

*Stable set of numbers, robust digital growth and large deal wins provide comfort, though guidance cut and margin pressure to remain short term overhang, maintain Accumulate*

<b>Current</b>	<b>Previous</b>
<b>CMP: Rs 748</b>	<b>Rating</b>
<b>Rating: Accumulate</b>	<b>Accumulate</b>
<b>Target: Rs 849</b>	<b>Target: Rs 800</b>

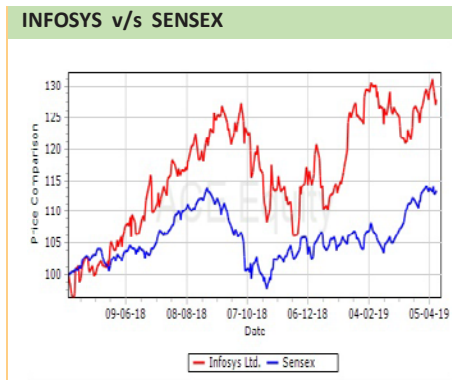
(NR-Not Rated)

Stock Info	
INDEX	
BSE	500209
NSE	INFOSYSTCH
Bloomberg	INFO IN
Reuters	INFY.BO
Sector	Information Technology
Face Value (Rs)	5
Equity Capital (Rs Cr)	2176
Mkt Cap (Rs Cr)	325,604
52w H/L (Rs)	773 / 551
Avg Weekly Vol (BSE+NSE)	7,938,190
Shareholding Pattern %	
<b>(As on December, 2018)</b>	
Promoters	12.8
Public & Others	87.2

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
INFOSYS	9.4	10.1	28.7
SENSEX	7.7	11.6	5.4

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

*Infosys came out with good set of numbers in Q4FY19, ahead of our estimate though topline was slightly below our estimate and EBIT margin faced some pressure. Revenue was flat sequentially at Rs 21,539cr against our estimate of Rs 22,109cr. PAT for the quarter stood at Rs 4074cr ahead of our estimate of Rs 3860cr. We are positive on the stock from longer term perspective, however due to cut in FY20E guidance by management, the stock might remain under pressure for few sessions. We maintain our Accumulate rating on the stock with a revised target price of Rs 849.*

### Q4FY19 Highlights

- Revenue in rupee terms during the quarter grew by 0.6% sequentially to Rs 21,539 crore and revenue in dollar terms increased 2.44% QoQ to US \$3,060 million.
- Digital revenues grew 9.7% QoQ and 41.1% YoY in constant currency (CC) terms to US \$1035 million (33.8% of total revenue).
- Despite decent revenue growth margins took slight hit, as EBIT margins in rupee terms for the quarter stood at 21.4%, a decline of 113bps QoQ and 329bps YoY.
- Operating profit (EBIT) stood at Rs 4618 crore in Q4FY19, facing a decline of 4.4% QoQ while on YoY basis EBIT grew 3.3%.
- Consolidated PAT for the quarter stood at Rs 4,074 crore, registering a growth of 12.9% sequentially and 10.4% on YoY basis. However adjusting for one-offs in Q3FY19 like declassification of Panaya and Skava from assets held for sale, adjusted PAT for Q4FY19 was mostly flat sequentially (0.3% QoQ growth), while increasing 7% on YoY basis.

### Valuations

Infosys management has guided for CC revenue growth of 7.5-9.5% for FY20E, which is slightly lower than our estimate of 8-10%, though the company kept its EBIT margin guidance at 21-23% for FY20E, which is in line with our estimate. With robust growth in its digital business and Q4FY19 being the second successive quarter of over US\$ 1.5 billion large deal TCW, management is positive about the strong demand pipeline in the system. At CMP of Rs 748, Infosys is trading at a P/E of 18.9x its FY20E earnings. We maintain our **Accumulate** rating on the stock with a revised target price of Rs 849 (21.5x FY20E EPS), an upside of 13.5%.

### Financial Performance

YE March (Rs Cr)	Net Sales	EBIT	Adj. PAT	Adj. EPS (Rs)	EBIT Margin %	RoE (%)	Adj. P/E (x)
FY18	70,522	17,148	16,147	37.8	24.3	24.9	19.8
FY19	82,675	18,880	16,125	37.0	22.8	24.8	20.2
FY20E	90,352	20,081	16,768	39.5	22.2	23.7	18.9

Source: Company, Arihant Research

## Q4FY19 and FY19 Financial Performance

Rs Cr (Consolidated)	Q4FY19	Q3FY19	Q4FY18	Q-o-Q	Y-o-Y	FY19	FY18	Y-o-Y
<b>Net Revenue</b>	<b>21,539</b>	<b>21,400</b>	<b>18,083</b>	<b>0.6%</b>	<b>19.1%</b>	<b>82,675</b>	<b>70,522</b>	<b>17.2%</b>
Cost of Sales	14,283	14,016	11,554	1.9%	23.6%	53,867	45,130	19.4%
<b>Gross Profit</b>	<b>7,256</b>	<b>7,384</b>	<b>6,529</b>	<b>-1.7%</b>	<b>11.1%</b>	<b>28,808</b>	<b>25,392</b>	<b>13.5%</b>
S&M and Admin. Expenses	2,638	2,554	2,057	3.3%	28.2%	9,928	8,244	20.4%
<b>EBIT</b>	<b>4,618</b>	<b>4,830</b>	<b>4,472</b>	<b>-4.4%</b>	<b>3.3%</b>	<b>18,880</b>	<b>17,148</b>	<b>10.1%</b>
<b>EBIT margin %</b>	<b>21.4%</b>	<b>22.6%</b>	<b>24.7%</b>	<b>-113bps</b>	<b>-329bps</b>	<b>22.8%</b>	<b>24.3%</b>	<b>-148bps</b>
Other Income	665	753	652	-11.7%	2.0%	2,882	3,311	-13.0%
Adjustments	-	-451	-118			-721	-118	
<b>PBT</b>	<b>5,283</b>	<b>5,132</b>	<b>5,006</b>	<b>2.9%</b>	<b>5.5%</b>	<b>21,041</b>	<b>20,341</b>	<b>3.4%</b>
Tax Expense	1,205	1,522	1,316	-20.8%	-8.4%	5,631	4,241	32.8%
Effective tax rate %	22.8%	29.7%	26.3%			26.8%	20.8%	
<b>Reported PAT</b>	<b>4,078</b>	<b>3,610</b>	<b>3,690</b>	<b>13.0%</b>	<b>10.5%</b>	<b>15,410</b>	<b>16,100</b>	<b>-4.3%</b>
<b>MI &amp; Associates</b>	<b>-4</b>	<b>-1</b>	<b>-</b>			<b>-6</b>	<b>-71</b>	
Consolidated PAT	4,074	3,609	3,690	12.9%	10.4%	15,404	16,029	-3.9%
<b>Adjusted PAT</b>	<b>4,074</b>	<b>4,060</b>	<b>3,808</b>	<b>0.3%</b>	<b>7.0%</b>	<b>16,125</b>	<b>16,147</b>	<b>-0.1%</b>
<b>Adj PAT Margin %</b>	<b>18.9%</b>	<b>19.0%</b>	<b>21.1%</b>	<b>-6bps</b>	<b>-214bps</b>	<b>19.5%</b>	<b>22.9%</b>	<b>-339bps</b>
EPS (Rs)	9.4	8.3	8.5	12.9%	10.3%	35.4	35.5	-0.3%
<b>Adj EPS (Rs)</b>	<b>9.4</b>	<b>9.3</b>	<b>8.8</b>	<b>0.3%</b>	<b>6.9%</b>	<b>37.0</b>	<b>35.8</b>	<b>3.6%</b>

Source: Company, Arianth Research

## Post Result Conference Call Highlights

- For FY19, Infosys' revenue in CC terms grew 9% and EBIT margin stood at 22.8% against company's guidance of 8.5-9% and 22-24% respectively.
- Infosys expects constant currency revenue growth at 7.5-9.5% for FY20E while the company guided for EBIT margin of 21-23% for FY20E.
- Infosys management continue to focus on revenue growth, performance of digital portfolio, large deal wins, and client metrics.
- As per Infosys COO, the company's realisation per billed employee was steady which reflects increasing usage of automation in core services and faster growth in newer digital services.
- Infosys COO admitted that overall attrition remained high and the company is continuing its focus on arresting the same. Infosys' consolidated attrition at 20.4% in Q4FY19 was higher compared to 19.9% in Q3FY19.
- Active clients at the end of March quarter were at 1,279 against 1,251 in December quarter. Infosys added 2 clients in US \$100 mn+ band and 1 client in US \$50 mn+ category. It added 8 clients in \$10 mn+ and 11 clients in \$1 mn+ categories.
- North America business grew 3.7% in constant currency terms and 3.8% in reported terms while Europe revenue registered a 1.4% sequential growth in constant currency terms and 1.7% in reported terms.
- However, Rest of the World business degrew 1.3% in CC terms and 0.6% in reported terms. Financial services business fell 0.8 percent in constant currency growth and 0.4 percent in reported terms. Retail also registered a 0.9 percent degrowth in constant currency terms and 0.8 percent in reported terms QoQ. However, communication revenue grew 16.6% in constant currency and 16.8% in reported terms.

Profit and Loss Statement (consolidated)			
Particulars (Rs. In Crore)	FY18	FY19	FY20E
Income	70,522	82,675	90,352
Software development expenses	43,191	53,867	56,018
<b>Gross Profit</b>	<b>27,331</b>	<b>28,808</b>	<b>34,334</b>
Sales and development expenses	4,354	4,473	7,454
General and administrative expenses	5,829	5,455	4,698
EBIT	17,148	18,880	20,081
EBIT Margin	24.3	22.8	22.2
Interest	0	0	0
Other Income	3,193	2,882	3,207
PBT	20,270	21,041	23,289
<b>Tax</b>	<b>4,242</b>	<b>5,631</b>	<b>6,521</b>
PAT	16,028	15,410	16,768
<b>Adjusted PAT</b>	<b>16,147</b>	<b>16,125</b>	<b>16,768</b>
Growth (%)	12.5%	-0.1%	4.0%
<b>Adjusted Eps</b>	<b>38</b>	<b>37</b>	<b>40</b>

Cash Flow Statement (consolidated)			
Particulars (Rs. In Crore)	FY18	FY19	FY20E
<b>Profit After taxes</b>	<b>16,028</b>	<b>15,410</b>	<b>16,768</b>
Add:- Depreciation & Others	1,862	2,064	5,840
Change in Working Capital	-106	-935	-833
Cash generated from operations	21,387	20,738	21,774
Taxes paid	-6,829	-5,896	-5,716
Net cash flow from operating activities	14,558	14,841	16,058
Purchase of fixed assets and Capital Expenditure	-1,998	-2,497	-3,103
Others	5,109	1,922	0
Net cash flow from investing activities	3,111	-575	-3,103
Others	-13,046	-813	6
Dividend paid, including dividend tax	-7,464	-13,836	-17,414
<b>Net cash used in financing activities</b>	<b>-20,505</b>	<b>-14,649</b>	<b>-17,408</b>
Exchange fluctuations	82	80	80
<b>Net Cash Flow</b>	<b>-2,836</b>	<b>-383</b>	<b>-4,453</b>
Opening Cash balance	22,625	19,871	19,568
<b>Closing Cash balance</b>	<b>19,871</b>	<b>19,568</b>	<b>15,195</b>

Balance Sheet (consolidated)			
Particulars (Rs. In Crore)	FY18	FY19	FY20E
Shareholder's funds			
Share Capital	1,088	2,170	2,170
Reserves & Surplus	63,835	62,778	68,631
<b>Total</b>	<b>64,923</b>	<b>64,948</b>	<b>70,801</b>
Minority Interest	1	58	58
Total Non Current Liabilities	861	-278	890
Total Current Liabilities	14,105	18,638	14,491
<b>Total Liabilities</b>	<b>79,890</b>	<b>83,366</b>	<b>86,240</b>
Net Block	12,574	15,710	18,813
Capital Work-in-Progress	1,606	1,388	1,388
Total Non Current Assets	29,873	30,488	33,111
Cash and bank balance	19,871	19,568	15,195
Total Current Assets	50,017	52,878	53,129
<b>Total Assets</b>	<b>79,890</b>	<b>83,366</b>	<b>86,240</b>

Key Ratios (consolidated)			
Particulars	FY18	FY19	FY20E
EPS	38	37	40
Book Value	144	149	163
DPS	22	37	40
Payout %	47%	90%	104%
Dividend Yield %	2.9	4.9	5.3
P/E	19.8	20.2	18.9
EBIT Margin	24.3%	22.8%	22.2%
PBT Margin	28.7%	25.5%	25.8%
Adjusted PAT Margin	22.9%	19.5%	18.6%
Debt/Equity	0.0	0.0	0.0
Current Ratio	3.5	2.8	3.7
ROE	24.9%	24.8%	23.7%
ROCE	21.5%	22.6%	23.3%

\*Equity capital not factoring in current buyback, will be considered once it gets completed

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**Stock Rating Scale**

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

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