

**ADD**

TP: Rs 950 | ▲ 14%

**INFOSYS**

| IT Services

| 15 July 2020

## Guidance reinstated backed by strong deal pipeline

**Infosys (INFO) posted the strongest set of results yet versus peers in Q1FY21, outperforming our revenue and margin estimates. EBIT margin expanded 150bps QoQ despite the H1B visa impact and lower utilisation. TCV at US\$ 1.7bn was up ~6% QoQ. The 0-2% CC revenue growth guidance for FY21 gives much-needed visibility. We increase FY21/FY22 EPS by 11% each, raise our target P/E multiple by 10% to 20x driven by enhanced performance, pipeline and outlook, and roll forward to a Jun'21 TP of Rs 950 (vs. Rs 760 earlier). Retain ADD.**

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**Strong operating performance:** INFO posted an outstanding Q1 performance amid Covid-19 challenges, with the USD revenue decline limited to 2.4% QoQ vs. our estimate of a 5.7% drop. Utilization dipped only 80bps. Lower revenues from the retail, manufacturing, communication, and energy and utilities verticals were offset by a QoQ uptick in the hi-tech, life sciences and others segments. EBIT margin expanded 150bps QoQ to 22.7% vs. 20.2% estimated due to deft utilisation management and accelerated cost control measures.

Ticker/Price	INFO IN/Rs 831
Market cap	US\$ 48.1bn
Shares o/s	4,349mn
3M ADV	US\$ 100.4mn
52wk high/low	Rs 848/Rs 509
Promoter/FPI/DII	13%/35%/52%

Source: NSE

**Deal wins increase QoQ:** Deal TCV stood at US\$ 1.74bn, increasing 5.7% QoQ with 19% net new deals. INFO signed 15 new deals vs. 12 in Q4FY20. Five of these were from BFSI, three each came from retail, hi-tech and life-sciences, and one from manufacturing. The pipeline has improved QoQ and was further strengthened by a large deal with Vanguard in Q2FY21. Digital revenues grew 3.7% QoQ, forming 44.5% of revenues.

## STOCK PERFORMANCE



Source: NSE

**Guidance reinstatement a surprise; lends much-needed visibility:** In a surprise move, INFO resumed offering guidance after a pause last quarter due to pandemic-led uncertainty. Management has guided for 0-2% CC YoY growth in FY21, implying a CQGR of 0.9-2.2% for the remaining three quarters. EBIT margin for FY21 is guided to be in the range of 21-23%.

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	826,760	907,910	977,107	1,114,204	1,223,534
EBITDA (Rs mn)	208,890	222,680	252,141	292,407	316,444
Adj. net profit (Rs mn)	154,100	167,350	174,605	197,489	215,398
Adj. EPS (Rs)	35.4	39.0	41.1	46.5	50.7
Adj. EPS growth (%)	(4.0)	10.3	5.4	13.1	9.1
Adj. ROAE (%)	24.5	26.5	25.2	25.7	25.4
Adj. P/E (x)	23.5	21.3	20.2	17.9	16.4
EV/EBITDA (x)	16.3	15.4	13.6	11.8	10.8

Source: Company, BOBCAPS Research

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## Other key highlights

**Hi-tech/life sciences grew 7.5%/2.2% QoQ in USD terms**

- **BFSI resilient; retail and manufacturing weak:** The financial services vertical saw recovery in business volumes in Europe and the US. Softness persisted in the capital markets and card payments segments. INFO nevertheless managed five BFSI deal wins in Q1. The company also signed the largest cloud migration deal with US investment firm Vanguard in Q2FY21. Risks persist in the vertical, however, due to higher provisioning and lower interest rates.

Retail, especially the non-CPG segment, remains weak owing to demand contraction and supply chain disruption. Communication was stable QoQ. Delays are expected in 5G rollout due to Covid-19. Energy and utilities saw lower activity while the auto and airline verticals have been badly hit. In terms of geographies, revenues from North America and Europe declined by 2.5% and 4% QoQ respectively while India grew 8.9%.

**Retail/manufacturing/energy and utilities verticals declined 10%/8%/3% QoQ**

- **Margins resilient:** Efficient cash and cost management programs aided margins. EBIT margin at 22.7% grew 150bps QoQ backed by tailwinds of: (1) +70bps from rupee depreciation, (2) +230bps from lower travel and marketing costs, and (3) +110bps from lower SG&A. This was partially offset by headwinds of: (1) -150bps impact from lower utilization, and (2) -100bps in increased variable payout to employees. INFO will continue to focus on cost takeout, accelerated digital transformation and vendor consolidation.
- **Localisation drive in the US:** With six delivery centres, campus hiring and replication of the offshore talent pyramid in the US, INFO is on a strong footing to navigate the difficult onsite talent supply situation in the wake of H1B visa suspension.
- **Seamless work-from-home transition:** Post the Covid-19 outbreak, a stellar 99% of employees have been onboarded to the work-from-home model in Q1FY21. This has aided seamless project delivery and better utilisation.
- **Fall in attrition:** Attrition came down to 11.7%, declining 350bps QoQ.

**FIG 1 – JUN'20 QUARTER PERFORMANCE**

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
<b>Revenues (US\$ mn)</b>	<b>3,121</b>	<b>3,131</b>	<b>(0.3)</b>	<b>3,197</b>	<b>(2.4)</b>
<b>Revenue</b>	<b>236,650</b>	<b>218,030</b>	<b>8.5</b>	<b>232,670</b>	<b>1.7</b>
Operating Expenditure	175,340	166,510	5.3	175,910	(0.3)
Cost of revenues	149,370	140,980	6.0	147,520	1.3
as % of sales	63.1	64.7	-	63.4	-
SG&A expenses	25,970	25,530	1.7	28,390	(8.5)
as % of sales	11.0	11.7	-	12.2	-
<b>EBITDA</b>	<b>61,310</b>	<b>51,520</b>	<b>19.0</b>	<b>56,760</b>	<b>8.0</b>
Depreciation	7,560	6,810	11.0	7,490	0.9
<b>EBIT</b>	<b>53,750</b>	<b>44,710</b>	<b>20.2</b>	<b>49,270</b>	<b>9.1</b>

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Other Income	4,750	7,360	-	6,140	-
<b>PBT</b>	<b>57,920</b>	<b>52,070</b>	<b>11.2</b>	<b>55,410</b>	<b>4.5</b>
Total Tax	15,200	13,650	11.4	11,610	30.9
Adjusted PAT	42,720	38,420	11.2	43,800	(2.5)
(Profit)/loss from JV's/Ass/MI	0	0	-	0	-
APAT after MI	42,720	38,420	11.2	43,800	(2.5)
Extra ordinary items	(580)	0	-	0	-
<b>Reported PAT</b>	<b>42,140</b>	<b>38,420</b>	<b>9.7</b>	<b>43,800</b>	<b>(3.8)</b>
Reported EPS	9.9	8.8	12.0	10.2	(3.0)
<b>Margins (%)</b>			<b>(bps)</b>		<b>(bps)</b>
EBITDA	25.9	23.6	228	24.4	151
EBIT	22.7	20.5	221	21.2	154
EBT	24.5	23.9	59	23.8	66
PAT	17.8	17.6	19	18.8	(102)
Effective Tax rate	26.2	26.2	2.8	21.0	529

Source: BOBCAPS Research

**FIG 2 – OPERATING METRICS**

	Q1FY21 (% Contr. to Revenue)	QoQ (%)	YoY (%)
TCV of deal wins (US\$ mn)	1,740	5.7	(35.9)
Digital Revenues	44.5	3.7	24.3
<b>Revenue by Geography</b>			
North America	61.5	(2.5)	(0.5)
Europe	24.0	(4.0)	1.4
India	2.9	8.9	25.7
ROW	11.6	(0.7)	(7.5)
<b>Revenue by Vertical</b>			
BFSI	31.5	(1.8)	0.0
Retail	14.3	(9.9)	(9.8)
Communications	13.4	0.6	(3.2)
Energy, Utilities, Resources and Services	12.8	(3.1)	(1.9)
Manufacturing	9.5	(8.2)	(1.4)
Hi Tech	8.7	7.5	12.6
Life Sciences	6.7	2.2	9.5
Others	3.1	4.4	18.8
<b>Client Concentration</b>			
Top Client	3.4	7.1	5.9
Top 10 Clients	19.3	0.8	(3.8)
Non-Top 10 Clients	80.7	(3.1)	0.6

(%)	Q1FY21	Q4FY20	Q1FY20
<b>Onsite-Offshore Effort Split</b>			
Onsite	28.0	27.6	28.7
Offshore	72.0	72.4	71.3
<b>Utilisation measures (IT Services and Consulting)</b>			
Including trainees	78.2	79.0	80.3
Excluding trainees	81.2	83.5	83.1

Source: BOBCAPS Research

### Valuation methodology

We increase FY21/FY22 EPS estimates by 11% each to factor in robust revenue and margin guidance for FY21. We now expect 0.2% YoY dollar revenue growth in FY21 (or 1.2% YoY CC growth) vs. 4.8% YoY contraction earlier. We introduce FY23 estimates and roll over to a revised Jun'21 target price of Rs 950 (Rs 760 earlier), set at target P/E multiple of 20x (vs. 18x) – a 10% discount to TCS'.

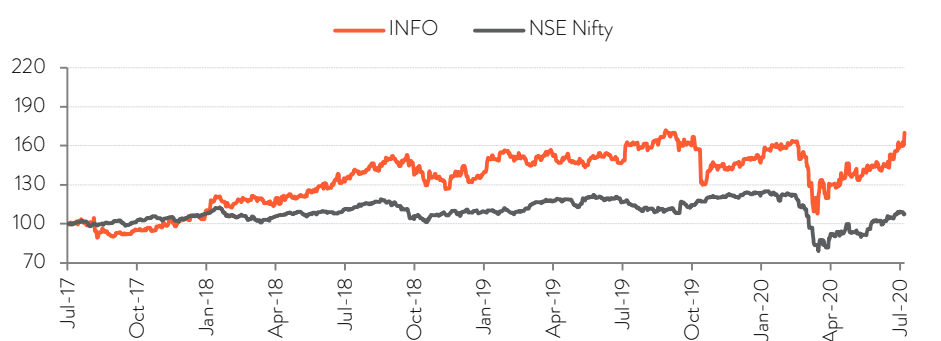
Our multiple reset is based on INFO's (1) above-estimated Q1FY21 revenue and margins, (2) reinstatement of FY21 guidance despite an uncertain economic environment, (3) better deal pipeline, and (4) possible market share gain in emerging areas of hi-tech and life sciences. Retain ADD.

**FIG 3 – REVISED ESTIMATES**

(Rs mn)	FY21E			FY22E			FY23E
	Old	New	Change (%)	Old	New	Change (%)	New
Revenues (in US\$ mn)	12,171	12,800	5.2	13,216	14,285	8.1	15,686
YoY revenue growth	(4.8)	0.2	-	8.6	11.6	-	0.0
Revenues	931,048	977,107	4.9	1,030,809	1,114,204	8.1	1,223,534
EBITDA	233,719	252,141	7.9	265,583	292,407	10.1	316,444
EBITDA margins (%)	25.1	25.8	-	25.8	26.2	-	25.9
EBIT margins (%)	21.2	22.5	-	22.0	22.8	-	22.5
Net profits	159,096	174,605	9.7	179,846	197,489	9.8	215,398
EPS (Rs)	37.1	41.1	10.9	41.9	46.5	10.9	50.7

Source: BOBCAPS Research

**FIG 4 – RELATIVE STOCK PERFORMANCE**



Source: NSE

### Key risks

- A more pronounced adverse impact of Covid-19, global trade tensions, Brexit and other negative external events, leading to weaker-than-expected demand
- Slower deal conversions to revenue
- Below-expected operating margins for new engagements/renewals
- Leadership changes

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Total revenue</b>	<b>826,760</b>	<b>907,910</b>	<b>977,107</b>	<b>1,114,204</b>	<b>1,223,534</b>
EBITDA	208,890	222,680	252,141	292,407	316,444
Depreciation	20,100	28,930	31,901	37,943	40,791
EBIT	188,790	193,750	220,240	254,464	275,653
Net interest income/(expenses)	21,550	16,120	17,177	16,069	19,413
Other income/(expenses)	28,830	28,030	18,130	16,069	19,413
Exceptional items	(7,210)	0	0	0	0
EBT	210,410	221,780	238,369	270,533	295,066
Income taxes	56,310	53,680	63,765	73,044	79,668
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	750	0	0	0
<b>Reported net profit</b>	<b>154,100</b>	<b>167,350</b>	<b>174,605</b>	<b>197,489</b>	<b>215,398</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>154,100</b>	<b>167,350</b>	<b>174,605</b>	<b>197,489</b>	<b>215,398</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	0	0	0	0	0
Other current liabilities	168,940	263,520	206,129	235,051	258,115
Provisions	5,230	5,720	8,031	9,158	10,056
Debt funds	0	0	0	0	0
Other liabilities	0	0	0	0	0
Equity capital	21,700	21,220	21,220	21,220	21,220
Reserves & surplus	585,160	637,220	706,756	785,406	871,188
Shareholders' fund	606,860	658,440	727,976	806,626	892,408
<b>Total liabilities and equities</b>	<b>781,030</b>	<b>927,680</b>	<b>942,137</b>	<b>1,050,835</b>	<b>1,160,580</b>
Cash and cash eq.	165,060	186,490	159,293	210,738	275,908
Accounts receivables	136,990	184,870	200,775	228,946	251,411
Inventories	0	0	0	0	0
Other current assets	46,550	71,210	66,925	76,315	83,804
Investments	124,990	87,920	87,920	87,920	87,920
Net fixed assets	149,560	250,530	249,163	246,320	242,969
CWIP	0	41,680	41,680	41,680	41,680
Intangible assets	0	0	0	0	0
Deferred tax assets, net	13,000	17,440	17,440	17,440	17,440
Other assets	144,880	129,220	160,620	183,157	201,129
<b>Total assets</b>	<b>781,030</b>	<b>927,680</b>	<b>942,137</b>	<b>1,050,835</b>	<b>1,160,580</b>

Source: Company, BOBCAPS Research

### Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	174,200	196,280	206,506	235,432	256,189
Interest expenses	(28,830)	(28,030)	(18,130)	(16,069)	(19,413)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	16,350	38,190	(98,100)	(30,049)	(23,963)
Other operating cash flows	(98,005)	49,198	0	0	0
<b>Cash flow from operations</b>	<b>63,715</b>	<b>255,638</b>	<b>90,276</b>	<b>189,315</b>	<b>212,813</b>
Capital expenditures	(23,650)	(88,220)	(30,534)	(35,100)	(37,440)
Change in investments	0	0	0	0	0
Other investing cash flows	28,830	28,030	18,130	16,069	19,413
<b>Cash flow from investing</b>	<b>5,180</b>	<b>(60,190)</b>	<b>(12,404)</b>	<b>(19,031)</b>	<b>(18,027)</b>
Equities issued/Others	(9,313)	(73,287)	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(92,730)	(100,703)	(105,068)	(118,839)	(129,616)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(102,043)</b>	<b>(173,990)</b>	<b>(105,068)</b>	<b>(118,839)</b>	<b>(129,616)</b>
<b>Changes in cash and cash eq.</b>	<b>(33,148)</b>	<b>21,458</b>	<b>(27,197)</b>	<b>51,445</b>	<b>65,171</b>
<b>Closing cash and cash eq.</b>	<b>165,032</b>	<b>186,490</b>	<b>159,293</b>	<b>210,738</b>	<b>275,908</b>

### Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	35.4	39.0	41.1	46.5	50.7
Adjusted EPS	35.4	39.0	41.1	46.5	50.7
Dividend per share	21.5	19.5	20.6	23.3	25.4
Book value per share	139.3	153.5	171.5	190.0	210.2

### Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	4.1	3.8	3.5	3.1	2.8
EV/EBITDA	16.3	15.4	13.6	11.8	10.8
Adjusted P/E	23.5	21.3	20.2	17.9	16.4
P/BV	6.0	5.4	4.8	4.4	4.0

### DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	73.2	75.5	73.2	73.0	73.0
Interest burden (PBT/EBIT)	111.5	114.5	108.2	106.3	107.0
EBIT margin (EBIT/Revenue)	22.8	21.3	22.5	22.8	22.5
Asset turnover (Revenue/Avg TA)	104.7	106.3	104.5	111.8	110.7
Leverage (Avg TA/Avg Equity)	1.3	1.4	1.3	1.3	1.3
Adjusted ROAE	24.5	26.5	25.2	25.7	25.4

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	17.2	9.8	7.6	14.0	9.8
EBITDA	9.9	6.6	13.2	16.0	8.2
Adjusted EPS	(4.0)	10.3	5.4	13.1	9.1
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	25.3	24.5	25.8	26.2	25.9
EBIT margin	22.8	21.3	22.5	22.8	22.5
Adjusted profit margin	18.6	18.4	17.9	17.7	17.6
Adjusted ROAE	24.5	26.5	25.2	25.7	25.4
ROCE	31.0	32.1	31.0	31.9	33.2
<b>Working capital days (days)</b>					
Receivables	59	65	72	70	72
Inventory	0	0	0	0	0
Payables	93	115	118	98	99
<b>Ratios (x)</b>					
Gross asset turnover	5.6	4.5	3.9	4.5	5.0
Current ratio	2.8	2.1	2.7	2.9	3.0
Net interest coverage ratio	8.8	12.0	12.8	15.8	14.2
Adjusted debt/equity	(0.3)	(0.3)	(0.2)	(0.3)	(0.3)

Source: Company, BOBCAPS Research

## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

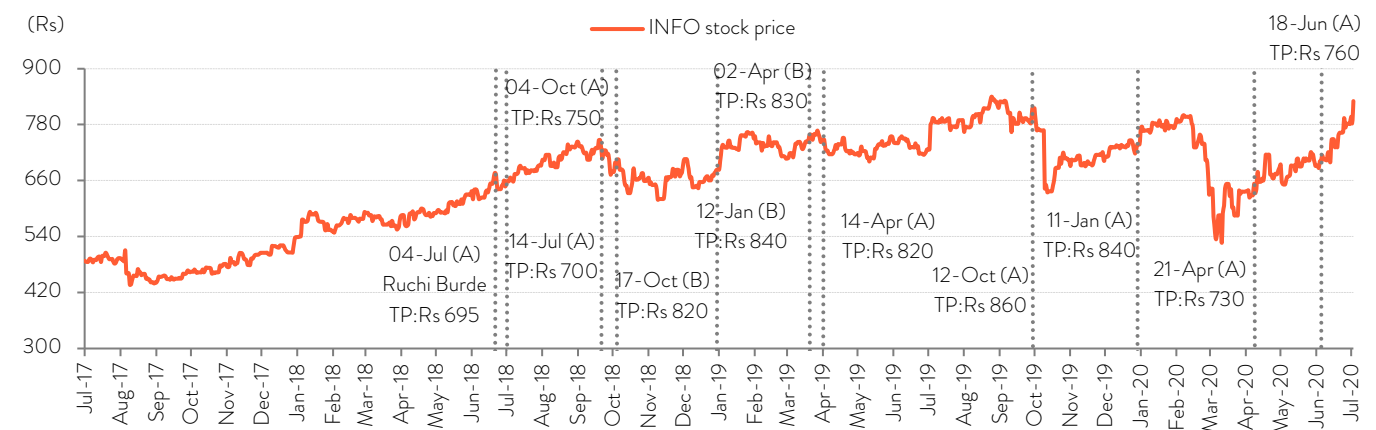
**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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B – Buy, A – Add, R – Reduce, S – Sell

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