



Good days ahead

10 Jan, 2015

CMP: Rs.2,074
Target Price: Rs.2,226
Recommendation: HOLD

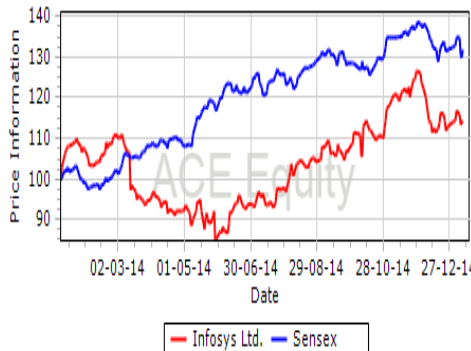
Stock Info

| | |
|------------|------------|
| BSE Group | A |
| BSE Code | 500209 |
| NSE Symbol | INFOSYSTCH |
| Bloomberg | INFO IN |
| Reuters | INFY.BO |
| BSE Sensex | 27,458 |
| NSE Nifty | 8,284 |

Market Info

| | |
|------------------|----------------|
| Market Capital | Rs.2,37,265 cr |
| Equity Capital | Rs. 572 cr |
| Avg. Trading Vol | 15,82,200 |
| 52 Wk High/ Low | 2200/1447 |
| Face Value | Rs.5 |

| | |
|--|------|
| Shareholding Pattern (%) (31st Dec 2014) | |
| Promoters | 13.1 |
| Domestic Institutions | 15.3 |
| Foreign Institutions | 41.6 |
| Public & Others | 30.0 |



■ **Dollar Revenues grew by 0.8% QoQ:**

Infosys has delivered good set of numbers with a top line growth of 0.8% qoq at \$2,218mn. Rupee revenues increased 3.4% qoq to Rs 13,796cr, due to depreciation of all major currencies against USD. Company reported 4.2% qoq growth in volumes (best in 3 years) and of this offshore segment reported 4.4% growth, while onshore segment reported 3.7% growth qoq. Utilization level (ex-trainees) is at 11 year high of 82.7%. Company has aggressive hiring plans to avoid facing shortage of talent. Net addition during the quarter was 4,227 employees. Infosys and its subsidiaries added gross 59 clients during the quarter

■ **Segmental share remains fairly stable:**

Revenue mix among verticals more or less remained constant with FSI and RCL (Retail & Life Sciences) segments contributing 33.1% and 23.5% to top line. ECS (Energy, Utilities Communication & Services) segment's share in total revenues was at 20.0%. Geographical share remained more or less stable with share of North America, Europe, India and RoW was at 61.6%, 24.0%, 2.5% and 11.9% respectively.

■ **Operating profits increased by 5.9%:**

Company has recorded an operating profit of Rs 3,689cr; up 5.9% qoq, this is in-spite of many holidays during the quarter. During the quarter company has made 100% variable payouts to the top performing employees. Due to multiple initiatives taken over the last few quarters, the company is confident of reducing attrition rate substantially. Higher utilization levels which reflect CEO's belief of deliver more with fewer resources for betterment of more. EBIT margins increased qoq by whopping 63 bps to 26.74%.

■ **FY15 Revenue growth guidance pegged at 7-9%**

Management has maintained FY15 \$ revenue growth guidance at 7-9% due to depreciation of all major global currencies vs. USD. Faster decision making by clients helped company to grow faster. Operating margin is expected to remain at 25 +/- 1%. Company has huge cash balance which is resulting in lower return ratios. In our opinion company should either put this for better utilization or give it to its shareholder which will improve the return ratios.

■ **Outlook:**

Infosys's guidance for FY15E signifies the likely accrual of benefits coming from productivity improvement measures it has taken in recent times. Company is expected to benefit from tailwinds like improvement in utilization rates over long term and expansion of its innovative funds to provide financing to start-ups and new technologies like artificial intelligence. We believe Infosys deserve a re-rating thus we have assigned a higher PE of 19x (18.5x) to its FY16E earnings and have arrived at fair value of Rs 2,226 per share. At CMP Rs 2,074 stock trades at 17.7(x) its FY16E earnings. We have **HOLD** rating on the stock.

■ **Financials:**

| Y/E March (Rs. In Crore) | FY13 | FY14 | FY15E | FY16E |
|--------------------------|--------|--------|--------|--------|
| Net Revenue | 40,352 | 50,133 | 54,050 | 59,240 |
| Growth % | 20% | 24% | 8% | 10% |
| EBIT | 10,429 | 12,041 | 13,406 | 14,891 |
| EBIT Margin | 25.8% | 24.0% | 24.8% | 25.1% |
| Net Profit | 9,421 | 10,648 | 12,241 | 13,403 |
| Growth % | 13% | 13% | 15% | 9% |
| EPS | 82.4 | 93.1 | 107.0 | 117.2 |
| P/E | 25.2 | 22.3 | 19.4 | 17.7 |
| ROE | 24.8 | 23.9 | 22.2 | 21.0 |

Source: Company data, Arihant Research

Quarterly Results:

| IFRS Particulars (Rs. cr) | Quarter Ended | | | | |
|------------------------------|---------------|---------------|-------------|---------------|--------------|
| | 3QFY15E | 2QFY15 | Q-O-Q (%) | 3QFY14 | Y-O-Y (%) |
| USD Revenues (\$mn) | 2,238 | 2,201 | | 2,092 | |
| Revenues | 13,796 | 13,342 | 3.4% | 13,026 | 5.9% |
| Cost of services | 8,462 | 8,201 | 3.2% | 8,321 | 1.7% |
| Gross Profits | 5,334 | 5,141 | 3.8% | 4,705 | 13.4% |
| S&M,G&A. Expenses | 1,645 | 1,658 | | 1,446 | |
| EBIT | 3,689 | 3,483 | 5.9% | 3,259 | 13.2% |
| Other Income | 840 | 877 | | 731 | |
| PBT | 4,529 | 4,360 | | 3,990 | |
| Income tax expense | 1,279 | 1,264 | | 1,115 | |
| PAT | 3,250 | 3,096 | 5.0% | 2,875 | 13.0% |
| Minority interest | - | - | | - | |
| Net Income | 3,250 | 3,096 | 5.0% | 2,875 | 13.0% |
| | | | | | |
| EPS | 28.44 | 27.09 | | 25.16 | |
| EBIT Margins (%) | 26.74 | 26.11 | | 25.02 | |
| Net Margins (%) | 23.56 | 23.20 | | 22.07 | |
| Tax Rate (%) | 28.24 | 28.99 | | 27.94 | |

| Profit and Loss statement | | | | |
|------------------------------|--------|--------|--------|--------|
| Particulars (Rs. In Crore) | FY13 | FY14 | FY15 | FY16 |
| USD Revenues (\$mn) | | | | |
| Revenues | 40,352 | 50,133 | 54,050 | 59,240 |
| Cost of services | 25,280 | 32,141 | 34,428 | 37,536 |
| Gross Profits | 15,072 | 17,992 | 19,622 | 21,704 |
| Selling & Marketing expenses | 2,034 | 2,625 | 2,702 | 2,962 |
| Administrative expenses | 2,609 | 3,326 | 3,513 | 3,851 |
| EBIT | 10,429 | 12,041 | 13,406 | 14,891 |
| Other Income | 2,359 | 2,669 | 3,250 | 3,368 |
| PBT | 12,788 | 14,710 | 16,656 | 18,259 |
| Income tax expense | 3,367 | 4,062 | 4,415 | 4,856 |
| PAT | 9,421 | 10,648 | 12,241 | 13,403 |
| Minority interest | - | - | - | - |
| Net Income | 9,421 | 10,648 | 12,241 | 13,403 |
| EPS | 82.4 | 93.1 | 107.0 | 117.2 |

| Cash Flow Statement | | | | |
|---|---------|---------|---------|---------|
| Particulars (Rs. In Crore) | FY13 | FY14 | FY15 | FY16 |
| Profit before taxes | 12,799 | 14,728 | 16,656 | 18,259 |
| Add:- Depreciation | 1,099 | 1,317 | 1,459 | 1,540 |
| Change in Working Capital | (1,182) | (281) | (854) | (105) |
| Others | (2,050) | (2,065) | | |
| Cash generated from operations | 10,666 | 13,699 | 17,262 | 19,694 |
| Taxes paid | (3,293) | (3,874) | (4,415) | (4,856) |
| Net cash flow from operating activities | 7,373 | 9,825 | 12,846 | 14,838 |
| Purchase of fixed assets | (2,089) | (2,745) | (2,800) | (2,900) |
| Change in investments | 226 | 168 | - | - |
| Others | (1,157) | - | - | - |
| Net cash flow from investing activities | (3,020) | (2,577) | (2,800) | (2,900) |
| Proceeds long term borrowings | - | - | - | - |
| Dividend paid, including dividend tax | (3,122) | (3,144) | (4,885) | (5,014) |
| Other | 10 | 14 | 859 | 938 |
| Net cash used in financing activities | (3,112) | (3,130) | (4,026) | (4,076) |
| Net Cash Flow | 1,241 | 4,118 | 6,020 | 7,862 |
| Opening Cash balance | 20,591 | 21,832 | 25,950 | 31,970 |
| Closing Cash balance | 21,832 | 25,950 | 31,970 | 39,832 |

| Balance Sheet | | | | |
|-------------------------------|--------|--------|--------|--------|
| Particulars (Rs. In Crore) | FY13 | FY14 | FY15 | FY16 |
| Shareholder's funds | | | | |
| Share Capital | 572 | 572 | 572 | 572 |
| Reserves & Surplus | 37,422 | 43,958 | 54,563 | 63,285 |
| Total | 37,994 | 44,530 | 55,135 | 63,857 |
| Minority Interest | - | - | - | - |
| Total Non Current Liabilities | 238 | 405 | 486 | 583 |
| Total Current Liabilities | 8,099 | 12,031 | 14,437 | 17,325 |
| Total Liabilities | 46,331 | 56,966 | 70,058 | 81,765 |
| Net Block | 7,139 | 8,378 | 10,054 | 12,064 |
| Capital Work-in-Progress | 1,140 | 961 | 1,153 | 1,384 |
| Total fixed assets | 8,279 | 9,339 | 11,207 | 13,448 |
| Total Non Current Assets | 2,709 | 4,549 | 5,459 | 6,551 |
| Cash and bank balance | 21,832 | 25,950 | 31,970 | 39,832 |
| Total Current Assets | 35,343 | 43,078 | 53,392 | 61,766 |
| Total Assets | 46,331 | 56,966 | 70,058 | 81,765 |

| Key Ratios | | | | |
|------------------|------|------|-------|-------|
| Particulars | FY13 | FY14 | FY15 | FY16 |
| EPS | 82.4 | 93.1 | 107.0 | 117.2 |
| Book Value | 332 | 389 | 482 | 558 |
| DPS | 32 | 21 | 30 | 35 |
| Payout % | 38 | 23 | 28 | 30 |
| Dividend Yield % | 1.5 | 1.0 | 1.4 | 1.7 |
| P/E | 25.2 | 22.3 | 19.4 | 17.7 |
| EBIT Margin | 25.8 | 24.0 | 24.8 | 25.1 |
| PBT Margin | 31.7 | 29.3 | 30.8 | 30.8 |
| PAT Margin | 23.3 | 21.2 | 22.6 | 22.6 |
| Debt/Equity | 0.0 | 0.0 | 0.0 | 0.0 |
| Current Ratio | 4.4 | 3.6 | 3.7 | 3.6 |
| ROE | 24.8 | 23.9 | 22.2 | 21.0 |
| ROCE | 29.2 | 28.1 | 27.4 | 25.8 |

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% |

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