Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

# Infosys (INFO IN)

## Rating: ACCUMULATE | CMP: Rs748 | TP: Rs782

April 14, 2019

## Q4FY19 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

| | Current | | Previous | |
|---|---|---|---|---|
| | FY20E | FY21E | FY20E | FY21E |
| **Rating** | ACCUMULATE | | ACCUMULATE | |
| **Target Price** | 782 | | 808 | |
| Sales (Rs. m) | 903,659 | 989,687 | 910,473 | 997,122 |
| *% Chng.* | *(0.7)* | *(0.7)* | | |
| EBITDA (Rs. m) | 223,763 | 246,001 | 232,249 | 256,619 |
| *% Chng.* | *(3.7)* | *(4.1)* | | |
| EPS (Rs.) | 37.4 | 42.3 | 38.5 | 43.7 |
| *% Chng.* | *(2.6)* | *(3.2)* | | |

### Key Financials

| | FY18 | FY19 | FY20E | FY21E |
|---|---|---|---|---|
| Sales (Rs. bn) | 705 | 827 | 904 | 990 |
| EBITDA (Rs. bn) | 190 | 209 | 224 | 246 |
| *Margin (%)* | *27.0* | *25.3* | *24.8* | *24.9* |
| PAT (Rs. bn) | 146 | 154 | 163 | 184 |
| EPS (Rs.) | 33.6 | 35.4 | 37.4 | 42.3 |
| *Gr. (%)* | *6.9* | *5.5* | *5.7* | *13.0* |
| DPS (Rs.) | 34.2 | 23.6 | 42.0 | 42.0 |
| *Yield (%)* | *4.6* | *3.2* | *5.6* | *5.6* |
| *RoE (%)* | *21.8* | *23.7* | *25.4* | *29.2* |
| *RoCE (%)* | *25.6* | *29.1* | *32.1* | *35.5* |
| EV/Sales (x) | 4.2 | 3.6 | 3.3 | 3.0 |
| EV/EBITDA (x) | 15.7 | 14.3 | 13.4 | 12.2 |
| PE (x) | 22.3 | 21.1 | 20.0 | 17.7 |
| P/BV (x) | 5.0 | 5.0 | 5.2 | 5.1 |

| Key Data | INFY.BO \| INFO IN |
|---|---|
| 52-W High / Low | Rs.774 / Rs.542 |
| Sensex / Nifty | 38,767 / 11,643 |
| Market Cap | Rs.3,268bn/ $ 47,242m |
| Shares Outstanding | 4,369m |
| 3M Avg. Daily Value | Rs.11701.6m |

### Shareholding Pattern (%)

| | |
|---|---|
| Promoter's | 12.82 |
| Foreign | 34.46 |
| Domestic Institution | 22.57 |
| Public & Others | 29.67 |
| Promoter Pledge (Rs bn) | - |

### Stock Performance (%)

| | 1M | 6M | 12M |
|---|---|---|---|
| Absolute | 5.8 | 10.8 | 30.4 |
| Relative | 2.4 | (0.7) | 14.7 |

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## *Cautiously treading ahead*

***Infosys reported inline Q4FY19 revenue performance but sharp miss on margins due to large deal impact & investments on people. Management guided a lower than expected revenue growth for FY20E due to uncertain macro environment. EBIT margin guidance was lowered to 21%-23% from 22-24%, the lower margin guidance was due to need of investments ahead for demand acceleration. We don't see guidance retuning back to beat-and-raise strategy as we believe macro environment vulnerability had led to lower revenue guidance. Revenue growth in this quarter was largely led by communication vertical, BFSI & retail both disappointed. If growth acceleration doesn't happen in BFSI in next 2 quarters, that will lead to our multiple de-rating for Infosys. We are confident about Mr. Salil Parekh's leadership & execution but we are cautious about margin expansion due to headwinds such as higher compensation, continued investments & impact on margin due to transition & ramp-up of recently won deals. We have cut our EPS estimates by 2.7% & 3.4% of FY20E/FY21E to factor lower than expected guidance & reduced margin assumption (-70bps: FY20E, -92bps: FY21E). Our revised TP stands at Rs.782 (earlier: Rs.808) valued at 18.5x Mar-21 multiple. We expect share buyback (max price of Rs.800) to cushion earnings downgrade in near term. Maintain Accumulate.***

- **Inline revenues, but weak margin performance:** Infosys USD revenue grew by 2.4% to USD 3060mn QoQ inline with our estimates of USD3040mn (var:0.1%). EBIT margin eroded by 113bps QoQ,329bpsYoY to 21.4% vs our estimates of 22.3%. Headwinds for margins were utilization(-70bps), deal ramp up (-40bps), investments(30bps), INR appreciation (-30bps) & tailwinds were reversal in depreciation (+30bps) & operational efficiencies(+20bps).

- **Growth was led by communication vertical, BFSI & retail disappointed:** Revenue growth was largely led by telecom vertical, grew by 16.6% QoQ CC (added incremental revenue of USD 57.6mn vs total incremental revenue addition of USD 73mn). BFSI & retail declined 0.8% & 0.9% QoQ CC. In BFSI, weakness was client specific in US & retail vertical comes with lot of volatility. Manufacturing vertical grew by 1.6% QoQ CC but management do cited some areas of concern in Europe.

- **Strong deal wins reflect strong execution:** Infosys ended fourth quarter consecutively with strong deal wins. In Q4FY19, Infosys won TCV of USD1.6bn making total deal wins for FY19 at USD6.2bn (double of FY18 TCV of USD3.0bn). Importantly, Infosys has been able to win deals across key verticals and geographies with Q4 registering 13 wins with majority in key verticals like BFSI, Manufacturing and healthcare (3 wins each), Hi-tech (2 wins), Retail (1 win). From a geography perspective, US had 7 wins and Europe had 5 wins. This clearly indicates that investments in sales & digital is helping Infosys to participate in strong demand environment.

**Exhibit 1: Q4FY19 Result Overview (Rs mn)**

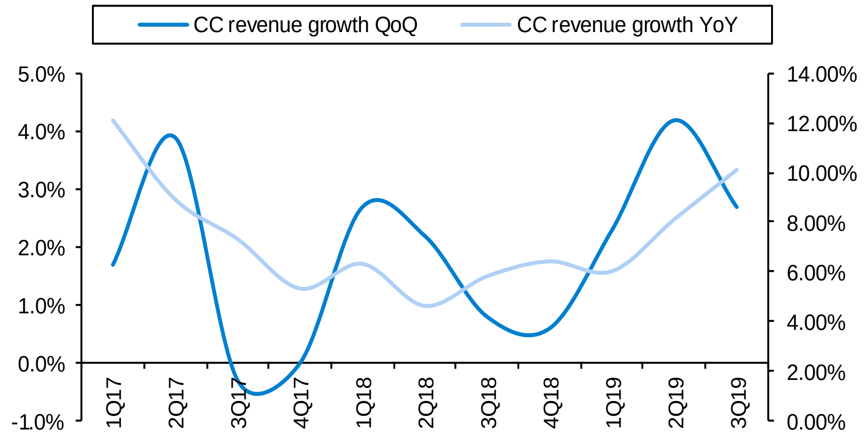
| Y/e March | 4Q19 | 3Q19 | 4Q18 | QoQ | YoY | Variance(Ple VS Actual) |
|---|---|---|---|---|---|---|
| Net sales (US$ m) | 3,060 | 2,987 | 2,805 | 2.4% | 9.1% | -0.1% |
| Net sales | 215,390 | 214,000 | 180,830 | 0.6% | 19.1% | 0.4% |
| EBITDA | 51,490 | 54,100 | 49,300 | -4.8% | 4.4% | -2.4% |
| EBITDA Margin | 23.9% | 25.3% | 27.3% | -137 bps | -336 bps | -69 bps |
| EBIT | 46,180 | 48,300 | 44,720 | -4.4% | 3.3% | -3.4% |
| EBIT Margin | 21.4% | 22.6% | 24.7% | -113 bps | -329 bps | -86 bps |
| Adj. Net Profit | 40,740 | 36,090 | 36,900 | 12.9% | 10.4% | -3.0% |
| Adjusted EPS | 9.4 | 8.3 | 8.5 | 12.9% | 10.3% | -3.0% |

*Source: Company, PL*

## Macro uncertainty trims revenue guidance

- Infosys has lowered its revenue guidance from 8.5%-9.5%CC in FY19E to 7.5%-9.5% CC inFY20E.
- Guidance of 7.5-9.5% YoY growth in CC terms (~2.5% QoQ CQGR over Q1-Q4FY20) implies moderation in revenue growth despite strong deal closure in FY19 (USD 6.3 bn, +105% YoY).
- We don't believe Infosys current management strategy like old managements' when they always gave conservative guidance & then beated it. We believe guidance has been lowered due to macro uncertainty & agile environment.
- Rapid shift to digital transformation will provide tailwind to IT spending however due to small budget cycles any change in external environment can create a pressure on IT spends.
- Clients budgets & spends are now in a span of 3- 6 months only, any change in external environment can create a pressure on IT spends.

**Exhibit 2: Strong revenue acceleration in FY19**




*Source: Company, PL*

*Revenue Guidance given is lower than expectation due to uncertainty in macro environment*

**Exhibit 3: Revenue Guidance of Infosys**

| Quarter | Constant Currency Guidance | Actual Growth (Year End) |
|---|---|---|
| Q4 2015 | 10%-12%(for FY16) | 7.1% |
| Q1 2016 | 10%-12% | |
| Q2 2016 | 10%-12% | |
| Q3 2016 | 12.8%-13.2% | |
| Q4 2016 | 11.5%-13.5% (for FY17) | 13.3% |
| Q1 2017 | 10.5%-12.0% | |
| Q2 2017 | 8%-9% | |
| Q3 2017 | 8.4%-8.8% | |
| Q4 2017 | 6.5%-8.5% (for FY18) | 8.3% |
| Q1 2018 | 6.5%-8.5% (retained) | |
| Q2 2018 | 5.5%-6.5% | |
| Q3 2018 | 5.5%-6.5% (retained) | |
| Q4 2018 | 6%-8% (for FY19) | 5.8% |
| Q1 2019 | 6%-8% (retained) | |
| Q2 2019 | 6%-8% (retained) | |
| Q3 2019 | 8.5%-9.0% (for FY19) | |
| Q4FY19 | 7.5%-9.5% (for FY20) | 9.0% |

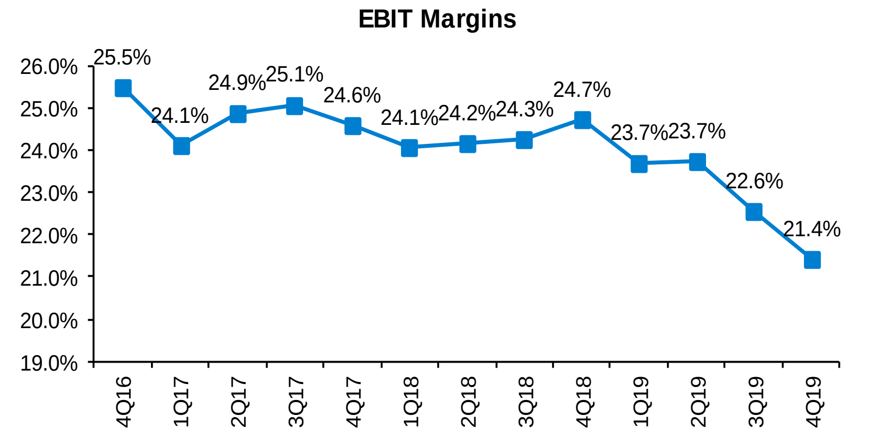
*Source: Company, PL*

## Rising Cost structures creates headwinds to margins

- EBIT margin guidance has been lowered to 21-23% from 22-24% for FY20E.
- Infosys management under the leadership of Mr.Salil Parekh laid out a plan during the start of 2018 to accelerate investments in S&M, building onsite delivery team, focused on localization & to wind large deals. This initiates did help Infosys to win large deal in FY19 at USD6.2bn (double of FY18 TCV of USD3.0bn).
- However, rising Long delays in processing H-1B visa issuances and limited availability of local talent in the US combine to challenge the Infosys ability to fulfill seamless demand in the US which led to rise in sub-contractors.
- Though management mentioned that investments in sales is done now, we also note that there will be annual wage hike & visa costs are also mostly effective in first quarters that will again lead to headwinds for margins. Inspite of localization in US, we don't expect application of H1B visas by Indian IT companies to reduce as they will require talent to address the strong demand.

*EBIT margin guidance has been lowered to 21-23% from 22-24% for FY20E.*

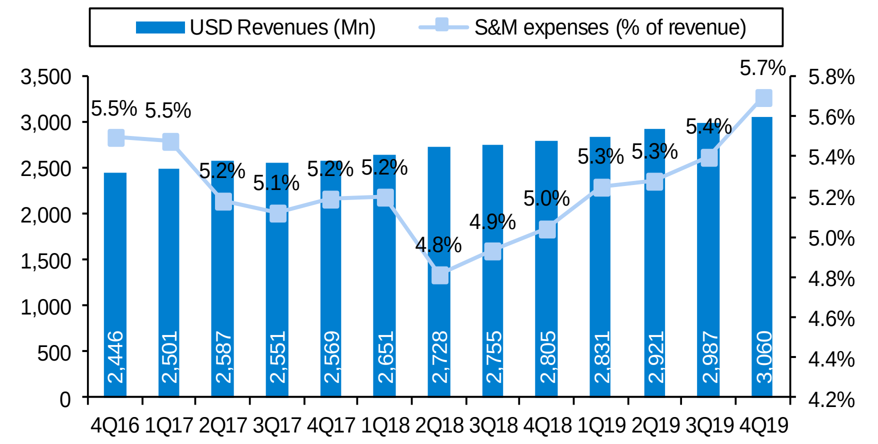
**Exhibit 4: Margins continue to remain under pressure**




*Source: Company, PL*

*Continuous investment in sales has resulted into increase in SG&A expenses at higher pace then revenue growth. Management mentioned that investment in sales is done now and will now focus on increasing operational efficiencies*

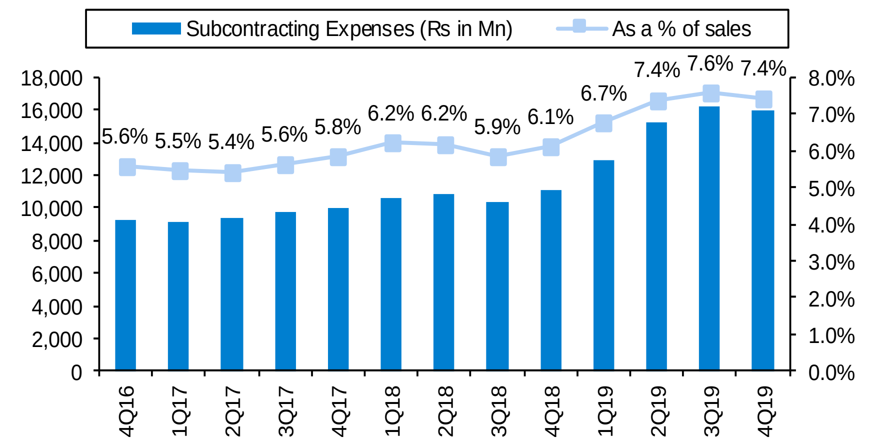
**Exhibit 5: SGA Expenses rising at increasing rate with revenue expansion**




*Source: Company, PL*

*Higher demand will increase sub-contracting cost*

**Exhibit 6: Sub-contracting cost creates pressure on margins**



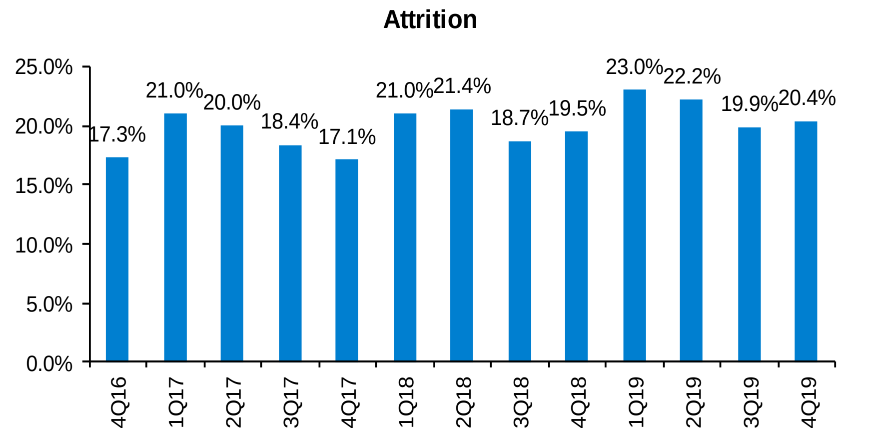

*Source: Company, PL*

*Attrition continues to remain high for Infosys, Management cited employees between work experiences of 3-5 years are shifting for better opportunities*

## Rise in Attrition remains a cause of concern:

- Q4FY19 attrition consolidated & standalone attrition increased to 20.4% & 18.3% from 19.9% & 17.8% respectively.
- Attrition was mainly due to employees between work experiences of 3-5 years of experience. As tight visa issues have reduced onsite opportunities for students, they seem to look at IT as less lucrative sector for employment.
- Management did mention they are working on that & they are focusing on bringing down attrition to 13-15% levels.

**Exhibit 7: Attrition rate remain elevated**




*Source: Company, PL*

## Buyback will cushion the impact of weak earnings

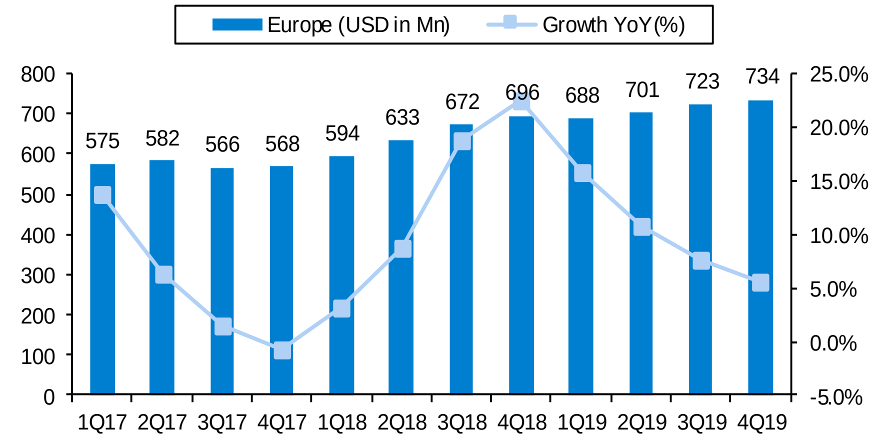
The board has recommended a buyback of Rs 82.6 bn at a maximum buyback price of Rs 800/ share through open market purchase. We believe the impact would be cushioned due to the same in near term.

## Will Europe remain strong revenue driver?

Since last 12 quarters Europe was the strongest revenue driver for Infosys as compared to any other geographies. This quarter also Europe showed a moderate growth of 1.6% QoQ USD as compared to 3.2% QoQ USD in previous quarter. Management also cited demand constraint in manufacturing vertical in European geography. Due rising concern & uncertainty in Europe, we expect growth in Europe to get mild.

*Revenues from Europe falling consistently showing early signs of uncertainties and macro concerns*

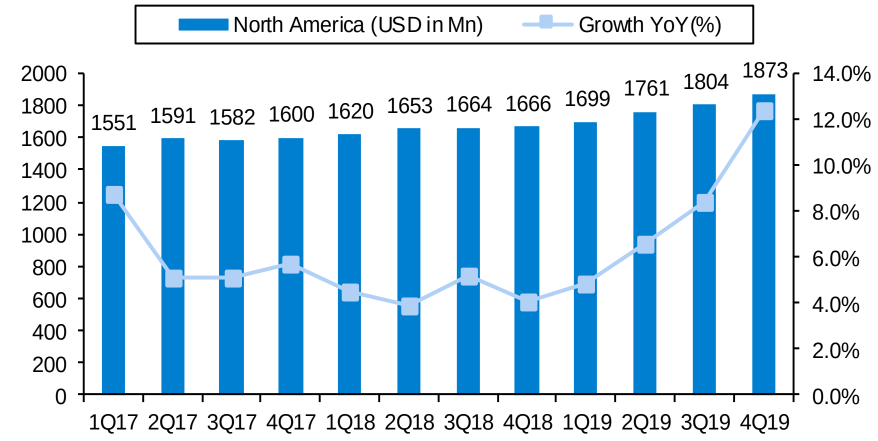
**Exhibit 8: Revenues on declining trend**




*Source: Company, PL*

*Revenues from North America remain the key growth driver across geographies and continued momentum in this quarter.*

**Exhibit 9: North America remains key growth driver across geographies**

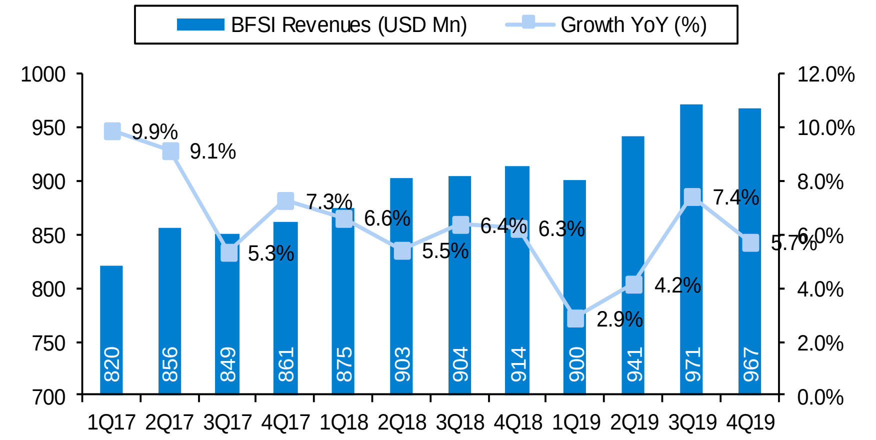



*Source: Company, PL*

## Will BFSI back in action?

- Q4FY19E growth was largely led by communication vertical, grew by 16.6% QoQ CC (added incremental revenue of USD 57.6mn vs total incremental revenue addition of USD 73mn).
- BFSI & retail declined 0.8% & 0.9% QoQ CC. BFSI accounts to 30% of the revenues for Infosys in which US accounts to maximum contribution.
- We are cautious about US macro indicators (US yields are weaking) which can led to contraction of clients budgets in US. If growth acceleration doesn't happen in BFSI in next 2 quarters, that will lead to our multiple de-rating for Infosys.

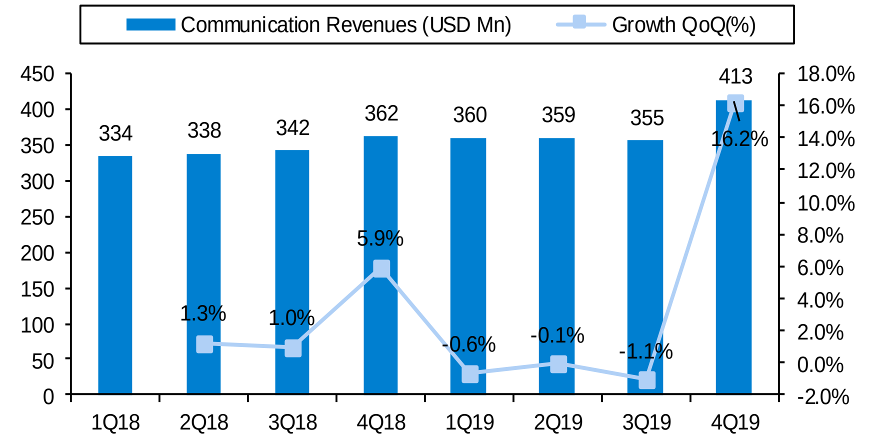
#### Exhibit 10: BFSI vertical showing volatility in performance




*Source: Company, PL*

*Communication vertical recovered strongly after weak performance in last three quarters led by ramp-up of large deal in quarter*

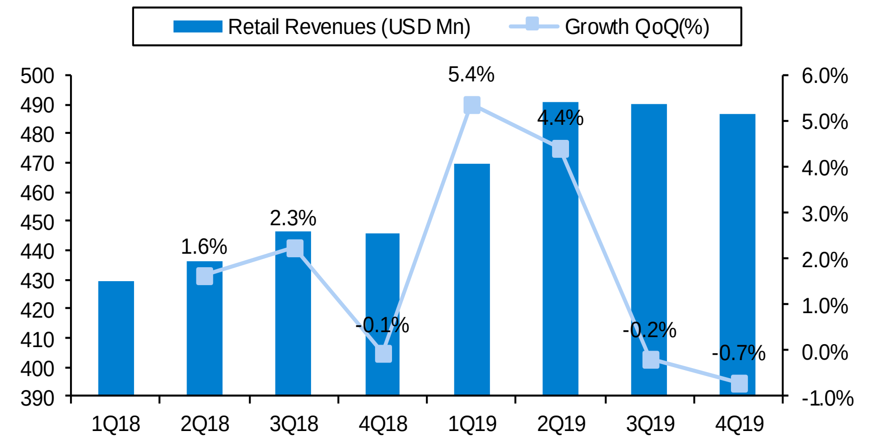
#### Exhibit 11: Communication vertical remain key growth driver in Q4FY19




*Source: Company, PL*

*Retail vertical continued to remain under pressure*

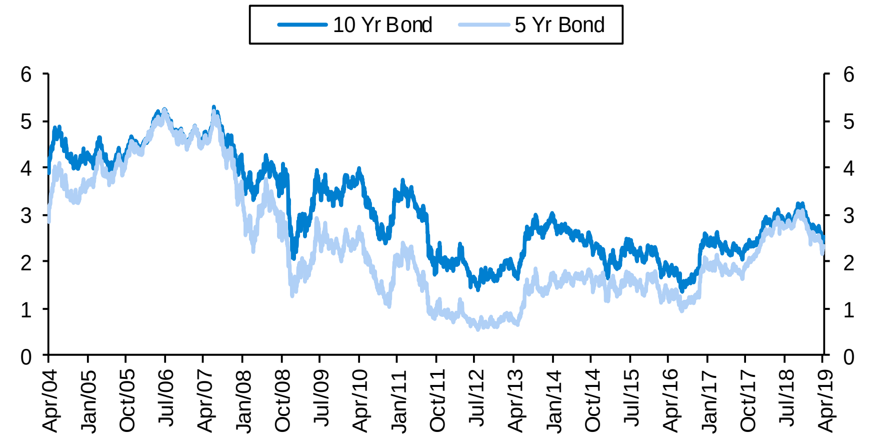
#### Exhibit 12: Retail vertical remain tepid




*Source: Company, PL*

*US Bond yield are going down which can led to contraction of clients budgets in US.*

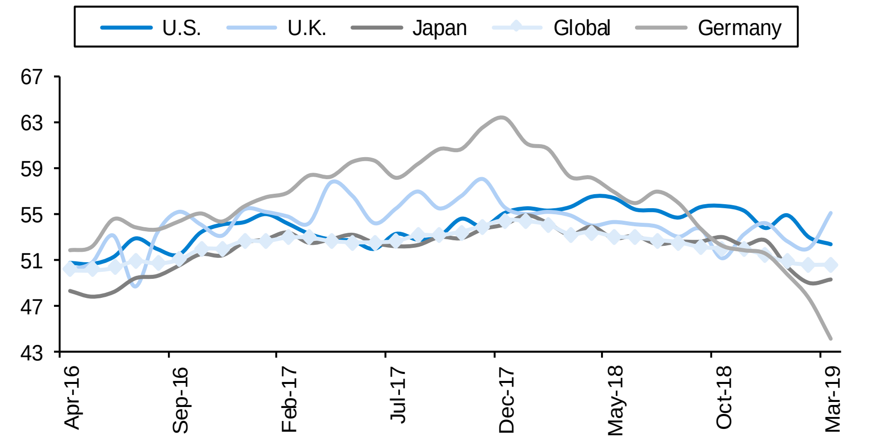
**Exhibit 13: US Bond yields going down**




*Source: Bloomberg, PL*

*Falling manufacturing index of global companies showing signs of slowdown*

**Exhibit 14: PMI Manufacturing Index of global companies**




*Source: Bloomberg, PL*

## Valuation

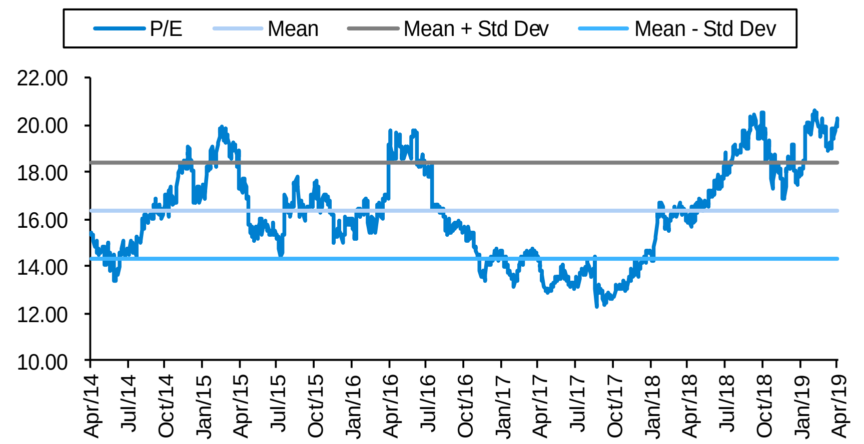
We have cut our EPS estimates by 2.7% & 3.4% of FY20E/FY21E to factor lower than expected guidance & reduced margin assumption (-70bps: FY20E, -92bps: FY21E). Infosys is currently trading at 20X/17.7x FY20E/FY21E earnings multiple. Our revised TP stands at Rs.782 (earlier: Rs.808) valued at 18.5x Mar-21 multiple. We expect share buyback (max price of Rs.800) to cushion earnings downgrade in near term. Maintain Accumulate.

**Exhibit 15: Changes in Estimates**

| Year to 31-Mar | FY19E | FY20E | FY21E |
|---|---|---|---|
| **USD revenues (US$ m)** | | | |
| - New | 11,799 | 12,818 | 13,939 |
| - Old | 11,803 | 12,915 | 14,044 |
| *Change (%)* | *0.0%* | *-0.7%* | *-0.7%* |
| **EBIT Margin** | | | |
| - New | 22.8% | 22.7% | 22.7% |
| - Old | 23.1% | 23.4% | 23.6% |
| *Change (%)* | *-22 bps* | *-70 bps* | *-92 bps* |
| **Recurring EPS - Fully diluted (Rs)** | | | |
| - New | 35.4 | 37.4 | 42.3 |
| - Old | 35.7 | 38.5 | 43.7 |
| *Change (%)* | *-0.9%* | *-2.7%* | *-3.4%* |

*Source: PL*

**Exhibit 16: One year forward PE**




*Source: Company, PL*

**Exhibit 17: Key senior management exists at Infosys in past 3-4 years**

| Date | Name | Designation |
|---|---|---|
| 19-Jan | Sudip Singh | SVP, Global head- Energy, Utilities, Resources & Services |
| 19-Dec | Ken Toombs | Global head- Infosys consulting |
| 18-Aug | M.D. Ranganath | Chief Financial Officer |
| 18-Jun | Sangita Singh | Executive VP ,Head of Healthcare & Lifesciences |
| 18-Jun | Nitesh Banga | SVP -Global head of manufacturing and Edge products |
| 18-Jan | Rajesh K Murthy | Presid en t, Head— En erg y, Reso urces, Utilities, Commun icatio n s & Services |
| 17-Oct | Pervinder Johar | CEO- Edgeverve |
| 17-Oct | Abdul Razack | Head- Platforms, Big Data and analytics |
| 17-Sep | Navin Budhiraja | SVP - Head Architechture and Technology |
| 17-Sep | Sanjay Rajagopalan | SVP - Design and research |
| 17-Aug | Dr Vishal Sikka | CEO and MD |
| 17-Jun | Sandeep Dadlani | President, Head of Manufacturing, Retail, CPG and logistics |
| 17-Jun | Gordon Muehl | Industrial Internet business head |
| 17-Jan | David Kennedy | Chief Compliance Officer |
| 16-Sep | Sanjay Purohit | EVP and Global head of consulting |
| 16-Jul | Sunil Gupta | Infosys Edgeverve and Finacle COO |
| 16-Jul | Vasudeva Nayak | SVP - Global Head Mobility and assurance |
| 16-Jul | Samson David | SVP, Global head- cloud, infrastructure and security |
| 16-Jul | Anup Uppadhayay | Executive VP, Head of Strategic sales |
| 16-Jul | Manish Tandon | Executive VP, Head of Healthcare, Lifesciences and Hi-Tech |
| 16-Jan | Michael Reh | Head- Edgeverve and Finacle |

*Source: Company, PL*

# Conference Call Highlights

## Growth & Deal Signings

- 13 large deal wins with TCV of $1.6bn– 7 deals in Americas, 5 in Europe & one from India. Vertical wise- 2 in BFSI, 2 in manufacturing & 2 in life sciences, 1 in retail & 3 in hi-tech.
- In large deal wins, significant composition of digital. In margin profile, digital portfolio is higher margin business as compared to traditional business.

## Margin band

- Investments in sales are now complete. Localization expenses are mostly done now; some minor expenses will be there in FY20. In FY20, Infosys will focus on operational efficiencies in FY20E.Investmetns in localization included cost of hub centers.
- Digital is a high margin business & management have a focus in expanding the margins.
- Q1FY20 will have headwind of wage hike.
- Attrition increase this quarter (19.9% to 20.4%) and management mentioned people from 3-5 years' experience are moving to other opportunities.
- Cost of subcontracting will remain to address the strong demand.
- Talent availability is constrained across the board.
- Focus on delivery localization continues.
- Company will focus more on improving operational efficiency.

## Guidance:

- Revenue Guidance includes organic & inorganic revenue growth (all deal announced). Management do see a weakness in manufacturing business in Europe, concern in healthcare & life sciences. Management don't see any macro slowdown right now.

## Vertical Specific:

- **Retail –** Shows good pick up cloud area & digital area. Retail is a volatile business & management remains optimistic.
- **Manufacturing:** Some areas of concern in Manufacturing vertical in Europe.
- **Healthcare Vertical**: Showing weakness in Europe
- **Communication vertical**: showed strong growth led by ramp up of large deal win in quarter.
- **BFSI commentary** - BFSI was mix quarter, Insurance vertical showed weakness in Q4 though banking and capital market was decent.

- Recent acquisition done will help in scaling digital business. Digital continues to see strong demand across regions
- Data Analytics, Cloud, Automation, IoT, cyberspace are driving growth in digital business
- 5 Innovative hubs in Europe & USA
- Among New large deals, significant large component of digital. Deal wins are across 5 dimensions
- Huge demand of digital transformation deals.

## Budgetary spends getting diverted towards Digital.

- Weakness in insurance business in Q4FY19. Some large projects, CEO changes causing weakness in Insurance business.

## Infrastructure

- Realization is flat in IMS business, pricing power is maintained.

**Exhibit 18: Geography-wise revenues**

| (US$ m) | 4Q19 | 3Q19 | QoQ | 4Q18 | YoY |
|---|---|---|---|---|---|
| North America | 1,873 | 1,804 | *3.8%* | 1,666 | *12.4%* |
| Europe | 734 | 723 | *1.6%* | 696 | *5.6%* |
| India | 70 | 78 | *-9.4%* | 79 | *-10.4%* |
| Rest of World | 383 | 382 | *0.0%* | 365 | *4.9%* |
| **Total** | **3,060** | **2,987** | ***2.4%*** | **2,805** | ***9.1%*** |
| | | | | | |
| **as % of Total** | | | | | |
| North America | 61.2% | 60.4% | *80 bps* | 59.4% | *180 bps* |
| Europe | 24.0% | 24.2% | *-20 bps* | 24.8% | *-80 bps* |
| India | 2.3% | 2.6% | *-30 bps* | 2.8% | *-50 bps* |
| Rest of World | 12.5% | 12.8% | *-30 bps* | 13.0% | *-50 bps* |

*Source: Company, PL*

**Exhibit 19: Key Operating Metrics**

| Revenue by Project Type | 4Q19 | 3Q19 | QoQ | 4Q18 | YoY |
|---|---|---|---|---|---|
| Fixed Price | 1,631 | 1,553 | *5.0%* | 1,461 | *11.6%* |
| Time & Material | 1,429 | 1,434 | *-0.3%* | 1,344 | *6.4%* |
| **Total** | **3,060** | **2,987** | ***2.4%*** | **2,805** | ***9.1%*** |
| | | | | | |
| **% of Total Revenue** | | | | | |
| Fixed Price | 53.3% | 52.0% | *130 bps* | 52.1% | *120 bps* |
| Time & Material | 46.7% | 48.0% | *-130 bps* | 47.9% | *-120 bps* |

*Source: Company, PL*

### Exhibit 20: Vertical-wise revenues

| | 4Q19 | 3Q19 | QoQ | 4Q18 | YoY |
|---|---|---|---|---|---|
| Financial Services | 967 | 971 | -0.4% | 914 | 5.7% |
| Manufacturing | 306 | 302 | 1.4% | 269 | 13.6% |
| Communication Services | 413 | 355 | 16.2% | 362 | 14.2% |
| Retail CPG | 487 | 490 | -0.7% | 446 | 9.1% |
| Life Sc & Healthcare | 184 | 185 | -0.9% | 188 | -2.3% |
| Others | 704 | 684 | 2.9% | 626 | 12.5% |
| **Total** | **3,060** | **2,987** | ***2.4%*** | **2,805** | ***9.1%*** |
| | | | | | |
| **as % of Total** | | | | | |
| Financial Services | 31.6% | 32.5% | -90 bps | 32.6% | -100 bps |
| Manufacturing | 10.0% | 10.1% | -10 bps | 9.6% | 40 bps |
| Communication Services | 13.5% | 11.9% | 160 bps | 12.9% | 60 bps |
| Retail CPG | 15.9% | 16.4% | -50 bps | 15.9% | 0 bps |
| Life Sc & Healthcare | 6.0% | 6.2% | -20 bps | 6.7% | -70 bps |
| Others | 23.0% | 22.9% | 10 bps | 22.3% | 70 bps |

*Source: Company, PL*

### Exhibit 21: Client Metrics

| | 4Q19 | 3Q19 | QoQ | 4Q18 | YoY |
|---|---|---|---|---|---|
| **Number of Clients** | | | | | |
| Active | 1279 | 1251 | 2.2% | 1204 | 6.2% |
| Added during the period | 101 | 101 | 0.0% | 73 | 38.4% |
| | | | | | |
| **Revenue concentration (US$ m)** | | | | | |
| Top client | 101 | 102 | -0.6% | 101 | 0.0% |
| Top 10 clients | 603 | 574 | 5.1% | 539 | 11.9% |
| Top 2-10 clients | 502 | 472 | 6.3% | 438 | 14.7% |
| Top 25 clients | 1,071 | 1,013 | 5.8% | 993 | 7.9% |
| Top 11-25 clients | 468 | 439 | 6.6% | 454 | 3.0% |
| Non Top 25 | 1,989 | 1,974 | 0.7% | 1,812 | 9.8% |
| Total | 3,060 | 2,987 | 2.4% | 2,805 | 9.1% |
| **Revenue concentration (%)** | | | | | |
| Top client | 3.3% | 3.4% | -10 bps | 3.6% | -30 bps |
| Top 10 clients | 19.7% | 19.2% | 50 bps | 19.2% | 50 bps |
| Top 25 clients | 35.0% | 33.9% | 110 bps | 35.4% | -40 bps |
| | | | | | |
| Repeat Business | 95.2% | 96.6% | -140 bps | 97.6% | -240 bps |
| Repeat Business (in US$ m) | 2,913 | 2,885 | 1.0% | 2,738 | 6.4% |
| New Business (in US$ m) | 147 | 102 | 44.6% | 67 | 118.2% |
| | | | | | |
| **Account Receivables (days)** | **66** | **67** | ***(1)*** | **67** | ***(1)*** |

*Source: Company, PL*

### Exhibit 22: Headcount Metrics

| | 4Q19 | 3Q19 | QoQ | 4Q18 | YoY |
|---|---|---|---|---|---|
| Total employees | 228,123 | 225,501 | 1.2% | 204,107 | 11.8% |
| Sales & support | 11,164 | 10,947 | 2.0% | 9,968 | 12.0% |
| Gross addition | 14,203 | 18,773 | -24.3% | 12,329 | 15.2% |
| Net addition | 2,622 | 7,762 | -66.2% | 2,416 | NM |
| Attrition (IT Services) | 18.3% | 17.8% | 50 bps | 16.6% | 170 bps |

*Source: Company, PL*

### Exhibit 23: Onsite-Offshore Mix

| | 4Q19 | 3Q19 | QoQ | 4Q18 | YoY |
|---|---|---|---|---|---|
| **Revenue (US$ m)** | | | | | |
| Onsite | 1,580 | 1,540 | *2.6%* | 1,392 | *13.5%* |
| Offshore | 1,315 | 1,282 | *2.6%* | 1,159 | *13.5%* |
| **Total** | **2,895** | **2,823** | ***2.6%*** | **2,551** | ***13.5%*** |
| **Utilization (%)** | | | | | |
| Include Trainees | 78.9% | 79.8% | *-90 bps* | 80.8% | *-190 bps* |
| Exclude Trainees | 82.3% | 83.8% | *-150 bps* | 84.7% | *-240 bps* |

*Source: Company, PL*

### Exhibit 24: Traditional business vs Digital business

| US $ million | 4Q19 | 3Q19 | QoQ | 4Q18 | YoY |
|---|---|---|---|---|---|
| Digital | 1,035 | 942 | *9.9%* | 752 | *37.6%* |
| Core | 2,025 | 2,045 | *-1.0%* | 2,053 | *-1.4%* |
| **Total** | **3,060** | **2,987** | ***2.4%*** | **2,805** | ***9.1%*** |

*Source: Company, PL*

### Exhibit 25: Client Metrics

| Number of Clients | 4Q19 | 3Q19 | QoQ | 4Q18 | YoY |
|---|---|---|---|---|---|
| Active | 1,279 | 1,251 | *2.2%* | 1,204 | *6.2%* |
| Added during the period (gross) | 101 | 101 | *0.0%* | 73 | *38.4%* |
| **Number of million dollar clients*** | | | | | |
| 1 Million dollar + | 662 | 651 | *1.7%* | 634 | *4.4%* |
| 10 Million dollar + | 222 | 214 | *3.7%* | 198 | *12.1%* |
| 50 Million dollar + | 60 | 59 | *1.7%* | 57 | *5.3%* |
| 100 Million dollar + | 25 | 23 | *8.7%* | 20 | *25.0%* |
| **Client contribution to revenues** | | | | | |
| Top client | 3.3% | 3.4% | *-10 bps* | 3.6% | *-30 bps* |
| Top 10 clients | 19.7% | 19.2% | *50 bps* | 19.2% | *50 bps* |
| Top 25 clients | 35.0% | 33.9% | *110 bps* | 35.4% | *-40 bps* |
| Repeat business | 95.2% | 96.6% | *-140 bps* | 97.6% | *-240 bps* |
| Days Sales Outstanding | 66 | 67 | *-1.5%* | 67 | *-1.5%* |

*Source: Company, PL*

### Exhibit 26: Revenue per employee falling

| (In US $ K) | 4Q19 | 3Q19 | QoQ | 4Q18 | YoY |
|---|---|---|---|---|---|
| Revenue per Employee - Consolidated | 54 | 54.3 | *-0.6%* | 54.6 | *-1.1%* |

*Source: Company, PL*

**Exhibit 27: Revenue by Service-offerings**

| | 4Q19 | 3Q19 | *QoQ* | 4Q18 | *YoY* |
|---|---|---|---|---|---|
| **Services** | **94.6%** | **94.5%** | ***10 bps*** | **95.1%** | ***-50 bps*** |
| Digital | 31.4% | 29.3% | *210 bps* | 25.3% | *610 bps* |
| Core | 63.2% | 65.2% | *-200 bps* | 69.8% | *-660 bps* |
| **Products and Platforms** | **5.4%** | **5.5%** | ***-10 bps*** | **4.9%** | ***50 bps*** |
| Digital | 2.4% | 2.2% | *20 bps* | 1.5% | *90 bps* |
| Core | 3.0% | 3.3% | *-30 bps* | 3.4% | *-40 bps* |
| **Total** | **100.0%** | **100.0%** | ***0 bps*** | **100.0%** | ***0 bps*** |
| Digital | 33.8% | 31.5% | *230 bps* | 26.8% | *700 bps* |
| Core | 66.2% | 68.5% | *-230 bps* | 73.2% | *-700 bps* |

*Source: Company, PL*

# Financials

### Income Statement (Rs m)

| Y/e Mar | FY18 | FY19 | FY20E | FY21E |
|---|---|---|---|---|
| **Net Revenues** | **705,220** | **826,760** | **903,659** | **989,687** |
| *YoY gr. (%)* | *3.0* | *17.2* | *9.3* | *9.5* |
| Employee Cost | 432,690 | 518,570 | 560,269 | 618,669 |
| Gross Profit | 272,530 | 308,190 | 343,391 | 371,018 |
| *Margin (%)* | *38.6* | *37.3* | *38.0* | *37.5* |
| SG&A Expenses | 46,850 | 54,540 | 63,256 | 64,444 |
| Other Expenses | - | - | - | - |
| | | | | |
| **EBITDA** | **190,100** | **208,900** | **223,763** | **246,001** |
| *YoY gr. (%)* | *2.2* | *9.9* | *7.1* | *9.9* |
| *Margin (%)* | *27.0* | *25.3* | *24.8* | *24.9* |
| | | | | |
| Depreciation and Amortization | 18,620 | 20,110 | 18,536 | 21,744 |
| | | | | |
| **EBIT** | **171,480** | **188,790** | **205,227** | **224,257** |
| *Margin (%)* | *24.3* | *22.8* | *22.7* | *22.7* |
| | | | | |
| Net Interest | - | - | - | - |
| Other Income | 31,220 | 21,620 | 15,712 | 22,790 |
| | | | | |
| **Profit Before Tax** | **202,700** | **210,410** | **220,939** | **247,047** |
| *Margin (%)* | *28.7* | *25.4* | *24.4* | *25.0* |
| | | | | |
| Total Tax | 42,420 | 56,310 | 58,127 | 63,115 |
| *Effective tax rate (%)* | *20.9* | *26.8* | *26.3* | *25.5* |
| | | | | |
| **Profit after tax** | **160,280** | **154,100** | **162,812** | **183,931** |
| Minority interest | - | 50 | - | - |
| Share Profit from Associate | - | - | - | - |
| | | | | |
| **Adjusted PAT** | **145,960** | **154,050** | **162,812** | **183,931** |
| *YoY gr. (%)* | *1.7* | *5.5* | *5.7* | *13.0* |
| *Margin (%)* | *20.7* | *18.6* | *18.0* | *18.6* |
| Extra Ord. Income / (Exp) | - | - | - | - |
| | | | | |
| **Reported PAT** | **145,960** | **154,050** | **162,812** | **183,931** |
| *YoY gr. (%)* | *1.7* | *5.5* | *5.7* | *13.0* |
| *Margin (%)* | *20.7* | *18.6* | *18.0* | *18.6* |
| | | | | |
| Other Comprehensive Income | - | - | - | - |
| Total Comprehensive Income | 145,960 | 154,050 | 162,812 | 183,931 |
| **Equity Shares O/s (m)** | **4,347** | **4,348** | **4,348** | **4,348** |
| **EPS (Rs)** | **33.6** | **35.4** | **37.4** | **42.3** |

*Source: Company Data, PL Research*

### Balance Sheet Abstract (Rs m)

| Y/e Mar | FY18 | FY19 | FY20E | FY21E |
|---|---|---|---|---|
| **Non-Current Assets** | | | | |
| | | | | |
| **Gross Block** | **246,630** | **293,810** | **311,869** | **334,449** |
| Tangibles | 222,050 | 251,500 | 269,559 | 292,139 |
| Intangibles | 24,580 | 42,310 | 42,310 | 42,310 |
| | | | | |
| **Acc: Dep / Amortization** | **100,630** | **117,940** | **136,476** | **158,219** |
| Tangibles | 100,630 | 117,940 | 136,476 | 158,219 |
| Intangibles | - | - | - | - |
| | | | | |
| **Net fixed assets** | **146,000** | **175,870** | **175,393** | **176,229** |
| Tangibles | 121,420 | 133,560 | 133,083 | 133,919 |
| Intangibles | 24,580 | 42,310 | 42,310 | 42,310 |
| | | | | |
| Capital Work In Progress | - | - | - | - |
| Goodwill | - | - | - | - |
| Non-Current Investments | - | - | - | - |
| Net Deferred tax assets | 7,410 | 7,000 | 7,000 | 7,000 |
| Other Non-Current Assets | 139,900 | 129,010 | 129,010 | 129,010 |
| | | | | |
| **Current Assets** | | | | |
| Investments | - | - | - | - |
| Inventories | - | - | - | - |
| Trade receivables | 131,420 | 148,270 | 167,177 | 183,092 |
| Cash & Bank Balance | 262,250 | 261,950 | 249,712 | 251,487 |
| Other Current Assets | 63,890 | 64,820 | 64,820 | 64,820 |
| **Total Assets** | **798,890** | **847,380** | **849,533** | **872,792** |
| | | | | |
| **Equity** | | | | |
| Equity Share Capital | 10,880 | 21,700 | 21,700 | 21,700 |
| Other Equity | 638,350 | 628,360 | 608,570 | 609,899 |
| **Total Networth** | **649,230** | **650,060** | **630,270** | **631,599** |
| | | | | |
| **Non-Current Liabilities** | | | | |
| Long Term borrowings | - | - | - | - |
| Provisions | - | - | - | - |
| Other non current liabilities | 3,200 | 4,220 | 4,220 | 4,220 |
| | | | | |
| **Current Liabilities** | | | | |
| ST Debt / Current of LT Debt | - | - | - | - |
| Trade payables | 6,940 | 16,550 | 3,615 | 3,959 |
| Other current liabilities | 134,110 | 169,830 | 204,709 | 226,294 |
| **Total Equity & Liabilities** | **798,890** | **847,380** | **849,533** | **872,792** |

*Source: Company Data, PL Research*

## Cash Flow (Rs m)

| Y/e Mar | FY18 | FY19 | FY20E | FY21E |
|---|---|---|---|---|
| PBT | 202,700 | 210,410 | 220,939 | 247,047 |
| Add. Depreciation | 18,620 | 20,110 | 18,536 | 21,744 |
| Add. Interest | - | - | - | - |
| Less Financial Other Income | 31,220 | 21,620 | 15,712 | 22,790 |
| Add. Other | 14,320 | - | - | - |
| Op. profit before WC changes | 235,640 | 230,520 | 239,475 | 268,790 |
| Net Changes-WC | (98,290) | 28,330 | 7,075 | 1,282 |
| Direct tax | (56,740) | (56,310) | (58,127) | (63,115) |
| **Net cash from Op. activities** | **80,610** | **202,540** | **188,423** | **206,957** |
| Capital expenditures | (3,180) | (49,980) | (18,059) | (22,580) |
| Interest / Dividend Income | - | - | - | - |
| Others | - | - | - | - |
| **Net Cash from Invt. activities** | **(3,180)** | **(49,980)** | **(18,059)** | **(22,580)** |
| Issue of share cap. / premium | (22,260) | 12,920 | - | - |
| Debt changes | - | - | - | - |
| Dividend paid | (148,538) | (102,601) | (182,602) | (182,602) |
| Interest paid | - | - | - | - |
| Others | (26,732) | (62,279) | - | - |
| **Net cash from Fin. activities** | **(197,530)** | **(151,960)** | **(182,602)** | **(182,602)** |
| **Net change in cash** | **(120,100)** | **600** | **(12,238)** | **1,775** |
| Free Cash Flow | 77,430 | 152,560 | 170,364 | 184,378 |

*Source: Company Data, PL Research*

## Quarterly Financials (Rs m)

| Y/e Mar | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 |
|---|---|---|---|---|
| **Net Revenue** | **191,280** | **206,090** | **214,000** | **215,390** |
| *YoY gr. (%)* | *12.0* | *17.3* | *20.3* | *19.1* |
| Raw Material Expenses | 118,520 | 128,170 | 134,360 | 137,520 |
| Gross Profit | 72,760 | 77,920 | 79,640 | 77,870 |
| *Margin (%)* | *38.0* | *37.8* | *37.2* | *36.2* |
| **EBITDA** | **49,730** | **53,580** | **54,100** | **51,490** |
| *YoY gr. (%)* | *0.9* | *7.7* | *1.0* | *(4.8)* |
| *Margin (%)* | *26.0* | *26.0* | *25.3* | *23.9* |
| Depreciation / Depletion | 4,360 | 4,640 | 5,800 | 5,310 |
| **EBIT** | **45,370** | **48,940** | **48,300** | **46,180** |
| *Margin (%)* | *23.7* | *23.7* | *22.6* | *21.4* |
| Net Interest | - | - | - | - |
| Other Income | 4,560 | 7,390 | 3,020 | 6,650 |
| **Profit before Tax** | **49,930** | **56,330** | **51,320** | **52,830** |
| *Margin (%)* | *26.1* | *27.3* | *24.0* | *24.5* |
| Total Tax | 13,810 | 15,230 | 15,220 | 12,050 |
| *Effective tax rate (%)* | *27.7* | *27.0* | *29.7* | *22.8* |
| **Profit after Tax** | **36,120** | **41,100** | **36,100** | **40,780** |
| Minority interest | - | - | 10 | 40 |
| Share Profit from Associates | - | - | - | - |
| **Adjusted PAT** | **36,120** | **41,100** | **36,090** | **40,740** |
| *YoY gr. (%)* | *3.7* | *10.3* | *(2.4)* | *10.4* |
| *Margin (%)* | *18.9* | *19.9* | *16.9* | *18.9* |
| Extra Ord. Income / (Exp) | - | - | - | - |
| **Reported PAT** | **36,120** | **41,100** | **36,090** | **40,740** |
| *YoY gr. (%)* | *3.7* | *10.3* | *(2.4)* | *10.4* |
| *Margin (%)* | *18.9* | *19.9* | *16.9* | *18.9* |
| Other Comprehensive Income | - | - | - | - |
| **Total Comprehensive Income** | **36,120** | **41,100** | **36,090** | **40,740** |
| Avg. Shares O/s (m) | 4,351 | 4,352 | 4,353 | 4,353 |
| **EPS (Rs)** | **8.3** | **9.4** | **8.3** | **9.4** |

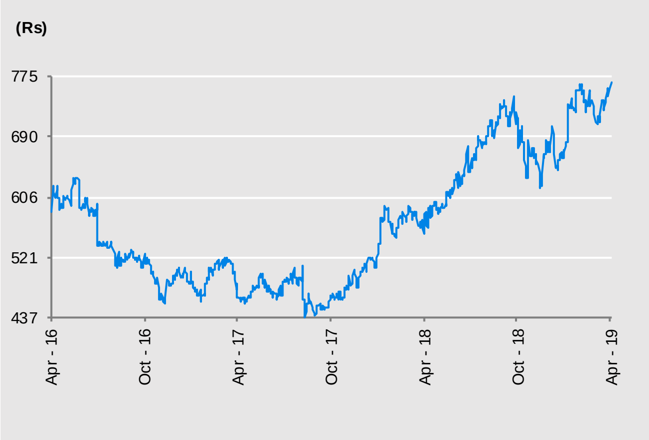
*Source: Company Data, PL Research*

## Key Financial Metrics

| Y/e Mar | FY18 | FY19 | FY20E | FY21E |
|---|---|---|---|---|
| **Per Share(Rs)** | | | | |
| EPS | 33.6 | 35.4 | 37.4 | 42.3 |
| CEPS | 37.9 | 40.1 | 41.7 | 47.3 |
| BVPS | 149.4 | 149.5 | 145.0 | 145.3 |
| FCF | 17.8 | 35.1 | 39.2 | 42.4 |
| DPS | 34.2 | 23.6 | 42.0 | 42.0 |
| **Return Ratio(%)** | | | | |
| RoCE | 25.6 | 29.1 | 32.1 | 35.5 |
| ROIC | 23.3 | 28.9 | 32.4 | 36.5 |
| RoE | 21.8 | 23.7 | 25.4 | 29.2 |
| **Balance Sheet** | | | | |
| Net Debt : Equity (x) | (0.4) | (0.4) | (0.4) | (0.4) |
| Debtor (Days) | 68 | 65 | 68 | 68 |
| **Valuation(x)** | | | | |
| PER | 22.3 | 21.1 | 20.0 | 17.7 |
| P/B | 5.0 | 5.0 | 5.2 | 5.1 |
| P/CEPS | 19.8 | 18.7 | 17.9 | 15.8 |
| EV/EBITDA | 15.7 | 14.3 | 13.4 | 12.2 |
| EV/Sales | 4.2 | 3.6 | 3.3 | 3.0 |
| Dividend Yield (%) | 4.6 | 3.2 | 5.6 | 5.6 |

*Source: Company Data, PL Research*

## Price Chart




## Recommendation History

| No. | Date | Rating | TP (Rs.) | Share Price (Rs.) |
|---|---|---|---|---|
| 1 | 10-Jul-18 | BUY | 1,400 | 1,354 |
| 2 | 13-Jul-18 | BUY | 1,430 | 1,317 |
| 3 | 5-Oct-18 | BUY | 790 | 707 |
| 4 | 16-Oct-18 | BUY | 790 | 695 |
| 5 | 7-Jan-19 | BUY | 790 | 672 |
| 6 | 14-Jan-19 | BUY | 810 | 684 |
| 7 | 29-Mar-19 | Accumulate | 804 | 738 |
| 8 | 5-Apr-19 | Accumulate | 808 | 759 |

## Analyst Coverage Universe

| Sr. No. | CompanyName | Rating | TP (Rs) | Share Price (Rs) |
|---|---|---|---|---|
| 1 | Cyient | Accumulate | 621 | 595 |
| 2 | HCL Technologies | BUY | 1,186 | 1,093 |
| 3 | Hexaware Technologies | Reduce | 325 | 360 |
| 4 | Infosys | Accumulate | 808 | 759 |
| 5 | L&T Technology Services | Accumulate | 1,807 | 1,609 |
| 6 | Larsen & Toubro Infotech | BUY | 2,032 | 1,652 |
| 7 | Mindtree | Reduce | 873 | 947 |
| 8 | Mphasis | Accumulate | 1,090 | 975 |
| 9 | NIIT Technologies | BUY | 1,539 | 1,348 |
| 10 | Persistent Systems | Hold | 653 | 627 |
| 11 | Redington (India) | BUY | 108 | 98 |
| 12 | Sonata Software | Accumulate | 400 | 346 |
| 13 | Tata Consultancy Services | BUY | 2,265 | 2,048 |
| 14 | TeamLease Services | Hold | 3,203 | 3,031 |
| 15 | Tech Mahindra | BUY | 886 | 777 |
| 16 | Wipro | Hold | 247 | 262 |
| 17 | Zensar Technologies | Accumulate | 256 | 231 |

## PL's Recommendation Nomenclature (Absolute Performance)

| | | |
|---|---|---|
| **Buy** | : | > 15% |
| **Accumulate** | : | 5% to 15% |
| **Hold** | : | +5% to -5% |
| **Reduce** | : | -5% to -15% |
| **Sell** | : | < -15% |
| **Not Rated (NR)** | : | No specific call on the stock |
| **Under Review (UR)** | : | Rating likely to change shortly |

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