

BSE SENSEX
34,474

S&P CNX
10,348

CMP: INR715 TP: INR830 (+16%)

Buy



Bloomberg	INFO IN
Equity Shares (m)	4,571
M.Cap.(INRb)/(USD\$b)	3121.2 / 42.2
52-Week Range (INR)	755 / 454
1, 6, 12 Rel. Per (%)	8/27/47
12M Avg Val (INR M)	5823
Free float (%)	87.1

Financials & Valuations (INR b)

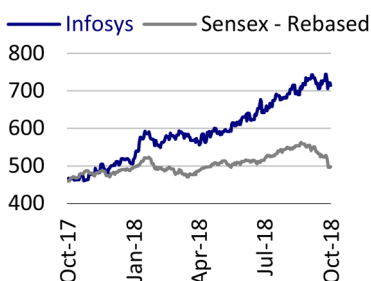
Y/E Mar	2018	2019E	2020E
Net Sales	705.2	803.4	897.6
EBITDA	190.1	212.2	241.4
PAT	161.0	161.5	180.5
EPS (INR)	32.4	36.7	42.2
Gr. (%)	3.1	13.3	15.1
BV/Sh (INR)	143.3	146.6	167.1
RoE (%)	24.1	25.3	26.9
RoCE (%)	24.1	25.3	26.9
P/E (x)	22.2	19.6	17.0
P/BV (x)	5.0	4.9	4.3

Shareholding pattern (%)

As On	Jun-18	Mar-18	Jun-17
Promoter	12.9	12.9	12.8
DII	22.5	21.6	20.2
FII	35.4	35.7	38.0
Others	29.2	29.8	29.0

FII Includes depository receipts

Stock Performance (1-year)



Revenue-margin duel may have to wait...

... till stability in general, and attrition in particular, is addressed

- INFO's two large deals that appeared in the media in 2QFY19 (Verizon and Microsoft) add up to USD1b in total contract value (TCV), on the back of USD1.1b in 1QFY19 ([link](#)). This bodes well for growth, especially with concerns around Europe's banking and financial services (BFS) also fading.
- However, with elevation of attrition rates, INFO's efforts to address the same through variable pay, promotions, etc. could likely mean lower benefits from the depreciation of the INR – keeping the revenue-margin duel at bay for now.
- Such (lack of) correlation of profitability with the direction of the INR-USD is not surprising, when trends of over past seven years are examined.
- That said, in the "stability" phase of FY19—in its three-year roadmap (stability-momentum-acceleration), INFO is building a base for improved revenue growth; while favorable currency provides a tool to effectively address attrition, among other headwinds to business.
- Revenue is the biggest lever for margins in the industry and hence, in combination with a more stable house, should augur well for profitability too. Talent supply at onsite is a bigger risk to margins than pricing—the worst in the latter seems to be behind, as seen in FY18.
- We maintain our Buy rating with a price target of INR830, which discounts forward earnings by 17x.

Deal wins bode encouragingly for revival in revenue growth...

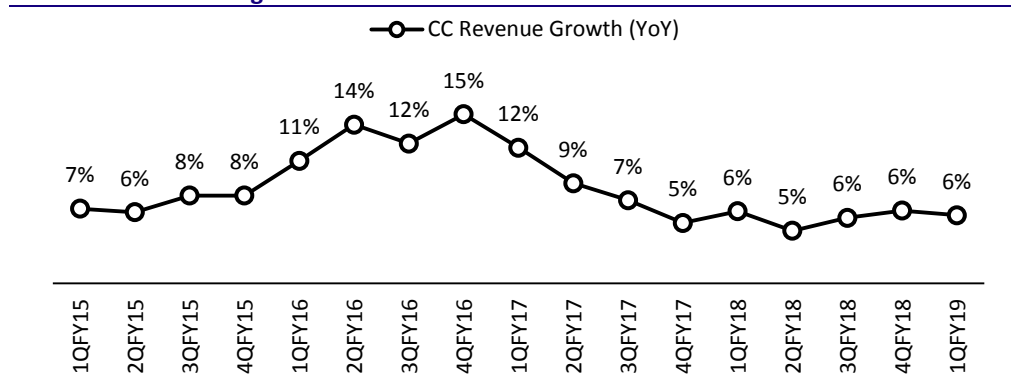
- In 1QFY19, INFO signed USD1.1b TCV of deals, including multiple large deals in the US BFS. The company breached the aspired figure of USD1b after multiple quarters, and cited a strong pipeline that would help their efforts to sustain the same.
- In 2QFY19, INFO's two deals themselves added up to USD1b+, and there could be more. The company has won USD700m deal from US telecom company, Verizon. Prior to this, the company beat Germany-based IT service provider Arvato ([link](#)) to clinch USD300m deal from Microsoft.
- CEO Salil Parekh has stated that while the endeavor will be to continue scaling Digital by sustaining current 25%+ growth rates, the scenario in traditional services should be one of low growth and not that of revenue decline. When put mathematically, ~30% Digital business at 20-25% growth should imply ~7% growth for overall company, a floor on which growth from traditional services will compound.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

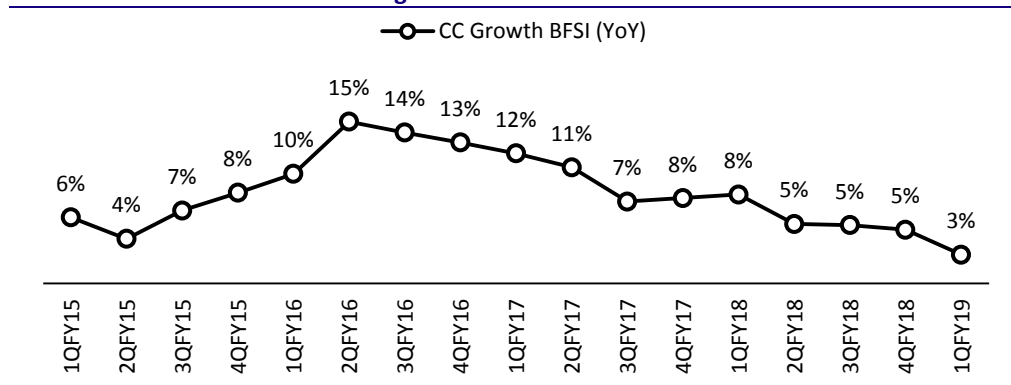
Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Exhibit 1: CC revenue growth

Source: MOSL, Company

...and the softness in Europe BFS should be temporary...

While US BFS saw large deal wins in the last quarter, the segment's performance in Europe saw a decline in revenues, which was a cause for concern. INFO cited that is expected this phenomenon to be temporary, and recover in the near future. As the quarter progressed, there has been greater confidence in the Europe portion of the BFS portfolio too, suggesting likelihood of a recovery after a couple of years gradual decline in momentum.

Exhibit 2: Downward trend in BFSI growth

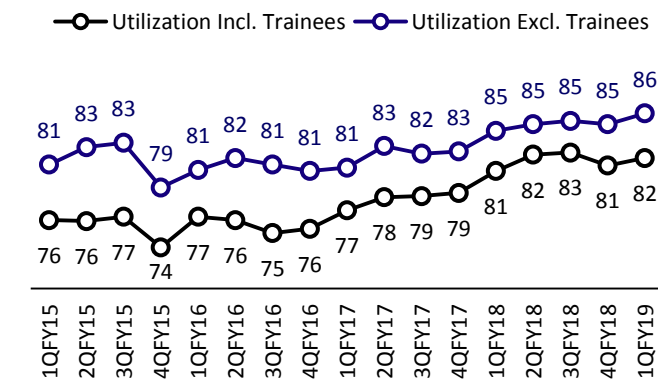
Source: MOSL, Company

...but Attrition woes may keep the growth-margin duel at bay, for now

- INFO's LTM attrition in the last quarter spiked up to 20.6% - a historical high. More disconcerting for the company was elevated attrition in the category of high performers as well.
- The opportunity lent by a weaker INR, as a consequence, will be used to address the situation. INFO's variable pay every quarter is a function of the overall margin performance. There is a case for being more magnanimous in the disbursal this time around.
- Add to that, wage-hikes for (senior-most) 15% of the employees will be effective in 2QFY19. These collectively will play their part in offsetting the gains from the INR, which we factor in our margin assumptions for the company (for 2Q, we are expecting only 30 bp QoQ expansion despite ~5% QoQ depreciation of the INR).
- The other factor that drives our assumption is that this historical high attrition is in the backdrop of historical high utilization – and in an environment in which

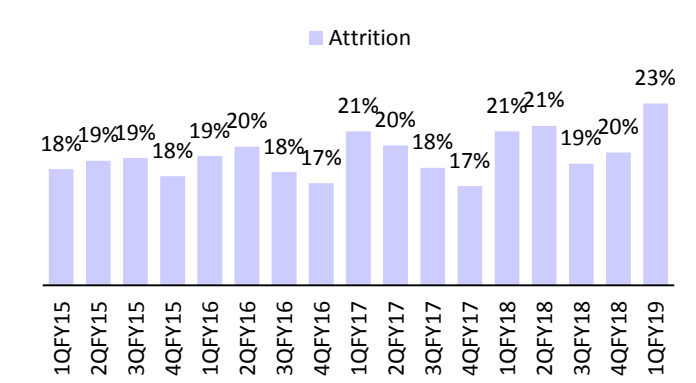
the demand and growth are improving, this poses a risk to delivery in the absence of an adequate bench.

Exhibit 3: Little room in utilization, which is at historical high



Source: Company, MOSL

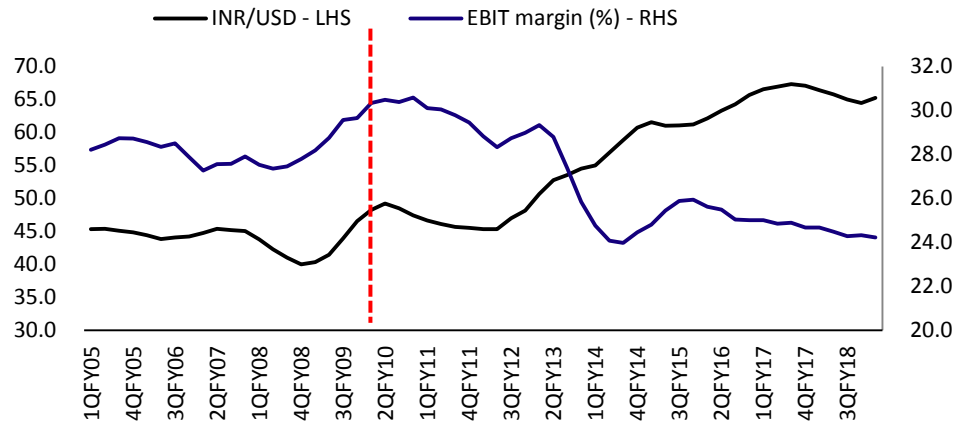
Exhibit 3: High attrition rates can take a toll on margins



Source: Company, MOSL

- This should come as a surprise, as for more than seven years, the correlation between INR-USD and INFO’s EBIT margins have not quite held. The exhibit below looks at margins and currency on a rolling four-quarter basis, so that impact from quarterly factors such as seasonality, visa expenses and wage hikes are ironed out.

Exhibit 4: If anything, margins and INR depreciation have seen negative correlation in recent years



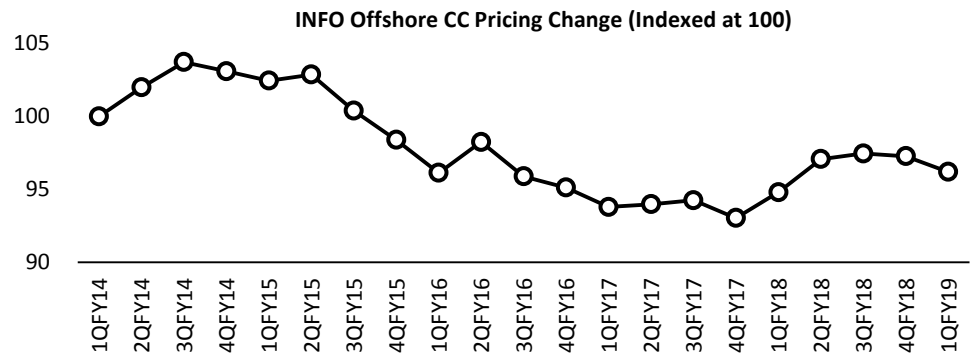
Source: Company, MOSL

Revenue is the biggest lever; which is progressing in tandem with stability agenda

- INFO’s three-year roadmap laid out by their new CEO chalks out FY19 as a year of stability; FY20 as a year to build momentum, before accelerating from FY21. Call for stability is only reinforced further by a series of high-profile exits and also the high overall attrition.
- However, revenue growth continues to be the biggest lever for margins. TCS is a case in point, and so are multiple tier-II companies where revenue revival has seldom been exclusive of margins.

- The revenue engine for INFO appears to be headed in the right direction, the current depreciation of the INR has afforded it with the means to invest and address concerns around attrition, while continuing with its “proximity” agenda. As these progress simultaneously, we remain confident on the profitability.
- With high growth in Digital, and stability witnessed in end-FY18, pricing is less likely to pose a potential threat for margins. However, talent supply at onsite is a risk to watch out for, with near-zero unemployment in tech, and usage of visas being deterred.

Exhibit 5: The pricing aggression on INFO realization before stabilizing in FY18



Source: Company, MOSL

Investment thesis

A foreword on the long-term industry view: Growth for Indian IT should gradually pick up from the current 6-7% as Digital services proliferate; currently Digital services are still too small to move the needle on overall performance. India will continue to remain the hotbed for talent supply en masse, making a case for increasing shift of the Digital business from onsite. That said, with Automation the top priority of every Board, without exceptions, the delineation of revenue growth with headcount growth appears obvious – and the only lever to stem the decline in profitability witnessed in recent years.

INFO in that industry backdrop

- **Inward focus will mean some catch-up play:** INFO has built capabilities to match spend shifts in the past three years. Its portfolio is not very different from the industry, but it has been investing in new services and solutions, and currently 11% of revenues come from services / solutions that didn't exist two years ago. Digital contributes over 25% to overall revenue of the company. Execution rigor is the mantra for the company going forward, having boiled down the strategic imperatives. Its inward focus—thanks to the recent distractions mean—they will be left playing catch-up to the more focused players in the market over the next year or so at least.
- **Operational efficiency commendable:** On the profitability front, it has been among the most disciplined companies in terms of operational efficiency in the last couple of years. This has helped hold margins in a tight band while investing aggressively in building capabilities, and going through a price reset in competitive traditional large deals. Going forward, despite the plan to invest further to build capabilities and boost sales function; onsite roll ratios continue to offer potential to improve efficiencies further, and productivity from Automation should only keep inching up with greater maturity.

Overall, we expect INFO to grow revenues in line with the industry due to its heavy legacy exposure today. But it should be able to hold on to its margins, which will be a function of greater revenue per employee and lower headcount growth v/s revenue growth. As a result, we are factoring in 8%/13% CAGR in revenue/earnings over the next three years, which is slightly back-ended but at the median of the industry.

Exhibit 6: INFO – Business Construct

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
USD revenue growth (%)	5.8	11.5	5.6	9.1	7.4	7.2	6.2	8.5	9.0
Employee growth (%)	4.5	2.4	9.8	10.1	3.3	1.9	8.7	8.7	6.4
Revenue per employee (USDk per annum)	48,245	52,029	51,760	51,325	51,764	54,090	54,574	54,503	55,267
EBITDA margin (%)	28.6	27.2	27.9	27.4	27.2	27.0	26.7	27.3	27.1
EPS growth (%)	13.3	13.0	15.8	9.4	6.4	3.1	18.1	15.1	7.4

Source: Company, MOSL

Valuation view

- **Revenue or nothing:** Valuation multiples have historically ascribed the highest valuation to revenue growth, which is not surprising as it is also the single largest lever for margins. So, as growth at INFO declined from 20%+ to single-digit, the current forward P/E multiple is at 14x compared to the long-term average of 18x.
- **Longevity may be the offsetting play:** As the industry shifts its gears to Digital, there remains a tremendous need to up investments in technology across the Board. Companies partaking in this wave may not be materially outgrowing their peers, but will still enjoy significantly higher multiples for the other key determinant of valuation – Longevity. Digital-ready vendors offer healthier visibility of profits and cash flow generation today, while legacy businesses are faced with the dual pressure of a shrinking revenue pie.
- **Case for Re-rating supported by examples of Accenture and CTSH:** The test for Indian IT has been stern than ever before, and we see growth from newer technologies as a strong case in point for accretion of valuation multiples, even without the acceleration in revenues. CTSH, which is growing lower than its enamored history, and Accenture, are case in points that drive our thesis.

What it means for the target price

- **3-year view:** This key premise drives our expectations of a target multiple not very divergent from the historical average for INFO: 18x 1-year forward, which on FY21E earnings works out to INR1,100. This implies a return CAGR of 15% for INFO.
- **1-year view:** Although it looks like INFO will achieve the lower end of its guidance in FY19, it is building in revenue momentum reflected in the large deal wins. Recent INR depreciation will help compound the earnings growth. Our price target of INR830 discounts forward earnings by 17x, based on our thesis of a narrowing gap with TCS. Maintain Buy.

Key triggers

- Pick-up in growth led by strength seen in multiple areas
- Better profitability performance
- Unhindered operational performance despite changes at Board/Leadership

Key risk factors

- Adverse regulatory developments around current visa regime
- Additional instability in leadership and execution from multiple exits
- Issues in certain pockets weighing on overall growth

Operating metrics

Exhibit 7: Operating metrics

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Verticals (%)										
Financial Services						32.9	33.1	32.1	32.5	31.7
Retail						16.2	15.9	16.2	15.9	16.5
Communications						12.5	12.4	12.4	12.9	12.7
Energy, Utilities, Resources						11.3	11.7	12.0	12.0	12.4
Manufacturing						9.3	9.3	9.5	9.5	9.6
Hi Tech						7.3	7.2	7.1	7.3	7.4
Life Sciences						6.5	6.7	6.5	6.7	6.5
Others						3.6	3.4	3.2	2.9	2.9
Service Lines (%)						94.6	94.8	94.6	95.1	95.2
Digital						22.4	23.6	24.2	25.3	26.7
Core						72.2	71.2	70.4	69.8	68.5
Products & Platforms (%)						5.4	5.2	5.4	4.9	4.8
Digital						1.5	1.6	1.9	1.5	1.7
Core						3.9	3.6	3.5	3.4	3.1
Geography (%)										
North America	61.9	62.0	61.5	62.0	62.3	61.1	60.6	60.4	59.4	60
Europe	23.4	23.0	22.5	22.2	22.1	22.4	23.2	24.4	24.8	24.3
India	3.0	2.7	3.4	3.4	3.2	3.6	3.3	3.0	2.8	2.6
RoW	11.7	12.3	12.6	12.4	12.4	12.9	12.9	12.2	13.0	13.0
Clients (%)										
Revenues from top client	3.6	3.6	3.5	3.1	3.3	3.3	3.4	3.4	3.6	3.7
Revenues from top 5 clients	13.7	13.7	13.1	12.3	12.2	Nm	Nm	Nm	Nm	Nm
Revenues from top 10 clients	21.8	22.2	21.8	20.1	20.2	20.0	19.5	19.2	19.5	19.2
Revenues from 2-5 client	10.1	10.1	9.6	9.2	8.9	Nm	Nm	Nm	Nm	Nm
Revenues from 6-10 clients	8.1	8.5	8.7	7.8	8.0	Nm	Nm	Nm	Nm	Nm
Revenues from Non-Top 10 clients	78.2	77.8	78.2	79.9	79.8	80.0	80.5	80.8	80.5	80.8
Clients added during the quarter	89	95	78	77	71	59	72	79	73	70
Total active client	1092	1126	1136	1152	1162	1164	1173	1191	1204	1214

Source: MOSL, Company

Financials and Valuations

Key assumption

Y/E Mar	2013	2014	2015	2016	2017	2018	2019E	2020E
INR/USD Rate	54.5	60.8	61.2	65.7	67.1	64.5	68.4	70.9
Revenues (USD m)	7,398	8,249	8,711	9,501	10,208	10,939	11,660	12,660
Per Capita Revenue Productivity (USD)	48,245	52,029	51,760	51,325	51,764	54,090	54,636	54,498
Offshore Revenue (%)	49.0	48.0	48.8	47.3	46.8	47.9	48.5	48.7
Total Headcount	156,688	160,405	176,187	194,044	200,364	204,107	222,717	241,888
Net Addition	6,694	3,717	15,782	17,857	6,320	3,743	18,610	19,171
Gross Addition	37,036	39,985	53,386	52,545	44,235	44,110	47,809	44,000
Utilization Incl. trainees (%)	69.5	73.6	76.2	76.5	78.9	82.4	81.2	82.0
Utilization Excl. trainees (%)	73.0	77.4	82.0	81.7	82.8	85.5	85.8	85.9

Income Statement

(INR Million)

Y/E Mar	2013	2014	2015	2016	2017	2018	2019E	2020E
Net Sales	4,03,520	5,01,330	5,33,190	6,24,410	6,84,850	7,05,220	8,03,398	8,97,570
Change (%)	19.6	24.2	6.4	17.1	9.7	3.0	13.9	11.7
EBITDA	1,15,570	1,36,340	1,49,020	1,70,790	1,86,050	1,90,100	2,12,232	2,41,383
EBITDA Margin (%)	28.6	27.2	27.9	27.4	27.2	27.0	26.4	26.9
Depreciation	11,284	13,740	10,690	14,590	17,030	18,580	17,568	17,939
EBIT	1,04,286	1,22,600	1,38,330	1,56,200	1,69,020	1,71,520	1,94,664	2,23,444
Other Income	23,590	26,690	34,270	31,250	30,790	31,930	26,077	23,807
Extraordinary items	0	-2,190	0	0	0	-14,320	-2,700	0
PBT	1,27,876	1,47,100	1,72,600	1,87,450	1,99,810	1,89,130	2,18,041	2,47,251
Tax	33,670	40,620	49,290	52,520	55,980	42,420	59,200	66,758
Tax Rate (%)	26.3	27.6	28.6	28.0	28.0	22.4	27.2	27.0
Min. Int. & Assoc. Share	0	0	10	0	0	0	0	0
Reported PAT	94,206	1,06,480	1,23,300	1,34,930	1,43,830	1,46,710	1,58,841	1,80,493
Adjusted PAT	94,206	1,08,670	1,23,300	1,34,930	1,43,830	1,61,030	1,61,541	1,80,493
Change (%)	13.3	15.4	13.5	9.4	6.6	12.0	0.3	11.7

Balance Sheet

(INR Million)

Y/E Mar	2013	2014	2015	2016	2017	2018	2019E	2020E
Share Capital	5,720	5,720	11,440	22,880	22,880	21,760	21,760	21,760
Reserves	3,92,250	4,69,580	5,36,190	5,94,910	6,66,550	6,27,470	6,05,336	6,92,844
Net Worth	3,97,970	4,75,300	5,47,630	6,17,790	6,89,430	6,49,230	6,27,096	7,14,604
Total Capital Employed	3,97,970	4,75,300	5,47,630	6,17,790	6,89,430	6,49,230	6,27,096	7,14,604
Gross Fixed Assets	1,17,540	1,40,790	1,78,360	2,08,370	2,27,210	2,47,620	2,75,620	3,03,620
Less: Acc Depreciation	42,080	55,250	64,220	74,510	85,810	1,02,820	1,20,388	1,38,327
Net Fixed Assets	75,460	85,540	1,14,140	1,33,860	1,41,400	1,44,800	1,55,232	1,65,293
Capital WIP	16,600	18,320	14,400	18,930	19,650	21,320	21,320	21,320
Investments	17,390	45,230	24,130	21,050	1,67,070	1,21,790	1,61,790	2,01,790
Current Assets	3,54,060	4,21,460	5,10,850	5,80,050	5,05,040	5,10,500	4,71,005	5,28,011
Debtors	95,180	1,11,620	1,25,580	1,43,590	1,59,700	1,74,030	1,98,258	2,21,497
Cash & Bank	2,18,320	2,59,500	3,03,670	3,26,970	2,26,250	1,98,710	1,59,592	1,79,358
Loans & Adv, Others	40,560	50,340	81,600	1,09,490	1,19,090	1,37,760	1,13,155	1,27,157
Curr Liabs & Provns	65,540	95,250	1,15,890	1,36,100	1,43,730	1,49,180	1,82,250	2,01,810
Curr. Liabilities	41,300	56,180	70,180	79,760	83,640	1,01,490	1,10,135	1,22,249
Provisions	24,240	39,070	45,710	56,340	60,090	47,690	72,115	79,561
Net Current Assets	2,88,520	3,26,210	3,94,960	4,43,950	3,61,310	3,61,320	2,88,755	3,26,201
Total Assets	3,97,970	4,75,300	5,47,630	6,17,790	6,89,430	6,49,230	6,27,096	7,14,604

Financials and Valuations

Ratios

Y/E Mar	2013	2014	2015	2016	2017	2018	2019E	2020E
Basic (INR)								
EPS	20.6	23.3	27.0	29.5	31.4	32.4	36.7	42.2
Cash EPS	23.1	26.8	29.3	32.7	35.2	39.6	41.9	46.4
Book Value	87.1	104.0	119.8	135.1	150.8	143.3	146.6	167.1
DPS	5.2	7.9	9.3	12.4	12.9	16.2	17.1	19.0
Payout (incl. Div. Tax.)	25.5	33.1	34.3	41.9	40.9	45.4	105.2	45.0

Valuation(x)

P/E	0.0	30.9	26.7	24.4	22.9	22.2	19.6	17.0
Cash P/E	0.0	26.8	24.5	22.0	20.4	18.1	17.2	15.5
Price / Book Value	0.0	6.9	6.0	5.3	4.8	5.0	4.9	4.3
EV/Sales	0.0	5.9	5.5	4.7	4.2	4.2	3.4	3.0
EV/EBITDA	0.0	21.9	19.9	17.2	15.6	15.5	13.0	11.2
Dividend Yield (%)	0.0	1.1	1.3	1.7	1.8	2.2	2.4	2.6

Profitability Ratios (%)

RoE	25.7	24.9	24.1	23.2	22.0	24.1	25.3	26.9
RoCE	25.7	24.9	24.1	23.2	22.0	24.1	25.3	26.9

Turnover Ratios (%)

Fixed Asset Turnover (x)	6.5	6.6	5.7	5.3	5.2	5.2	5.5	5.7
Debtors (No. of Days)	86.1	81.3	86.0	83.9	85.1	90.1	90.1	90.1

Leverage Ratios (%)

Net Debt/Equity (x)	-0.5	-0.5	-0.6	-0.5	-0.3	-0.3	-0.3	-0.3
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Cash Flow Statement

(INR Million)

Y/E Mar	2013	2014	2015	2016	2017	2018	2019E	2020E
Adjusted EBITDA	1,15,570	1,38,530	1,49,020	1,70,790	1,86,050	2,04,420	2,14,932	2,41,383
Non cash opr. exp (inc)	21,880	21,730	37,320	32,830	30,550	10,520	-5,400	0
(Inc)/Dec in Wkg. Cap.	-9,760	390	-11,310	-22,540	-19,440	-1,060	33,447	-17,681
Tax Paid	-32,910	-38,780	-67,510	-58,650	-56,530	-68,290	-59,200	-66,758
CF from Op. Activity	94,780	1,21,870	1,07,520	1,22,430	1,40,630	1,45,590	1,83,780	1,56,944
(Inc)/Dec in FA & CWIP	-19,280	-27,450	-22,470	-27,230	-27,600	-19,980	-28,000	-28,000
Free cash flows	75,500	94,420	85,050	95,200	1,13,030	1,25,610	1,55,780	1,28,944
(Pur)/Sale of Invt	-31,230	-22,580	9,680	-3,930	-1,43,140	51,090	-40,000	-40,000
CF from Inv. Activity	-50,510	-50,030	-12,790	-31,160	-1,70,740	31,110	-68,000	-68,000
Inc/(Dec) in Net Worth	0	0	0	0	0	0	0	0
Inc / (Dec) in Debt	0	0	0	0	0	0	0	0
Divd Paid (incl Tax) & Others	-31,860	-30,660	-50,560	-68,130	-69,390	-74,640	-1,85,240	-98,151
CF from Fin. Activity	-31,860	-30,660	-50,560	-68,130	-69,390	-74,640	-1,85,240	-98,151
Inc/(Dec) in Cash	12,410	41,180	44,170	23,140	-99,500	1,02,060	-69,461	-9,207
Add: Opening Balance	2,05,910	2,18,320	2,59,500	3,03,670	3,26,970	2,26,250	1,98,710	1,59,592
Closing Balance	2,18,320	2,59,500	3,03,670	3,26,810	2,27,470	3,28,310	1,29,249	1,50,385

Explanation of Investment Rating

Investment Rating

	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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