

Good quarter

CMP: **Rs.3,236**
Target Price: **Rs.3,586**
Recommendation: **HOLD**

Stock Info

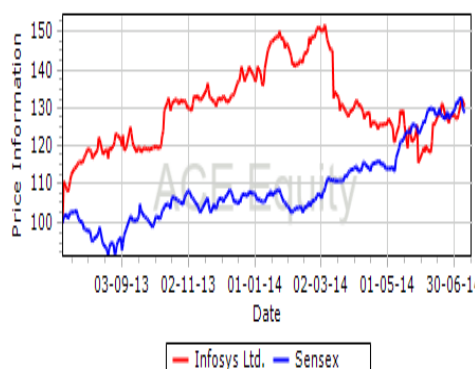
BSE Group	A
BSE Code	500209
NSE Symbol	INFOSYSTCH
Bloomberg	INFO IN
Reuters	INFY.BO
BSE Sensex	25,024
NSE Nifty	7,460

Market Info

Market Capital	Rs.1,90,236cr
Equity Capital	Rs.287cr
Avg. Trading Vol	2,64,7700
52 Wk High/ Low	3847/2506
Face Value	Rs.5

Shareholding Pattern (%) (30th June 2014)

Promoters	15.9
Domestic Institutions	14.0
Foreign Institutions	41.6
Public & Others	28.5



■ Dollar Revenues drop QoQ by 0.4%:

Infosys has delivered good set of numbers with a top line growth of 2% qoq at \$2,133mn. Rupee revenues, due to rupee appreciation, declined 1.2% qoq to Rs 12,875cr. Company reported 2.9% qoq growth in volumes and of this offshore segment reported 3.2% growth, while onshore segment reported 2.2% growth qoq. Utilization level (ex-trainees) is at all time high of 80.1%. Company has aggressive hiring plans in FY15 to avoid facing shortage of talent.

■ Segmental share remains fairly stable:

Revenue mix among verticals more or less remained constant with FSI and RCL (Retail & Life Sciences) segments contributing 33.4% and 23.8% to topline. ECS (Energy, Utilities Communication & Services) segment's share in total revenues was at 19.6%. Geographical share remained more or less stable with share of North America, Europe, India and RoW was at 60.8%, 24.5% 2.4% and 12.3% respectively.

■ Operating profits increased by 0.7%:

Company has recorded an operating profit of Rs 3,211cr; down 2% qoq due to increase in employee compensation. However it is higher than our expectation due to cost optimization and higher utilization levels. EBIT Margins decreased qoq by 34bps to 25.14%. Margins were impacted because of incentives given to employees to retain talent.

■ FY15 Revenue growth guidance pegged at 7-9%

Management has pegged FY15 \$ revenue growth guidance at 7-9% & Rupee revenue guidance of 5.6-7.6%. Management has indicated client's reduced appetite for discretionary spending and lengthening of decision cycle. However, it has indicated increased traction in areas of cloud computing, mobile technology, energy. Company has added 61 new clients during the quarter and is seeing positive trend in large deal wins. Company has given salary hike for it off-shore and onsite employees for retaining talent as company is facing very high attrition rate. Overall management expects FY15 operating margins to remain around at FY14 levels. High attrition continues to remain an issue with attrition rate moving up qoq from 18.7% to 19.5%.

Company had a cash & cash equivalent of Rs 29,748 crs as on June 30th, 2014. A change made in taxation relating to FMP is likely to have impact on cash rich companies investing in FMPs.

■ Outlook:

Infosys's guidance for FY15 signifies the likely accrual of benefits coming from productivity improvement measures it has taken in recent times. Company is expected to benefit from tailwinds like retrenchment of non-performers, scope for effort mix shift and improvement in utilization rates over long term. However given the management's commentary on flat operating margins for FY15, we have reduced our FY15 earnings estimates by 4%. We have valued stock on P/E(x) of 16.0x its FY16E earnings and have arrived at fair value of Rs 3,586 per share. At CMP Rs 3,236, stock trades at 14.7(x) its FY16 earnings. **We maintain HOLD rating on stock.**

Y/E March, (Rs. in Cr)	FY12	FY13	FY14	FY15E	FY16E
Net Revenue	33734	40352	50133	54050	59240
Growth %	22.7	19.6	24.2	7.8	9.6
Net Profit	8316	9421	10648	11641	12800
Growth %	24.7	13.3	13.0	9.3	10.0
EPS	146	165	186	204	224
P/E(x)	22.8	20.2	17.8	16.3	14.8
ROANW	28.0	26.3	26.1	24.5	23.9
ROACE	38.8	35.2	35.7	33.8	33.2

Source: Arian Research

11th July, 2014

Quarterly Results:

IFRS	Quarter Ended				
Particulars (Rs. cr)	4QFY14	4QFY14	Q-O-Q (%)	1QFY14	Y-O-Y (%)
USD Revenues (\$mn)	2133	2092	2%	1991	7%
Revenues	12770	12875	-1%	11267	13%
Cost of services	8046	7756	4%	7319	10%
Gross Profits	4724	5119	-8%	3948	20%
S&M,G&A. Expenses	1513	1477	2%	1284	18%
EBIT	3211	3281	-2%	2664	21%
Other Income	829	851	-3%	577	44%
PBT	4040	4132	-2%	3241	25%
Income tax expense	1154	1140	1%	867	33%
PAT	2886	2992	-4%	2374	22%
Minority interest	0	0		0	
Net Income	2886	2992	-4%	2374	22%
EPS	50.51	52.30		41.50	
EBIT Margins (%)	25.14	25.48		23.60	
Net Margins (%)	22.60	23.20		21.10	
Tax Rate (%)	28.56	27.60		26.80	

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Stock Rating Scale

	Absolute Return
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
NEUTRAL	0-5
REDUCE	<0

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