

## Pandemic related challenges impact results...

Infosys reported a poor set of Q4FY20 numbers mainly due to Covid-19 related challenges. The company lost ~US\$30 million revenues due to Covid-19 of which majority was due to supply led concerns. The revenue decline was across geographies and across vertical except manufacturing & other vertical. Margins dipped 80 bps due to dip in utilisation (impact of 90 bps), CSR (50 bps), visa cost (40 bps) offset by rupee depreciation (50 bps) and cost efficiency (50 bps). The company has won US\$1.6 billion deals (up 5.1% YoY) of which 56% are net new deals. The deals won are across geographies and verticals. Digital revenues continue to be strong (up 29.6% YoY and constitute 41.9% of overall revenues). The company expects digital technologies to pick up pace post the Covid-19 crisis.

## Digital key to growth in coming years

Infosys in line with its IT peers has withdrawn its revenue guidance for FY21E due to uncertainty led by Covid-19. The company in line with other peers expects near term revenues to be under pressure due to demand and supply related challenges. Slower client decision making, delay in projects, pricing pressure and lower discretionary spend are expected to impact near term performance. However, we expect the company to see improved revenue trajectory from H2FY21E. In terms of long term drivers, we expect acceleration in digital technologies, the company's ability to win large deals, vendor consolidation and acquisition of captives will be key to revenue growth. Hence, although we expect FY21E to be a washout year, we expect FY22E to register 8.0% YoY growth in dollar revenues.

## Revenue improvement to drive margins

Margins are expected to remain under pressure due to dip in utilisation and pricing pressure. However, to mitigate these pressures, the company is taking various measures like freeze on salary hike, promotions & hiring, pyramid rationalisation, improving onsite offshore mix and lower discretionary spend. While we expect these measures to reduce pressure on margins in near term (FY21E), the real impact of these measures will be visible in the long term (FY22E).

## Valuation & Outlook

The company has shown a visible improvement in performance since the change in management. We expect Infosys to continue to make steady improvement in financials post these near-term challenges. Digital acceleration, large deal wins vendor consolidation and cost rationalisation remains key long term drivers. Further, the company has maintained healthy cash flow generation and has a consistent dividend payout policy. We remain positive on the stock and maintain our **BUY** rating with a target price of ₹ 750/share.

### Particulars

Particular	Amount
Market Capitalization (₹C crore)	2,79,323.4
Total Debt	-
Cash and Investments (₹C crore)	26,195.0
EV (₹C crore)	2,53,128.4
52 week H/L	847 / 511
Equity capital	2,170.0
Face value	₹5

### Key Highlights

- Near term outlook remains uncertain. From medium to long term perspective, we expect broad based recovery post crisis
- Large deal wins, vendor consolidation and acceleration in digital technologies remain key long term revenue drivers
- Expect margins to witness improvement only in FY22E
- Maintain BUY with revised target price of ₹ 750

### Research Analyst

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### Key Financial Summary

₹Crore	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	70,522	82,676	90,791	91,796	99,135	4.5%
EBITDA	19,010	20,890	22,279	22,215	24,486	4.8%
EBITDA Margins (%)	27.0	25.3	24.5	24.2	24.7	
Net Profit	14,597	15,411	16,595	16,463	18,893	
EPS (₹)	32.3	35.4	38.9	38.7	44.4	6.8%
P/E	19.9	18.1	16.5	16.6	14.5	
RoNW (%)	22.5	23.7	25.2	23.1	24.1	
RoCE (%)	30.9	32.9	30.8	28.4	29.8	

Source: Company, ICICI Direct Research

**Exhibit 1: Variance Analysis**

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Revenue	23,267	23,479	21,539	8.0	23,092	0.8	Constant currency revenues declined 0.8% QoQ due to impact of Covid-19 pandemic
Employee expenses	14,752	14,838	13,752	7.3	14,636	0.8	
Gross Profit	8,515	8,640	7,787	9.3	8,456	0.7	
Gross margin (%)	36.6	36.8	36.2	44 bps	36.6	-2 bps	
Selling & marketing costs	1,172	1,244	1,226	-4.4	1,204	-2.7	
G&A expenses	1,667	1,479	1,412	18.1	1,451	14.9	
EBITDA	5,676	5,917	5,149	10.2	5,801	-2.2	
EBITDA Margin (%)	24.4	25.2	23.9	49 bps	25.1	-73 bps	
Depreciation	749	751	531	41.1	737	1.6	
EBIT	4,927	5,165	4,618	6.7	5,064	-2.7	
EBIT Margin (%)	21.2	22.0	21.4	-26 bps	21.9	-75 bps	EBIT margin declined sequentially due to dip in utilisation, higher CSR, visa cost partially offset by rupee depreciation and cost efficiency
Other income	614	822	665	-7.7	827	-25.8	
PBT	5,541	5,987	5,283	4.9	5,891	-5.9	
Tax paid	1,161	1,546	1,205	-3.7	1,383	-16.1	
Reported PAT	4,321	4,399	4,078	6.0	4,457	-3.1	Reported PAT came in below our estimate due to lower other income

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	100,732	91,796	-8.9	109,798	99,135	-9.7	We revise our revenue estimate downwards to factor in Covid-19 related impact
EBIT	23,168	19,277	-16.8	25,254	21,314	-15.6	
EBIT Margin (%)	23.0	21.0	-200 bps	23.0	21.5	-150 bps	Due to pressure on revenues in first two quarters of FY21E, we revise our margin estimates downwards
PAT	19,695	16,463	-16.4	21,553	18,893	-12.3	
EPS (₹)	45.3	38.7	-14.7	49.6	44.4	-10.5	

Source: Company, ICICI Direct Research

## Conference Call Highlights

- **Revenue outlook:** In the quarter, the company saw US\$30 million impact on revenues, which was mainly two-third supply and one-third demand led. Infosys has not provided guidance on revenue and margins for FY21 due to uncertainty led by Covid-19 pandemic. The company will provide guidance after visibility improves. In the near term, Infosys sees challenges across industries. The company expects clients to conserve cash. Hence, this may lead to delay in projects and lower discretionary spend. Infosys is seeing increased opportunity in digital technologies like cloud & virtualisation, captive sales (which the company is exploring), mergers & acquisition and vendor consolidation
- **Margin trajectory:** Margins in Q4FY20 declined 80 bps due to a dip in utilisation (90 bps impact due to Covid-19), visa cost (40 bps), CSR (50 bps) offset by rupee depreciation (50 bps) and other cost efficiency (50 bps). Due to uncertainty in revenues, Infosys has undertaken various cost rationalisation levers like salary freeze & promotion, utilisation, employee pyramid, onsite-offshore mix, lower discretionary spend, automation and lower subcontracting cost
- **TCV:** Large deal TCV was healthy with deal signings worth ~US\$1.6 billion in the quarter, up 5.1% YoY. Out of the total deal, 56% was new with cloud deals, infra services and application development. The deal won was broad based and across geographies. Seven deals were in the Americas
- **Digital story:** Digital continues to drive the growth of the company with 29.6% YoY growth and constituting 41.9% of revenues (vs. 33.8% in Q4FY19). Further, Infosys continues to see acceleration in digital technology like cyber security, cloud and automation
- **Vertical commentary:** The company expects financial services to be impacted by interest rate and loan losses in future. It also expects insurance to be impacted and in the retail segment except non groceries and expects significant pressure in coming quarters. The company anticipates deal conversion would take time. Media is also facing a slowdown due to lower advertising while energy & utility is expected to be impacted by low energy prices. The company has seen strength in consumer staples, telcos and healthcare. Vendor consolidation across multiple sectors where smaller vendor has financial challenges, execution capability and to get benefits of automation
- **Client metrics:** Highlight of the quarter was addition of two clients in the US\$25 million bucket taking the count to 234. Number of clients remained constant in US\$50 million and US\$100 million bucket. Thirteen clients were added in US\$1 million category taking the total count to 718
- **Employee update:** Total 93% of the company's employees are working from home. There was a decline of 1083 employees taking employee strength to 242,371. Attrition at a standalone and consolidated level witnessed an increase of 0.6% and 1.1%, respectively. Attrition (consolidated) and attrition (standalone) was at 20.7% and 18.2%, respectively. The company is going to freeze hiring and lower sub-contracting cost to manage utilisation. Utilisation (ex-trainees) dipped 90 bps sequentially to 83.5% in Q4FY20, which was mainly two-third supply led and one-third demand led

## Key Metrics

Exhibit 3: Geography-wise break-up

	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
<b>Revenue by geography (%)</b>						
North America	60.4	61.2	61.6	61.4	61.3	61.6
Europe	24.2	24.0	23.6	24.1	24.4	24.4
India	2.6	2.3	2.3	2.7	2.8	2.6
ROW	12.8	12.5	12.5	11.8	11.5	11.4
<b>Growth QoQ in \$ terms (%)</b>						
North America	2.4	3.8	3.0	2.2	0.9	-0.9
Europe	3.1	1.6	0.6	4.7	2.3	-1.4
India	6.3	-9.4	2.3	20.4	4.8	-8.5
ROW	-0.8	0.0	2.3	-3.2	-1.5	-2.3

Source: Company, ICICI Direct Research

Revenues declined across geographies

Exhibit 4: Vertical-wise break-up

	% contribution to revenues Q4FY20	% contribution to revenues Q4FY19	Growth QoQ (%)
<b>Revenue by verticals (%)</b>			
Financial Services	31.3	31.6	3.5
Insurance			
Retail	15.5	15.9	2.6
Communication	13.0	13.5	-0.1
Energy, Utilities, Resources & Services	12.9	12.7	5.4
Manufacturing	10.1	10.0	5.8
Hi Tech	7.9	7.7	7.3
Life Sciences	6.4	6.0	11.7
Others	2.9	2.6	18.4

Source: Company, ICICI Direct Research

The company sees pressure across verticals. Telecom and healthcare relatively well placed

Exhibit 5: Client & human resource matrix

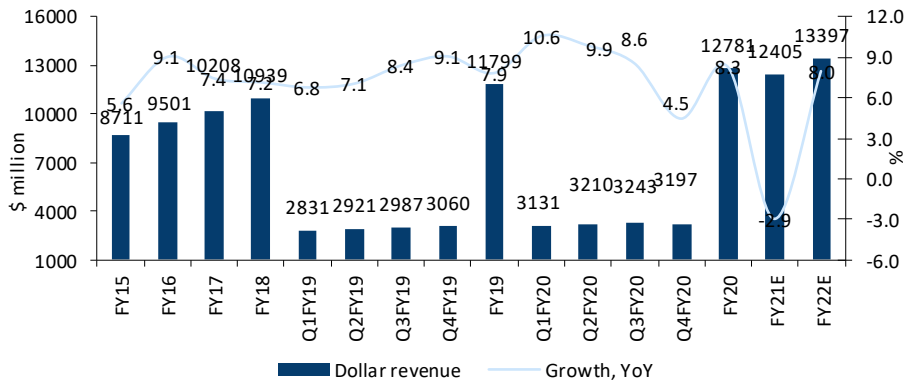
	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
<b>Client metrics</b>						
5 Million \$ clients	651	662	680	693	705	718
25 Million \$ clients	214	222	228	228	232	234
50 Million \$ clients	59	60	59	61	61	61
100 Million \$ clients	23	25	27	27	28	28
<b>Headcount, Utilization &amp; Attrition</b>						
Total Employees	225501	228123	229029	236486	243454	242371
Utilization (Excluding trainees)	83.8	82.3	83.1	84.9	84.4	83.5
LTM Attrition (Standalone)	17.8	18.3	21.5	19.4	17.6	18.2

Source: Company, ICICI Direct Research

Two client added in US\$25 million category

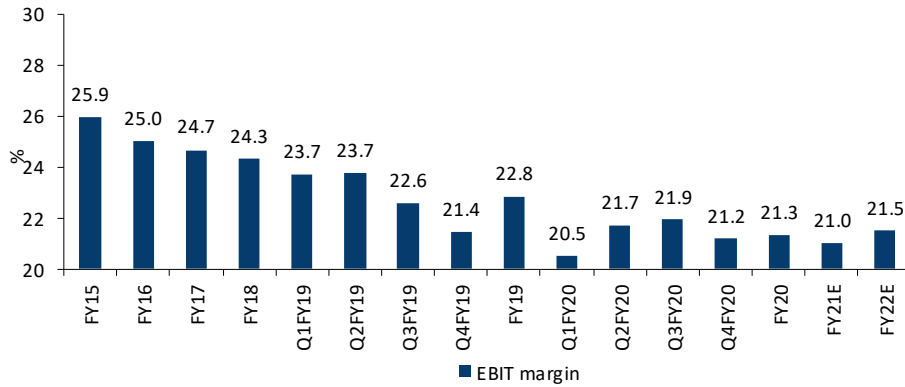
## Financial story in charts

Exhibit 6: Dollar revenue trend



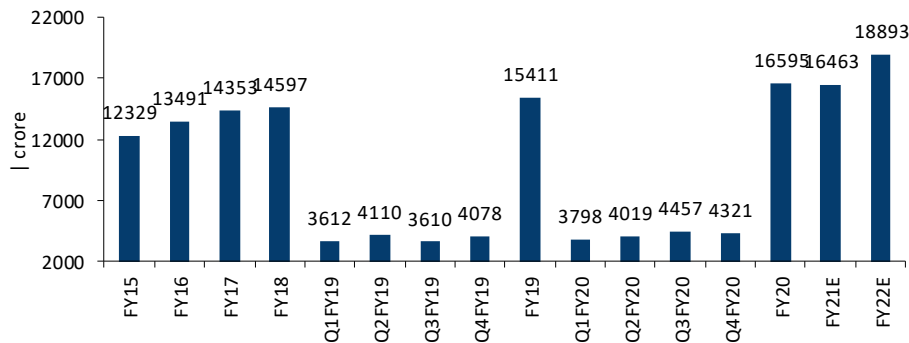
Source: Company, ICICI Direct Research

Exhibit 7: Change in margin estimates for FY21E & FY22E



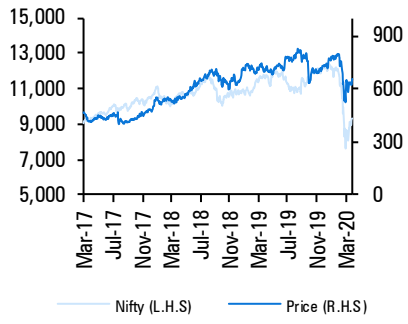
Source: Company, ICICI Direct Research

Exhibit 8: PAT trend



Source: Company, ICICI Direct Research

Exhibit 9: Three year price chart



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Total operating Income</b>	<b>82,676</b>	<b>90,791</b>	<b>91,796</b>	<b>99,135</b>
Growth (%)	17.2	9.8	1.1	8.0
COGS (employee expenses)	51,857	57,827	59,025	63,248
Admin expenses	5,454	5,973	5,783	6,245
S&M expenses	4,475	4,712	4,773	5,155
Total Operating Expenditure	61,786	68,512	69,581	74,648
<b>EBITDA</b>	<b>20,890</b>	<b>22,279</b>	<b>22,215</b>	<b>24,486</b>
Growth (%)	9.9	6.7	(0.3)	10.2
Depreciation	2,011	2,905	2,937	3,172
Other Income	2,883	2,803	2,669	3,847
PBT	21,041	22,007	21,776	24,991
Total Tax	5,630	5,367	5,313	6,098
<b>PAT</b>	<b>15,411</b>	<b>16,595</b>	<b>16,463</b>	<b>18,893</b>
Growth (%)	5.6	7.7	(0.8)	14.8
<b>EPS (₹)</b>	<b>35.4</b>	<b>38.9</b>	<b>38.7</b>	<b>44.4</b>
Growth (%)	9.5	9.9	(0.6)	14.8

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	15,411	16,595	16,463	18,893
Add: Depreciation	2,011	2,905	2,937	3,172
(Inc)/dec in Current Assets	(3,720)	(3,357)	(343)	(2,523)
Inc/(dec) in CL and Provisions	3,128	1,419	(407)	1,283
Taxes paid	(6,832)	(4,550)	(5,313)	(6,098)
<b>CF from operating activities:</b>	<b>15,844</b>	<b>18,557</b>	<b>15,981</b>	<b>16,979</b>
(Inc)/dec in Investments	1,369	(322)	2,669	3,847
(Inc)/dec in Fixed Assets	(2,445)	(3,307)	(3,000)	(3,000)
<b>CF from investing activities</b>	<b>(1,578)</b>	<b>(1,793)</b>	<b>(331)</b>	<b>847</b>
Dividend paid & dividend tax	(13,705)	(9,515)	(11,034)	(11,882)
Others	6	(27)	-	-
<b>CF from financing activities:</b>	<b>(14,512)</b>	<b>(17,591)</b>	<b>(11,034)</b>	<b>(11,882)</b>
Net Cash flow	(246)	(827)	4,616	5,944
Exchange difference	(57)	(92)	-	-
Opening Cash	19,818	19,568	18,649	23,265
<b>Closing Cash</b>	<b>19,568</b>	<b>18,649</b>	<b>23,265</b>	<b>29,210</b>

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Equity Capital	2,170	2,122	2,122	2,122
Reserve and Surplus	62,836	63,722	69,151	76,163
Total Shareholders funds	65,006	65,844	71,273	78,285
Employee benefit obligations	44	38	38	38
Debt	-	-	-	1
Deferred Tax Liability	672	968	968	968
Other non current liabilities	378	5,062	5,062	5,062
<b>Total Liabilities</b>	<b>66,100</b>	<b>71,912</b>	<b>77,341</b>	<b>84,354</b>
<b>Assets</b>				
Property, plant and equipment	13,356	17,867	17,930	17,757
Goodwill	3,540	5,286	5,286	5,286
Intangibles	691	1,900	1,900	1,900
Available for sale assets	4,634	4,137	4,137	4,137
Other assets	9,639	9,002	9,002	9,002
Cash	19,568	18,649	23,265	29,210
Current Investments	6,627	4,655	4,655	4,655
Trade receivables	14,827	18,487	18,690	20,184
Unbilled revenue	5,374	7,121	7,200	7,775
Prepayment & O.fin.assets	6,146	5,602	5,664	6,117
Other current assets	336	62	62	62
Total Current Assets	52,878	54,576	59,536	68,003
Trade payables	1,655	2,852	2,295	2,478
Unearned revenue	2,809	2,990	3,023	3,265
OC L & provisions	14,174	15,014	15,131	15,989
Total Current Liabilities	18,638	20,856	20,449	21,732
Net Current Assets	34,240	33,720	39,086	46,270
<b>Application of Funds</b>	<b>66,100</b>	<b>71,912</b>	<b>77,341</b>	<b>84,354</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Per share data (₹)</b>				
EPS	35.4	38.9	38.7	44.4
Cash EPS	40.0	45.7	45.6	51.8
BV	149	154	167	184
DPS	21.5	22.3	21.5	23.1
Cash Per Share	45	44	55	69
<b>Operating Ratios (%)</b>				
EBIT Margin	22.8	21.3	21.0	21.5
PBT Margin	25.4	24.2	23.7	25.2
PAT Margin	18.6	18.3	17.9	19.1
Debtor days	65	74	74	74
Unbilled revenue	21	25	28	28
Creditor days	7	11	9	9
<b>Return Ratios (%)</b>				
RoE	23.7	25.2	23.1	24.1
RoCE	32.9	30.8	28.4	29.8
RoIC	47.3	39.9	39.0	42.2
<b>Valuation Ratios (x)</b>				
P/E	18	16	17	14
EV / EBITDA	12	11	11	10
EV / Net Sales	3	3	3	2
Market Cap / Sales	3	3	3	3
Price to Book Value	4	4	4	3
<b>Solvency Ratios</b>				
Debt/E BITDA	-	-	-	0
Debt / Equity	-	-	-	0
Current Ratio	2	2	2	2
Quick Ratio	2	2	2	2

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (IT)

Company	Cmp (₹)	TP (₹)	Rating	Mcap (₹Cr)	EPS (₹)				P/E (x)				RoCE (%)			RoE (%)				
					FY19	FY20E	FY21E	FY22E	FY19	FY20	FY21	FY22	FY19	FY20E	FY21E	FY22E	FY19	FY20	FY21	FY22
HCL Tech (HCLTEC)	455	525	Hold	1,22,564	37.3	40.0	41.8	46.8	12	11	11	10	26.9	25.7	23.6	23.6	24.5	22.1	20.1	19.9
Infosys (INFTEC)	642	750	Buy	2,79,323	35.4	38.9	38.7	44.4	18	16	17	14	32.9	30.8	28.4	29.8	23.7	25.2	23.1	24.1
TCS (TCS)	1,763	2,055	Hold	6,80,250	83.8	86.2	82.8	93.5	22	21	22	19	43.8	43.5	41.5	42.7	34.4	37.5	35.9	36.6
Tech M (TECMAH)	516	760	Buy	49,216	47.7	46.0	46.6	55.9	11	12	12	10	23.6	20.3	19.0	20.5	21.2	18.0	16.2	17.2
Wipro (WIPRO)	176	225	Buy	1,10,208	14.9	16.6	15.8	17.6	12	11	12	10	17.8	19.3	16.4	16.4	15.8	17.4	14.8	14.6
Mindtree (MINCON)	752	945	Hold	12,068	45.9	37.9	45.6	55.6	16	19	16	13	29.8	23.1	23.8	25.8	22.8	16.4	17.3	18.9
LTI (LTINFCE)	1,488	1,795	Buy	23,749	87.3	85.5	107.0	123.8	16	16	13	11	40.4	32.6	33.7	32.7	31.0	25.0	25.8	25.0
NIIT Tech (NIITEC)	1,057	1,390	Hold	6,672	65.7	72.3	75.0	89.7	17	15	15	12	25.2	22.9	21.5	22.8	19.5	18.7	17.2	18.4
Infoedge (INFEDG)	2,405	2,450	Hold	28,481	23.1	20.2	32.0	39.5	101	116	73	59	18.6	18.3	19.2	21.0	12.1	9.9	14.0	15.4

Source: Company, ICICI Direct Research



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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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