January 12, 2020

Q3FY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	BUY		BUY	
Target Price	820		834	
Sales (Rs. m)	998,481	1,084,724	1,003,902	1,090,593
% Chng.	*(0.5)*	*(0.5)*		
EBITDA (Rs. m)	247,610	271,005	248,954	272,471
% Chng.	*(0.5)*	*(0.5)*		
EPS (Rs.)	43.6	47.7	44.3	48.5
% Chng.	*(1.7)*	*(1.6)*		

Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. bn)	827	908	998	1,085
EBITDA (Rs. bn)	209	224	248	271
Margin (%)	*25.3*	*24.7*	*24.8*	*25.0*
PAT (Rs. bn)	154	166	185	202
EPS (Rs.)	35.4	39.1	43.6	47.7
Gr. (%)	*5.5*	*10.2*	*11.5*	*9.4*
DPS (Rs.)	23.6	33.5	42.0	42.0
Yield (%)	*3.2*	*4.5*	*5.7*	*5.7*
RoE (%)	*23.7*	*27.6*	*33.1*	*35.3*
RoCE (%)	*29.1*	*32.7*	*40.2*	*43.2*
EV/Sales (x)	3.6	3.3	2.9	2.7
EV/EBITDA (x)	14.1	13.3	11.9	10.8
PE (x)	20.8	18.9	16.9	15.5
P/BV (x)	4.9	5.7	5.6	5.4

Key Data	INFY.BO | INFO IN
52-W High / Low	Rs.847 / Rs.615
Sensex / Nifty	41,600 / 12,257
Market Cap	Rs.3,143bn/ $ 44,311m
Shares Outstanding	4,259m
3M Avg. Daily Value	Rs.17519.16m

Shareholding Pattern (%)

Promoter's	13.59
Foreign	31.76
Domestic Institution	23.99
Public & Others	30.66
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	3.3	2.9	9.2
Relative	(0.1)	(4.6)	(5.2)

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Infosys (INFO IN)

Rating: BUY | CMP: Rs738 | TP: Rs820

All focus on execution now...

A clean chit by the independent agency has rest the case of the whistleblower. Infosys reported a narrow miss on revenues up 1% QoQ CC (Ple:1.2% CC/Cons: 1.3% CC) with margin expansion of 20bps to 21.9% (Ple:22.6%, Cons: 22.1%). Deal wins were at USD1.8bn & growth guidance revised for FY20 at 10%-10.5% CC (from 9-10% CC).

Steady deal wins of USD1.8bn (renewal being 68%) indicates flattish new deal wins for 9MFY20 YoY excluding Stater. We continue to believe headwinds in retail/BFSI & flattish new deal wins would restrict revenue growth to high single digit. However as compared to TCS, Infy will deliver superior organic growth in FY20E (Infy: 7.8%, TCS:6.9%). Infosys deal pipeline with wallet share gains provides industry leading revenue growth visibility in FY21E. We believe deals like Verizon and Stater as pivot for double-digit revenue growth in FY21/22. With steady revenue momentum, we expect Infosys margin improvement to be aided by onsite utilization, improving onsite-offshore mix, rationalizing sub con cost, automation & pyramid optimization. We expect margin to stay in steady narrow range of ~22% in FY21E/22E.

Infosys stock price is still down 10% since the whistleblower allegations took place. Whistleblower allegation was the key overhang on the valuations. Infosys is currently trading at 17X/15.5X FY21E/FY22E multiple which is ~28% discount to TCS multiples'. With the clean chit, strong deal pipeline & margin improvement levers we expect the discount to narrow to 20%. With the modest miss on revenues in Q3 & steady headwinds of BFSI/Retail ahead, we have marginally tuned our estimates & continue to value Infy at 18X multiple at earnings of Rs. 45.5 (Sep-20) to arrive at a changed target price of Rs.820. INFY remains our top pick in tier-1 IT companies.

- **Narrow miss on revenue & margin performance:** Infosys USD revenue grew by 1% to USD 3243mn QoQ in narrow miss to our estimates. Infosys reported revenue growth of 1% CC QoQ (Ple:1.2%, Cons:1.3%). EBIT margin expansion was slight disappointment at 22bps to 21.9% (Ple: 22.6%, 22.8%) with gross margin flattish QoQ to 33.4%. G&A expenses were down by 20bps to 6.3% & S&M expenses were up by 10bps to 5.2%. Sub-contracting expenses were at 7.5% up 20bps QoQ. Lower utilization and adverse changes in revenue productivity were a drag of 40bps QoQ. Utilization excluding trainees declined by 50bps QoQ to 84.4%. Margin break up (+10 bps INR depreciation, +50 bps offshoring & control on non-cost employee costs, -40bps lower utilization).

- **Steady Deal wins, new deal wins improved:** Infy reported deal win of US$1.8bn (renewal being 68%) & 32% of intake of net new vs last quarter 10%. Deal intake was broad based with 7 deals being from the Financial Services vertical, 2 each from communications and manufacturing and 1 each from E&U, Retail and Other verticals. From a geographic standpoint, North America contributed 8 deals followed by Europe with 5 and RoW with one deal. Pipeline continues to be healthy with the company having seen no perceptible change in decision making velocity yet as well. We expect Mfg and Comm. verticals to drive near-term growth supported by large deals (Telenet, Siemens, Volvo).

- **Growth narrowed for financial services & retail:** BFSI revenues were weak & flattish QoQ (-0.2%) USD terms, Retail revenues were weak by -1.3% QoQ USD terms. Growth was led by manufacturing & Life Science 3% QoQ & 5.8% QoQ USD terms respectively. Furloughs in the BFSI vertical were higher in Europe and RoW though banking in North America witnessed growth in the quarter. Management mentioned softness to continue in BFSI in Q4FY20E also. We believe softness to continue in retail vertical also as the consumer spending sentiment is still weak in US geography.

- **Guidance upgrades indicates improving trajectory:** Management raised the revenue guidance to 10-10.5% YoY (from 9-10%) in cc terms. The guidance translates into 9.2-11.1% YoY growth in cc terms for Q4FY20. We see the current revenue guidance factors in some improvement in revenue trajectory compared to Q3FY20, but the exit rate for FY20 is likely to be weaker than FY19. We see deals like Verizon and Stater as support for double-digit revenue growth in FY21/22.

- **Attrition improved, Offshoring at decade high:** Infosys standalone attrition has improved by 180bps to 17.6 & voluntary attrition was even lower at 15.6% with the interventions adopted by the management around career enablement and incentivisation potentially seeing some durable resonance with the employees. Infosys offshoring was at decade high at 72.3% onsite split ratio was at 27.7%. Utilization dropped by 50bps to 84.4% which is quite normal in furlough quarter.

- **Pricing pressure evident in legacy business & top account:** Revenues from Top account were down 5% QoQ and accounted to 3% of total revenues. Revenues from Top 2-10 accounts were up 0.3% QoQ respectively and remained soft. This indicates the pricing pressure in large accounts. However, management attributed the softness in top accounts owing to furloughs. Digital business accounted for 40.6% total revenues up 6.8% QoQ and 40.8% YoY in constant currency. However, Core Business (traditional business) revenues dropped by 5% YoY which indicates pricing pressure. Debtor including unbilled hit 97 days for 3QFY20 which is up 2 days QoQ and 10 days YoY. OCF/PAT remained strong at 125% owing to lower trade payables.

Infosys Audit Committee Finds No Evidence of Financial Impropriety or Executive Misconduct

Infosys reported results of the independent investigation into whistleblower allegations. The audit committee of Infosys on the basis of findings of independent investigations by Shardul Amarchand Mangaldas & Co and PricewaterhouseCoopers, determined that the allegations are without merit. Here's what we found main key takeaways from the statements made by the Chairman and certain points implicit from the completion of the investigation.

- The allegations regarding treasury policy are unsubstantiated. Infosys strictly complied with its treasury policy, without any interference or pressure from either the CEO or CFO.

- The company has not received the alleged emails and tapes that was highlighted by the whistleblower in the letter to SEC.

- The investigation team reviewed over 210K documents, which included emails. That the investigation could not find anything indicates that the claim in whistleblower letter of possession of emails may be exaggerated or even factually incorrect.

- The allegations regarding the visa costs are unsubstantiated. The costs incurred towards visas by the Company are appropriately accounted for

- The allegations regarding large deal approvals are unsubstantiated. Large deals under the investigation team's review were approved by the necessary stakeholders. In the case of one large deal, a post-facto approval was sought. The joint ventures were approved by the Board and the Audit Committee. No evidence was found suggesting CEO's involvement in bypassing the deal approval process or issuing any instructions in this regard.

- The allegations regarding revenue recognition of three large deals/ JVs are unsubstantiated.

- The allegation regarding non recognition of reversal of upfront payment of US $50 million for a specific client contract being against accounting practice is unsubstantiated.

- Infosys notes that it has historically applied SLM method of revenue recognition for a substantial majority of its fixed price maintenance contracts. In line with accounting standards and based on specific facts and circumstances of a contract, it has in the past, applied POC cost or POC efforts method for revenue recognition in some contracts where this would rightly reflect the progress towards completion of the performance obligation in the contract. Infosys further notes that this method of accounting is in accordance with prescribed accounting standards and consistent with the company's accounting policy. Therefore, no specific disclosure was required to be made to the Audit Committee. Further, revenues from such maintenance contracts where this method has been applied are not material and hence, a separate disclosure in the financial statements was not considered necessary, and (2) Accounting of the obligation with respect to a service credit (and the related provision) was not in accordance with applicable revenue recognition principles

- The allegations that the CEO and CFO prevented employees from presenting large deals related data, or issues with the Board, or statutory auditors are unsubstantiated.

- The investigation did consume leadership time as evident from the Chairman's response to a question at the earnings call, "The sheer amount of time that our leadership team and our finance team has to spend on this is a distraction from their work, very often they have to stay in one place to do the interview, which it means they can't travel to meet customers…"

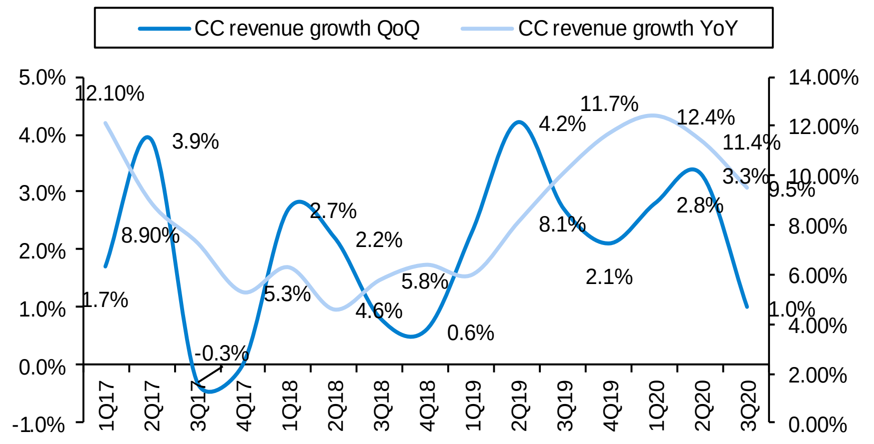
Exhibit 1: Q3FY20 Result Overview (Rs mn)

Y/e March	3Q20	2Q20	3Q19	QoQ	YoY	Variance(Ple VS ACTUAL)
Net sales (US$ m)	3,243	3,210	2,987	*1.0%*	*8.6%*	*-0.4%*
Net sales	2,30,920	2,26,290	2,14,000	*2.0%*	*7.9%*	*-0.5%*
EBITDA	58,000	56,390	54,100	*2.9%*	*7.2%*	*-2.0%*
EBITDA Margin	*25.1%*	*24.9%*	*25.3%*	*20 bps*	*-16 bps*	*-38 bps*
EBIT	50,640	49,120	48,300	*3.1%*	*4.8%*	*-3.3%*
EBIT Margin	*21.9%*	*21.7%*	*22.6%*	*22 bps*	*-64 bps*	*-64 bps*
Adj. Net Profit	44,771	40,190	36,090	*11.4%*	*24.1%*	*4.7%*
Adjusted EPS	10.5	9.4	8.3	*11.5%*	*27.0%*	*4.8%*

Source: Company, PL

CC growth for the quarter stood at 1%. USD revenue growth came in at 1%.

Exhibit 2: Revenue acceleration muted ahead



Source: Company, PL

Management has raised revenue growth guidance to 10% -10.5% in CC terms for FY20.

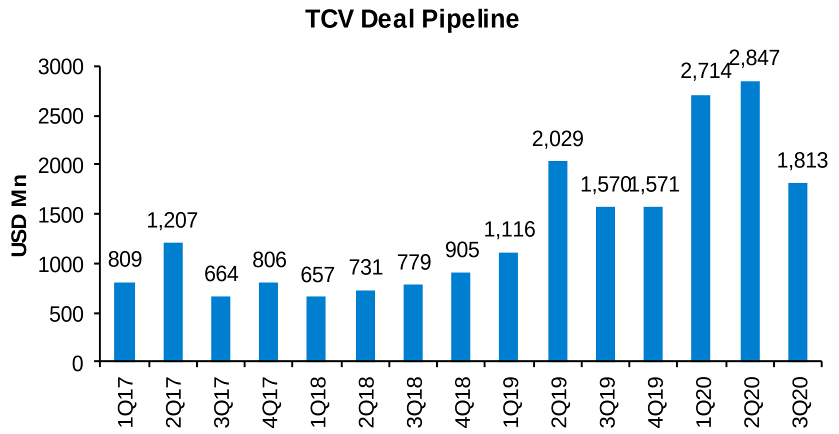
Exhibit 3: Revenue Guidance History of Infosys

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% (increased)	
Q4 2017	6.5%-8.5% (for FY18)	8.3%
Q1 2018	6.5%-8.5% (retained)	
Q2 2018	5.5%-6.5% (increased)	
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)	
Q2FY20	9%-10% (increased)	
Q3FY20	10%-10.5% (Increased)	

Source: Company, PL

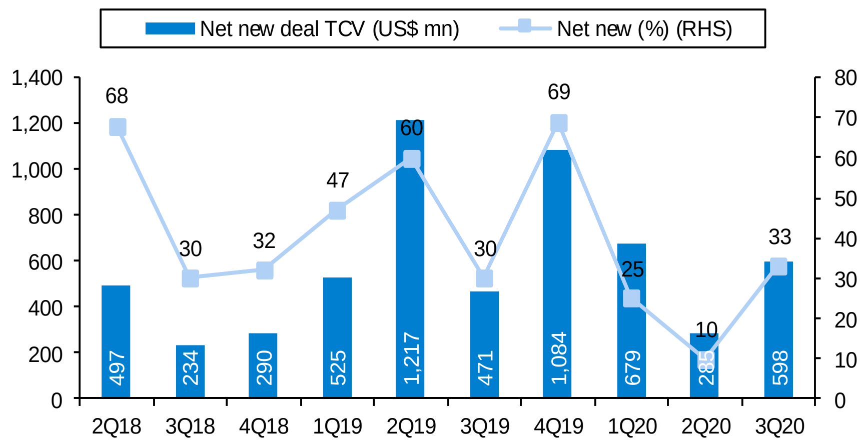
Infy reported deal win of US$1.8bn (renewal being 68%) & 32% of intake of net new vs last quarter 10%.

Exhibit 4: Strong TCV Deal Pipeline



Source: Company, PL

Exhibit 5: Net New deal wins are decelerating

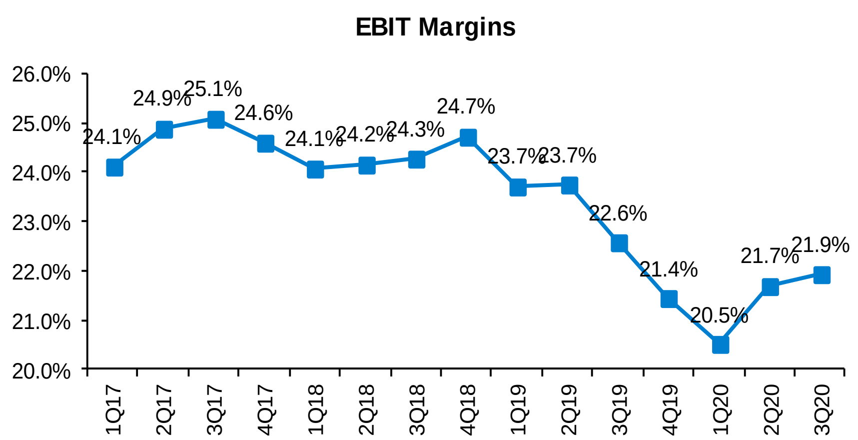


Source: Company, PL

EBIT margin expansion was slight disappointment at 22bps to 21.9% (Ple: 22.6%, 22.8%) with gross margin flattish QoQ to 33.4%. G&A expenses were down by 20bps to 6.3% & S&M expenses were up by 10bps to 5.2%. Sub-contracting expenses were at 7.5% up 20bps QoQ.

Margin break up (+10 bps INR depreciation, +50 bps offshoring & control on non cost employee costs, -40bps lower utilization).

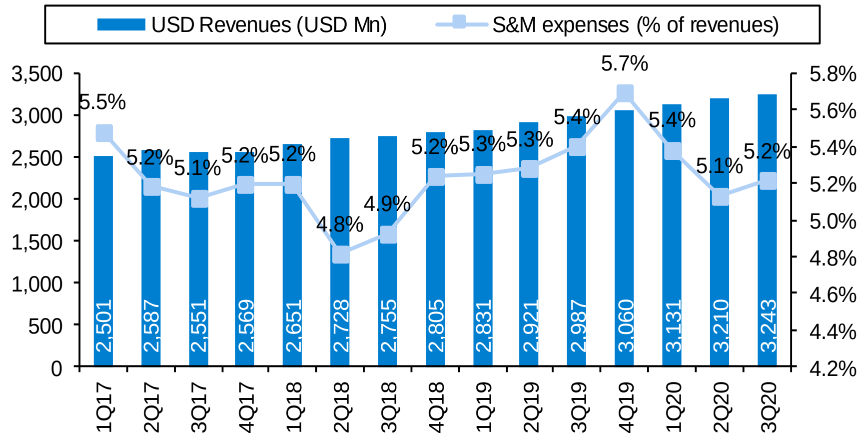
Exhibit 6: Margins improved led by cost optimization



Source: Company, PL

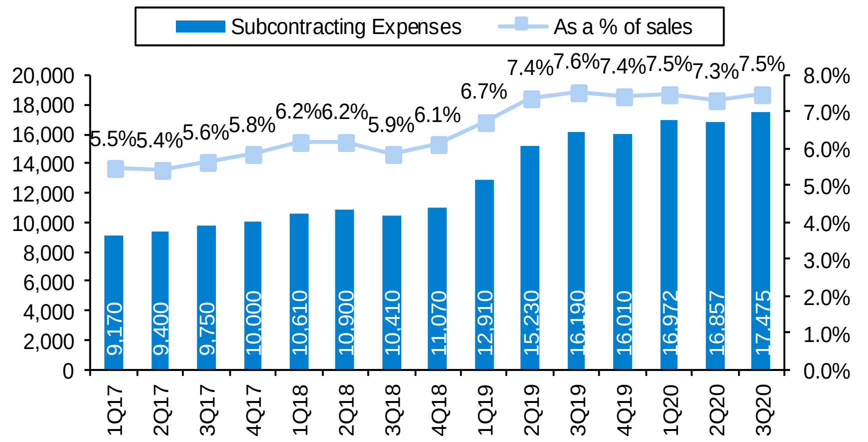
Continuous investment in sales has resulted into increase in SG&A expenses in last few quarters. However, in this quarter it came down and management cited that investment in sales is done now and will now focus on increasing operational efficiencies

Exhibit 7: SGA Expenses decline during the quarter



Source: Company, PL

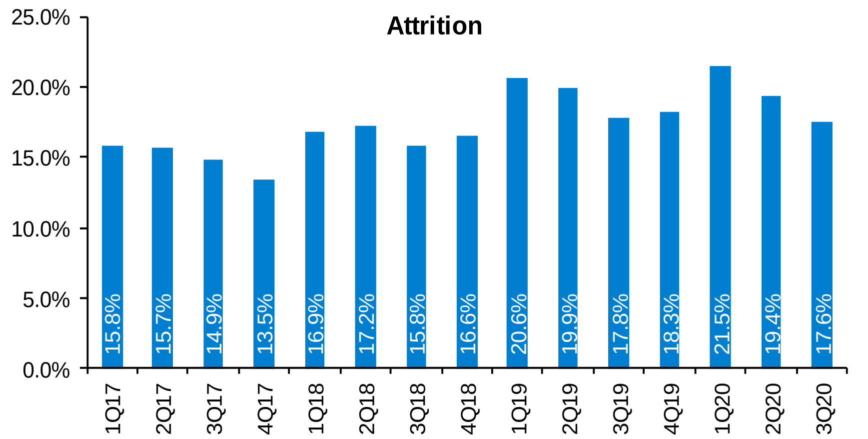
Exhibit 8: Sub-contracting went up by 20bps in Q3FY20



Source: Company, PL

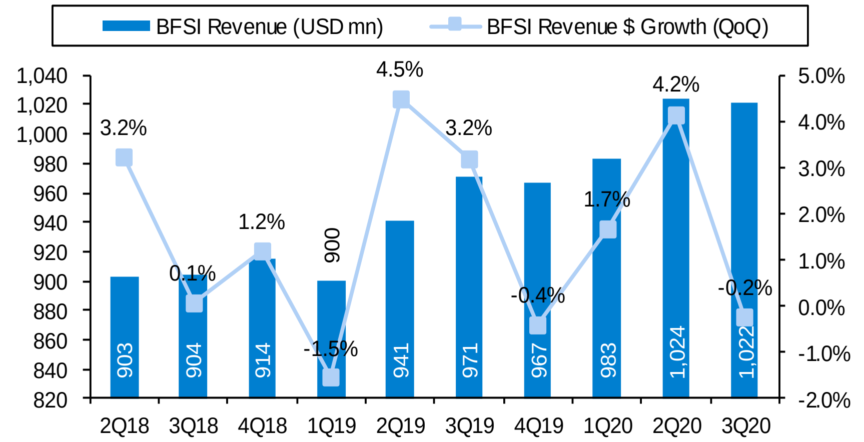
Infosys standalone attrition has improved by 180bps to 17.6% & voluntary attrition was even lower at 15.6% with the interventions adopted by the management around career enablement and incentivisation potentially seeing some durable resonance with the employees.

Exhibit 9: Reduction in attrition rate is positive



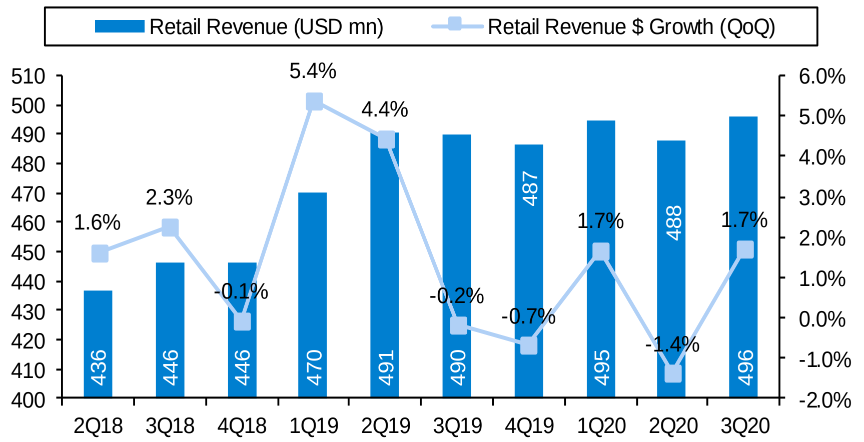
Source: Company, PL

Exhibit 10: Flattish growth in BFSI to create headwind for revenue growth



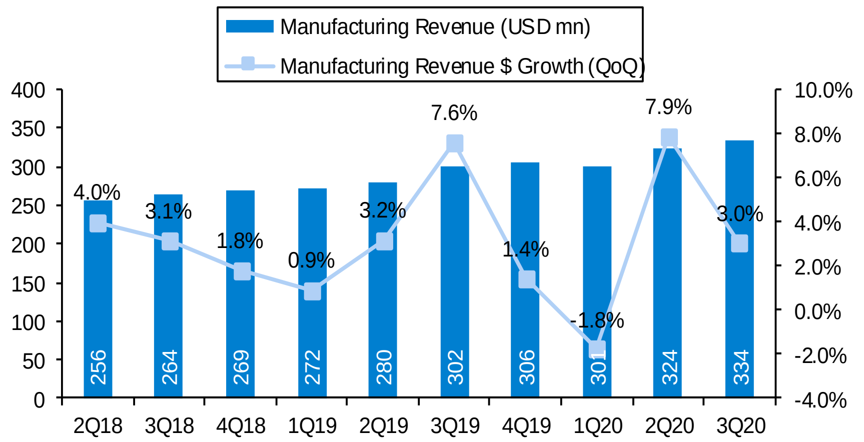
Source: Company, PL

Exhibit 11: Subdued growth in retail vertical since last 4 quarters



Source: Company, PL

Exhibit 12: Manufacturing vertical posting strong growth



Source: Company, PL

Valuation

Post soft Q3FY20 performance & headwinds in key vertical such as Retail/BFSI have led to slight cut in our revenue estimates for FY20E/21E/22E. The commentary indicates no major signs of stress, but no revenue acceleration either. Infy share price has underperformed TCS by ~15% in Q3FY20 due to the concern of whistleblower allegation.

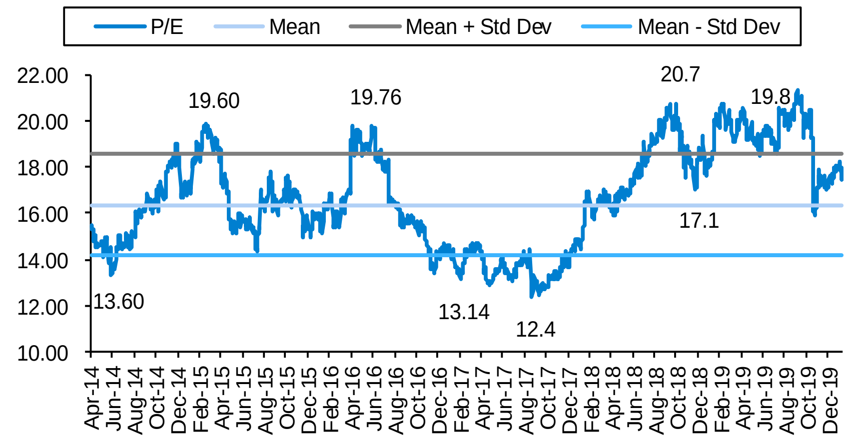
Infosys stock price is still down 10% since the whistleblower allegations took place. Whistleblower allegation was the key overhang on the valuations. Infosys is currently trading at 17X/15.5X FY21E/FY22E multiple which is ~28% discount to TCS multiple. With the clean chit, strong deal pipeline & margin improvement levers we expect the discount to narrow to 20%. With the modest miss on revenues in Q3 & steady headwinds of BFSI/Retail ahead, we have marginally tuned our estimates & value Infy at 18X multiple at earnings of Rs. 45.5 (Sep-20) to arrive at a changed target price of Rs.820. INFY remains our top pick in tier-1 IT companies.

Exhibit 13: Changes in Estimates

	FY20E	FY21E	FY22E
USD revenues (US$ m)			
- New	12,889	14,063	15,278
- Old	12,921	14,139	15,360
Change (%)	*-0.2%*	*-0.5%*	*-0.5%*
EBIT Margin			
- New	21.7%	22.4%	22.8%
- Old	22.0%	22.5%	22.8%
Change (%)	*-31 bps*	*-4 bps*	*-3 bps*
Recurring EPS - Fully diluted (Rs)			
- New	39.0	43.5	47.6
- Old	38.8	44.2	48.4
Change (%)	*0.4%*	*-1.7%*	*-1.6%*

Source: PL

Exhibit 14: One year forward PE



Source: Company, PL

Exhibit 15: 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

Exhibit 16: Geography-wise revenues

(US$ m)	3Q20	2Q20	QoQ	3Q19	YoY
North America	1,988	1,971	*0.9%*	1,804	*10.2%*
Europe	791	774	*2.3%*	723	*9.5%*
India	91	87	*4.8%*	78	*16.9%*
Rest of World	373	379	*-1.5%*	382	*-2.5%*
Total	**3,243**	**3,210**	*1.0%*	**2,987**	*8.6%*
as % of Total					
North America	61.3%	61.4%	*-10 bps*	60.4%	*90 bps*
Europe	24.4%	24.1%	*30 bps*	24.2%	*20 bps*
India	2.8%	2.7%	*10 bps*	2.6%	*20 bps*
Rest of World	11.5%	11.8%	*-30 bps*	12.8%	*-130 bps*

Source: Company, PL

Exhibit 17: Vertical-wise revenues

	3Q20	2Q20	QoQ	3Q19	YoY	YoY in cc terms
Financial Services	1,022	1,024	-0.2%	971	5.2%	6.2%
Manufacturing	334	324	3.0%	302	10.7%	11.8%
Communication Services	415	421	-1.3%	355	16.8%	20.6%
Retail CPG	496	488	1.7%	490	1.3%	2.5%
Life Sc & Healthcare	217	205	5.8%	185	17.3%	17.7%
Others	759	748	1.5%	684	10.9%	11.5%
Total	**3,243**	**3,210**	1.0%	**2,987**	8.6%	9.5%
as % of Total						
Financial Services	31.5%	31.9%	-40 bps	32.5%	-100 bps	
Manufacturing	10.3%	10.1%	20 bps	10.1%	20 bps	
Communication Services	12.8%	13.1%	-30 bps	11.9%	90 bps	
Retail CPG	15.3%	15.2%	10 bps	16.4%	-110 bps	
Life Sc & Healthcare	6.7%	6.4%	30 bps	6.2%	50 bps	
Others	23.4%	23.3%	10 bps	22.9%	50 bps	

Source: Company, PL

Exhibit 18: Client Metrics

	3Q20	2Q20	QoQ	3Q19	YoY
Number of Clients					
Active	1384	1364	1.5%	1251	10.6%
Added during the period	84	96	-12.5%	101	-16.8%
Revenue concentration (US$ m)					
Top client	97	103	-5.3%	102	-4.2%
Top 10 clients	613	616	-0.6%	574	6.9%
Top 2-10 clients	516	514	0.4%	472	9.3%
Top 25 clients	1,109	1,111	-0.1%	1,013	9.5%
Top 11-25 clients	496	494	0.4%	439	13.0%
Non Top 25	2,134	2,099	1.6%	1,974	8.1%
Total	**3,243**	**3,210**	1.0%	**2,987**	8.6%
Revenue concentration (%)					
Top client	3.0%	3.2%	-20 bps	3.4%	-40 bps
Top 10 clients	18.9%	19.2%	-30 bps	19.2%	-30 bps
Top 25 clients	34.2%	34.6%	-40 bps	33.9%	30 bps
Repeat Business	97.2%	98.1%	-90 bps	96.6%	60 bps
Repeat Business (in US$ m)	3,152	3,149	0.1%	2,885	9.2%
New Business (in US$ m)	91	61	48.9%	102	-10.6%
Account Receivables (days)	73	66	7	67	6

Source: Company, PL

Exhibit 19: Onsite-Offshore Mix

	3Q20	2Q20	QoQ	3Q19	YoY
Revenue (US$ m)					
Onsite	1,674	1,657	*1.0%*	1,540	*8.7%*
Offshore	1,394	1,380	*1.0%*	1,282	*8.7%*
Total	3,068	3,037	*1.0%*	2,823	*8.7%*
Utilization (%)					
Include Trainees	80.4%	81.6%	*-120 bps*	79.8%	*60 bps*
Exclude Trainees	84.4%	84.9%	*-50 bps*	83.8%	*60 bps*

Source: Company, PL

Exhibit 20: Traditional Vs Digital Revenues

Revenues by offering	3Q20	2Q20	QoQ	3Q19	YoY
Digital	40.6%	38.3%	*230 bps*	31.5%	*910 bps*
Core	59.4%	61.7%	*-230 bps*	68.5%	*-910 bps*
Services	94.0%	93.6%	*40 bps*	94.5%	*-50 bps*
Products & platforms	6.0%	6.4%	*-40 bps*	5.5%	*50 bps*
Revenue by offering ($mn)					
Digital	1,317	1,229	*7.1%*	941	*39.9%*
Core	1,926	1,981	*-2.7%*	2046	*-5.9%*
Services	3,048	3,005	*1.5%*	2823	*8.0%*
Products & platforms	195	205	*-5.3%*	164	*18.4%*

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	**826,760**	**908,236**	**998,481**	**1,084,724**
YoY gr. (%)	*17.2*	*9.9*	*9.9*	*8.6*
Employee Cost	518,570	577,657	625,287	678,040
Gross Profit	308,190	330,578	373,195	406,684
Margin (%)	*37.3*	*36.4*	*37.4*	*37.5*
SG&A Expenses	54,540	58,205	65,992	70,595
Other Expenses	-	-	-	-
EBITDA	**208,900**	**224,159**	**247,610**	**271,005**
YoY gr. (%)	*9.9*	*7.3*	*10.5*	*9.4*
Margin (%)	*25.3*	*24.7*	*24.8*	*25.0*
Depreciation and Amortization	20,110	27,160	23,735	23,542
EBIT	**188,790**	**196,999**	**223,875**	**247,463**
Margin (%)	*22.8*	*21.7*	*22.4*	*22.8*
Net Interest	-	-	-	-
Other Income	21,620	26,116	22,648	24,408
Profit Before Tax	**210,410**	**223,115**	**246,523**	**271,871**
Margin (%)	*25.4*	*24.6*	*24.7*	*25.1*
Total Tax	56,310	56,638	61,848	69,789
Effective tax rate (%)	*26.8*	*25.4*	*25.1*	*25.7*
Profit after tax	**154,100**	**166,476**	**184,675**	**202,082**
Minority interest	50	211	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**154,050**	**166,265**	**184,675**	**202,082**
YoY gr. (%)	*5.5*	*7.9*	*11.1*	*9.4*
Margin (%)	*18.6*	*18.3*	*18.5*	*18.6*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**154,050**	**166,265**	**184,675**	**202,082**
YoY gr. (%)	*5.5*	*7.9*	*11.1*	*9.4*
Margin (%)	*18.6*	*18.3*	*18.5*	*18.6*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	154,050	166,265	184,675	202,082
Equity Shares O/s (m)	**4,347**	**4,258**	**4,240**	**4,240**
EPS (Rs)	**35.4**	**39.1**	**43.6**	**47.7**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	**293,810**	**372,280**	**393,777**	**414,877**
Tangibles	251,500	317,410	338,907	360,007
Intangibles	42,310	54,870	54,870	54,870
Acc: Dep / Amortization	**117,940**	**145,100**	**168,834**	**192,376**
Tangibles	117,940	145,100	168,834	192,376
Intangibles	-	-	-	-
Net fixed assets	**175,870**	**227,181**	**224,942**	**222,501**
Tangibles	133,560	172,311	170,072	167,631
Intangibles	42,310	54,870	54,870	54,870
Capital Work In Progress	-	-	-	-
Goodwill	-	-	-	-
Non-Current Investments	-	-	-	-
Net Deferred tax assets	7,000	7,650	7,650	7,650
Other Non-Current Assets	129,010	113,380	113,380	113,380
Current Assets				
Investments	-	-	-	-
Inventories	-	-	-	-
Trade receivables	148,270	168,024	184,719	200,674
Cash & Bank Balance	261,950	165,224	183,957	211,837
Other Current Assets	64,820	58,940	58,940	58,940
Total Assets	**847,380**	**814,786**	**844,759**	**886,334**
Equity				
Equity Share Capital	21,700	21,210	21,210	21,210
Other Equity	628,360	532,776	539,387	563,406
Total Networth	**650,060**	**553,986**	**560,597**	**584,616**
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	4,220	45,880	45,880	45,880
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	16,550	3,633	3,994	4,339
Other current liabilities	169,830	205,018	228,018	245,230
Total Equity & Liabilities	**847,380**	**814,786**	**844,759**	**886,334**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	210,410	223,115	246,523	271,871
Add. Depreciation	20,110	27,160	23,735	23,542
Add. Interest	-	-	-	-
Less Financial Other Income	21,620	26,116	22,648	24,408
Add. Other	-	-	-	-
Op. profit before WC changes	230,520	250,274	270,258	295,413
Net Changes-WC	28,330	51,309	9,883	1,419
Direct tax	(56,310)	(56,638)	(61,848)	(69,789)
Net cash from Op. activities	**202,540**	**244,946**	**218,292**	**227,044**
Capital expenditures	(49,980)	(78,470)	(21,496)	(21,100)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	**(49,980)**	**(78,470)**	**(21,496)**	**(21,100)**
Issue of share cap. / premium	12,920	1,070	-	-
Debt changes	-	-	-	-
Dividend paid	(102,588)	(142,544)	(178,064)	(178,064)
Interest paid	-	-	-	-
Others	(62,292)	(121,526)	-	-
Net cash from Fin. activities	**(151,960)**	**(263,001)**	**(178,064)**	**(178,064)**
Net change in cash	**600**	**(96,526)**	**18,732**	**27,880**
Free Cash Flow	152,560	166,475	196,796	205,943

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Net Revenue	**215,390**	**218,030**	**226,290**	**230,920**
YoY gr. (%)	*19.1*	*14.0*	*9.8*	*7.9*
Raw Material Expenses	137,520	140,980	143,520	146,370
Gross Profit	77,870	77,050	82,770	84,550
Margin (%)	*36.2*	*35.3*	*36.6*	*36.6*
EBITDA	**51,490**	**51,520**	**56,390**	**58,000**
YoY gr. (%)	*4.4*	*3.6*	*5.2*	*7.2*
Margin (%)	*23.9*	*23.6*	*24.9*	*25.1*
Depreciation / Depletion	5,310	6,810	7,270	7,360
EBIT	**46,180**	**44,710**	**49,120**	**50,640**
Margin (%)	*21.4*	*20.5*	*21.7*	*21.9*
Net Interest	-	-	-	-
Other Income	6,650	6,960	5,840	7,850
Profit before Tax	**52,830**	**51,670**	**54,960**	**58,490**
Margin (%)	*24.5*	*23.7*	*24.3*	*25.3*
Total Tax	12,050	13,650	14,590	13,830
Effective tax rate (%)	*22.8*	*26.4*	*26.5*	*23.6*
Profit after Tax	**40,780**	**38,020**	**40,370**	**44,660**
Minority interest	40	40	180	(9)
Share Profit from Associates	-	-	-	-
Adjusted PAT	**40,740**	**37,980**	**40,190**	**44,669**
YoY gr. (%)	*10.4*	*5.1*	*(2.2)*	*23.8*
Margin (%)	*18.9*	*17.4*	*17.8*	*19.3*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**40,740**	**37,980**	**40,190**	**44,669**
YoY gr. (%)	*10.4*	*5.1*	*(2.2)*	*23.8*
Margin (%)	*18.9*	*17.4*	*17.8*	*19.3*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**40,740**	**37,980**	**40,190**	**44,669**
Avg. Shares O/s (m)	4,636	4,308	4,256	4,246
EPS (Rs)	**8.8**	**8.8**	**9.4**	**10.5**

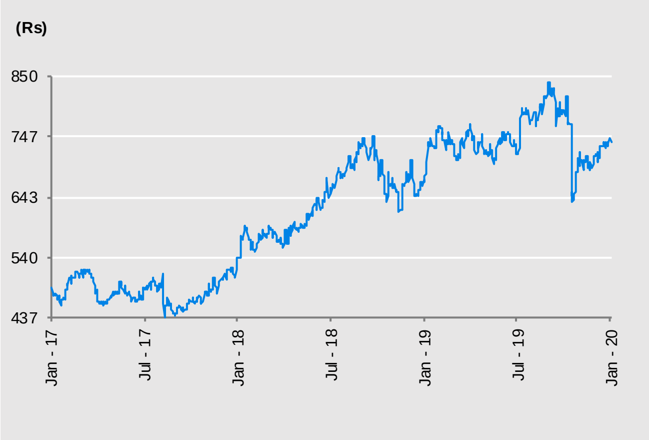
Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	35.4	39.1	43.6	47.7
CEPS	40.1	45.4	49.2	53.2
BVPS	149.6	130.1	132.2	137.9
FCF	35.1	39.1	46.4	48.6
DPS	23.6	33.5	42.0	42.0
Return Ratio(%)				
RoCE	29.1	32.7	40.2	43.2
ROIC	28.9	32.7	39.3	41.6
RoE	23.7	27.6	33.1	35.3
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.3)	(0.3)	(0.4)
Debtor (Days)	65	68	68	68
Valuation(x)				
PER	20.8	18.9	16.9	15.5
P/B	4.9	5.7	5.6	5.4
P/CEPS	18.4	16.2	15.0	13.9
EV/EBITDA	14.1	13.3	11.9	10.8
EV/Sales	3.6	3.3	2.9	2.7
Dividend Yield (%)	3.2	4.5	5.7	5.7

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Jan-20	BUY	834	746
2	7-Nov-19	BUY	819	720
3	13-Oct-19	Hold	819	815
4	3-Oct-19	Accumulate	783	786
5	14-Jul-19	Accumulate	782	727
6	4-Jul-19	Accumulate	782	734
7	10-Jun-19	Accumulate	782	739
8	14-Apr-19	Accumulate	782	748
9	5-Apr-19	Accumulate	808	759
10	29-Mar-19	Accumulate	804	738

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Cyient	Hold	450	437
2	HCL Technologies	BUY	628	585
3	Hexaware Technologies	Hold	349	336
4	Infosys	BUY	834	746
5	L&T Technology Services	Hold	1,437	1,511
6	Larsen & Toubro Infotech	Accumulate	1,825	1,813
7	Mindtree	Reduce	743	816
8	Mphasis	Accumulate	1,010	884
9	NIIT Technologies	Accumulate	1,551	1,631
10	Persistent Systems	Hold	616	695
11	Redington (India)	BUY	114	117
12	Sonata Software	Accumulate	400	313
13	Tata Consultancy Services	Hold	2,102	2,201
14	TeamLease Services	Hold	3,203	2,487
15	Tech Mahindra	Reduce	656	775
16	Wipro	Hold	246	251
17	Zensar Technologies	Accumulate	246	191

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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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