

11 October 2013

BUY

TP: INR 3,700.00

▲ 18.3%

Infosys

INFO IN

Strong Q2 – broadbased growth, improving trajectory

INFO reported a strong Q2 with US\$ growth of 3.8% QoQ (RCMLe 3%) led by 4% offshore volume growth. Margins adj. for one offs were flat QoQ broadly inline with expectations. Further they raised the low end of guidance to 9% but maintained the top end at 10% growth. We believe that the guidance is conservative and strong growth metrics this Q raise the probability of beating the guidance at top end. We remain positive on the stock given improving growth trajectory and reasonable valuations. Maintain Buy.

- ➔ **Healthy Q2FY14- growth ahead of expectations:** Revenues at US\$ 2.07bn, up 3.8% QoQ, were ahead of expectations of US\$ 2.05bn, driven by a strong 4% offshore volume growth. Growth was broadbased with NA up 3.9% QoQ CC and Europe up 3.8% QoQ CC. BFSI grew 3.9% QoQ and Manufacturing grew by 6.6% QoQ. EBIT margins adjusted for one-time visa provisioning were flat QoQ (inline with expectations) as wage hikes offset benefits from currency depreciation. Blended pricing was up 0.6%. PAT at Rs 24bn (up 2% YoY) was 7% behind expectations due to lower reported margins and lower other income.
- ➔ **Top end FY14 guidance maintained:** INFO maintained the top end of FY14 guidance at 10% US\$ revenue growth in FY14, against expectations of a slight raise. At the top end the guidance implies a -0.8% CQGR for the remaining quarters. We believe that the management is building in a significant amount of conservativeness in their expectations and the strong growth trajectory only reinforces our view that they would deliver growth in FY14 ahead of guidance.
- ➔ **View:** Overall a healthy topline performance and most operating metrics show a broadbased growth performance something which has been missing in Infosys results over the recent past. For FY14, we see marginal increase to the US\$ growth expectations, but a marginal EPS downgrade due to one-time expense. We don't see any significant change to FY15 estimates. BUY target price of Rs3,700.

Financial Highlights

Y/E 31 Mar	FY11A	FY12A	FY13A	FY14E	FY15E
Revenue (INR mln)	274,978	336,921	403,389	507,228	583,831
EBITDA (INR mln)	89,360	106,672	115,186	141,678	164,290
Adjusted net profit (INR mln)	68,231	82,884	94,069	107,665	124,737
Adjusted EPS (INR)	119.4	145.1	164.6	188.4	218.3
Adjusted EPS growth (%)	9.7	21.5	13.5	14.5	15.9
DPS (INR)	60.0	47.0	42.0	47.0	50.0
ROIC (%)	61.2	59.1	52.7	54.2	58.5
Adjusted ROAE (%)	26.1	27.0	24.8	23.3	23.6
Adjusted P/E (x)	26.2	21.6	19.0	16.6	14.3
EV/EBITDA (x)	18.3	15.3	13.8	11.0	9.1
P/BV (x)	6.5	5.3	4.5	3.7	3.1

Source: Company, Bloomberg, RCML Research



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PRICE CLOSE (10 Oct 13)

INR 3,127.60

MARKET CAP

INR 1,795,981 mln

USD 28,921 mln

SHARES O/S

574.2 mln

FREE FLOAT

80.8%

3M AVG DAILY VOLUME./VALUE

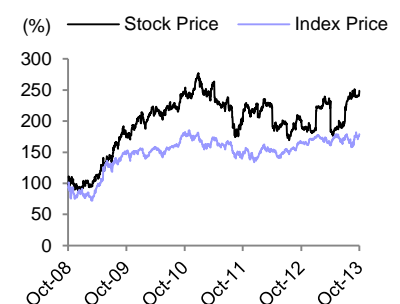
1.4 mln/ USD 66.2 mln

52 WK HIGH

INR 3,188.00

52 WK LOW

INR 2,186.00





Q2FY14 highlights

- Infosys reported dollar revenue growth of 3.8% QoQ for Q2FY14. Volumes grew by 3.1% QoQ.
- Reported pricing was up 1.4% QoQ for onsite and 1.7% QoQ for offshore projects, with blended rates up 0.6% QoQ.
- North America grew 3.9% QoQ CC, Europe grew 3.8% in CC, India 6.2% QoQ and ROW +6% QoQ CC.
- The proportion of fixed-price contracts was at 40.2% flat QoQ
- In terms of verticals, FSI revenues grew 3.9% QoQ in constant currency, manufacturing 6.6% QoQ (CC), retail, logistics, CPG & life sciences (RCL) 1.2% (CC) and Energy, Utilities and Comms (ECS) declined by 5.6% CC.
- Infosys added 2,964 employees (net), taking its total employee base to 1,60,227
- LTM attrition came in at 17.3% during the quarter vs. 16.9% in Q1FY14
- Utilisation was at 77.8% excluding trainees (75.9% Q1) and 73.7% including trainees (72.4% Q1).
- Reported EBIT margins were down 180bps QoQ but adjusted for one-time visa provisioning on account of legal cases margins were flat QoQ
- Client additions for the quarter numbered 68 taking total base to 873.
- Net profit was up 1.4% QoQ in rupee terms due to lower other income and reported margins.

Fig 1 - Infosys: Quarterly P&L

Consolidated (Rs mn)	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14
Sales	80,990	92,980	88,520	96,160	98,580	104,240	104,540	112,670	129,650
Gross Profit	35,880	42,440	38,930	40,560	40,270	41,510	39,600	42,670	49,150
Gross margin (%)	44.3	45.6	44.0	42.2	40.9	39.8	37.9	37.9	37.9
Selling and marketing	4,560	4,510	4,520	4,690	5,060	5,410	5,180	5,840	7,570
General and administrative	6,180	6,600	5,540	6,440	6,530	6,400	6,720	7,000	9,870
EBITDA	25,140	31,330	28,870	29,430	28,680	29,700	27,700	29,830	31,710
EBITDA margin (%)	31.0	33.7	32.6	30.6	29.1	28.5	26.5	26.5	24.5
EBIT	22,810	28,990	26,470	26,930	25,970	26,770	24,620	26,640	28,370
Other Income	3,870	4,220	6,520	4,760	7,060	5,030	6,740	5,770	5,100
PBT	26,680	33,210	32,990	31,690	33,030	31,800	31,360	32,410	33,470
Adj. PAT	19,060	23,720	23,160	22,890	23,690	23,690	23,940	23,740	24,070
NPM (%)	23.5	25.5	26.2	23.8	24.0	22.7	22.9	21.1	18.6
EPS (Rs)	33.36	41.51	40.54	40.06	41.46	41.46	41.89	41.54	42.12
Q-o-Q (%)									
Sales	8.2	14.8	(4.8)	8.6	2.5	5.7	0.3	7.8	15.1
Operating profit	15.6	24.6	(7.9)	1.9	(2.5)	2.8	(6.7)	7.7	6.3
PAT	10.7	24.4	(2.4)	(1.2)	3.5	0.0	1.1	(0.8)	1.4
EPS	10.7	24.4	(2.3)	(1.2)	3.5	0.0	1.0	(0.8)	1.4
Shares outstanding	571	571	571	571	571	571	571	571	571

Source: Company, RCML Research

BUY

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Infosys

INFO IN

**Results Review****INDIA**

INFORMATION TECHNOLOGY

Rupee guidance

- **FY14:** Infosys has guided for revenues growth of 21-22% implying revenues of Rs488-492bn

Fig 2 - Infosys : Rupee guidance

(Rs mn)	Q1FY14A	Q2FY14A	Q3FY14E	Q4FY14E	FY14E	% Chg YoY
Revenue	112,670	129,650	126,538	123,501	492,360	22
QoQ growth (%)	7.8%	15.1%	-2.4%	-2.4%		

Source: Company

US dollar guidance

- **FY14:** Infosys has guided for revenues growth of 9-10% implying revenues of US\$8-8.14bn.

Fig 3 - Infosys: US\$ guidance

(US\$ mn)	Q1FY14A	Q2FY14A	Q3FY14E	Q4FY14E	FY14E	% Chg YoY
Revenue	1,991	2,066	2,049	2,033	8,140	10
QoQ growth (%)	2.7%	3.8%	-0.8%	-0.8%		

Source: Company



Fig 4 - Infosys quarterly metrics

	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14
Top client (%)	4.6	4.1	4.1	4.1	4.0	3.6	3.6	3.9	3.9
Top 5 (%)	15.9	15.0	15.4	16.2	16.0	14.6	14.7	14.9	15.0
Top 10 (%)	25.2	24.5	24.4	25.3	25.4	23.9	24.0	24.0	24.5
Non-top 10	74.8	75.5	75.6	74.7	74.6	76.1	76.0	76.0	75.5
Fixed Price (%)	37.7	40.9	39.4	38.0	40.4	41.3	40.2	40.1	40.2
Time & Materials (%)	62.3	59.1	60.6	62.0	59.6	58.7	59.8	59.9	59.8
New clients added	45	49	52	51	39	89	56	66	62
Repeat business (%)	98.5	97.4	96.0	99.1	98.2	97.5	96.5	99.0	98.3
Total active clients	647	665	694	711	715	776	798	836	873
Clients lost	26	31	23	34	35	28	34	28	25
Clients									
>US\$ 1mn	388	391	399	403	413	419	448	466	469
>US\$ 5mn	188	193	190	199	205	209	213	215	221
>US\$ 10mn	128	134	132	132	134	136	137	139	146
>US\$ 20mn	80	80	79	83	82	81	80	82	86
>US\$ 30mn	59	61	64	64	61	62	62	64	66
>US\$ 40mn	47	48	50	53	52	50	49	49	51
>US\$ 50mn	35	39	40	41	40	40	40	41	40
>US\$ 60mn	25	27	28	31	32	34	33	35	34
>US\$ 70mn	21	23	23	24	22	25	28	29	30
>US\$ 80mn	17	17	17	18	19	20	19	22	22
>US\$ 90mn	14	16	16	16	14	15	17	17	17
>US\$ 100mn	11	13	13	12	11	12	12	15	15
>US\$ 200mn	2	2	2	2	3	3	3	3	3
>US\$ 300mn	1	1	1	1					
Attrition (%)	15.6	15.4	14.7	14.9	15.0	15.1	16.3	16.9	17.3
Application development and maintenance (%)	39	39	38	38	38	36	35	35	35
Application development (%)	17	17	17	17	17	16	16	16	16
Application maintenance (%)	22	22	21	21	21	20	20	19	19
Business Process Management (%)	5	5	6.2	6.2	6.0	6.5	6.5	6.3	6.3
CS & PI (%)	31	31	31.1	29.9	30.0	32.6	32.7	33.6	33.3
Infrastructure Management (%)	6	6.1	6.2	6.1	6.8	6.9	7.2	7.0	7.2
Product Engineering Services (%)	3	3.6	3.4	3.5	3.4	3.2	3.2	3.2	3.3
Testing Services (%)	8	7.9	7.8	8.3	8.6	8.4	8.3	8.4	8.4
Others (%)	3	2.9	3.1	3.0	3.0	2.7	2.7	2.8	2.7
Product revenues (%)	4	4.8	4.4	4.5	3.8	3.9	4.0	3.7	3.7
BFSI (%)	35.3	35.3	34.3	34.3	33.7	33.7	33.9	33.7	33.4
Manufacturing (%)	20.2	20.4	21.3	22.0	22.1	21.7	22.2	22.5	23.2
Telecom (%)	10.4	9.8	10.1	10.1	9.9	9.6	9.3	8.5	8.3
Retailing (%)	15.6	15.2	15.8	16.9	17.0	16.0	15.4	15.8	15.7
Energy & Utilities (%)	5.7	6.0	6.1	4.6	5.3	5.4	5.2	4.9	5.1
Transportation & logistics (%)	1.7	2.0	1.6	1.7	1.7	1.8	1.8	1.8	1.8
Life sciences & healthcare (%)	5.6	5.9	5.5	5.1	5.3	6.3	6.7	7.1	6.7
Others (%)	5.5	5.4	5.3	5.3	5.0	5.5	5.5	5.7	5.8

Source: Company



Per Share Data

Y/E 31 Mar (INR)	FY11A	FY12A	FY13A	FY14E	FY15E
Reported EPS	119.4	145.1	164.6	167.0	185.1
Adjusted EPS	119.4	145.1	164.6	167.0	185.1
DPS	60.0	47.0	42.0	47.0	50.0
BVPS	477.9	585.6	696.5	817.9	944.6

Valuation Ratios

Y/E 31 Mar (x)	FY11A	FY12A	FY13A	FY14E	FY15E
EV/Sales	6.1	4.2	3.5	2.6	2.3
EV/EBITDA	18.8	13.4	12.3	9.7	8.2
Adjusted P/E	27.1	19.8	17.6	15.1	13.7
P/BV	6.8	4.9	4.1	3.1	2.7

Financial Ratios

Y/E 31 Mar	FY11A	FY12A	FY13A	FY14E	FY15E
Profitability & Return Ratios (%)					
EBITDA margin	32.5	31.7	28.6	26.8	27.7
EBIT margin	29.5	28.9	25.8	24.2	24.9
Adjusted profit margin	24.8	24.6	23.3	21.3	21.4
Adjusted ROAE	26.1	27.0	24.8	22.0	21.0
ROCE	23.1	22.8	20.9	18.3	17.6
YoY Growth (%)					
Revenue	20.8	22.5	19.7	11.1	10.3
EBITDA	14.3	19.4	8.0	4.1	14.3
Adjusted EPS	9.7	21.5	13.5	1.5	10.8
Invested capital	26.2	16.6	30.8	16.9	16.1
Working Capital & Liquidity Ratios					
Receivables (days)	54	57	59	60	61
Inventory (days)	0	0	0	0	0
Payables (days)	1	1	1	2	2
Current ratio (x)	6.5	6.3	5.6	6.3	7.0
Quick ratio (x)	6.5	6.3	5.6	6.3	7.0
Turnover & Leverage Ratios (x)					
Gross asset turnover	3.8	4.1	3.9	3.5	3.1
Total asset turnover	0.9	1.0	1.0	0.9	0.9
Net interest coverage ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

DuPont Analysis

Y/E 31 Mar (%)	FY11A	FY12A	FY13A	FY14E	FY15E
Tax burden (Net income/PBT)	73.3	71.2	73.6	73.0	72.0
Interest burden (PBT/EBIT)	115.0	119.7	122.7	120.4	119.3
EBIT margin (EBIT/Revenue)	29.5	28.9	25.8	24.2	24.9
Asset turnover (Revenue/Avg TA)	93.4	96.8	95.2	89.8	86.5
Leverage (Avg TA/Avg equities)	114.6	114.6	115.6	115.3	113.5
Adjusted ROAE	26.1	27.0	24.8	22.0	21.0



Income Statement

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13A	FY14E	FY15E
Total revenue	274,978	336,921	403,389	448,206	494,252
EBITDA	89,360	106,672	115,186	119,950	137,144
EBIT	80,981	97,312	104,131	108,555	123,097
Net interest income/(expenses)	0	0	0	0	0
Other income/(expenses)	12,142	19,126	23,606	22,179	23,814
Exceptional items	0	0	0	0	0
EBT	93,123	116,438	127,737	130,734	146,910
Income taxes	(24,893)	(33,554)	(33,668)	(35,298)	(41,135)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	68,231	82,884	94,069	95,436	105,775
Adjustments	0	0	0	0	0
Adjusted net profit	68,231	82,884	94,069	95,436	105,775

Balance Sheet

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13A	FY14E	FY15E
Accounts payables	446	254	1,900	2,078	2,328
Other current liabilities	35,948	47,420	60,968	62,365	63,582
Provisions	0	0	0	0	0
Debt funds	0	0	0	0	0
Other liabilities	3,211	1,221	2,715	2,750	2,750
Equity capital	2,854	3,256	3,475	3,520	3,520
Reserves & surplus	270,187	331,331	394,525	463,847	536,195
Shareholders' fund	273,041	334,587	398,000	467,367	539,715
Total liabilities and equities	312,646	383,483	463,582	534,560	608,374
Cash and cash eq.	168,097	209,676	235,673	277,256	318,511
Accounts receivables	46,518	58,817	70,848	76,926	87,373
Inventories	0	0	0	0	0
Other current assets	22,300	33,988	46,635	50,635	57,512
Investments	0	0	0	0	0
Net fixed assets	43,173	54,085	64,659	83,377	98,614
CWIP	5,263	0	0	0	0
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	27,295	26,916	45,766	46,365	46,365
Total assets	312,646	383,483	463,582	534,560	608,374

Cash Flow Statement

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13A	FY14E	FY15E
Net income + Depreciation	76,610	92,244	105,125	106,831	119,823
Interest expenses	0	0	0	0	0
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(13,611)	(12,706)	(9,485)	(8,502)	(15,857)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	62,999	79,537	95,639	98,329	103,966
Capital expenditures	(12,409)	(15,010)	(21,629)	(30,113)	(29,284)
Change in investments	0	0	0	0	0
Other investing cash flows	(4,845)	380	(18,851)	(599)	0
Cash flow from investing	(17,254)	(14,630)	(40,480)	(30,712)	(29,284)
Equities issued	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(33,889)	(26,510)	(24,125)	(26,812)	(28,570)
Other financing cash flows	(2,345)	3,181	(5,038)	779	(4,857)
Cash flow from financing	(36,234)	(23,328)	(29,163)	(26,034)	(33,427)
Changes in cash and cash eq	9,511	41,579	25,996	41,583	41,255
Closing cash and cash eq	168,097	209,676	235,673	277,256	318,511

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Hold	Between 15% and -5%
Sell	Less than -5%

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