

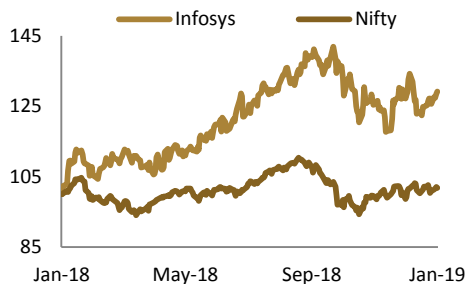
### Market statistics

Current stock price (₹)	684
Shares O/S (cr.)	436.9
Mcap (₹ cr)	298,684
52W H/L (₹)	755/527
6m avg. volume	9,258,479
Bloomberg	INFO.IN

### Shareholding pattern

Promoters	12.82
Domestic Institution	22.56
Foreign Institution	51.54
Non-institution of which more than 1%	13.08

### Infosys vs Nifty



### Capital efficiency & valuations

Particulars	FY19E	FY20E	FY21E
RoE (%)	25.6	27.7	28.6
EPS (₹)	37.1	40.4	44.9
CEPS (₹)	41.7	45.4	50.5
P/E (x)	18.4	16.9	15.2
P/BV (x)	4.9	4.5	4.2
EV/EBITDA (x)	13.7	12.4	10.9
Income growth (%)	17.2	10.0	11.2
EBITDA growth (%)	11.7	10.3	12.5
PAT growth (%)	0.7	8.8	11.3

#### ANALYST

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Infosys delivered a strong quarter in terms of revenue growth, but weaker than-expected margin. Silver Lining in 3Q - Large deal TCV continued to gradually increase over the last five quarters, and reached US\$1.57bn+ (against US\$779mn in Q3FY18, US\$2bn in Q2FY19). 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.

**3QFY19 quarter:** Infosys reported robust revenue growth but weaker-than-expected margin, with constant currency revenue growth of 2.7% QoQ and 2.3% QoQ on reported basis to US\$2,987mn though it includes 30bps incremental revenue from Fluidio's acquisition. Revenue growth was led by overall volume growth of 2.6% while blended pricing was down 0.11% QoQ. Beat in cc revenue growth was primarily led by strong growth in financial services (3.6% QoQ in cc), energy and utilities (7.4% QoQ) and manufacturing (7.6% QoQ). Europe (3.8% QoQ) and North America (2.6% QoQ). Digital revenue grew by 5% QoQ in cc terms (31% YoY in US\$ basis), while core services revenue growth accelerated to 1.8% in Q3FY19 (vs 0.5% in Q2FY19). Blended realisation declined 0.1% QoQ during Q3, while volumes grew by 2.6% QoQ despite furloughs.

**Margins below estimates owing to accelerated investments:** EBIT margin declined by 118bps QoQ to 22.6% despite rupee tailwind (+50bps) and operational efficiencies (+40 bps), owing to lower utilisation (-80bps), catch-up in compensation (-30bps), increased sales investments (-30bps), acquisition impact (-20bps) and de-classification of Skava and Panaya (incurred additional depreciation expenses of US\$12mn during Q3, an impact of 40bps). Management expects Q4FY19 margin to be impacted by rupee appreciation, continued sales investments, targeted compensation correction and transition of large deals. Given the one-time expenses (declassification of Skava and Panaya hit of Rs.4.5bn), reported net income declined by 12% QoQ to Rs.36.1bn.

**Increases revenue guidance, strong TCV wins:** With strong performance in 9MFY19 (8.1% YoY in cc terms), acceleration in deal wins and strong demand environment in select verticals, Infosys has increased cc revenue growth guidance to 8.5-9.0% (higher than our expectations) from 6-8%. The upward revision of guidance indicates the signs of progress of its strategies. Infosys outlined investments of 100bps at the start of FY19 into sales, digital competencies, localisation and employee reskilling; and now management does not see any incremental investments in these areas in the medium term. Management has retained its margin guidance band at 22-24%, despite EBIT margin of 23.3% in 9MFY19. Margin is expected to remain muted in Q4FY19. Infosys won 14 large deals during the quarter, with TCVs of US\$1.57bn (taking total deal TCVs of US\$4.7bn in 9MFY19), of which 30% are net new TCVs.

**Approved buyback worth INR82.6bn:** Infosys announced buyback of INR82.6 bn through open market route at a price of Rs.800/share (a 17% premium to CMP). Effectively, the company will buyback ~103mn shares, represents ~2.4% of outstanding shares. INFY announced a special dividend of Rs4/share, which would result in payout of Rs.21bn. Management had announced its intention of US\$2bn additional payout in FY19, of which US\$400mn has been paid as special dividend.

**Valuation and Outlook:** INFY trades at 18.4/16.9x FY19/20E. We expect USD revenue/EPS growth at 9/4.7% CAGR over FY18-20E, and maintain a BUY. We have reduced our FY19E/20E earnings by ~1.5% respectively mainly on account of pressure on margins. 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	3QFY18	2QFY19	3QFY19	QoQ (%)	YoY (%)	Comments
<b>Revenues (in US\$mn)</b>	<b>2,755</b>	<b>2,921</b>	<b>2,987</b>	<b>2.3</b>	<b>8.4</b>	Revenue was up 2.7% in cc terms (includes 2.6% volume growth QoQ)
<b>Revenues</b>	<b>177,940</b>	<b>206,090</b>	<b>214,000</b>	<b>3.8</b>	<b>20.3</b>	Blended pricing was down 0.1% QoQ
- Operating costs	129,770	152,520	159,900	4.8	23.2	
<b>EBITDA</b>	<b>48,170</b>	<b>53,570</b>	<b>54,100</b>	<b>1.0</b>	<b>12.3</b>	EBIT margins were impacted by wage hike, lower utilization, S&M costs, acq. cost offset by INR tailwind and operational efficiencies
<b>EBITDA margin (%)</b>	<b>27.1</b>	<b>26.0</b>	<b>25.3</b>	<b>(71)bps</b>	<b>(179)bps</b>	
- Interest expense	-	-	-			
- Depreciation	4,980	4,630	5,800	25.3	16.5	
+ Other income, net (incl forex)	9,620	7,390	7,530	1.9	(21.7)	
<b>PBT</b>	<b>52,810</b>	<b>56,330</b>	<b>55,830</b>	<b>(0.9)</b>	<b>5.7</b>	
- Taxes	1,520	15,230	15,220	(0.1)	901.3	
Effective tax rate (%)	2.9	27.0	27.3	22bps	2,438bps	Tax rate to remain in the range of ~27-28%
<b>PAT</b>	<b>51,290</b>	<b>41,100</b>	<b>40,610</b>	<b>(1.2)</b>	<b>(20.8)</b>	
Net margin (%)	28.8	19.9	19.0	(97)bps	(985)bps	
<b>Reported profits</b>	<b>51,290</b>	<b>41,100</b>	<b>36,100</b>	<b>(12.2)</b>	<b>(29.6)</b>	

Source: Company

**Exhibit 2: Change in estimates**

` mn	FY19E			FY20E		
	Old	New	% Chg	Old	New	% Chg
Revenue (US\$ mn)	11,732	11,809	0.7	12,850	12,985	1.1
Revenue	815,992	826,297	1.3	899,497	908,935	1.0
EBITDA margin (%)	26.3	25.7	(55)bps	26.7	25.8	(85)bps
EPS (₹)	37.7	37.1	(1.6)	41.0	40.4	(1.5)

Source: Trust Research

**Geography wise Revenues:** Europe was up 3.8% on cc basis QoQ with North America was up 2.6% in cc terms. RoW increased 0.8% QoQ in cc terms.

**Exhibit 3: Geographical wise Performance**

Geographical mix	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
North America	62.0	62.3	61.1	60.6	60.4	59.4	60.0	60.3	60.4
Europe	22.2	22.1	22.4	23.2	24.4	24.8	24.3	24.0	24.2
India	3.4	3.2	3.6	3.3	3.0	2.8	2.6	2.5	2.6
RoW	12.4	12.4	12.9	12.9	12.2	13.0	13.1	13.2	12.8
<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 3.6% in cc terms QoQ, while Retail decreased 0.1%. Energy, utilities, Resources & services was up 7.4%, while Manufacturing & Hitech were up 7.6% and 0.6% respectively in cc terms QoQ.

#### Exhibit 4: Vertical Segmentation

Vertical Mix	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
BFSI	33.3	33.5	33.0	33.1	32.2	32.6	31.8	32.2	32.5
Retail	14.6	14.1	16.2	16.0	16.8	15.9	16.6	16.8	16.4
Communication	9.1	9.9	12.6	12.4	12.3	12.9	12.7	12.3	11.9
Energy, utilities, Resources	5.0	5.0	11.3	11.7	12.3	12.0	12.4	12.3	12.8
Manufacturing	22.5	22.4	9.3	9.4	9.6	9.6	9.6	9.6	10.1
Hitech			7.3	7.2	7.5	7.4	7.4	7.5	7.3
Healthcare & Lifesciences	6.9	6.6	6.6	6.8	6.4	6.7	6.6	6.4	6.2
Others	6.6	6.5	3.7	3.4	2.9	2.9	2.9	2.9	2.8
<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 180bps QoQ to 83.8%. 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 7,762 (net basis) to take the strength to 225,501.

#### Exhibit 5: Employee strength

Employees	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Total employees	199,763	200,364	198,553	198,440	201,691	204,107	209,905	217,739	225,501
Software professionals	187,919	188,665	186,882	186,806	189,998	192,179	197,637	205,150	212,358
----> Billable	178,548	178,474	178,494	180,397	180,842	182,619	NA	NA	NA
----> Banking product group	4,941	4,753	4,770	4,498	4,367	4,308	NA	NA	NA
----> Trainees	4,430	5,438	3,618	1,911	4,789	5,252	NA	NA	NA
Sales & support	11,844	11,699	11,671	11,634	11,693	11,928	12,268	12,589	13,143
Gross addition	9,120	9,130	8,645	10,514	12,622	12,329	17,709	19,721	18,773
Net addition	(66)	601	(1,811)	(113)	3,251	2,416	5,798	7,834	7,762
Lateral employees	4,000	3,967	NA	NA	NA	NA	NA	NA	NA

Source: Company

**Client Concentration:** The Company added 101 new clients in Q3 taking the total list to 1,251 clients (29 on a net-basis). INFY added 1 and 9 clients in the US\$50mn+ and US\$10mn+ taking the list to 59 and 214 respectively.

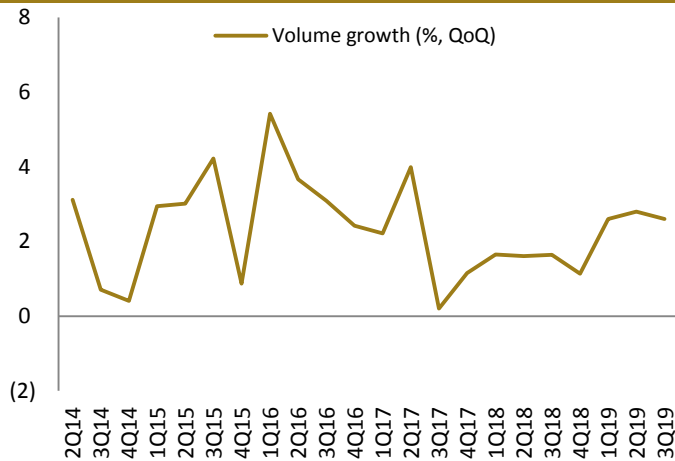
#### Exhibit 6: Client details

Client metrics	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
<b>Active clients</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>1,251</b>
<b>Clients added</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>	<b>101</b>
1 million dollar +	591	598	606	620	630	634	627	633	651
5 million dollar +	275	282	279	286	290	295	NA	NA	NA
10 million dollar +	195	189	190	186	198	198	200	205	214
25 million dollar +	90	91	97	100	101	105	NA	NA	NA
50 million dollar +	54	56	56	55	56	57	56	58	59
75 million dollar +	32	31	31	31	34	35	NA	NA	NA
100 million dollar +	18	19	18	18	20	20	24	23	23
<b>Top client (%)</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>3.4</b>
<b>Top-10 clients (%)</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>	<b>19.2</b>
Repeat business (%)	96.7	96.2	99.4	98.7	98.3	97.6	99.5	98.2	96.6

Source: Company

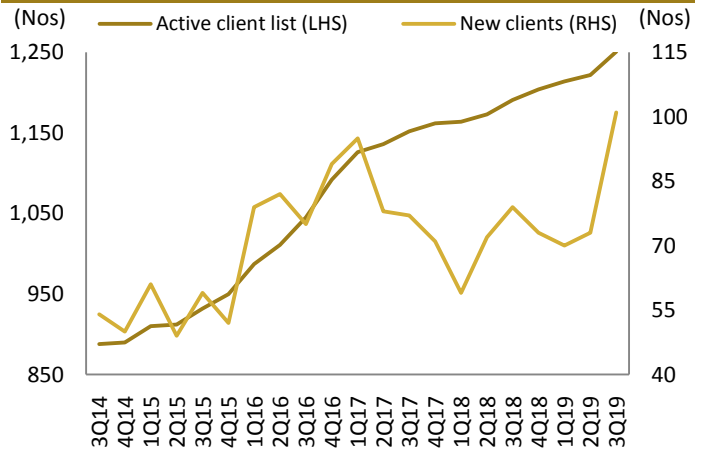


**Exhibit 7: Volume growth was as per expectation**



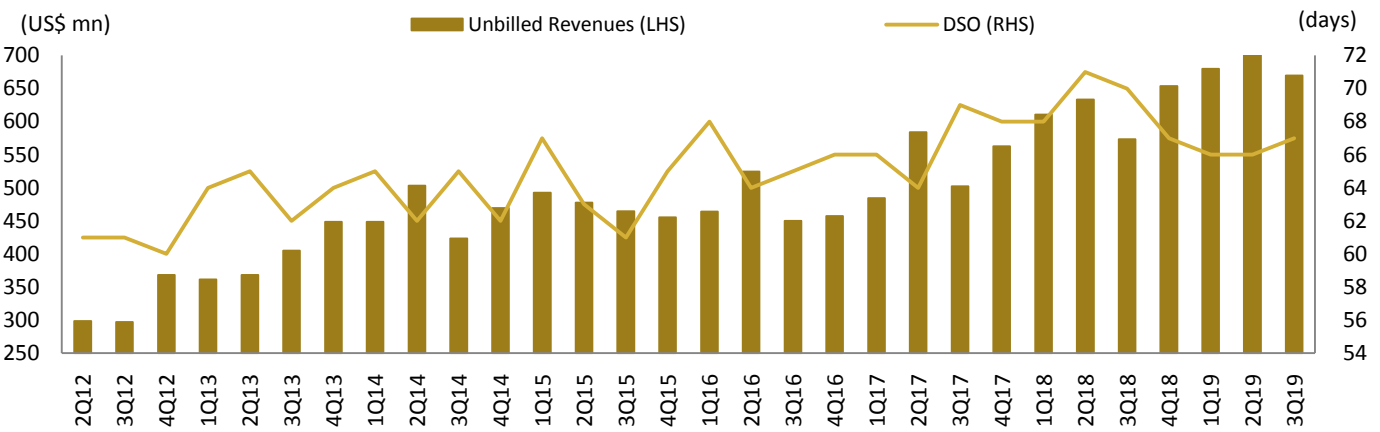
Source: Company, Trust

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



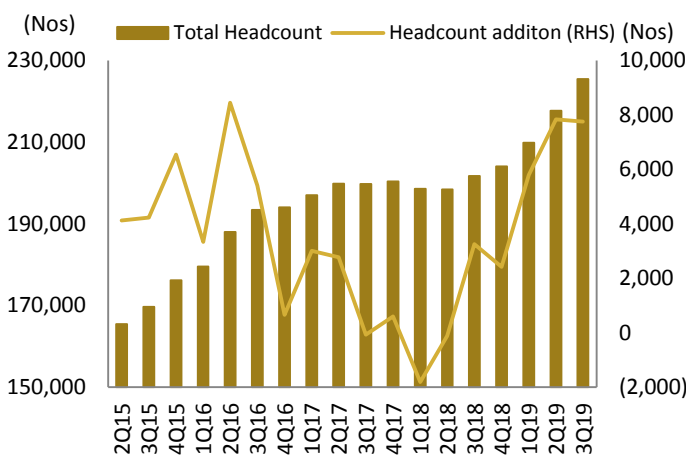
Source: Company, Trust

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



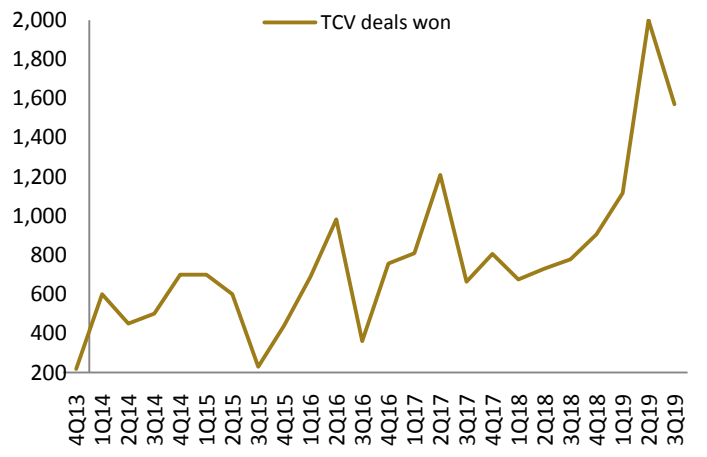
Source: Company, Trust

**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	FY17	FY18	FY19E	FY20E	FY21E
<b>Revenues</b>	<b>684,850</b>	<b>705,220</b>	<b>826,297</b>	<b>908,935</b>	<b>1,011,018</b>
Op. Expenses	498,800	515,120	613,877	674,557	747,245
<b>EBITDA</b>	<b>186,050</b>	<b>190,100</b>	<b>212,420</b>	<b>234,377</b>	<b>263,772</b>
Other Income	30,790	31,930	29,760	30,820	33,216
Depreciation	17,030	18,620	20,056	21,996	24,496
<b>EBIT</b>	<b>199,810</b>	<b>203,410</b>	<b>222,124</b>	<b>243,201</b>	<b>272,492</b>
Interest	-	-	-	-	-
<b>PBT</b>	<b>199,810</b>	<b>203,410</b>	<b>222,124</b>	<b>243,201</b>	<b>272,492</b>
Tax	55,980	42,420	60,027	66,880	76,298
<b>PAT</b>	<b>143,830</b>	<b>160,990</b>	<b>162,097</b>	<b>176,321</b>	<b>196,194</b>
Ex. ordinary	300	710	7,210	-	-
<b>Adj Pat</b>	<b>143,530</b>	<b>160,280</b>	<b>154,887</b>	<b>176,321</b>	<b>196,194</b>

### Key Parameters

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
<b>Per share (₹)</b>					
EPS	31.3	36.9	37.1	40.4	44.9
CEPS	35.0	41.1	41.7	45.4	50.5
BVPS	150.2	148.7	140.9	150.8	163.0
DPS	12.9	21.8	26.0	26.0	28.0
Payout (%)	48.0	69.8	81.8	75.4	72.9
<b>Valuation (x)</b>					
P/E	16.4	15.3	18.4	16.9	15.2
P/BV	3.4	3.8	4.9	4.5	4.2
EV/EBITDA	11.4	11.9	13.7	12.4	10.9
Dividend Yield (%)	2.5	3.9	3.8	3.8	4.1
<b>Return ratio (%)</b>					
EBIDTA Margin	27.2	27.0	25.7	25.8	26.1
PAT Margin	21.0	22.8	18.7	19.4	19.4
ROAE	22.0	24.0	25.6	27.7	28.6
ROACE	30.6	30.4	35.1	38.2	39.8
<b>Leverage Ratios (x)</b>					
Long Term D/E	-	-	-	-	-
Net Debt/Equity	(0.5)	(0.4)	(0.3)	(0.3)	(0.3)
Debt/EBITDA	-	-	-	-	-
Interest Coverage	-	-	-	-	-
Current ratio	3.8	3.5	3.2	2.8	2.5
<b>Growth Ratios (%)</b>					
Income growth	9.7	3.0	17.2	10.0	11.2
EBITDA growth	8.9	2.2	11.7	10.3	12.5
PAT growth	6.4	12.2	0.7	8.8	11.3
<b>Turnover Ratios</b>					
F.A Turnover x	4.5	4.9	5.1	5.5	6.1
Debtors Days	63	65	66	67	68
Payable days	0	0	0	0	0

### Balance Sheet (₹ mn)

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
Equity Share Capital	11,440	10,880	21,760	21,760	21,760
Reserves & Surplus	678,380	638,360	593,520	636,966	690,067
<b>Total Shareholders Fund</b>	<b>689,820</b>	<b>649,240</b>	<b>615,280</b>	<b>658,726</b>	<b>711,827</b>
<b>Non- current liabilities</b>	<b>(1,800)</b>	<b>(4,210)</b>	<b>(3,570)</b>	<b>(3,570)</b>	<b>(3,570)</b>
Deferred tax liabilities	(5,400)	(12,820)	(12,180)	(12,180)	(12,180)
Other LT liabilities & prov	3,600	8,610	8,610	8,610	8,610
<b>Current Liabilities</b>	<b>140,130</b>	<b>141,050</b>	<b>176,166</b>	<b>193,988</b>	<b>215,280</b>
Trade payables	3,670	6,940	7,981	9,178	10,555
Other cur liabilities & Prov	<b>136,460</b>	134,110	168,185	184,810	204,725
<b>Total Liabilities</b>	<b>828,150</b>	<b>786,080</b>	<b>787,876</b>	<b>849,144</b>	<b>923,536</b>
<b>Assets</b>					
<b>Non- current Assets</b>	<b>291,100</b>	<b>285,910</b>	<b>328,153</b>	<b>347,684</b>	<b>368,605</b>
Fixed assets	153,680	143,540	162,894	165,898	166,401
Long-term loans & adv	57,160	60,700	70,179	77,197	85,867
Other non-current assets	7,760	81,670	95,081	104,590	116,336
<b>Current assets</b>	<b>537,050</b>	<b>500,170</b>	<b>434,293</b>	<b>476,030</b>	<b>529,501</b>
Current investments	99,700	64,070	64,070	64,070	64,070
Trade receivables	123,220	131,420	149,413	164,355	182,814
Cash & bank balances	226,250	198,180	111,076	113,382	133,815
Short-term loans & adv	87,880	106,500	109,734	134,223	148,802
<b>Total Assets</b>	<b>828,150</b>	<b>786,080</b>	<b>787,876</b>	<b>849,144</b>	<b>923,536</b>

### Cash flow Statement

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
PBT	199,810	203,410	222,124	243,201	272,492
Depreciation	16,540	11,200	20,056	21,996	24,496
Others	(300)	(710)	7,210	-	-
<b>CF before W.cap</b>	<b>216,050</b>	<b>213,900</b>	<b>249,390</b>	<b>265,197</b>	<b>296,988</b>
Inc/dec in W.cap	19,440	31,130	9,000	38,137	32,163
<b>Op CF after W.cap</b>	<b>196,610</b>	<b>182,770</b>	<b>240,391</b>	<b>227,060</b>	<b>264,825</b>
Less Taxes	55,980	42,420	60,027	66,880	76,298
<b>Net CF From Operations</b>	<b>140,630</b>	<b>140,350</b>	<b>180,364</b>	<b>160,180</b>	<b>188,527</b>
Inc/(dec) in F.A + CWIP	27,600	8,480	39,410	25,000	25,000
(Pur)/sale of Investments	143,140	(40,920)	39,210	-	-
<b>CF from Invst Activities</b>	<b>(170,740)</b>	<b>32,440</b>	<b>(78,620)</b>	<b>(25,000)</b>	<b>(25,000)</b>
Equity Raised	(1,220)	(88,459)	(56,175)	0	0
Dividend	69,390	112,401	132,673	132,875	143,094
<b>CF from Fin Activities</b>	<b>(70,610)</b>	<b>(200,860)</b>	<b>(188,847)</b>	<b>(132,875)</b>	<b>(143,094)</b>
<b>Net inc/(dec) in cash</b>	<b>(100,720)</b>	<b>(28,070)</b>	<b>(87,104)</b>	<b>2,305</b>	<b>20,434</b>
<b>Op. bal of cash</b>	<b>326,970</b>	<b>226,250</b>	<b>198,180</b>	<b>111,076</b>	<b>113,382</b>
<b>Cl. balance of cash</b>	<b>226,250</b>	<b>198,180</b>	<b>111,076</b>	<b>113,382</b>	<b>133,815</b>



## Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
Naren Shah	Head Of Equity		naren.shah@trustgroup.in	+91-22-4084-5074
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Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
<b>Sales</b>				
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