



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141442

Q1 FY19 Result Update@ Dalal&Broacha

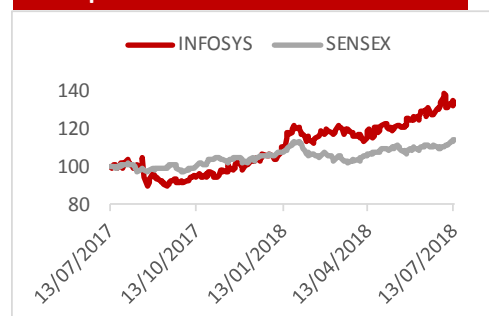
ACCUMULATE

Current Price	1,317
Target Price	1,366
52 Week Range	861/1357

Key Share Data

Market Cap (Rs.bn)	2997
Market Cap (US\$ mn)	4261
No of o/s shares (mn)	2184
Face Value	5
Monthly Avg.	
Vol(BSE+NSE) Nos ('000)	2221
BSE Code	500209
NSE Code	INFY
Bloomberg	INFO:IN

Price performance



% Shareholding	June-18	Mar-18
Promoters	12.9	12.9
Public	86.6	86.6
Others	0.49	0.49
Total	100.00	100.00

Q1 performance fails to shine as BFS reports a soft quarter

- USD revenue was reported at USD 2,831 Mn, up 0.9% qoq 6.8% yoy and down 1.3% vs our estimate of USD 2,868 Mn. Digital Revenues stood at USD 803 Mn, accounting for 28.4% of overall revenues and grew at 8% qoq/25.6% yoy
- Revenue in INR terms was reported at INR 191,280 Mn, 1.9% below our estimate of INR 195,019 Mn and up 5.8% qoq and 12% yoy
- EBIT was reported at INR 45,370 Mn, up 1.5% qoq and 10.4% yoy. Margins benefitted by 100 bps due to all time high utilization of 85% which was off-set by investment in onsite Digital talent development, higher sub-contracting expenses and H1B Visa Applications. Margin benefits due to INR depreciation was off-set by wage impact of 6-8% for 85% of the workforce and cross currency headwinds. Overall margin impact to the tune of 100 bps.
- PAT was reported at INR 36,120 Mn, down by 2.1% qoq and flat yoy. The company bore a one-off expense to the tune of INR 2,700 Mn due to reduction in fair value of Panaya. On an adjusted basis, APAT stood at INR 38,820 Mn, up 5.2% qoq and 7.1% yoy.
- FY 19 revenue guidance in constant currency retained at 6%-8%. FYE19 EBIT margin guidance retained at 22%-24%
- Company declared Bonus issue of 1:1

Digital, BFS, Retail & CPG to drive report strong performance going ahead; TCV promises high visibility

- Digital services grew 6.6% qoq and 34% yoy in Q1FY19 and is expected to deliver strong growth over the next few years
- Although BFS reported soft growth (-1.5% qoq) in Q1, management expects BFS to bounce-back from Q2FY19.
- Retail & CPG (17% of revenue), grew by 5.4% qoq in Q1, followed by Energy & Utilities (12% of revenue), which grew at 4.3% during the quarter.
- Company signed Large deals worth USD 1.1 Bn during the quarter, 47% of which were net new deals and the balance were renewals.

Key Concall Takeaways

- BFS performance was soft in Q1 largely due to in-sourcing, management sees BFS to report strong performance post H2FY19E as 40% of TCV of large deals in the current quarter came from BFS
- Company sees good traction in CPG, Logistics, Manufacturing, Insurance and Energy verticals going ahead
- Subcontracting expenses jumped drastically during the quarter to 6.8% of the revenue. However, expect subcontracting to come down as ability to build onsite pyramid is improving as local hiring increases
- Demand in continental Europe is good as clients look for cost optimisation. Seeing green shoots in North America and demand revival
- 4 clients moved the USD 100 Mn+ category, 2 of which were completely new
- Attrition was high at 20% during the quarter. However, management stated that it is not a matter of concern. See no further exit in the top-level of the management
- Vendor consolidation and flat billing rates (YoY) are major headwinds going ahead
- CPG and logistics showing more traction than retail segment, logistics might face some headwinds due to increase in oil price

Consolidated Financials (In INR Mn)

Year	Net Sales	% Growth	EBIT	EBIT (%)	PAT	PAT (%)	EPS	Growth (%)	ROCE (%)
FY16	624,410	17.1%	156,190	25.0%	134,909	21.6%	59.0	9.4%	21.8%
FY17	684,850	9.7%	169,020	24.7%	143,775	21.0%	62.9	6.6%	20.8%
FY18	705,220	3.0%	171,480	24.3%	160,990	22.8%	74.0	17.7%	22.5%
FY19E	796,572	13.0%	191,122	24.0%	168,209	21.1%	77.3	4.5%	22.7%
FY20E	870,476	9.3%	208,480	24.0%	185,738	21.3%	85.4	10.4%	22.1%

Source: Company, Dalal&Broacha Research



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YE March (Rs. Mn)	Q1 FY19	Q4 FY18	Q-o-Q change %	Q1 FY18	Y-o-Y change %	Q1 FY19 estimates	Deviation %
Net Sales (US\$ Mn)	2,831	2,805	0.9%	2,651	6.8%	2,868	(1.3%)
Net Sales (INR Mn)	191,280	180,830	5.8%	170,780	12.0%	195,019	(1.9%)
Less:							
Employees Remuneration & Benefits	122,880	115,540	6.4%	109,000	12.7%	122,791	0.1%
Administrative & Other Expenses	23,030	20,570	12.0%	20,670	11.4%	24,377	(5.5%)
Total Operating Expenditure	145,910	136,110	7.2%	129,670	12.5%	147,168	(0.9%)
Operating Profit	45,370	44,720	1.5%	41,110	10.4%	47,851	(5.2%)
Less: Depreciation	4,360	4,580	(4.8%)	4,500	(3.1%)	4,485	
Add: Other income	7,260	5,340	36.0%	8,140	(10.8%)	10,726	(32.3%)
Profit Before Tax	49,930	50,060	(0.3%)	49,960	(0.1%)	58,552	(14.7%)
Adjusted Profits	52,630	50,060	5.1%	49,960	5.3%	58,577	
Less: Total Tax	13,810	13,160	4.9%	13,710	0.7%	15,816	
PAT	36,120	36,900	(2.1%)	36,250	(0.4%)	42,736	(15.5%)
Adjusted PAT	38,820	36,900	5.2%	36,250	7.1%	42,761	(9.2%)
Reported Diluted EPS (Rs.)	16.6	17.0	(2.1%)	15.9	4.8%	19.7	
Adjusted Diluted EPS (Rs.)	17.9	17.0	5.2%	16	12.6%	19.7	(9.2%)
No of Shared Diluted (mn)	2,173	2,173		2,286		2,173	
Margin Analysis %			Change in bps		Change in bps		Deviation in bps
Operating margin	23.7%	24.7%	(101)	24.1%	(35)	24.5%	(82)
EBIDTA Margin	26.0%	27.3%	(126)	26.7%	(71)	26.8%	(84)
NPM	18.9%	20.4%	(152)	21.2%	(234)	21.9%	(303)
Adjusted NPM	20.3%	20.4%	(11)	21.2%	(93)	21.9%	(163)
Effective Tax Rate %	27.7%	26.3%	137	27.4%	22	27.0%	65
Cost Analysis %			Change in bps		Change in bps		Deviation in bps
Employee Cost/Net Sales	64.2%	63.9%	35	63.8%	42	63.0%	128
SG&A/Net sales	12.0%	11.4%	66	12.1%	(6)	12.5%	(46)

Source: Company, Dalal & Broacha Research

Other Key Takeaways:

- Free Cash Flow for the quarter stood at USD 552 Mn
- Net headcount addition in Q1FY19 stood at 5,798 versus -1,811 in Q1FY18

Valuation & Outlook:

We believe that there is still some gestation period for Infosys to match expectations as the company, structure and objectives streamline with the vision of the new CEO. While performance of Digital continues to remain strong, we will monitor the continue the monitor the performance of BFS segment and updates on Consulting business. We expect stock to react negatively as company failed to meet analyst and street expectations during the quarter. However, given the high visibility in new Large deals which were BFS centric and management's objective of a 3 year recovery program, we believe that any correction in the stock should serve as a strong buying opportunity. Stock is currently trading at 16.9x and 15.3x FY19E and FY20E EPS. We assign a ACCUMULATE rating on the stock with a target price of INR 1,366.



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Profit & Loss Statement

YEMarch (INR Mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	624,410	684,850	705,220	796,572	870,476
<i>Growth%</i>	<i>17.1%</i>	<i>9.7%</i>	<i>3.0%</i>	<i>13.0%</i>	<i>9.3%</i>
Total Revenue	624,410	684,850	705,220	796,572	870,476
Less:					
Employees Cost	390,990	432,530	451,310	510,279	559,722
SG&A	77,230	83,300	82,430	95,171	102,274
Operating Expenditure	468,220	515,830	533,740	605,450	661,996
EBITDA	170,780	186,050	190,100	209,163	228,501
<i>EBITDA Growth%</i>	<i>14.6%</i>	<i>8.9%</i>	<i>2.2%</i>	<i>10.0%</i>	<i>9.2%</i>
Less: Depreciation	14,590	17,030	18,620	18,041	20,021
Operating Profit	156,190	169,020	171,480	191,122	208,480
<i>Growth%</i>	<i>12.9%</i>	<i>8.2%</i>	<i>1.5%</i>	<i>11.5%</i>	<i>9.1%</i>
Non-operating Income	31,239	30,735	31,930	34,443	39,171
Profit Before tax	187,429	199,755	203,410	225,565	247,651
Tax	52,520	55,980	42,420	57,356	61,913
Net Profit	134,909	143,775	160,990	168,209	185,738
Adjusted Profit	134,909	143,775	160,990	168,209	185,738
Diluted EPSRs	59.0	62.9	74.0	77.3	85.4
<i>Growth %</i>	<i>9.4%</i>	<i>6.6%</i>	<i>17.7%</i>	<i>4.5%</i>	<i>10.4%</i>
Adjusted EPS	59.0	62.9	74.0	77.3	85.4
<i>Growth%</i>	<i>9.4%</i>	<i>6.6%</i>	<i>17.7%</i>	<i>4.5%</i>	<i>10.4%</i>

Key Ratios

YE March (Rs.mn)	FY16	FY17	FY18	FY19E	FY20E
EBITDA Margin(%)	25.0%	24.7%	24.3%	24.0%	24.0%
Tax/PBT(%)	28.0%	28.0%	20.9%	25.4%	25.0%
Net Profit Margin(%)	21.6%	21.0%	22.8%	21.1%	21.3%
RoE(%)	21.9%	20.9%	22.7%	22.9%	22.4%
RoCE(%)	21.8%	20.8%	22.5%	22.7%	22.1%
Current Ratio(x)	3.9x	3.8x	3.5x	4.4x	4.6x
Dividend Payout(%)	47.9%	47.7%	47.7%	47.7%	47.7%
Book Value Per Share(Rs.)	270.1	301.8	298.5	339.0	383.7
Growth Indicators%					
Growth in Gross Block(%)	14.0%	13.9%	10.1%	9.9%	9.0%
Sales Growth(%)	17.1%	9.7%	3.0%	13.0%	9.3%
EBITDA Growth(%)	12.9%	8.2%	1.5%	11.5%	9.1%
Net Profit Growth(%)	9.4%	6.6%	12.0%	4.5%	10.4%
Diluted EPS Growth(%)	9.4%	6.6%	17.7%	4.5%	10.4%
Turnover Ratios					
Debtors (Days of net sales)	66	66	68	65	64

Balance Sheet

YE March (INR Mn)	FY16	FY17	FY18	FY19E	FY20E
Liabilities					
Equity Capital	11,440	11,440	10,880	10,880	10,880
Reserves & Surplus	606,000	678,380	638,350	726,364	823,549
Equity	617,440	689,820	649,230	737,244	834,429
Net Worth	617,440	689,820	649,230	737,244	834,429
Net Deferred tax liability/(Asset)	2,520	2,070	5,410	5,410	5,410
Total Loans	1,150	1,530	3,200	3,200	3,200
Capital Employed	621,110	693,420	657,840	745,854	843,039
Assets					
Gross Block	160,900	183,320	201,790	221,790	241,790
Less: Depreciation	74,530	85,810	100,630	118,671	138,692
Net Block	86,370	97,510	101,160	103,119	103,098
Capital WIP	57,090	57,930	40,640	36,529	37,637
Investments	21,280	67,910	60,760	60,760	60,760
Others-Assets	71,230	73,150	96,170	28,678	30,956
Current Assets					
Sundry Debtors	113,300	123,220	131,420	141,855	152,631
Cash and Bank Balance	326,970	226,250	198,180	375,664	468,768
Loans and Advances	54,930	62,520	69,230	73,285	78,343
Total Current Assets	517,530	537,050	500,170	670,461	778,085
Less: Current Liabilities					
Sundry Creditors	3,860	3,670	6,940	4,976	5,441
Provisions	39,220	42,900	25,350	34,414	37,148
Other Current Liabilities	89,310	93,560	108,770	114,303	124,908
Total Current Liabilities	132,390	140,130	141,060	153,693	167,497
Capital Applied	621,110	693,420	657,840	745,854	843,039

Free Cash Flow Statement

YEMarch (INR Mn)	FY16	FY17	FY18	FY19E	FY20E
EBITDA	170,780	186,050	190,100	209,163	228,501
FC Investment	19,820	22,420	18,470	20,000	20,000
WC Changes	(3,230)	(112,500)	9,740	19,826	(716)
Depreciation Tax Shield	4,088	4,773	3,883	4,587	5,005
Tax (EBITDA * Tax Rate)	47,855	52,139	39,644	53,185	57,125
FCFF	103,964	3,763	145,609	160,391	155,664



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