

CMP: Rs. 684
Target Price: Rs. 800
Recommendation: Accumulate

Stock Info

BSE Group	A
BSE Code	500209
NSE Symbol	INFOSYSTCH
Bloomberg	INFO IN
Reuters	INFY.BO
BSE Sensex	36,106
NSE Nifty	10,821

Market Info

Market Capital	Rs.298,597cr
Equity Capital	Rs. 2176 cr
6M Avg. Trading Vol	7,841,663
52 Wk High/ Low	754/532
Face Value	Rs.5

Shareholding Pattern (%)	(December,18)
Promoters	12.82
Domestic Institutions	22.57
Foreign Institutions	34.46
Public & Others	30.15

Price Vs Sensex Chart



Highlights of financial results for the quarter ended December 31, 2018

Q3 FY19:

- Revenues were Rs 21,400 crore for the quarter ended December 31, 2018, YoY growth of 20%; QoQ growth of 4%.
- Revenues grew sequentially by 3.8% in INR terms and 2.7% in constant currency terms.
- Digital revenues at \$942 million (31.5% of total revenues), YoY growth of 33.1% and sequential growth of 5% in cc terms.
- EBIT margins stood at 20.5% vs 23.3% Qoq, this includes one off.
- Net profit was Rs 3,610 crore for the quarter ended December 31, 2018, YoY de growth of 30%; QoQ de growth of 10%.

Con-call Highlights:

- EBIT margins stood at 20.5% which includes additional depreciation and amortization impact of 0.4% due to reclassification of assets of Panaya and Skava from “Held for Sale. The impact of the same on the Earnings Per Share was reduction of Rs 1.24.
- Attrition rate declined to 19.9% from 22.2% last quarter.
- Utilization stood at 79.8% vs 80.2% last quarter.
- Momentum has gained in Q3 and Infosys is on track for a good end to the Fiscal Year 2019.
- 101 New clients added in the quarter.
- 14 large deal wins which have a TCV (Total contract value) of around \$1.57Bn.
- BFSI is seeing a sustain momentum and expansion of accounts.
- Demand is increasing in cyber security, Cloud and AI.
- Healthcare is witnessing a strong demand.
- Pinnacle is clocking a double digit growth.
- Revenue growth guidance of 8.5-9% for FY19 on CC terms.

Outlook:

Volume growth was strong and revenue productivity was stable despite Q3 being a seasonally weak quarter. Infosys has seen good growth across geographies and large business segments. With the Digital business growing strongly and increase in large deal wins to over US\$ 1.57 billion, management expects strong demand in the market. Operating margins to be in the range of 22-24% in FY19. Revenue growth guidance increased to 8.5-9% CC terms (from 6-8%). Currently the stock is trading at a PE of 17x to its estimated FY20 EPS. We valued Infosys at PE of 20x of our estimated FY20 EPS of Rs 40 and arrive at a target price of Rs 800 with ‘**Accumulate**’ rating on the stock.

Financial Snapshot:

Y/E March (Rs. In Crore)	FY18	FY19E	FY20E
Net Revenue	70,522	83,246	90,352
Growth %	3%	18%	7%
EBIT	17,148	18,399	20,081
EBIT Margin	24%	22%	22%
Net Profit	16,028	15,191	16,768
Growth %	12%	-5%	10%
EPS	38	36	40
P/E	18	19	17
ROE	25	23	21

Source: Company data, Arihant Research

Quarterly Result:

Quarterly Result					
Particulars (Rs. Cr)	Q3FY19	Q2FY19	Q3 FY 18	QoQ	YoY
Revenues	21,400	20,493	17,794	4%	20%
Cost of services	13,240	12,681	10,910	4%	21%
Gross Profits	8,160	7,812	6,884	4%	19%
S&M,G&A. Expenses *	3,781	3,034	2,565	25%	47%
EBIT	4,379	4,778	4,319	-8%	1%
EBIT Margins	20.5%	23.3%	24.3%		
Other Income	753	739	962	2%	-22%
Share in associate's profit/(loss)	-	-	-		
PBT	5,132	5,517	5,281	-7%	-3%
Income tax expense	1,522	1,523	152	-0.1%	901%
Net PAT	3,610	3,994	5,129	-10%	-30%
Adj Eps	8.5	9.4	12.1	-10%	-30%

(*Includes additional depreciation and amortization expenses of Rs 88 crore and a reduction of Rs 451 crore in the carrying value for Skava.

Financial Statements

Profit and Loss statement			
Particulars (Rs. In Crore)	FY18	FY19 E	FY20E
Income	70,522	83,246	90,352
Software development expenses	43,191	51,565	56,018
Gross Profit	27,331	31,681	34,334
Sales and development expenses	4,354	6,864	7,454
General and administrative expenses	5,829	6,418	4,698
EBIT	17,148	18,399	20,081
EBIT Margin	24.3	22.1	22.2
Interest	0	0	0
Other Income	3,193	2,958	3,207
PBT	20,270	21,087	23,289
Tax	4,242	5,896	6,521
PAT	16,028	15,191	16,768
Growth (%)	12%	-5%	10%
Adjusted Eps	38	36	40

Cash Flow Statement			
Particulars (Rs. In Crore)	FY18	FY19 E	FY20E
Profit After taxes	16,028	15,461	16,768
Add:- Depreciation	1,862	2,064	2,341
Change in Working Capital	-106	1,892	-4,876
Cash generated from operations	21,387	16,649	17,731
Taxes paid	-6,829	-5,896	-5,716
Net cash flow from operating activities	14,558	10,753	12,015
Purchase of fixed assets and Capital Exp	-1,998	-2,497	-3,103
Others	5,109	5,329	5,685
Net cash flow from investing activities	3,111	2,832	2,582
Others	-13,046	-8,260	0
Dividend paid, including dividend tax	-7,464	-18,826	-10,176
Net cash used in financing activities	-20,505	-27,086	-10,176
Exchange fluctuations	82	80	80
Net Cash Flow	-2,836	-13,501	4,421
Opening Cash balance	22,625	19,871	6,450
Closing Cash balance	19,871	6,450	10,951

Balance Sheet			
Particulars (Rs. In Crore)	FY18	FY19 E	FY20 E
Shareholder's funds			
Share Capital	1,088	2,120	2,120
Reserves & Surplus	63,835	65,191	76,978
Total	64,923	67,311	79,098
Minority Interest	1	0	0
Total Non Current Liabilities	861	890	950
Total Current Liabilities	14,105	14,739	12,863
Total Liabilities	79,890	82,940	92,911
Net Block	12,574	15,071	18,174
Capital Work-in-Progress	1,606	1,959	2,363
Total Non Current Assets	29,873	30,475	33,929
Cash and bank balance	19,871	6,450	10,951
Total Current Assets	50,017	52,466	58,982
Total Assets	79,890	82,940	92,911

Key Ratios			
Particulars	FY18	FY19 E	FY20 E
EPS	37.76	35.79	39.50
Book Value	153.0	158.6	186.3
DPS	22	37	20
Payout %	47%	124%	61%
Dividend Yield %	3.2	5.4	2.9
P/E	18.1	19.1	17.3
EBIT Margin	24.3%	22.1%	22.2%
PBT Margin	29%	25%	26%
PAT Margin	23%	18%	19%
Debt/Equity	0.0	0.0	0.0
Current Ratio	3.55	3.56	4.59
ROE	24.7	22.6	21.2
ROCE	29.6	26.9	25.2

(FY19 & FY20 Equity includes adjustment for buyback)

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Stock Rating Scale

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

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