

Infosys Ltd.

- ✧ Muted volume growth at 0.9% qoq; pricing pressure continues
- ✧ FY16 annual revenue growth guidance implies much better run-rate than FY15
- ✧ EBIT margin contracted more than expected but remained within the long term band
- ✧ Cut FY16/17 earnings estimates by 6-7%; lower rating to Accumulate

Result table

(Rs cr)	Q4 FY15	Q3 FY15	% qoq	Q4 FY14	% yoy
Net sales	13,411	13,796	(2.8)	12,875	4.2
Operating profit	3,732	3,954	(5.6)	3,641	2.5
OPM (%)	27.8	28.7	(83) bps	28.3	(45) bps
Depreciation	283	265	6.8	360	(21.4)
Other Income	881	840	4.9	851	3.5
PBT	4,330	4,529	(4.4)	4,132	4.8
Tax	1,232	1,279	(3.7)	1,140	8.1
Effective tax rate (%)	28.5	28.2	(75) bps	27.6	30 bps
PAT	3,097	3,250	(4.7)	2,992	3.5
PAT margin (%)	23.1	23.6	(46) bps	23.2	(15) bps
EPS (Rs)	27.1	28.4	(4.7)	26.2	3.5

Source: Company, India Infoline Research

Muted volume growth at 0.9% qoq; pricing pressure continues

Versus our estimate of healthy 3.2% constant currency dollar revenue growth, Infosys delivered a dejecting 0.4% de-growth during Q4 FY15. On reported basis, revenues declined by 2.6% qoq due to the impact of adverse cross currency movements. While volume growth was anemic at 0.9% qoq (2.1% onsite and 0.4% offshore), persistence of pricing pressure in traditional commoditized services drove a 1.7% qoq constant currency blended pricing decline (2.3% onsite and 2% offshore). Over the past five quarters, Infosys's offshore pricing has declined by 5%. Company intends to offset the pricing pressure by renewing some of the existing service lines using automation and artificial intelligence for which a large scale employee training program is underway. The poor volume growth for the quarter which was mainly led by softness in energy, utilities and telecom vertical (cc revenues down 3.8%) and sustained challenges in retail, CPG and life sciences vertical (cc revenues down 1.1%). Infosys won five large deals (two each in Retail and Manufacturing industry) during Q4 FY15 worth TCV of US\$414mn which was much higher than the previous quarter.

Rating: Accumulate

Target: Rs2,125
CMP: Rs1,996
Upside: 6.5%

Sector: IT

Sector view: Positive

Sensex: 27437

52 Week h/l (Rs): 2,335/1,447

Market cap (Rscr) : 229,263

6m Avg vol ('000Nos): 2,625

Bloomberg code: INFO IN

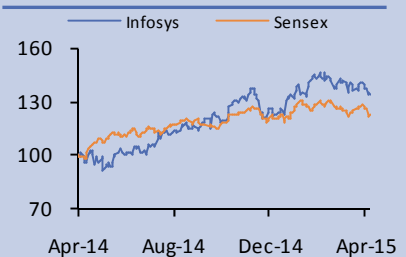
BSE code: 500209

NSE code: INFY

FV (Rs): 5

Price as on April 24, 2015

Share price trend



Share holding pattern

(%)	Sep-14	Dec-14	Mar-15
Promoter	15.9	13.1	13.1
Insti	57.2	56.9	53.0
Others	26.9	30.0	33.9

Research Analyst:

Rajiv Mehta

research@indiafoline.com

April 27, 2015

FY16 annual revenue growth guidance implies much better run-rate than FY15

Infosys expects its dollar revenues to grow by 6.2-8.2% in FY16 implying a healthy CQGR of 2.7-3.5% during the year. In constant currency terms, the growth guidance is of 10-12% which is a material improvement over 7% delivered in FY15. As per the company, though softness in energy, telecom and insurance verticals could continue in the near term, the overall deal pipeline is good underpinned by much better growth visibility in Banking & Financial Services, Retail, Manufacturing and Life Sciences verticals. Management also expects that unlike usual, the growth performance in H2 would be better than in H1 of the current fiscal. Company's confidence in growth pick-up is also reflected in strong employee additions despite the significant headroom for improving the utilization level. Ex-BPO, Infosys added 5,748 employees which is a growth of 4% on the previous quarter base. Focused employee engagement initiatives over the past couple of quarters resulted in improvement in employee attrition during the quarter.

EBIT margin contracted more than expected but remained within the long term band

Company's operating margin contracted by 80bps qoq as compared to our estimate of only 20bps. There were multiple headwinds in the quarter such as significant pricing decline, adverse cross currency movements, sharp fall in employee utilization level (ex-trainees declined by 410bps qoq), onsite revenue shift (40bps) and material 140bps increase in the SG&A level. A large impact of these headwinds was offset by lower variable payouts to employees (buffered gross margin by 120bps) and shift towards fixed priced projects (90bps qoq). The EBIT margin for the quarter stood at 25.7% (lower 100bps qoq) which is within the long term band of 24-26% guided by the company. As growth momentum stabilizes in the coming quarters, Infosys is confident of improving ex-trainees utilization to 83-85% and this would be the most important lever for sustaining EBIT margin in the guided band despite ongoing business investments. However, in Q1 FY16, the EBIT margin is expected to be impacted by 250bps on account of implementation of wage hikes (7.5-8% offshore and 2.5% onsite including performance bonus) and higher visa cost.

Cut FY16/17 earnings estimates by 6-7%; lower rating to Accumulate

A poor operating performance in Q4 FY15 has led us to reduce both dollar revenue growth and operating margin assumptions for FY16 and FY17 thus resulting in 6-7% cut in estimated earnings. We now expect company's dollar revenue growth to converge with the industry in FY17 (earlier expectation of FY16) and earnings CAGR over FY15-17 to be at 12% (earlier estimate was 15%). Thus we also cut the assigned valuation multiple to 15.75x FY17 P/E and arrive at 12-month price target of Rs2,125.

Financial Summary

Y/e 31 Mar (Rs cr)	FY14	FY15E	FY16E	FY17E
Revenues	50,360	53,589	58,413	66,402
yoy growth (%)	24.8	6.4	9.0	13.7
Operating profit	13,624	14,900	16,124	18,645
OPM (%)	27.1	27.8	27.6	28.1
Reported PAT	10,439	12,330	13,352	15,433
yoy growth (%)	13.0	15.8	8.3	15.6
EPS (Rs)	182.5	107.8	116.7	134.9
P/E (x)	10.9	18.5	17.1	14.8
Price/Book (x)	2.4	4.2	3.8	3.4
EV/EBITDA (x)	6.3	13.1	11.8	9.9
RoE (%)	24.4	24.3	23.3	24.0
RoCE (%)	28.5	28.4	27.3	28.0

Source: Company, India Infoline Research

'Best Broker of the Year' – by Zee Business for contribution to broking

Nirmal Jain, Chairman, IIFL, received the award for The Best Broker of the Year (for contribution to broking in India) at India's Best Market Analyst Awards 2014 organised by the Zee Business in Mumbai. The award was presented by the guest of Honour Amit Shah, president of the Bharatiya Janata Party and Piyush Goel, Minister of state with independent charge for power, coal new and renewable energy.

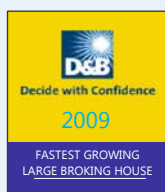
'Best Equity Broker of the Year' – Bloomberg UTV, 2011

IIFL was awarded the 'Best Equity Broker of the Year' at the recently held Bloomberg UTV Financial Leadership Award, 2011. The award presented by the Hon'ble Finance Minister of India, Shri Pranab Mukherjee. The Bloomberg UTV Financial Leadership Awards acknowledge the extraordinary contribution of India's financial leaders and visionaries from January 2010 to January 2011.

'Best Broker in India' – Finance Asia, 2011

IIFL has been awarded the 'Best Broker in India' by Finance Asia. The award is the result of Finance Asia's annual quest for the best financial services firms across Asia, which culminated in the Country Awards 2011.

Other awards



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

India Infoline Group (hereinafter referred as IIFL) is engaged in diversified financial services business including equity broking, DP services, merchant banking, portfolio management services, distribution of Mutual Fund, insurance products and other investment products and also loans and finance business. India Infoline Ltd ("hereinafter referred as IIL") is a part of the IIFL and is a member of the National Stock Exchange of India Limited ("NSE") and the BSE Limited ("BSE"). IIL is also a Depository Participant registered with NSDL & CDSL, a SEBI registered merchant banker and a SEBI registered portfolio manager. IIL is a large broking house catering to retail, HNI and institutional clients. It operates through its branches and authorised persons and sub-brokers spread across the country and the clients are provided online trading through internet and offline trading through branches and Customer Care.

Terms & Conditions and Other Disclosures:-

- This research report ("Report") is for the personal information of the authorised recipient(s) and is not for public distribution and should not be reproduced or redistributed to any other person or in any form without IIL's prior permission. The information provided in the Report is from publicly available data, which we believe, are reliable. While reasonable endeavors have been made to present reliable data in the Report so far as it relates to current and historical information, but IIL does not guarantee the accuracy or completeness of the data in the Report. Accordingly, IIL or any of its connected persons including its directors or subsidiaries or associates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained, views and opinions expressed in this publication.
- Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by IIFL and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments.
- The Report also includes analysis and views of our research team. The Report is purely for information purposes and does not construe to be investment recommendation/advice or an offer or solicitation of an offer to buy/sell any securities. The opinions expressed in the Report are our current opinions as of the date of the Report and may be subject to change from time to time without notice. IIL or any persons connected with it do not accept any liability arising from the use of this document.
- Investors should not solely rely on the information contained in this Report and must make investment decisions based on their own investment objectives, judgment, risk profile and financial position. The recipients of this Report may take professional advice before acting on this information.

- e) IIL has other business segments / divisions with independent research teams separated by 'chinese walls' catering to different sets of customers having varying objectives, risk profiles, investment horizon, etc and therefore, may at times have, different and contrary views on stocks, sectors and markets.
- f) This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to local law, regulation or which would subject IIL and its affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this Report may come are required to inform themselves of and to observe such restrictions.
- g) As IIL along with its associates, are engaged in various financial services business and so might have financial, business or other interests in other entities including the subject company/ies mentioned in this Report. However, IIL encourages independence in preparation of research report and strives to minimize conflict in preparation of research report. IIL and its associates did not receive any compensation or other benefits from the subject company/ies mentioned in the Report or from a third party in connection with preparation of the Report. Accordingly, IIL and its associates do not have any material conflict of interest at the time of publication of this Report.
- h) As IIL and its associates are engaged in various financial services business, it might have:-
 - (a) received any compensation (except in connection with the preparation of this Report) from the subject company in the past twelve months; (b) managed or co-managed public offering of securities for the subject company in the past twelve months; (c) received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (d) received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (e) engaged in market making activity for the subject company.
- i) IIL and its associates collectively do not own (in their proprietary position) 1% or more of the equity securities of the subject company/ies mentioned in the report as of the last day of the month preceding the publication of the research report.
- j) The Research Analyst/s engaged in preparation of this Report or his/her relative
 - (a) does not have any financial interests in the subject company/ies mentioned in this report; (b) does not own 1% or more of the equity securities of the subject company mentioned in the report as of the last day of the month preceding the publication of the research report; (c) does not have any other material conflict of interest at the time of publication of the research report.
- k) The Research Analyst/s engaged in preparation of this Report:-
 - (a) has not received any compensation from the subject company in the past twelve months; (b) has not managed or co-managed public offering of securities for the subject company in the past twelve months; (c) has not received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (d) has not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (e) has not received any compensation or other benefits from the subject company or third party in connection with the research report; (f) has not served as an officer, director or employee of the subject company; (g) is not engaged in market making activity for the subject company.

We submit that no material disciplinary action has been taken on IIL by any regulatory authority impacting Equity Research Analysis.

A graph of daily closing prices of securities is available at <http://www.nseindia.com/ChartApp/install/charts/mainpage.jsp>, www.bseindia.com and <http://economictimes.indiatimes.com/markets/stocks/stock-quotes>. (Choose a company from the list on the browser and select the "three years" period in the price chart).

Published in 2015. © India Infoline Ltd 2015

India Infoline Limited (Formerly "India Infoline Distribution Company Limited"), CIN No.: U99999MH1996PLC132983, Corporate Office – IIFL Centre, Kamala City, Senapati Bapat Marg, Lower Parel, Mumbai – 400013 Tel: (91-22) 4249 9000 .Fax: (91-22) 40609049, Regd. Office – IIFL House, Sun Infotech Park, Road No. 16V, Plot No. B-23, MIDC, Thane Industrial Area, Wagle Estate, Thane – 400604 Tel: (91-22) 25806650. Fax: (91-22) 25806654 E-mail: mail@indiainfoline.com Website: www.indiainfoline.com, Refer www.indiainfoline.com for detail of Associates.

National Stock Exchange of India Ltd. SEBI Regn. No. : INB231097537/ INF231097537/ INE231097537, Bombay Stock Exchange Ltd. SEBI Regn. No.:INB011097533/ INF011097533/ BSE-Currency, MCX Stock Exchange Ltd. SEBI Regn. No.: INB261097530/ INF261097530/ INE261097537, United Stock Exchange Ltd. SEBI Regn. No.: INE271097532, PMS SEBI Regn. No. INP000002213, IA SEBI Regn. No. INA00000623, SEBI RA Regn.-: INH000000248.

For Research related queries, write to: Amar Ambani, Head of Research at research@indiainfoline.com

For Sales and Account related information, write to customer care: cs@indiainfoline.com or call on 91-22 4007 1000