



Good days ahead

16th April, 2016

CMP: Rs.1,172
Target Price: Rs.1,342
Recommendation: ACCUMULATE

Stock Info

BSE Group	A
BSE Code	500209
NSE Symbol	INFOSYSTCH
Bloomberg	INFO IN
Reuters	INFY.BO
BSE Sensex	25,626
NSE Nifty	7,850

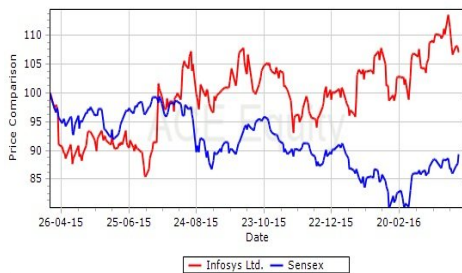
Market Info

Market Capital	Rs.2,69,213 cr
Equity Capital	Rs. 1144 cr
Avg. Trading Vol	31,55,430
52 Wk High/ Low	1243/1182
Face Value	Rs.5

Shareholding Pattern (%) (31st Mar, 2016)

Promoters	13.1
Domestic Institutions	22.8
Foreign Institutions	39.5
Public & Others	24.6

Price Vs Sensex Chart



■ **Dollar Revenue increased by 1.6% QoQ:**

Infosys has delivered good set of numbers with a top line growth by 1.6% QoQ at \$2,446mn. Rupee revenue increased 4.1% qoq to Rs 16,550cr on back of increase the fixed contract price (from 44.6% to 45.1%) reporting good show in 4th quarter. Utilization level (ex-trainees) is 80.1%, whereas including trainees it is 74.7%. Company has hired aggressively in this quarter. Net addition during the quarter was 5,266 employees. Infosys and its subsidiaries added gross 89 clients during the quarter.

■ **Segmental share improved marginally:**

Revenue mix among verticals more or less remained constant with FSI and RCL (Retail & Life Sciences) segments contributing 32.8% and 24.5% to top line. ECS (Energy, Utilities Communication & Services) segment's share in total revenue was at 20%, improved by 60bps this quarter. Geographical share remained more or less stable with share of North America, Europe, India and RoW contributing 61.9%, 23.4%, 3% and 11.7% respectively.

■ **Operating profits increased by 6.6%:**

Company has recorded an operating profit of Rs 4,220cr; up by 6.6% qoq, EBIT margins increased by 60 bps qoq to 25.5% this is well above expectation. Variable payout during the quarter was 74% compared to 76% in previous quarter. Infosys is having liberal HR policies to attract and retain talent.

■ **Management Changes:**

The Company announced that Mr. Mohit Joshi, Mr. Ravi Kumar S and Mr. Sandeep Dadlani have been appointed as Presidents of the company with immediate effect.

■ **FY17 Revenue growth guidance pegged at 11.5%-13.5%**

Management has increased FY17 \$ revenue growth guidance at 11.5%-13.5%. While in constant currency terms it is maintained at 12.7%-14.7% and Operating margin expected to maintain at 24% to 26%. Quarterly annualized attrition for Infosys Ltd has reduced further and its reflecting at 17.3% compared to 18.1% in Q3 FY16 on consolidated basis. Infosys continues to focus on employee engagement by paying monetary benefit resulting in lower attrition and continue to simplify policies and enable greater quickness within the company and make Infosys an exciting place for the world's best talent.

■ **Outlook:**

Infosys has been able to navigate the quarter better than earlier expectations and company continues to focus on enhancing operational efficiency through multiple levers in the coming quarters. Also company is trying to bring the best of human potential for software platform to drive the digital transformation. In Q4, Infosys strengthened relationships with key clients, including renewing existing large scale contracts, opening new accounts and signing four large deals.

We have assigned a PE of 20x to its FY17E earnings and have arrived at fair value of Rs 1,342 per share. At CMP Rs 1,172 stock trades at 17.5(x) its FY17E earnings. We have **Accumulate** rating on the stock.

Financials:

Y/E March (Rs. In Crore)	FY14	FY15	FY16	FY17E
Net Revenue	50133	53319	62441	71228
Growth %	24%	6%	17%	14%
EBIT	12041	13832	15619	18178
EBIT Margin	24.0%	25.9%	25.0%	25.5%
Net Profit	10648	12329	13492	15351
Growth %	13%	16%	9%	14%
EPS	47	54	59	67
P/E	23.8	20.6	19.9	17.5
ROE	23.9	22.5	21.8	23.7

Source: Company data. Aриhant Research

Quarterly Results:

IFRS Particulars (Rs. cr)	Quarter Ended				
	4QFY16	3QFY16	Q-O-Q (%)	4QFY15	Y-O-Y (%)
USD Revenues (\$mn)	2,446	2,407	1.6%	2,159	13.3%
Revenues	16,550	15,902	4.1%	13,411	23.4%
Cost of services	10,262	9,990	2.7%	8,174	25.5%
Gross Profits	6,288	5,912	6.4%	5,237	20.1%
S&M,G&A. Expenses	2,068	1,953		1,788	
EBIT	4,220	3,959	6.6%	3,449	22.4%
Other Income	772	802		880	
PBT	4,992	4,761		4,329	
Income tax expense	1,394	1,296		1,232	
PAT	3,598	3,465	3.8%	3,097	16.2%
Share in Associate Profit/(Loss)	(1)	-			
Net PAT	3,597	3,465	3.8%	3,097	16.1%
EPS	15.74	15.16		13.55	
EBIT Margins (%)	25.50	24.90		25.72	
Net Margins (%)	21.73	21.79		23.09	
Tax Rate (%)	27.92	27.22		28.46	

Profit and Loss statement

Particulars (Rs. In Crore)	FY14	FY15	FY16	FY17 E
Income	50,133	53,319	62,441	71,228
Software development expenses	32,141	32,883	39,099	43,100
Gross Profit	17,992	20,436	23,342	28,128
Sales and development expenses	2,625	2,941	3,431	4,500
General and administrative expenses	3,326	3,663	4,292	5,450
EBIT	12,041	13,832	15,619	18,178
EBIT Margin	24.0	25.9	25.0	25.5
Interest	0	0	0	0
Other Income	2,669	3,426	3,125	2,850
PBT	14,710	17,258	18,744	21,028
Tax	4,062	4,929	5,252	5,678
PAT	10,648	12,329	13,492	15,351
Growth (%)	13%	16%	9%	14%
EPS	46.5	53.9	59.0	67.1

Balance Sheet

Particulars (Rs. In Crore)	FY14	FY15	FY16	FY17 E
Shareholder's funds				
Share Capital*	286	572	1,144	1,144
Reserves & Surplus	44,244	54,191	60,635	63,492
Total	44,530	54,763	61,779	64,636
Minority Interest	0	0	0	0
Total Non Current Liabilities	405	206	371	417
Total Current Liabilities	12,031	11,383	13,239	15,007
Total Liabilities	56,966	66,352	75,389	80,059
Net Block	8,378	12,078	14,404	19,490
Capital Work-in-Progress	961	776	875	1,545
Total Non Current Assets	13,888	19,156	23,694	29,770
Cash and bank balance	25,950	30,367	32,697	37,716
Total Current Assets	17,128	47,196	51,695	50,289
Total Assets	56,966	66,352	75,389	80,059

Cash Flow Statement

Particulars (Rs. In Crore)	FY14	FY15	FY16	FY17 E
Profit before taxes	14,710	17,258	18,742	21,028
Add:- Depreciation	1,317	1,017	1,170	1,200
Change in Working Capital	-281	-591	655	8,177
Cash generated from operations	13,681	15,079	17,675	30,405
Taxes paid	-3,874	-6,751	-5,252	-5,678
Net cash flow from operating activities	9,807	8,328	12,423	24,728
Purchase of fixed assets and Capital Exp	-2,745	-2,247	-470	-11,245
Others	168	4,711	-1,072	-641
Net cash flow from investing activities	-2,577	1,088	-3,714	-11,989
Proceeds long term borrowings	0	0	0	0
Dividend paid, including dividend tax	-3,144	-4,935	-6,326	-7,720
Net cash used in financing activities	-3,144	-4,935	-6,326	-7,720
Exchange fluctuations	14	-89	0	0
Net Cash Flow	4,100	4,392	2,383	5,019
Opening Cash balance	21,822	25,922	30,314	32,697
Closing Cash balance	25,922	30,314	32,697	37,716

Key Ratios

Particulars	FY14	FY15	FY16	FY17 E
EPS	46.5	53.9	59.0	67.1
Book Value	194.6	239.3	270.0	282.5
DPS	32	30	24	30
Payout %	68	55	41	45
Dividend Yield %	2.8	2.7	2.1	2.6
P/E	23.8	20.6	19.9	17.5
EBIT Margin	24.0%	25.9%	25.0%	25.5%
PBT Margin	29%	32%	30%	30%
PAT Margin	21%	23%	22%	22%
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	1.42	4.15	3.90	3.35
ROE	23.9	22.5	21.8	23.7
ROCE	29.9	28.8	26.9	28.2

Arihant Research Desk

E. research@arihantcapital.com
T. 022-42254800

Head Office

#1011, Solitaire Corporate park ,
Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road
Chakala, Andheri (E).
Mumbai – 400093
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

Arihant House
E-5 Ratlam Kothi
Indore - 452003, (M.P.)
Tel: (91-731) 3016100
Fax: (91-731) 3016199

Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

Research Analyst Registration No.

INH000002764

Contact

SMS: 'Arihant' to 56677

Website

www.arihantcapital.com

Email Id

research@arihantcapital.com

Disclaimer:

This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

ARIHANT capital markets Ltd.

1011, Solitaire Corporate park , Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai - 400093
Tel. 022-42254800 Fax. 022-42254880
www.arihantcapital.com