

July 16, 2020

## Q1FY21 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
<b>Rating</b>	<b>BUY</b>		<b>HOLD</b>	
<b>Target Price</b>	<b>1,037</b>		<b>788</b>	
Sales (Rs. m)	10,69,631	11,80,065	9,19,763	10,68,887
% Chng.	16.3	10.4		
EBITDA (Rs. m)	2,75,667	2,86,248	2,22,036	2,48,615
% Chng.	24.2	15.1		
EPS (Rs.)	48.5	55.1	42.3	50.4
% Chng.	14.8	9.5		

### Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	908	969	1,070	1,180
EBITDA (Rs. bn)	223	248	276	286
Margin (%)	24.5	25.6	25.8	24.3
PAT (Rs. bn)	166	185	206	234
EPS (Rs.)	39.1	43.6	48.5	55.1
Gr. (%)	10.3	11.5	11.3	13.7
DPS (Rs.)	20.9	9.6	16.8	24.0
Yield (%)	2.5	1.2	2.0	2.9
RoE (%)	25.4	26.0	24.7	25.5
RoCE (%)	29.6	30.6	29.6	28.5
EV/Sales (x)	3.6	3.3	2.8	2.5
EV/EBITDA (x)	14.9	12.9	11.0	10.5
PE (x)	21.3	19.1	17.1	15.1
P/BV (x)	5.4	4.6	3.9	3.8

### Key Data

INFO.BO | INFO IN

52-W High / Low	Rs.848 / Rs.509
Sensex / Nifty	36,052 / 10,618
Market Cap	Rs.3,539bn/ \$ 47,096m
Shares Outstanding	4,259m
3M Avg. Daily Value	Rs.14820.79m

### Shareholding Pattern (%)

Promoter's	13.58
Foreign	31.01
Domestic Institution	24.68
Public & Others	30.73
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	20.9	8.3	6.6
Relative	11.4	25.7	15.0

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## A New Anax in making...

### Quick Pointers:

- We are impressed by Infy's ability to keep rev decline at just 2% QoQ CC & strong margin performance (+150bps QoQ expansion & ~215bps beat to estimates)
- Reinstating Revenue guidance of (0-2% CC YoY growth for FY21) gives confidence about growth visibility over the rest of year coupled with strong deal momentum- This shows strong execution with market share gains.
- We believe there will be a compression in P/E differential as compared to TCS as 1) Margin gap has shrunk by 300bps to just 90bps, 2) Revenue growth outpaced in last 4 quarters, 3) Strong deal momentum & market share gains, 4) Equally strong cash conversion, payouts 5) Vendor Consolidation INFY is currently trading at 25% discount to TCS FY22E earnings multiple & we expect the discount to narrow down to 10-15%.

**Infy Q1FY21 results were beat in all parameters- Strong revenue beat & Margin performance, EPS beat & strong deal wins. Infy reported just -2% QoQ CC decline in revenues as compared to Ple -4.1%/Cons 5.5% QoQ CC. Limited revenue decline helped margin expansion as they started tight cost management from the beginning of the quarter. Infy posted a strong margin expansion of ~150bps QoQ to 22.7% (Ple: 20.6%, Cons:20.5%). Tailwinds were i) INR depreciation (+100bps), ii) Travel & visa cost (+230bps), iii) Lower SG&A (+110bps) & headwinds were i) utilization & pricing (-150bps), ii) Variable (-100bps). Infy surprised the street by Reinstating Revenue guidance of (0-2% CC YoY growth for FY21) gives confidence about growth visibility over the rest of year coupled with strong deal momentum (US\$1.7bn, 5.7% QoQ). Due to strong revenue guidance, deal pipeline & strong margin beat led to massive upgrades to our earnings estimates. We increase our EPS estimates by 15%/9% for FY22/23E led by revenue & margin upgrade. We have assigned 20X multiple & value it on Sep-22 EPS of Rs.51.8 to arrive at changed TP of Rs.1037. Infy is currently trades at 17.1/15.1X earnings of Rs.48.5/55.1 for FY22E/23E respectively. Upgrade to Buy from Hold.**

- Strong Revenue beat:** Infy reported just -2% QoQ CC decline in revenues as compared to Ple -4.1%/Cons 5.5% QoQ CC. Infy reported USD3121mn (Ple:3052, Cons: USD3034mn) beat of 2.3% on our estimates. Digital revenues at 45% of total revenues (vs 42% in 4Q20). Digital revenues delivered growth of +25% YoY in cc terms. Revenue growth was curtailed at just 2% due to -1.8% QoQ USD decline in BFSI & -3.1% QoQ decline in communication. Large deal wins at \$1.74b during the quarter (vs ~\$1.6b in 4Q20) – up 2% YoY on TTM basis. Guidance for FY21: Revenue will be 0-2% YoY in cc. Operating margin is expected to be 21-23%.
- Strong margin performance:** Infy posted a strong margin expansion of ~150bps QoQ to 22.7% (Ple: 20.6%, Cons:20.5%). Tailwinds were i) INR depreciation (+100bps), ii) Travel & visa cost (+230bps), iii) Lower SG&A (+110bps) & headwinds were i) utilization & pricing (-150bps), ii) Variable (-

Headcount is up ~4.5% YoY. Utilization (IT Services and Consulting - including trainees) at 78.2% (79% in 4Q20). IT services annualized attrition at 11.7%.

**Anax** (Greek: Ἄναξ; from earlier *fánax*, *wánax*) is an ancient Greek word for "leader". It is one of the two Greek titles traditionally translated as "king", the other being *basileus*, and is inherited from Mycenaean Greece, and is notably used in Homeric Greek.

Management mentioned that BFSI segment saw faster recovery after initial drop. America and Asia-Pacific has recovered almost completely.

Infosys Current WFH enablement is 99%. Only 10% of the revenue drop was supply led and the balance was demand led. Compare this with TCS where the supply impact on revenues was a meaningful 1.5% of quarterly revenues or US\$76 mn.

100bps). The margins benefited from Cost reduction measure like i) hiring freeze ii) Reducing on discretionary spends like branding, marketing, re-negotiation of rates iii) Traditional levers like mix, deploying automation, etc. iv) No travel cost. Management mentioned margins in digital business are higher than the traditional business. As the business normalizes, they will have to incur costs like hiring and promotions, however, management expects to maintain the current margins levels going forward. Net Profit came at INR42.3 bn 7% beat to our estimates led by strong margin performance & limited revenue decline. EPS came at Rs.10. Net headcount decreased by ~3000 QoQ. Headcount is up ~4.5% YoY. Utilization (IT Services and Consulting - including trainees) at 78.2% (79% in 4Q20). IT services annualized attrition at 11.7%. Infosys indicated pricing is not a major issue except for retail and manufacturing verticals.

- **Strong Payout:** Pay-out has been increased from 75% to 85% of FCF at the beginning of last year. This policy will be followed going forward. Cash flow conversation was strong in the quarter. They have extended credit to some clients, but, these are few in numbers. FCF to NI was 130%. DSO increased by 4 days to 100. Infosys indicated robust collections despite some requests to defer payment terms.
- **BFSI to recover fast, Manufacturing & Retail will not decline further:** Management mentioned that BFSI segment saw faster recovery after initial drop. America and Asia-Pacific has recovered almost completely. There is some weakness in capital markets, card and payments & Europe BFSI will recover slowly. Out of 15 large deal wins 5 are from BFSI segment. Insurance companies are engaging with them drive digital transformation and virtual connecting with the clients. Management mentioned manufacturing & retail vertical will not decline further. Barring grocery all other segments of retail are seeing demand contraction and supply chain problems. Clients are engaging with them for reducing the cost take outs. In manufacturing vertical, automobile & travel are the most impacted. There is also a high demand for digital services. In Energy vertical, Clients were impacted because of lower oil prices.
- **Challenges smoothly transitioned in COVID:** Infosys Current WFH enablement is 99%. As the quarter progressed, there was positivity across the sectors. Manufacturing and retail were the weakest. Hi-tech vertical was very strong in the quarter. Clients have recognised them on WHF transition and this is also reflected in superior performance. This is also reflected in higher deals wins and market share gains. Clients are comfortable to allow WHF because of the current medial scenario. Clients are providing a lot of flexibility in the current environment. For a new client in US, they were being able to do new work, through employees through different parts of US. **Only 10% of the revenue drop was supply led and the balance was demand led.** They will develop a hybrid model of working for employee going forward (WFH+WFO). As of today, less than 1% of the employees are working from office and rest are working from office. Discretionary spends are week as the companies are facing on cutting measures and maintaining liquidity. There is a high demand of services like i) Cloud, ii) Workspace transformation, iii) Digital transformation, iv) Automation, v) Cyber Security.

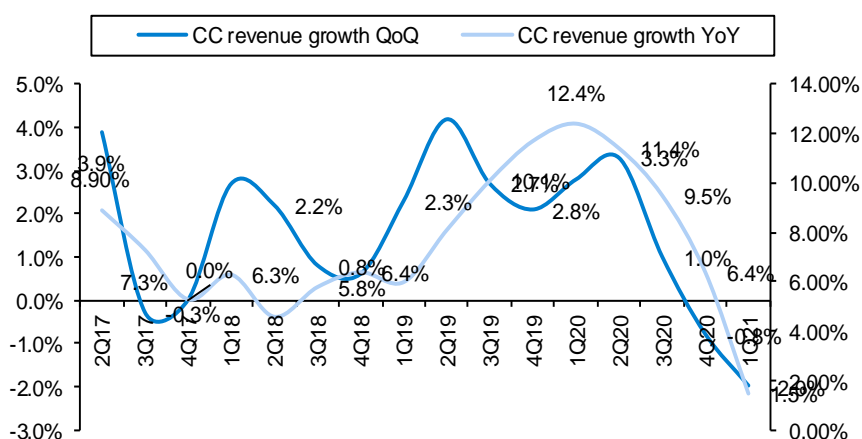
- Largest deal signed with Vanguard:** Infosys signed a large digital transformation deal with Vanguard in 2QFY21. Management indicated that the deal was the largest in the history of Infosys and involves the migration of record keeping services to a cloud-based platform. Infosys will assume day-to-day operations supporting Vanguard's DC recordkeeping business, including software platforms, administration, and associated processes. Transitioning employees will receive the same salary, comparable benefits for a transition period of 12 months, plus meaningful incentive opportunities. Revenue contribution from this deal is baked into the Infosys guidance for FY2021.
- Stable Large Deal momentum:** Infosys reported large deal win TCV of US\$1.7 bn, excellent considering the Covid-19 impact. Deal wins had a high renewal component at 81%. A sharp decline in TCV on a YoY basis was due to the high base of 1QFY20 due to Stater large deal. Out of 15 large deal wins 5 are from BSFI segment.
- Bobby Parikh joins the Board as Independent Director:** Infosys Board has appointed Bobby Parikh as an additional and Independent Director for a period of three years. Mr. Bobby Parikh is the Managing Partner of Bobby Parikh Associates, a boutique firm focused on providing strategic tax and regulatory advisory services. He was former Chief Executive Officer of Ernst & Young in India.

**Exhibit 1: Q1FY21 Result Overview (Rs mn)**

Y/e March	1Q21	4Q20	QoQ	1Q20	YoY	Variance(Ple VS ACTUAL)
Net sales (US\$ m)	3,121	3,197	-2.4%	3,131	-0.3%	2.3%
Net sales	2,36,650	2,32,670	1.7%	2,18,030	8.5%	5.3%
EBITDA	61,210	56,760	7.8%	51,520	18.8%	14.0%
EBITDA Margin	25.9%	24.4%	147 bps	23.6%	224 bps	197 bps
EBIT	53,650	49,270	8.9%	44,710	20.0%	16.2%
EBIT Margin	22.7%	21.2%	149 bps	20.5%	216 bps	212 bps
Adj. Net Profit	42,330	43,210	-2.0%	37,980	11.5%	6.7%
Adjusted EPS	10.0	10.2	-2.0%	8.8	13.1%	6.7%

Source: Company, PL

Infy reported just -2% QoQ CC decline in revenues as compared to Ple -4.1%/Cons 5.5% QoQ CC.

**Exhibit 2: Revenue decline curtailed**


Source: Company, PL

*Infy surprised the street by Reinstating Revenue guidance of (0-2% CC YoY growth for FY21) gives confidence about growth visibility over the rest of year coupled with strong deal momentum (US\$1.7bn, 5.7% QoQ).*

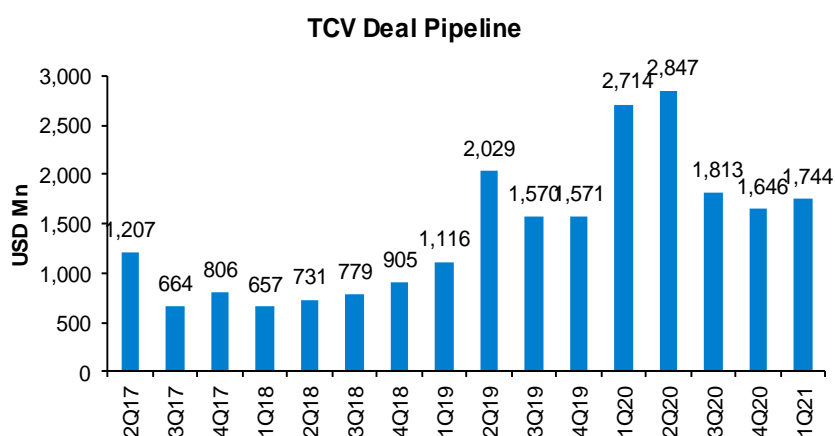
*Large deal wins at \$1.74b during the quarter (vs ~\$1.6b in 4Q20) – up 2% YoY on TTM basis.*

### Exhibit 3: Revenue Guidance History of Infosys

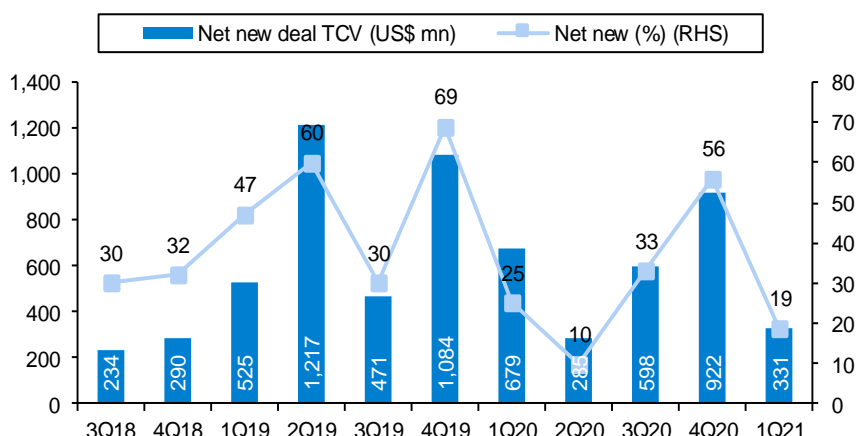
Quarter	Constant Currency Guidance	Actual Growth (Year End)
Q4 2015	10%-12%(for FY16)	7.1%
Q1 2016	10%-12%	
Q2 2016	10%-12%	
Q3 2016	12.8%-13.2%	
Q4 2016	11.5%-13.5% (for FY17)	13.3%
Q1 2017	10.5%-12.0%	
Q2 2017	8%-9%	
Q3 2017	8.4%-8.8% (increased)	
Q4 2017	6.5%-8.5% (for FY18)	8.3%
Q1 2018	6.5%-8.5% (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)	
Q4FY20	-	-
Q1FY20	0-2%	

Source: Company, PL

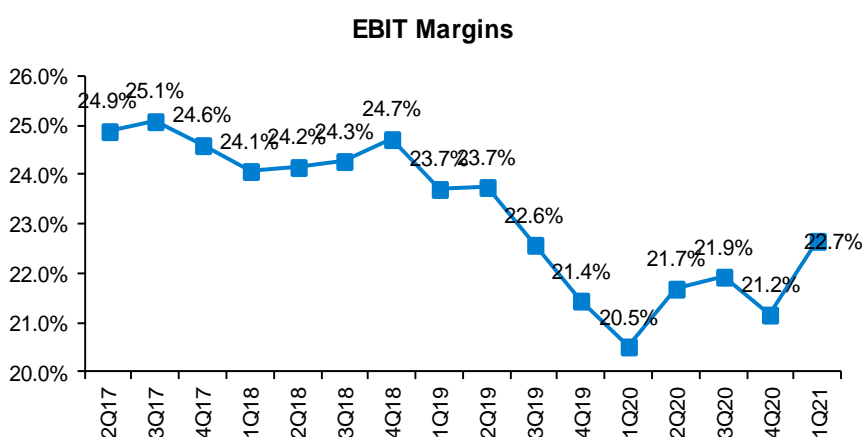
### Exhibit 4: Strong TCV Deal Pipeline



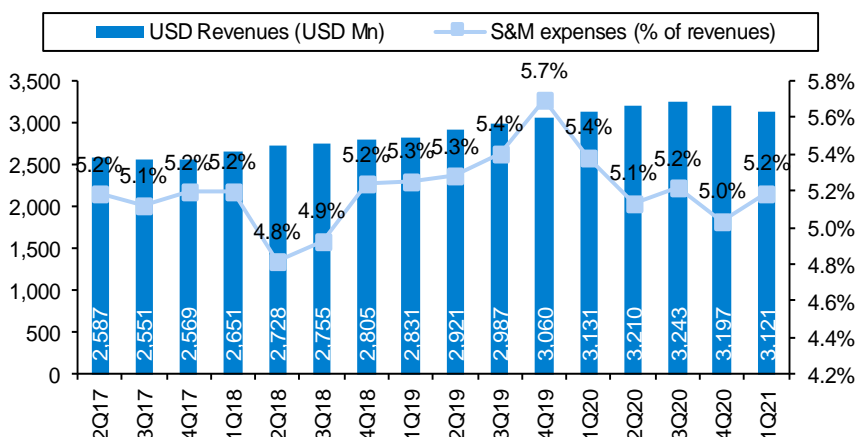
Source: Company, PL

**Exhibit 5: Net New deal wins are decelerating**


Source: Company, PL

**Exhibit 6: Margins improved led by cost optimization**


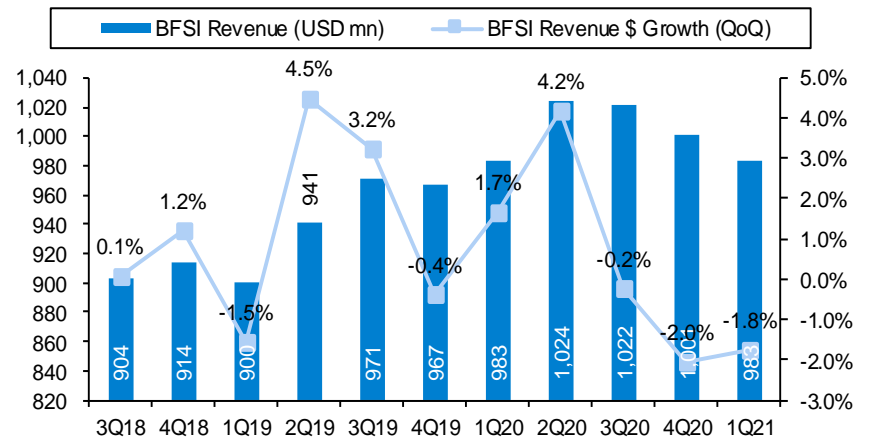
Source: Company, PL

**Exhibit 7: SGA Expenses decline during the quarter**


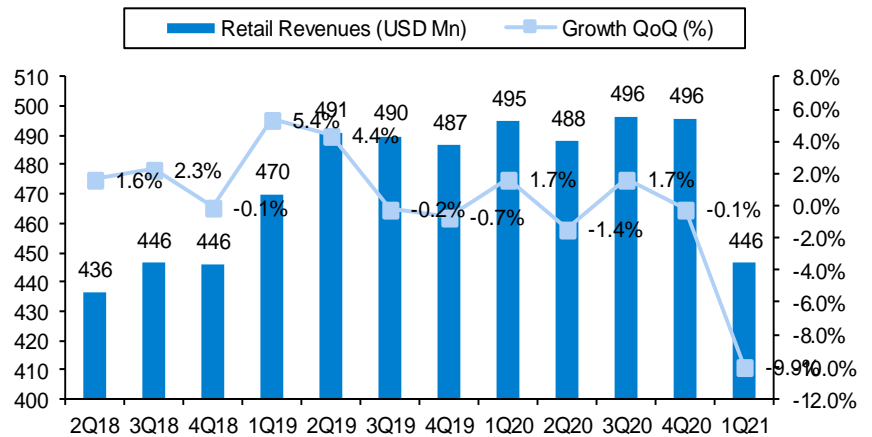
Source: Company, PL

Infy posted a strong margin expansion of ~150bps QoQ to 22.7% (Ple: 20.6%, Cons:20.5%). Tailwinds were i) INR depreciation (+100bps), ii) Travel & visa cost (+230bps), iii) Lower SG&A (+110bps) & headwinds were i) utilization & pricing (-150bps), ii) Variable (-100bps).

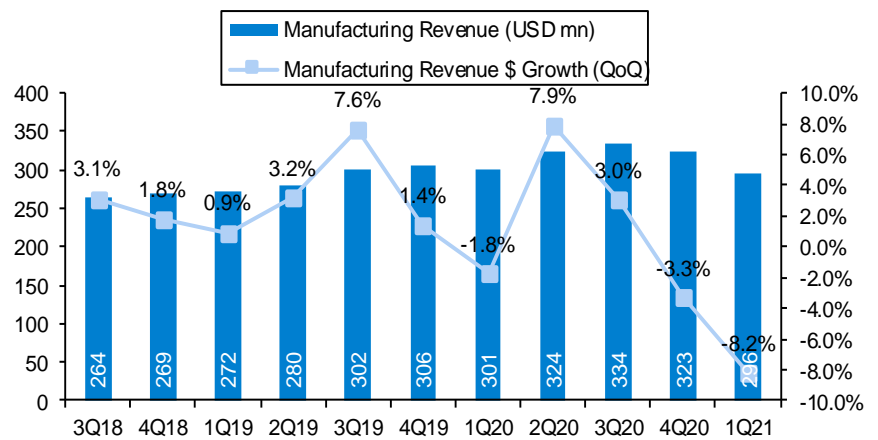
The margins benefited from Cost reduction measure like i) hiring freeze ii) Reducing on discretionary spends like branding, marketing, re-negotiation of rates iii) Traditional levers like mix, deploying automation, etc.iv) No travel cost.

**Exhibit 8: BFSI decline curtailed**


Source: Company, PL

**Exhibit 9: Subdued growth in retail vertical since last 4 quarters**


Source: Company, PL

**Exhibit 10: Manufacturing vertical posted weak growth**


Source: Company, PL

## Valuation

Infosys has aggressively realigned its strategic focus to scale digital transformation projects over the last couple of years. This includes significant investments in sales, increased large deal participation, and increased flexibility on deal structure. This has been rewarded with a sharp increase in large transformation deals around DX projects, hybrid cloud adoption, and automation.

**We believe there will be a compression in P/E differential as compared to TCS as 1) Margin gap has shrunk by 300bps to just 90bps, 2) Revenue growth outpaced in last 4 quarters, 3) Strong deal momentum & market share gains, 4) Equally strong cash conversion, payouts. INFY is currently trading at 25% discount to TCS FY22E earnings multiple & we expect the discount to narrow down to 10-15%.**

Earlier we have taken -4.8% YoY decline in FY21E now on account on guidance of 0-2% CC we have taken 0.2% \$ growth in FY21E. Infosys might be the only company to deliver growth in FY21E. Our margin estimates have also increased due to strong beat of 220 bps in this quarter. We have estimated revenue growth of 9.9%/8.9% in FY22/23E respectively.

We increase our EPS estimates by 15%/9% for FY22/23E led by revenue & margin upgrade. We have assigned 20X multiple & value it on Sep-22 EPS of Rs.51.8 to arrive at changed TP of Rs.1037. Infy is currently trades at 17.1/15.1X earnings of Rs.48.5/55.1 for FY22E/23E respectively. Upgrade to Buy from Hold.

### Exhibit 11: Changes in Estimates

	FY21E	FY22E	FY23E
<b>USD revenues (US\$ m)</b>			
- New	12,808	14,074	15,326
- Old	11,900	12,900	13,911
<i>Change (%)</i>	<i>7.6%</i>	<i>9.1%</i>	<i>10.2%</i>
<b>EBIT Margin</b>			
- New	22.5%	23.0%	22.1%
- Old	20.3%	21.6%	21.1%
<i>Change (%)</i>	<i>223 bps</i>	<i>141 bps</i>	<i>101 bps</i>
<b>Recurring EPS - Fully diluted (Rs)</b>			
- New	43.5	48.4	55.1
- Old	36.3	42.2	50.3
<i>Change (%)</i>	<i>19.9%</i>	<i>14.8%</i>	<i>9.5%</i>

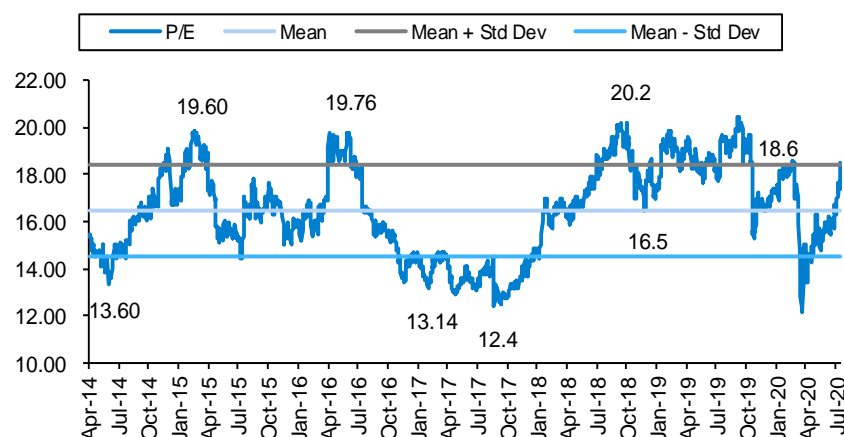
Source: PL



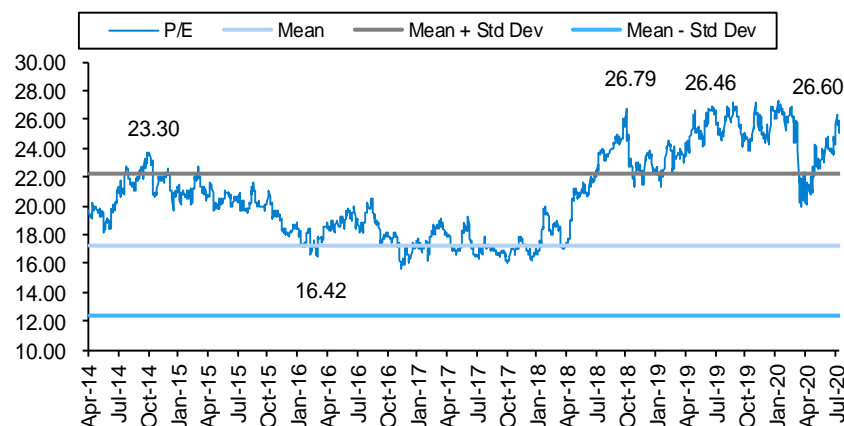
**Exhibit 12: Key Financials**

Rs m	FY20	1Q21	2Q21	3Q21	4Q21	FY21E	FY22E	FY23E
Revenue (US\$ m)	12,781	3,121	3,155	3,225	3,307	12,808	14,074	15,326
Revenue	907,910	236,650	238,493	243,839	250,019	969,002	1,069,631	1,180,065
Cost of revenue	607,320	157,030	157,749	161,036	164,857	640,672	705,431	771,796
Gross profit	300,590	79,620	80,744	82,803	85,162	328,330	364,201	408,269
Gross margin	33.1%	33.6%	33.9%	34.0%	34.1%	33.9%	34.0%	34.6%
Operating expenses	106,850	25,970	28,619	28,042	27,502	110,133	117,659	147,613
EBITDA	222,670	61,210	59,623	62,179	65,005	248,017	275,667	286,248
EBITDA margin	24.5%	25.9%	25.0%	25.5%	26.0%	25.6%	25.8%	24.3%
Depreciation & Amortisation	28,930	7,560	7,498	7,417	7,345	29,820	29,126	25,592
EBIT	193,740	53,650	52,125	54,762	57,660	218,197	246,541	260,656
EBIT margin	21.3%	22.7%	21.9%	22.5%	23.1%	22.5%	23.0%	22.1%
Other income	28,030	4,750	7,503	7,427	7,965	27,646	29,466	50,499
Profit before tax	220,080	57,920	59,148	61,709	65,146	243,923	274,008	309,155
PAT	166,410	42,330	44,972	47,045	49,755	184,883	205,720	233,893
EPS- Diluted	39.0	10.0	10.6	11.1	11.7	43.5	48.4	55.1

Source: Company, PL

**Exhibit 13: Infosys One year forward PE**


Source: Company, PL

**Exhibit 14: TCS One Year Forward P/E chart**


Source: Company, PL



**Exhibit 15: Geography-wise revenues**

(US\$ m)	1Q20	4Q20	QoQ gr.	1Q20	YoY gr.
North America	1,919	1,969	-2.5%	1,929	-0.5%
Europe	749	780	-4.0%	739	1.4%
India	91	83	8.9%	72	25.7%
Rest of World	362	364	-0.7%	391	-7.5%
<b>Total</b>	<b>3,121</b>	<b>3,197</b>	<b>-2.4%</b>	<b>3,131</b>	<b>-0.3%</b>
<b>as % of Total</b>					
North America	61.5%	61.6%	-10 bps	61.6%	-10 bps
Europe	24.0%	24.4%	-40 bps	23.6%	40 bps
India	2.9%	2.6%	30 bps	2.3%	60 bps
Rest of World	11.6%	11.4%	20 bps	12.5%	-90 bps

Source: Company, PL

**Exhibit 16: Vertical-wise revenues**

	1Q20	4Q20	QoQ gr.	1Q20	YoY gr.	YoY in cc terms
Financial Services	983	1,001	-1.8%	983	0.0%	6.2%
Manufacturing	296	323	-8.2%	301	-1.4%	11.8%
Communication Services	399	412	-3.1%	432	-7.5%	20.6%
Retail CPG	446	496	-9.9%	495	-9.8%	2.5%
Life Sc & Healthcare	209	205	2.2%	191	9.5%	17.7%
Others	786	761	3.4%	730	7.8%	11.5%
<b>Total</b>	<b>3,121</b>	<b>3,197</b>	<b>-2.4%</b>	<b>3,131</b>	<b>-0.3%</b>	<b>9.5%</b>
<b>as % of Total</b>						
Financial Services	31.5%	31.3%	20 bps	31.4%	10 bps	
Manufacturing	9.5%	10.1%	-60 bps	9.6%	-10 bps	
Communication Services	12.8%	12.9%	-10 bps	13.8%	-100 bps	
Retail CPG	14.3%	15.5%	-120 bps	15.8%	-150 bps	
Life Sc & Healthcare	6.7%	6.4%	30 bps	6.1%	60 bps	
Others	25.2%	23.8%	140 bps	23.3%	190 bps	

Source: Company, PL

## Exhibit 17: Client Metrics

	1Q20	4Q20	QoQ gr.	1Q20	YoY gr.
<b>Number of Clients</b>					
Active	1458	1411	3.3%	1336	9.1%
Added during the period	110	84	31.0%	112	-1.8%
<b>Revenue concentration (US\$ m)</b>					
Top client	106	99	7.1%	100	5.9%
Top 10 clients	602	598	0.8%	626	-3.8%
Top 2-10 clients	496	499	-0.5%	526	-5.7%
Top 25 clients	1,080	1,090	-0.9%	1,093	-1.2%
Top 11-25 clients	478	492	-3.0%	467	2.4%
Non Top 25	2,041	2,107	-3.1%	2,038	0.1%
<b>Total</b>	<b>3,121</b>	<b>3,197</b>	<b>-2.4%</b>	<b>3,131</b>	<b>-0.3%</b>
<b>Revenue concentration (%)</b>					
Top client	3.4%	3.1%	30 bps	3.2%	20 bps
Top 10 clients	19.3%	18.7%	60 bps	20.0%	-70 bps
Top 25 clients	34.6%	34.1%	50 bps	34.9%	-30 bps
Repeat Business	99.0%	95.9%	310 bps	99.0%	0 bps
Repeat Business (in US\$ m)	3,090	3,066	0.8%	3,100	-0.3%
New Business (in US\$ m)	31	131	-76.2%	31	-0.3%
Account Receivables (days)	71	69	2	68	3

Source: Company, PL

## Exhibit 18: Onsite-Offshore Mix

	1Q20	4Q20	QoQ gr.	1Q20	YoY gr.
<b>Revenue (US\$ m)</b>					
Onsite	1,703	1,650	3.2%	1,616	5.4%
Offshore	1,418	1,374	3.2%	1,346	5.4%
<b>Total</b>	<b>3,121</b>	<b>3,024</b>	<b>3.2%</b>	<b>2,962</b>	<b>5.4%</b>
<b>Utilization (%)</b>					
Include Trainees	78.2%	79.0%	-80 bps	80.3%	-210 bps
Exclude Trainees	81.2%	83.5%	-230 bps	83.1%	-190 bps

Source: Company, PL

## Exhibit 19: Traditional Vs Digital Revenues

Revenues by offering	1Q20	4Q20	QoQ gr.	1Q20	YoY gr.
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
<b>Revenue by offering ( \$mn)</b>					
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	FY20	FY21E	FY22E	FY23E
<b>Net Revenues</b>	<b>9,07,910</b>	<b>9,69,002</b>	<b>10,69,631</b>	<b>11,80,065</b>
YoY gr. (%)	9.8	6.7	10.4	10.3
Employee Cost	5,78,390	6,10,852	6,76,305	7,46,204
Gross Profit	3,29,520	3,58,150	3,93,327	4,33,861
Margin (%)	36.3	37.0	36.8	36.8
SG&A Expenses	59,730	58,451	64,178	76,809
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>2,22,670</b>	<b>2,48,017</b>	<b>2,75,667</b>	<b>2,86,248</b>
YoY gr. (%)	6.6	11.4	11.1	3.8
Margin (%)	24.5	25.6	25.8	24.3
Depreciation and Amortization	28,930	29,820	29,126	25,592
<b>EBIT</b>	<b>1,93,740</b>	<b>2,18,197</b>	<b>2,46,541</b>	<b>2,60,656</b>
Margin (%)	21.3	22.5	23.0	22.1
Net Interest	-	-	-	-
Other Income	26,340	25,726	27,466	48,499
<b>Profit Before Tax</b>	<b>2,20,080</b>	<b>2,43,923</b>	<b>2,74,008</b>	<b>3,09,155</b>
Margin (%)	24.2	25.2	25.6	26.2
Total Tax	53,680	59,430	68,288	75,262
Effective tax rate (%)	24.4	24.4	24.9	24.3
<b>Profit after tax</b>	<b>1,66,400</b>	<b>1,84,493</b>	<b>2,05,720</b>	<b>2,33,893</b>
Minority interest	(10)	(390)	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>1,66,410</b>	<b>1,84,883</b>	<b>2,05,720</b>	<b>2,33,893</b>
YoY gr. (%)	8.0	11.1	11.3	13.7
Margin (%)	18.3	19.1	19.2	19.8
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,66,410</b>	<b>1,84,883</b>	<b>2,05,720</b>	<b>2,33,893</b>
YoY gr. (%)	8.0	11.1	11.3	13.7
Margin (%)	18.3	19.1	19.2	19.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,66,410	1,84,883	2,05,720	2,33,893
<b>Equity Shares O/s (m)</b>	<b>4,258</b>	<b>4,241</b>	<b>4,241</b>	<b>4,241</b>
<b>EPS (Rs)</b>	<b>39.1</b>	<b>43.6</b>	<b>48.5</b>	<b>55.1</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>3,55,720</b>	<b>4,20,006</b>	<b>4,48,806</b>	<b>4,55,482</b>
Tangibles	2,83,860	3,47,806	3,76,606	3,83,282
Intangibles	71,860	72,200	72,200	72,200
<b>Acc: Dep / Amortization</b>	<b>1,46,870</b>	<b>1,76,690</b>	<b>2,05,816</b>	<b>2,11,891</b>
Tangibles	1,46,870	1,76,690	2,05,816	2,11,891
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>2,08,850</b>	<b>2,43,316</b>	<b>2,42,990</b>	<b>2,43,591</b>
Tangibles	1,36,990	1,71,116	1,70,790	1,71,391
Intangibles	71,860	72,200	72,200	72,200
Capital Work In Progress	-	-	-	-
Goodwill	-	-	-	-
Non-Current Investments	-	-	-	-
Net Deferred tax assets	7,760	5,660	5,660	5,660
Other Non-Current Assets	1,13,950	1,36,320	1,36,320	1,36,320
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	-	-	-	-
Trade receivables	1,84,870	1,98,645	2,03,230	2,03,334
Cash & Bank Balance	2,26,695	3,24,899	4,79,408	5,15,576
Other Current Assets	56,640	65,290	65,290	65,290
<b>Total Assets</b>	<b>8,79,655</b>	<b>10,46,416</b>	<b>12,06,376</b>	<b>12,45,018</b>
<b>Equity</b>				
Equity Share Capital	21,220	21,220	21,220	21,220
Other Equity	6,37,220	7,44,948	8,79,417	9,09,889
<b>Total Network</b>	<b>6,58,440</b>	<b>7,66,168</b>	<b>9,00,637</b>	<b>9,31,109</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	51,000	51,050	51,050	51,050
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	22,175	3,876	4,279	4,396
Other current liabilities	1,80,040	2,16,022	2,41,110	2,49,163
<b>Total Equity &amp; Liabilities</b>	<b>9,21,335</b>	<b>10,46,416</b>	<b>12,06,376</b>	<b>12,45,018</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	2,20,080	2,43,923	2,74,008	3,09,155
Add. Depreciation	28,930	29,820	29,126	25,592
Add. Interest	-	-	-	-
Less Financial Other Income	26,340	25,726	27,466	48,499
Add. Other	-	-	-	-
Op. profit before WC changes	2,49,010	2,73,743	3,03,134	3,34,746
Net Changes-WC	31,785	(18,838)	19,714	6,298
Direct tax	(53,680)	(59,430)	(68,288)	(75,262)
<b>Net cash from Op. activities</b>	<b>2,27,115</b>	<b>1,95,475</b>	<b>2,54,560</b>	<b>2,65,783</b>
Capital expenditures	(61,910)	(64,286)	(28,800)	(26,193)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
<b>Net Cash from Invt. activities</b>	<b>(61,910)</b>	<b>(64,286)</b>	<b>(28,800)</b>	<b>(26,193)</b>
Issue of share cap. / premium	1,560	650	-	-
Debt changes	-	-	-	-
Dividend paid	(89,132)	(40,715)	(71,250)	(1,01,786)
Interest paid	-	-	-	-
Others	(67,488)	(37,080)	-	(1,01,636)
<b>Net cash from Fin. activities</b>	<b>(1,55,060)</b>	<b>(77,145)</b>	<b>(71,250)</b>	<b>(2,03,422)</b>
<b>Net change in cash</b>	<b>10,145</b>	<b>54,044</b>	<b>1,54,509</b>	<b>36,168</b>
Free Cash Flow	1,65,205	1,31,188	2,25,759	2,39,590

Source: Company Data, PL Research

**Key Financial Metrics**

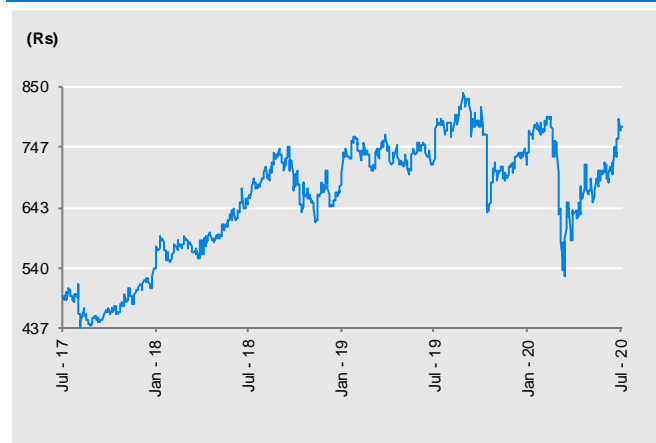
Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	39.1	43.6	48.5	55.1
CEPS	45.9	50.6	55.4	61.2
BVPS	154.6	180.7	212.4	219.5
FCF	38.8	30.9	53.2	56.5
DPS	20.9	9.6	16.8	24.0
<b>Return Ratio(%)</b>				
RoCE	29.6	30.6	29.6	28.5
ROIC	30.8	30.6	27.6	26.2
RoE	25.4	26.0	24.7	25.5
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.3)	(0.4)	(0.5)	(0.6)
Debtor (Days)	74	75	69	63
<b>Valuation(x)</b>				
PER	21.3	19.1	17.1	15.1
P/B	5.4	4.6	3.9	3.8
P/CEPS	18.1	16.4	15.0	13.6
EV/EBITDA	14.9	12.9	11.0	10.5
EV/Sales	3.6	3.3	2.8	2.5
Dividend Yield (%)	2.5	1.2	2.0	2.9

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
<b>Net Revenue</b>	<b>2,26,290</b>	<b>2,30,920</b>	<b>2,32,670</b>	<b>2,36,650</b>
YoY gr. (%)	9.8	7.9	8.0	8.5
Raw Material Expenses	1,43,520	1,46,370	1,47,520	1,49,470
Gross Profit	82,770	84,550	85,150	87,180
Margin (%)	36.6	36.6	36.6	36.8
<b>EBITDA</b>	<b>56,390</b>	<b>58,000</b>	<b>56,760</b>	<b>61,210</b>
YoY gr. (%)	5.2	7.2	10.2	18.8
Margin (%)	24.9	25.1	24.4	25.9
Depreciation / Depletion	7,270	7,360	7,490	7,560
<b>EBIT</b>	<b>49,120</b>	<b>50,640</b>	<b>49,270</b>	<b>53,650</b>
Margin (%)	21.7	21.9	21.2	22.7
Net Interest	-	-	-	-
Other Income	5,840	7,850	5,690	4,270
<b>Profit before Tax</b>	<b>54,960</b>	<b>58,490</b>	<b>54,960</b>	<b>57,920</b>
Margin (%)	24.3	25.3	23.6	24.5
Total Tax	14,590	13,830	11,610	15,200
Effective tax rate (%)	26.5	23.6	21.1	26.2
<b>Profit after Tax</b>	<b>40,370</b>	<b>44,660</b>	<b>43,350</b>	<b>42,720</b>
Minority interest	180	(90)	(140)	(390)
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>40,190</b>	<b>44,750</b>	<b>43,490</b>	<b>43,110</b>
YoY gr. (%)	(2.2)	24.0	6.8	13.5
Margin (%)	17.8	19.4	18.7	18.2
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>40,190</b>	<b>44,750</b>	<b>43,490</b>	<b>43,110</b>
YoY gr. (%)	(2.2)	24.0	6.8	13.5
Margin (%)	17.8	19.4	18.7	18.2
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>40,190</b>	<b>44,750</b>	<b>43,490</b>	<b>43,110</b>
Avg. Shares O/s (m)	4,256	4,246	4,246	4,246
<b>EPS (Rs)</b>	<b>9.4</b>	<b>10.5</b>	<b>10.2</b>	<b>10.2</b>

Source: Company Data, PL Research

**Price Chart**

**Recommendation History**

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Jul-20	Hold	788	763
2	21-Apr-20	Hold	668	651
3	12-Apr-20	BUY	693	636
4	11-Feb-20	BUY	820	773
5	12-Jan-20	BUY	820	738
6	03-Jan-20	BUY	834	746
7	07-Nov-19	BUY	819	720
8	13-Oct-19	Hold	819	815
9	03-Oct-19	Accumulate	783	786

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Cyient	Hold	450	437
2	HCL Technologies	Hold	591	579
3	Hexaware Technologies	Reduce	282	334
4	Infosys	Hold	788	763
5	L&T Technology Services	Hold	1,169	1,295
6	Larsen & Toubro Infotech	Hold	1,894	1,978
7	Mindtree	Reduce	888	978
8	Mphasis	Accumulate	943	887
9	NIIT Technologies	BUY	1,533	1,420
10	Persistent Systems	Reduce	447	514
11	Redington (India)	BUY	114	117
12	Sonata Software	Accumulate	400	313
13	Tata Consultancy Services	Hold	2,116	2,204
14	TeamLease Services	Hold	3,203	2,487
15	Tech Mahindra	Reduce	493	567
16	Wipro	BUY	257	225
17	Zensar Technologies	Accumulate	246	191

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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