



Mr. Ashok Ajmera, CMD & CEO

Mr. Ajmera's column as on 15th October, 2016

Infosys Q2FY17 execution in line; earnings season to drive market direction..

Domestic bourses performance

Benchmark indices closed in **red** during the week. Nifty and Sensex were **down** this week by 1.31% and 1.38% respectively. Nifty hits 8 weeks low of 8,541; ends at 8,583 losing 1.3% for the week. Index breaks first time below previous month low after 7 months.

In terms of sectors Paints, Cement and Energy were the winners of the week. Media, Finance and Construction sectors were the notable losers this week.

Key developments

China exports dive in September on weak global demand: China's exports plummeted last month, data showed Thursday, as anaemic global demand dealt another blow to the world's second-largest economy, while weak imports fuelled worries about crucial domestic appetite. The figures will come as a disappointment after a recent batch of healthy statistics, and suggest the Asian giant and key driver of the global economy is yet to see the bottom of a years-long growth slowdown.

Retail inflation cools to 4.3% in Sept on declines in vegetables: Retail inflation, based on Consumer Price Index (CPI) eased to 4.3 percent in September from 5.05 percent in August, on account of decline in vegetables and pulses. September inflation is the lowest in 13 months. Service inflation was down to 4.5 percent.

Indirect tax collection jumps 26% in Apr-Sep, direct tax 9%: Government's revenue collection in April to September - the first half of the current fiscal - saw indirect tax-mop up growing at an impressive 26 percent while that of direct tax came in at a tepid 9 percent. The total direct and indirect tax collections at the end of September stood at Rs 7.35 lakh

crore, almost half the Rs 16.26 lakh crore target for 2016-17. The government is eyeing 12.64 per cent growth in direct tax at Rs 8.47 lakh crore for the current fiscal and 10.8 per cent in indirect tax at Rs 7.79 lakh crore. Direct tax mop-up touched the Rs 3.27 lakh crore marks and indirect tax revenue stood at Rs 4.08 lakh crore during April-September, led by robust collections in personal income tax and excise duty, respectively.

Infosys Q2FY17 results above street expectations but guidance disappoints

Q2FY17 revenues in line supported by India business; Guidance cut more than street expectations. However, believe cautious guidance is better for stock performance rather than having high guidance and not meeting them.

Infosys's Sep'16 quarter revenues at US\$ 2,587 mn are ahead of consensus expectations on growth (+2.5% QoQ) and in line with street estimates (+3.3% QoQ). However we note that the revenue performance is supported by ~29% QoQ growth in India (adjusted for this, International revenue growth at 2.7% QoQ is similar to the growth seen in June'16 quarter and much lower than the 5.9% QoQ growth seen in Sep'15 quarter).

EBIT margins have surprised positively with an 80 bps sequential improvement, akin to the positive surprise at TCS. This is driven by However Infosys has revised its FY17 revenue guidance to 8-9% constant currency revenue growth (+7.5-8.5% YoY US\$ revenue growth based on Sep 30'2016 exchange rates) which implies a very weak H2FY17 (0-0.7% QoQ growth at lower /upper end respectively).

The fall in operating expenses helped earnings before interest and tax (EBIT) jump 6.5 percent to Rs 4,309 crore and margin expand by 80 basis points to 24.9 percent on QoQ basis, which were ahead of estimates of Rs 4,182 crore and 24.4 percent, respectively. "Operating cash flows for the quarter were healthy and we effectively navigated a volatile currency environment through prudent hedging," MD Ranganath, CFO says. Volume growth during the quarter was at 4 percent. Utilisation excluding trainees improved by 200 bps sequentially to 82.5 percent and including trainees by 120 bps to 77.7 percent.

Sikka says the deal pipeline continues to be healthy with winning 6 large deals in Q2 worth USD 1.2 billion. Infosys has added 78 clients in Q2, taking total to 1,136 active clients. It added 1 client in USD 100 million category and 2 clients in USD 50 million category. Attrition rate during the quarter declined by 100 bps sequentially to 20 percent but increased by 10 bps compared with year-ago period. Its liquid assets including cash and cash equivalents and investments increased to Rs 35,640 crore during the quarter from Rs 33,212 crore in preceding period. Infosys has declared an interim dividend of Rs 11 per equity share.

Global Markets

US stocks ended little changed on Friday, losing ground late after Federal Reserve Chair Janet Yellen's comments on the economy unnerved investors. Financial shares finished up, giving the S&P 500 its biggest boost after stronger-than-expected bank results, but gave up most of their early gains. Healthcare shares led declines. Yellen, in a speech at a conference of policymakers and academics, laid out the deepening concern at the Fed that US economic potential is slipping - and may need aggressive steps to rebuild it. Yellen did not address



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interest rates or immediate policy concerns directly. Traders have currently priced in a 67-percent chance of a rate hike in December. The S&P 500 financial index was up 0.5 percent. JPMorgan Chase and Citigroup trounced third-quarter estimates. Wells Fargo & Co barely beat expectations as a sales scandal engulfed the bank.

The bank earnings somewhat helped shore up Wall Street's confidence on the outlook for third-quarter earnings after some disappointing results from industrial and healthcare companies. S&P 500 earnings for the quarter are still expected to have declined 0.4 percent from a year ago, Thomson Reuters data showed. The Dow Jones industrial average closed up 39.44 points, or 0.22 percent, to 18,138.38, the S&P 500 gained 0.43 points, or 0.02 percent, to 2,132.98 and the Nasdaq Composite added 0.83 points, or 0.02 percent, to 5,214.16. For the week, the Dow was down 0.6 percent, the S&P 500 was down 1 percent and the Nasdaq fell 1.5 percent.

Week ahead and Ajcon's view:

We believe markets will take cue from Q2FY17 results and geopolitical situation across the globe. At current valuations, we advise investors to remain stock specific and use the buy – on – dips strategy to make most of this bull market. At current levels, valuations of both midcaps and large caps look expensive. We do not rule out a bull market but intermediate corrections are part of any bull market and investors should not be scared of investing when the markets drift lower. The domestic economy grew at its slowest pace in five quarters in the April – June period falling below expectations but it still grew 7 percent which is still fastest in the world.

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