

Industry	IT
Bloomberg	INFO IN
BSE CODE	500209

Strong order book led to revised revenue guidance for FY19

RATING	BUY
CMP	683
Price Target	856
Potential Upside	25%

Rating Change	↔
Estimate Change	↔
Target Change	↑

Stock Info

52wk Range H/L	526/755
Mkt Capital (Rs Cr)	298684
Free float (%)	87%
Avg. Vol 1M (,000)	8266
No. of Shares (Cr)	436
Promoters Pledged (Cr)	0

Research Analyst

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Key Highlights-

- Infosys posted mix set of number in 3QFY19 where revenue grew 3.8% QoQ in rupee term and 2.7% in CC terms (in line with the expectation) whereas one off related to subsidiaries(451crore), higher subcontracting cost and continued investment washed off the overall margins(contraction of 330bps).
- Digital continued its growth journey in 3QFY19also by growing 5%sequentially and 33.1%YoY. The management expected momentum in digital to continue going forward.
- Management expects its subsidiaries will not able to sold by March 2019. Thus for time being the company plans to refocus on its subsidiaries.
- Strong order book and continued growth in digital led to revision in management revenue guidance. Management expects revenue growth of 8 % to 9.5% in cc term however maintained its margin guidance (22 % to 24%).

3Q FY19 Result Update

Company's 3QFY19 revenue grew 3.8% to Rs21400 crore led by strong order book (TCV of \$1.57billion in 3QFY19) and continued growth in digital business. In constant currency terms revenue grew 2.7%QoQ.EBIT for the quarter stood at Rs4379, a decline of 10.5%QoQ. Margin declined 330bps to 20.5% led by onetime expenses related skava and panaya (40bps), drop in utilization & higher onsite (80bps), subcontracting cost (20bps), and continued investment (30bps).However some portion was offset by rupee depreciation and revenue hedge (50bps).PAT stood at Rs3610 a decline of12.2% QoQ due of onetime expenses.

View and Valuation

Going forward, we expect Infosys to post strong revenue growth in FY20 led by healthy deal pipeline , continued increase in digital share and robust growth in segments like financial service, manufacturing and retail. TCV which stood at \$ 1.57 billion in 3QFY19 is continuously increasing and as some of them are for short span, thus giving strong revenue visibility for FY20. Even digital which now contributes 31.5% of the revenue is increasing its share every quarter (grew 5% QoQ in cc terms and 33.1%YoY) .Thus we expect digital momentum to continue for FY20.The management has also revised its revenue guidance from 6 to 8% growth in cc term to 8 to 9.5 % in cc term for FY19 on the back of strong deal wins and healthy pipeline giving us confidence of strong growth in top line for 4QFY19 and FY20. However on margin front, we have reduced our estimates by 1.5% post the 3QFY19 miss in margins and management commentary on headwinds expected for 4QFY19.Higher Subcontracting cost which has become a concern for the industry, Infosys is no different from its peers. Thus we expect higher subcontracting cost to continue for medium term, also continued investment in localization as per management strategy will be reflected in margins. However after considering all the above challenges, we still expect the margin for FY19 to be with in the guided range of 22% to 24 %.

We expect Infosys to post revenue growth of 16% CAGR over FY18 to 20E.Seeing the strong revenue visibility going ahead we are positive on the stock with a target price of Rs 856(20x FY20EPS) and recommend Buy.

Key Risks to our rating and target

- Slower than expected deal wins.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	62441	68485	70522	83144	95431
EBITDA	17120	18605	19011	20389	24746
EBIT	15854	16902	17148	18438	22446
PAT	13678	14353	16029	15470	18281
EPS (Rs)	30	31	37	36	43
EPS growth (%)	10%	5%	17%	-1%	18%
ROE (%)	22%	21%	25%	23%	25%
ROCE (%)	28%	26%	25%	27%	31%
BV	126	150	149	161	174
P/B (X)	5	3	4	4	4
P/E (x)	20	16	15	19	16

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3QFY19 Results

Mixed performance

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	17,794	18,083	19,128	20,609	21,400	20.3%	3.8%	68,485	70,522	3.0%
Other Income	962	652	726	739	753	-22%	2%	3,079	3,193	4%
Employee	9,869	10,054	10,462	11,158	11,622	18%	4%	37,659	38,893	3%
Other Expenses	741	639	827	953	946	28%	-1%	3,273	2,932	-10.4%
EBITDA	4,817	4,812	4,703	5,357	4,959	3%	-7%	18,605	19,011	2.2%
Dep and	498	458	436	463	580	16%	25%	1,703	1,863	9.4%
EBIT	4,319	4,354	4,267	4,894	4,379	1%	-11%	16,902	17,148	1.5%
Interest	-	-	-	-	-	0%	0%	-	-	0.0%
PBT	5,281	5,006	4,993	5,633	5,132	-3%	-9%	19,981	20,341	1.8%
Tax	152	1,316	1,381	1,523	1,522	901%	0%	5,598	4,241	-24.2%
Exceptional	-	-	-	-	-	0%	0%	-	-	0.0%
PAT	5,129	3,690	3,612	4,110	3,610	-30%	-12.2%	14,353	16,029	11.7%

In line Revenue performance

Despite seasonality, Revenue for the quarter stood at Rs21400 crore (growth of 3.8% QoQ) led by strong order book and continued growth in digital. In constant currency term revenue grew 2.7%QoQ. Cross currency headwind impacted revenue growth 50 bps to 2.2% . Digital (31.5% of rev) grew 5% QoQ CC while core/legacy grew 1.8% QoQ . Volume during the quarter came a 2.2% QoQ in cc terms.

Strong growth seen in manufacturing & financial service, Seasonality in others

Segments (in USD mn)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	QoQ%	YoY
Financial services	872	903	912	914	900	941	971	3.2%	6%
Retail	429	436	446	446	470	491	490	-0.2%	10%
Communication	331	338	342	362	360	359	355	-1.1%	4%
Energy, Utilities, Resources	300	319	331	337	351	359	382	6.4%	16%
Manufacturing	249	256	262	269	272	280	302	7.6%	15%
Hi Tech	194	196	196	208	209	219	218	-0.5%	11%
Life Sciences	175	186	179	188	187	187	185	-0.9%	3%
Others	98	93	88	81	82	85	84	-1.3%	-5%

BFSI grew 3.2%QoQ as momentum continued in client spend and also ramping up of new accounts. Finacle bookings were strong. E&U growth was strong at 6.4%QoQ on increased client budgets but the sector is adversely hit by low commodity prices, spends in E&U include IoT & RPA. Even manufacturing posted a strong growth (grew 7.6%QoQ). however some segment like retail declined 0.2% due to seasonality.

Continued increasing digital revenue every quarter

Services (USD mn)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	QoQ%	YoY
Digital Services			667	710	756	844	875	3.7%	31%
Core/ Legacy Services			1940	1958	1939	1928	1948	1.0%	0%
Total Services			2606	2668	2695	2772	2823	1.8%	8%
Digital Platform			52	42	48	61	66	7.1%	26%
Core/ Legacy Product			96	95	88	88	99	12.5%	2%
Total Platform			149	137	136	149	164	10.3%	10%

Growth momentum seen across geography

Geography (in USD mn)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	QoQ%	YoY
North america	1618	1653	1664	1666	1699	1761	1804	2.4%	8%
Europe	593	633	672	696	688	701	723	3.1%	8%
India	95	90	83	79	74	73	78	6.3%	-6%
Row	342	352	336	365	371	386	382	-0.8%	14%

Growth was seen across geographies. India led the growth in 3QFY19 by growing 6.3%QoQ, followed by Europe which grew 3.1% QoQ. North America grew 2.4% QoQ whereas Rest of the world declined 0.8%QoQ.

Higher subcontracting cost and onetime expenses washed off the margins

EBIT for the quarter stood at Rs4379, a decline of 10.5%QoQ. Margin in 3QFY19 was at 22.6% compared to 23.7% last quarter. During the quarter drop in utilization and higher onsite mix impacted operating margin by 80 basis points, compensation increased impacted margins by 30 bps, continued sales investment impacted margin by another 30 bps and acquisitions impacted margins by 20 bps. Further due to the declassification of Panaya and Skava from assets held for sale additional depreciation charge of \$12 million impacting margin by 40 basis points pertaining to nine months when these assets are held for sale. However some portion of these were offset by benefits from rupee depreciation and revenue hedges of 50 bps, an benefit of lower lease cost and reduction in other expenses of 40 basis points, Thus resulting in 1.1% decline in operating margin over 2QFY19.

PAT for the quarter Rs3610 a decline of 12.2% QoQ due of onetime expenses.

Revised revenue guidance to 8% to 9.5% in cc, margin guidance unchanged.

The management has revised its guidance from 6 to 8% growth in cc term to 8 to 9.5 % in cc term for FY19 on the back of strong deal wins and continued growth in digital. However margin guidance remains changed for FY19 (22 %to 24%).

Announced buyback of Rs8260

The Board has recommended a buyback of Rs 8,260 crore at a maximum buyback by price of Rs 800 per share. The balance amount of approximately Rs 2,100 crore will be paid as special dividend amounting to dividend per share of Rs 4.

Refocus on the subsidiaries held for sale

The Company expects its subsidiaries Panaya and Skava will not able to be sold by March 31, 2019 as planned. Thus, for time being the company is planning to the repurpose Skava's business and refocus Panaya's suite of products.

Concall highlights

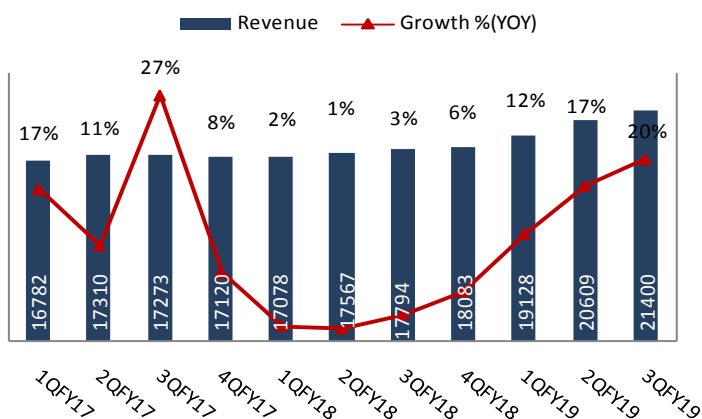
- ❑ Growth continued in digital: Digital revenues had another good quarter with 5% sequential Growth and 33.1% YoY growth in constant currency terms. The management continues to see the traction going forward.
- ❑ Strong TCV wins: The Company won TCV of US\$ 1.57 billion bn in 3QFY19. This shows a good trend continuing in the past three quarters basically stemming from the increased investment in sales and a clear focus on the portfolio that supports the clients.
- ❑ Continued large deal wins: 14 large deal won during the quarter with a TCV of \$1.57 billion, 10 deals were in Americas, three in Europe, and one in rest of the world. Vertical wise four deals which were in FSI and Manufacturing, two in Communications and one each in Retail, Life Sciences, URS, and other business segment.
- ❑ Outlook on verticals:
 - Financial services sector continues to grow on the back of sustained momentum in plant spend and ramp up of previous wins. The management is seeing momentum in new account acquisitions and expansion of accounts opened recently. Thus remain positive for FY19.
 - Retail segment which was mainly impacted by seasonal weakness in 3QFY19 , is expected to improve going forward as increasing focus on digital transformation in sub segments like CPG, transportation, logistics, apparel, consumer tech is resulting in steady increase in deal wins and deal pipeline of the company.
 - Communication sector remains under pressure due to sector specific headwinds. However performance remained steady even in seasonally weak quarter due to ramp up of previous deal wins and thus management expect further momentum in the coming quarter.
 - Energy, utilities, resources and services segment continued with strong momentum with ramp up in the previous deal wins and was led by utilities in Europe and services in America.
- ❑ Client budget for 2019: The management cited that overall budgets for FY19 are expected to be flattish with higher allocation towards newer areas focused on sale the business segment.
- ❑ Outlook for FY19: The management expects 4QFY19 operating margin to be impacted due to rupee appreciation, targeted compensation corrections, continued investments in business and initial margin impact due to transition and ramp up of recently won deals.

Operational Details

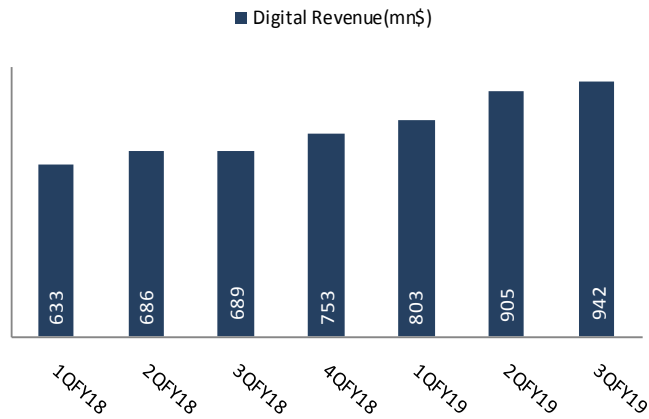
By Geography (%)	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
North America	62.0	62.3	61.1	60.6	60.4	59.4	60.0	60.3	60.4
Europe	22.2	22.1	22.4	23.2	24.4	24.8	24.3	24.0	24.2
India	3.4	3.2	3.6	3.3	3.0	2.8	2.6	2.5	2.6
Row	12.4	12.4	12.9	12.9	12.2	13.0	13.1	13.2	12.8
	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Financial Services			32.9	33.1	32.1	32.6	31.8	32.2	32.5
Retail			16.2	15.9	16.2	15.9	16.6	16.8	16.4
Communications			12.5	12.4	12.4	12.9	12.7	12.3	11.9
Energy, Utilities, Resources			11.3	11.7	12.0	12.0	12.4	12.3	12.8
Manufacturing			9.3	9.3	9.5	9.6	9.6	9.6	10.1
Hi Tech			7.3	7.2	7.1	7.4	7.4	7.5	7.3
Life Sciences			6.6	6.7	6.5	6.7	6.6	6.4	6.2
other			3.7	3.4	3.2	2.9	2.9	2.9	2.8
	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Digital			22.7	23.6	24.2	25.3	26.7	28.9	29.3
Core			72.2	71.2	70.4	69.8	68.8	66.0	65.2
Products%	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Digital			1.5	1.6	1.9	1.5	1.7	2.1	2.2
Core			3.9	3.6	3.5	3.4	3.1	3.0	3.3
Client Data	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Active	1,152	1,162	1,164	1,173	1,191	1,204	1,214	1,222	1,251
Added during the period	77	71	59	72	79	73	70	73	101
Client contribution	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Top client(%)	3.1	3.3	3.3	3.4	3.4	3.6	3.7	3.9	3.4
Top 5 clients(%)	12.3	12.2	-	-	-	-	-	-	-
Top 10 clients(%)	20.1	20.2	20.0	19.5	19.2	19.2	19.2	19.4	19.2
1 Million dollar +	591	598	606	620	630	634	627	633	651
10 Million dollar +	195	189	190	186	198	198	200	205	214
50 Million dollar +	54	56	56	55	56	57	56	58	59
100 Million dollar +	18	19	18	19	20	20	24	23	23
Utilization	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Utilization Incl. Trainees	78.5	78.8	80.8	81.8	82.1	80.8	81.5	80.2	79.8
Utilization Excl. Trainees	82.4	82.6	84.5	84.7	84.9	84.7	85.7	85.6	83.8
Attrition	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Attrition rate (% LTM)	14.9	13.5	15.0	17.0	15.8	16.6	20.6	19.9	17.8
Effort	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Onsite	29.8	30.0	30.1	29.4	29.0	28.7	28.6	28.4	28.6
Offshore	70.2	70.0	69.9	70.6	71.0	71.3	71.4	71.6	71.4

Exhibit: Revenue trend

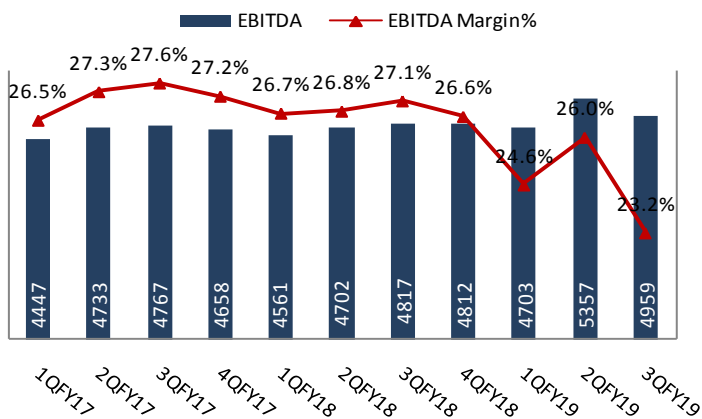
Despite seasonality, large order book and strong segments led 2.7%cc term growth in 3QFY19.


Exhibit: Digital Revenue

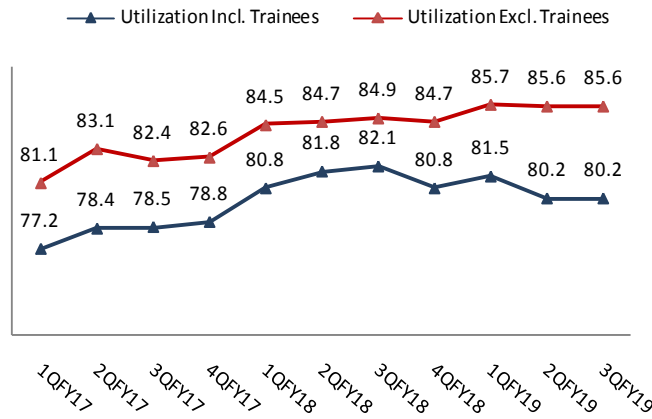
Momentum continued in digital (grew 33.1% YoY), now contributing 31.5% of the total revenue.


Exhibit: EBITDA and EBITDA margin

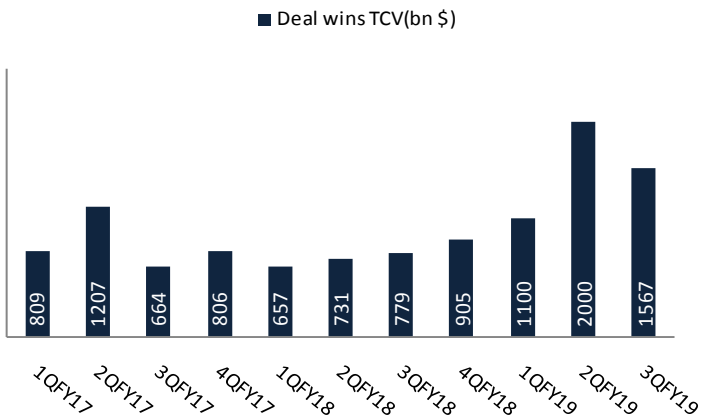
Compensation and higher sub contract cost offset the cross currency benefit.


Exhibit: Utilization

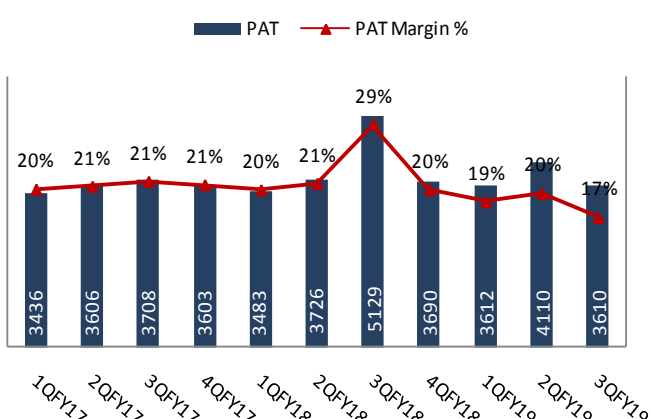
Seasonality led to lower utilization.


Exhibit: Deal Wins

Large deal win led to continued TCV growth (\$1.57 billion in 3QFY19).


Exhibit: PAT and PAT Margin

One off expenses related to subsidiaries (Rs451 crore) impact the overall margin.



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	286	286	572	1,144	1,144	1,088	2,132	2,132
Reserves	37708	44244	50164	60600	67838	63835	66405.7	71891.7
Networth	37994	44530	50736	61744	68982	64923	68538.2	74024.2
Debt	-	-	-	-	-	-	-	-
Other Non Current Liab	238	405	50	367	360	861	861	861
Total Capital Employed	38232	44935	50786	62111	69342	65784	69399.2	74885.2
Net Fixed Assets (incl CWIP)	8279	9339	12122	10582	11892	11969	12418.7	13258.5
Non Current Investments	377	1,307	1,398	1,714	6,382	5,756	5,756	5,756
Other Non Current Assets	67	53	85	1,357	1,059	2,265	2,265	2,265
Non Current Assets	10544	12528	17564	20526	22209	21852	22301.7	23141.5
Current investments	1,739	3,024	872	75	9,970	6,407	7,580	7,580
Debtors	7,083	8,351	9,713	11,330	12,322	13,142	15,718	18,040
Cash & Bank	21,832	25,950	30,367	32,697	22,625	19,818	20,040	23,047
Other Curr Assets	-	-	-	2,158	2,536	1,667	1,663	1,909
Other financial assets	-	-	-	5,190	5,980	6,684	6,684	6,684
Short-term loans and advances	4,689	5,753	6,290	303	272	239	330	323
Current Assets	35343	43078	47242	51753	53705	50017	53972.5	59541.9
Creditors	189	173	140	386	367	694	911	1,046
Provisions	-	6,409	8,443	512	405	492	492	666
Other Current Liabilities	3,969	5,449	6,920	2,629	3,007	3,606	4,157	4,772
Other financial liabilities	3,941	-	-	6,302	6,349	6,946	6,946	6,946
Income tax liabilities	-	-	-	3,410	3,885	2,043	2,043	2,043
Curr Liabilities	8099	12031	15503	13239	14013	14106	14895	15818.2
Net Current Assets	27244	31047	31739	38514	39692	35911	39077.5	43723.7
Total Assets	46331	56966	66289	75350	83355	79890	84295.2	90704.4

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	40352	50133	53319	62441	68485	70522	83143.7	95431.5
Change (%)	20%	24%	6%	17%	10%	3%	18%	15%
EBITDA	11,533	13,381	14,871	17,120	18,605	19,011	20,389	24,746
Change (%)	8%	16%	11%	15%	9%	2%	7%	21%
Margin (%)	29%	27%	28%	27%	27%	27%	25%	26%
Depr & Amor.	1,090	1,317	1,017	1,266	1,703	1,863	1,950	2,300
EBIT	10,443	12,064	13,854	15,854	16,902	17,148	18,438	22,446
Int. & other fin. Cost	-	-	-	-	-	-	-	-
Other Income	2,365	2,664	3,430	3,128	3,079	3,193	2,988	2,859
EBT	12,808	14,728	17,284	18,982	19,981	20,341	21,427	25,305
Exp Item	-	-	-	-	-	-	-	-
Tax	3,370	4,072	4,911	5,301	5,598	4,241	5,957	7,025
Minority Int & P/L share of Ass.	-	-	(1)	(3)	(30)	(71)	-	-
Reported PAT	9,438	10,656	12,373	13,681	14,383	16,100	15,470	18,281
Adjusted PAT	9,438	10,656	12,372	13,678	14,353	16,029	15,470	18,281
Change (%)	11%	13%	16%	11%	5%	12%	-3%	18%
Margin(%)	23%	21%	23%	22%	21%	23%	19%	19%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	27%	24%	24%	22%	21%	25%	23%	25%
ROCE	30%	29%	29%	28%	26%	25%	27%	31%
Asset Turnover	1	1	1	1	1	1	1	1
Debtor Days	64	61	66	66	66	68	69	69
BV	83	97	111	126	150	149	161	173
Payable Days	2	1	1	2	2	4	4	4
Earnings Per Share	21	23	27	30	31	37	36	43
P/E	17	18	21	20	16	15	19	16
Price / Book Value	4	4	5	5	3	4	4	4
EV/EBITDA	16	16	19	18	14	14	15	13
EV/Sales	5	4	5	5	4	4	4	3

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	12799	14728	17283	13489	14353	20341	21427	25305
Depreciation	-1182	-281	-842	-1946	-2156	-2156	-2156	-2156
Int Paid (+)	-950	-748	-1337	4350	4987	4987	4987	4987
Non Cash Op Exp	0	0	0	0	0	0	0	0
Tax Paid	-3293	-3874	-6751	-5865	-5653	-4241	-5957	-7025
(inc)/Dec in Working Capital	0	0	0	0	0	0	0	0
CF from Op. Activities	7374	9825	8353	10028	11531	18931	18301	21112
(inc)/Dec in FA & CWIP	-2095	-2748	-2247	-2723	-2760	-1940	-2400	-3140
Free Cashflow	5279	7077	6106	7305	8771	16991	15901	17972
others	-930	166	3335	1822	-11782	3563	-1173	0
CF from Inv. Activities	-3025	-2582	1088	-901	-14542	1623	-3573	-3140
inc/(dec) in NW	0	0	0	0	0	0	-8208	0
inc/(dec) in Debt	0	0	0	0	0	0	0	0
Int. Paid	0	0	0	0	0	0	0	0
Div Paid (inc tax)	-2815	-3618	-5111	-5570	-6980	-7469	-4691	-12795
others	0	0	0	0	0	0	0	0
CF from Fin. Activities	-2815	-3618	-5111	-5570	-6980	-7469	-11855	-12795
Inc(Dec) in Cash	1534	3625	4330	3557	-9991	10993	222	3008
Add: Opening Balance	20689	21846	25861	30383	32575	22625	19818	20040
Closing Balance	22223	25471	30191	33940	22584	33618	20040	23047

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Analyst's ownership of the stocks mentioned in the Report	NIL
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*The name of the Company has been changed from “Microsec Capital Limited” to “Narnolia Financial Advisors Limited” pursuant to change of control. The change in name has been duly effected in the records of the Registrar of Companies (ROC). The application for fresh registration in the new name of “Narnolia Financial Advisors Limited” pursuant to change of control is under process with SEBI.

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