

Sector: IT & ITES

Event update

	Change
Reco: Buy	↔
CMP: Rs. 651	
Price Target: Rs. 780	↓
↑ Upgrade ↔ No change ↓ Downgrade	

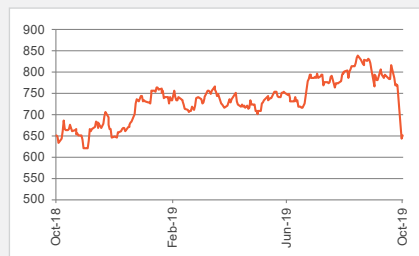
Company details

Market cap:	Rs. 279,500 cr
52-week high/low:	Rs. 847 / 600
NSE volume: (No of shares)	92.1 lakh
BSE code:	500209
NSE code:	INFY
Sharekhan code:	INFY
Free float: (No of shares)	369.8 cr

Shareholding (%)

Promoters	13.2
FII	51.7
DII	23.7
Others	11.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-20.1	-18.0	-9.5	-2.4
Relative to Sensex	-22.0	-20.1	-11.0	-15.6

Sharekhan Research, Bloomberg

A group of anonymous employees has allegedly complained to the Infosys Board and the US Securities and Exchange Commission (SEC) that both the CEO (Salil Parekh) and CFO (Nilanjan Roy) have been indulging in unethical practices to boost short-term revenue and profits. Whistleblowers sent the letter to the board on September 20, 2019 and to the US Labor Department's Office of the Whistleblower Protection Program with emails and voice recordings to substantiate the allegations on October 3, 2019. According to the letter, the major concerns are 1) company not fully recognising costs such as visa costs in Q1, 2) not recognising reversals of \$50 million of upfront payment in FDR contracts, 3) recent large deals have negligible margins; revenue recognition for large deals aren't in line with accounting standards, appropriate review & approval processes have been bypassed and the group was led to make wrong assumptions to show margins, 4) taking high risk to report higher other income, and 5) incomplete disclosures in annual reports. The CFO is alleged to have prevented these employees from showing large deal issues in board presentations. Infosys has placed the complaint before the Audit Committee and is dealing with it in accordance with its whistleblower policy.

Another whistleblower complaint; potential to impact performance:

Infosys had earlier faced a similar controversy in 2017 when whistleblowers complained against the then CEO Mr. Vishal Sikka on the Panaya acquisition's valuation and flagged concerns over higher severance pay to former CFO Rajiv Bansal. While these allegations were not proven, it affected performance and also resulted in exits of Sikka and some other senior management personnel. As the recent allegations have come from the employees itself, they have created a lot of uncertainty among investors. Further, both CEO and CFO have been recused from this matter to ensure the probe's independence. We believe that investigations into these allegations would distract the top management, which could impact the company's performance.

Our Call

Valuation – Whistleblower allegation an overhang: The stock corrected more than 15% on October 23, after the allegations broke out. Note that in earlier whistleblower allegations in 2017 the stock's multiple was also de-rated from 20x to 13x. Hence, we believe that the recent issue is likely to loom over the stock in the near term as it would divert management attention and affect performance. Also, any possible senior-level exits owing to the issue would drag down the stock and restrict any re-rating of multiples until clarity emerges. Given its relative outperformance among large peers, we maintain our Buy rating on the stock with a revised price target (PT) of Rs. 780.

Key Risks

Rupee appreciation and/or adverse cross-currency movements, slow deal closures and/or constraint in local talent supply in the US along with a stringent visa regime would affect earnings.

Valuation	Rs cr				
Particulars	FY17	FY18	FY19	FY20E	FY21E
Revenue	68,484.0	70,522.0	82,675.0	90,854.4	1,00,637.3
OPM (%)	27.2	27.0	25.3	24.8	25.0
Adjusted PAT	14,357.0	14,597.0	15,862.0	16,438.5	18,295.9
% YoY growth	6.4	1.7	8.7	3.6	11.3
Adjusted EPS (Rs.)	31.8	32.4	35.4	38.5	43.0
P/E (x)	20.4	20.1	18.4	16.9	15.1
P/B (x)	2.2	2.3	2.3	2.3	2.3
EV/EBITDA (x)	13.2	13.2	12.0	11.3	10.1
RoNW (%)	22.0	23.9	23.7	25.5	28.5
RoCE (%)	30.5	30.2	32.2	34.4	38.2

Source: Company; Sharekhan estimates

About company

Founded in 1981, Infosys is the second largest (\$11,799 million in FY2019) IT services company in India in terms of export revenue with 2.25 lakh number of headcounts. BFSI accounts for the largest chunk of revenue (~32.5% of total revenue), followed by retail, energy and utilities and manufacturing. Region wise, North America and Europe remain the mainstays. Digital revenue continued to show a strong growth momentum in the past few quarters and now contributes 33.8% to total revenue.

Investment theme

Infosys has accelerated deal wins momentum through engagement with deal advisors, consulting firms and private equity players. Effectively, the strong large deal trajectory provides better revenue growth visibility. Further, revitalisation of sales and investment in digital competencies have certainly helped the company to drive its digital business. Sharp focus on execution and augmentation of digital capabilities through investments can bring Infosys back on its high growth trajectory. Given its strong deal wins, strengthening relationships with large clients and continued digital momentum, we believe Infosys is well positioned to catch up with leaders on revenue growth in coming years. However, the recent allegations from whistleblowers can lead to a lot of potential uncertainty for Infosys and affect its performance.

Key Risks

1) Regulatory visa norms could have an impact on employee expenses; 2) any instability in leadership; additional exits at senior management level; 3) rupee appreciation and/or adverse cross-currency movements; 4) increasing attrition rate; and 5) issue in certain industry pockets owing to macro uncertainties that could affect revenue growth.

Additional Data

Key management personnel

Nandan M. Nilekani	Co-founder and Non-Executive Chairman
Salil Parekh	Chief Executive Officer
U.B. Pravin Rao	Chief Operating Officer (COO)
Nilanjan Roy	Chief Financial Officer
Ravi Kumar S	President, Deputy COO
Mohit Joshi	President, Head – BFSI & HCLS

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Deutsche Bank Trust Co Americas	17.51
2	Life Insurance Corp of India	5.98
3	BlackRock Inc	4.96
4	Gopalakrishnan Senapathy	3.22
5	Vanguard Group Inc/The	3.02
6	HDFC Asset Management Co Ltd	2.84
7	SBI Funds Management Pvt Ltd	2.46
8	Republic of Singapore	1.89
9	ICICI Prudential Asset Management	1.68
10	Murthy Rohan	1.43

Source: Bloomberg

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.