



**CAUTIOUS OUTLOOK!!**

14<sup>th</sup> October, 2016

**CMP:** Rs.1,035  
**Target Price:** Rs.1,140  
**Recommendation:** HOLD

■ **Dollar Revenue increased by 2.2% QoQ:**

Infosys has delivered steady set of numbers with a top line growth of 3.5% qoq at \$2,587mn. Rupee revenue increased 3.1% qoq to Rs 17,310cr. Operating profit has increased by 6.5% on qoq at Rs 4,309cr and Net Profit has increased by 4.9% on at Rs3,606cr.

■ **Segmental share improved marginally:**

Revenue mix among verticals more or less remained constant with BFSI and RCL (Retail & Life Sciences) segments contributing 27.4% and 23.5% to top line. ECS (Energy, Utilities Communication & Services) segment's share in total revenue was at 20.9%, improved by 7bps this quarter. Geographical share remained more or less stable with share of North America, Europe, India and RoW contributing 61.5%, 22.5%, 3.4% and 12.6% respectively.

■ **Client Additions:**

Infosys added 1 client to over \$100 million, category taking total count to 18 such Clients. 57% revenue comes from onsite and 43% comes from offshore.

■ **FY17 Revenue growth guidance:**

Infosys slashed its annual sales forecast for the second time in three months. A sale in constant currency terms is expected to grow 8 to 9 percent this financial year, compared to the 10.5 to 12 percent forecast given in July. A sale in dollar terms is projected to grow 7.5 to 8.5 percent, compared to 10.8 to 12.3 percent earlier. Sikka has maintained the company's \$20 billion revenue by 2020 target. IT industry body National Association of Software and Services Companies (Nasscom) had predicted Indian IT exports to grow 10-12 per cent in constant currency terms in FY17.

■ **Outlook:**

We believe Infosys will improve its performance with consistent client wins and we are cautious about global scenario. Company is trying to bring the best of human potential for software platform to drive the digital transformation. In Q2, 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 15x to its FY18E earnings and have arrived at fair value of Rs 1,140 per share. At CMP Rs 1,035 stock trades at 13.7(x) its FY18E earnings. We have **HOLD** rating on the stock.

**Financials:**

Y/E March (Rs. In Crore)	FY15	FY16	FY17E	FY18E
Net Revenue	53319	62441	72308	85041
Growth %	6%	17%	16%	18%
EBIT	14871	17120	19473	23216
EBIT Margin	27.9%	27.4%	26.9%	27.3%
Net Profit	13390	14948	16664	18952
Growth %	16%	11%	12%	13%
EPS	54	60	67	76
P/E	20.5	20.4	15.5	13.7
ROE	26.4	25.8	26.0	25.9

Source: Company data, Arihant Research

**Stock Info**

BSE Group	A
BSE Code	500209
NSE Symbol	INFOSYSTCH
Bloomberg	INFO IN
Reuters	INFY.BO
BSE Sensex	27,643
NSE Nifty	8,573

**Market Info**

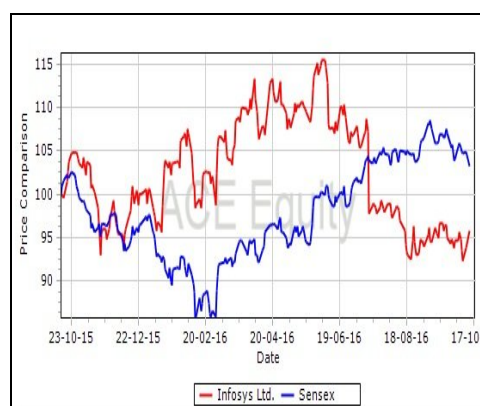
Market Capital	Rs.2,70,086 cr
Equity Capital	Rs. 1148 cr
Avg. Trading Vol	36,95,410
52 Wk High/ Low	1278/996
Face Value	Rs.5

**Shareholding Pattern (%)**

(June, 2016)

Promoters	12.75
Domestic Institutions	17.2
Foreign Institutions	40.5
Public & Others	29.5

**Price Vs Sensex Chart**



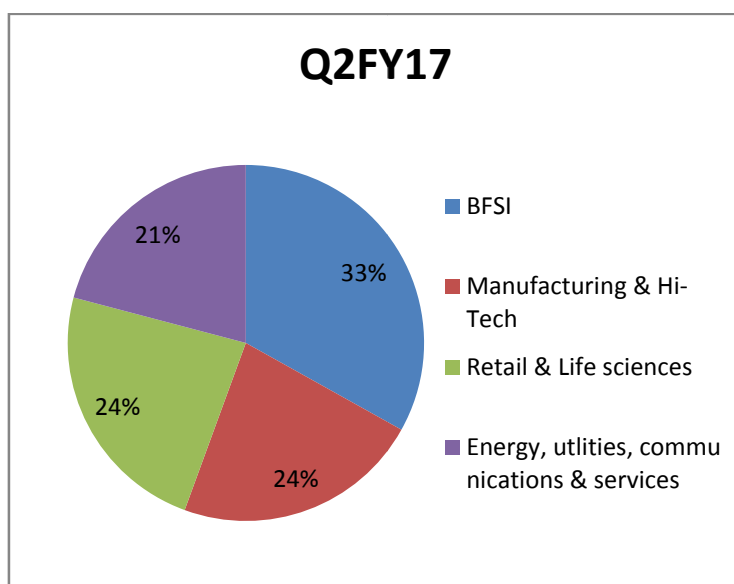
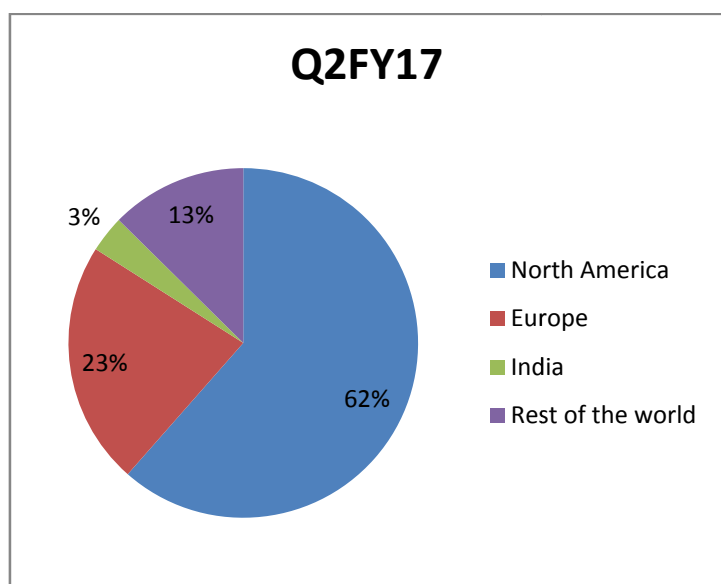


Quarterly Results:

IFRS Particulars (Rs. Cr)	Quarter Ended				
	Q2 FY17	Q1 FY17	Q-O-Q (%)	Q2FY16	Y-O-Y (%)
<b>Revenues</b>	<b>17,310</b>	<b>16,782</b>	<b>3.1%</b>	<b>15,635</b>	<b>10.7%</b>
Cost of services	10,962	10,681	2.6%	9,724	12.7%
<b>Gross Profits</b>	<b>6,348</b>	<b>6,101</b>	<b>4.0%</b>	<b>5,911</b>	<b>7.4%</b>
S&M,G&A. Expenses	2,039	2,054	-0.7%	1,918	6.3%
<b>EBIT</b>	<b>4,309</b>	<b>4,047</b>	<b>6.5%</b>	<b>3,993</b>	<b>7.9%</b>
Other Income	760	753	0.9%	793	-4.2%
Share in associate's profit/(loss)	(3)	(2)		(1)	
<b>PBT</b>	<b>5,066</b>	<b>4,798</b>	<b>5.6%</b>	<b>4,785</b>	<b>5.9%</b>
Income tax expense	1,460	1,362	7.2%	1,387	5.3%
<b>Net PAT</b>	<b>3,606</b>	<b>3,436</b>	<b>4.9%</b>	<b>3,398</b>	<b>6.1%</b>
<b>EPS</b>	<b>15.8</b>	<b>15.0</b>	<b>4.9%</b>	<b>14.9</b>	<b>6.1%</b>

Break-up of Markets

Domain Break-up





**Profit and Loss statement**

Particulars (Rs. In Crore)	FY15	FY16	FY17 E	FY18 E
Income	53,319	62,441	72,308	85,041
Software development expenses	33,017	39,223	42,885	51,024
<b>Gross Profit</b>	<b>20,302</b>	<b>23,218</b>	<b>29,423</b>	<b>34,016</b>
Sales and development expenses	2,532	2,822	4,500	5,102
General and administrative expenses	2,899	3,276	5,450	5,698
EBIT	14,871	17,120	19,473	23,216
EBIT Margin	27.9	27.4	26.9	27.3
Interest	0	0	0	0
Other Income	3,430	3,128	2,850	2,650
PBT	17,284	18,982	22,323	25,866
<b>Tax</b>	<b>4,911</b>	<b>5,300</b>	<b>5,659</b>	<b>6,914</b>
PAT	12,373	13,682	16,664	18,952
Growth (%)	16%	11%	12%	13%
EPS	54.1	59.8	66.9	75.7

**Balance Sheet**

Particulars (Rs. In Crore)	FY15	FY16	FY17 E	FY18 E
Shareholder's funds				
Share Capital*	572	1,144	1,144	1,144
Reserves & Surplus	50,164	56,682	62,982	72,088
<b>Total</b>	<b>50,736</b>	<b>57,826</b>	<b>64,126</b>	<b>73,232</b>
Minority Interest	0	0	0	0
Total Non Current Liabilities	50	126	172	204
Total Current Liabilities	15,503	17,189	19,523	19,357
<b>Total Liabilities</b>	<b>66,289</b>	<b>75,141</b>	<b>83,820</b>	<b>92,794</b>
Net Block	11,346	13,180	15,469	18,029
Capital Work-in-Progress	776	960	1,160	1,324
Total Non Current Assets	6,925	9,248	10,557	12,197
Cash and bank balance	30,367	32,697	35,450	37,356
Total Current Assets	16,875	19,056	21,183	23,887
<b>Total Assets</b>	<b>66,289</b>	<b>75,141</b>	<b>83,820</b>	<b>92,794</b>

**Cash Flow Statement**

Particulars (Rs. In Crore)	FY15	FY16	FY17 E	FY18 E
<b>Profit before taxes</b>	<b>17,284</b>	<b>18,982</b>	<b>22,323</b>	<b>25,866</b>
Add:- Depreciation	1,017	1,266	1,363	1,625
Change in Working Capital	-842	-2,146	-3,757	-5,218
Cash generated from operations	15,105	15,731	17,199	19,506
Taxes paid	-6,751	-5,865	-5,659	-6,914
Net cash flow from operating activities	8,354	9,866	11,540	12,592
Purchase of fixed assets and Capital Expenditure	-2,247	-2,723	-3,500	-4,000
Others	4,554	2,751	3,458	2,706
Net cash flow from investing activities	1,088	-686	-1,027	-2,279
Proceeds long term borrowings	0	0	0	0
Dividend paid, including dividend tax	-4,935	-6,813	-7,729	-8,373
<b>Net cash used in financing activities</b>	<b>-4,935</b>	<b>-6,813</b>	<b>-7,729</b>	<b>-8,373</b>
Exchange fluctuations	-89	-34	-35	-35
<b>Net Cash Flow</b>	<b>4,418</b>	<b>2,333</b>	<b>2,749</b>	<b>1,905</b>
Opening Cash balance	25,950	30,368	32,701	35,450
<b>Closing Cash balance</b>	<b>30,368</b>	<b>32,701</b>	<b>35,450</b>	<b>37,356</b>

**Key Ratios**

Particulars	FY15	FY16	FY17 E	FY18 E
EPS	54.1	59.8	66.9	75.7
Book Value	221.7	252.7	280.3	320.1
DPS	60	24	30	40
Payout %	110	41	45	53
Dividend Yield %	5.4	2.0	2.9	3.9
P/E	20.5	20.4	15.5	13.7
EBIT Margin	27.9%	27.4%	26.9%	27.3%
PBT Margin	32%	30%	31%	30%
PAT Margin	23%	22%	23%	22%
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	1.09	1.11	1.09	1.23
ROE	24.4	23.7	26.0	25.9
ROCE	31.1	29.1	30.4	29.5

**Arihant Research Desk**

E. [research@arihantcapital.com](mailto:research@arihantcapital.com)  
T. 022-42254800

**Head Office**

#1011, Solitaire Corporate park ,  
Building No. 10, 1<sup>st</sup> 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**

	<b>Absolute Return</b>
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](http://www.arihantcapital.com)**Email Id**[research@arihantcapital.com](mailto: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 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](http://www.arihantcapital.com)