Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Infosys (INFO IN)

Rating: ACCUMULATE | CMP: Rs727 | TP: Rs782

July 14, 2019

Q1FY20 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	782		782	
Sales (Rs. m)	907,988	999,434	902,260	991,353
% Chng.	*0.6*	*0.8*		
EBITDA (Rs. m)	220,073	249,627	212,218	246,414
% Chng.	*3.7*	*1.3*		
EPS (Rs.)	37.1	42.2	35.4	42.3
% Chng.	*4.9*	*(0.2)*		

Key Financials - Standalone

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. bn)	705	827	908	999
EBITDA (Rs. bn)	190	209	220	250
Margin (%)	*27.0*	*25.3*	*24.2*	*25.0*
PAT (Rs. bn)	146	154	160	181
EPS (Rs.)	33.6	35.4	37.1	42.2
Gr. (%)	*6.9*	*5.5*	*4.8*	*13.6*
DPS (Rs.)	34.2	23.6	42.0	42.0
Yield (%)	*4.7*	*3.2*	*5.8*	*5.8*
RoE (%)	*21.8*	*23.7*	*27.6*	*35.5*
RoCE (%)	*25.6*	*29.1*	*33.7*	*44.4*
EV/Sales (x)	4.1	3.5	3.3	3.0
EV/EBITDA (x)	15.2	13.9	13.6	12.0
PE (x)	21.6	20.5	19.6	17.2
P/BV (x)	4.9	4.9	6.1	6.1

Key Data

Key Data	INFY.BO | INFO IN
52-W High / Low	Rs.774 / Rs.597
Sensex / Nifty	38,736 / 11,553
Market Cap	Rs.3,173bn/ $ 46,223m
Shares Outstanding	4,365m
3M Avg. Daily Value	Rs.11955.01m

Shareholding Pattern (%)

Promoter's	13.31
Foreign	34.04
Domestic Institution	22.87
Public & Others	29.78
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(3.6)	6.9	12.9
Relative	(1.0)	(0.6)	6.5

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Large deals surge, acquisition supports growth

Infosys reported organic CC growth of 2.2% QoQ excluding Stater which accounted to 60bps to CC revenue growth. Strong organic revenue growth was led by telecom & energy verticals. EBIT margins were tad better than our estimates at 20.5% (PIe:20.0%). There was some favorable impact from wage hike deferrals in Q2 & +10bps impact for new lease accounting. Hence, PAT was higher 6% than our estimates. We are positively surprised by the management stance on raised guidance to 8.5%-10.0% CC (from 7.5%-9.5%CC) implying 1.5%-2.5% CQGR for the rest of FY20E. Strong deal momentum of US$2.7bn (55% of the net new) led to the revised guidance. Strong growth in BFSI, Europe & strong deal win was supported by Stater. EBIT margin guidance was maintained at 21%-23% for FY20E, we expect EBIT margins to be at lower end for FY20E. Attrition remained at elevated levels at 23.4% (300bps) which could imply certain execution risks in near-to medium terms. 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 increased our EPS estimates by 4% for FY20E to factor higher contribution from Stater deal. We maintain our Accumulate rating & arrive at an unchanged target price of Rs. 782 valued at 18.5X FY21E earnings. INFY is trading at 19.7x/17.3X FY20E/21E earnings. Attrition control & margin improvement will help in further re-rating.

- **Revenue beat, tad better margin performance:** Infosys USD revenue grew by 2.3% to USD 3161mn QoQ slightly (+20bps) better than our estimates of USD3124mn (var:0.2%). EBIT margin eroded by 93bps QoQ,321bpsYoY to 20.5% vs our estimates of 20.1%. Headwinds from INR depreciation (-40bps), wage hike (-60bps), impact of H-1B visa policy (-80bps), Stater acquisition (-20bps) was partially offset by tailwind from higher utilisation (+70bps), cost realisation (+20bps) and adoption of new accounting policy (+10bps).

- **Broad based growth in verticals:** Among verticals, Financial Services delivered double digit growth, at 11.3% cc YoY, partly aided by the Stater deal. Retail vertical, which had delivered robust growth for two consecutive quarters, moderated slightly to grow 6.9% cc YoY. Energy, utilities and resources continued its robust trajectory growing at 17.7% cc YoY. Communications vertical continued to be aided by the large deal ramp up, growing strongly at 22.6% cc YoY. Manufacturing vertical grew 12.8% YoY CC despite cautious commentary. While growth in Hi-Tech was steady at 14.6% cc YoY, Life sciences was soft at 4.3% cc YoY. Among geographies, North America and Europe were both strong, growing 13.5%/11.4% cc YoY respectively with RoW also healthy at 11% cc YoY.

- **Deal wins continues to be strong, helped in raising guidance:** Infosys announced large deal wins worth a robust TCV of USD 2.7bn, its highest ever with ~55% coming from new wins. Infy won 13 large deals in qtr 3 each in BFSI and Retail, 2 each in communication, energy and manufacturing and 1 in life sciences vertical. Among geographies, 8 in US, 4 in Europe and 1 from RoW.

Exhibit 1: Q1FY20 Result Overview (Rs mn)

Y/e March	1Q20	4Q19	1Q19	QoQ	YoY	Variance(Ple VS ACTUAL)
Net sales (US$ m)	3,131	3,060	2,831	2.3%	10.6%	0.2%
Net sales	218,030	215,390	191,280	1.2%	14.0%	0.3%
EBITDA	51,520	51,490	49,730	0.1%	3.6%	7.8%
EBITDA Margin	*23.6%*	*23.9%*	*26.0%*	*-28 bps*	*-237 bps*	*163 bps*
EBIT	44,710	46,180	45,370	-3.2%	-1.5%	3.0%
EBIT Margin	*20.5%*	*21.4%*	*23.7%*	*-93 bps*	*-321 bps*	*53 bps*
Adj. Net Profit	37,980	40,740	36,120	-6.8%	5.1%	10.8%
Adjusted EPS	8.8	8.8	8.3	0.3%	6.2%	12.0%

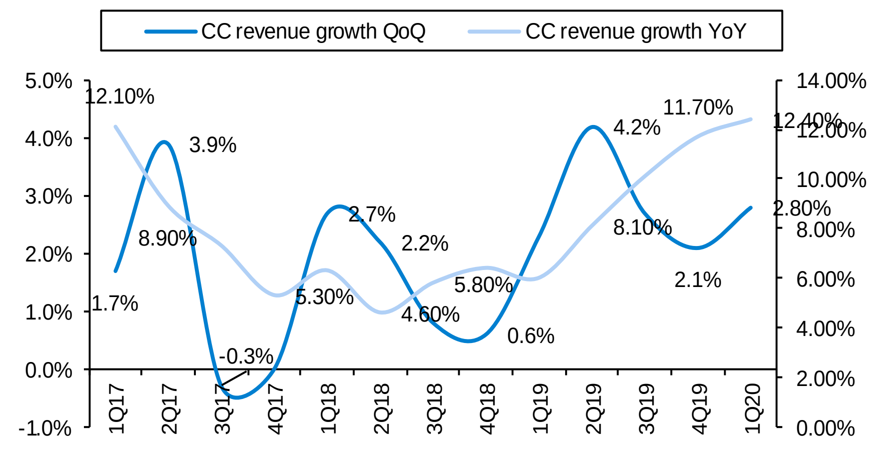
Source: Company, PL

Strong deal wins led to revision of guidance

- Infosys has increased its revenue guidance from 7.5%-9.5%CC to 8.5%-10.0% CC in FY20E.
- Guidance of 8.5-10% YoY growth in CC terms (~2.3% QoQ CQGR over Q2-Q4FY20) implies moderation in revenue growth despite strong deal closure in FY19 (USD 6.3 bn, +105% YoY).
- Infosys announced large deal wins worth a robust TCV of USD 2.7bn, its highest ever with ~55% coming from new wins.
- With most verticals growing in double digits in 1Q, INFO raised its FY20 revenue growth guidance to 8.5%-10% cc YoY, indicating strong client traction and an expanded pipeline since April.

CC growth for the quarter stood at 2.8% of which 60bps contributed by stater acquisition. USD revenue growth came in at 2.3%.

Exhibit 2: Strong revenue acceleration in FY19



Source: Company, PL

•Management has raised revenue growth guidance to 8.5% -10% in CC terms for FY20. This revision is mainly led by strong performance in the quarter and on back of strong deal momentum in last few quarters which is continue in this quarter also.

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%
Q1FY20	8.5%-10% (for FY20)	

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.

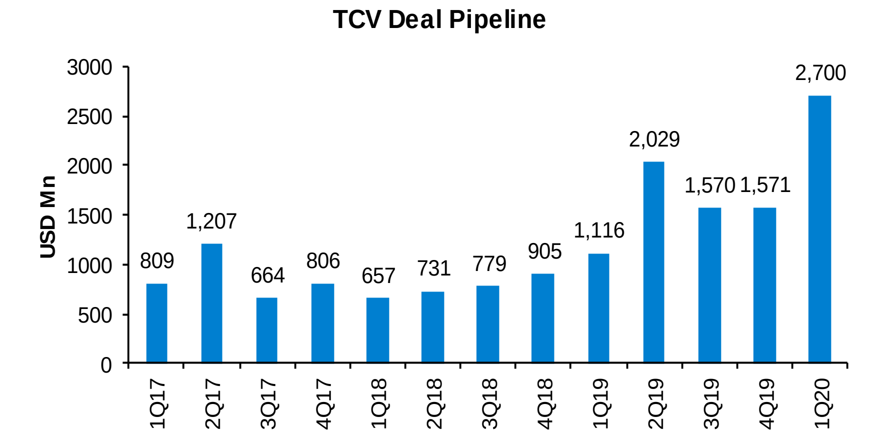
- Though management mentioned that investments in sales is done now, we also note that there will be annual wage hike & visa costs are also mostly effective in first quarters that will again lead to headwinds for margins. Inspite of localization in US, we don't expect application of H1B visas by Indian IT companies to reduce as they will require talent to address the strong demand.

- EBIT margin eroded by 93bps QoQ,321bpsYoY to 20.5% vs our estimates of 20.1%. Headwinds from INR depreciation (-40bps), wage hike (-60bps), impact of H-1B visa policy (-80bps), Stater acquisition (-20bps) was partially offset by tailwind from higher utilisation (+70bps), cost realisation (+20bps) and adoption of new accounting policy (+10bps).

  Sub-contracting cost stood at 7.5% (+10bps QoQ). Management cited that shortage of talent and skill has led to sub cons cost at new normal level. Also cited that in order to meet quick demand for the services sub-contractor are hired. Localisation efforts will help in easing cost in medium term. Infosys management mentioned that sub-contracting expense will be maintained in the range of 6.5%-7.5% in near to medium term.

Large deal TCV was highest at USD2.7Bn (vs USD1.57bn in Q4FY19). Strong deal momentum is led by investments in digital capabilities. Share of new deal win accounted to 55%.

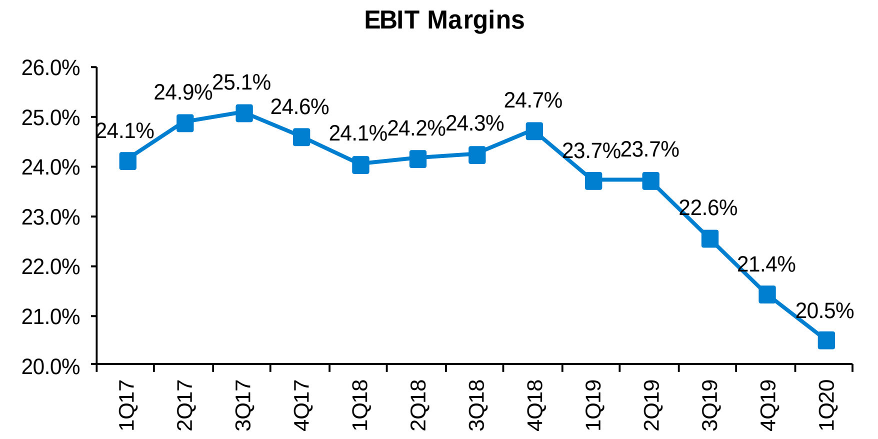
Exhibit 4: Strong TCV Deal Pipeline



Source: Company, PL

•EBIT Margin de-grew by 93bps QoQ/320bps YoY. Headwinds from INR depreciation (-40bps), wage hike (-60bps), impact of H-1B visa policy (-80bps), Stater acquisition (-20bps) was partially offset by tailwind from higher utilisation (+70bps), cost realisation (+20bps) and adoption of new accounting policy (+10bps).

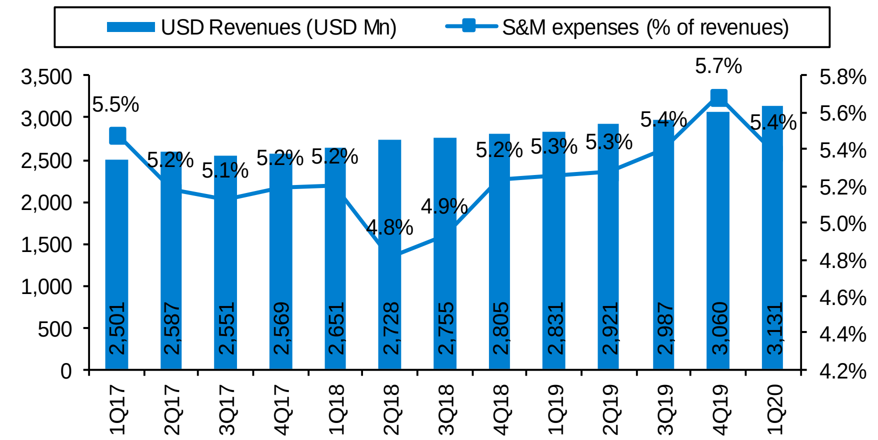
Exhibit 5: Margins continue to remain under pressure



Source: Company, PL

Continuous investment in sales has resulted into increase in SG&A expenses in last few quarters. However, in this quarter it came down and management cited that investment in sales is done now and will now focus on increasing operational efficiencies

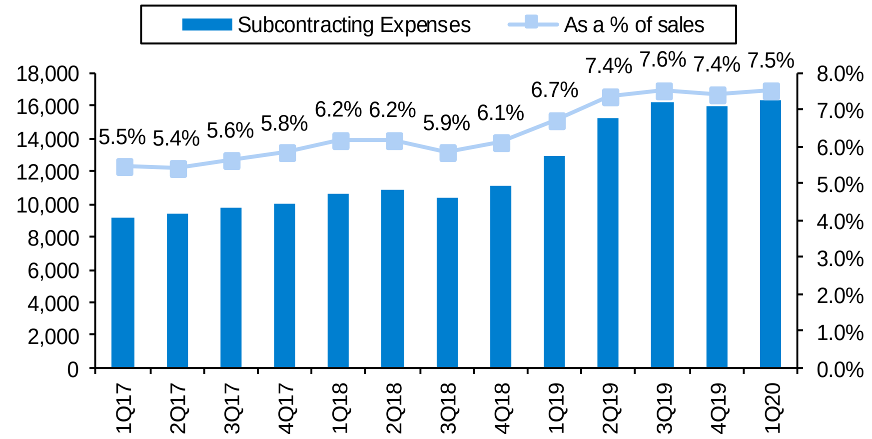
Exhibit 6: SGA Expenses decline during the quarter



Source: Company, PL

•Sub-contracting cost stood at 7.5% (+10bps QoQ). Management cited that shortage of talent and skill has led to sub cons cost at new normal level. Also cited that in order to meet quick demand for the services sub-contractor are hired. Localisation efforts will help in easing cost in medium term.

Exhibit 7: Sub-contracting cost creates pressure on margins



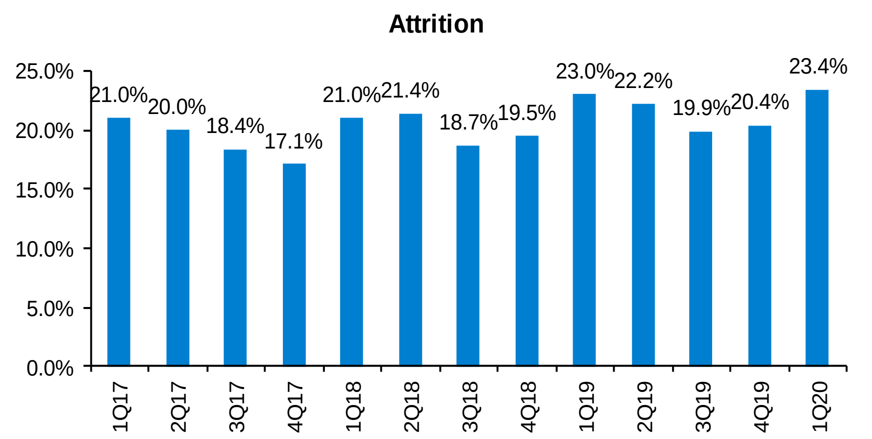
Source: Company, PL

Rise in Attrition remains a cause of concern:

- Attrition rate was up 300bps to 23.4% during the quarter. Management cited that increase mainly led by involuntary attrition, seasonality impact in Q1 and shortage of talent and skills.
- Management is taking strong measures to control the attrition. Strengthening employee engagement, increasing rewards, focus on driving opportunities for employees (value connection) and performance based compensation to reduce attrition.
- Historically, Attrition rate was around 13-15% but shortage of talent has led to increase in attrition to ~20%. In long term management will target it to again bring it down to 13-15%. However, cited that due to current scenario attrition will continue to prevail at higher levels.

Management cited that increase mainly led by involuntary attrition, seasonality impact in Q1 and shortage of talent and skills.

Exhibit 8: Attrition rate remain elevated



Source: Company, PL

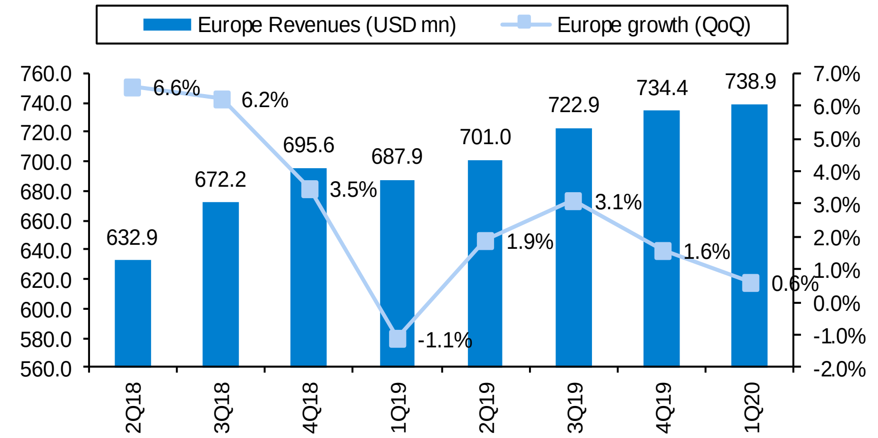
Will Europe remain strong revenue driver?

- 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 0.6% QoQ USD as compared to 1.6% QoQ USD in previous quarter.

- Growth in Europe was largely led by Stater acquisition. 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. INFY is more skewed towards manufacturing vertical in Europe.

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

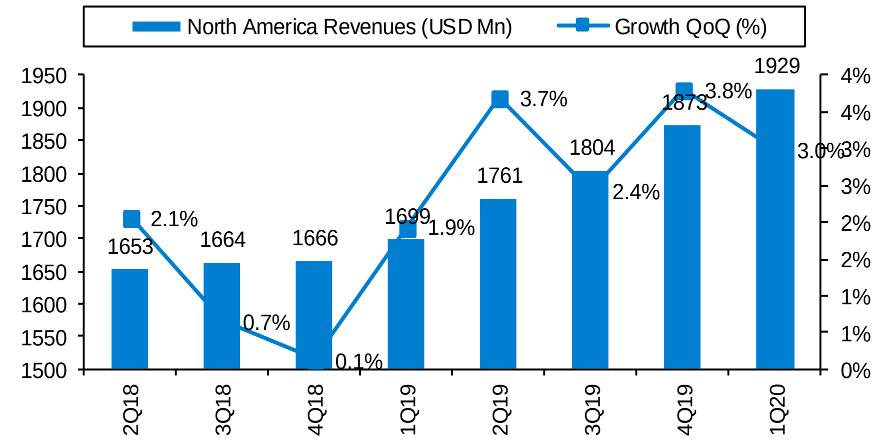
Exhibit 9: Revenues on declining trend from Europe



Source: Company, PL

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

Exhibit 10: North America remains key growth driver across geographies



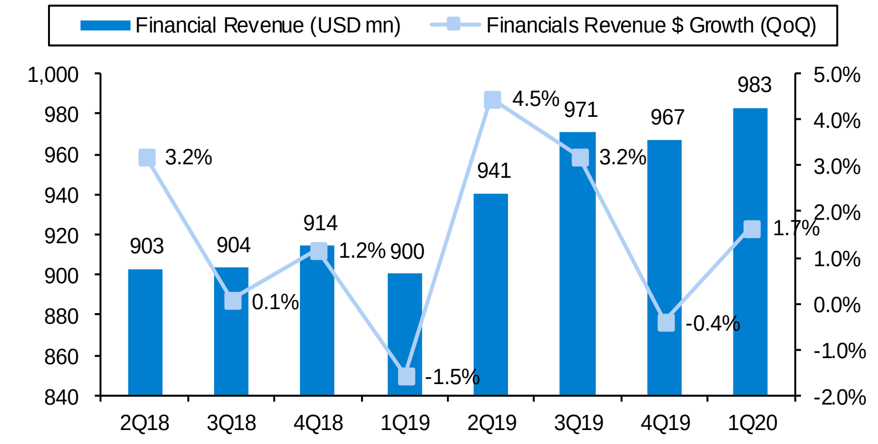
Source: Company, PL

Will BFSI back in action?

- In this quarter, Stater helped in growth of BFSI to 1.7% QoQ USD.
- Infy management mentioned that they continue to see weakness in capital market in US/Europe but sees opportunities in cards & payments retail & corporate banking segments within BFSI.
- 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.

BFSI delivered mixed bag during the quarter. Stater acquisition is aiding growth for Infosys in the vertical.

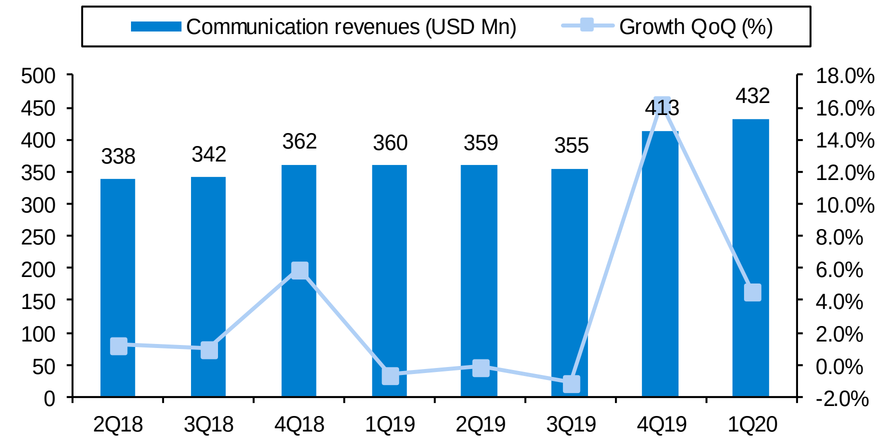
Exhibit 11: BFSI vertical showing volatility in performance



Source: Company, PL

Communication vertical remain strong in this quarter well with growth of 22.6% YoY in cc terms

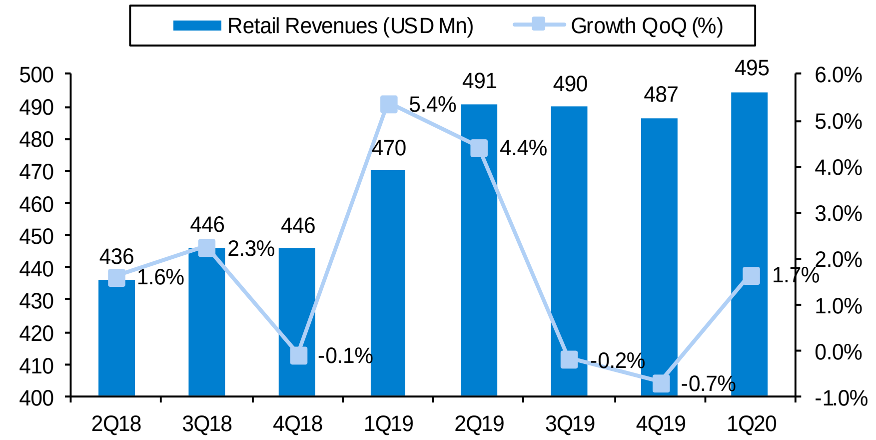
Exhibit 12: Communication vertical remain key growth driver in Q1FY20



Source: Company, PL

Retail vertical recovered after tepid performance in last two quarters with growth of 6.9% in cc terms

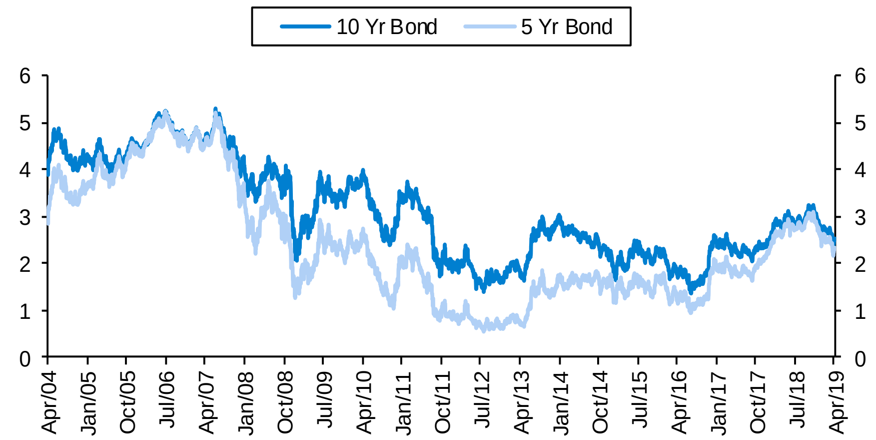
Exhibit 13: Retail vertical showed recovery



Source: Company, PL

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

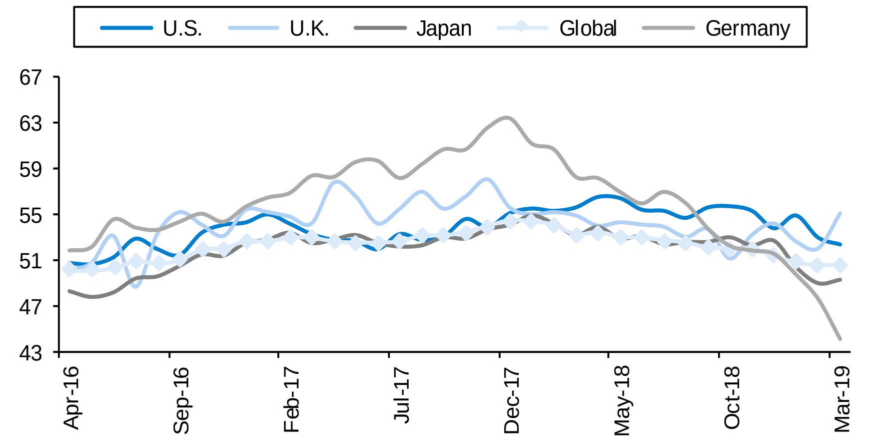
Exhibit 14: US Bond yields going down



Source: Bloomberg, PL

Falling manufacturing index of global companies showing signs of slowdown

Exhibit 15: PMI Manufacturing Index of global companies



Source: Bloomberg, PL

Valuation

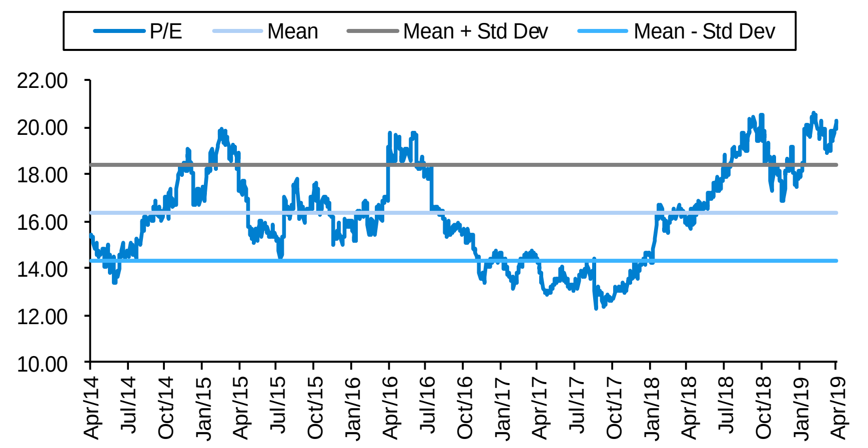
We have increased our EPS estimates by ~4.7% for FY20E to factor growth from Stater acquisition. We maintain our Accumulate rating & arrive at an unchanged target price of Rs. 782 valued at 18.5X FY21E earnings. INFY is trading at 19.7x/17.3X FY20E/21E earnings. Attrition control & margin improvement will help in further re-rating.

Exhibit 16: Changes in Estimates

Year to 31-Mar	FY20E	FY21E
USD revenues (US$ m)		
- New	12,918	14,077
- Old	12,839	13,963
Change (%)	*0.6%*	*0.8%*
EBIT Margin		
- New	21.5%	22.7%
- Old	21.5%	22.7%
Change (%)	*6 bps*	*1 bps*
Recurring EPS - Fully diluted (Rs)		
- New	37.1	42.1
- Old	35.4	42.3
Change (%)	*4.7%*	*-0.4%*

Source: PL

Exhibit 17: One year forward PE



Source: Company, PL

Exhibit 18: 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 Outlook:

- Growth was broad based across all verticals, geographies and service offerings.
- Benefit from building deeper capabilities across digital portfolio especially in areas of experience data analytics, cloud, SaaS, IoT, cybersecurity, AI and machine learning is driving growth for the company.
- Management cited that company has completed all investments and will now focus on operational efficiency and cost disciplined structure to improve margins and growth of the company. Future investments if any will come from P&L in due course of business.
- Management is seeing demand across verticals and geographies.

Guidance:

- Management has raised revenue growth guidance to 8.5% -10% in CC terms for FY20. This revision is mainly led by strong performance in the quarter and on back of strong deal momentum in last few quarters which is continue in this quarter also.
- Organic growth has also led to improvement in guidance.
- Management remained confident on achieving its margin guidance of 21-23% in FY20 despite of macro uncertainties and current headwinds.

TCV:

- Large deal TCV was highest at USD2.7Bn (vs USD1.57bn in Q4FY19). Strong deal momentum is led by investments in digital capabilities. Share of new deal win accounted to 55%.
- Management cited that clients are now looking to modernize legacy tech landscape with digital technologies.
- Deepen relationship and increase engagement with clients has led to large deal wins.
- Though TCV was strong in the quarter but guided that this deals are lumpy in nature and thus can show volatility in quarterly performance.
- New capabilities led to win in long standing projects and contracts with the company resulting into improvement in TCV pipeline and revision of guidance.
- Company won 13 large deals in quarter. 3 each in BFSI and Retail, 2 each in communication, energy utility resources and manufacturing and 1 in life sciences vertical. Among geographies, 8 in US, 4 in Europe and 1 from RoW.

Margins:

- EBIT Margin de-grew by 93bps QoQ/320bps YoY. Headwinds from INR depreciation (-40bps), wage hike (-60bps), impact of H-1B visa policy (-80bps), Stater acquisition (-20bps) was partially offset by tailwind from higher utilisation (+70bps), cost realisation (+20bps) and adoption of new accounting policy (+10bps).
- Sub-contracting cost stood at 7.5% (+10bps QoQ). Management cited that shortage of talent and skill has led to sub cons cost at new normal level. Also cited that in order to meet quick demand for the services sub-contractor are hired. Localisation efforts will help in easing cost in medium term.

Attrition:

- Attrition rate was up 300bps to 23.4% during the quarter. Management cited that increase mainly led by involuntary attrition, seasonality impact in Q1 and shortage of talent and skills.
- Management is taking strong measures to control the attrition. Strengthening employee engagement, increasing rewards, focus on driving opportunities for employees (value connection) and performance based compensation to reduce attrition.
- Historically, Attrition rate was around 13-15% but shortage of talent has led to increase in attrition to ~20%. In long term management will target it to again bring it down to 13-15%. However, cited that due to current scenario attrition will continue to prevail at higher levels.

Digital:

- Digital continue to remain key growth driver. It grew by 40% YoY in CC terms.
- Company identifies 5 broad based areas in digital; of which two big areas become large business for company. 1) Cloud- Service through strategic partnerships with client is driving growth 2) Data & analytics.
- Apart from these 2 areas company is having strength in Digital design & service, Cybersecurity and Iot.

Geographies:

US:

- Challenges from ongoing merger and acquisitions situation in some US banks and in capital market business. Slowdown in Capital markets both on buy side as well as sell side.
- Completed target of hiring 10,000 employees in this geography. Partnerships with colleges to set training centres and building sustainable model for the future on learning program on how to hire.
- Stater acquisition is strengthening mortgage facility in US market.

UK:

- Brexit impact: Business in UK is in good shape and company is seeing no big impact in the market as of macro issues. And if brexit settles down then company is expecting good growth acceleration in the market going ahead.
- Stater acquisition is strengthening mortgage facility in European market.

Verticals:

BFSI:

- BFSI delivered mixed bag during the quarter.
- Management cited some weakness in capital markets on both buy side as well as sell side. Seeing slowdown in North America and European geography. Also cited some slowness in Life & Insurance business.
- Challenges from ongoing merger and acquisitions situation in some US banks and in capital market business.
- However, this slowness is offset by the growth opportunities in consumer, corporate & commercial banking with digital transformations, payments and wealth management.
- Stater acquisition is aiding growth for Infosys in the vertical.

Retail & CPG:

- Growth in retail is driven by large deal wins, opening new offerings and differentiation on digital deals. Deceleration in spending towards digital IT simplification and modernization to improve customer experience. CPG industry seeing more consolidation and clients are asking for integrated BPO and technology services.

Communication:

- Growth in communication segment remained strong due to ramp ups of deal wins in earlier quarter.
- Continue to win large deals within this segment, with the 5G race picking up the wireless and telcos are under pressure to invest and maintain leadership. In 5G underlying technologies such as cognitive radio, small cells and smart antennas are becoming prominent.

Utility: Maintain the strong growth momentum in the vertical and expect broad-based growth to continue in FY20 on the back of continued momentum in top accounts and new account openings.

Manufacturing: Seeing some impact from global trade wars, especially in Europe with cost cutting initiatives by clients.

Healthcare: Won some important deals in the sector but spending cutbacks by some clients can impact growth. Life Sciences segment also impacted due to cost cutting initiatives by clients, due to pricing pressure weighing on the growth of the vertical.

Capital Allocation Policy:

- Company has revised current capital allocation policy. Company now expects and guided to return ~85% of the FCF cumulatively over a 5-year period through combination of dividend, share buyback and special dividend. We note that company currently has a policy to pay 70% of the FCF annually by way of dividend or buyback.
- Company cited that there will be no impact of tax on Buyback on company's current buyback plan. Also cited that 74% of buyback is completed and balance will be completed within next quarter.

New Acquisition Stater:

- Management cited that uncertainties related to brexit will not much impact Stater as it is primarily focussed on Dutch and the northern European market and not much in UK market.
- Cited that stater is strongest and largest mortgage servicer in Europe and management expects huge opportunity in this market and is building powerful proposition with front office in its origination facility and middle office for underwriting facility.

Other key Highlights:

- Capex stood at USD145mn in Q1FY20.
- DSO for the quarter increased by 2 days to 68 days
- Hedge Book was USD2.5bn at end of quarter.

Exhibit 19: Geography-wise revenues

(US$ m)	1Q20	4Q19	QoQ	1Q19	YoY	YoY in cc terms
North America	1,929	1,873	3.0%	1,699	13.5%	13.5%
Europe	739	734	0.6%	688	7.4%	11.4%
India	72	70	2.3%	74	-2.2%	1.2%
Rest of World	391	383	2.3%	371	5.5%	11.0%
Total	**3,131**	**3,060**	**2.3%**	**2,831**	**10.6%**	**12.4%**
as % of Total						
North America	61.6%	61.2%	40 bps	60.0%	160 bps	
Europe	23.6%	24.0%	-40 bps	24.3%	-70 bps	
India	2.3%	2.3%	0 bps	2.6%	-30 bps	
Rest of World	12.5%	12.5%	0 bps	13.1%	-60 bps	

Source: Company, PL

Exhibit 20: Vertical-wise revenues

	1Q20	4Q19	QoQ	1Q19	YoY	YoY in cc terms
Financial Services	983	967	1.7%	900	9.2%	11.3%
Manufacturing	301	306	-1.8%	272	10.6%	12.8%
Communication Services	432	413	4.6%	360	20.2%	22.6%
Retail CPG	495	487	1.7%	470	5.3%	6.9%
Life Sc & Healthcare	191	184	4.0%	187	2.2%	4.3%
Others	730	704	3.7%	643	13.5%	-1.1%
Total	**3,131**	**3,060**	**2.3%**	**2,831**	**10.6%**	**12.4%**
as % of Total						
Financial Services	31.4%	31.6%	-20 bps	31.8%	-40 bps	
Manufacturing	9.6%	10.0%	-40 bps	9.6%	0 bps	
Communication Services	13.8%	13.5%	30 bps	12.7%	110 bps	
Retail CPG	15.8%	15.9%	-10 bps	16.6%	-80 bps	
Life Sc & Healthcare	6.1%	6.0%	10 bps	6.6%	-50 bps	
Others	23.3%	23.0%	30 bps	22.7%	60 bps	

Source: Company, PL

Exhibit 21: Client Metrics

	1Q20	4Q19	QoQ	1Q19	YoY
Number of Clients					
Active	1336	1279	*4.5%*	1214	*10.0%*
Added during the period	112	101	*10.9%*	70	*60.0%*
Revenue concentration (US$ m)					
Top client	100	101	*-0.8%*	102	*-1.7%*
Top 10 clients	626	603	*3.9%*	544	*15.2%*
Top 2-10 clients	526	502	*4.8%*	442	*19.1%*
Top 25 clients	1,093	1,071	*2.0%*	1,002	*9.0%*
Top 11-25 clients	467	468	*-0.4%*	459	*1.7%*
Non Top 25	2,038	1,989	*2.5%*	1,829	*11.5%*
Total	**3,131**	**3,060**	***2.3%***	**2,831**	***10.6%***
Revenue concentration (%)					
Top client	3.2%	3.3%	*-10 bps*	3.6%	*-40 bps*
Top 10 clients	20.0%	19.7%	*30 bps*	19.2%	*80 bps*
Top 25 clients	34.9%	35.0%	*-10 bps*	35.4%	*-50 bps*
Repeat Business	99.0%	95.2%	*380 bps*	97.6%	*140 bps*
Repeat Business (in US$ m)	3,100	2,913	*6.4%*	2,763	*12.2%*
New Business (in US$ m)	31	147	*-78.7%*	68	*-53.9%*
Account Receivables (days)	68	66	*2*	67	*1*

Source: Company, PL

Exhibit 22: Onsite-Offshore Mix

	1Q20	4Q19	QoQ	1Q19	YoY
Revenue (US$ m)					
Onsite	1,616	1,580	*2.3%*	1,387	*16.5%*
Offshore	1,346	1,315	*2.3%*	1,155	*16.5%*
Total	**2,962**	**2,895**	***2.3%***	**2,542**	***16.5%***
Utilization (%)					
Include Trainees	80.3%	78.9%	*140 bps*	81.5%	*-120 bps*
Exclude Trainees	83.1%	82.3%	*80 bps*	85.7%	*-260 bps*

Source: Company, PL

Exhibit 23: Traditional Business Vs Digital Business

US $ million	1Q20	4Q19	QoQ	1Q19	YoY
Digital	1119	1035	*8.1%*	803	*39.4%*
Core	2,012	2,025	*-0.6%*	2,028	*-0.8%*
Total	**3,131**	**3,060**	***2.3%***	**2,831**	***10.6%***

Source: Company, PL

Exhibit 24: Revenue per employee falling

(In US $ K)	1Q20	4Q19	QoQ	1Q19	YoY
Revenue per Employee - Consolidated	54.1	54	*0.2%*	54.9	*-1.5%*

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	**705,220**	**826,760**	**907,988**	**999,434**
YoY gr. (%)	*3.0*	*17.2*	*9.8*	*10.1*
Employee Cost	432,690	518,570	570,373	624,762
Gross Profit	272,530	308,190	337,615	374,672
Margin (%)	*38.6*	*37.3*	*37.2*	*37.5*
SG&A Expenses	46,850	54,540	62,087	65,079
Other Expenses	-	-	-	-
EBITDA	**190,100**	**208,900**	**220,073**	**249,627**
YoY gr. (%)	*2.2*	*9.9*	*5.3*	*13.4*
Margin (%)	*27.0*	*25.3*	*24.2*	*25.0*
Depreciation and Amortization	18,620	20,110	24,601	22,990
EBIT	**171,480**	**188,790**	**195,472**	**226,637**
Margin (%)	*24.3*	*22.8*	*21.5*	*22.7*
Net Interest	-	-	-	-
Other Income	31,220	21,620	22,643	18,328
Profit Before Tax	**202,700**	**210,410**	**218,115**	**244,965**
Margin (%)	*28.7*	*25.4*	*24.0*	*24.5*
Total Tax	42,420	56,310	58,295	63,506
Effective tax rate (%)	*20.9*	*26.8*	*26.7*	*25.9*
Profit after tax	**160,280**	**154,100**	**159,821**	**181,459**
Minority interest	-	50	40	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**145,960**	**154,050**	**159,781**	**181,459**
YoY gr. (%)	*1.7*	*5.5*	*3.7*	*13.6*
Margin (%)	*20.7*	*18.6*	*17.6*	*18.2*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**145,960**	**154,050**	**159,781**	**181,459**
YoY gr. (%)	*1.7*	*5.5*	*3.7*	*13.6*
Margin (%)	*20.7*	*18.6*	*17.6*	*18.2*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	145,960	154,050	159,781	181,459
Equity Shares O/s (m)	**4,347**	**4,347**	**4,302**	**4,302**
EPS (Rs)	**33.6**	**35.4**	**37.1**	**42.2**

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**	**362,204**	**383,980**
Tangibles	222,050	251,500	307,314	329,090
Intangibles	24,580	42,310	54,890	54,890
Acc: Dep / Amortization	**100,630**	**117,940**	**142,541**	**165,531**
Tangibles	100,630	117,940	142,541	165,531
Intangibles	-	-	-	-
Net fixed assets	**146,000**	**175,870**	**219,663**	**218,449**
Tangibles	121,420	133,560	164,773	163,559
Intangibles	24,580	42,310	54,890	54,890
Capital Work In Progress	-	-	-	-
Goodwill	-	-	-	-
Non-Current Investments	-	-	-	-
Net Deferred tax assets	7,410	7,000	6,380	6,380
Other Non-Current Assets	139,900	129,010	121,510	121,510
Current Assets				
Investments	-	-	-	-
Inventories	-	-	-	-
Trade receivables	131,420	148,270	167,978	184,895
Cash & Bank Balance	262,250	261,950	133,092	136,083
Other Current Assets	63,890	64,820	63,110	63,110
Total Assets	**798,890**	**847,380**	**769,412**	**793,136**
Equity				
Equity Share Capital	10,880	21,700	21,370	21,370
Other Equity	638,350	628,360	488,299	489,867
Total Networth	**649,230**	**650,060**	**509,669**	**511,237**
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	3,200	4,220	41,780	41,780
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	6,940	16,550	3,632	3,998
Other current liabilities	134,110	169,830	206,591	228,381
Total Equity & Liabilities	**798,890**	**847,380**	**769,412**	**793,136**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	202,700	210,410	218,115	244,965
Add. Depreciation	18,620	20,110	24,601	22,990
Add. Interest	-	-	-	-
Less Financial Other Income	31,220	21,620	22,643	18,328
Add. Other	14,320	-	-	-
Op. profit before WC changes	235,640	230,520	242,716	267,955
Net Changes-WC	(98,290)	28,330	54,706	209
Direct tax	(56,740)	(56,310)	(58,295)	(63,506)
Net cash from Op. activities	**80,610**	**202,540**	**239,127**	**204,658**
Capital expenditures	(3,180)	(49,980)	(68,394)	(21,776)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	**(3,180)**	**(49,980)**	**(68,394)**	**(21,776)**
Issue of share cap. / premium	(22,260)	12,920	310	-
Debt changes	-	-	-	-
Dividend paid	(148,538)	(102,588)	(180,691)	(180,691)
Interest paid	-	-	-	-
Others	(26,732)	(62,292)	(118,810)	800
Net cash from Fin. activities	**(197,530)**	**(151,960)**	**(299,191)**	**(179,891)**
Net change in cash	**(120,100)**	**600**	**(128,458)**	**2,991**
Free Cash Flow	77,430	152,560	170,734	182,882

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	33.6	35.4	37.1	42.2
CEPS	37.9	40.1	42.9	47.5
BVPS	149.4	149.6	118.5	118.8
FCF	17.8	35.1	39.7	42.5
DPS	34.2	23.6	42.0	42.0
Return Ratio(%)				
RoCE	25.6	29.1	33.7	44.4
ROIC	23.3	28.9	33.9	45.4
RoE	21.8	23.7	27.6	35.5
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.4)	(0.3)	(0.3)
Debtor (Days)	68	65	68	68
Valuation(x)				
PER	21.6	20.5	19.6	17.2
P/B	4.9	4.9	6.1	6.1
P/CEPS	19.2	18.1	17.0	15.3
EV/EBITDA	15.2	13.9	13.6	12.0
EV/Sales	4.1	3.5	3.3	3.0
Dividend Yield (%)	4.7	3.2	5.8	5.8

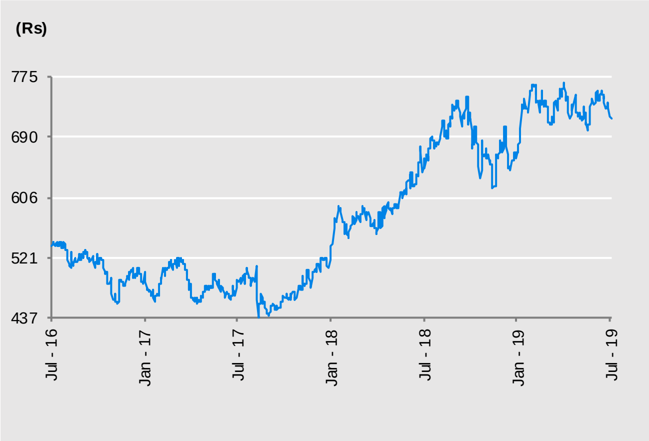
Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Net Revenue	**206,090**	**214,000**	**215,390**	**218,030**
YoY gr. (%)	*17.3*	*20.3*	*19.1*	*14.0*
Raw Material Expenses	128,170	134,360	137,520	140,980
Gross Profit	77,920	79,640	77,870	77,050
Margin (%)	*37.8*	*37.2*	*36.2*	*35.3*
EBITDA	**53,580**	**54,100**	**51,490**	**51,520**
YoY gr. (%)	*14.0*	*12.3*	*4.4*	*3.6*
Margin (%)	*26.0*	*25.3*	*23.9*	*23.6*
Depreciation / Depletion	4,640	5,800	5,310	6,810
EBIT	**48,940**	**48,300**	**46,180**	**44,710**
Margin (%)	*23.7*	*22.6*	*21.4*	*20.5*
Net Interest	-	-	-	-
Other Income	7,390	3,020	6,650	6,960
Profit before Tax	**56,330**	**51,320**	**52,830**	**51,670**
Margin (%)	*27.3*	*24.0*	*24.5*	*23.7*
Total Tax	15,230	15,220	12,050	13,650
Effective tax rate (%)	*27.0*	*29.7*	*22.8*	*26.4*
Profit after Tax	**41,100**	**36,100**	**40,780**	**38,020**
Minority interest	-	10	40	40
Share Profit from Associates	-	-	-	-
Adjusted PAT	**41,100**	**36,090**	**40,740**	**37,980**
YoY gr. (%)	*10.3*	*(2.4)*	*10.4*	*5.1*
Margin (%)	*19.9*	*16.9*	*18.9*	*17.4*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**41,100**	**36,090**	**40,740**	**37,980**
YoY gr. (%)	*10.3*	*(2.4)*	*10.4*	*5.1*
Margin (%)	*19.9*	*16.9*	*18.9*	*17.4*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**41,100**	**36,090**	**40,740**	**37,980**
Avg. Shares O/s (m)	4,352	4,353	4,636	4,308
EPS (Rs)	**9.4**	**8.3**	**8.8**	**8.8**

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-Jul-19	Accumulate	782	734
2	10-Jun-19	Accumulate	782	739
3	14-Apr-19	Accumulate	782	748
4	5-Apr-19	Accumulate	808	759
5	29-Mar-19	Accumulate	804	738
6	14-Jan-19	BUY	810	684
7	7-Jan-19	BUY	790	672
8	16-Oct-18	BUY	790	695
9	5-Oct-18	BUY	790	707

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Cyient	Accumulate	621	539
2	HCL Technologies	BUY	1,186	1,041
3	Hexaware Technologies	Hold	339	373
4	Infosys	Accumulate	782	734
5	L&T Technology Services	Accumulate	1,835	1,698
6	Larsen & Toubro Infotech	BUY	1,947	1,656
7	Mindtree	Reduce	817	899
8	Mphasis	Accumulate	1,111	994
9	NIIT Technologies	BUY	1,539	1,338
10	Persistent Systems	Hold	621	621
11	Redington (India)	BUY	114	107
12	Sonata Software	Accumulate	400	352
13	Tata Consultancy Services	BUY	2,291	2,133
14	TeamLease Services	Hold	3,203	3,079
15	Tech Mahindra	Hold	690	701
16	Wipro	Reduce	242	284
17	Zensar Technologies	Accumulate	260	257

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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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