

**Excellent show**

10 Oct, 2014

**CMP:** Rs.3,889  
**Target Price:** Rs.4,146  
**Recommendation:** **HOLD**

**Stock Info**

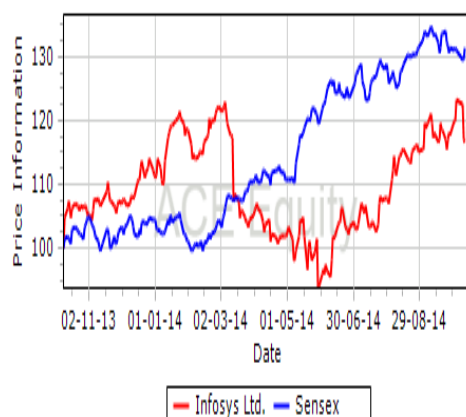
BSE Group	A
BSE Code	500209
NSE Symbol	INFOSYSTCH
Bloomberg	INFO IN
Reuters	INFY.BO
BSE Sensex	26,297
NSE Nifty	7,860

**Market Info**

Market Capital	Rs.2,22,439cr
Equity Capital	Rs.286cr
Avg. Trading Vol	11,94,290
52 Wk High/ Low	3908/2894
Face Value	Rs.5

Shareholding Pattern (%)	(30 <sup>th</sup> June 2014)
Promoters	15.9
Domestic Institutions	14.0
Foreign Institutions	41.6
Public & Others	28.5

\*SHP for Sep 2014 is not available in public domain.



■ **Dollar Revenues grew by 3% QoQ:**

Infosys has delivered good set of numbers with a top line growth of 3.2% qoq at \$2,201mn. Rupee revenues increased 4.5% qoq to Rs 13,342cr, due to depreciation of all major currencies against USD. Company reported 3.0% qoq growth in volumes and of this offshore segment reported 3.8% growth, while onshore segment reported 1.1% growth qoq. Utilization level (ex-trainees) is at all time high of 82.3%. Company has aggressive hiring plans in FY15 to avoid facing shortage of talent. Net addition during the quarter was 4,127 employees

■ **Segmental share remains fairly stable:**

Revenue mix among verticals more or less remained constant with FSI and RCL (Retail & Life Sciences) segments contributing 32.8% and 23.4% to topline. ECS (Energy, Utilities Communication & Services) segment's share in total revenues was at 20.5%. Geographical share remained more or less stable with share of North America, Europe, India and RoW was at 60.8%, 24.7%, 2.2% and 12.3% respectively.

■ **Operating profits increased by 8.5%:**

Company has recorded an operating profit of Rs 3,483cr; up 8.5% qoq, this is in spite of giving 100% bonus to all employees during the quarter. This was possible due to cost optimization and higher utilization levels which reflect CEO's belief of deliver more with fewer resources for betterment of more. EBIT Margins increased qoq by whopping 96 bps to 26.11%.

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

Management has maintained FY15 \$ revenue growth guidance at 7-9% but increased Rupee revenue guidance from 5.6-7.6% to 6.7-8.7% due to depreciation of all major global currencies vs. USD. Management has indicated faster decision making by clients helped company to grow faster. It has also indicated increased traction in areas of cloud computing, mobile technology, energy. Company has added 49 new clients during the quarter and won 7 large deals with a cumulative value of ~ \$ 600 mn. Overall management expects FY15 operating margins to remain at 25 +/- 1%.

According to Dr Vishal Sikka second generation IT company could expect a revenue growth of 15-18 % and EBIT margins of 25-28% over a long term and Infosys is aiming to become second generation IT Company through knowledge enhancement.

■ **Outlook:**

Infosys's guidance for FY15 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 retrenchment of non-performers, scope for effort mix shift and improvement in utilization rates over long term. We believe Infosys deserve a re-rating thus we have assigned a higher PE of 18.5x (16x) to its FY16E earnings and have arrived at fair value of Rs 4,146 per share. At CMP Rs 3,889, stock trades at 17.4(x) its FY16 earnings. **We have HOLD rating on the stock.**

**Financials:**

Y/E March, (Rs. in Cr)	FY12	FY13	FY14	FY15E	FY16E
Net Revenue	33734	40352	50133	54050	59240
Growth %	22.7	19.6	24.2	7.8	9.6
Net Profit	8316	9421	10648	11641	12800
Growth %	24.7	13.3	13.0	9.3	10.0
EPS	146	165	186	204	224
P/E(x)	26.7	23.6	20.9	19.1	17.4
ROANW	28.0	26.3	26.1	24.5	23.9
ROACE	38.8	35.2	35.7	33.8	33.2

Source: Company data, Arianth Research

## Quarterly Results:

IFRS	Quarter Ended				
Particulars (Rs. cr)	2QFY15	1QFY14	Q-O-Q (%)	1QFY14	Y-O-Y (%)
<b>USD Revenues (\$mn)</b>	<b>2,201</b>	<b>2,133</b>	<b>3.2%</b>	<b>2,066</b>	<b>6.5%</b>
<b>Revenues</b>	<b>13,342</b>	<b>12,770</b>	<b>4.5%</b>	<b>12,965</b>	<b>2.9%</b>
Cost of services	8,201	8,046	1.9%	8,384	-2.2%
<b>Gross Profits</b>	<b>5,141</b>	<b>4,724</b>	<b>8.8%</b>	<b>4,581</b>	<b>12.2%</b>
S&M,G&A. Expenses	1,658	1,513	9.6%	1,744	-4.9%
<b>EBIT</b>	<b>3,483</b>	<b>3,211</b>	<b>8.5%</b>	<b>2,837</b>	<b>22.8%</b>
Other Income	877	829	5.8%	510	72.0%
PBT	4,360	4,040	7.9%	3,347	30.3%
Income tax expense	1,264	1,154	9.5%	940	34.5%
PAT	3,096	2,886	7.3%	2,407	28.6%
Minority interest	-	-		-	
<b>Net Income</b>	<b>3,096</b>	<b>2,886</b>	<b>7.3%</b>	<b>2,407</b>	<b>28.6%</b>
<b>EPS</b>	<b>54.19</b>	<b>50.51</b>		<b>42.12</b>	
<b>EBIT Margins (%)</b>	<b>26.11</b>	<b>25.14</b>		<b>21.88</b>	
Net Margins (%)	23.20	22.60		18.57	
Tax Rate (%)	28.99	28.56		28.08	

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### Stock Rating Scale

	<b>Absolute Return</b>
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
NEUTRAL	0-5
REDUCE	<0

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