

OCTOBER 11, 2013

HOLD

MEDIUM RISK

CMP Rs.3274

TARGET Rs.3515

TECHNOLOGY

EARLIER RECO

HOLD	
Price	Rs.2742
Target	Rs.2982
Date	July 15, 2013

SHARE HOLDING (%)

Promoters	16.0
FII	56.2
FI / MF	16.2
Body Corporate	0.5
Public & Others	11.1

STOCK DATA

Reuters Code	INFY.BO	
Bloomberg Code	INFO@IN	
BSE Code	500209	
NSE Symbol	INFY	
Market Capitalization*	Rs. 1,872.7 bn US\$ 30.6 bn	
Shares Outstanding*	572 mn	
52 Weeks (H/L)	Rs.3360 / 2190	
Avg. Daily Volume (6m)	1,288,224 Shares	
Price Performance (%)		
1M	3M	6M
(1)	25	11
200 Days EMA: Rs.2743		

* On fully diluted equity Shares

Part of  **Bonanza**



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Decent Results driven by 3.1% QoQ volume growth

During Q2FY14, Infosys delivered decent performance as its USD Revenue grew 3.8% QoQ to 2,066 mn which was slightly ahead of street's expectations of 2.4-3% QoQ growth. The integration of Lodestone completed during the quarter which contributed USD 98.13 mn as against 90.7 mn in Q1FY14. While in constant currency its USD Revenues grew by 4.2% QoQ led by 3.1% QoQ volume growth & about 0.9% QoQ increase in price realization. INR Revenues grew by 15.1% QoQ to Rs. 129,650 mn driven by ~11% QoQ increase in average Rs/USD rate. The decent growth during Q2 can be attributed to strong growth from US (3.9%) & Europe (5.2%) regions led by manufacturing (6.8%) & ECS (4.7%) verticals.

EBIT Margins flat on wage inflation and higher SG&A cost

Its EBIT for Q2FY14 grew 14.7% QoQ to Rs. 30,560 mn, while the EBIT margins remained stable at 23.6%, as the benefits of Rupee depreciation (~11%) & improved utilization (73.7 vs. 72.4%), was offset by (i) 8% increment for offshore employees effective 1st July'13 & substantial increase in S&M expenses (ii) higher performance linked bonuses and (iii) negative cross currency impact. The EBIT margins were well below our estimates of 26%. With lower other income (Rs. 5,100 mn), its APAT grew by 10.6% QoQ to Rs. 26,260 mn. Going forward, despite its continued investments in sales & marketing, higher wages on account of increments & variable bonuses, we expect its EBIT margins to remain stable with improved utilization and other cost optimization measures. Considering these factors, we expect Infosys to deliver 23.4% EBIT margins in FY14 vs. 25.8% in FY13. During the quarter, the company won 5-6 large deals of above USD 50mn including 3 BFSI deals, while deal pipeline remained stable and competitive.

FY14 Dollar Revenue growth Guidance revised to 9-10%

Given its decent growth in H1FY14, the management revised its USD Revenue growth guidance to 9-10% assuming H2FY14 to be softer in terms of business due to less number of working days owing to holidays & furloughs from the clients. The management was expected to revise its growth guidance which was on lower side. However, the revised guidance is still below the expectation of 9-12%. The company expects the deal momentum to continue and pricing to remain stable. At the beginning of FY14, the management abstained from providing any EPS guidance due to volatile business & pricing environment. In our view, Infosys is likely to exceed its FY14 revised Dollar Revenue guidance and achieve ~13% growth.

Strong balance sheet & higher Return Ratios

Its balance sheet remained very strong with low Debtor Days (62 days) and High Net Cash in excess of US\$ 4.3 bn (Rs.269 bn) as on 30th Sept, 2013. The return on investment has been encouraging with its FY13 RoCE & RoE in excess of 36% & 27% respectively. Going forward, the better utilization of its idle cash in high growth service offerings or markets could further improve its return on investments. Although the current valuation & cash position provide some respite to shareholders, the upside in the stock is possible only on some visible improvement in its operational performance and its ability to utilize its cash in acquisitions.

OUTLOOK & VALUATION

Considering its Q2FY14 performance and business outlook, we have slightly upgraded our FY14E & FY15E INR Revenue & earnings estimates. Going forward, we expect its FY14E & FY15E Revenues to grow by 25.8% & 15.1% respectively, while expect its APAT to grow by 10.9% in FY14E & by 10% in FY15E.

We also increase the valuation multiple to 17.5x its FY15E earnings (its historical average forward P/E). The CMP of Rs.3,274 discounts its FY14E & FY15E Earnings of Rs.182.6 & Rs.200.8 by 17.9x & 16.3x respectively. We maintain our 'HOLD' rating on the stock with increased price target of Rs.3,515.

KEY FINANCIALS

Y/E Mar. (Consol.)	Revenue (Rs mn)	APAT (Rs mn)	AEPS (Rs)	AEPS (% Ch.)	P/E (x)	ROCE (%)	ROE (%)	P/BV (x)
FY12	337,340	83,160	145.4	21.9	22.5	40.8	29.0	6.0
FY13	403,520	94,210	164.7	13.3	19.9	36.9	27.2	4.9
FY14E	507,732	104,442	182.6	10.9	17.9	34.4	25.1	4.1
FY15E	584,526	114,879	200.8	10.0	16.3	32.1	23.3	3.5

QUARTERLY RESULTS (Consolidated)

(Rs.mn)

Y/E March	Q2FY13	Q1FY14	Q2FY14
Total Revenue	98,580	112,670	129,650
% Ch. QoQ	2.5	7.8	15.1
Soft. Dev. Exp.	58,270	70,000	80,510
% Ch. QoQ	4.9	7.8	15.0
Gross Profit	40,310	42,670	49,140
% Ch. QoQ	(0.7)	7.8	15.2
% of STO	40.9	37.9	37.9
SG&A Expenditure	11,590	12,840	15,250
% Ch. QoQ	4.1	7.9	18.8
EBITDA	28,720	29,830	33,890
% Ch. QoQ	(2.5)	7.7	13.6
% of STO	29.1	26.5	26.1
Depreciation	2,750	3,190	3,330
% Ch. QoQ	8.7	3.6	4.4
Other Income	7,060	5,770	5,100
% Ch. QoQ	48.3	(14.4)	(11.6)
EBTA incl. OI	33,030	32,410	35,660
% Ch. QoQ	4.2	3.3	10.0
Tax	9,340	8,670	9,400
% of PBT	28.3	26.8	26.4
APAT	23,690	23,740	26,260
% Ch. QoQ	3.6	(0.8)	10.6
Extra ord. Exp/(Inc)	0.0	0.0	2,190.0
RPAT	23,690	23,740	24,070
% Ch. QoQ	3.6	(0.8)	1.4
% of STO	24.0	21.1	18.6

PROFIT & LOSS (Consolidated)

(Rs.mn)

Y/E March	FY12	FY13	FY14E	FY15E
Total Revenue	337,340	403,520	507,732	584,526
Soft. Dev. Exp.	188,640	241,510	316,393	374,097
% Ch. YoY	25.3	28.0	31.0	18.2
Gross Profit	148,700	162,010	191,340	210,429
% Ch. YoY	19.5	9.0	18.1	10.0
% of STO	44.1	40.1	37.7	36.0
SG&A Exp.	41,470	46,430	58,612	64,298
% Ch. YoY	19.1	12.0	26.2	9.7
% of STO	12.3	11.5	11.5	11.0
EBITDA	107,230	115,580	132,727	146,132
% Ch. YoY	19.6	7.8	14.8	10.1
% of STO	31.8	28.6	26.1	25.0
Depreciation	9,440	11,290	13,952	16,951
% of STO	2.8	2.8	2.7	2.8
Other Income	19,040	23,590	24,395	29,274
% Ch. YoY	57.2	23.9	3.4	20.0
% of STO	5.6	5.8	4.8	5.0
EBTA incl. OI	116,830	127,880	143,170	158,454
% Ch. YoY	25.4	9.5	12.0	10.7
% of STO	34.6	31.7	28.2	27.1
Tax	33,670	33,670	38,729	43,575
% of PBT	28.8	26.3	27.1	27.5
APAT	83,160	94,210	104,442	114,879
% Ch. YoY	21.9	13.3	10.9	10.0
Extra ord. Exp/(Inc)	0	0	2,190	0
RPAT	83,160	94,210	102,252	114,879
% of STO	24.7	23.3	20.1	19.7

BALANCE SHEET (Consolidated)

(Rs.mn)

As on 31 st March	FY12	FY13	FY14E	FY15E
Equity Share Capital	2,860	2,860	2,860	2,860
Reserves & Surplus	310,460	377,080	449,409	532,371
Net worth	313,320	379,940	452,269	535,231
Total Debt	0.0	0.0	0.0	0.0
Capital Employed	313,320	379,940	452,269	535,231
Net Block	55,550	71,390	78,019	82,848
Capital WIP	5,900	11,400	7,500	7,500
Fixed Assets	61,450	82,790	85,519	90,348
Investments	3,720	21,160	23,160	25,160
Net Deferred Tax	2,650	4,130	2,400	2,400
Sundry Debtors	58,820	70,830	89,122	102,602
Cash & Bank Bal	205,910	218,320	268,982	331,612
Loans & Advances	51,020	65,520	73,382	80,721
Current Assets	315,750	354,670	431,487	514,935
Current Liab. & Prov.	70,250	82,810	90,297	97,612
Net Current Assets	245,500	271,860	341,190	417,323
Total Assets	313,320	379,940	452,269	535,231

FINANCIAL RATIOS (Consolidated)

Y/E March	FY12	FY13	FY14E	FY15E
Growth (%)				
Net Sales	22.7	19.6	25.8	15.1
EBITDA	19.6	7.8	14.8	10.1
APAT	21.9	13.3	10.9	10.0
Profitability (%)				
EBITDA Margin	31.8	28.6	26.1	25.0
Adj. PAT Margin	24.7	23.3	20.1	19.7
ROCE	40.8	36.9	34.4	32.1
ROE	29.0	27.2	25.1	23.3
Per Share Data (Rs.)				
Adj. EPS	145.4	164.7	182.6	200.8
Adj. CEPS	161.9	184.4	207.0	230.5
BVPS	547.8	664.2	790.7	935.7
Valuations (X)				
PER	22.5	19.9	17.9	16.3
PEG	1.0	1.5	1.7	1.6
P/BV	6.0	4.9	4.1	3.5
EV / EBITDA	15.5	14.1	11.9	10.4
EV / Net sales	4.9	4.1	3.3	2.8
Dividend Yield (%)	1.7	1.5	1.6	1.7
Turnover Days				
Debtors days	57	59	57	60
Creditors days	32	34	33	31

Source: Company, Sushil Finance Research Estimates

Rating Scale

This is a guide to the rating system used by our Institutional Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	High predictability / Low volatility
Medium Risk	Moderate predictability / volatility
High Risk	Low predictability / High volatility

Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	Over 15 %	Over 20%	Over 25%
Accumulate	10 % to 15 %	15% to 20%	20% to 25%
Hold	0% to 10 %	0% to 15%	0% to 20%
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

Please Note

- Recommendations with "Neutral" Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).
- ** Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.
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