

Infosys Ltd.

Positive growth momentum continues

BUY

Sector: IT

Sector View: Neutral

Analyst:

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Stock Data

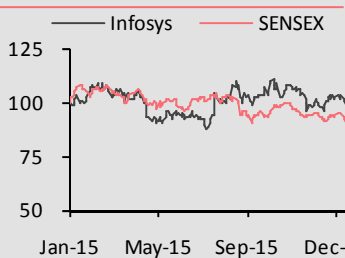
Sensex:	24,773
52 Week h/l (Rs):	1,219/932
Market cap (Rscr) :	261,162
6m Avg t/o (Rscr):	425
Bloomberg code:	INFO IN
BSE code:	500209
NSE code:	INFY
FV (Rs):	5
Div yield (%):	2.1

Prices as on Jan 14, 2016

Shareholding Pattern

	Mar-15	Jun-15	Seo-15
Promoters	13.1	13.1	13.1
FII+DII	53.0	57.1	57.0
Others	33.9	29.8	29.9

Share Price Trend



January 14, 2016

Result Update

CMP: Rs1,129 1-yr Target: Rs1,350 Upside: 19.6%

- ✧ Revenue growth beat, yet again
- ✧ Deal wins momentum remains strong
- ✧ FY16 growth guidance upgraded; confident of achieving industry leading growth in FY17
- ✧ EBIT margin contraction was higher than expectation; margin band to improve in the longer term
- ✧ Set to deliver industry-best earnings CAGR over FY16-18; Upgrade rating to BUY

Result table

(Rs cr)	Q3 FY16	Q2 FY16	% qoq	Q3 FY15	% yoy
Net sales	15,902	15,635	1.7	13,796	15.3
Operating profit	4,328	4,351	(0.5)	3,954	9.5
OPM (%)	27.2	27.8	(61) bps	28.7	(144) bps
Depreciation	369	358	3.1	265	39.2
Other income	802	793	1.1	840	(4.5)
PBT	4,761	4,786	(0.5)	4,529	5.1
Tax	1,296	1,387	(6.6)	1,279	1.3
Effective tax rate (%)	27.2	29.0		28.2	
Other prov/minority/etc	-	(1)	-	-	-
Reported PAT	3,465	3,398	2.0	3,250	6.6
PAT margin (%)	21.8	21.7	6 bps	23.6	(176) bps

Source: Company, India Infoline Research

Revenue growth beat, yet again

Versus our estimate of muted 0.5% qoq constant currency dollar revenue growth, Infosys delivered a higher 2.1% qoq growth during Q3 FY16 adjusting for the one-time early project termination fees of US\$23mn received from a client in preceding quarter. The growth was volume-led as the billed man hours grew 3.1% qoq with onsite (4.4% qoq) efforts growth higher than offshore (2.5% qoq). A lower-than-expected impact of furloughs, minimal impact of Chennai floods due to business continuity planning and overcoming of client-specific headwinds helped the company grow even beyond its own expectation. Blended realization was lower 1.5% qoq in constant currency terms adjusting for the one-time income in Q2 FY16 as pricing in commoditized services continued to be under pressure.

Deal wins momentum remains strong

The quantum of deal wins during the quarter was lower at ~US\$360mn in TCV comprising of 4 deals. In the previous quarter, the company had highest-ever deal wins aggregating US\$983mn. As per the management, a couple of deals that could not be closed during Q3 FY16 were signed in January (total so far in Q4 FY16 is US\$150mn TCV). In Q3 FY16, Infosys also renewed a large deal worth US\$600mn. During the quarter, the growth was led by Europe (up 2.1% qoq) and India (up 24% qoq) regions and BFSI (up 2.7% qoq), Manufacturing (up 3.7% qoq) and Energy/Communications (up 4.6% qoq) verticals. Revenues in Retail & CPG vertical declined qoq impacted by higher furloughs.

FY16 growth guidance upgraded; confident of achieving industry leading growth in FY17

Encouraging client response to the company's new strategy, improving penetration within large clients and strong pace of new client additions has uplifted Infosys' constant currency dollar revenue growth to 12.5% in 9M FY16 as compared to 7% in FY15. Buoyed by this and strong near-term visibility, the company has raised its annual dollar revenue guidance to 12.8-13% versus 10-12% earlier. We believe that achievement of this would set the platform for even stronger growth in FY17 as the deal pipeline and company's win rate has been improving. Infosys is also benefitting from vendor consolidation at most clients.

EBIT margin contraction was higher than expectation; margin band to improve in the longer term

Infosys' operating margin declined more-than-expected by 60bps qoq to stand at 27.2%. While the company had benefits from rupee depreciation and lower variable payouts, the decline in realization, employee utilization, higher sub-contracting charges and integration of Nova Consulting cumulated to substantial operational headwinds. EBIT margin for the quarter stood at 24.9%, in the middle of the stated medium term objective of 24-26%. In the longer term, Infosys should be able to break this margin band as headroom for optimizing utilization and offshoring exists. Also, increasing usage of automation and software in project delivery would improve revenue productivity.

Set to deliver industry-best earnings CAGR over FY16-18; Upgrade rating to BUY

The delivery on its guidance of 13% yoy constant currency dollar revenue growth in FY16 would make Infosys the fastest growing company among its peers. The high likelihood of company accelerating this trend along with optimization of operating levers driving a gradual margin expansion would mean a robust earnings growth performance in the coming years. Hence, while Infosys' valuation is at par with TCS now, it can further re-rate over the medium term and trade at premium to peers. We upgrade our rating to BUY from Accumulate and raise price target by 10% on the back of 2-3% upward revision in earnings estimates and attribution of a higher valuation multiple.

Financial summary

Y/e 31 Mar (Rs cr)	FY15	FY16E	FY17E	FY18E
Revenues	53,589	62,616	72,964	83,623
yoy growth (%)	6.4	16.8	16.5	14.6
Operating profit	14,900	17,012	19,986	23,158
OPM (%)	27.8	27.2	27.4	27.7
Reported PAT	12,330	13,429	15,459	17,814
Pre-exceptional PAT	12,330	13,429	15,459	17,814
yoy growth (%)	15.8	8.9	15.1	15.2
EPS (Rs)	53.9	58.7	67.6	77.9
P/E (x)	21.0	19.3	16.7	14.5
P/BV (x)	4.7	4.3	3.8	3.4
EV/EBITDA (x)	15.3	13.1	11.0	9.3
ROE (%)	24.1	23.2	24.1	24.9
ROCE (%)	28.0	26.8	28.1	29.2

Source: Company, India Infoline Research

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Recommendation parameters for fundamental reports:

Buy – Absolute return of over +15%

Accumulate – Absolute return between 0% to +15%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

Call Failure - In case of a Buy report, if the stock falls 20% below the recommended price on a closing basis, unless otherwise specified by the analyst; or, in case of a Sell report, if the stock rises 20% above the recommended price on a closing basis, unless otherwise specified by the analyst

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