

Result Beat, Guidance restores certainty; Upgrade to Accumulate

- INFY reported a revenue de-growth of 2.0% CC QoQ (DE: 4.8% CC de-growth) led by strong deal conversion, execution and lower supply side impact (20bps) along with 150bps QoQ improvement in OPM at 22.7% led by prudent cost-saving measures despite higher variable payouts.
- INFY re-introduced revenue guidance band (0-2%) and OPM band at 21-23% for FY21. Growth confidence revived as clients continue to invest in cost take-outs & digital transformation deals, captive takeover and vendor consolidation; driving up its deal pipeline momentum. Confidence on profitability would clear overhang of consistent past dilutions that it has seen and will be seen as its new base level OPM.
- Infosys reported TCV of \$1.74Bn (19% is New) was slightly below expectations. However, Pipeline of deals, high number of large deals (15) and fair mix of deal wins across verticals gives confidence (5 in BFS).
- Exceptional results, strong deal wins and guidance restoration has boosted confidence both on growth, OPM stability, lower risk and sustained momentum. Superlative performance has led to upward revision in our EPS estimate by 5% for FY21/22E and an upgrade in rating to Accumulate with TP of Rs 900 (20x FY22E EPS – 10% disc to TCS).

Exceptional performance led by its nimble strategy and localisation base

Infosys reported exceptional performance in Q1 (compared to earnings reported by peers) with top-line de-growth of just 2% QoQ and with guidance suggesting flat-to-small-growth easily puts it as growth leader for FY21E. Infy has attributed its differentiated performance to four key factors: 1) Quick learning on risk/opportunity given its small presence in China ahead of others; 2) Adoption of renewed need/demand driving expansion in deal pipeline; 3) Exception in Digital capability derived and 4) Its localisation presence that ensured lower supply-side disruption due to travel/visa restrictions. Its broad-based deal wins were also assuring - added 15 large deal across verticals (BFSI:5, Retail/E&U/Tech:3, Manfg-1).

OPM band intact despite soft growth in FY21 clears overhang

Infosys re-introduced its OPM guidance at par with FY20, and reported a Q1 OPM at 22.7% towards top end of band assuring of margin sustenance hereon. OPM improvement in Q1 was led by saving in Travel & Visa cost (230bps). SG&A (110bps) and Fx (70bps) that collectively offset impact of higher variable pay and weak OpLev. Given historical slide in OPM overtime (~460bps over FY15-20), stability hereon would drive further re-rating.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	236,650	218,030	8.5	232,670	1.7
Total Expense	175,440	166,510	5.4	175,910	(0.3)
EBITDA	61,210	51,520	18.8	56,760	7.8
Depreciation	7,560	6,810	11.0	7,490	0.9
EBIT	53,650	44,710	20.0	49,270	8.9
Other Income	4,270	6,960	(38.6)	5,690	(25.0)
Interest	0	0		0	
EBT	57,920	51,670	12.1	54,960	5.4
Tax	15,200	13,650	11.4	11,610	30.9
RPAT	42,330	37,840	11.9	42,900	(1.3)
APAT	42,330	37,840	11.9	42,900	(1.3)
			(bps)		(bps)
Gross Margin (%)	36.8	35.3	150	36.6	24
EBITDA Margin (%)	25.9	23.6	224	24.4	147
NPM (%)	17.9	17.4	53	18.4	(55)
Tax Rate (%)	26.2	26.4	(17)	21.1	512
EBIT Margin (%)	22.7	20.5	216	21.2	149

CMP	Rs 831
Target / Upside	Rs 900 / 8%
BSE Sensex	36,090
NSE Nifty	10,618

Scrip Details

Equity / FV	Rs 21,220mn / Rs 5
Market Cap	Rs 3,524bn
	USD 47bn
52-week High/Low	Rs 848/Rs 509
Avg. Volume (no)	10,659,600
NSE Symbol	INFY
Bloomberg Code	INFO IN

Shareholding Pattern Jun'20(%)

Promoters	13.2
MF/Banks/FIs	23.8
FIIIs	31.8
Public / Others	31.3

Valuation (x)

	FY20A	FY21E	FY22E
P/E	21.2	20.3	18.5
EV/EBITDA	15.0	13.5	12.4
ROE (%)	25.5	25.6	26.0
RoACE (%)	24.8	24.3	24.8

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	907,910	972,992	1,071,180
EBITDA	222,680	245,046	264,897
PAT	165,950	173,604	190,856
EPS (Rs.)	39.1	40.9	45.0

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Exhibit 1: Quarterly performance versus estimates

(in Rs mn)	Actual	Estimates		% Variation		Comment
		Dolat	Consensus	Dolat	Consensus	
Revenues (in US\$ mn)	3,121	3,033	3,081	2.9	1.3	USD Revenue above estimate due to superior execution.
Sales	236,650	228,664	229,941	3.5	2.9	
EBIT	53,650	46,990	47,861	14.2	12.1	EBIT margin above estimates due to cost saving in certain areas, Fx.
EBIT Margin (%)	22.7	20.6	20.8	210 bps	190 bps	
PAT	42,720	39,802	39,456	7.3	8.3	PAT above estimates but partially negated by higher ETR: 26%.

Source: Company, DART

Change in estimates

Post the Q1 earnings performance and guidance update, we have factored the guidance and expect superior performance of Q1 to flow over rest of the year. Factoring the same we have increased our Revenue estimates by 3%/2.5% respectively for FY21/22 and OPM estimate at 22%/21.7%; resulting in earnings estimates by over 5% each for FY21/22E.

Exhibit 2: Change in estimates

(Rs mn)	FY20 Actual	FY21E			FY22E		
		Old	New	% change	Old	New	% Change
Revenues (US\$ mn)	12,781	12,490	12,874	3.1	13,748	14,094	2.5
YoY growth (%)	8.3	(2.3)	0.7		10.1	9.5	
Revenues	907,910	941,750	972,992	3.3	1,044,880	1,071,180	2.5
EBIT	193,740	194,693	214,186	10.0	218,890	232,297	6.1
EBIT Margin (%)	21.3	20.7	22.0		20.9	21.7	
Net profits	165,950	164,842	173,604	5.3	180,358	190,856	5.8
EPS (Rs)	39.1	38.9	40.9	5.3	42.5	45.0	5.8

Source: Company, DART

Exhibit 3: Key assumptions in our estimates

Metrics	FY20	FY21E	FY22E
USD Revenue (Mn)	12,781	12,874	14,094
USD Revenue growth (%)	8.3	0.7	9.5
USD/INR	71	75.6	76.0
INR Revenue growth (%)	9.8	7.2	10.1
EBIT Margins (%)	21.3	22.0	21.7
EPS growth (%)	9.9	4.6	9.9

Source: Company, DART

Exhibit 4: Quarterly and YTD Performance Trends

Rs mn	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)	YTD FY20	YTD FY21	YoY (%)
Revenues (in US\$ mn)	3,131.00	3,210.00	3,243.00	3,197.00	3,121.00	(0.3)	(2.4)	3,131.00	3,121.00	(0.3)
Revenue	218,030	226,290	230,920	232,670	236,650	8.5	1.7	218,030	236,650	8.5
Operating Expenditure	173,320	177,170	180,280	183,400	183,000	5.6	(0.2)	173,320	183,000	5.6
Cost of revenues	147,790	150,790	153,730	155,010	157,030	6.3	1.3	147,790	157,030	6.3
as % of sales	67.8	66.6	66.6	66.6	66.4			67.8	66.4	
SG&A expenses	25,530	26,380	26,550	28,390	25,970	1.7	(8.5)	25,530	25,970	1.7
as % of sales	11.7	11.7	11.5	12.2	11			11.7	11	
EBITDA	51,520	56,390	58,010	56,760	61,210	18.8	7.8	51,520	61,210	18.8
Depreciation	6,810	7,270	7,370	7,490	7,560	11.0	0.9	6,810	7,560	11.0
EBIT	44,710	49,120	50,640	49,270	53,650	20.0	8.9	44,710	53,650	20.0
Other Income	6,960	5,840	7,850	5,690	4,270	(38.6)	(25.0)	6,960	4,270	(38.6)
PBT	51,670	54,960	58,490	54,960	57,920	12.1	5.4	51,670	57,920	12.1
Total Tax	13,650	14,590	13,830	11,610	15,200	11.4	30.9	13,650	15,200	11.4
Adjusted PAT	38,020	40,370	44,660	43,350	42,720	12.4	(1.5)	38,020	42,720	12.4
(Profit)/loss from JV's/Ass/MI	40	180	90	140	390			40	390	
Reported PAT	37,980	40,190	44,570	43,210	42,330	11.5	(2.0)	37,980	42,330	11.5
EPS (adj)	8.8	9.5	10.5	10.2	10.0	13.0	(2.0)	8.8	10.0	13.0
Margins (%)						(bps)	(bps)			(bps)
EBIDTA	23.6	24.9	25.1	24.4	25.9	223.5	147.0	23.6	25.9	223.5
EBIT	20.5	21.7	21.9	21.2	22.7	216.4	149.5	20.5	22.7	216.4
EBT	23.7	24.3	25.3	23.6	24.5	77.6	85.4	23.7	24.5	77.6
PAT	17.4	17.8	19.3	18.6	17.9	46.8	(68.4)	7.9	8.3	43.0
Effective Tax rate	26.4	26.5	23.6	21.1	26.2	(17.5)	511.9	26.4	26.2	(17.5)

Source: DART, Company

What to expect next Quarter

We expect 1.7% CC growth in Revenue given strong execution in Q1FY21 and likely ramp-up of large deals. We expect OPM to slightly normalize (down 87bps QoQ) given return of certain expenses to normalized levels as Infosys chases growth in Q2FY21 and also as business re-opens to normalcy gradually.

Exhibit 5: What to expect next Quarter

(Rs Mn)	Q2FY21E	Q1FY21	Q2FY20	QoQ (%)	YoY (%)
Sales (US\$ mn)	3,173	3,121	3,131	1.7	1.3
Sales	239,571	236,650	218,030	1.2	9.9
EBIT	52,227	53,650	44,710	(2.7)	16.8
PAT	42,476	42,720	38,020	(0.6)	11.7
EPS (Rs)	10.0	10.0	8.8	(0.2)	12.8
EBIT Margin (%)	21.8	22.7	20.5	(87 bps)	129 bps

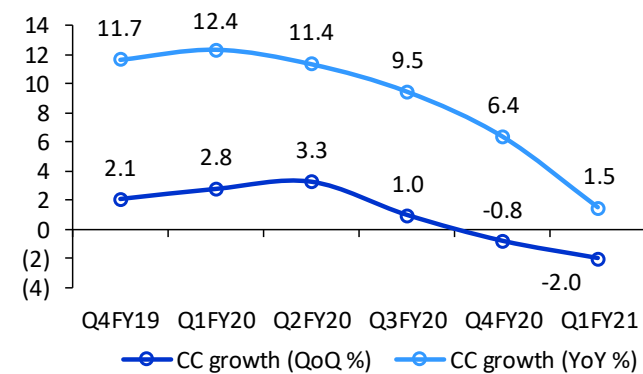
Source: DART, Company

Key Highlights

- **Revenue:** Infosys reported USD revenue of \$3,121mn with 2% QoQ decline and 1.5% YoY increase on CC basis. INR Revenue stood at 236.7Bn (up 8.5% YoY and 1.7% QoQ) aided by 4.2% INR depreciation. Share of digital revenue increased to 44.5% of revenue although growth rate declined to 25.5% from ~40% in CC terms. Traditional Revenue declined 11.8% YoY in CC terms to \$1,732mn.
- **Vertical Performance:** Infosys reported that BFSI, Tech, Life Sciences have been stable but Manufacturing, ENU are witnessing some weakness. **Within BFSI**, Infosys highlighted that banks have taken more financial provisions but there is change in discussion. While Infosys acknowledged the possibility of slowdown in spends and some weakness in card payments and capital market segment, improved deal win momentum (5 large deals won in Q1) from BFSI can largely support vertical's performance. Also added its best ever deal signings in early Q2. **Within Retail**, Non-grocery CPG vertical is largely expected to remain in turmoil but clients are looking for efficiency in Tech spends and Infosys is chasing such deals in its pipeline. **Manufacturing** Vertical is expected to be weaker in near term especially in Auto/Aero sub-segments but here it is encouraged by new logo wins. **Communication** vertical has stabilized on a sequential basis but certain clients in Media sub-segment are getting weaker due to cancelations of global events. Infosys also expects delay in 5G roll-out due to COVID-19.
- **Geographic Performance:** US Market has remained stable with flat CC growth on YoY basis. Despite stimulus program, Infosys expects some uncertainty over economic and health situation. However, the gains from stimuli is visible in its strong order book and pipeline.
- **Deals Wins:** Infosys reported \$1.7Bn deal wins with 19% net new share. Infosys has highlighted that pipeline improved over 3 months due to client trust and strong service delivery levels. Infosys reported 15 large deal during the quarter. They include a fair mix of different verticals and thus give more reassurance.
- **Cost saving measures:** Infy deployed three pronged cost saving measures such as 1) **Cost avoidance** - control measures (hiring freeze, reskilling bench utilization – to avoid OPM deterioration); 2) Short term discretionary cost cuts – (travel, professional charges, marketing, rate negotiation with vendors etc) and 3) ongoing strategic margin levers such as automation, onsite mix and sub-con.
- **OPM Margin Walk:** Infosys received 70bps benefit from Fx which largely got offset by cross-currency and hedges impact. Added 230bps benefit from Travel and Visa Saving (Temporary Gain) and 100bps+ from SG&A Cost. There was a 150bps negative impact from operational parameters and 100bps from variable rewards to employees.
- **Vanguard Deal:** Infosys signed a strategic partnership with vanguard (large ETF player). Within this deal, Infosys will manage Vanguard's DC recordkeeping business and together will launch a software Vanguard's 5mn participants and 1500 sponsors.

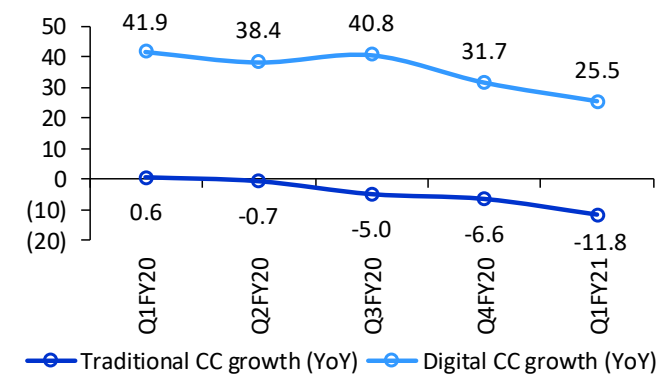
Story in Charts

Exhibit 6: Revenue slide lower than peers at 2% QoQ



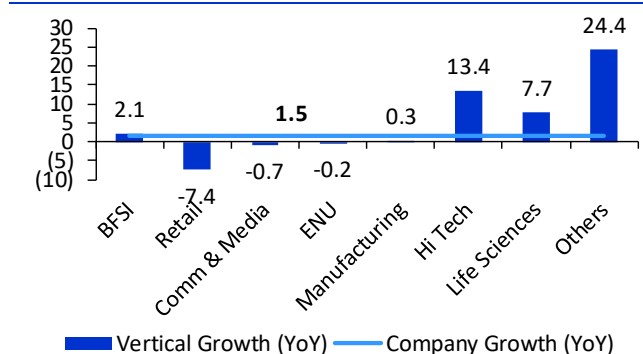
Source: Company, DART

Exhibit 7: Digital growth run-rate soften from ~40% to 25%. Traditional Revenue slide by 11.8% in Q1.



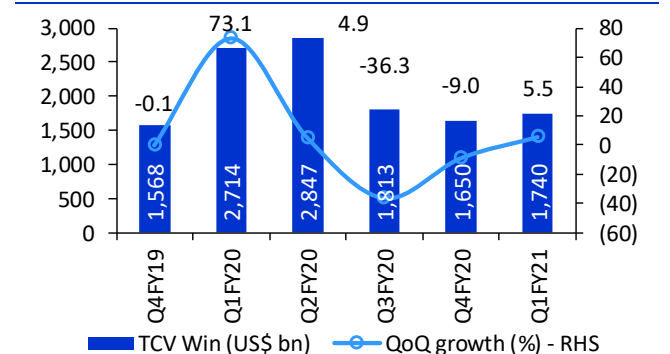
Source: Company, DART

Exhibit 8: Company and each Vertical YoY CC growth



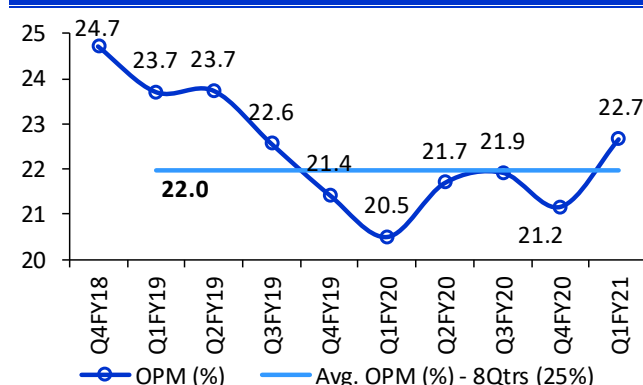
Source: Company, DART

Exhibit 9: TCV win run-rates broadly inline.



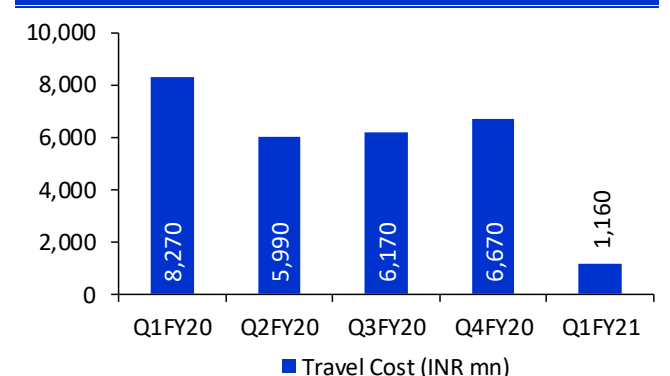
Source: Company, DART

Exhibit 10: Operating Margin above average and within 21%-23% band



Source: Company, DART

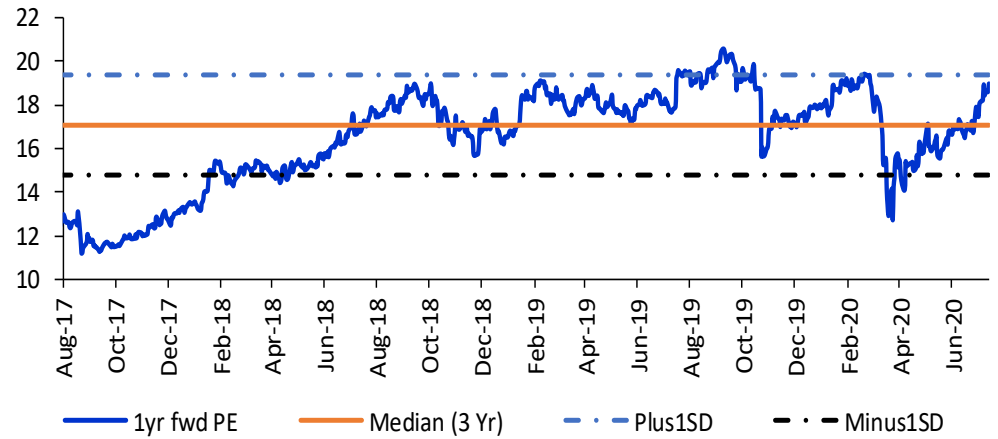
Exhibit 11: Travel Cost savings by 83% QoQ in Q1FY21.



Source: Company, DART

PE Performance

Exhibit 12: 1 year Fwd PER Chart



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	826,760	907,910	972,992	1,071,180
Total Expense	637,950	714,170	758,805	838,883
COGS	538,670	607,320	648,623	713,555
Employees Cost	0	0	0	0
Other expenses	99,280	106,850	110,182	125,328
EBIDTA	208,920	222,680	245,046	264,897
Depreciation	20,110	28,940	30,860	32,600
EBIT	188,810	193,740	214,186	232,297
Interest	0	0	0	0
Other Income	26,130	26,340	20,170	23,500
Exc. / E.O. items	0	0	0	0
EBT	214,940	220,080	234,356	255,797
Tax	56,310	53,680	59,662	64,461
RPAT	158,690	165,950	173,604	190,856
Minority Interest	(60)	450	1,090	480
Profit/Loss share of associates	0	0	0	0
APAT	158,690	165,950	173,604	190,856

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	21,700	21,220	21,204	21,204
Minority Interest	580	3,940	5,030	5,510
Reserves & Surplus	627,780	633,280	680,752	744,865
Net Worth	649,480	654,500	701,956	766,069
Total Debt	0	46,330	41,454	37,454
Net Deferred Tax Liability	(7,000)	(7,760)	(8,148)	(8,047)
Total Capital Employed	643,060	697,010	740,291	800,986

Applications of Funds

Net Block	170,980	247,430	258,344	272,244
CWIP	0	0	0	0
Investments	49,460	48,740	49,109	49,495
Current Assets, Loans & Advances	613,220	614,070	659,434	727,081
Inventories	0	0	0	0
Receivables	148,270	184,870	197,264	217,171
Cash and Bank Balances	195,680	186,490	209,345	239,948
Loans and Advances	2,410	2,390	2,510	2,760
Other Current Assets	200,590	193,770	203,766	220,652
Less: Current Liabilities & Provisions	190,600	213,230	226,595	247,834
Payables	16,550	28,520	31,184	34,475
Other Current Liabilities	174,050	184,710	195,412	213,360
sub total				
Net Current Assets	422,620	400,840	432,839	479,246
Total Assets	643,060	697,010	740,291	800,986

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	34.8	33.1	33.3	33.4
EBIDTA Margin	25.3	24.5	25.2	24.7
EBIT Margin	22.8	21.3	22.0	21.7
Tax rate	26.2	24.4	25.5	25.2
Net Profit Margin	19.2	18.3	17.8	17.8
(B) As Percentage of Net Sales (%)				
COGS	65.2	66.9	66.7	66.6
Employee	0.0	0.0	0.0	0.0
Other	12.0	11.8	11.3	11.7
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.1	0.1	0.0
Interest Coverage				
Inventory days	0	0	0	0
Debtors days	65	74	74	74
Average Cost of Debt		0.0	0.0	0.0
Payable days	7	11	12	12
Working Capital days	187	161	162	163
FA T/O	4.8	3.7	3.8	3.9
(D) Measures of Investment				
AEPS (Rs)	36.5	39.1	40.9	45.0
CEPS (Rs)	41.1	46.0	48.2	52.7
DPS (Rs)	21.4	25.0	30.0	30.0
Dividend Payout (%)	58.8	63.9	73.3	66.7
BVPS (Rs)	149.2	154.3	165.5	180.6
RoANW (%)	24.4	25.5	25.6	26.0
RoACE (%)	24.7	24.8	24.3	24.8
RoAIC (%)	42.4	40.5	41.1	42.5
(E) Valuation Ratios				
CMP (Rs)	831	831	831	831
P/E	22.8	21.2	20.3	18.5
Mcap (Rs Mn)	3,523,854	3,523,854	3,523,854	3,523,854
MCap/ Sales	4.3	3.9	3.6	3.3
EV	3,261,904	3,337,144	3,309,413	3,274,810
EV/Sales	3.9	3.7	3.4	3.1
EV/EBITDA	15.6	15.0	13.5	12.4
P/BV	5.6	5.4	5.0	4.6
Dividend Yield (%)	2.6	3.0	3.6	3.6
(F) Growth Rate (%)				
Revenue	17.2	9.8	7.2	10.1
EBITDA	9.9	6.6	10.0	8.1
EBIT	10.1	2.6	10.6	8.5
PBT	8.5	2.4	6.5	9.1
APAT	(1.0)	4.6	4.6	9.9
EPS	(1.1)	7.3	4.6	9.9

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	158,440	170,030	175,852	184,733
CFI	(15,780)	(2,390)	(21,972)	(23,387)
CFF	(145,120)	(175,910)	(131,025)	(130,743)
FCFF	126,250	118,300	134,079	138,233
Opening Cash	198,710	195,680	186,490	209,345
Closing Cash	195,680	186,490	209,345	239,948

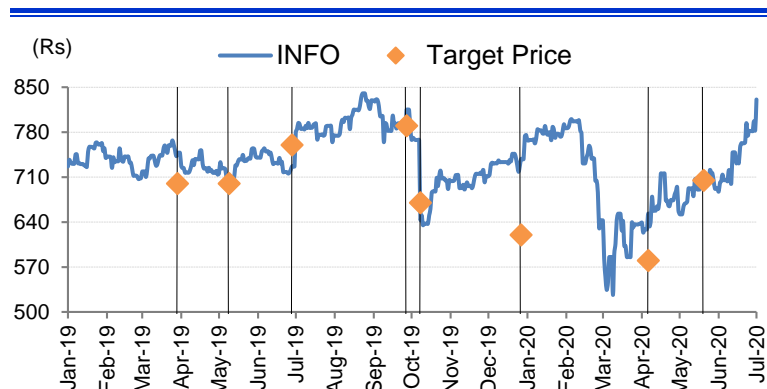
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Apr-19	Sell	700	748
May-19	Sell	700	701
Jul-19	Reduce	760	727
Oct-19	Reduce	790	815
Oct-19	Reduce	670	644
Jan-20	Reduce	620	738
Apr-20	Sell	580	653
Jun-20	Reduce	705	702

*Price as on recommendation date

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