NARNOLIA

INFY

BUY

INFOSYS LTD.

17/10/2016

Result Update

CMP	1027
Target Price	1285
Previous Target Price	1285
Upside	25%
Change from Previous	-

Market Data

BSE Code	500209
NSE Symbol	INFY
52wk Range H/L	1278/996.15
Mkt Capital (Rs Cr)	235,988
Av. Volume ('000)	2930
Nifty	8583

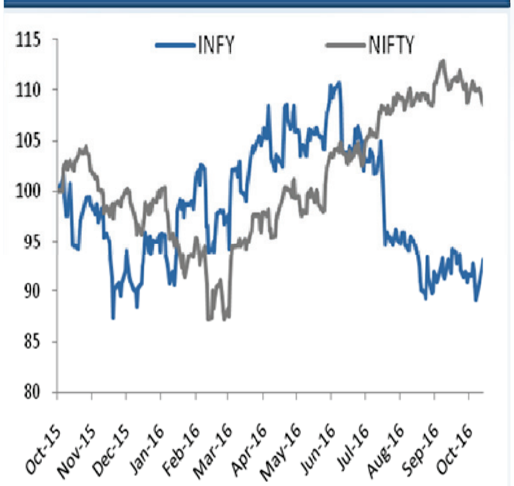
Stock Performance

	1Month	3 Month	1Year
Absolute	0.5	-2.6	-6.3
Rel.to Nifty	2.2	-2.6	-11.6

Share Holding Pattern-%

	16-Jun	16-Mar	15-Dec
Promoters	13%	13%	13%
Public	87%	87%	86%
Others	0%	0%	
Total	100%	100%	100%

Company Vs NIFTY



Infosys Q2 profit up by 5%,Revised its Revenue guidance to 8-9%. After considering performance of H2FY17 and the near term uncertain business outlook,Infosys cuts its FY17 Revenue guidance to 8-9% from 11-12% earlier in constant currency terms. On sequential basis,Rupee Revenue rose 3.14% to Rs 17310 Cr and Dollar revenue was up by 3.4% at USD 2.6 billion.EBIT jump 6.5% to Rs 4309 Cr and Margin expanded by 80bps to 24.9% led by fall in operating expenses.The company won 6 large deals during the quarter worth USD 1.2 billion. The Edge Verve (Subsidiary Co.) business delivered a strong performance with 48 wins and 23 go-lives from both the Finacle and Edge Suite of Solutions across various markets.Attrition rate during the quarter declined by 100 bps sequentially to 20% but increased by 10 bps compared with year-ago period.Net profit hiked by 5% sequentially and 6% on YoY basis at Rs 3606 Cr.

Key Highlights of Q2FY17

>>Reported Sequential Revenue growth at 3.1% in INR terms and 3.9% in constant currency terms.
>>Q2 YoY revenue growth was at 10.7% in INR terms and 8.9% in constant currency terms.
>>Operating Margins expanded 80 bps sequentially to 24.9%.
>>Volume growth for the quarter was 4.0%.
>>Utilization excluding trainess up by 200 bps sequentially to 82.5%.
>>Operating Profit was Rs 4309 Cr for the quarter (6.5% QoQ growth and 7.9% YoY growth).
>>Net Profit was Rs 3606 Cr for th quarter (4.9% QoQ growth and 6.1% YoY growth).
>>FY 17 revenue guidance revised to 8.0% - 9.0% in constant currency.

IT Industry: NASSCOM positive over long term prospects.

NASSCOM to wait for more earnings before reviewing FY17 guidance
>>A lot of short-term cues are negatively impacting IT industry.
>>Outlook for IT industry does not look negative over a long-term.
>>slowdown in BFSI sector might impact earnings for a couple of more quarters.

Outlook and Valuation

Infy had well-rounded growth during the quarter in their market segments. While they continue to navigate an uncertain external environment, they remain focused on executing their strategic move and increasing momentum of their software plus services model.The company presently is trading at multiple year low valuations. Considering handsome 2.5% Dividend Yield ,we remain positive on the stock and recommend **'BUY'** with the target of 1205 at P/b of 3.7 times FY17 earnings.

In Rs. Cr

Financials	*FY13*	*FY14*	*FY15*	*FY16*	*FY17E*
Sales	*40352*	*50133*	*53319*	*62441*	*68685*
EBITDA	*11533*	*13381*	*14871*	*17120*	*18490*
Net Profit	*9429*	*10656*	*12372*	*13678*	*14772*
ROE%	*24.8%*	*23.9%*	*24.4%*	*23.7%*	*22.1%*
P/B	*4.4*	*4.2*	*5.0*	*4.8*	*3.5*

(Source: Company/Eastwind)

Management Takeaways

>> Revenues are expected to grow 8.0%-9.0% in constant currency.
>> The fall in operating expenses helped EBIT jump 6.5 percent to Rs 4,309 crore and margin expand by 80 basis points to 24.9 percent on QoQ basis.
>>Management Expects FY17 margin to be in range of 24-25 percent.
>>Tax Rate to be in the range of 28-29%.
>> Infosys has added 78 clients in Q2, taking total to 1,136 active clients. It added 1 client in USD 100 million category and 2 clients in USD 50 million category.
>> The company won 6 large deals during the quarter worth USD 1.2 billion.
>> Management sees muted growth for BFSI for the next few quarters as couple of headwinds are seen in couple of accounts, though very comfortable about segment growth for the long run.
>> Expects good traction in healthcare, energy & utlities, telecom businesses but retail will be volatile. >>European business of the companv will take around 2-3 vears to recover.

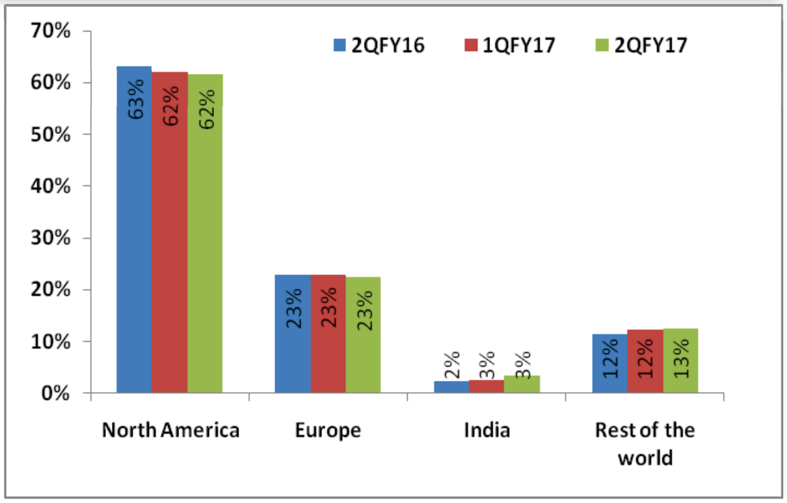
Attrition declining from historic highs of 21% last quarter.

	2QFY16	19.90%
Attrition % (LTM)	1QFY17	21.00%
	2QFY17	20.00%

It seems Fixed Price Project can collect more revenue from long term project.

Revenue by Project Type %	2QFY16	1QFY17	2QFY17
Fixed Price	44	46	47
Time & Material	56	54	53

Revenue by geographical Segment (%)



Attractive Valuations

Year	P/b	p/E	Roe	Div Yield
201703E	3.5	15.7	22.1	2.46
201603	4.8	20.5	23.7	1.99
201503	5.0	20.6	24.4	2.01
201403	4.2	17.7	23.9	1.92
201303	4.4	17.6	24.8	1.45
201203	5.3	19.7	26.6	1.64
201103	7.2	27.2	26.3	1.85
201003	6.5	23.9	27.2	0.96
200903	4.2	12.7	32.8	1.77
200803	5.9	17.6	33.8	2.33
200703	10.2	29.8	34.3	0.56
200603	11.8	33.4	35.3	1.51
200503	11.7	32.2	36.2	0.51

The company has a dividend yield of ~2.5% at current price levels. With Roe at sustainable 22% levels, the valuations appear atttractive.

Financials Snap Shot

INCOME STATEMENT

	FY13	FY14	FY15	FY16
Revenue (Net of Excise D	40352	50133	53319	62441
Other Income	2365	2664	3430	3128
Total Revenue	42717	52797	56749	65569
COGS				
GPM				
Other Expenses	1557	2119	2478	2497
EBITDA	11533	13381	14871	17120
EBITDA Margin (%)	29%	27%	28%	27%
Depreciation	1099	1317	1017	1266
EBIT	10434	12064	13854	15854
Interest	0	0	0	0
PBT	12799	14728	17284	18982
Tax	3370	4072	4911	5301
Tax Rate (%)	26%	28%	28%	28%
Reported PAT	9429	10656	12372	13678
Dividend Paid	3122	3144	4935	9062
No. of Shares	57	57	115	229

Souce: Eastwind/Company

RATIOS

	FY13	FY14	FY15	FY16
EPS	164.2	185.6	107.7	59.6
Book Value	661.6	775.5	441.8	252.1
DPS	54.4	54.8	43.0	39.5
Payout (incl. Div. Tax.)	33%	30%	40%	66%
Valuation(x)				
P/E	4.4	4.4	10.2	20.3
Price / Book Value	1.1	1.1	2.5	4.8
Dividend Yield (%)				
Profitability Ratios				
RoE	25%	24%	24%	24%
RoCE	27%	27%	27%	27%
Turnover Ratios				
Asset Turnover (x)	0.9	0.9	0.8	0.8
Debtors (No. of Days)	64	61	66	66
Inventory (No. of Days)				
Creditors (No. of Days)	2	1	1	2
Net Debt/Equity (x)	0.0	0.0	0.0	0.0

Souce: Eastwind/Company

	FY13	FY14	FY15	FY16
Share Capital	286	286	572	1144
Reserves	37708	44244	50164	56682
Net Worth	37994	44530	50736	57826
Long term Debt	0	405	50	0
Short term Debt	0	0	0	0
Deferred Tax	56	0	0	0
Total Capital Employed	37994	44935	50786	57826
Net Fixed Assets	8279	9339	12122	14140
Capital WIP	1140	961	776	960
Debtors	7083	8351	9713	11330
Cash & Bank Balances	21832	25950	30367	32697
Trade payables	189	173	140	386
Total Provisions	4151	6814	8493	9328
Net Current Assets	27244	31047	31739	34564
Total Assets	46331	56966	66289	75141

Souce: Eastwind/Company

	FY13	FY14	FY15	FY16
OP/(Loss) before Tax	12799	14728	17283	18979
Depreciation	1099	1317	1017	1266
Direct Taxes Paid	(3293)	(3874)	(6751)	(5865)
Operating profit before w	(951)	(556)	(1337)	(1105)
CF from Op. Activity	7373	9825	8353	9863
Purchase of Non Current i	0	0	0	(22)
Capital expenditure on fix	(2095)	(2748)	(2255)	(2723)
CF from Inv. Activity	(3020)	(2577)	1088	(686)
Repayment of Long Term	(89)	0	0	0
Interest Paid				
Divd Paid (incl Tax)	(438)	0	0	0
CF from Fin. Activity	(3210)	(3144)	(4935)	(6813)
Inc/(Dec) in Cash	1241	4118	4417	2330
Add: Opening Balance	20591	21832	25950	30367
Closing Balance	21832	25950	30367	32697

Souce: Eastwind/Company