

August 29, 2016

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Rating	BUY
Price	Rs1,037
Target Price	Rs1,400
Implied Upside	35.0%
Sensex	27,836
Nifty	8,592

(Prices as on August 26, 2016)

Trading data

Market Cap. (Rs bn)	2,371.6
Shares o/s (m)	2,288.0
3M Avg. Daily value (Rs m)	4680.7

Major shareholders

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

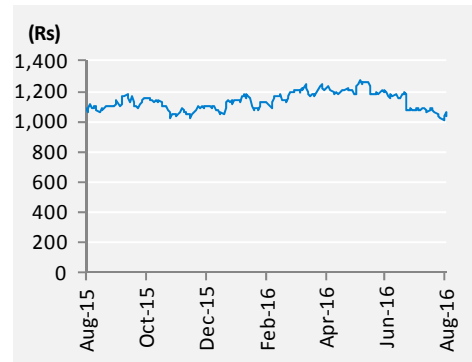
Stock Performance

(%)	1M	6M	12M
Absolute	(4.1)	(6.7)	(4.6)
Relative	(3.1)	(27.9)	(11.5)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2017	65.4	64.2	1.8
2018	73.4	72.0	2.0

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



Source: Bloomberg

We attended Infosys analyst meet where the company re-iterated its “renew and new” strategy and shared its progress on strategic initiatives such as zero distance, design thinking, and recently launched artificial intelligence based MANA platform. Infosys has adopted a universal applicable strategy of ‘Renewing the core businesses’ and ‘innovate into new businesses’. This strategy will be aided by a) operational excellence, b) utilization improvement, c) balance of onsite/offshore mix, d) sales efficiency and e) large deal wins.

Company also outlined short-term concerns which may pose downside risk to FY17 guidance. We believe that, despite the short term challenges, company is progressing well on the strategic initiatives and there are early indicators of success. We re-iterate BUY with TP of Rs1,400 based on 19x FY18 EPS.

- **Q2FY17 to be better; though guidance has downside risk:** Management outlined that Q2FY17 growth will be better than Q1FY17 (CC growth of 1.7% QoQ). Challenges faced in Q1FY17 have been addressed; however Q2FY17 has witnessed additional headwinds **a)** cancellation of the RBS contract, and **b)** some softness in client spending due to Brexit. Company has also witnessed strength in India business and large deals. Management wants to evaluate full impact of all these factors and intends to update the guidance along with Q2FY17 results.
- **Employee education at the core:** Design thinking has trained over 104,000 employees and is making significant progress. Zero distance has released ~3200 employees in FY16, with further release of ~ 2000 employees in Q1FY17. There is a shift towards greater focus on performance; improving productivity and leadership development to help enable employees deliver their full potential. This is reflected in the high performance attrition which as reduced from 13.4% in Q4FY16 to 11.2% in Q1FY17.

Key financials (Y/e March)

	2015	2016	2017E	2018E
Revenues (Rs m)	533,190	624,410	705,175	793,702
Growth (%)	6.4	17.1	12.9	12.6
EBITDA (Rs m)	149,010	170,780	191,861	216,685
PAT (Rs m)	123,290	134,900	149,617	167,935
EPS (Rs)	53.9	59.0	65.4	73.4
Growth (%)	15.8	9.4	10.9	12.2
Net DPS (Rs)	22.2	30.0	35.0	40.0

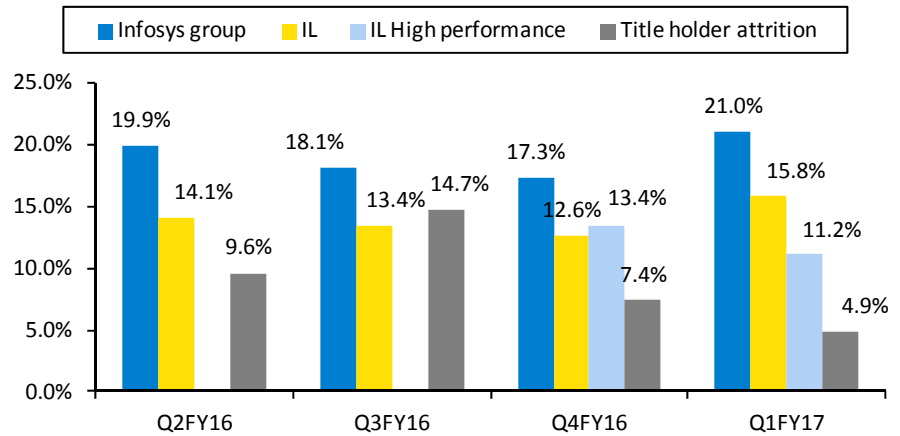
Profitability & Valuation

	2015	2016	2017E	2018E
EBITDA margin (%)	27.9	27.4	27.2	27.3
RoE (%)	24.1	23.2	23.1	23.3
RoCE (%)	24.0	23.2	23.0	23.3
EV / sales (x)	3.9	3.3	2.8	2.5
EV / EBITDA (x)	13.9	11.9	10.4	9.0
PE (x)	19.2	17.6	15.9	14.1
P / BV (x)	4.3	3.9	3.5	3.1
Net dividend yield (%)	2.1	2.9	3.4	3.9

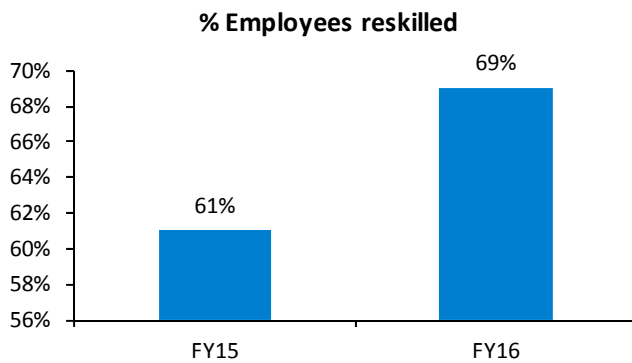
Source: Company Data; PL Research

Other Key takeaways from the meet

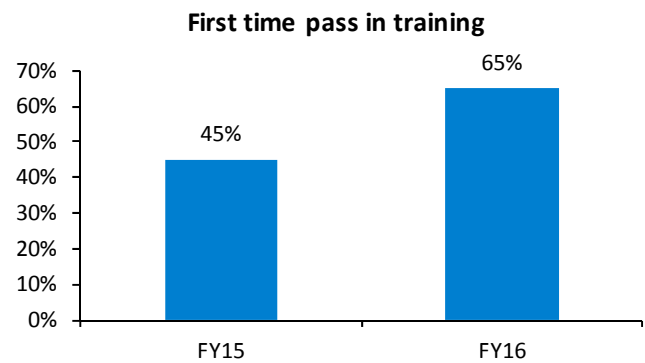
- Although the consulting business has been under some pressure, company believes consulting will evolve into a 2-tier model consisting of strategic conversations with clients and execution of larger projects. Long term goal in consulting is to evolve it towards design thinking. Company intends to have strategic engagements with each of its top 250 clients over next 9-12 months.
- Infosys is implementing Automation through the MANA platform. MANA is now live with 4 clients and there are several other engagements underway.
- MANA is essentially helping transforming and improving productivity. Infosys MANA platform strategy evolves around three pillars: **a)** bringing MANA across platforms, **b)** across managed services (ADM, IMS, testing etc), and **c)** pre built solutions on platforms.
- 'Zero Distance' initiative now has 100% coverage across all the projects (9,500).
- Company aims at delivery simplification through **a)** next gen global mobility, **b)** simplified vendor payments and claims, **c)** greater public cloud adoption, **d)** self-healing systems.
- Infosys has been able to reduce overall cycle time by 45%, simplified order creation & deal pricing, 30% acceleration in global mobility and 20% simplified vendor empanelment and faster vendor invoicing process.
- The company is renewing services by renewing culture (design thinking, Zero distance and Zero bench), automation (Machine learning, AI and MANA) and boundary less thinking (industry utilities and modernization).
- Company is also focused on increasing sales effectiveness. The key objectives for sales effectiveness are large deal wins, increasing top accounts and technology enabled sales.
- The entire endeavour of the company towards long term vision of 2020 will be achieved through three initiatives of strong revenue growth, margin improvement and high revenue per employee.

Exhibit 1: High performance attrition showing improvement


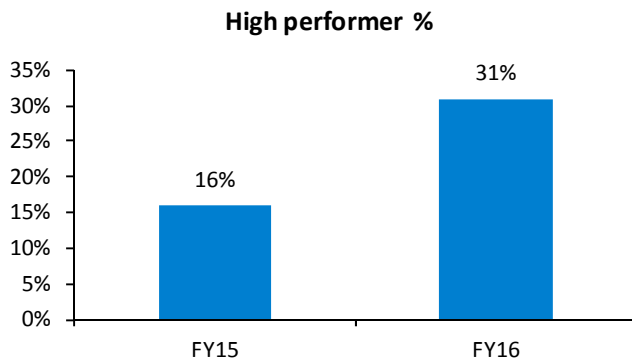
Source: Company Data, PL Research

Exhibit 2: % of employees reskilled is increasing


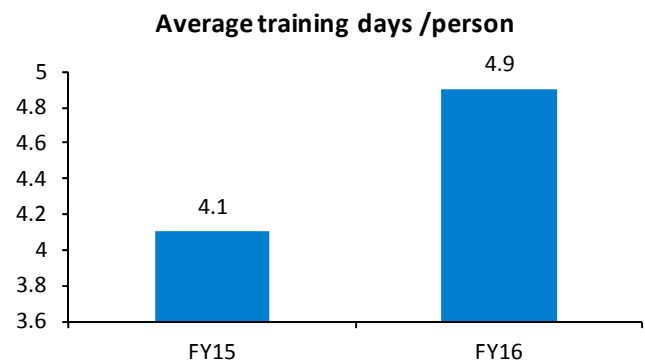
Source: Company Data, PL Research

Exhibit 3: Digital tutor on cloud increasing passing rate for trainees


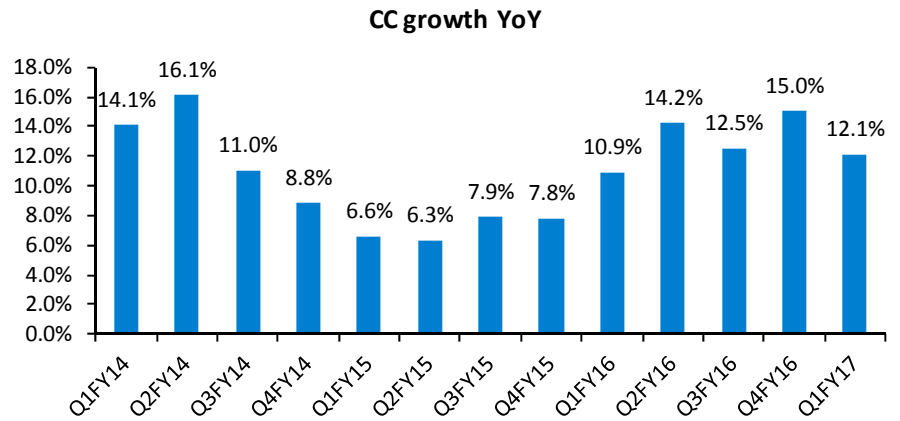
Source: Company Data, PL Research

Exhibit 4: Transforming education and training resulting in high performance


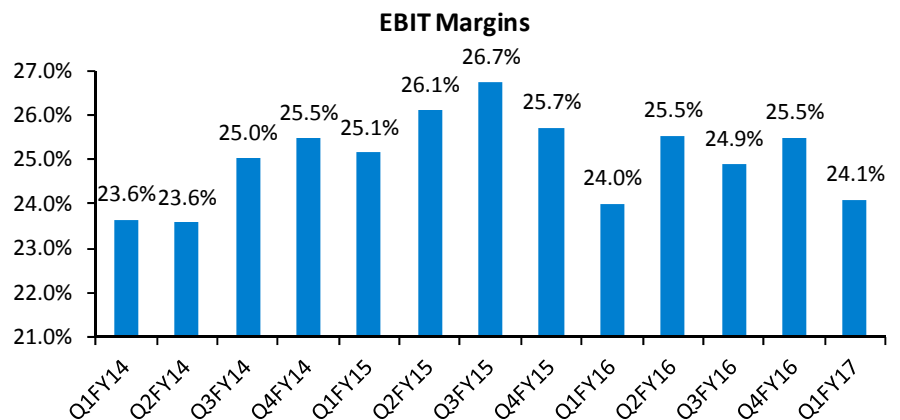
Source: Company Data, PL Research

Exhibit 5: Training improved through usage of external providers


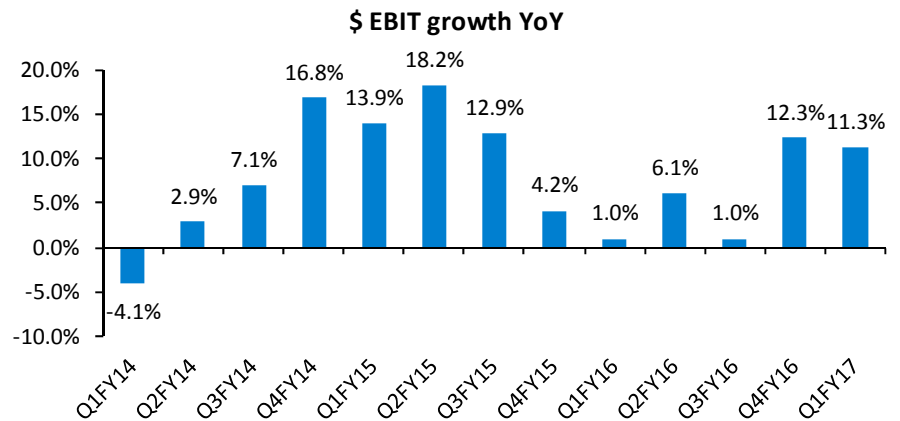
Source: Company Data, PL Research

Exhibit 6: CC revenue growth YoY in the last few quarters


Source: Company Data, PL Research

Exhibit 7: EBIT margin trend for the last few quarters


Source: Company Data, PL Research

Exhibit 8: US\$ EBIT growth YoY


Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2015	2016	2017E	2018E
Net Revenue	533,190	624,410	705,175	793,702
Raw Material Expenses	318,140	377,060	427,075	480,755
Gross Profit	215,050	247,350	278,100	312,948
Employee Cost	—	—	—	—
Other Expenses	66,040	76,570	86,240	96,262
EBITDA	149,010	170,780	191,861	216,685
Depr. & Amortization	10,690	14,590	16,379	18,189
Net Interest	(26,310)	(25,240)	(26,214)	(28,366)
Other Income	34,270	31,250	35,247	38,032
Profit before Tax	172,590	187,440	210,729	236,528
Total Tax	49,290	52,520	61,111	68,593
Profit after Tax	123,300	134,920	149,617	167,935
Ex-Od items / Min. Int.	10	20	—	—
Adj. PAT	123,290	134,900	149,617	167,935
Avg. Shares O/S (m)	2,288.0	2,288.0	2,288.0	2,288.0
EPS (Rs.)	53.9	59.0	65.4	73.4

Cash Flow Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
C/F from Operations	107,520	125,615	152,056	170,844
C/F from Investing	(12,790)	(25,601)	(28,912)	(32,542)
C/F from Financing	(50,560)	(68,569)	(80,080)	(91,520)
Inc. / Dec. in Cash	44,170	31,446	43,064	46,782
Opening Cash	259,500	303,670	335,116	378,179
Closing Cash	303,670	335,116	378,179	424,962
FCFF	114,520	99,994	123,144	138,302
FCFE	114,520	99,994	123,144	138,302

Key Financial Metrics

Y/e March	2015	2016	2017E	2018E
Growth				
Revenue (%)	6.4	17.1	12.9	12.6
EBITDA (%)	11.1	14.6	12.3	12.9
PAT (%)	15.8	9.4	10.9	12.2
EPS (%)	15.8	9.4	10.9	12.2
Profitability				
EBITDA Margin (%)	27.9	27.4	27.2	27.3
PAT Margin (%)	23.1	21.6	21.2	21.2
RoCE (%)	24.0	23.2	23.0	23.3
RoE (%)	24.1	23.2	23.1	23.3
Balance Sheet				
Net Debt : Equity	(0.6)	(0.5)	(0.6)	(0.6)
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	19.2	17.6	15.9	14.1
P / B (x)	4.3	3.9	3.5	3.1
EV / EBITDA (x)	13.9	11.9	10.4	9.0
EV / Sales (x)	3.9	3.3	2.8	2.5
Earnings Quality				
Eff. Tax Rate	28.6	28.0	29.0	29.0
Other Inc / PBT	19.9	16.7	16.7	16.1
Eff. Depr. Rate (%)	6.9	8.1	7.8	7.5
FCFE / PAT	92.9	74.1	82.3	82.4

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
Shareholder's Funds	547,630	613,961	683,499	759,914
Total Debt	—	—	—	—
Other Liabilities	2,060	2,060	2,060	2,060
Total Liabilities	549,690	616,021	685,559	761,974
Net Fixed Assets	91,250	102,261	114,794	129,147
Goodwill	37,290	37,290	37,290	37,290
Investments	9,750	9,750	9,750	9,750
Net Current Assets	348,380	403,721	460,724	522,787
<i>Cash & Equivalents</i>	<i>303,670</i>	<i>335,116</i>	<i>378,179</i>	<i>424,962</i>
<i>Other Current Assets</i>	<i>158,540</i>	<i>174,493</i>	<i>197,063</i>	<i>221,802</i>
<i>Current Liabilities</i>	<i>113,830</i>	<i>105,888</i>	<i>114,517</i>	<i>123,977</i>
Other Assets	63,020	63,020	63,020	63,020
Total Assets	549,690	616,041	685,579	761,994

Quarterly Financials (Rs m)

Y/e March	Q2FY16	Q3FY16	Q4FY16	Q1FY17
Net Revenue	156,350	159,020	165,500	167,820
EBITDA	43,510	43,280	46,390	44,470
<i>% of revenue</i>	<i>27.8</i>	<i>27.2</i>	<i>28.0</i>	<i>26.5</i>
Depr. & Amortization	3,580	3,690	4,190	4,000
Net Interest	(6,240)	(6,340)	(6,090)	—
Other Income	7,930	8,020	7,720	7,530
Profit before Tax	47,860	47,610	49,920	48,000
Total Tax	13,870	12,960	13,940	13,620
Profit after Tax	33,980	34,650	35,970	34,360
Adj. PAT	33,980	34,650	35,970	34,360

Key Operating Metrics

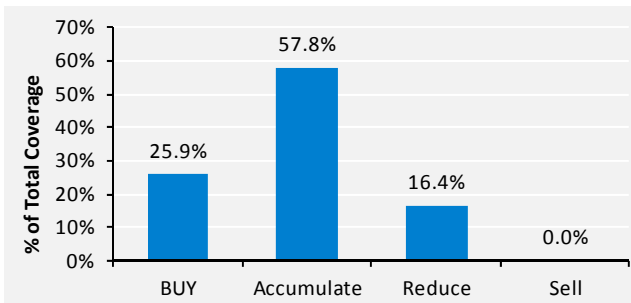
Y/e March	2015	2016	2017E	2018E
Revenue (US\$ m)	8,711	9,501	10,525	11,846

Source: Company Data, PL Research.

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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
Under Review (UR)	:	Rating likely to change shortly

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