



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141442

Q2 FY19 Result Update@ Dalal&Broacha

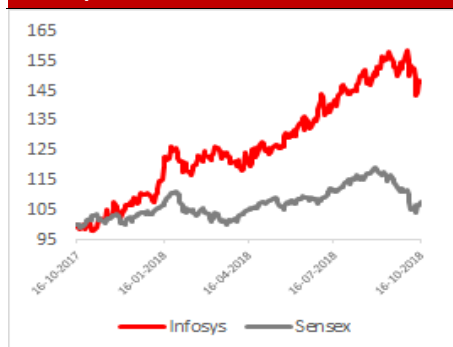
ACCUMULATE

Current Price	695
Target Price	800
52 Week Range	861/1357

Key Share Data

Market Cap (Rs.bn)	3093
Market Cap (US\$ mn)	42093
No of o/s shares (mn)	4363.84
Face Value	5
Monthly Avg. Vol(BSE+NSE) Nos ('000)	9184.7
BSE Code	500209
NSE Code	INFY
Bloomberg	INFO:IN

Price performance



% Shareholding	Sept-18	June-18
Promoters	12.82	12.82
Public	86.70	86.70
Others	0.48	0.48
Total	100.00	100.00

Q2 performance in line with estimates, Digital outperforms

- USD revenue was reported at USD 2,921 Mn, up 3.2% qoq 7.1% yoy and 0.5% above our estimate of USD 2,905 Mn. Digital Revenues stood at 31% of overall revenues and grew at a healthy 33.5% yoy
- Revenue in INR terms was reported at INR 206,090 Mn, 1.2% above our estimate of INR 203,632 Mn and up 7.7% qoq and 17.3% yoy
- EBIT was reported at INR 48,940 Mn, up 7.9% qoq and 15.3% yoy. EBIT Margins stood at 23.7% vs our estimate of 24.9% and unchanged from Q1FY19.
- PAT was reported at INR 41,100 Mn, up 13.8% qoq (up 5.8% qoq on an adjusted basis) and up 10.3% yoy.
- FY 19 revenue guidance in constant currency retained at 6%-8%. FYE19 EBIT margin guidance retained at 22%-24%

Growth in BFSI revives, Retail provides the kicker

- BFSI (32% of revenues) reported a healthy growth at 4.5% qoq and revived after 3 quarters of flat to negative performance. Retail (17% of business) grew 4.4% qoq whereas Manufacturing (10% of revenues) grew by 3.2% during the quarter.
- North America grew at a healthy 3.7% qoq and Europe grew at 1.9% qoq.
- Digital portion of Services business (29% of revenues) grew at 11.3% qoq whereas Digital portion of Products & Platforms business (2.1% of overall revenues) grew at 35% qoq (low base effect nonetheless)

Key Concall Takeaways

- Signed 12 large deals with TCV of \$2 bn in Q2. 63% of these were net new deals. 3 deals were from Financial Services and 3 from Manufacturing, 2 in Hi-Tech and 1 in Communications
- Digital business 31% of business and grew at 33% yoy. Company saw strong demand in Cloud, IoT and Data Analytics
- Financial Services segment seeing improving demand scenario in US and performed as per management expectations with various client concerns abating in the quarter, spending in the US to continue to increase on account of tax cuts. Banks continue to spend on Digital, Analytics and Cloud
- Company will continue to focus on Digital, Agile and Automation
- Volumes improved 2.8% qoq while Pricing improved 0.9% sequentially
- Although Communications growth was soft, deal pipeline remains strong. Q3 may be impacted but overall spend in 5G and IoT related to 5G to drive growth. Life-Science and healthcare might see some softness in H2FY19
- Onsite mix stood at 28.4% - at lowest levels historically
- Operating Margin Profile - currency benefit: +80 bps, lower onsite effort and pricing: +70 bps which was offset by Compensation hike, higher variable pay and Intervention Costs: -100 bps and higher Subcontracting costs: -50 bps
- Lower onsite and pricing - +70 bps - total 150 bps

Valuation & Outlook

We believe that Infosys is on the right track as far as its transformation plan is concerned, however high attrition and subcontracting costs might remain an overhang on the margins. Healthy deal pipeline, large deal wins and growth in BFSI segment coupled with unchanged margin guidance are re-assuring. At CMP of INR 695, the stock is trading at 16x FY20E EPS of INR 44.5. We assign a BUY rating on the stock with a target price of INR 800, which is 18x FY20 EPS.

Consolidated Financials (In INR Mn)

Year	Net Sales	% Growth	EBIT	EBIT Margin (%)	PAT	PAT Margin (%)	EPS	Growth (%)	ROCE (%)
FY16	6,24,410	17.1%	1,56,190	25.0%	1,34,909	21.6%	59.0	9.4%	21.8%
FY17	6,84,850	9.7%	1,69,020	24.7%	1,43,775	21.0%	62.9	6.6%	20.8%
FY18	7,05,220	3.0%	1,71,480	24.3%	1,60,990	22.8%	74.0	17.7%	22.5%
FY19E	8,24,107	16.9%	1,97,636	24.0%	1,71,817	20.8%	39.5	-46.6%	23.1%
FY20E	9,04,554	9.8%	2,12,413	23.5%	1,93,231	21.4%	44.5	12.5%	22.9%



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YE March (Rs. Mn)	Q1 FY19	Q1 FY19	Q-o-Q change %	Q2 FY18	Y-o-Y change %	Q1 FY19 estimates	Deviation %
Net Sales (US\$ Mn)	2,921	2,831	3.2%	2,728	7.1%	2,905	0.5%
Net Sales (INR Mn)	2,06,090	1,91,280	7.7%	1,75,670	17.3%	2,03,632	1.2%
Less:							
Employees Remuneration & Benefits	1,32,810	1,22,880	8.1%	1,12,270	18.3%	1,28,626	3.3%
Administrative & Other Expenses	24,340	23,030	5.7%	20,940	16.2%	24,319	0.1%
Total Operating Expenditure	1,57,150	1,45,910	7.7%	1,33,210	18.0%	1,52,945	2.7%
Operating Profit	48,940	45,370	7.9%	42,460	15.3%	50,687	(3.4%)
Less: Depreciation	4,630	4,360	6.2%	4,560	1.5%	4,612	
Add: Other income	7,390	7,260	1.8%	8,830	(16.3%)	9,163	(19.4%)
Extraordinary Expense		2,700					
Profit Before Tax	56,330	49,930	12.8%	51,290	9.8%	59,850	(5.9%)
Adjusted Profits	56,330	52,630	7.0%	51,290	9.8%	59,850	
Less: Total Tax	15,230	13,810	10.3%	14,030	8.6%	14,963	
PAT	41,100	36,120	13.8%	37,260	10.3%	44,888	(8.4%)
Adjusted PAT	41,100	38,820	5.9%	37,260	10.3%	44,888	(8.4%)
Reported Diluted EPS (Rs.)	9.5	16.6	(43.1%)	16.3	(42.0%)	20.7	
Adjusted Diluted EPS (Rs.)	9.5	17.9	(47.1%)	16	(42.0%)	20.6	(54.2%)
No of Shared Diluted (mn)	4,347	2,173		2,286		2,173	
Margin Analysis %			Change in bps		Change in bps		Deviation in bps
Operating margin	23.7%	23.7%	3	24.2%	(42)	24.9%	(114)
EBIDTA Margin	26.0%	26.0%	(1)	26.8%	(77)	27.2%	(116)
NPM	19.9%	18.9%	106	21.2%	(127)	22.0%	(210)
Adjusted NPM	19.9%	20.3%	(35)	21.2%	(127)	22.0%	(210)
Effective Tax Rate %	27.0%	27.7%	(62)	27.4%	(32)	25.0%	204
Cost Analysis %			Change in bps		Change in bps		Deviation in bps
Employee Cost/Net Sales	64.4%	64.2%	20	63.9%	53	63.2%	128
SG&A/Net sales	11.8%	12.0%	(23)	11.9%	(11)	11.9%	(13)

Source: Company, Dalal & Broacha Research

Other Key Takeaways:

- Days of Sales outstanding stood at 66 compared to 71 in the same quarter of the previous year
- Gross headcount addition in Q2FY19 stood at 7,834 versus +5,798 in Q1FY19
- Onsite Offshore mix was more favorable at 28.4% : 71.6% in Q2FY19 vis-à-vis 29.4% : 70.6% in Q2FY18



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Profit & Loss Statement

YE March (INR Mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	6,24,410	6,84,850	7,05,220	8,24,107	9,04,554
Growth%	17.1%	9.7%	3.0%	16.9%	9.8%
Total Revenue	6,24,410	6,84,850	7,05,220	8,24,107	9,04,554
Less:					
Employees Cost	3,90,990	4,32,530	4,51,310	5,29,040	5,85,866
SG&A	77,230	83,300	82,430	97,431	1,06,275
Operating Expenditure	4,68,220	5,15,830	5,33,740	6,26,471	6,92,141
EBITDA	1,70,780	1,86,050	1,90,100	2,16,213	2,33,218
EBITDA Growth%	14.6%	8.9%	2.2%	13.7%	7.9%
Less: Depreciation	14,590	17,030	18,620	18,577	20,805
Operating Profit	1,56,190	1,69,020	1,71,480	1,97,636	2,12,413
Growth%	12.9%	8.2%	1.5%	15.3%	7.5%
Non-operating Income	31,239	30,735	31,930	33,853	45,228
Profit Before tax	1,87,429	1,99,755	2,03,410	2,31,490	2,57,641
Tax	52,520	55,980	42,420	59,672	64,410
Net Profit	1,34,909	1,43,775	1,60,990	1,71,817	1,93,231
Adjusted Profit	1,34,909	1,43,775	1,60,990	1,71,817	1,93,231
Diluted EPSRs	59.0	62.9	74.0	39.5	44.5
Growth %	9.4%	6.6%	17.7%	-46.6%	12.5%
Adjusted EPS	59.0	62.9	74.0	39.5	44.5
Growth%	9.4%	6.6%	17.7%	-46.6%	12.5%

Balance Sheet

YE March (INR Mn)	FY16	FY17	FY18	FY19E	FY20E
Liabilities					
Equity Capital	11,440	11,440	10,880	21,746	21,746
Reserves & Surplus	6,06,000	6,78,380	6,38,350	7,17,393	8,18,499
Equity	6,17,440	6,89,820	6,49,230	7,39,139	8,40,245
Net Worth	6,17,440	6,89,820	6,49,230	7,39,139	8,40,245
Net Deferred tax liability/(Assets)	2,520	2,070	5,410	5,410	5,410
Total Loans	1,150	1,530	3,200	3,200	3,200
Capital Employed	6,21,110	6,93,420	6,57,840	7,47,749	8,48,855
Assets					
Gross Block	1,60,900	1,83,320	2,01,790	2,21,790	2,41,790
Less: Depreciation	74,530	85,810	1,00,630	1,19,207	1,40,012
Net Block	86,370	97,510	1,01,160	1,02,583	1,01,778
Capital WIP	57,090	57,930	40,640	36,942	38,148
Investments	21,280	67,910	60,760	60,760	60,760
Others-Assets	71,230	73,150	96,170	96,170	96,170
Current Assets					
Sundry Debtors	1,13,300	1,23,220	1,31,420	1,46,759	1,58,607
Cash and Bank Balance	3,26,970	2,26,250	1,98,180	3,05,514	4,04,705
Loans and Advances	54,930	62,520	69,230	75,818	81,410
Total Current Assets	5,17,530	5,37,050	5,00,170	6,10,502	7,26,132
Less: Current Liabilities					
Sundry Creditors	3,860	3,670	6,940	5,149	5,689
Provisions	39,220	42,900	25,350	35,803	38,646
Other Current Liabilities	89,310	93,560	1,08,770	1,18,254	1,29,798
Total Current Liabilities	1,32,390	1,40,130	1,41,060	1,59,207	1,74,133
Capital Applied	6,21,110	6,93,420	6,57,840	7,47,749	8,48,855

Key Ratios

YE March (Rs.mn)	FY16	FY17	FY18	FY19E	FY20E
EBITDA Margin(%)	25.0%	24.7%	24.3%	24.0%	23.5%
Tax/PBT(%)	28.0%	28.0%	20.9%	25.8%	25.0%
Net Profit Margin(%)	21.6%	21.0%	22.8%	20.8%	21.4%
RoE(%)	21.9%	20.9%	22.7%	23.4%	23.1%
RoCE(%)	21.8%	20.8%	22.5%	23.1%	22.9%
Current Ratio(x)	3.9x	3.8x	3.5x	3.8x	4.2x
Dividend Payout(%)	47.9%	47.7%	47.7%	47.7%	47.7%
Book Value Per Share(Rs.)	270.1	301.8	298.5	170.1	193.3
Growth Indicators%					
Growth in Gross Block(%)	14.0%	13.9%	10.1%	9.9%	9.0%
Sales Growth(%)	17.1%	9.7%	3.0%	16.9%	9.8%
EBITDA Growth(%)	12.9%	8.2%	1.5%	15.3%	7.5%
Net Profit Growth(%)	9.4%	6.6%	12.0%	6.7%	12.5%
Diluted EPS Growth(%)	9.4%	6.6%	17.7%	(46.6%)	12.5%
Turnover Ratios					
Debtors (Days of net sales)	66	66	68	65	64

Free Cash Flow Statement

YE March (INR Mn)	FY16	FY17	FY18	FY19E	FY20E
EBITDA	1,70,780	1,86,050	1,90,100	2,16,213	2,33,218
FC Investment	19,820	22,420	18,470	20,000	20,000
WC Changes	(3,230)	(1,12,500)	9,740	15,150	(1,513)
Depreciation Tax Shield	4,088	4,773	3,883	4,789	5,201
Tax (EBITDA * Tax Rate)	47,855	52,139	39,644	55,735	58,304
FCFF	1,03,964	3,763	1,45,609	1,60,417	1,58,602

Cash Flow Statement

YE March (Rs. Mn)	FY16	FY17	FY18	FY19E	FY20E
PAT	1,34,909	1,43,775	1,60,990	1,71,817	1,93,231
Less: Non Operating Income	-31,239	-30,735	-31,930	-33,853	-45,228
Add: Depreciation	14,590	17,030	18,620	18,577	20,805
Operating Profit before Working Capital Changes	1,18,260	1,30,070	1,47,680	1,56,541	1,68,808
(Inc)/Dec in Current Assets	-21,790	-1,20,240	8,810	-2,997	-16,439
(Inc)/Dec in Current Liabilities	18,560	7,740	930	18,147	14,926
Net Cash Generated From Operations	1,15,030	17,570	1,57,420	1,71,691	1,67,295
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	-24,110	-28,170	-22,270	-20,000	-20,000
(Inc)/Dec in Capital Work In Progress	-1,840	-4,050	-2,410	3,698	-1,207
Add: Non Operating Income Income	31,239	30,735	31,930	33,853	45,228
Net Cash Flow from/(used in) Investing Activities	-28,201	-46,825	11,080	17,552	24,021
Cash Flow from Financing Activities					
Dividend Paid	-55,700	-59,150	-66,167	-70,617	-79,418
Tax Paid on Dividend	-8,912	-9,464	-10,587	-11,299	-12,707
Net Cash Flow from Financing Activities	-72,489	-70,085	-1,99,800	-89,434	-92,125
Net Inc/Dec in cash equivalents	14,340	-99,340	-31,300	99,808	99,191
Opening Balance	3,03,700	3,26,970	2,26,250	1,98,180	3,05,514
Closing Balance Cash and Cash Equivalents	3,18,040	2,27,630	1,94,950	2,97,988	4,04,705

Valuation Ratios

YE March (Rs.mn)	FY16	FY17	FY18	FY19E	FY20E
P/E(x)	12.0x	11.3x	9.6x	18.0x	16.0x
P/BV(x)	2.6x	2.4x	2.4x	4.2x	3.7x
EV/EBITDA(x)	8.3x	8.3x	7.9x	14.1x	12.6x
MarketCap./Sales(x)	2.6x	2.4x	2.2x	3.7x	3.4x



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