

January 14, 2016

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Rating	BUY
Price	Rs1,133
Target Price	Rs1,500
Implied Upside	32.4%
Sensex	24,773
Nifty	7,537

(Prices as on January 14, 2016)
Trading data

Market Cap. (Rs bn)	2,592.3
Shares o/s (m)	2,288.0
3M Avg. Daily value (Rs m)	3316.4

Major shareholders

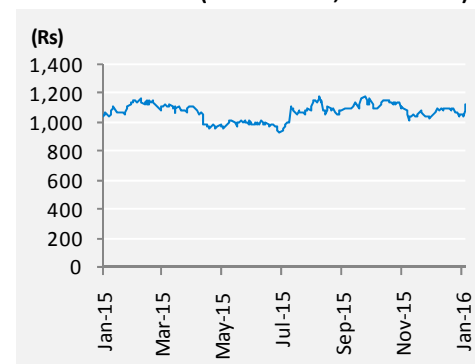
Promoters	13.08%
Foreign	39.89%
Domestic Inst.	17.17%
Public & Other	29.86%

Stock Performance

(%)	1M	6M	12M
Absolute	5.9	16.7	6.5
Relative	7.4	28.0	15.9

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2017	68.1	66.0	3.2
2018	77.1	74.5	3.5

Price Performance (RIC: INFY.BO, BB: INFO IN)


Source: Bloomberg

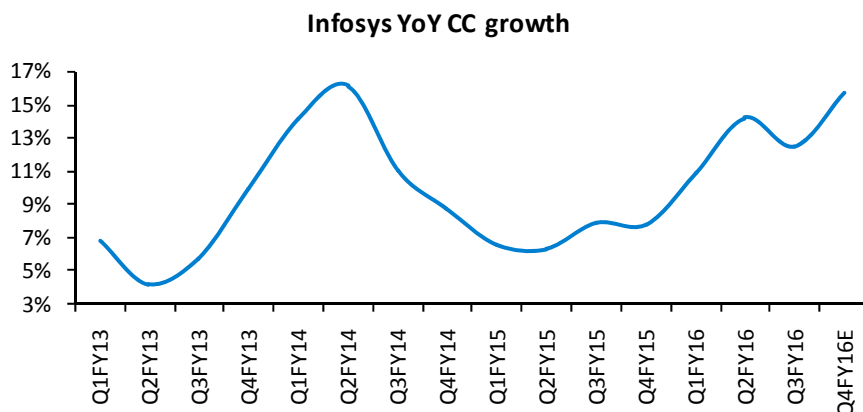
Infosys' Q3FY16 performance was comprehensively ahead of expectation with solid revenue beat, healthy deal wins and employee addition driving a better growth outlook. Company has raised FY16 CC revenue growth guidance to 12.8-13.2% (from 10-12%). Q3FY16 revenues grew 1.1% QoQ in CC terms (2.1% adjusted for one-time revenue in Q2), which is commendable, given the high base, seasonality and impact of Chennai floods. Growth has been strong across verticals and geographies. Benefits of strategic initiatives such as zero bench, zero distance, design thinking etc. is visible across sales and delivery organization and client engagements (refer exhibits 4-9). Infosys will likely achieve industry leading growth in FY16 itself and we expect further improvement in FY17/18. Management is confident of growth despite pressure on client IT budgets.

- **Healthy volume growth in seasonally weak quarter:** Volumes grew a healthy 3.1% QoQ, despite seasonal weakness. Importantly, Infosys has guided for a better March quarter (implied guidance of 1-2.5% QoQ). Company is driving innovation and automation across all projects and early signs are encouraging. This is resulting in better client engagement, higher ratings on innovation quotient and thus, increasing win rate against competition.
- **Significant improvement in operating metrics:** a) Total contract value of large deals highest ever on YTD basis, b) Revenue contribution from new clients highest since FY08 (indicates success of hunting), c) Strong growth in top clients after three years, d) Steady decline in attrition to 13.4% (4-year low), e) Strong head count addition reminiscent of FY11/12. We believe all this indicates success of various strategic initiatives; full benefits will be realized in FY17/18 and makes us confident on Infosys leading sector revenue growth.
- **Valuation & Recommendation – Re-iterate Infosys as top pick with revised TP of Rs1,500 (Earlier: Rs 1,485) 20x Dec-17 EPS:** We expect 3-5% revenue led upgrade to consensus FY17/18 EPS estimates. Industry leading revenue growth and reduced volatility in growth profile will drive PE re-rating over next 12 months and stock is likely to trade at 18-20x EPS. **Sharp global recession is a key risk to our call.**

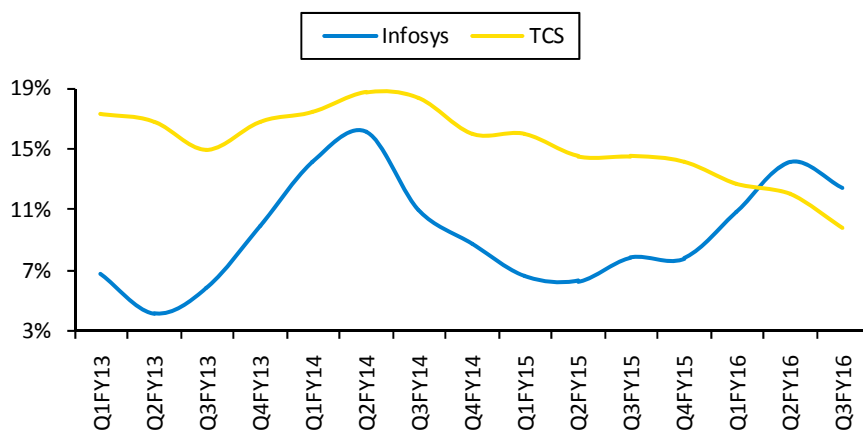
Key financials (Y/e March)	2015	2016E	2017E	2018E
Revenues (Rs m)	533,190	619,489	706,121	801,138
Growth (%)	6.4	16.2	14.0	13.5
EBITDA (Rs m)	149,010	169,232	196,306	222,880
PAT (Rs m)	123,290	133,054	155,825	176,370
EPS (Rs)	53.9	58.2	68.1	77.1
Growth (%)	15.8	7.9	17.1	13.2
Net DPS (Rs)	22.2	30.0	35.0	40.0

Profitability & Valuation	2015	2016E	2017E	2018E
EBITDA margin (%)	27.9	27.3	27.8	27.8
RoE (%)	24.1	22.9	24.0	24.1
RoCE (%)	24.0	22.9	24.0	24.1
EV / sales (x)	4.3	3.6	3.1	2.7
EV / EBITDA (x)	15.4	13.3	11.3	9.7
PE (x)	21.0	19.5	16.6	14.7
P / BV (x)	4.7	4.2	3.8	3.4
Net dividend yield (%)	2.0	2.6	3.1	3.5

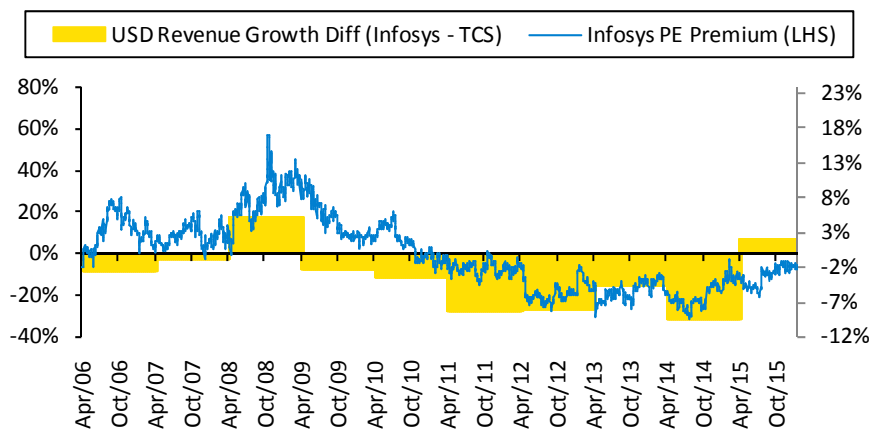
Source: Company Data; PL Research

Exhibit 1: Infosys YoY CC revenue growth to be ~16% in 4QFY16


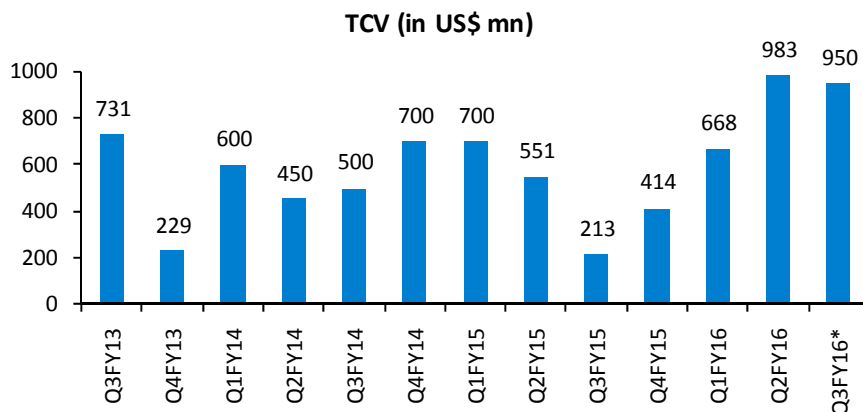
Source: Company Data, PL Research, 4QFY16E based on upper end of guidance

Exhibit 2: Infosys YoY CC revenue growth ahead of TCS


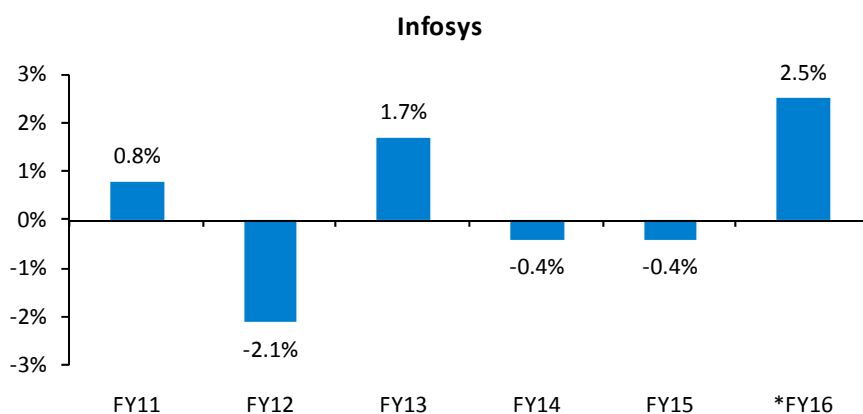
Source: Company Data, PL Research

Exhibit 3: Higher growth drives PE premium (Infosys vs TCS comparison)


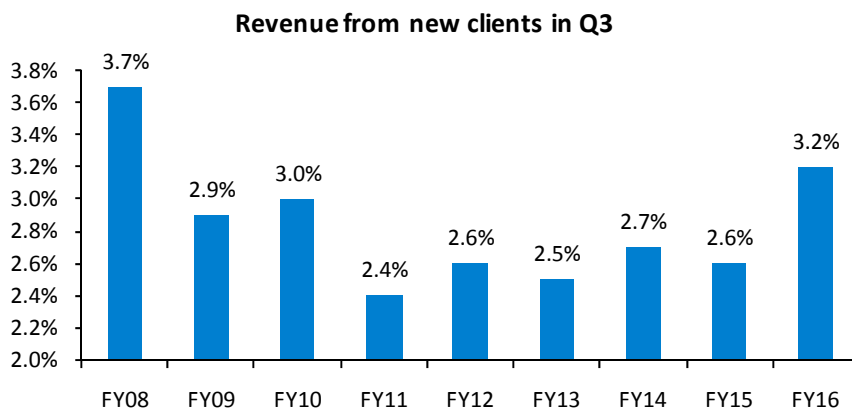
Source: Company Data, PL Research

Exhibit 4: Highest ever YTD TCV


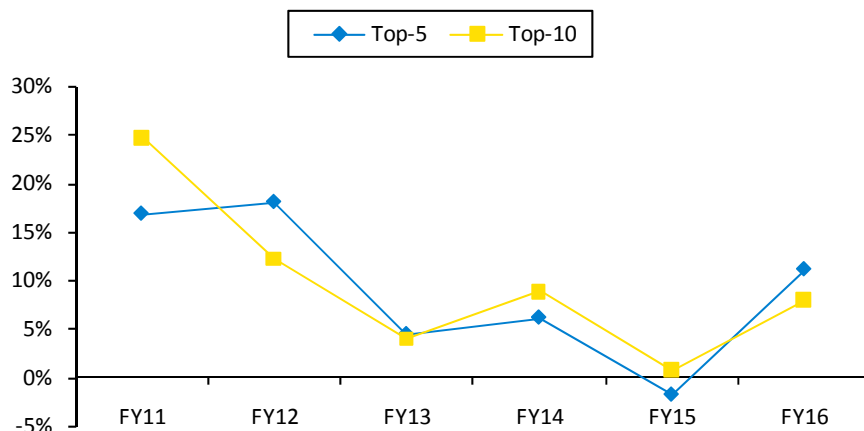
Source: Company Data, PL Research, * Q3FY16 includes US\$600mn renewal contract

Exhibit 5: Infosys likely to avoid March quarter blues in FY16


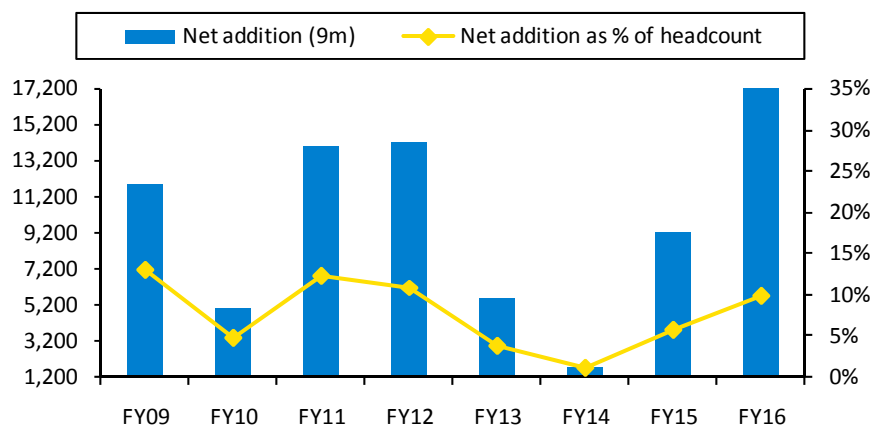
Source: Company Data, PL Research, *4QFY16E based on upper end of guidance

Exhibit 6: Revenue contribution from new clients highest since FY08


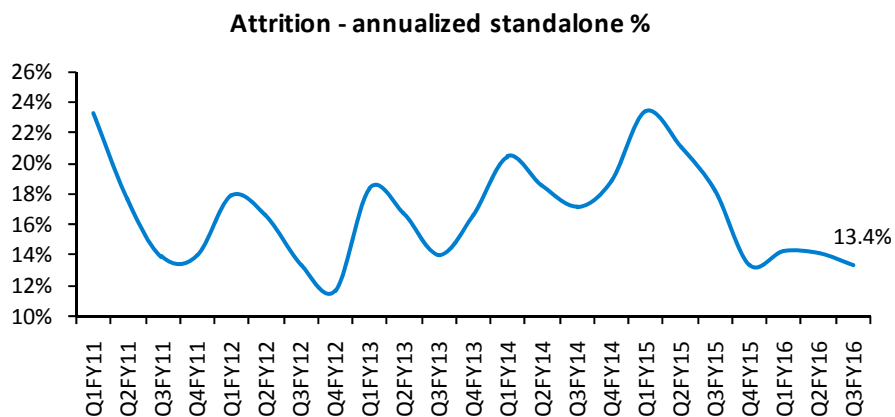
Source: Company Data, PL Research

Exhibit 7: Robust YoY revenue growth in top clients (9m YTD) after 3 years


Source: Company Data, PL Research

Exhibit 8: Headcount addition reminiscent of FY11/12


Source: Company Data, PL Research

Exhibit 9: Steady decline in attrition to 13.4% (4 year low)


Source: Company Data, PL Research

Exhibit 10: Q3FY16 Results overview (Rs m)

	Q3FY16	Q2FY16	Q3FY16(PL e)	Consensus	QoQ	Q3FY15	YoY	Variance (Cons Vs Actual)
INR/US\$ (Average)	66.07	65.36	66.03	66.0	1.1%	62.20	6.2%	
Total Operating Income (US\$)	2,407	2,392	2,416	2,386	0.6%	2,218	8.5%	0.9%
Total Operating Income	159,020	156,350	159,523	157,553	1.7%	137,960	15.3%	0.9%
Operating Profit	39,590	39,930	39,482	39,323	-0.9%	36,890	7.3%	0.7%
<i>EBIT Margin</i>	<i>24.9%</i>	<i>25.5%</i>	<i>24.8%</i>	<i>25.0%</i>	<i>-64 bps</i>	<i>26.7%</i>	<i>-184 bps</i>	<i>-6 bps</i>
Pre Tax Income	47,610	47,860	47,507	47,274	-0.5%	45,290	5.1%	0.7%
Tax	12,960	13,870	13,777	13,762	-6.6%	12,790	1.3%	-5.8%
<i>Tax Rate</i>	<i>27.2%</i>	<i>29.0%</i>	<i>29.0%</i>	<i>29.1%</i>	<i>-176 bps</i>	<i>27.5%</i>	<i>-28 bps</i>	<i>-189 bps</i>
PAT	34,650	33,980	33,730	33,512	2.0%	32,500	6.6%	3.4%
EPS (Rs)	15.16	14.87	14.76	14.66	2.0%	14.22	6.6%	3.4%

Source: Company Data, Bloomberg, PL Research

Exhibit 11: Guidance: Evaluated at USD term

	Q1FY16a	Q2FY16a	Q3FY16a	Q4FY16i	FY16
Revenue (US\$ mn) (LOWER)	2,256	2,392	2,407	2,431	9,486
<i>QoQ Growth</i>	<i>4.5%</i>	<i>6.0%</i>	<i>0.6%</i>	<i>1.0%</i>	<i>8.9%</i>
Revenue (US\$ mn) (UPPER)	2,256	2,392	2,407	2,466	9,521
<i>QoQ Growth</i>	<i>4.5%</i>	<i>6.0%</i>	<i>0.6%</i>	<i>2.5%</i>	<i>9.3%</i>

Source: Company Data, PL Research, i - Implied, a - Actual

Exhibit 12: Growth after adjusting for \$23m one-time revenue in Q2FY16

	Actual	Adjusted
Overall Revenue	0.6%	1.6%
America	-0.6%	0.9%
Manufacturing	-3.6%	0.5%
IMS	-13.3%	-2.5%
Pricing	-2.5%	-1.5%

Source: Company Data, PL Research

Exhibit 13: Revenue contribution by Geography

in US \$	Revenue contribution	QoQ	YoY
America*	62.5%	-0.6%	10.1%
Europe	23.2%	1.9%	4.9%
India	2.8%	22.5%	21.5%
Rest Of World	11.5%	0.6%	4.9%

Source: Company Data, PL Research *- Adj. Growth of 1.6%

Exhibit 14: Revenue contribution by Industry Verticals

in US \$	Revenue contribution	QoQ	YoY
Insurance	5.9%	6.02%	1.63%
Banking & Financial Services	27.6%	2.11%	11.76%
Manufacturing*	22.8%	-3.60%	5.74%
Retail	14.7%	-0.72%	7.06%
Telecom	8.0%	1.90%	-0.21%
Energy & Utilities	5.1%	9.19%	12.95%
Transport & Logistics	1.9%	0.63%	37.46%
Services	7.7%	-0.66%	17.69%
Others	6.3%	2.25%	6.83%

Source: Company Data, PL Research *- Adj. Growth of 0.5%

Exhibit 15: Service offering split

in US \$	Revenue contribution	QoQ	YoY
Application Dev	14.1%	1.3%	2.7%
Application Maintenance	19.1%	-1.9%	6.3%
Business Process Management	5.8%	-1.1%	-3.2%
Consulting Services & Package Implementation	33.8%	3.7%	12.5%
Infrastructure Management*	7.5%	-13.3%	-0.7%
Product Engineering Services	3.4%	3.7%	8.5%
Testing Services	9.2%	2.9%	9.7%
Others	3.0%	7.8%	41.5%
Products	4.1%	5.8%	27.1%

Source: Company Data, PL Research *- Adj. Decline of-2.5%

Exhibit 16: Headcount and Pricing growth for the quarter

	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16
Headcount	160,405	161,284	165,411	169,638	176,187	179,523	187,976	193,383
Volume (QoQ)	0.4%	2.9%	3.0%	4.2%	0.9%	5.4%	3.7%	3.1%
Pricing (QoQ)	-0.8%	-0.4%	0.6%	-3.4%	-3.8%	-0.7%	2.6%	-2.5%
Utilization (incl. trainees)	72.9%	74.8%	75.2%	75.7%	72.8%	75.7%	75.4%	74.2%
Utilization (excl. trainees)	76.7%	80.1%	82.3%	82.7%	78.6%	80.2%	81.3%	80.6%

Source: Company Data, PL Research

Exhibit 17: A brief overview of the company's operating metrics over the last few quarters

Revenue by verticals (%)	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16
Insurance	6.2%	6.0%	6.0%	6.3%	6.4%	6.0%	5.6%	5.9%
Banking & Financial Services	27.3%	27.4%	26.8%	26.8%	27.2%	27.1%	27.2%	27.6%
Manufacturing	23.0%	23.2%	23.3%	23.4%	23.8%	24.0%	23.8%	22.8%
Retail	15.5%	15.8%	15.3%	14.9%	15.1%	15.0%	14.9%	14.7%
Telecom	8.6%	8.7%	8.9%	8.7%	8.3%	8.4%	7.9%	8.0%
Energy & Utilities	5.3%	5.1%	5.5%	4.9%	4.5%	4.2%	4.7%	5.1%
Transport & Logistics	1.7%	1.5%	1.5%	1.5%	1.6%	1.5%	1.9%	1.9%
Services	6.6%	6.5%	6.6%	7.1%	6.8%	7.6%	7.8%	7.7%
Others	5.8%	5.8%	6.1%	6.4%	6.3%	6.2%	6.2%	6.3%
Revenue by services (%)								
Application Dev	15.5%	15.8%	16.1%	14.9%	14.3%	14.0%	14.0%	14.1%
Application Maintenance	19.4%	18.7%	18.9%	19.5%	19.7%	19.9%	19.6%	19.1%
Business Process Management	6.7%	6.5%	6.3%	6.5%	6.3%	6.0%	5.9%	5.8%
Consulting Services & Package Implementation	32.5%	32.3%	32.4%	32.6%	32.7%	32.8%	32.8%	33.8%
Infrastructure Management	7.2%	7.9%	7.9%	8.2%	8.1%	8.3%	8.7%	7.5%
Product Engineering Services	3.4%	3.4%	3.4%	3.4%	3.5%	3.5%	3.3%	3.4%
Testing Services	9.2%	9.5%	9.4%	9.1%	8.9%	8.9%	9.0%	9.2%
Others	2.2%	2.3%	2.2%	2.3%	2.5%	2.7%	2.8%	3.0%
Products	3.9%	3.6%	3.4%	3.5%	4.0%	3.9%	3.9%	4.1%
Revenue by geography (%)								
America	59.8%	60.8%	60.8%	61.6%	62.8%	63.2%	63.3%	62.5%
Europe	25.2%	24.5%	24.7%	24.0%	23.1%	22.4%	22.9%	23.2%
India	2.6%	2.4%	2.2%	2.5%	2.5%	2.2%	2.3%	2.8%
Rest Of World	12.4%	12.3%	12.3%	11.9%	11.6%	12.2%	11.5%	11.5%

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2015	2016E	2017E	2018E
Net Revenue	533,190	619,489	706,121	801,138
Raw Material Expenses	318,140	374,492	424,221	481,894
Gross Profit	215,050	244,997	281,900	319,244
Employee Cost	—	—	—	—
Other Expenses	66,040	75,765	85,595	96,365
EBITDA	149,010	169,232	196,306	222,880
Depr. & Amortization	10,690	14,144	16,366	18,200
Net Interest	(26,310)	(25,360)	(28,023)	(30,966)
Other Income	34,270	31,654	39,532	43,729
Profit before Tax	172,590	186,742	219,472	248,409
Total Tax	49,290	53,688	63,647	72,039
Profit after Tax	123,300	133,054	155,825	176,370
Ex-Od items / Min. Int.	10	—	—	—
Adj. PAT	123,290	133,054	155,825	176,370
Avg. Shares O/S (m)	2,288.0	2,288.0	2,288.0	2,288.0
EPS (Rs.)	53.9	58.2	68.1	77.1

Cash Flow Abstract (Rs m)

Y/e March	2015	2016E	2017E	2018E
C/F from Operations	107,520	124,152	157,238	178,170
C/F from Investing	(12,790)	(25,399)	(28,951)	(32,847)
C/F from Financing	(50,560)	(68,569)	(79,997)	(91,425)
Inc. / Dec. in Cash	44,170	30,184	48,290	53,899
Opening Cash	259,500	303,670	333,854	382,145
Closing Cash	303,670	333,854	382,145	436,043
FCFF	114,520	98,753	128,287	145,323
FCFE	114,520	98,753	128,287	145,323

Key Financial Metrics

Y/e March	2015	2016E	2017E	2018E
Growth				
Revenue (%)	6.4	16.2	14.0	13.5
EBITDA (%)	11.1	13.6	16.0	13.5
PAT (%)	15.8	7.9	17.1	13.2
EPS (%)	15.8	7.9	17.1	13.2

Profitability

EBITDA Margin (%)	27.9	27.3	27.8	27.8
PAT Margin (%)	23.1	21.5	22.1	22.0
RoCE (%)	24.0	22.9	24.0	24.1
RoE (%)	24.1	22.9	24.0	24.1

Balance Sheet

Net Debt : Equity	(0.6)	(0.5)	(0.6)	(0.6)
Net Wrkng Cap. (days)	—	—	—	—

Valuation

PER (x)	21.0	19.5	16.6	14.7
P / B (x)	4.7	4.2	3.8	3.4
EV / EBITDA (x)	15.4	13.3	11.3	9.7
EV / Sales (x)	4.3	3.6	3.1	2.7

Earnings Quality

Eff. Tax Rate	28.6	28.8	29.0	29.0
Other Inc / PBT	19.9	17.0	18.0	17.6
Eff. Depr. Rate (%)	6.9	7.8	7.8	7.5
FCFE / PAT	92.9	74.2	82.3	82.4

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2015	2016E	2017E	2018E
Shareholder's Funds	547,630	612,115	687,943	772,889
Total Debt	—	—	—	—
Other Liabilities	2,060	2,060	2,060	2,060
Total Liabilities	549,690	614,175	690,003	774,949
Net Fixed Assets	91,250	102,505	115,090	129,737
Goodwill	37,290	37,290	37,290	37,290
Investments	9,750	9,750	9,750	9,750
Net Current Assets	348,380	401,610	464,853	535,152
<i>Cash & Equivalents</i>	<i>303,670</i>	<i>333,854</i>	<i>382,145</i>	<i>436,043</i>
<i>Other Current Assets</i>	<i>158,540</i>	<i>173,117</i>	<i>197,327</i>	<i>223,880</i>
<i>Current Liabilities</i>	<i>113,830</i>	<i>105,362</i>	<i>114,619</i>	<i>124,771</i>
Other Assets	63,020	63,020	63,020	63,020
Total Assets	549,690	614,175	690,003	774,949

Quarterly Financials (Rs m)

Y/e March	Q4FY15	Q1FY16	Q2FY16	Q3FY16
Net Revenue	134,110	143,540	156,350	159,020
EBITDA	37,320	37,600	43,510	43,280
% of revenue	27.8	26.2	27.8	27.2
Depr. & Amortization	2,830	3,130	3,580	3,690
Net Interest	(6,960)	(6,570)	(6,240)	(6,340)
Other Income	8,810	7,580	7,930	8,020
Profit before Tax	43,300	42,050	47,860	47,610
Total Tax	12,320	11,750	13,870	12,960
Profit after Tax	30,970	30,300	33,980	34,650
Adj. PAT	30,970	30,300	33,980	34,650

Key Operating Metrics

Y/e March	2015	2016E	2017E	2018E
Revenue (US\$ m)	8,711	9,531	10,863	12,325

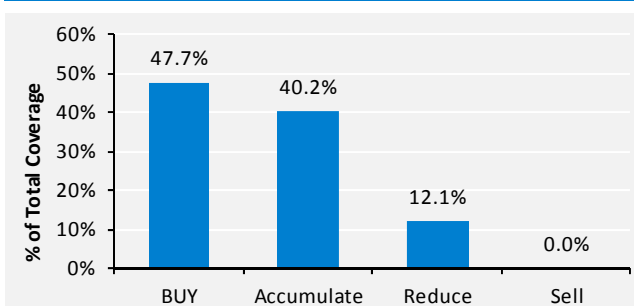
Source: Company Data, PL Research.

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Rating Distribution of Research Coverage



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BUY	: Over 15% Outperformance to Sensex over 12-months
Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months
Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month
Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock
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