Infosys

15 April 2019

4QFY19 Result Update

Reuters: INFY.BO; Bloomberg: INFO IN

P/E Discount Reduction Trade With TCS Will Stall Near Term

We believe the 7.5%-9.5% constant currency (CC) revenue growth guidance for FY20 (inclusive of inorganic elements) of Infosys looks a bit conservative with: (1) total large deal TCV in FY19 at >2x that of FY18 and new deal TCV at 3.4x and that too spread across multiple verticals. (2) Double-digit exit revenue growth (YoY) in 4QFY19. But 4QFY19 exit EBIT margin (21.4%), 70bps below our estimate of 22.1%, does open up possibility of it landing at bottom end of the guided range (21%-23%) for FY20 considering likely lack of support from INR depreciation (at 210bps in FY19) and with more monetary interventions required to curb the high attrition rate. 4QFY19 EBIT margin shock should be understood in the context of the skewed growth in revenues and delayed investments in its pivot to digital. While 4QFY19 QoQ growth itself was in line, the internals were quite poor. Unlike TCS where it was broad-based, growth of Infosys was skewed towards Telecom, by likely execution of the Verizon deal while multiple other verticals witnessed QoQ reduction or muted growth. The front-loaded investments connected with rebadging, knowledge transfer, and non-optimal operational cost mix will likely hit profitability in the near term in large contracts, especially if they are won under high competitive intensity. We still stick to our view that Infosys could nose ahead of TCS in FY20 in revenue growth (by ~50-100bps), while it was behind by ~240bps in FY19. However, as regards EBIT margin, we expect the gap with TCS - which had narrowed to 50bps in FY18 (from ~500bps in FY14) - has widened to 270bps in FY19 and will remain so in FY20. Post 4QFY19, we have tweaked our EBIT margin and EPS estimates lower for both FY20 and FY21. We retain our Sell rating on Infosys with a March 2020 target price of Rs601 (at a target P/E of 14.9x FY21E EPS, 10% discount to that of TCS' target P/E). We had reduced the discount to TCS from 20% to 10% expecting reduction in growth gap. The margin performance does raise issues as to whether such a discount reduction could sustain. While revenue growth of Infosys is likely to be a tad faster than that of TCS in FY20, TCS will have better margins and RoIC. We believe the ongoing share buyback – a substantial part of which is yet incomplete – will cushion any big cuts on the stock. We believe the CEO, Mr. Salil Parekh, had a fortuitous start because of a very good macro in most of 2018 and to everyone's surprise there was ample revenue acceleration in Year 1 itself (see: Three-year Roadmap). We believe he is going to be tested in FY21 in what would be a more hostile operating environment.

Muted revenue commentary likely because of concerns in customer pockets: (1) US Financial Services, (2) Europe Manufacturing, (3) Healthcare and Life Sciences vertical globally were indicated to be getting cautious. Infosys states that any negative development on the economic front may lead to curtailed spending. As stated in our recent note (TCV, Value Compression and Margins Key), TCV by itself does not signify that it will translate into revenues. During slowdown, customers tend to rework contracts at short notice and also decide not to ramp up already signed contracts if they feel financially stressed. Infosys specifically alluded on the analyst call to certain contracts being reworked. The other thing to keep track of is the extent of value compression in the existing book of business because of automation and annual productivity gain promised by vendors to customers.

4Q revenue internals were poor: While 2.1% growth QoQ in CC terms was in line, most verticals witnessed muted growth or were in decline. Retail vertical contracted by 90bps. BFSI sector declined by 80bps in CC terms because of the insurance part rather than the BFS part. Most of the incremental QoQ revenues came from Communication vertical (16.6% growth), likely from the Verizon deal. The only other vertical which had decent growth was Hi-Tech at 6.9%.

SELL

Sector: Information Technology

CMP: Rs748

Target price: Rs601

Downside: 20%

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Key Data

Current Shares O/S (mn)	4,368.9
Mkt Cap (Rsbn/US$bn)	3,266.9/47.2
52 Wk H / L (Rs)	774/542
Daily Vol. (3M NSE Avg.)	8,243,232

Price Performance (%)

	1 M	6 M	1 Yr
Infosys	5.8	10.8	30.4
Nifty Index	3.0	11.2	11.3

Source: Bloomberg

Y/E March (Rsmn)	4QFY18	3QFY19	4QFY19	*YoY (%)*	*QoQ (%)*	4QFY19E	*Dev (%)*
Net Sales (USD mn)	**2,805**	**2,987**	**3,060**	***9.1***	***2.5***	**3,054**	***0.2***
Net Sales	**180,830**	**214,000**	**215,390**	***19.1***	***0.6***	**215,314**	***0.0***
Software Development Expenses	115,540	140,160	142,830	*23.6*	*1.9*	141,892	*0.7*
% of Sales	*63.9*	*65.5*	*66.3*	-	-	*65.9*	-
SG&A	20,570	25,540	26,380	*28.2*	*3.3*	25,838	*2.1*
% of Sales	*11.4*	*11.9*	*12.2*	-	-	*12.0*	-
EBIT	**44,720**	**48,300**	**46,180**	***3.3***	***(4.4)***	**47,584**	***(3.0)***
EBIT Margin (%)	*24.7*	*22.6*	*21.4*	-	-	*22.1*	-
Other Income	6,520	7,530	6,650	*2.0*	*(11.7)*	7,880	*(15.6)*
PBT	**51,240**	**51,320**	**52,830**	***3.1***	***2.9***	**55,464**	***(4.7)***
Provision for Tax	13,470	15,220	12,050	*(10.5)*	*(20.8)*	16,085	*(25.1)*
Effective Tax Rate	*26.3*	*29.7*	*22.8*	-	-	*29.0*	-
PAT (adjusted)	**37,770**	**36,100**	**40,780**	***8.0***	***13.0***	**39,380**	***3.6***
Exceptional items	**(870)**	**0**	**0**	-	-	**0**	-
PAT (reported)	**36,900**	**36,100**	**40,780**	***10.5***	***13.0***	**39,380**	***3.6***
NPM (%)	***20.9***	***16.9***	***18.9***	-	-	***18.3***	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Key financials

Y/E March (Rsbn)	FY17	FY18	FY19	FY20E	FY21E
Revenue (Rsbn)	685	705	827	928	957
YoY Growth (%)	*9.7*	*3.0*	*17.2*	*12.2*	*3.2*
EBIT (Rsbn)	169	171	189	206	213
EBIT (%)	*24.7*	*24.3*	*22.8*	*22.2*	*22.2*
Adj. PAT(Rsbn)	144	147	157	165	172
YoY Growth (%)	*6.4*	*2.3*	*6.8*	*5.2*	*4.0*
FDEPS-Adjusted (Rs)	31.2	32.5	36.0	38.9	40.4
ROE (%)	*22.0*	*21.9*	*24.1*	*25.8*	*25.9*
ROCE (%)	*30.5*	*30.5*	*32.8*	*35.5*	*35.7*
Pre Tax ROIC (%)	*51.1*	*44.9*	*47.5*	*49.4*	*48.2*
P/E (x)	23.9	23.0	20.8	19.2	18.5
P/BV (x)	5.0	5.0	5.0	5.0	4.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in our estimates

	New			Old			*Change (%)*		
	FY19A	FY20E	FY21E	FY19E	FY20E	FY21E	*FY19E*	*FY20E*	*FY21E*
INR/USD	70.0	72.0	74.5	69.9	72.0	74.5	*0.1*	*0.0*	*0.0*
USD Revenue (USD mn)	11,799	12,881	12,852	11,787	12,858	12,819	*0.1*	*0.2*	*0.3*
Revenue (Rsbn)	827	928	957	825	926	955	*0.2*	*0.2*	*0.3*
EBIT (Rsbn)	189	206	213	191	214	222	*(1.1)*	*(3.8)*	*(4.1)*
EBIT Margin (%)	*22.8*	*22.2*	*22.2*	*23.2*	*23.1*	*23.2*	*-*	*-*	*-*
PAT Adjusted (Rsbn)	157	165	172	155	168	177	*0.9*	*(1.7)*	*(3.2)*
FDEPS-Adjusted (Rs)	36.0	38.9	40.4	35.7	39.5	41.7	*0.9*	*(1.6)*	*(3.1)*

Source: Company, Nirmal Bang Institutional Equities Research

View on Indian IT services sector: We downgraded the Indian IT sector (see our report: Street Is Not Factoring Even A Soft Landing; We Downgrade) on 27 December 2018 based on: (1) Consensus not factoring in significantly softer growth in FY21 as the best demand environment since 2008-09 is largely behind us with corporate capex in both the US and Europe likely to have peaked in 2018. (2) The US BFSI space could witness pressure on margins from a flattened/inverted yield curve and probably a more hostile regulatory environment through a split Congress in the US. (3) Pressure on cost structure because of tariffs levied on imports from China impacting US manufacturers. (4) Front-office capabilities in digital still elusive for Indian IT services players, leading to inability to tap into the marketing budgets of customers in a material way. The focus has been on the technology-intensive back-end of digital where we believe the field is relatively more crowded. (5) 'Automation at scale' in legacy services eating into growth coming in from new services. This is driven by explosive growth in both intelligent and robotic process automation software industry. (6) Factoring in lower INR depreciation benefits than estimated earlier (Refer: Incorporating New INR Estimate). (7) Capital return to shareholders not being as potent a stock driver as it was earlier because the cash hoard is shrinking after two to three rounds of share buyback over the past three years. (8) Talent pressure in the US in new-age services because of a tighter H1-B visa regime. We were planning the downgrade a quarter or two down the road, but the global macro set-up has turned weak far more quickly than we anticipated, hastening this move. While some of the 'relative' factors such as investor positioning, valuation and earnings revision momentum –partly the reasons for turning 'tactically positive in March 2018 - still exist, we believe they are unlikely to carry as much importance with investors as deteriorating fundamentals would over FY19-FY21. While many of our competitors are expecting a better FY20 versus FY19, we believe that is unlikely. We probably had the best macro environment that the industry has seen in the past 10 years in 2018 and incrementally we only see a deterioration which should crimp spending by customers. More importantly, we reiterate our no-industry-growth-in-FY21 call initiated in March 2018. We base this scenario on an explicit expectation of a soft landing in the US (0%-1.5% real GDP growth) in 2020. We believe consensus is expecting mid to high single-digit revenue growth in FY21 for the industry, implicitly assuming continued robust growth in the US (2%-2.5%). It is our belief that the street will converge with our no-growth expectations over time. Until the market prices in this scenario, we believe technical factors are not likely to hold the sector up. A hard landing (recession) - not our current base case - could lead to single-digit negative growth for the sector. Just as outperformance of the sector in 2018 was driven largely by P/E multiple expansion in the belief that growth is going to accelerate, we believe the downside in 2019 will be driven by P/E multiple deflation as investors begin to re-calibrate growth expectations lower over FY19-FY21. We prefer large-caps over mid-caps. The faster growth shown by select mid-caps is a case of 'rising tide lifting all boats', a smaller base and lower exposure to legacy services. But as digital demand shifts from the front to back, we believe that traditional large Indian companies will be in a better position to capture the market. We would advise investors to focus on sustainability and not overpay for a riskier business model - some companies have seen client concentration rising over the past two years.

Exhibit 3: Vertical-based QoQ growth in 4QFY19

Vertical	Contribution to Revenues (%)	Reported (QoQ)	CC (QoQ)
BFS	31.60	(0.40)	(0.80)
Manufacturing and Hitech	17.70	8.60	8.70
Retail and CPG	15.90	(0.80)	(0.90)
Others (Energy and Utilities, Transport & Logistics)	15.30	(2.2)	-3.8
Life Sciences	6.00	(1.90)	(1.90)
Telecom	13.50	16.80	16.60
Total	100.00	2.40	2.10

Source: Nirmal Bang Institutional Equities Research

Exhibit 4: Geography-based QoQ growth in 4QFY19

Geographies	Contribution to Revenues	Reported (QoQ)	CC (QoQ)
North America	61.2	3.80	3.70
Europe	24.0	1.70	1.40
India	2.3	(7.9)	(9.1)
ROW	12.5	(0.6)	(1.3)
Total	**100.0**	2.40	2.10

Source: Nirmal Bang Institutional Equities Research

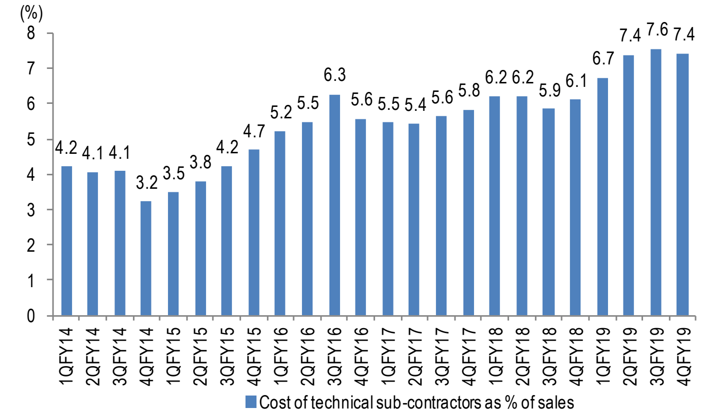
4QFY19 conference-call highlights

- **FY19: A good year for revenue growth but not so much on margins**: Infosys ended FY19 with CC revenue growth of 9% against the 6%-8% that it started the year with. EBIT margin dropped below the mid-point of the 22%-24% band that it guided for after a poor 4QFY19. Unlike in the past, Infosys did not show the seasonal weakness in 2H because of ramp-up of orders it won and this, we believe, helped growth.
- **4QFY19 revenue picture**: Infosys' 2.1% CC QoQ growth rate was in line. The YoY CC growth stood at 11.7% (second consecutive quarter of double-digit growth) driven by ramp-up in deal wins. US dollar or USD growth was 2.5% QoQ and 9.1% YoY. QoQ revenue growth in 4QFY19 was lumpy, most of it coming from the Communication vertical – up 16.6% QoQ. The other vertical with some decent growth rate was Hi- Tech which grew 6.9%. Manufacturing vertical showed muted growth of 1.6% vis-à-vis 3QFY19. Energy and Utilities vertical grew 1.5% driven by Utilities in particular. Retail contracted 90bps QoQ in CC terms because of lower customer spending. BFSI too contracted by 80bps. For the near term, in Retail, the management sees strong demand in digital , IT integration and M&A-related activity because of new store openings. Healthcare and Life Sciences vertical remains under pressure.
- **4QFY19 margin story:** EBIT margin was at 21.4% - a drop of ~110bps QoQ which can be attributed to: (1) Drop in employee utilisation - 70bps. (2) Impact from recent large deals - 40bps. (3) Continued strategic investment in sales and localisation- 30bps. (4) INR appreciation - 30bps. Offset by: (1) Lower bad debt provisioning- 30bps. (2) Margin one-off in 3QFY19-30bps. Most of the investments in FY19 have been back-ended.
- **Cost optimisation as a margin lever:** Salary hikes (done in 1Q and 2Q) and corrections to retain talent would likely hit margins by 150bps-200bps cumulatively, in our view. The FY20 margin guidance of 21%-23% takes into account the investments already made in sales, re-skilling and localisation initiatives which are largely done as of 4QFY19. The management feels that along with its focus on sustained revenue growth, cost optimisation will hold up margins. These include the same old levers including onsite:offshore mix, onsite pyramid, better employee utilisation, automation and benefits from revenue mix change to higher priced/margin digital work.
- **Lowering employee utilisation and building a bench aligns with 'talent scarcity' commentary from the industry**: The margin pressure has been broadly in line with our view that attrition-combating measures, investment in sales and pivot to digital could erode some of the INR depreciation-related benefits - although the quantum has surprised us negatively. The sub-contracting costs stood at 7.4% of revenues, down marginally by 20bps from 3QFY19. Revenue productivity for employee was flat sequentially in CC terms and up by 0.7% YoY.
- **Digital growth catching up with TCS**: Digital accounted for 34% of in 4QFY19 revenues (crossed US$1bn in quarterly run-rate) and grew 41% in CC terms YoY and 9.7% QoQ. This is inching closer to the digital growth rate of TCS which also grew 46% YoY in CC terms. In digital, the key areas are cloud-related services, data analytics, IoT, cyber security and customer experience. The verticals seeing digital

demand are Energy and Utilities, Telecom, Insurance, Manufacturing and Retail particularly for transformation in the core. Seven new logos have adopted the digital banking platform for FY19. Gross margin is higher and pricing is better in digital compared to non-digital, but the magnitude of it has not been shared by Infosys. While the management has assured of a steady pipeline in the legacy business (the core contracted 1.4% QoQ in CC terms), it is clear that digital is the way forward, while efficiency and productivity will drive revenues in legacy business.

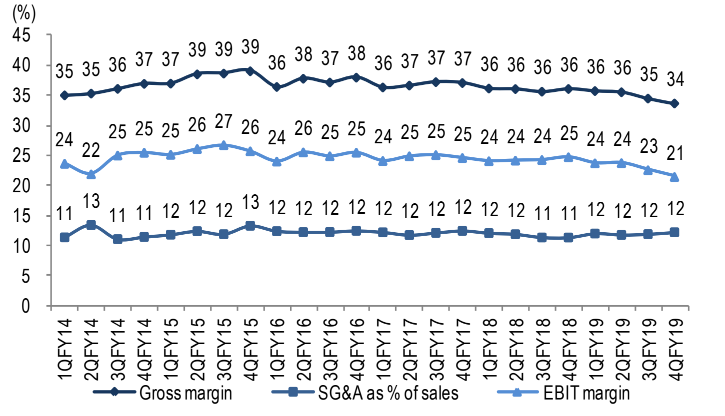
- **Dull quarter for BFSI:** BFSI growth has been subdued during the quarter after a strong 3QFY19 and contracted 80bps in CC terms QoQ. For the quarter per se, it was indicated that Insurance business declined and that dragged down the entire vertical. Infosys, however, did speak about budget constraints of certain large banking clients. The management, surprisingly, is optimistic about this vertical stating that it will do better in FY20. Demand commentary has been all over the place in the past few quarters and companies have gone back and forth on this vertical. Only Cognizant has been stating consistently that it has been seeing uneven spending across clients.
- **Large deal TCV at US$1.6bn in 4QFY19 is the highest ever in a seasonally weak quarter:** The deal wins were strong during the quarter. The large deal TCV stood at US$1.6bn, taking the total large deal wins to US$6.28bn in FY19, which was twice that of FY18. Of the 13 large deals in 4QFY19, seven deals were from Americas, five from Europe, and one from rest of the world.
- **Capital allocation:** Infosys initiated share buyback from 20 March 2019 after all approvals. Out of the buyback size of Rs82.6bn, so far Rs15.46bn worth of shares have been bought back by the company.
- **Attrition rate:** Infosys witnessed an uptick in the attrition rate from 3QFY19, standing at 20.4% vis-à-vis 19.9% last quarter. The management has, in the past, acknowledged the problem of high labour turnover in the work experience bracket of three to five years and stated that steps are being taken to reduce the same. One of the major causes behind the attrition is lack of onsite opportunities following restricted mobility because of the drop in H1-B visa approvals (onsite opportunity being a major attraction among software engineers). The rigorous re-skilling programme may also be one of the causes behind the uptick in attrition. The management wants to bring this figure within the ideal range of 13%-15%. Also, the salary increments are due next quarter. 85% of the employees will be given salary increments (~6% onshore and 1%-2% onsite), which will certainly help in containing the attrition problem.
- **Headcount addition has been strong in sales**: In 4QFY19, Infosys added 2,622 employees against 7,762 in 3QFY19 and 2,416 in 4QFY18. There was a major uptick in hiring for sales and support, which stood at 13,396 vis-à-vis 13,143 in 3QFY19. However, investment in sales capability is largely done.
- **Localisation:** Infosys hired 9,100 employees from the US in the last two years against the promised 10,000. Inclusive of rebadged employees, the 10,000 employee hiring target has been breached. Similar efforts at localisation are underway in Australia as well.

Exhibit 5: Sub-contractor charges decline marginally in 4QFY19



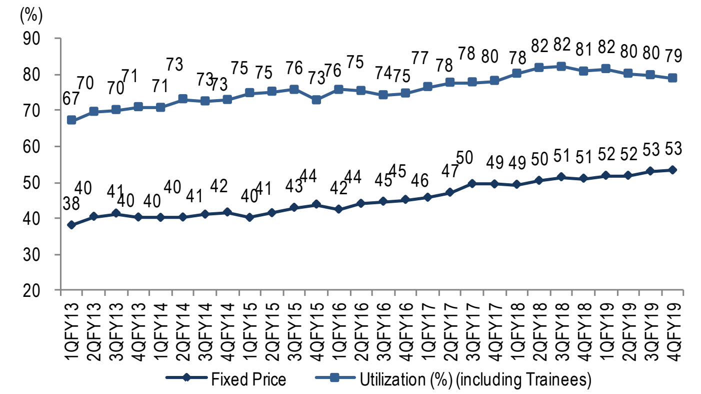
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Margins dip in 4QFY19 because of lower employee utilisation, INR appreciation and continued investment in sales



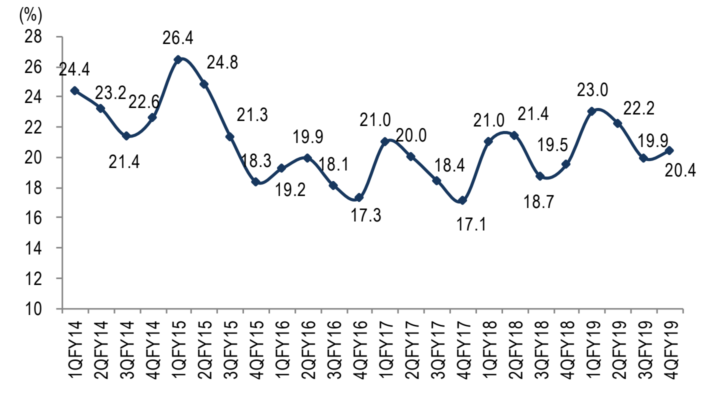
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Fixed-price contracts are a key lever left for improvement in margins as employee utilisation declines



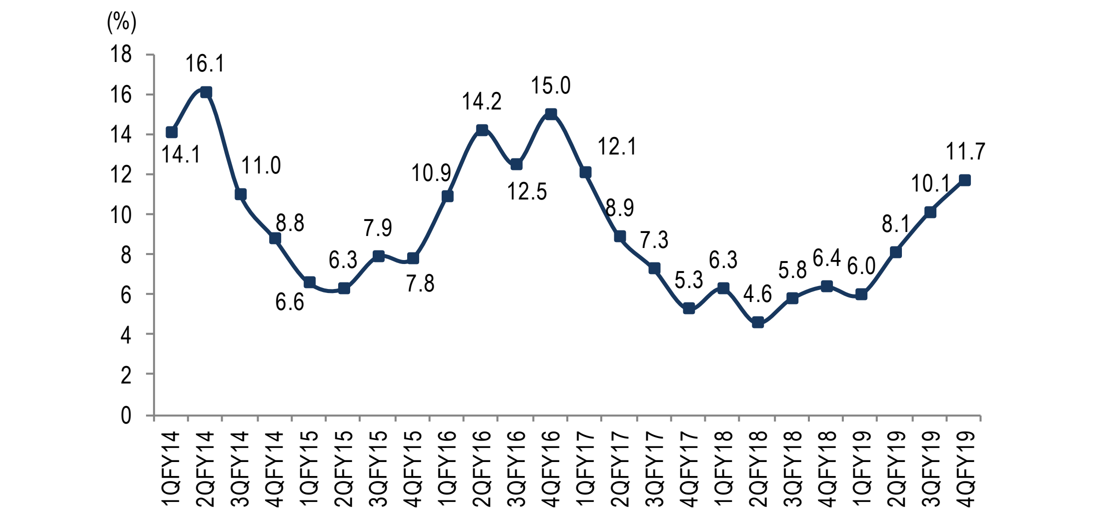
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Attrition rate increases by 50bps



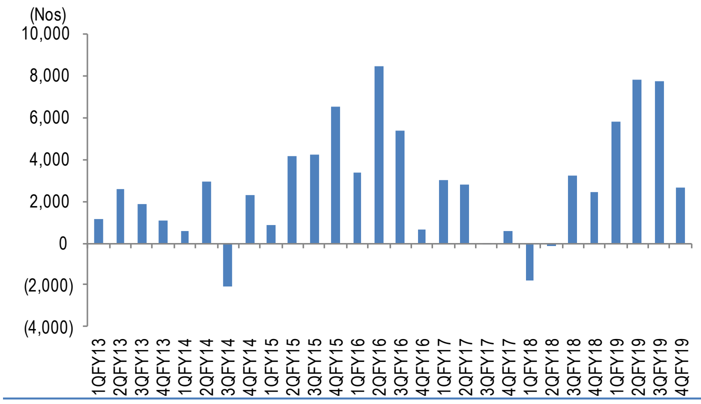
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: YoY revenue growth (CC terms) continues its double-digit momentum because of deal wins



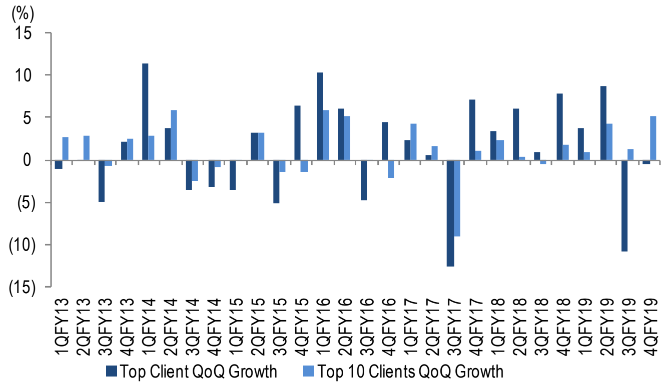
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Net employee addition was muted in 4QFY19



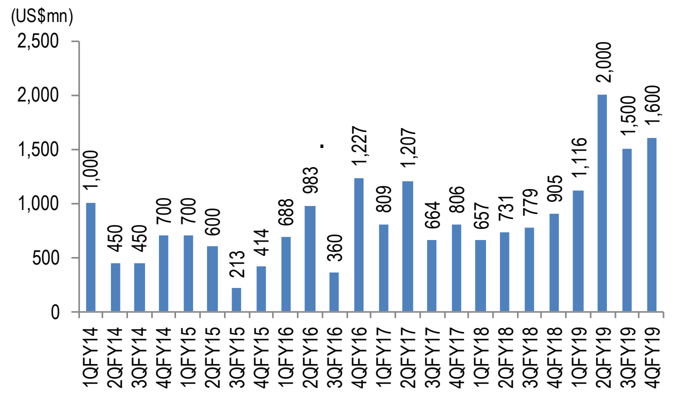
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Top client QoQ growth was muted in 4QFY19



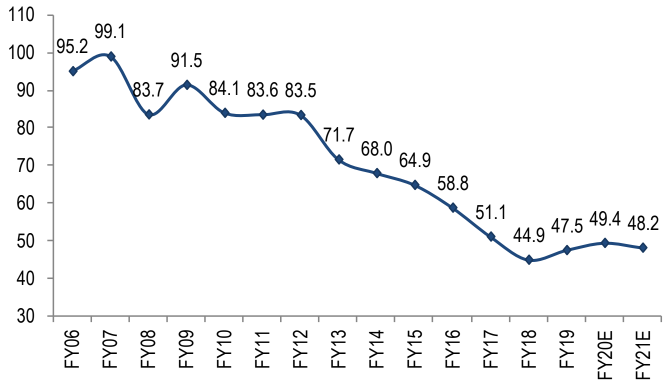
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: TCV strong for a historically weak 4Q



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: RoIC expected to improve (%)



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Quarterly snapshot

Year to 31 March (Rsmn)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
INR/USD	**64.4**	**64.6**	**64.4**	**67.5**	**70.6**	**71.6**	**70.4**
USD Revenue (USD mn)	**2,728**	**2,755**	**2,805**	**2,831**	**2,921**	**2,987**	**3,060**
INR Revenue	175,670	177,940	180,830	191,280	206,090	214,000	215,390
Gross margin	63,400	63,440	65,290	68,400	73,280	73,840	72,560
SGA	20,940	20,250	20,570	23,030	24,340	25,540	26,380
EBIT	42,460	43,190	44,720	45,370	48,940	48,300	46,180
Other income	8,830	9,620	6,520	7,260	7,390	7,530	6,650
PBT	51,290	52,810	51,240	52,630	56,330	51,320	52,830
Tax	14,030	15,840	13,470	13,810	15,230	15,220	12,050
PAT-Adjusted	37,260	36,970	37,770	38,820	41,100	36,100	40,780
Shares Outstanding (basic)	4,594	4,550	4,347	4,347	4,347	4,348	4,347
EPS Adjusted (Rs)	8.1	8.1	8.7	8.9	9.5	8.3	9.4
YoY Growth (%)							
USD Revenue	**5.5**	**8.0**	**9.3**	**6.8**	**7.1**	**8.4**	**9.1**
INR Revenue	1.5	3.0	5.6	12.0	17.3	20.3	19.1
Gross profit	(0.1)	(1.4)	2.8	10.7	15.6	16.4	11.1
EBIT	(1.5)	(0.3)	6.2	10.4	15.3	11.8	3.3
Net profit	3.2	(0.3)	4.8	11.5	10.3	(2.4)	8.0
QoQ Growth (%)							
USD Revenue	**2.9**	**1.0**	**1.8**	**0.9**	**3.2**	**2.3**	**2.4**
INR Revenue	2.9	1.3	1.6	5.8	7.7	3.8	0.6
EBIT	3.3	1.7	3.5	1.5	7.9	(1.3)	(4.4)
Net profit	7.0	(0.8)	2.2	2.8	5.9	(12.2)	13.0
Margins (%)							
Gross margin	36.1	35.7	36.1	35.8	35.6	34.5	33.7
EBIT	24.2	24.3	24.7	23.7	23.7	22.6	21.4
PAT	21.2	20.8	20.9	20.3	19.9	16.9	18.9
SGA	11.9	11.4	11.4	12.0	11.8	11.9	12.2

Source: Company, Nirmal Bang Institutional Equities Research

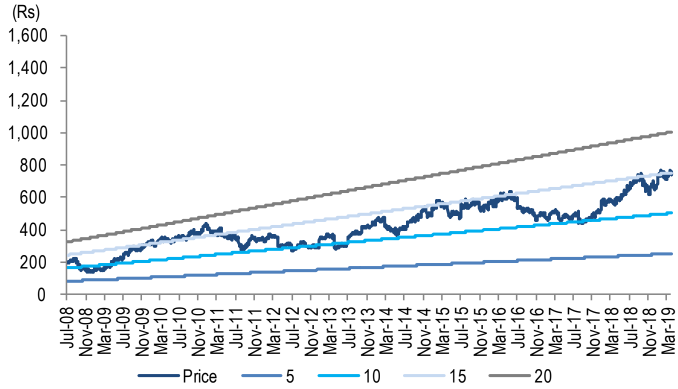
Exhibit 15: Key metrics**

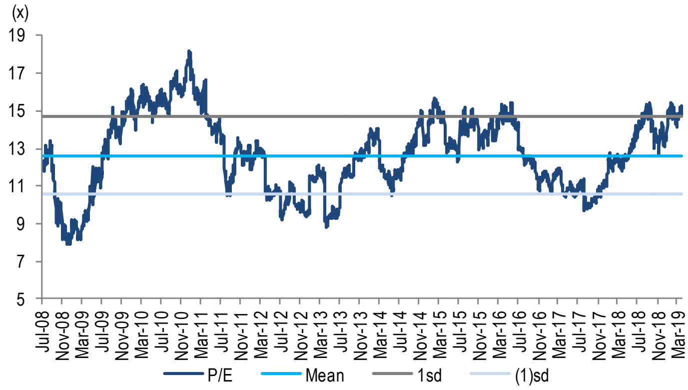
Key Metrics	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
P and L (Rsmn)													
Revenue	165,500	167,820	173,100	172,730	171,200	170,780	175,670	177,940	180,830	191,280	206,090	214,000	215,390
EBITDA	42,200	40,470	43,090	43,340	42,120	41,110	42,460	43,190	44,720	45,370	48,940	48,300	46,180
PAT	35,970	34,360	36,090	37,080	36,030	34,830	37,260	36,970	37,770	38,820	41,100	36,100	40,780
Vertical Mix (%)													
Manufacturing	22.7	22.8	22.5	22.5	22.4	22.2	22.0	21.8	21.9	17.0	17.1	17.4	17.7
Insurance Finance and Banking	32.8	32.8	33.1	33.3	33.5	33.3	33.4	33.1	33.0	31.8	32.2	32.5	31.6
Telecom	8.6	9.4	9.4	9.1	9.9	10.4	10.4	10.5	10.8	12.7	12.3	11.9	13.5
Retailing & CPG	15.0	15.5	14.9	14.6	14.1	14.2	13.8	14.1	13.3	16.6	16.8	16.4	15.9
Others (utilities, logistic, transportation,etc)	13.2	12.7	13.4	13.6	13.5	13.3	13.6	14.0	14.4	15.3	15.2	15.6	15.3
Life Sciences	5.7	4.7	4.5	4.6	4.6	4.6	4.8	4.6	4.7	6.6	6.4	6.2	6.0
Healthcare	2.0	2.1	2.2	2.3	2.0	2.0	2.0	1.9	1.9	0.0	0.0	0.0	0.0
Horizontal Mix (%)													
Application Development	13.7	14.4	15.6	15.5	15.3	15.4	15.6	15.4	15.5	-	-	-	-
Application Maintenance, including Y2K	19.7	19.5	18.1	17.0	16.8	16.7	16.0	16.2	15.6	-	-	-	-
Package implementation	33.2	32.1	32.1	32.4	32.6	32.6	32.5	32.8	32.4	-	-	-	-
Testing	9.0	9.1	9.2	9.1	9.0	9.3	9.4	9.4	9.8	-	-	-	-
Product Engineering services	3.4	3.5	3.7	3.9	4.0	4.1	4.1	4.0	4.0	-	-	-	-
Business Process Management	5.0	4.9	4.9	4.9	5.1	5.0	5.1	5.3	5.4	-	-	-	-
Infrastructure management	8.0	8.3	8.4	8.6	8.5	8.4	9.0	8.8	9.3	-	-	-	-
Other services	2.8	2.7	2.9	3.0	3.2	3.1	3.1	2.8	3.1	-	-	-	-
Products,Platforms and solutions	5.2	5.5	5.1	5.6	5.5	5.4	5.2	5.3	4.9	-	-	-	-
Products	3.2	3.0	3.0	3.2	3.1	0.0	0.0	0.0	0.0	-	-	-	-
BPM Platform	1.7	2.1	1.7	1.9	1.9	0.0	0.0	0.0	0.0	-	-	-	-
Others	0.3	0.4	0.4	0.5	0.5	0.0	0.0	0.0	0.0	-	-	-	-
Geographic Mix (%)													
North America	61.9	62.0	61.5	62.0	62.3	61.1	60.6	60.4	59.4	60.0	60.3	60.4	61.2
Europe	23.4	23.0	22.5	22.2	22.1	22.4	23.2	24.4	24.8	24.3	24.0	24.2	24.0
India	3.0	2.7	3.4	3.4	3.2	3.6	3.3	3.0	2.8	2.6	2.5	2.6	2.3
Rest of the world	11.7	12.3	12.6	12.4	12.4	12.9	12.9	12.2	13.0	13.1	13.2	12.8	12.5
Project Type													
T&M	55	54	53	51	51	51	50	49	49	48	48	47	47
Fixed Price	45	46	47	50	49	49	50	51	51	52	52	53	53
Utilization (%) (including Trainees)	**75**	**77**	**78**	**78**	**78**	**80**	**82**	**82**	**81**	**82**	**80**	**80**	**79**
Reevenue Mix (based on delivery)													
Onsite	56.5	57.0	57.0	56.5	56.7	56.6	55.6	54.8	54.6	-	-	-	-
Offshore	43.5	43.0	43.0	43.5	43.3	43.4	44.4	45.2	45.4	-	-	-	-
Clients Concentration (%)													
Top client	3.6	3.6	3.5	3.1	3.3	3.3	3.4	3.4	3.6	3.7	3.9	3.4	3.3
Top 5 clients	13.7	13.7	13.1	12.3	12.2								
Top 10 clients	21.8	22.2	21.8	20.1	20.2	20.0	19.5	19.2	19.2	19.2	19.4	19.2	19.7
Number of Client													
$1m	558	574	577	591	598	606	620	630	634	627	633	651	662
$5m	268	268	277	275	282	279	286	290	295	0	0	0	0
$10m	177	180	186	195	189	190	186	198	198	200	205	214	222
$25m+	88	87	89	90	91	97	100	101	105	0	0	0	0
$50m	52	52	54	54	56	56	55	56	57	56	58	59	60
$75m+	31	31	30	32	31	31	31	34	35	0	0	0	0
$100m	14	17	18	18	19	18	19	20	20	24	23	23	25
$200m	6	6	6	6	6	-	-	-	-	-	-	-	-
$300m	1	1	1	1	1	-	-	-	-	-	-	-	-
Employees	194,044	197,050	199,829	199,763	200,364	198,553	198,440	201,691	204,107	209,905	217,739	225,501	228,123
Attrition (consolidated)(%)	17.3	21.0	20.0	18.4	17.1	21.0	21.4	18.7	19.5	23.0	22.0	19.9	20.4

***Note: Starting 1QFY19, Infosys has reclassified a number of parameters and therefore the data is not strictly comparable across quarters*

Source: Company, Nirmal Bang Institutional Equities Research

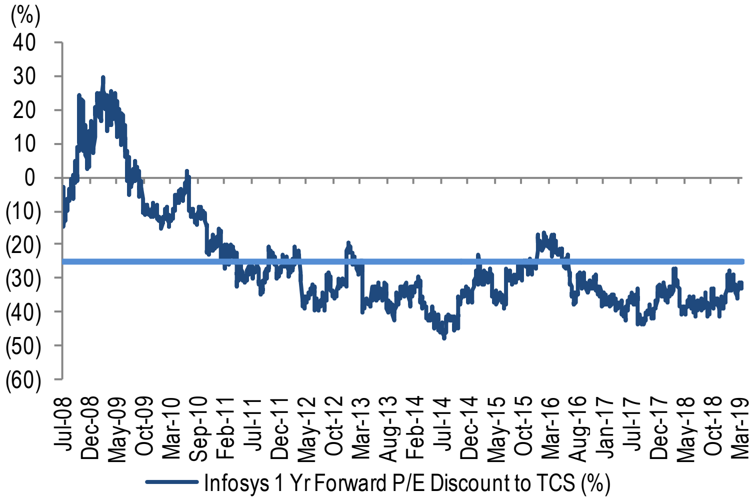
Exhibit 16: P/E multiple charts





Source: Company,Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 17: Infosys' one-year forward P/E discount to TCS



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 18: Comparative valuation

	TCS	Infosys	Wipro	HCL Tech	TechMahindra	Mindtree	Persistent
Year Ending	**March**	**March**	**March**	**March**	**March**	**March**	**March**
Prices as on 12-Apr-19	2,015	748	283	1,083	785	976	611
Currency	INR	INR	INR	INR	INR	INR	INR
Market Value (Rs Bn)	7,713	3,250	1,399	1,473	692	161	49
(US$mn)	107,120	45,141	19,437	20,465	9,617	2,242	679
March 2020 Target Price	1,614	601	209	1,076	587	554	489
Upside/(downside)	-19.9%	-19.7%	-26.2%	-0.7%	-25.3%	-43.2%	-19.9%
Recommendation	Sell	Sell	Sell	Accumulate	Sell	Sell	Sell
FDEPS (Rs)							
FY18	67.0	32.5	16.8	62.9	42.8	34.7	40.4
FY19E	83.1	36.0	18.5	74.4	50.1	46.2	44.2
FY20E	93.4	38.9	17.8	83.4	56.2	54.2	57.2
FY21E	97.8	40.4	18.1	87.0	59.3	56.0	59.3
PE (x)							
FY18	30.1	23.0	16.9	17.2	18.3	28.1	15.1
FY19E	24.3	20.8	15.3	14.6	15.7	21.1	13.8
FY20E	21.6	19.2	15.9	13.0	14.0	18.0	10.7
FY21E	20.6	18.5	15.7	12.5	13.3	17.4	10.3
EV/EBITDA (x)							
FY18	23.6	16.1	13.8	11.2	13.8	19.5	10.7
FY19E	19.1	14.6	11.2	9.2	9.8	13.6	8.7
FY20E	18.0	13.5	9.2	8.2	8.8	11.0	6.8
FY21E	17.3	12.9	8.8	7.7	8.3	10.3	6.1
EV/Sales (x)							
FY18	6.2	4.3	2.6	2.5	2.1	2.6	1.7
FY19E	5.2	3.7	2.2	2.1	1.8	2.1	1.5
FY20E	4.7	3.4	1.9	1.9	1.6	1.8	1.2
FY21E	4.5	3.2	1.8	1.8	1.5	1.7	1.1
Pre Tax ROIC (%)							
FY18	57.3	44.9	24.5	38.9	25.8	32.9	29.7
FY19E	61.8	47.5	29.2	37.3	36.3	47.6	41.4
FY20E	59.4	49.4	35.4	34.1	38.1	51.3	49.9
FY21E	58.9	48.2	35.8	30.1	38.7	53.2	53.5

Source: Nirmal Bang Institutional Equities Research

Financials

Exhibit 19: Income statement

Y/E March (Rsbn)	FY17	FY18	FY19	FY20E	FY21E
Average INR/USD	**67.1**	**64.5**	**70.0**	**72.0**	**74.5**
Net Sales (USD mn)	**10,206**	**10,940**	**11,799**	**12,881**	**12,852**
-Growth (%)	***7.4***	***7.2***	***7.9***	***9.2***	***(0.2)***
Net Sales	**685**	**705**	**827**	**928**	**957**
-Growth (%)	*9.7*	*3.0*	*17.2*	*12.2*	*3.2*
Direct Costs	433	451	539	611	630
Gross Margin	252	254	288	317	328
% of sales	*36.8*	*36.0*	*34.8*	*34.2*	*34.2*
SG& A	83	82	99	111	115
% of sales	*12.2*	*11.7*	*12.0*	*12.0*	*12.0*
EBIT	**169**	**171**	**189**	**206**	**213**
% of sales	***24.7***	***24.3***	***22.8***	***22.2***	***22.2***
Other income (net)	31	32	29	22	24
PBT	200	204	213	228	237
-PBT margin (%)	*29.1*	*28.9*	*25.8*	*24.5*	*24.7*
Provision for tax	56	57	56	63	65
Effective tax rate (%)	*28.1*	*28.0*	*26.4*	*27.5*	*27.5*
Net profit (adjusted)	**144**	**147**	**157**	**165**	**172**
-Growth (%)	*6.4*	*2.3*	*6.8*	*5.2*	*4.0*
-Net profit margin (%)	*21.0*	*20.8*	*19.0*	*17.8*	*17.9*
Shares Outstanding (Basic)	4,594	4,347	4,347	4,237	4,237

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 20: Cash flow

Y/E March (Rsbn)	FY17	FY18	FY19	FY20E	FY21E
EBIT	169	171	189	206	213
(Inc.)/dec. in working capital	(19)	(46)	18	(21)	(2)
Cash flow from operations	150	126	206	185	210
Other Income	31	32	29	22	24
Depreciation & Amortisation	17	19	20	24	25
Financial Expenses	0	0	0	0	0
Tax Paid	(56)	(57)	(56)	(63)	(65)
Dividends Paid	(143)	(179)	(113)	(101)	(105)
Net Cash from Operations	**(1)**	**(59)**	**86**	**67**	**89**
Capital Expenditure	(26)	(3)	(50)	(38)	(40)
Net Cash after Capex	(26)	(63)	36	29	49
Inc./(Dec.) in Debt	-	-	-	-	-
(Inc.)/Dec. in Investments	(145)	43	9	0	0
Share Issue/(Share Buyback)		(130)	0	(83)	0
Cash from Financial Activities	**(145)**	**(87)**	**9**	**(83)**	**0**
Others	71	122	(48)	(1)	
Opening Cash	327	226	198	196	142
Closing Cash	226	198	196	141	190
Change in Cash	(101)	(28)	(3)	(54)	49

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 21: Balance sheet

Y/E March (Rsbn)	FY17	FY18	FY19	FY20E	FY21E
Equity capital	11.4	10.9	21.7	21.2	21.2
Reserves & surplus	678	638	628	609	675
Net worth	690	649	650	631	697
Deferred tax liability	2	5	7	7	7
Other liabilities	2	3	4	4	4
Total loans					
Total liabilities and Equity	**693**	**658**	**661**	**641**	**707**
Goodwill	37	22	35	35	35
Other intangible assets	8	2	7	7	7
Net block	117	121	134	147	162
Investments	164	122	113	113	113
Deferred tax asset - net	5	13	14	14	14
Other non-current assets	65	82	83	91	92
Unbilled revenue	36	43	54	57	58
Derivative financial instrument	3	0	3	3	3
Other current assets	49	64	57	59	60
Income tax assets-current	-	-	4	-	-
Debtors	123	131	148	167	169
Cash & bank balance	226	198	196	142	190
Total current assets	437	436	463	428	481
Total current liabilities	140	141	186	194	196
Net current assets	297	295	276	234	284
Total assets	**693**	**658**	**661**	**641**	**707**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 22: Key ratios

Y/E March	FY17	FY18	FY19E	FY20E	FY21E
Per Share (Rs)					
EPS-Adjusted	31.2	32.5	36.1	38.9	40.5
FDEPS-Adjusted	31.2	32.5	36.0	38.9	40.4
Dividend Per Share	25.8	33.5	21.5	19.9	20.7
Dividend Yield (%)	3.4	4.5	2.9	2.7	2.8
Book Value	150	149	150	149	164
Dividend Payout Ratio (incl. DT)	99.3	122.1	71.8	61.5	61.5
Return ratios (%)					
RoE	22.0	21.9	24.1	25.8	25.9
RoCE	30.5	30.5	32.8	35.5	35.7
RoIC	51.1	44.9	47.5	49.4	48.2
Turnover Ratios					
Asset Turnover	0.8	0.9	1.0	1.1	1.1
Debtor Days (incl. unbilled Rev.)	84	89	88	87	85
Working Capital Cycle Days	37	49	35	36	35
Valuation ratios (x)					
P/E	23.9	23.0	20.8	19.2	18.5
P/BV	5.0	5.0	5.0	5.0	4.6
EV/EBITDA	16.3	16.1	14.6	13.5	12.9
EV/Sales	4.4	4.3	3.7	3.4	3.2
M-cap/Sales	4.7	4.6	3.9	3.5	3.4

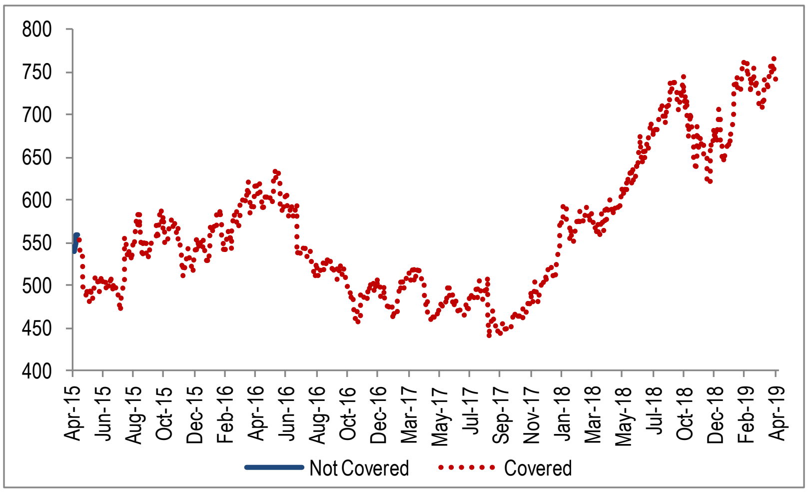
Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
13 April 2015	Accumulate	2,229	2,147
27 April 2015	Sell	1,995	1,823
4 June 2015	Sell	2,032	1,823
22 July 2015**	Accumulate	1,116	1,189
7 September 2015	Accumulate	1,074	1,189
14 September 2015	Accumulate	1,091	1,189
13 October 2015	Accumulate	1,122	1,194
8 January 2016	Under Review	1,063	-
14 January 2016	Under Review	1,133	-
14 March 2016	Sell	1,141	1,002
15 April 2016	Sell	1,173	1,010
9 June 2016	Sell	1,238	1,010
18 July 2016	Sell	1,072	988
29 August 2016	Sell	1,020	970
17 October 2016	Sell	1,027	964
10 January 2017	Sell	970	920
16 January 2017	Sell	975	910
14 February 2017	Sell	985	926
15 April 2017	Sell	931	887
15 May 2017	Sell	964	887
21 June 2017	Sell	944	844
17 July 2017	Sell	972	846
21 August 2017	Sell	923	794
28 August 2017	Sell	912	836
11 September 2017	Sell	884	836
28 September 2017	Sell	906	833
25 October 2017	Sell	924	873
26 December 2017	Under Review	1,039	-
15 January 2018	Under Review	1,079	-
17 March 2018	Accumulate	1,170	1,154
14 April 2018	Accumulate	1,171	1,157
24 April 2018	Accumulate	1,188	1,157
3 July 2018	Accumulate	1,307	1,314
14 July 2018	Accumulate	1,317	1,328
5 October 2018**	Accumulate	711	752
17 October 2018	Accumulate	695	756
27 December 2018	Accumulate	644	688
7 January 2019	Sell	661	620
14 January 2019	Sell	684	603
19 March 2019	Sell	710	620
15 April 2019	Sell	748	601

** Post 1:1 bonus issue of equity shares

Rating track graph



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