



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141442

Q3 FY18 Result Update@ Dalal&Broacha

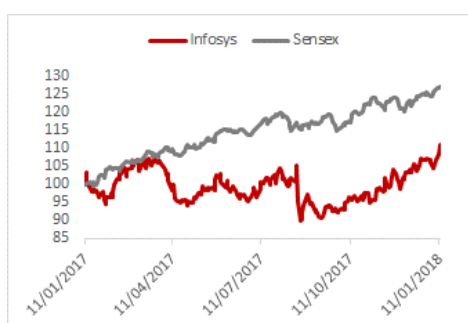
BUY

Current Price	1,078
52 Week Range	1085/860

Key Share Data

Market Cap (Rs.bn)	2,373
Market Cap (US\$ mn)	36,507
No of o/s shares (mn)	2,174
Face Value	5
Monthly Avg. Vol(BSE+NSE) Nos ('000)	4544.99
BSE Code	500209
NSE Code	INFY
Bloomberg	INFO.IN

Price performance



% Shareholding	Dec-18	Sept-17
Promoters	12.90	12.75
Public	86.61	86.78
Others	0.49	0.47
Total	100.00	100.00

Q3 performance in-line with estimates, tax provision reversal aids bottom-line

- Infosys reported its Q3FY18 numbers which were in-line with our estimates on the all fronts with the exception of net income which was aided by reversal of tax provisions of ~\$225 Mn due to signing of APA with the US IRS
- The company reported USD revenues of \$2,755 Mn, up 1% qoq and 8% yoy and vs our estimate of \$2,758 Mn. In Rupee terms, Infosys reported revenue of INR 1,77,940 Mn, up 1.3% qoq and 3% yoy and vs our estimate of INR 1,78,482 Mn.
- The company reported an EBIT of INR 43,190 Mn, translating into an EBIT margin of 24.3% and well within its guided range of 23-25%. The reported EBIT was 1.6% above our estimate of 42,529 Mn mainly due to a reduction of 3.3% in Administrative & Other Expenses. EBIT was up 1.7% qoq and flat yoy.
- PAT was reported at INR 51,290 Mn, 37.2% above our estimate of INR 37,367 Mn mainly due to reversal of tax provision to the tune of \$225 Mn.

Expect 'Strategy Refresh' to eliminate the overhang and enable stock re-rating

- We believe that new CEO Mr. Salil Parekh's 'Strategy Refresh' wherein he aims to meet all stakeholders of the company through Q4 and focus on Digital and New Software and Services segment (11.6% of rev) will translate into one quarter of 'teething' for the new CEO and eventual elimination of the overhang and stock re-rating.
- Top-line growth was largely aided by growth in Europe (similar to its peer TCS), which grew by 6.2% qoq followed by N. America which grew by 0.7% qoq. India revenues continued to remain volatile as the revenue de-grew by 8.2% qoq.
- In terms of services, Consulting (32.8% of revenues), grew by 1.9% qoq followed by Application Maintenance (16.2% of rev) which grew by 2.3% qoq. BPM business outperformed with a 5% qoq growth
- Insurance and Retail segment outperformed, with a 7.3% and 3.2% qoq growth as both segments show strong demand. Overhang of BFS segment still continues as IT spend has failed to pick-up and is still a few quarters away. Energy and Transportation sectors reported strong growth in the quarter with a 6.5% and 6% qoq growth.

Key Concall Takeaways

- Mr. Parekh plans to meet all stakeholders of the company including holding an investor day in April 2018, by when the company and the CEO will have a solid direction and strategy
- Realizations were down by 0.9% qoq mainly due to furloughs and lower working hours. Growth in N. America and Mfg segment lagged due to the same reason.
- Impact of new APA will be income-neutral for the company
- Management reduced INR revenue outlook in FY18 to 2.1-3.1%

Valuation & Outlook:

Stock is currently trading at 14.4x and 13.2x FY19E and FY20E EPS. We have a BUY rating on the stock with a target price of INR 1,224.

Consolidated Financials (In INR Mn)

Year	Net Sales	% Growth	EBIT	EBIT (%)	PAT	PAT (%)	EPS	PE (x)	ROE (%)	ROCE (%)
FY16	6,24,410	17.1%	1,56,190	25.0%	1,34,909	21.6%	5902.4%	18.3x	21.9%	21.8%
FY17	6,84,850	9.7%	1,69,020	24.7%	1,43,775	21.0%	6290.3%	17.1x	20.9%	20.8%
FY18E	7,04,863	2.9%	1,68,257	23.9%	1,56,567	22.2%	7200.2%	15.0x	22.3%	22.1%
FY19E	7,62,368	8.2%	1,81,108	23.8%	1,62,818	21.4%	23.8%	14.4x	22.5%	22.4%
FY20E	8,24,660	8.2%	1,97,619	24.0%	1,77,372	21.5%	24.0%	13.2x	21.7%	21.6%

Source: Company, Dalal&Broacha Research



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YE March (Rs. Mn)	Q3 FY18	Q2 FY18	Q-o-Q change %	Q3 FY17	Y-o-Y change %	Q3 FY18 estimates	Deviation %
Net Sales (US\$ Mn)	2,755	2,728	1.0%	2,551	8.0%	2,758	(0.1%)
Net Sales (INR Mn)	177,940	175,670	1.3%	172,730	3.0%	178,482	(0.3%)
Less:							
Employees Remuneration & Benefits	114,500	112,270	2.0%	108,400	5.6%	114,536	(0.0%)
Administrative & Other Expenses	20,250	20,940	(3.3%)	20,990	(3.5%)	21,418	(5.5%)
Total Operating Expenditure	134,750	133,210	1.2%	129,390	4.1%	135,953	(0.9%)
Operating Profit	43,190	42,460	1.7%	43,340	(0.3%)	42,529	1.6%
Less: Depreciation	4,980	4,560	9.2%	4,330	15.0%	4,633	
Add: Other income	9,620	8,830	8.9%	8,200	17.3%	9,370	2.7%
Profit Before Tax	52,785	51,290	2.9%	51,540	2.4%	51,899	1.7%
Adjusted Profits	52,810	51,290	3.0%	51,540	2.5%	51,899	
Less: Total Tax	1,520	14,030	(89.2%)	14,460	(89.5%)	14,532	
PAT	51,265	37,260	37.6%	37,080	38.3%	37,367	37.2%
Adjusted PAT	51,290	37,260	37.7%	37,080	38.3%	37,367	37.3%
Reported Diluted EPS (Rs.)	23.6	16.3	44.7%	16.2	45.4%	17.2	
Adjusted Diluted EPS (Rs.)	23.6	16.3	44.8%	16	45.5%	17.2	37.4%
No of Shared Diluted (mn)	2,173	2,286		2,286		2,173	
Margin Analysis %			Change in bps		Change in bps		Deviation in bps
Operating margin	24.3%	24.2%	10	25.1%	(82)	23.8%	44
EBIDTA Margin	27.1%	26.8%	30	27.6%	(53)	26.4%	65
NPM	28.8%	21.2%	760	21.5%	734	20.9%	787
Adjusted NPM	28.8%	21.2%	761	21.5%	736	20.9%	789
Effective Tax Rate %	2.9%	27.4%	(2447)	28.1%	(2518)	28.0%	(2512)
Cost Analysis %			Change in bps		Change in bps		Deviation in bps
Employee Cost/Net Sales	64.3%	63.9%	44	62.8%	159	64.2%	18
SG&A/Net sales	11.4%	11.9%	(54)	12.2%	(77)	12.0%	(62)

Source: Company, Dalal & Broacha Research

- Margins remained steady at 24.3% 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 \$779 Mn in Q3 versus \$731 Mn in Q2
- Company recorded highest ever utilization rate of 84.9% excluding trainees whereas attrition declined from 17.2% in Q2 to 15.8% in Q3
- New Services (9.9% of revenues and include Cloud Ecosystem, Big Data and Analytics) & New Software (Edge, Nia, Panaya and Skava) continue to grow and remain 'high growth and potential' areas as they reported 6% and 7% qoq growth.
- Company recorded Cash & Cash Equivalent of INR 20,611 Cr at the end of Q3FY18



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Profit & Loss Statement

YEMarch (INR Mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	624,410	684,850	704,863	762,368	824,660
Growth%	17.1%	9.7%	2.9%	8.2%	8.2%
Total Revenue	624,410	684,850	704,863	762,368	824,660
Less:					
Employees Cost	390,990	432,530	453,718	493,588	531,380
SG&A	77,230	83,300	82,888	87,672	95,661
Operating Expenditure	468,220	515,830	536,606	581,260	627,040
EBITDA	170,780	186,050	186,448	198,643	216,586
EBITDA Growth%	14.6%	8.9%	0.2%	6.5%	9.0%
Less: Depreciation	14,590	17,030	18,191	17,534	18,967
Operating Profit	156,190	169,020	168,257	181,108	197,619
Growth%	12.9%	8.2%	-0.5%	7.6%	9.1%
Non-operating Income	31,239	30,735	30,199	41,930	45,356
Profit Before tax	187,429	199,755	198,456	223,039	242,976
Tax	52,520	55,980	41,890	60,220	65,603
Net Profit	134,909	143,775	156,567	162,818	177,372
Adjusted Profit	134,909	143,775	156,567	162,818	177,372
Diluted EPSRs	59.0	62.9	72.0	74.9	81.6
Growth %	9.4%	6.6%	14.5%	4.0%	8.9%
Adjusted EPS	59.0	62.9	72.0	74.9	81.6
Growth%	9.4%	6.6%	14.5%	4.0%	8.9%

Key Ratios

YE March (Rs.mn)	FY16	FY17	FY18E	FY19E	FY20E
EBITDA Margin(%)	25.0%	24.7%	23.9%	23.8%	24.0%
Tax/PBT(%)	28.0%	28.0%	21.1%	27.0%	27.0%
Net Profit Margin(%)	21.6%	21.0%	22.2%	21.4%	21.5%
RoE(%)	21.9%	20.9%	22.3%	22.5%	21.7%
RoCE(%)	21.8%	20.8%	22.1%	22.4%	21.6%
Current Ratio(x)	3.9x	3.8x	3.9x	4.1x	4.4x
Dividend Payout(%)	47.9%	47.7%	47.7%	47.7%	47.7%
Book Value Per Share(Rs.)	270.1	301.8	295.2	334.4	377.0
Growth Indicators%					
Growth in Gross Block(%)	14.0%	13.9%	8.2%	10.1%	9.2%
Sales Growth(%)	17.1%	9.7%	2.9%	8.2%	8.2%
EBITDA Growth(%)	12.9%	8.2%	(0.5%)	7.6%	9.1%
Net Profit Growth(%)	9.4%	6.6%	8.9%	4.0%	8.9%
Diluted EPS Growth(%)	9.4%	6.6%	14.5%	4.0%	8.9%
Turnover Ratios					
Debtors (Days of net sales)	66	66	65	65	65

Balance Sheet

YE March (INR Mn)	FY16	FY17	FY18E	FY19E	FY20E
Liabilities					
Equity Capital	11,440	11,440	10,876	10,876	10,876
Reserves & Surplus	606,000	678,380	631,086	716,202	808,926
Equity	617,440	689,820	641,962	727,078	819,802
Net Worth	617,440	689,820	641,962	727,078	819,802
Net Deferred tax liability/(t)	2,520	2,070	2,070	2,070	2,070
Total Loans	1,150	1,530	1,530	1,530	1,530
Capital Employed	621,110	693,420	645,562	730,678	823,402
Assets					
Gross Block	160,900	183,320	198,320	218,320	238,320
Less: Depreciation	74,530	85,810	104,001	121,535	140,503
Net Block	86,370	97,510	94,319	96,785	97,817
Capital WIP	57,090	57,930	54,853	55,716	56,650
Investments	21,280	67,910	67,910	67,910	67,910
Others-Assets	71,230	73,150	20,945	30,110	32,802
Current Assets					
Sundry Debtors	113,300	123,220	125,524	135,764	146,857
Cash and Bank Balance	326,970	226,250	230,779	290,179	362,750
Loans and Advances	54,930	62,520	64,847	70,138	75,869
Total Current Assets	517,530	537,050	549,865	635,297	736,067
Less: Current Liabilities					
Sundry Creditors	3,860	3,670	2,940	3,185	3,436
Provisions	39,220	42,900	3,351	4,818	5,248
Other Current Liabilities	89,310	93,560	136,039	147,137	159,159
Total Current Liabilities	132,390	140,130	142,330	155,140	167,843
Capital Applied	621,110	693,420	645,562	730,678	823,402

Free Cash Flow Statement

YEMarch (INR Mn)	FY16	FY17	FY18E	FY19E	FY20E
EBITDA	170,780	186,050	186,448	198,643	216,586
FC Investment	19,820	22,420	15,000	20,000	20,000
WC Changes	(3,230)	(112,500)	(6,085)	(13,223)	(15,495)
Depreciation Tax Shield	4,088	4,773	3,840	4,734	5,121
Tax (EBITDA * Tax Rate)	47,855	52,139	39,355	53,634	58,478
FCF	103,964	3,763	129,847	116,521	127,734



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