



Infosys Ltd Result Synopsis

Accumulate

CMP: Rs.2743

Target: Rs. 2978

Q114 - \$ Revenue surprises with 2.7%QoQ growth, Maintains FY14 revenue guidance of 6-10%, Volume growth robust 4.1%QoQ; pricing shrinks 70bps

Infosys positively surprised with Q1FY14 revenue growth 2.7% at \$1991mn, driven by strong volume growth(+4.1%) which muted the impact of dip in realizations(-0.7%). The management notwithstanding the robust start to the year maintained its full year guidance of 6-10%, driven by its cautiously optimistic stance. In INR terms, revenues grew 8% to Rs.11,267cr while PAT came in Rs.2374cr, down 1%QoQ. Infosys held on to its operating margins at 23.6% despite the impact of the wage hike, promotions and negative cross currency impact. Revenue growth in constant currency terms was 3.4%QoQ. The management continued to maintain that the environment remains sluggish, intensely competitive and price sensitive, resulting in the management keeping its guidance unchanged.

Healthy performance ex-Europe

Industry wise BFSI and manufacturing which together account for 56% of revenues grew 2.1% and 4.1% respectively while Retail and Lifesciences grew 6.2% driven by retail and CPG. Service offering wise, the Business IT services which includes the ADM services grew 1.7% compared to 0.9% seen in Q413. The Consulting and System Integration grew 5.6%, resulting in revenue share moving up to 33.6% compared to 32.7% in Q413. Notwithstanding the strong performance, the management maintains the environment remains challenging in terms of discretionary spend and hence remains conservative. The management added the Lodestone integration is moving well. Lodestone reported revenues of \$90.7mn (up 29%QoQ) partly driven on account of alignment of accounting policies and workforce transition. Top 5 client revenues grew 4.1% with Top client growing 11.3%QoQ. **Weak spots:** 1) Europe witnessed 3% QoQ revenue decline on account of several projects ends during the qtr 2) Attrition rate scaled up to 16.9%, highest since Q4FY11.

Strong client addition

Infosys during the quarter added 66 clients significantly higher than 56 added during Q413. The company won 7 large deals, of which 6 were in America, 3 in Financial services and 2 in Manufacturing. The management reported that the environment remains volatile, with pipeline consisting of re-bids which are generally price sensitive and more focused on the commoditized services of ADM and infrastructure management.

We have raised our FY14-15 estimates, on account of USD/INR reset (57.5/56.5 for FY14/15 respectively vs.54.3 earlier). Consequently, our earnings estimates for FY14/15 have moved up by 5.9% and 4.1% respectively. We expect revenues to grow 12% and PAT by 10% CAGR over FY13-15e. Infosys currently trades at 13.8x FY15e of Rs.198.6 and to factor in improved operational performance, we raise our PE multiple to 15x FY15 EPS (from 13x earlier) to arrive at our target price of Rs.2978 (from Rs.2480 earlier).

Performance Snapshot

Description Rs.cr	Q114	Q413	Q113	QoQ (%)
Net Sales	11267	10454	9616	7.8
Op. Profit(excl. OI)	2664	2462	2693	8.2
OPM (%)	23.6	23.6	28.0	(9)bps
PAT	2374	2394	2289	-0.8



Revenue Profile:
Revenue by service offering:

Business operations which account for 61% of revenues have grown 1.7%QoQ on account of healthy growth Application Development and Testing. Revenue share of Application development and maintenance eroded 40bps QoQ as application maintenance remained weak. Application development revenues rose 4.1%QoQ resulting in revenue share advancing to 15.7% vs. 15.5% in Q413. Revenues from Application maintenance declined 0.4% QoQ resulting in revenue share declining to 19.3% vs. 19.9% in Q413. IMS and BPO which together account for 12.1% of revenues, were flat, reporting -0.1% and 0.8% QoQ respectively. Testing which accounts for 8.4% of revenues, grew 4%QoQ, partly driven by 0.2% seen in Q413.

Business transformation segment revenue share rose to 33.6% compared to 32.7% in Q413. Consulting and system integration revenues grew 5.6%, propelling overall revenue growth. The company remains focused on the C&SI space, however reiterated that discretionary spend environment remains uncertain.

Business Innovation segment which consists of the Products, Platforms and Solutions, recorded a drop in revenues of 2.7% QoQ. Revenues from the segment accounted for 5.4% of overall revenues and remains important focus area for Infosys. The company added 9 clients (excl. Finacle™) during the quarter. The company added over 10 engagements across Cloud service, Big Data and Security.

Revenue by service offering:	% of sales	QoQ	YoY
Business IT Services	61.0	1.7%	
<i>Application Development</i>	15.7	4.1%	4.3%
<i>App Maintenance</i>	19.3	-0.4%	4.9%
<i>IMS</i>	7.0	-0.1%	20.5%
<i>Testing</i>	8.4	4.0%	15.0%
<i>Bus. Process Mgmt Services</i>	5.1	0.8%	18.3%
<i>Products Eng Services</i>	3.2	2.7%	3.9%
<i>Others*</i>	2.3	2.7%	-3.2%
Consulting, Package Implementation & Others	33.6	5.6%	
<i>Consulting & System Integration & Others</i>	33.6	5.6%	27.7%
Products, Platforms & Solutions	5.4	-2.7%	
<i>Products</i>	3.7	-5.0%	-6.6%
<i>Bus. Process Mgmt (BPM) Platform*</i>	1.2	-5.2%	4.9%
<i>Others</i>	0.5	28.4%	89.4%

Source: Company and Banhem Research

Revenue by Industry

FSI reported 1.9% sequential growth and 2.9% in constant currency. B&FS revenues grew 2.0% QoQ while Insurance rebounded 2.7% QoQ. The company reiterated that the BFSI sector continued to be difficult in terms of pricing and customer spend focused on compliance related, information management.

Manufacturing sector continues to perform relatively well, growing 4% sequentially and 4.5% in constant currency. The manufacturing sector accounts for 22.5% of overall revenues. Manufacturing has shown strength so far, however some signs of nervousness seems to be emerging in the sector. Infy mentioned clients remain focused on cost optimization, besides, large deal pipeline in the sector are showing lesser traction than earlier estimated.

Retail and Life sciences a key investment area for Infosys, rebounded. RCL grew 6.3% sequentially and 6.7% in constant currency terms. Life sciences and Healthcare grew 0.6% and 29.8% QoQ respectively. Transport & Logistics grew 2.7%QoQ. Retail & CPG which accounts for 64% of segment and 15.8% of overall revenues grew 5.4% QoQ.

ECS revenues declined by 1.6% sequentially and 0.6% in constant currency, as Telecom which accounts for 45% of (ECS) revenues, declined 6.1% QoQ. Energy and Utility which contributes 4.9% of overall revenues declined 3.2% QoQ.

Revenue by Industry	% of Sales	Growth
	Q114	QoQ
Insurance, Banking & Financial Services	33.7	1.9%
<i>B&FS</i>	27.0	2.0%
<i>Insurance</i>	6.7	2.7%
Mfg	22.5	4.0%
Retail & Life sciences	24.7	6.3%
<i>Retail & CPG</i>	15.8	5.4%
<i>Transport & Logistics</i>	1.8	2.7%
<i>Life sciences</i>	4.7	0.6%
<i>Healthcare</i>	2.4	29.8%
Energy, Utilities, Communications & Services	19.1	-1.6%
<i>Energy & Utilities</i>	4.9	-3.2%
<i>Telecom</i>	8.5	-6.1%
<i>Others</i>	5.7	6.5%

Source: Company and Banhem Research

Revenues by Geography

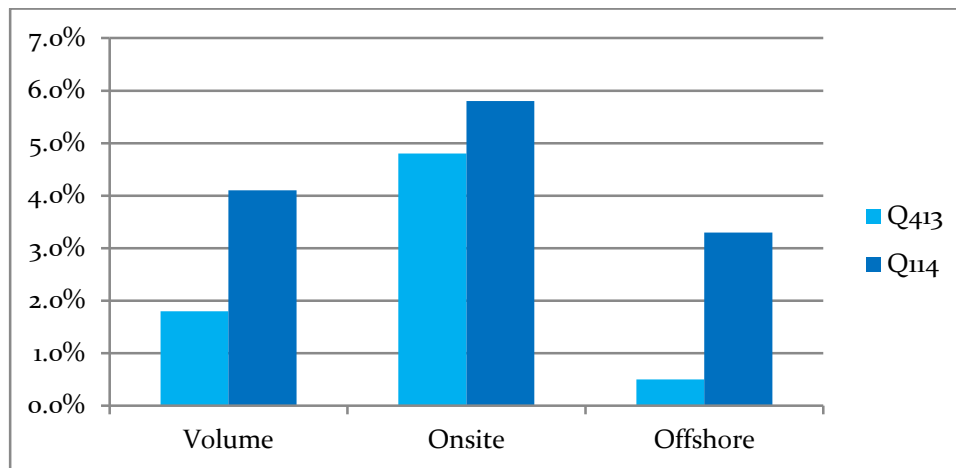
Revenue share from North America grew 120bps QoQ to 61.40%. Revenue contribution from Europe dipped 140bps QoQ to 23.6%. Revenues from NA grew 4.9% QoQ (5%ccy) while Europe revenues declined 3.0% QoQ (-2.4%ccy). India revenue contribution grew to 2.6% from 2.4% in Q413 while revenues grew 10.4%QoQ. ROW revenue share was stable at 12.4% while revenues grew 2.4% sequentially and 6.5% in constant currency.

Revenues by Project Type

The share of fixed price projects declined 10bps QoQ to 40.1% while Time and Material project rose to 59.9% vs. 58.8% in Q413.

Pricing and Volume Growth

Infosys posted volume growth of 4.1% versus 1.8% in Q413. Onsite efforts grew 5.8% QoQ vs. 4.8% in Q413 while offshore efforts grew 3.3% vs. 0.5% seen in the Q413 quarter. Pricing declined 70bps QoQ.



Source: Company, Banham Research

Client additions:

Client additions healthy

Infosys added 66 clients during the quarter. The company has won 7 large deals having a TCV of \$600mn. Of which 6 were in America, 3 in Financial services and 2 in Manufacturing. The management cautioned that the large deal pipeline are largely rebids which are price sensitive and are biased towards ADM and IMS.

Number of clients active rose to 836 from 798 at end of Q413. Revenue concentration was stable, with Top client, Top 5 and Top 10 clients accounting for 3.9%, 14.9% and 24% respectively. Share of Repeat business dropped to 99% from 96.5% in Q413.

View:

Infosys pleasantly surprised on the revenue growth, comfortably beating its implied quarterly revenue growth guidance. The company has also fared well in terms of margins, client additions, and higher repeat business. The strong performance from top 10 clients is an encouraging sign.

The Lodestone acquisition did provide succor to Europe revenues, and ebbled the revenue decline from the old continent. The management seemed confident that its integration efforts are on the right track. Infosys continued to remain cautious on the discretionary spend environment and reiterated the challenges in continuously maintaining momentum in the C&SI, which accounts for over 1/3rd of the overall revenues.

Attrition pressures continued to remain the sore point, despite the wage hikes and promotions awarded. The attrition rate deteriorated to 16.9% versus 16.3% in Q413 and 14.9% in the corresponding quarter last year. The management attributed the spike to seasonal factors.

The management remains confident of offsetting some margin pressures on account of wage hike impact, via levers such as higher utilizations, improved productivity and higher offshore shift. Infosys reiterated it is seeking to improve utilizations to 78-82% from 70.8% currently.

We have raised our FY14-15 estimates, on account of USD/INR reset (57.5/56.5 for FY14/15 respectively vs.54.3 earlier). Consequently, our earnings estimates for FY14/15 have moved up by 5.9% and 4.1% respectively. We expect revenues to grow 12% and PAT by 10% CAGR over FY13-15e. Infosys currently trades at 13.8x FY15e of Rs.198.6 and to factor in improved operational performance, we raise our PE multiple to 15x FY15 EPS (from 13x earlier) to arrive at our target price of Rs.2978 (from Rs.2480 earlier).

Quarterly (Rs.cr)	Q114	Q413	QoQ	YoY
Revenues	11267	10454	7.8%	17.2%
COS	7319	6802	7.6%	26.0%
Gross Profit	3948	3652	8.1%	3.7%
GPM (%)	35.0%	34.9%	11bps	-454bps
Selling & Mkt	584	518	12.7%	24.5%
Admin	700	672	4.2%	8.7%
Total Opex	1284	1190	7.9%	15.4%
Op profit	2664	2462	8.2%	-1.1%
OPM (%)	23.6%	23.6%	9bps	-436bps
other income	577	674	-14.4%	21.2%
PBT	3241	3136	3.3%	2.3%
Tax	867	742	16.8%	-1.5%
Tax Rate	26.8%	23.7%	309bps	-102bps
PAT	2374	2394	-0.8%	3.7%

Quarterly (\$ mn)	Q114	Q413	QoQ	YoY
Revenues	1991	1938	2.7%	13.6%
COS	1296	1261	2.8%	22.4%
Gross Profit	695	677	2.7%	0.3%
GPM (%)	35.0%	34.9%	2bps	-464bps
Selling & Mkt	103	96	7.3%	19.8%
Admin	124	124	0.0%	5.1%
Total Opex	227	220	3.2%	11.3%
Op profit	468	457	2.4%	-4.3%
OPM (%)	23.5	23.6	-7bps	-440bps
other income	103	125	-17.6%	18.4%
PBT	571	582	-1.9%	-0.9%
Tax	153	138	10.9%	-4.4%
Tax Rate	26.8%	23.7%	308ps	-98bps
PAT	418	444	-5.9%	0.5%

All figures in Rs.cr

P/L	FY11	FY12	FY13	FY14e	FY15e
Revenues	27501	33734	40352	45942	50560
Cost of sales	15054	18871	24151	27703	30488
Gross Profit	12447	14863	16201	18239	20072
GPM (%)	45.3%	44.1%	40.1%	39.7%	39.7%
Selling & Mktg	1512	1757	2034	2402	2644
Admin exp	1971	2390	2609	3002	3215
Total Opex	3483	4147	4643	5404	5859
EBITDA	8964	10716	11558	12835	14213
EBITDA Margin	32.6%	31.8%	28.6%	27.9%	28.1%
Depreciation	862	937	1129	1309	1415
EBIT	8102	9779	10429	11526	12798
Other Income	1211	1904	2359	2739	2960
Interest	0	0	0	0	0
PBT	9313	11683	12788	14264	15758
Tax	2490	3367	3367	3994	4412
Tax Rate	26.7%	28.8%	26.3%	28.0%	28.0%
PAT	6823	8316	9421	10270	11346
EPS	119.42	145.54	164.87	179.75	198.56

Balance sheet	FY11	FY12	FY13	FY14e	FY15e
Assets					
Cash and Cash Eq	16666	20591	21832	30466	37779
Other Current Assets	7023	9655	13481	12070	12906
Non Current Assets	7574	8102	11038	10981	11116
Total Assets	31263	38348	46351	53517	61800
Liabilities					
Equity	286	286	286	286	286
Net worth	27303	33461	39797	46754	54445
Liabilities	3960	4887	6554	6763	7354
Total Liabilities	31263	38348	46351	53517	61800

Cash Flow	FY11	FY12	FY13	FY14e	FY15e
Cash from Operations	5,907	8,212	9478	11501	12447
Cash from Investments	2,231	-2061	-5051	455	-1480
Cash from Financing	-3,641	-2,321	-3211	-3322	-3654
Net Chg in cash	4,497	3830	1216	8634	7313

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RATINGS

Buy	Accumulate	Neutral	Reduce	Sell
>15%	+5>15%	+5%/-5%	-5%<-15%	>-15%

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