



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141442

## Q2 FY18 Result Update@ Dalal &Broacha

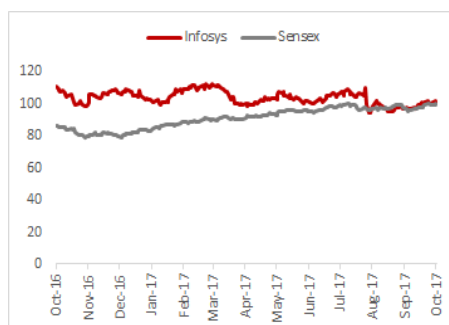
### ACCUMULATE

Current Price	927
52 Week Range	860 - 1044

### Key Share Data

Market Cap (Rs.bn)	2,129
Market Cap (US\$ mn)	33,055
No of o/s shares (mn)	2,286
Face Value	5
Monthly Avg.	
Vol(BSE+NSE) Nos	3,824,286
BSE Code	500209
NSE Code	INFY
Bloomberg	INFO.IN

### Price performance



% Shareholding	Sept-17	Jun-17
Promoters	12.75	12.75
Public	86.78	86.76
Others	0.47	0.49
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

### Revenues in-line; Profitability beats estimates;

- Infosys reported its Q2FY18 numbers which were in-line with our estimates on the revenue front, however beat our estimates on the profitability front.
- The company reported USD revenues of \$2,728 Mn, up 2.9% qoq vs our estimate of \$2,726 Mn. In Rupee terms, Infosys reported revenue of INR 1,75,670 Mn, 2.9% qoq vs our estimate of INR 1,75,215 Mn.
- The company reported an EBIT of INR 42,460 Mn, translating into an EBIT margin of 24.2% and well within its guided range of 23-25%. The reported EBIT was 2.6% above our estimate of 41,374 Mn mainly due to a reduction of 2% in Administrative & Other Expenses.
- PAT was reported at INR 37,235 Mn, 4% above our estimate of INR 35,802 Mn. EPS for the quarter stood at INR 16.3, up by 2.7% qoq.

### Growth Guidance Disappoints

- As widely expected, Infosys reduced the FY18 CC growth guidance from 6.5%-8.5% to 5.5%-6.5% which is a slight negative. However, the company has maintained its EBIT margin guidance of 23-25% which should be taken positively.
- A growth of 3.2% in BFSI (reported terms) came as a positive surprise and in a stark contrast to its peers. This indicates that performance in the BFSI segment has been mixed across the Indian IT services companies. Manufacturing (22% to revenues) grew by 2% and below the company average while Retail (14% of revenues) reported a flattish quarter. Energy & Utilities (10% of revenues) outperformed with an 8.8% qoq growth.
- BPM (5.1% of revenues) grew 5% qoq followed by Application Development (15.6% of revenues) which grew 4.2% qoq and Consulting (32.5% of revenues) which grew 2.6% qoq,
- In line with peers, performance in Europe outperformed with a 6.6% qoq followed by ROW at 2.9% qoq and N. America at 2.1% qoq.

### Key Concall Takeaways

- Growth guidance cut to 5.5-6.5% based on early cues in H1FY18, seasonal softness in Q3 and historically weak Q4 for Infosys
- Stability in EBIT margins mainly due to higher utilization of 84.7%, lower Onsite : Offshore mix and better productivity which was offset by hike in compensation and Variable Pay structure
- Company will be taking a relatively aggressive stance towards inorganic growth going ahead
- Expect seasonal softness in BFSI in Q3 but a bounceback in the mid-long term, management sees some signs of cost-cutting in Manufacturing segment
- Seeing slow-down in Non-discretionary spend in Retail segment whereas discretionary spend is picking up
- Increasing focus on packaging solutions and software in order to offer higher value to customers

### Valuation & Outlook:

Stock is currently trading at 14.1x and 12.9x FY18E and FY19E EPS. We have a HOLD rating on the stock with a target price of INR 1,003.

### Consolidated Financials (In INR Mn)

Year	Net Sales	% Growth	EBIT	EBIT (%)	PAT	% Growth	EPS	PE (x)	ROE (%)	ROCE (%)
FY16	6,24,410	17.1%	1,56,190	25.0%	1,34,909	9.4%	59.0	15.7x	21.6%	22.7%
FY17	6,84,850	9.7%	1,69,020	24.7%	1,43,775	6.6%	62.9	14.7x	21.0%	21.5%
FY18E	7,15,750	4.5%	1,72,600	24.1%	1,50,267	4.5%	65.7	14.1x	21.0%	19.6%
FY19E	7,81,245	9.2%	1,88,153	24.1%	1,63,744	9.0%	71.6	12.9x	21.0%	19.3%

Source: Company, Dalal & Broacha Research



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YE March (Rs. Mn)	Q2 FY18	Q1 FY18	Q-o-Q change %	Q2 FY17	Y-o-Y change %	Q2 FY18 estimates	Deviation %
<b>Net Sales (US\$ Mn)</b>	<b>2,728</b>	<b>2,651</b>	<b>2.9%</b>	<b>2,587</b>	<b>5.5%</b>	<b>2,726</b>	<b>0.1%</b>
<b>Net Sales (INR Mn)</b>	<b>1,75,670</b>	<b>1,70,780</b>	<b>2.9%</b>	<b>1,73,100</b>	<b>1.5%</b>	<b>1,75,215</b>	<b>0.3%</b>
<b>Less:</b>							
Employees Remuneration & Benefits	1,12,270	1,09,000	3.0%	1,09,620	2.4%	1,12,465	(0.2%)
Administrative & Other Expenses	20,940	20,670	1.3%	20,390	2.7%	21,376	(2.0%)
<b>Total Operating Expenditure</b>	<b>1,33,210</b>	<b>1,29,670</b>	<b>2.7%</b>	<b>1,30,010</b>	<b>2.5%</b>	<b>1,33,841</b>	<b>(0.5%)</b>
<b>Operating Profit</b>	<b>42,460</b>	<b>41,110</b>	<b>3.3%</b>	<b>43,090</b>	<b>(1.5%)</b>	<b>41,374</b>	<b>2.6%</b>
Less: Depreciation	4,560	4,500	1.3%	4,240	7.5%	4,556	
Add: Other income	8,830	8,140	8.5%	7,600	16.2%	8,351	5.7%
<b>Profit Before Tax</b>	<b>51,265</b>	<b>49,960</b>	<b>2.6%</b>	<b>50,690</b>	<b>1.1%</b>	<b>49,725</b>	<b>3.1%</b>
<b>Adjusted Profits</b>	<b>51,290</b>	<b>49,250</b>	<b>4.1%</b>	<b>50,690</b>	<b>1.2%</b>	<b>49,725</b>	
Less: Total Tax	14,030	13,710	2.3%	14,600	(3.9%)	13,923	
<b>PAT</b>	<b>37,235</b>	<b>36,250</b>	<b>2.7%</b>	<b>36,090</b>	<b>3.2%</b>	<b>35,802</b>	<b>4.0%</b>
<b>Adjusted PAT</b>	<b>37,260</b>	<b>35,540</b>	<b>4.8%</b>	<b>36,090</b>	<b>3.2%</b>	<b>35,802</b>	<b>4.1%</b>
<b>Reported Diluted EPS (Rs.)</b>	<b>16.3</b>	<b>15.9</b>	<b>2.7%</b>	<b>15.8</b>	<b>3.2%</b>	<b>15.7</b>	
Adjusted Diluted EPS (Rs.)	16.3	15.5	4.8%	16	3.2%	15.7	4.1%
<b>No of Shared Diluted (mn)</b>	<b>2,286</b>	<b>2,286</b>		<b>2,286</b>		<b>2,287</b>	
<b>Margin Analysis %</b>			<b>Change in bps</b>		<b>Change in bps</b>		<b>Deviation in bps</b>
Operating margin	24.2%	24.1%	10	24.9%	(72)	23.6%	56
EBIDTA Margin	26.8%	26.7%	6	27.3%	(58)	26.2%	55
NPM	21.2%	21.2%	(3)	20.8%	35	20.4%	76
Adjusted NPM	21.2%	20.8%	40	20.8%	36	20.4%	78
Effective Tax Rate %	27.4%	27.4%	(7)	28.8%	(143)	28.0%	(63)
<b>Cost Analysis %</b>			<b>Change in bps</b>		<b>Change in bps</b>		<b>Deviation in bps</b>
Employee Cost/Net Sales	63.9%	63.8%	8	63.3%	58	64.2%	(28)
SG&A/Net sales	11.9%	12.1%	(18)	11.8%	14	12.2%	(28)

Source: Company, Dalal & Broacha Research

- Margins remained steady at 24.2% mainly due to reduction in sub-contracting cost, higher utilization and lower Onsite mix which was offset by higher compensation and variable pay
- Company recorded a TCV of \$731 Mn in Q2 versus \$657 Mn in Q1
- Company recorded Cash & Cash Equivalent of INR 41,392 Cr



## Q2 FY18 Result Update@ Dalal &amp; Broacha

## Profit &amp; Loss Statement

YEMarch (INR Mn)	FY15	FY16	FY17	FY18E	FY19E
<b>NetSales</b>	<b>5,33,190</b>	<b>6,24,410</b>	<b>6,84,850</b>	<b>7,15,750</b>	<b>7,81,245</b>
SalesGrowth%	6.4%	17.1%	9.7%	4.5%	9.2%
<b>TotalRevenue</b>	<b>5,33,190</b>	<b>6,24,410</b>	<b>6,84,850</b>	<b>7,15,750</b>	<b>7,81,245</b>
<b>Less:</b>					
EmployeesCost	3,28,830	3,90,990	4,32,530	4,56,100	5,02,468
SG&A	66,040	77,230	83,300	87,049	90,624
<b>TotalOperatingExpenditu</b>	<b>3,94,870</b>	<b>4,68,220</b>	<b>5,15,830</b>	<b>5,43,149</b>	<b>5,93,093</b>
<b>EBITDA</b>	<b>1,49,010</b>	<b>1,70,780</b>	<b>1,86,050</b>	<b>1,90,154</b>	<b>2,06,121</b>
EBITDAGrowth%	9.3%	14.6%	8.9%	2.2%	8.4%
Less:Depreciation	10,690	14,590	17,030	17,554	17,969
<b>Operating Profit</b>	<b>1,38,320</b>	<b>1,56,190</b>	<b>1,69,020</b>	<b>1,72,600</b>	<b>1,88,153</b>
OperatingProfitGrowth%	12.8%	12.9%	8.2%	2.1%	9.0%
Non-operatingIncome	34,270	31,239	30,735	35,533	39,269
<b>Profit Before tax</b>	<b>1,72,590</b>	<b>1,87,429</b>	<b>1,99,755</b>	<b>2,08,133</b>	<b>2,27,422</b>
Tax	49,290	52,520	55,980	57,866	63,678
<b>NetProfit</b>	<b>1,23,300</b>	<b>1,34,909</b>	<b>1,43,775</b>	<b>1,50,267</b>	<b>1,63,744</b>
<b>Adjusted Profit</b>	<b>1,23,300</b>	<b>1,34,909</b>	<b>1,43,775</b>	<b>1,50,267</b>	<b>1,63,744</b>
<b>Reported Diluted EPSRs</b>	<b>53.9</b>	<b>59.0</b>	<b>62.9</b>	<b>65.7</b>	<b>71.6</b>
<b>Diluted EPS Growth%</b>	<b>13.5%</b>	<b>9.4%</b>	<b>6.6%</b>	<b>4.5%</b>	<b>9.0%</b>
<b>Adjusted EPS</b>	<b>53.9</b>	<b>59.0</b>	<b>62.9</b>	<b>65.7</b>	<b>71.6</b>
<b>Adjusted EPS Growth%</b>	<b>13.5%</b>	<b>9.4%</b>	<b>6.6%</b>	<b>4.5%</b>	<b>9.0%</b>

## Balance Sheet

YE March (INR Mn)	FY15	FY16	FY17	FY18E	FY19E
<b>Liabilities</b>					
Equity Capital	5,720	11,440	11,440	11,440	11,440
Reserves & Surplus	5,41,910	5,66,820	6,78,380	7,56,935	8,42,535
<b>Equity</b>	<b>5,47,630</b>	<b>5,78,260</b>	<b>6,89,820</b>	<b>7,68,375</b>	<b>8,53,975</b>
<b>Net Worth</b>	<b>5,47,630</b>	<b>5,78,260</b>	<b>6,89,820</b>	<b>7,68,375</b>	<b>8,53,975</b>
Net Deferred tax liability/(As:	2,060	1,260	3,600	3,600	3,600
<b>Total Loans</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Capital Employed</b>	<b>5,49,690</b>	<b>5,79,520</b>	<b>6,93,420</b>	<b>7,71,975</b>	<b>8,57,575</b>
<b>Assets</b>					
Gross Block	1,41,070	1,60,900	1,83,320	1,98,320	2,13,320
Less: Depreciation	64,220	74,530	52,942	70,496	88,465
<b>Net Block</b>	<b>76,850</b>	<b>86,370</b>	<b>1,30,378</b>	<b>1,27,824</b>	<b>1,24,855</b>
Capital WIP & Intangibles	51,690	55,030	57,930	55,016	55,999
<b>Investments</b>	<b>14,380</b>	<b>18,170</b>	<b>64,820</b>	<b>64,820</b>	<b>64,820</b>
Others-Assets	48,640	74,310	65,650	28,933	31,839
<b>Current Assets</b>					
Sundry Debtors	97,130	1,13,300	1,23,220	1,27,462	1,39,126
Cash and Bank Balance	3,03,670	3,02,630	1,79,208	4,11,312	4,88,342
Loans and Advances	60,530	73,520	1,05,900	84,458	92,187
<b>Total Current Assets</b>	<b>4,71,960</b>	<b>4,91,550</b>	<b>5,14,772</b>	<b>6,41,127</b>	<b>7,39,186</b>
<b>Less: Current Liabilities &amp; Provisions</b>					
Sundry Creditors	1,400	3,860	3,670	2,976	3,250
Provisions	4,780	18,530	4,050	4,629	5,094
Other Current Liabilities	1,07,650	1,23,520	1,32,410	1,38,140	1,50,780
<b>Total Current Liabilities&amp;</b>	<b>1,13,830</b>	<b>1,45,910</b>	<b>1,40,130</b>	<b>1,45,745</b>	<b>1,59,124</b>
<b>Capital Applied</b>	<b>5,49,690</b>	<b>5,79,520</b>	<b>6,93,420</b>	<b>7,71,975</b>	<b>8,57,575</b>



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**Key Ratios**

<b>YE March (Rs.mn)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>
EBITDA Margin(%)	25.9%	25.0%	24.7%	24.1%	24.1%
Tax/PBT(%)	28.6%	28.0%	28.0%	27.8%	28.0%
Net Profit Margin(%)	23.1%	21.6%	21.0%	21.0%	21.0%
RoE(%)	22.8%	22.7%	21.5%	19.6%	19.3%
RoCE(%)	22.7%	22.6%	21.4%	19.6%	19.2%
Current Ratio(x)	4.1x	3.4x	3.7x	4.4x	4.6x
Dividend Payout(%)	48.1%	47.9%	47.7%	47.7%	47.7%
Book Value Per Share(Rs.)	239.6	253.0	301.8	336.2	373.6
<b>Financial Leverage Ratios</b>					
Debt/Equity(x)	0.0x	0.0x	0.0x	0.0x	0.0x
<b>Growth Indicators%</b>					
Growth in Gross Block(%)	21.8%	14.1%	13.9%	8.2%	7.6%
Sales Growth(%)	6.4%	17.1%	9.7%	4.5%	9.2%
EBITDA Growth(%)	12.8%	12.9%	8.2%	2.1%	9.0%
Net Profit Growth(%)	13.5%	9.4%	6.6%	4.5%	9.0%
Diluted EPS Growth(%)	13.5%	9.4%	6.6%	4.5%	9.0%
<b>Turnover Ratios</b>					
Debtors (Days of net sales)	66	66	66	65	65

**Valuation Ratios**

<b>Valuation Ratios</b>					
<b>YE March (Rs.mn)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>
<b>P/E(x)</b>	<b>17.2x</b>	<b>15.7x</b>	<b>14.7x</b>	<b>14.1x</b>	<b>12.9x</b>
P/BV(x)	3.9x	3.7x	3.1x	2.8x	2.5x
<b>EV/EBIDTA(x)</b>	<b>13.1x</b>	<b>11.6x</b>	<b>11.5x</b>	<b>9.9x</b>	<b>8.7x</b>
MarketCap./Sales(x)	4.0x	3.4x	3.1x	3.0x	2.7x



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