

Stock Update

Mixed quarter

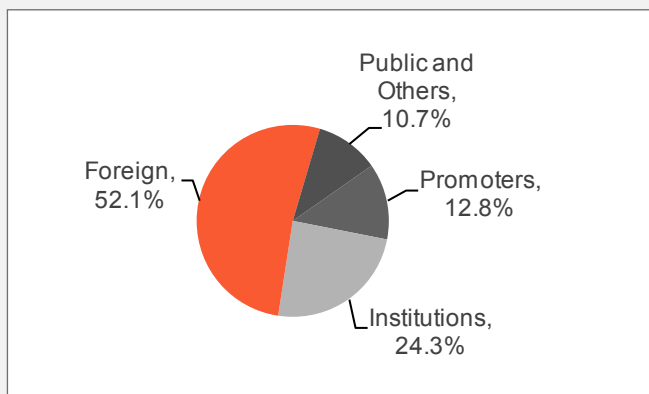
Infosys

Reco: Buy | CMP: Rs748

Company details

Price target:	Rs840
Market cap:	Rs326,730 cr
52-week high/low:	Rs773/549
NSE volume: (No of shares)	80.8 lakh
BSE code:	500209
NSE code:	INFY
Sharekhan code:	INFY
Free float: (No of shares)	380.8 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5.7	11.3	9.2	40.8
Relative to Sensex	0.3	4.0	-2.0	22.1

Key points

- ♦ **Revenue in-line, digital growth accelerated and strong deal signings:** Infosys delivered in-line revenue growth during Q4FY2019, with a constant currency (CC) revenue growth of 2.1% q-o-q/11.7% y-o-y (second consecutive quarter of double-digit growth). CC revenue growth was primarily led by strong growth in communication (16.6% q-o-q on CC) and hi-tech (6.9% q-o-q on CC). However, financial services CC revenues growth declined 0.8% owing to a slowdown in revenues in insurance. In addition, CC revenue growth in retail and life sciences remained soft, with a decline of 0.9% q-o-q and 1.9% q-o-q. North America (3.7% q-o-q CC) and Europe (1.4% q-o-q) performed well during the quarter. Digital revenue growth accelerated to 9.7%/41% q-o-q/y-o-y on CC basis (37.5% y-o-y on USD basis), while core services revenue declined by 1.4% in Q4FY2019. On a reported basis, U.S. revenue increased by 2.4% q-o-q to \$3,060 million. Infosys won 7 large deals during the quarter, with TCVs of \$1.56 billion, taking total deal TCVs of \$6.3 billion in FY2019 (>2x of FY2018 deal TCVs)
- ♦ **Margins below our estimates, management expect investments to stabilize in FY2020E:** EBIT margin declined by 113/329 BPS q-o-q/y-o-y to 21.4% (lower than our estimates) owing to lower utilisation (-70 BPS), ramp of deal (-40 BPS), investments in core and localisation (-30 BPS), and rupee appreciation (-30 BPS). These margin headwinds during Q4FY2019 were partially offset by lower provisioning (+40 BPS) and other operational efficiencies. The management expects the intensity of aggressive investments of FY2019 would be moderated in FY2020E, as it has indicated that the investments for sales and localisation initiatives are almost completed. Lower profitability along with higher than expected other income resulted in 13% q-o-q growth in reported net income (beat our estimates). Adjusting the excess carrying amount over recoverable amount of Rs.451 crore in respect of Skava in Q3FY2019, the adjusted net income increased by 0.3% q-o-q during the quarter.
- ♦ **Muted revenue growth guidance for FY2020E, seems a bit conservative:** Infosys' management provided FY2020E CC revenue growth guidance of 7.5-9.5% (9% CC revenue growth in FY2019), which is slightly lower to our estimates. The management noted that strong revenue momentum (double digit revenue growth on y-o-y in Q4FY2019) along with strong deal wins, healthy deal pipeline and additional

revenue from acquisition would drive the revenue growth in FY2020E. In addition, healthy demand environment in BSFI, retail, energy and communication vertical would aid the revenue growth. However, the management has concerns in manufacturing vertical in Europe and healthcare vertical, which is being baked in its revenue growth guidance. Digital business which contributes 33.8% of its total revenue is expected to continue its sustainable growth momentum.

- ♦ **Weak margin outlook for FY2020E:** The management cut its EBIT margin guidance to 21-23% for FY2020E (vs. 22.8% during FY19) from earlier guidance of 22-24% for FY2019. The negative surprise on margin guidance is due to continued investments for future growth (including enhancing digital competencies, large deal capabilities and localisation, among others). However, the management stated that the aggressive investments on sales revitalization are completed and the pace of investments will be less intensified in FY2020E. In addition, the management would

focus on cost optimisation including onsite mix, higher digital revenue contribution, improving utilization and automation initiative to mitigate the margin headwinds. The margin performance in Q1FY2020E would remain under pressure on account of wage revision. The increase in attrition rate could also impact the margins in FY2020E as more interventions can be taken through a higher number of promotions, retention bonuses and higher variable pay.

- ♦ **Valuation: Maintain Buy with a PT of Rs. 840:** We have tweaked our earnings estimates for FY2020E/FY2021E, factoring in lower-than-expected margin guidance for FY2020E and change in USD/INR rate. At CMP, the stock is trading at 19x/17x its FY2020/FY2021E earnings estimates. With robust TCV signings and improving business visibility, we believe that Infosys would gradually catch up in revenue growth with TCS in FY2020E and in-turn would narrow the valuation gap with TCS going forward. Thus, we maintain our Buy rating on the stock with an unchanged price target (PT) of Rs. 840.

Valuations

Particulars	Rs cr				
	FY17	FY18	FY19E	FY20E	FY21E
Total revenue	68,484.0	70,522.0	82,675.0	90,850.8	99,968.3
EBITDA margin (%)	24.7	24.3	22.8	22.4	23.2
Net profit	14,357.0	14,597.0	15,862.0	17,084.2	19,190.4
EPS (Rs.)	33.0	33.6	35.5	39.3	44.2
P/E (x)	22.6	22.3	21.1	19.0	16.9
EV/EBITDA (x)	7.5	7.6	7.2	6.7	5.9
RoE (%)	22.0	23.9	25.0	29.5	32.9
RoCE (%)	30.5	30.2	34.0	39.4	43.9

Results

Particulars	Rs cr				
	Q4FY19	Q4FY18	Q3FY19	YoY (%)	QoQ (%)
Revenue (\$ mn)	3,060.0	2,805.0	2,987.0	9.1	2.4
Net sales	21,539.0	18,083.0	21,400.0	19.1	0.6
Direct costs	13,752.0	11,095.0	13,436.0	23.9	2.4
Gross profit	7,787.0	6,988.0	7,964.0	11.4	-2.2
SG&A	2,638.0	2,057.0	2,554.0	28.2	3.3
EBITDA	5,149.0	4,931.0	5,410.0	4.4	-4.8
Depreciation & amortisation	531.0	459.0	580.0	15.7	-8.4
EBIT	4,618.0	4,472.0	4,830.0	3.3	-4.4
Other income	665.0	534.0	302.0	24.5	120.2
PBT	5,283.0	5,006.0	5,132.0	5.5	2.9
Tax provision	1,205.0	1,316.0	1,522.0	-8.4	-20.8
Reported net profit	4,078.0	3,690.0	3,610.0	10.5	13.0
Adjusted net profit	4,074.0	3,690.0	4,060.0	10.4	0.3
EPS (Rs.)					
Margin (%)				BPS	BPS
EBITDA	23.9	27.3	25.3	-336	-137
EBIT	21.4	24.7	22.6	-329	-113
NPM	18.9	20.4	16.9	-147	207

Revenue mix: Geographies, industry verticals and other operating metrics

Particulars	Revenues	Contribution	\$ Growth (%)		CC growth (%)
	(\$ mn)	(%)	q-o-q	y-o-y	q-o-q
Revenues (\$ mn)	3,060	100	2.4	9.1	1.9
Geographic mix					
North America	1,873	61.2	3.8	12.4	3.7
Europe	734	24.0	1.6	5.6	1.4
India	70	2.3	-9.4	-10.4	-9.1
Rest of world	383	12.5	0.0	4.9	-1.3
Industry verticals					
Financial services	967	31.6	-0.4	5.7	-0.8
Retail	487	15.9	-0.7	9.1	-0.9
Communication	413	13.5	16.2	14.2	16.6
Energy, utilities, resources & services	389	12.7	1.6	15.5	1.5
Manufacturing	306	10.0	1.4	13.6	1.6
Hi tech	236	7.7	8.1	13.5	6.9
Life sciences	184	6.0	-0.9	-2.3	-1.9
Others	80	2.6	-4.9	-2.2	-5.3
Service line					
Service	2,895	94.6	2.6	8.5	2.2
Digital	961	31.4	9.8	35.4	9.6
Core	1,934	63.2	-0.7	-1.2	-1.1
Products and platforms	165	5.4	0.6	20.2	0.3
Digital	73	2.4	11.8	74.5	11.0
Core	92	3.0	-6.9	-3.7	-6.8
Total	3,060	100.0	2.2	9.1	2.1
Digital	1,035	33.8	9.9	37.5	9.7
Core	2,025	66.2	-1.0	-1.3	-1.4
Clients Contribution					
Top client	101	3.3	-0.6	0.0	-
Top 10 clients	603	19.7	5.1	11.9	-
Top 25 clients	1,071	35.0	5.8	7.9	-
Revenue per employee					
Revenue per FTE (\$ K)	54.0	-	0.0	0.0	-
Deal wins (\$ mn)					
TCV	1,568	-	-0.1	73.3	-

Client metrics

Particulars	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Number of active clients	1,164	1,173	1,191	1,204	1,214	1,222	1,251	1,279
New clients added	59	72	79	73	70	73	101	101
Repeat business (%)	99.4	98.7	98.3	97.6	99.5	98.2	96.6	95.2
DSO	68	71	70	67	66	66	67	66
\$1 mn clients +	606	620	630	634	627	633	651	662
\$10 mn clients +	190	186	198	198	200	205	214	222
\$50 mn clients +	56	55	56	57	56	58	59	60
\$100 mn clients +	18	19	20	20	24	23	23	25

Realization metrics

Particulars	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Billing rate (\$/man year)								
Onsite	1,44,555	1,47,349	1,46,023	1,48,359	1,48,063	1,47,767	1,47,176	1,47,764
Offshore	47,728	48,975	49,260	49,753	48,559	48,947	48,262	48,310
Blended	76,833	77,865	77,351	78,133	75,163	74,051	73,262	69,655
Billing rate (q-o-q) - reported								
Onsite	1.2	1.9	-0.9	1.6	-0.2	-0.2	-0.4	0.4
Offshore	2.3	2.6	0.6	1.0	-2.4	0.8	-1.4	0.1
Blended	1.8	1.3	-0.6	1.0	-1.3	-0.1	-0.5	0.3
Billing rate (q-o-q) - CC								
Onsite	0.6	1.0	-1.1	0.4	1.1	0.8	0.0	0.1
Offshore	1.9	2.4	0.4	-0.2	-1.1	1.7	-1.0	-0.1
Blended	1.3	0.7	-0.9	-0.2	0.0	0.9	-0.1	0.0

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.