

Infosys

ACCUMULATE

Great move... and a fast one...

Summary

- We believe that Mr Nandan Nilekani joining Infosys (INFO) board as non-executive Chairman on Thursday is a great move amid Dr. Vishal Sikka's stepping down as MD & CEO just a week earlier. We did not expect such a move to happen so fast.
- At the investor con-call, Mr Nilekani clearly mentioned that his top priority is to make INFO the enterprise of future and restore the company on the growth path with consensus of all stakeholders.
- We believe that the worst is over for INFO and upgrade it to ACCUMULATE from HOLD with new TP of Rs988 based on 14x FY19E (13x earlier) and factor the impact of share buyback. We would watch out for strategic commentary at Q2FY18 earnings con-call for any further upgrades.

Key Highlights and Investment Rationale

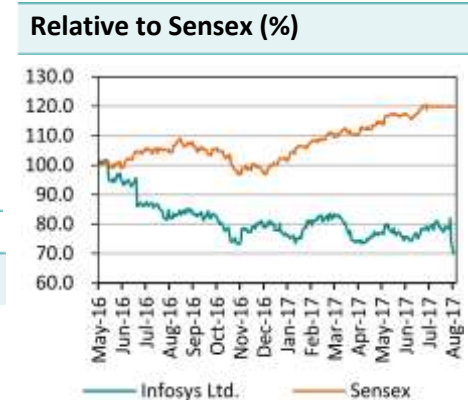
- **Mr Nilekani top priorities clearly indicates taking INFO to the next level**
His priorities include 1) bringing stability at the organization, 2) appointment of the new MD & CEO, 3) review of INFO's strategic initiatives, 4) strengthening relationship with co-founders, 5) establishing long-term governance structure and 6) review of recent investigations.
- **New MD & CEO to make INFO – 'The enterprise of the future'**
Mr Nilekani confirmed that there will be a global search for the new MD & CEO both internal and external to the company as well as across INFO's alumni. He clearly mentioned that INFO's new CEO would need to have capabilities including 1) strong technology prowess, 2) accelerating technology transformation for INFO, 3) leading a large company like INFO with multinational presence, 4) driving cultural change, and 5) taking all stakeholders together.
- **To watch out for strategic commentary for further upgrades**
While we believe that INFO will continue to focus on driving growth in new technologies, we would monitor any substantial change from its current strategy which might impact growth in the near term.

TP	Rs988	
CMP	Rs913	
Potential upside / downside	+8%	
Previous Rating	HOLD	
V/s Consensus		
EPS (Rs)	FY18E	FY19E
IDBI Capital	64.4	70.6
Consensus	63.9	69.1
% difference	0.9	2.1

Shareholding Pattern (%)		
Promoters	12.8	
FII	37.5	
DII	20.2	
Public	29.5	

Price Performance (%)			
	-1m	-3m	-12m
Absolute	(6.1)	(8.4)	(10.6)
Rel to Sensex	(5.0)	(10.2)	(24.3)

Key Stock Data	
Bloomberg / Reuters	INFO IN / INFY.BO
Sector	IT Services
Shares o/s (mn)	2,265
Market cap. (Rs mn)	2,095,984
Market cap. (US\$ mn)	32,734
3-m daily average value (Rs mn)	1,002
52-week high / low	Rs1,081 / 862
Sensex / Nifty	31,596 / 9,857



Financial snapshot

Year	FY 2015	FY 2016	FY 2017	FY 2018E	FY 2019E
Revenue	533,190	624,410	684,850	721,774	800,707
EBITDA	149,000	170,780	186,050	189,665	210,458
EBITDA (%)	27.9	27.4	27.2	26.3	26.3
Adj. PAT	123,300	134,900	143,530	145,809	159,745
EPS (Rs)	54.4	59.5	63.4	64.4	70.6
EPS Growth (%)	11.2	9.4	6.4	1.7	9.6
PE (x)	16.8	15.3	14.4	14.2	12.9
Dividend Yield (%)	3.8	2.7	2.8	1.6	3.3
EV/EBITDA (x)	11.7	10.1	9.0	9.0	7.9
RoE (%)	25.1	24.9	22.6	21.5	22.7
RoCE (%)	28.5	29.1	26.8	25.4	27.1

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY16	FY17	FY18E	FY19E
Net sales	624,410	684,850	721,774	800,707
<i>Growth (%)</i>	<i>17.1</i>	<i>9.7</i>	<i>5.4</i>	<i>10.9</i>
Operating expenses	(453,630)	(498,800)	(532,109)	(590,249)
EBITDA	170,780	186,050	189,665	210,458
<i>Growth (%)</i>	<i>14.6</i>	<i>8.9</i>	<i>1.9</i>	<i>11.0</i>
Depreciation	(14,590)	(17,030)	(18,689)	(20,548)
EBIT	156,190	169,020	170,976	189,910
Interest paid	-	-	-	-
Other income	31,250	30,790	33,169	32,514
Pre-tax profit	187,440	199,810	204,145	222,424
Tax	(52,520)	(55,980)	(57,326)	(62,279)
<i>Effective tax rate (%)</i>	<i>28.0</i>	<i>28.0</i>	<i>28.1</i>	<i>28.0</i>
Net profit	134,920	143,830	146,819	160,145
Adjusted net profit	134,900	143,530	145,809	159,745
<i>Growth (%)</i>	<i>9.4</i>	<i>6.4</i>	<i>1.6</i>	<i>9.6</i>
<i>Shares o/s (mnos)</i>	<i>2,265</i>	<i>2,265</i>	<i>2,263</i>	<i>2,263</i>

Cash Flow Statement

(Rs mn)

Year-end: March	FY16	FY17	FY18E	FY19E
Pre-tax profit	187,440	199,810	204,145	222,424
Depreciation	10,200	17,030	18,548	20,548
Tax paid	(52,490)	(53,980)	(57,326)	(62,279)
Chg in working capital	(12,160)	(49,940)	(8,544)	(8,218)
Other operating activities	(18,795)	41,881	41	(7,104)
Cash flow from operations (a)	114,195	154,801	156,994	165,372
Capital expenditure	(30,380)	(37,070)	(25,000)	(25,000)
Chg in investments	(1,240)	1,470	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	(31,620)	(35,600)	(25,000)	(25,000)
Equity raised/(repaid)	-	-	(129,447)	-
Debt raised/(repaid)	-	-	-	-
Dividend (incl. tax)	(64,275)	(70,001)	(40,735)	(81,470)
Chg in minorities	(20)	(300)	(1,010)	(400)
Other financing activities	-	-	-	-
Cash flow from financing (c)	(64,295)	(70,301)	(171,191)	(81,870)
Net chg in cash (a+b+c)	18,280	48,900	(39,197)	58,502

Balance Sheet

(Rs mn)

Year-end: March	FY16	FY17	FY18E	FY19E
Net fixed assets	141,400	161,440	167,892	172,344
Investments	2,180	710	710	710
Other non-curr assets	68,980	65,130	64,960	72,064
Current assets	533,520	600,870	574,889	657,611
Inventories	-	-	-	-
Sundry Debtors	113,300	123,220	130,513	144,785
Cash and Bank	343,710	392,610	353,413	411,915
Loans and advances	76,510	85,040	90,963	100,911
Total assets	746,080	828,150	808,450	902,729
Shareholders' funds	578,260	689,820	665,448	743,723
Share capital	11,327	11,327	11,315	11,315
Reserves & surplus	566,933	678,493	654,133	732,408
Total Debt	-	-	-	-
Secured loans	-	-	-	-
Unsecured loans	-	-	-	-
Other liabilities	(5,330)	(3,330)	(3,330)	(3,330)
CurrLiab&prov	173,150	141,660	146,332	162,335
Current liabilities	81,130	74,220	77,121	85,555
Provisions	92,020	67,440	69,211	76,780
Total liabilities	167,820	138,330	143,002	159,005
Total equity & liabilities	746,080	828,150	808,450	902,729
Book Value (Rs)	255	305	294	329

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY16	FY17	FY18E	FY19E
Adj. EPS (Rs)	59.5	63.4	64.4	70.6
Adj. EPS growth (%)	9.4	6.4	1.7	9.6
EBITDA margin (%)	27.4	27.2	26.3	26.3
Pre-tax margin (%)	30.0	29.2	28.3	27.8
ROE (%)	24.9	22.6	21.5	22.7
ROCE (%)	29.1	26.8	25.4	27.1
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.9	0.9	0.9	0.9
Leverage factor (x)	1.3	1.2	1.2	1.2
Net margin (%)	21.6	21.0	20.2	20.0
Net Debt/Equity (x)	(0.6)	(0.6)	(0.5)	(0.6)
Working Capital & Liquidity ratio				
Receivable days	66	66	66	66
Payable days	3	3	3	3

Valuation

Year-end: March	FY16	FY17	FY18E	FY19E
P/E (x)	15.3	14.4	14.2	12.9
Price / Book value (x)	3.6	3.0	3.1	2.8
PCE (x)	13.8	12.9	12.6	11.5
EV / Net sales (x)	2.8	2.4	2.4	2.1
EV / EBITDA (x)	10.1	9.0	9.0	7.9
Dividend Yield (%)	2.7	2.8	1.6	3.3



Notes

Dealing

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Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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