

BSE SENSEX  
27,782

S&P CNX  
8,573

**CMP: INR1,021 TP: INR1,300(+27%)**

**Buy**



### Stock Info

Bloomberg	INFO IN
Equity Shares (m)	2,285.6
52-Week Range (INR)	1,278/1,009
1, 6, 12 Rel. Per (%)	-6/-29/-12
M.Cap. (INR b)	2,334
M.Cap. (USD b)	34.8
Avg Val, INRm	4332
Free float (%)	87.3

### Financials Snapshot (INR b)

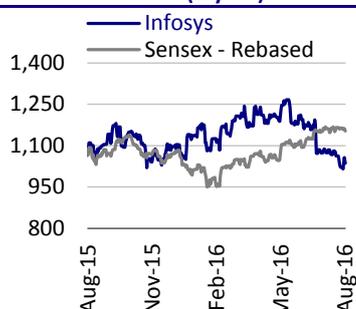
Y/E Mar	2016	2017E	2018E
Net Sales	624.4	703.5	813.6
EBITDA	170.8	190.7	221.7
Net Profit	134.9	142.3	165.4
EPS (INR)	59.0	62.3	72.4
EPS Gr. (%)	9.4	5.5	16.2
BV/Sh. (INR)	270.3	302.1	338.3
P/E (x)	17.3	16.4	14.1
P/BV (x)	3.8	3.4	3.0
RoE (%)	24.7	23.0	23.9
RoCE (%)	23.2	21.8	22.6

### Shareholding pattern (%)

As On	Jun-16	Mar-16	Jun-15
Promoter	12.8	12.8	13.1
DII	17.3	17.5	16.1
FII	41.0	40.7	57.7
Others	29.1	29.1	13.1

FII Includes depository receipts

### Stock Performance (1-year)



## Macro pushback to otherwise progressive changes

### Defers guidance update to October

- We attended INFO's analyst meet, where the company showcased its progress on the 'Renew' and 'New' strategy, threw light on addressing of 1Q performance, business environment and retention of senior leadership.
- While the termination of RBS contract drives further pressure on current guidance, INFO chose to defer any update on the same up till October, to get a greater grip on the nature of headwinds. It admitted that challenges to business do pose downside risk to guidance.
- INFO's longer term "Renew & New" strategy continues to progress well. Strides around renew of core are reflected in increased utilization, improved large deal wins, and uptick in automation.
- At the same time, new initiatives are fast gaining scale and traction, with: [1] 104,000 employees introduced to Design Thinking workshop, [2] Zero Distance spanning 95% of 9.5k projects, and floatation of 11.4k ideas [3] 4 live engagements already in 4-month old MANA, and [4] 40% QoQ growth in new areas last quarter.
- INFO also demonstrated the capability of its AI platform MANA, showcasing the use of the product across various stakeholders in the client system. MANA already has a significant pipeline of potential customers on the platform.

### Strategic imperatives for the 2020 vision

**RENEW**  
**THE CORE  
BUSINESS**

*Being Better*

**INNOVATE  
INTO NEW  
BUSINESSES**

*Being Different*

**A CULTURE OF LEARNING,  
CREATIVITY & PURPOSE**

*Being True*

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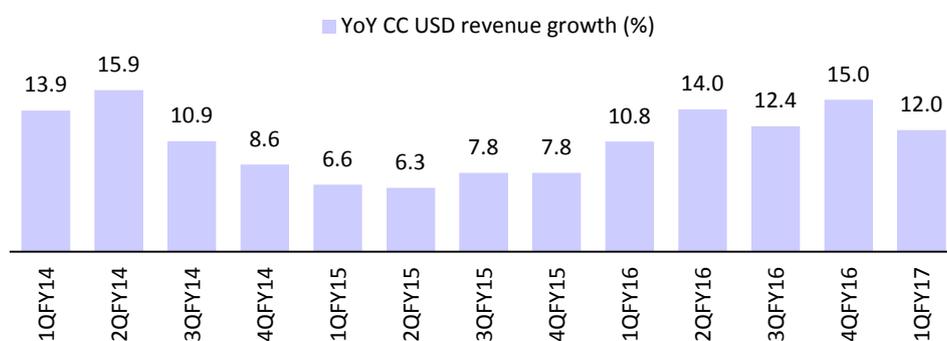
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### Defers guidance update amid a turbulent macro

- The recent termination of INFO's contract with RBS was a further dent in its revised 10.5-12% YoY CC growth guidance amid a tough macro. While we believe that a moderation in guidance is imminent, INFO chose to defer an update on its guidance in October. It remains confident that growth in 2Q will be better than 1Q (1.7% QoQ in constant currency and 2.2% QoQ in USD).
- That said, it admitted that the headwinds to business clearly higher than that baked into the guidance at the beginning of the quarter, and there is a downside risk to FY17 guidance. The weakness is not yet broad based, but restricted to select clients.
- Notwithstanding the near term macro, pipeline of deals remains very healthy. The much improved trajectory of deal wins over last few quarters is expected to continue. However, some of these large deals take time to ramp up, especially in the current environment.

#### Exhibit 1: Macro may continue to drag momentum down for the remainder of FY17



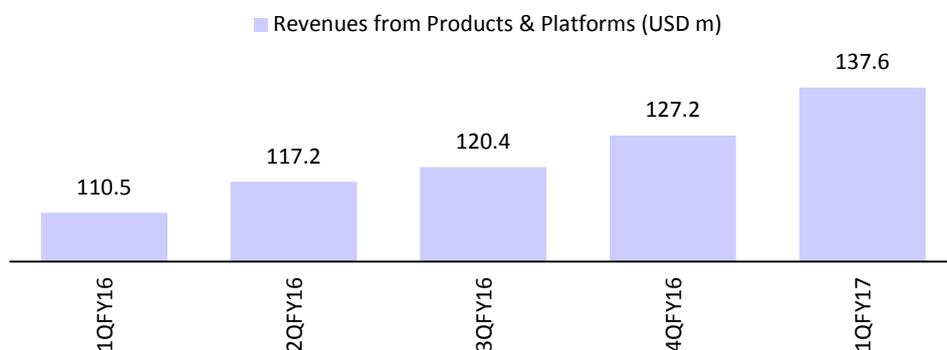
Source: Company, MOSL

### Long term agendas around Renew and New progressing well...

- INFO's longer term execution on the strategy of Renew and New continues its march, and the launch of MANA is an example to that effect. MANA is at the heart of INFO's renew strategy, and has already gone live in some accounts, despite being only 4 months old.
- Operational excellence (utilization, Sub-contractor costs, large deal wins) landscape renewal (mainframe modernization, migration to cloud) are the other pillars of its renew strategy. As far as INFO's initiatives around renew are concerned:
  1. It has trained over 100K+ associates in Design Thinking and conducted 200+ Design Thinking workshops
  2. Through the Zero Bench initiative, it has created over 21,600 work pockets
  3. Coverage of Zero Distance now spans 95% of the projects with over 11,400 ideas floated.
- New areas have kicked off nicely through Skava, and continues to bode excitingly with Design Thinking at the heart, along with M&A and other investments. Design Thinking has been a key initiative since the articulation of INFO's new strategy. In the new areas, 104,000+ employees who have attended the Design Thinking workshop have got a start in looking at tasks more strategically. Investments in acquisitions like Skava has already had witnessed in current and

new accounts. Revenue from new services grew by 40% QoQ in the previous quarter demonstrating the pace of progress of its initiatives.

**Exhibit 2: New areas scaling well by combination of acquisitions and organic investments**



Source: Company, MOSL

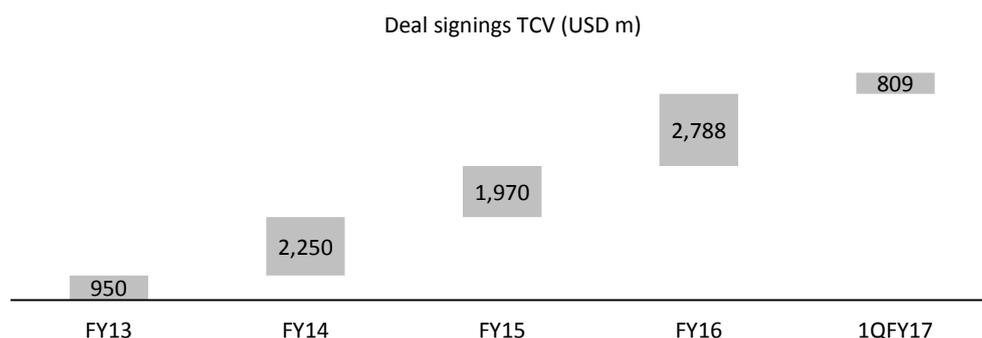
**...As INFO guns for more strategic engagement with its clients**

The larger, long term intent of INFO is to elevate quality of discussions with customers enabling a consultative-led approach towards transforming customers’ businesses. This needs the front end to have the content, confidence and articulation. While INFO is slowly improving towards that end, it is restricted only in few instances and is far from mainstream, as the number of people who can engage in such strategic discussions is insufficient. INFO’s attempt to get the capabilities up to the level needed is through a combination of all three: [1] tap the available skilled talent, [2] skill more people internally, and [3] amplify the ability of people with software.

**Early success signs in improving sales effectiveness**

INFO’s focus on large deals has been fruitful over the last year, with a 45% growth in TCV seen in FY16. Higher win rates, relationships with advisors, separate hunting and farming function and reach to new clients in new geographies have all contributed to the progress. Moreover, MANA, Skava and Edgeverve have been further aiding INFO’s positioning in the market. At the same time, growth in top accounts has been higher than company average, and the number of engagements that are above USD100m have increased; stemming out of successful renewal of existing services and consequent growth in top accounts.

**Exhibit 3: Deal wins momentum has remained healthy, pipeline is strong**

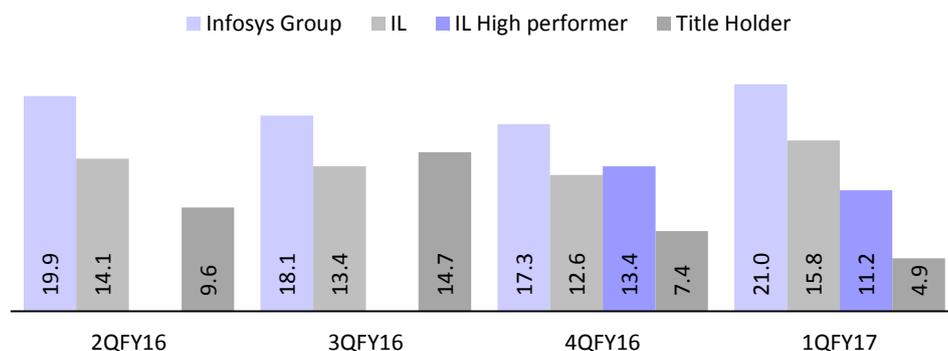


Source: Company, MOSL

### Shortcomings of 1QFY17 arrested

- The problem areas that caused a subdued beginning to the year were [1] Weakness in Consulting, led by project completion that didn't get renewed, [2] Decline in EMEA and India, [3] Decline in Finacle. These drag factors have been arrested, and leadership changes have taken place where necessary (Finacle and Consulting). All these areas are being monitored closely, and the company expects better growth in 2Q, compared to 1Q.
- INFO's focus on high-performers and efforts to increase retention are reflected in the resumption of the ESOP program, and higher-than-average compensation increase for high-performers. High performance employees on average were given a salary increase was 2.2x v/s the overall average. The measures to stem the attrition of quality talent has paid dividends, with title holder attrition down to 4.9% from 7.4% in 4QFY15 and 9.6% in 2QFY16. Its high performer attrition down 220bp QoQ to 11.2%. The company expects that its measures would drive continued improvement in attrition.

### Exhibit 4: Attrition rates are lower in high performing individuals



Source: Company, MOSL

### MANA – more than just Automation

INFO demonstrated to us its recently launched knowledge-based Artificial Intelligence Platform MANA. It enables continuous reinvention of existing systems, which is otherwise a complex and expensive process. It not only helps manage infrastructure but also in maintaining systems by deep understanding of the systems. INFO showcased this by an instance of how once MANA has captured the knowledge of the underlying system, there is a clear business case for multiple stakeholders from business manager to an engineer.

## Valuation view: Gunning to regain bellwether status

- **Journey to 'Infosys of the future' progressing well:** INFO's strategy 'renew and new' – renewing the way of delivering existing services and also building new services of the future - resonated with the changing landscape of technology demand. Several senior personnel from SAP have been recruited to facilitate this. Successful execution of the strategy will help INFO regain its bellwether status with industry-leading growth at strong profitability.
- **Addressed various pain points under new management:** Over the past 4-5 quarters (before 1QFY17), INFO's improving traction is demonstrated in multiple areas:
  1. Volume growth has picked up gradually from 9.3% in FY15 to 14.5% YoY in FY16.
  2. Improvement in client mining—top-10 accounts, which were flattish till 1QFY15 have turned around impressively. Top account has grown 17.1% in FY16 (compared to -5.6% in FY15). Similarly, the top 2-5 accounts have grown by 9.3% in FY16, compared to 0.7% in FY15.
  3. Deal wins have picked up, with TCV of USD2.8b in FY16 being 45% higher than that in FY15. INFO hasn't factored in an additional USD440m from deals that have been framed but not concluded.
  4. Flux in the senior management has been addressed. Standalone attrition declined from 18.9% in FY15 to 13.6% in FY16.
  5. Cost optimization levers have helped deliver on margins despite pricing pressure—IT Services utilization excluding trainees is up to 81% in FY16 and FY15, from 77% in FY14 and 73% in FY13.
- **After cost optimization, pricing aggression puts margins in limelight:** INFO's cost structures have stabilized, allowing it to balance investments and profitability without having significant volatility on the margins. While there remains room to improve utilization, optimizing onsite employee and sub-contractor costs in the near to medium term, these may in the best case offset the headwind from wage hikes and lower pricing. Velocity of benefits from new initiatives like automation will be crucial, in the absence of which, execution on the margins will get challenging. However, we see this as a sector-wide phenomenon and believe outperformance on revenue growth will aid relatively better show on profitability too.
- **Cut estimates following 1Q miss, but expect growth to revive in 2Q: We have** cut our USD revenue estimates for FY17/18 by 2.4%/3.2% and earnings estimates by 5.5%/4.3% respectively. INFO had steadily addressed the concerns under new management over last 18 months around revenue growth, operating margins and new age services. A soft start in the challenging macro pushes the recovery back a few paces, and growth rebound in 2Q will be crucial for industry-average growth in FY17. Momentum in top-25 accounts and deal wins lend confidence towards that end.
- **Uncertainty limits triggers in the near term:** The stock trades at 17.0x / 14.6x on our FY17E/18E earnings. We expect INFO to grow its revenue at a CAGR of 10.6% over FY16-18 and EPS at a CAGR of 10.7% during this period. We believe that INFO is investing in all the right areas to regain and sustain its growth leadership, compounded by industry leading margins. Our price target of INR1,300 discounts two year forward earnings by 18x. Notwithstanding the

headwinds over the near term, INFO's gradual recovery to industry-matching / industry-leading growth at a strong margin will command a premium to peers. Maintain **Buy**.

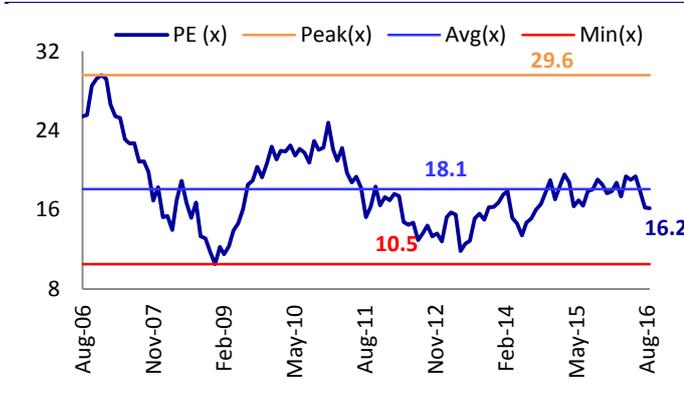
**Key triggers**

- Strong rebound in revenue growth momentum in 2QFY17 despite large contract impact
- Uptick in large deal TCV in traditional business
- Uptick in discretionary spending

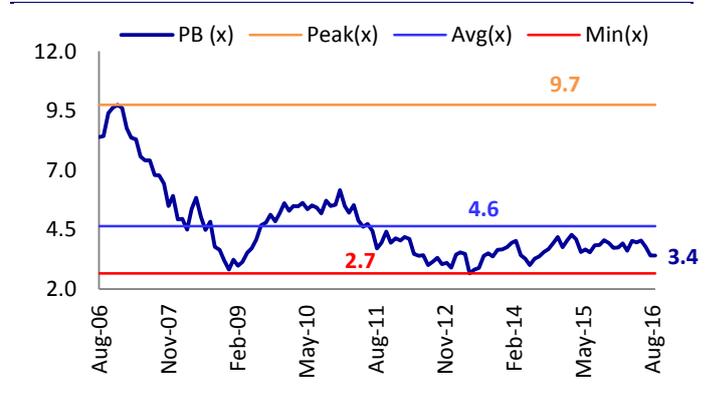
**Key risk factors**

- Macroeconomic uncertainty translating into revenue pressure.
- Margin fall due to accelerated investments and pricing aggression.
- Industry-wide pricing concern following aggressive stance of select players

**Exhibit 5: INFO 1 year forward PE chart**



**Exhibit 6: INFO 1-year forward PB chart**



## Financials and Valuations

Income Statement							(INR Million)	
Y/E March	2011	2012	2013	2014	2015	2016	2017E	2018E
<b>Sales</b>	<b>275,010</b>	<b>337,340</b>	<b>403,520</b>	<b>501,330</b>	<b>533,190</b>	<b>624,410</b>	<b>703,480</b>	<b>813,585</b>
Change (%)	20.9	22.7	19.6	24.2	6.4	17.1	12.7	15.7
Software Develop. Exp.	150,620	188,710	241,510	307,670	318,140	376,390	425,879	491,818
Selling and Mktg. Exp.	15,320	17,570	20,350	26,250	29,400	34,310	38,661	43,934
Administration Exp.	19,510	23,900	26,090	31,070	36,630	42,920	48,235	56,137
<b>EBITDA</b>	<b>89,560</b>	<b>107,160</b>	<b>115,570</b>	<b>136,340</b>	<b>149,020</b>	<b>170,790</b>	<b>190,705</b>	<b>221,696</b>
% of Net Sales	32.6	31.8	28.6	27.2	27.9	27.4	27.1	27.2
Depreciation	8,540	9,370	11,284	13,740	10,690	14,590	15,940	16,253
Other Income	12,110	19,040	23,590	26,690	34,270	31,250	25,294	27,535
<b>PBT</b>	<b>93,130</b>	<b>116,830</b>	<b>127,876</b>	<b>149,290</b>	<b>172,600</b>	<b>187,450</b>	<b>200,059</b>	<b>232,978</b>
Tax	24,900	33,670	33,670	40,620	49,290	52,520	57,717	67,563
Rate (%)	26.7	28.8	26.3	27.2	28.6	28.0	28.9	29.0
Minority Interest	0	0	0	0	10	0	0	0
<b>Adjusted PAT</b>	<b>68,230</b>	<b>83,160</b>	<b>94,206</b>	<b>108,670</b>	<b>123,300</b>	<b>134,930</b>	<b>142,342</b>	<b>165,414</b>
Extraordinary Items	0	0	0	2,190	0	0	0	0
<b>Reported PAT</b>	<b>68,230</b>	<b>83,160</b>	<b>94,206</b>	<b>106,480</b>	<b>123,300</b>	<b>134,930</b>	<b>142,342</b>	<b>165,414</b>
Change (%)	8.9	21.9	13.3	13.0	15.8	9.4	5.5	16.2

Balance Sheet							(INR Million)	
Y/E March	2011	2012	2013	2014	2015	2016	2017E	2018E
Share Capital	2,860	2,860	2,860	2,860	5,720	11,440	11,440	11,440
Reserves	270,170	331,750	395,110	472,440	541,910	606,350	679,118	761,619
<b>Net Worth</b>	<b>273,030</b>	<b>334,610</b>	<b>397,970</b>	<b>475,300</b>	<b>547,630</b>	<b>617,790</b>	<b>690,558</b>	<b>773,059</b>
<b>Capital Employed</b>	<b>273,030</b>	<b>334,610</b>	<b>397,970</b>	<b>475,300</b>	<b>547,630</b>	<b>617,790</b>	<b>690,558</b>	<b>773,059</b>
Gross Block	84,460	91,740	117,540	140,790	178,360	208,370	236,278	264,278
Less : Depreciation	32,540	36,210	42,080	55,250	64,220	74,510	92,320	108,573
<b>Net Block</b>	<b>51,920</b>	<b>55,530</b>	<b>75,460</b>	<b>85,540</b>	<b>114,140</b>	<b>133,860</b>	<b>143,957</b>	<b>155,705</b>
CWIP	5,250	10,340	16,600	18,320	14,400	18,930	17,110	17,110
Investments	10,840	3,770	17,390	45,230	24,130	21,050	22,920	22,920
<b>Curr. Assets</b>	<b>244,620</b>	<b>313,840</b>	<b>354,060</b>	<b>421,460</b>	<b>510,850</b>	<b>580,050</b>	<b>672,413</b>	<b>760,415</b>
Debtors	58,960	77,550	95,180	111,620	125,580	143,590	167,679	193,923
Cash & Bank Balance	166,660	205,910	218,320	259,500	303,670	326,970	389,405	437,963
Loans & Advances	15,220	27,220	35,530	43,780	76,230	104,130	110,489	123,689
Other Current Assets	3,780	3,160	5,030	6,560	5,370	5,360	4,840	4,840
<b>Current Liab. &amp; Prov</b>	<b>39,600</b>	<b>48,870</b>	<b>65,540</b>	<b>95,250</b>	<b>115,890</b>	<b>136,100</b>	<b>165,842</b>	<b>183,091</b>
Current Liabilities	25,960	30,810	41,300	56,180	70,180	79,760	95,531	110,270
Provisions	13,640	18,060	24,240	39,070	45,710	56,340	70,311	72,821
<b>Net Current Assets</b>	<b>205,020</b>	<b>264,970</b>	<b>288,520</b>	<b>326,210</b>	<b>394,960</b>	<b>443,950</b>	<b>506,571</b>	<b>577,324</b>
<b>Application of Funds</b>	<b>273,030</b>	<b>334,610</b>	<b>397,970</b>	<b>475,300</b>	<b>547,630</b>	<b>617,790</b>	<b>690,558</b>	<b>773,059</b>

E: MOSL Estimates

## Financials and Valuations

### Ratios

Y/E March	2011	2012	2013	2014	2015	2016	2017E	2018E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>29.9</b>	<b>36.4</b>	<b>41.2</b>	<b>46.6</b>	<b>53.9</b>	<b>59.0</b>	<b>62.3</b>	<b>72.4</b>
Cash EPS	33.6	40.5	46.2	53.6	58.6	65.4	69.3	79.5
Book Value	119.5	146.4	174.1	208.0	239.6	270.3	302.1	338.3
DPS	15.1	11.7	10.5	15.8	18.5	24.8	30.0	30.0
Payout % (excl.div.tax)	50.5	32.3	25.5	33.1	34.3	41.9	48.2	41.5
<b>Valuation (x)</b>								
P/E				21.9	18.9	17.3	16.4	14.1
Cash P/E				19.1	17.4	15.6	14.7	12.8
EV/EBITDA				14.9	13.5	11.6	10.1	8.4
EV/Sales				4.0	3.8	3.2	2.7	2.3
Price/Book Value				4.9	4.3	3.8	3.4	3.0
Dividend Yield (%)				1.5	1.8	2.4	2.9	2.9
<b>Profitability Ratios (%)</b>								
RoE	26.6	27.4	25.7	24.9	26.0	24.7	23.0	23.9
RoCE	26.6	27.4	25.7	24.9	24.1	23.2	21.8	22.6
<b>Turnover Ratios</b>								
Debtors (Days)	78	84	86	81	86	84	87	87
Fixed Asset Turnover (x)	5.7	6.6	6.5	6.6	5.7	5.3	5.2	5.6

### Cash Flow Statement

(INR Million)

Y/E March	2011	2012	2013	2014	2015	2016	2017E	2018E
CF from Operations	76,450	90,800	104,600	122,250	135,180	149,530	158,802	181,667
Cash for Working Capital	-15,530	-21,320	-9,580	390	-25,770	-24,275	-706	-22,196
<b>Net Operating CF</b>	<b>60,920</b>	<b>69,480</b>	<b>95,020</b>	<b>122,640</b>	<b>109,410</b>	<b>125,255</b>	<b>158,096</b>	<b>159,471</b>
Net Purchase of FA	-12,470	-18,070	-32,470	-27,450	-35,370	-37,278	-24,218	-28,000
<b>Free Cash Flow</b>	<b>48,450</b>	<b>51,410</b>	<b>62,550</b>	<b>95,190</b>	<b>74,040</b>	<b>87,977</b>	<b>133,878</b>	<b>131,471</b>
Net Purchase of Invest.	33,030	7,070	-18,040	-22,580	21,100	3,287	11,949	0
<b>Net Cash from Invest.</b>	<b>20,560</b>	<b>-11,000</b>	<b>-50,510</b>	<b>-50,030</b>	<b>-14,270</b>	<b>-33,991</b>	<b>-12,269</b>	<b>-28,000</b>
Proceeds from Equity	60	240	10	0	0	0	0	0
Others	4,140	9,598	0	13,020	-123	0	0	0
Dividend Payments	-40,130	-29,068	-31,220	-44,450	-50,847	-68,403	-82,913	-82,913
<b>Cash Flow from Fin.</b>	<b>-35,930</b>	<b>-19,230</b>	<b>-31,210</b>	<b>-31,430</b>	<b>-50,970</b>	<b>-68,403</b>	<b>-82,913</b>	<b>-82,913</b>
<b>Net Cash Flow</b>	<b>45,550</b>	<b>39,250</b>	<b>12,410</b>	<b>41,180</b>	<b>44,170</b>	<b>22,861</b>	<b>62,914</b>	<b>48,558</b>
<b>Opening Cash Bal.</b>	<b>121,110</b>	<b>166,660</b>	<b>205,910</b>	<b>218,320</b>	<b>259,500</b>	<b>303,670</b>	<b>326,531</b>	<b>389,445</b>
Add: Net Cash	45,550	39,250	12,410	41,180	44,170	22,861	62,914	48,558
<b>Closing Cash Bal.</b>	<b>166,660</b>	<b>205,910</b>	<b>218,320</b>	<b>259,500</b>	<b>303,670</b>	<b>326,531</b>	<b>389,445</b>	<b>438,002</b>

E: MOSL Estimates

NOTES

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