	6.5	3.7	3.4	6.1	2.9	2.9	2.9
<b>Total revenue</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, Trust Research

**Human Resources:** Utilisation rate (ex-trainees) declined by 10 BPS q-o-q to 85.6%. Infosys has been consistently maintaining the utilisation rate at more than 80% for the past 14 quarters. Going forward, Infosys would use utilization as a margin lever. The company's headcount increased by 7,834 (net basis) to take the strength to 217,739.

#### Exhibit 5: Employee strength

Employees	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Total employees	199,829	199,763	200,364	198,553	198,440	201,691	204,107	209,905	217,739
Software professionals	187,595	187,919	188,665	186,882	186,806	189,998	192,179	197,637	205,150
----> Billable	176,334	178,548	178,474	178,494	180,397	180,842	182,619	NA	NA
----> Banking product group	4,958	4,941	4,753	4,770	4,498	4,367	4,308	NA	NA
----> Trainees	6,303	4,430	5,438	3,618	1,911	4,789	5,252	NA	NA
Sales & support	12,234	11,844	11,699	11,671	11,634	11,693	11,928	12,268	12,589
Gross addition	12,717	9,120	9,130	8,645	10,514	12,622	12,329	17,709	19,721
Net addition	2,779	(66)	601	(1,811)	(113)	3,251	2,416	5,798	7,834
Lateral employees	5,752	4,000	3,967	NA	NA	NA	NA	NA	NA

Source: Company

**Client Concentration:** The Company added 73 new clients in Q2 taking the total list to 1,222 clients (8 on a net-basis). INFO lost 1 and added 2 clients in the US\$100mn+ and US\$50mn+ taking the list to 23 and 58 respectively.

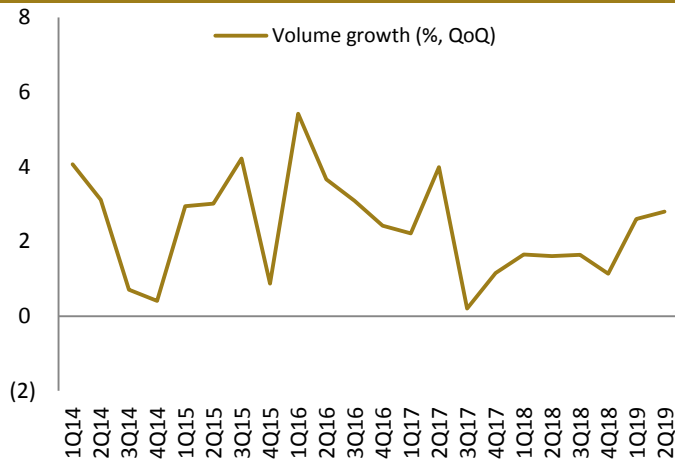
#### Exhibit 6: Client details

Client metrics	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
<b>Active clients</b>	<b>1,136</b>	<b>1,152</b>	<b>1,162</b>	<b>1,164</b>	<b>1,173</b>	<b>1,191</b>	<b>1,204</b>	<b>1,214</b>	<b>1,222</b>
<b>Clients added</b>	<b>78</b>	<b>77</b>	<b>71</b>	<b>59</b>	<b>72</b>	<b>79</b>	<b>73</b>	<b>70</b>	<b>73</b>
1 million dollar +	577	591	598	606	620	630	634	627	633
5 million dollar +	277	275	282	279	286	290	295	NA	NA
10 million dollar +	186	195	189	190	186	198	198	200	205
25 million dollar +	89	90	91	97	100	101	105	NA	NA
50 million dollar +	54	54	56	56	55	56	57	56	58
75 million dollar +	30	32	31	31	31	34	35	NA	NA
100 million dollar +	18	18	19	18	18	20	20	24	23
<b>Top client (%)</b>	<b>3.5</b>	<b>3.1</b>	<b>3.3</b>	<b>3.3</b>	<b>3.4</b>	<b>3.4</b>	<b>3.6</b>	<b>3.7</b>	<b>3.9</b>
<b>Top-10 clients (%)</b>	<b>21.8</b>	<b>20.1</b>	<b>20.2</b>	<b>20.0</b>	<b>19.5</b>	<b>19.2</b>	<b>19.2</b>	<b>19.2</b>	<b>19.4</b>
Repeat business (%)	97.5	96.7	96.2	99.4	98.7	98.3	97.6	99.5	98.2

Source: Company

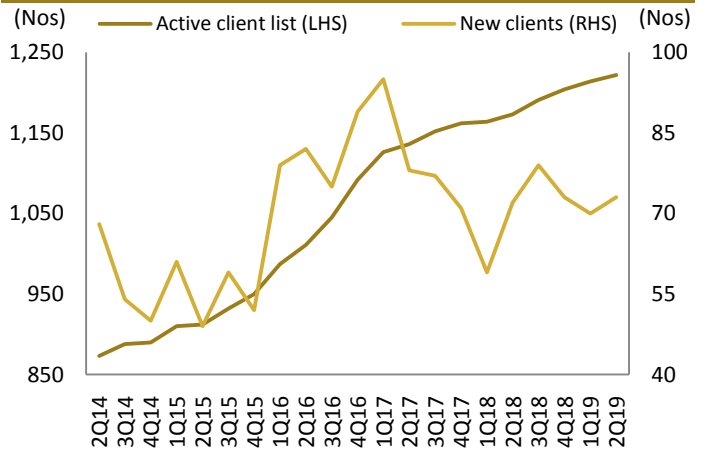


**Exhibit 7: Volume growth was as per expectation**



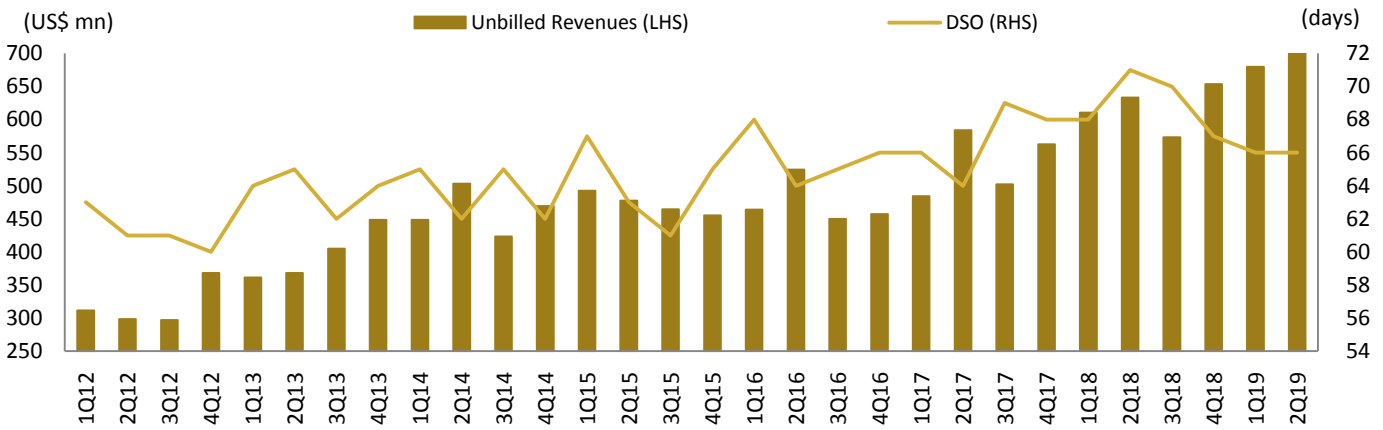
Source: Company, Trust

**Exhibit 8: New client additions was robust**



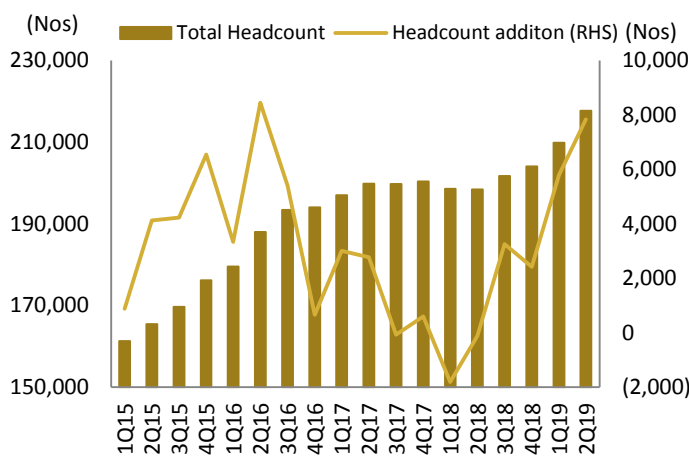
Source: Company, Trust

**Exhibit 9: Unbilled revenue increased, DSO days were flat QoQ at 66**



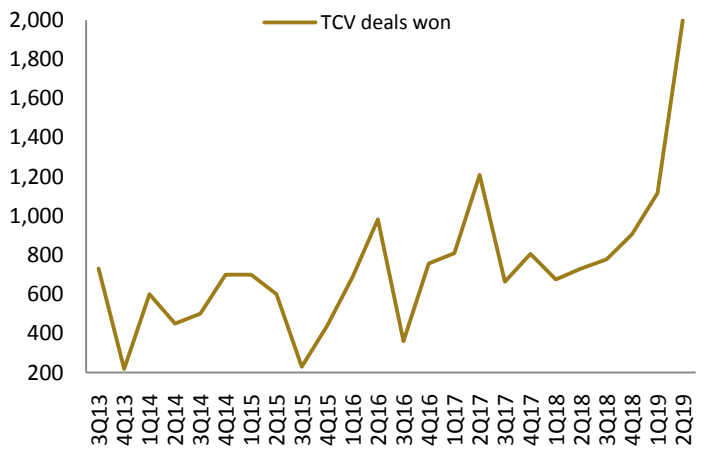
Source: Company, Trust

**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
<b>Revenues</b>	<b>624,410</b>	<b>684,850</b>	<b>705,220</b>	<b>815,992</b>	<b>899,497</b>
Op. Expenses	453,620	498,800	515,120	601,252	659,346
<b>EBITDA</b>	<b>170,790</b>	<b>186,050</b>	<b>190,100</b>	<b>214,740</b>	<b>240,150</b>
Other Income	31,250	30,790	31,930	29,580	33,216
Depreciation	14,590	17,030	18,620	18,497	21,014
<b>EBIT</b>	<b>187,450</b>	<b>199,810</b>	<b>203,410</b>	<b>225,823</b>	<b>252,352</b>
Interest	-	-	-	-	-
<b>PBT</b>	<b>187,450</b>	<b>199,810</b>	<b>203,410</b>	<b>225,823</b>	<b>252,352</b>
Tax	52,510	55,980	42,420	61,177	73,182
<b>PAT</b>	<b>134,940</b>	<b>143,830</b>	<b>160,990</b>	<b>164,646</b>	<b>179,170</b>
Ex. ordinary	20	300	710	2,700	-
<b>Adj Pat</b>	<b>134,920</b>	<b>143,530</b>	<b>160,280</b>	<b>161,946</b>	<b>179,170</b>

### Key Parameters

Year End-March	FY16	FY17	FY18	FY19E	FY20E
<b>Per share (₹)</b>					
EPS	29.4	31.3	36.9	37.7	41.0
CEPS	32.6	35.0	41.1	41.9	45.8
BVPS	134.5	150.2	148.7	155.1	172.1
DPS	12.2	12.9	21.8	18.5	20.5
Payout (%)	48.1	48.0	69.8	57.3	58.5
<b>Valuation (x)</b>					
P/E	20.5	16.4	15.3	18.5	17.0
P/BV	4.5	3.4	3.8	4.5	4.0
EV/EBITDA	14.3	11.4	11.9	13.3	11.7
Dividend Yield (%)	2.0	2.5	3.9	2.7	2.9
<b>Return ratio (%)</b>					
EBIDTA Margin	27.4	27.2	27.0	26.3	26.7
PAT Margin	21.6	21.0	22.8	19.8	19.9
ROAE	24.0	22.0	24.0	24.8	25.1
ROACE	33.3	30.6	30.4	34.0	35.3
<b>Leverage Ratios (x)</b>					
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	3.0	3.1
<b>Growth Ratios (%)</b>					
Income growth	17.1	9.7	3.0	15.7	10.2
EBITDA growth	14.6	8.9	2.2	13.0	11.8
PAT growth	9.4	6.4	12.2	2.3	8.8
<b>Turnover Ratios</b>					
F.A Turnover x	4.4	4.5	4.9	5.4	5.8
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	21,760	21,760
Reserves & Surplus	606,350	678,380	638,360	655,685	730,090
<b>Total Shareholders Fund</b>	<b>617,790</b>	<b>689,820</b>	<b>649,240</b>	<b>677,445</b>	<b>751,850</b>
<b>Non- current liabilities</b>	<b>(1,650)</b>	<b>(1,800)</b>	<b>(4,210)</b>	<b>(4,990)</b>	<b>(4,990)</b>
Deferred tax liabilities	(5,360)	(5,400)	(12,820)	(13,600)	(13,600)
Other LT liabilities & prov	3,710	3,600	8,610	8,610	8,610
<b>Current Liabilities</b>	<b>132,390</b>	<b>140,130</b>	<b>141,050</b>	<b>172,707</b>	<b>189,821</b>
Trade payables	3,860	3,670	6,940	7,981	9,178
Other cur liabilities & Prov	128,530	136,460	134,110	164,726	180,643
<b>Total Liabilities</b>	<b>748,530</b>	<b>828,150</b>	<b>786,080</b>	<b>845,162</b>	<b>936,681</b>
<b>Assets</b>					
<b>Non- current Assets</b>	<b>231,580</b>	<b>291,100</b>	<b>285,910</b>	<b>313,411</b>	<b>334,098</b>
Fixed assets	142,940	153,680	143,540	150,213	154,199
Long-term loans & adv	52,300	57,160	60,700	69,303	76,396
Other non-current assets	9,850	7,760	81,670	93,895	103,504
<b>Current assets</b>	<b>516,950</b>	<b>537,050</b>	<b>500,170</b>	<b>525,031</b>	<b>595,863</b>
Current investments	750	99,700	64,070	64,070	64,070
Trade receivables	113,300	123,220	131,420	147,549	162,649
Cash & bank balances	326,970	226,250	198,180	205,509	238,468
Short-term loans & adv	75,930	87,880	106,500	107,903	130,676
<b>Total Assets</b>	<b>748,530</b>	<b>828,150</b>	<b>786,080</b>	<b>845,162</b>	<b>936,681</b>

### Cash flow Statement

Year End-March	FY16	FY17	FY18	FY19E	FY20E
PBT	187,440	199,810	203,410	225,823	252,352
Depreciation	10,060	16,540	11,200	18,497	21,014
Others	(20)	(300)	(710)	2,700	-
<b>CF before W.cap</b>	<b>197,480</b>	<b>216,050</b>	<b>213,900</b>	<b>247,020</b>	<b>273,367</b>
Inc/dec in W.cap	22,540	19,440	31,130	6,703	37,461
<b>Op CF after W.cap</b>	<b>174,940</b>	<b>196,610</b>	<b>182,770</b>	<b>240,317</b>	<b>235,906</b>
Less Taxes	52,510	55,980	42,420	61,177	73,182
<b>Net CF From Operations</b>	<b>122,430</b>	<b>140,630</b>	<b>140,350</b>	<b>179,140</b>	<b>162,724</b>
Inc/(dec) in F.A + CWIP	27,230	27,600	8,480	25,170	25,000
(Pur)/ sale of Investments	3,930	143,140	(40,920)	12,900	-
<b>CF from Invst Activities</b>	<b>(31,160)</b>	<b>(170,740)</b>	<b>32,440</b>	<b>(38,070)</b>	<b>(25,000)</b>
Equity Raised	160	(1,220)	(88,459)	(39,325)	0
Dividend	68,130	69,390	112,401	94,415	104,765
<b>CF from Fin Activities</b>	<b>(67,970)</b>	<b>(70,610)</b>	<b>(200,860)</b>	<b>(133,741)</b>	<b>(104,765)</b>
<b>Net inc/(dec) in cash</b>	<b>23,300</b>	<b>(100,720)</b>	<b>(28,070)</b>	<b>7,329</b>	<b>32,959</b>
<b>Op. bal of cash</b>	<b>303,670</b>	<b>326,970</b>	<b>226,250</b>	<b>198,180</b>	<b>205,509</b>
<b>Cl. balance of cash</b>	<b>326,970</b>	<b>226,250</b>	<b>198,180</b>	<b>205,509</b>	<b>238,468</b>



## Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
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<b>Sales</b>				
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Mayur Joshi	Sales		mayur.joshi@trustgroup.in	+91-22-4084-5028
<b>Research Team</b>				
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