

## Better performance compared to peers....

Infosys reported a healthy set of Q1FY21 numbers both on the revenue and margin front. Further, the Q1FY21 performance was better than TCS' Q1FY21 numbers. The company reported a 2.4% QoQ dip in dollar revenues (above our estimate of decline of 5.5% QoQ) vs. TCS that reported 7.1% QoQ dip in dollar revenues. In terms of margins, EBIT margins improved 149 bps to 22.7% (above our estimate of 20.9%) vs. TCS that reported 149 bps dip in margins. The company's large deal signings have increased 5.5% QoQ to US\$1.74 billion. Digital revenues have increased 3.6% QoQ, 24.1% YoY to US\$1389 million and now contributes 44.5% of total revenues. In terms of guidance, the company expects 0-2% growth in revenues in constant currency terms and operating margins in the range of 21-23%.

## Digital, large deal wins key to growth in coming years

Despite challenges in the quarter, the company's execution has improved. We believe this is on the back of large deal won and market share gains. Going forward, we expect the company to register an improvement in revenues on the back of large deal won in the current quarter and healthy traction (vanguard deal) seen in Q2FY21E. Further, we expect acceleration in digital technologies, vendor consolidation and acquisition of captives to further drive revenues in coming years. Hence, we expect the company to register 7.9% CAGR in revenues over FY20-22E.

## Revenue improvement to drive margins

Margins in Q1FY21 improved 149 bps, mainly led by rupee depreciation (70 bps), lower travel & visa cost (213 bps), lower discretionary spend (110 bps) partially offset by lower utilisation (150 bps), higher onsite cost (30 bps) and higher variable pay (100 bps). Further, the company has various cost rationalisation like salary freeze & promotion, employee pyramid, onsite-offshore mix, automation and lower subcontracting cost. Further, with improvement in revenues, we expect Infosys to withstand any near-term margin headwinds. Hence, we expect the company to register EBIT margins near the upper end of guided range of 21-23% in FY21E. Further, with the anticipated full recovery in FY22E coupled with traction in digital revenues we expect EBIT margins to further improve by 20 bps to 23%.

## Valuation & Outlook

Infosys has shown a visible improvement in performance since the change in management. We expect the company to continue to make steady improvement in financials in coming quarters. Digital acceleration, large deal wins vendor consolidation and cost rationalisation remain key long term drivers. Further, Infosys has maintained healthy cash flow generation and has a consistent dividend payout policy. We remain positive on the stock and maintain our **BUY** rating on the stock with a target price of ₹ 1000/share.

**Infosys**

### Particulars

Particular	Amount
Market Capitalization (₹Crore)	3,61,862.7
Total Debt	-
Cash and Investments (₹Crore)	23,304.0
EV (₹Crore)	3,38,558.7
52 week H/L	848 / 511
Equity capital	2,170.0
Face value	₹5

### Key Highlights

- Large deal wins, vendor consolidation and acceleration in digital technologies remain key long term revenue drivers
- Expect margins to witness gradual improvement in coming quarters
- Maintain BUY with revised target price of ₹ 1000/share

### Research Analyst

Devang Bhatt  
devang.bhatt@icicisecurities.com

### Key Financial Summary

₹Crore	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	70,522	82,676	90,791	96,237	1,05,637	7.9%
EBITDA	19,010	20,890	22,279	25,022	27,677	11.5%
EBITDA Margins (%)	27.0	25.3	24.5	26.0	26.2	
Net Profit	14,597	15,411	16,595	18,270	21,159	
EPS (₹)	32.3	35.4	38.9	43.1	49.9	13.2%
P/E	25.7	23.5	21.4	19.3	16.7	
RoNW (%)	22.5	23.7	25.2	25.6	26.9	
RoCE (%)	30.9	32.9	30.8	31.5	33.2	

Source: Company, ICICI Direct Research

**Exhibit 1: Variance Analysis**

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Revenue	23,665	22,902	21,803	8.5	23,267	1.7	The company reported 2.4% QoQ dip in dollar revenues but rupee depreciation led to 1.7% QoQ growth in rupee revenues
Employee expenses	14,947	14,750	14,098	6.0	14,752	1.3	
Gross Profit	8,718	8,153	7,705	13.1	8,515	2.4	
Gross margin (%)	36.8	35.6	35.3	150 bps	36.6	24 bps	
Selling & marketing costs	1,146	939	1,174	-2.4	1,172	-2.2	
G&A expenses	1,451	1,660	1,379	5.2	1,667	-13.0	
EBITDA	6,121	5,553	5,152	18.8	5,676	7.8	
EBITDA Margin (%)	25.9	24.2	23.6	224 bps	24.4	147 bps	
Depreciation	756	757	681	11.0	749	0.9	
EBIT	5,365	4,796	4,471	20.0	4,927	8.9	
EBIT Margin (%)	22.7	20.9	20.5	216 bps	21.2	149 bps	EBIT margin improved led by rupee depreciation (70 bps), lower travel & visa cost (213 bps), lower discretionary spend (110 bps) partially offset by lower utilisation (150 bps), higher onsite cost (30 bps) and higher variable pay (100 bps)
Other income	475	646	736	-35.5	614	-22.6	
PBT	5,840	5,442	5,207	12.2	5,541	5.4	
Tax paid	1,520	1,317	1,365	11.4	1,161	30.9	
Reported PAT	4,233	4,066	3,798	11.5	4,321	-2.0	Reported PAT came in above our estimate due to better performance at operating level

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

	FY21E			FY22E			Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenue	91,796	96,237	4.8	99,135	105,637	6.6	Considering the large deal pipeline and anticipated improvement in demand, we revise our revenue estimates upwards
EBIT	19,277	21,942	13.8	21,314	24,296	14.0	
EBIT Margin (%)	21.0	22.8	180 bps	21.5	23.0	150 bps	We revise our margin estimates upwards considering strong execution in Q1FY21E and cost rationalisation
PAT	16,463	18,270	11.0	18,893	21,159	12.0	
EPS (₹)	38.7	43.1	11.4	44.4	49.9	12.4	

Source: Company, ICICI Direct Research

## Conference Call Highlights

- Revenue outlook:** The company's performance in the quarter was better than its peers. We believe the improved performance in the quarter was due to market share gains and ramp up of large deal wins. Revenues were impacted by 90% demand side challenges and 10% due to supply side challenges. Infosys has indicated softness in BFSI led by capital markets & cards and lower interest rate. In addition, the company sees pressure in manufacturing, media and energy, retail continuing in the near term. However, improved deal pipeline (15 large deal won in the quarter) in each of the impacted verticals including the Vanguard deal won in Q2FY21E prompted Infosys to give a guidance of 0-2% revenue growth in constant currency
- Other highlights :** The company highlighted few pointers for better performance than peers like better client servicing, higher market share gains, early adoption of WFM, pivoted to new ways of sales, focus on digital capability and localisation play
- Margin trajectory:** Margins in Q1FY21 improved by 149 bps mainly led by rupee depreciation (70 bps), lower travel & visa cost (213 bps), lower discretionary spend (110 bps) partially offset by lower utilisation (150 bps), higher onsite cost (30 bps) and higher variable pay (100 bps). Further, the company has various cost rationalisation measures like salary freeze & promotion, employee pyramid, onsite-offshore mix, lower discretionary spend, automation and lower subcontracting cost. Further, with improvement in revenues, we expect Infosys to withstand the margin headwinds. Hence, we expect the company to post EBIT margins near the upper end of guided range of 21-23% in FY21E. Further, with anticipated full recovery in FY22E coupled with traction in digital revenues, we expect EBIT margins to further improve by 20 bps to 23%
- TCV:** Large deal TCV was healthy with deal signings worth ~US\$1.74 billion in the quarter, up 5.5% QoQ. Out of the total deal, 19% was new. The company sees improved traction with cloud deals, cyber security and automation. The company won 15 large deals in the quarter while the deal won was broad based and across geographies. Thirteen deals were in Americas
- Digital story:** Digital continues to drive the growth of the company with 24.1% YoY growth and constituting 44.5% of revenues (vs. 35.7% in Q1FY20). Further, the company continues to see acceleration in digital technology like cyber security, cloud and automation
- Employee update:** The company has 99% of employees working from home. There was a decline of 3138 employees taking employee strength to 239,233. Attrition at a consolidated level witnessed a reduction from 20.5% to 11.7%. The company is going to freeze hiring and lower subcontracting cost to manage utilisation. Utilisation (ex-trainees) dipped 230 bps sequentially to 81.2% in Q1FY21, that was mainly 10% supply led and 90% demand led

## Key Metrics

### Exhibit 3: Geography-wise split

	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
<b>Revenue by geography (%)</b>						
North America	61.2	61.6	61.4	61.3	61.6	61.5
Europe	24.0	23.6	24.1	24.4	24.4	24.0
India	2.3	2.3	2.7	2.8	2.6	2.9
ROW	12.5	12.5	11.8	11.5	11.4	11.6
<b>Growth QoQ in \$ terms (%)</b>						
North America	3.8	3.0	2.2	0.9	-0.9	-2.5
Europe	1.6	0.6	4.7	2.3	-1.4	-4.0
India	-9.4	2.3	20.4	4.8	-8.5	8.9
ROW	0.0	2.3	-3.2	-1.5	-2.3	-0.7

Source: Company, ICICI Direct Research

Revenues declined across geographies except India

### Exhibit 4: Vertical-wise split

	%contribution to revenues Q1FY21	%contribution to revenues Q4FY20	Growth QoQ (%)
<b>Revenue by verticals (%)</b>			
Financial Services	31.5	31.3	-1.8
Insurance			
Retail	14.3	15.5	-9.9
Communication	13.4	13.0	-3.1
Energy, Utilities, Resources & Services	12.8	12.9	0.6
Manufacturing	9.5	10.1	-8.2
Hi Tech	8.7	7.9	7.5
Life Sciences	6.7	6.4	2.2
Others	3.1	2.9	6.5

Source: Company, ICICI Direct Research

The company has seen healthy deal pipeline across verticals which will drive growth in coming quarters

### Exhibit 5: Client & human resource matrix

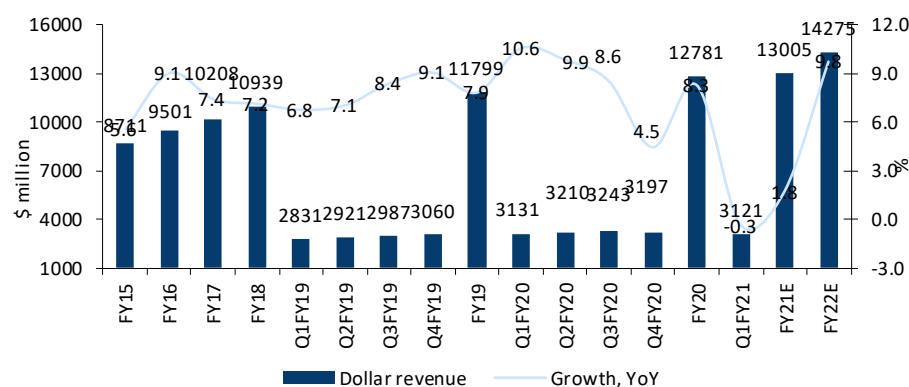
	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q4FY20
<b>Client metrics</b>						
5 Million \$ clients	662	680	693	705	718	729
25 Million \$ clients	222	228	228	232	234	236
50 Million \$ clients	60	59	61	61	61	60
100 Million \$ clients	25	27	27	28	28	25
<b>Headcount, Utilization &amp; Attrition</b>						
Total Employees	228123	229029	236486	243454	242371	239233
Utilization (Excluding trainees)	82.3	83.1	84.9	84.4	83.5	81.2
LTM Attrition	20.4	0.0	23.4	21.7	19.6	20.7

Source: Company, ICICI Direct Research

Decline in attrition key highlight in quarter

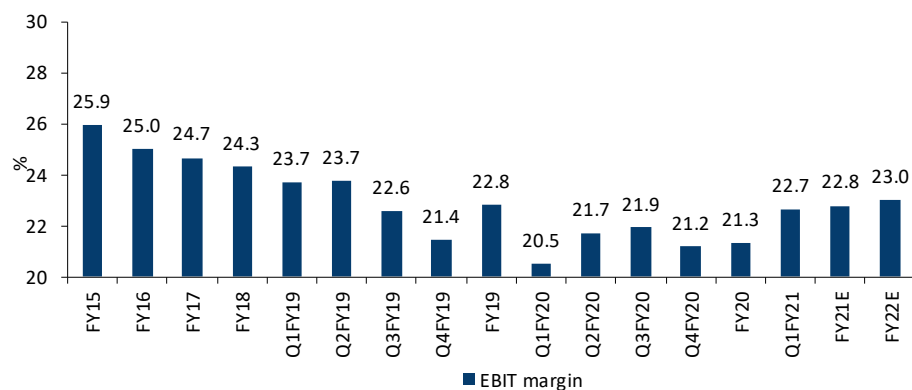
## Financial story in charts

**Exhibit 6: Dollar revenues trend**



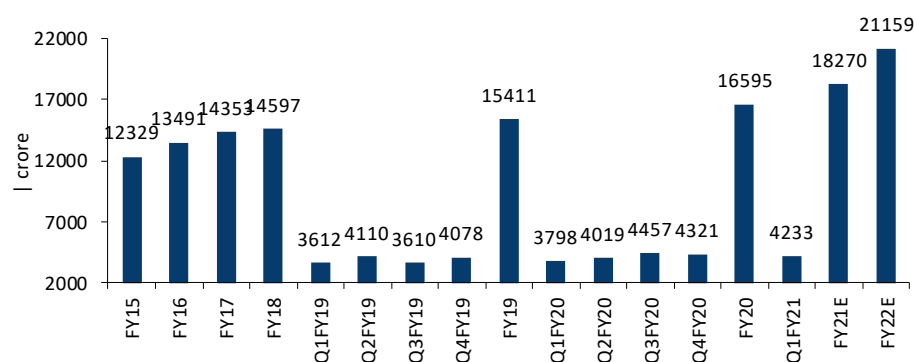
Source: Company, ICICI Direct Research

**Exhibit 7: Change in margin estimates for FY21E & FY22E**



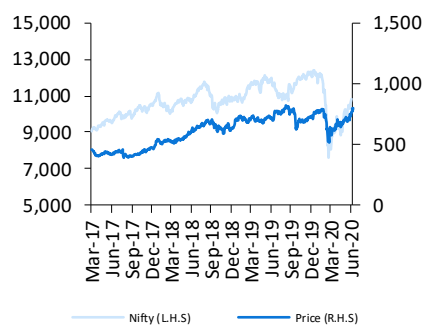
Source: Company, ICICI Direct Research

**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>96,237</b>	<b>1,05,637</b>
Growth (%)	17.2	9.8	6.0	9.8
COGS (employee expenses)	51,857	57,827	60,629	66,129
Admin expenses	5,454	5,973	5,774	6,549
S&M expenses	4,475	4,712	4,812	5,282
Total Operating Expenditure	61,786	68,512	71,215	77,960
<b>EBITDA</b>	<b>20,890</b>	<b>22,279</b>	<b>25,022</b>	<b>27,677</b>
Growth (%)	9.9	6.7	12.3	10.6
Depreciation	2,011	2,905	3,080	3,380
Other Income	2,883	2,803	2,414	3,861
PBT	21,041	22,007	24,166	27,988
Total Tax	5,630	5,367	5,897	6,829
<b>PAT</b>	<b>15,411</b>	<b>16,595</b>	<b>18,270</b>	<b>21,159</b>
Growth (%)	5.6	7.7	10.1	15.8
<b>EPS (₹)</b>	<b>35.4</b>	<b>38.9</b>	<b>43.1</b>	<b>49.9</b>
Growth (%)	9.5	9.9	10.7	15.8

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	18,270	21,159
Add: Depreciation	2,011	2,905	3,080	3,380
(Inc)/dec in Current Assets	(3,720)	(3,357)	(1,870)	(3,231)
Inc/(dec) in CL and Provisions	3,128	1,419	986	1,703
Taxes paid	(6,832)	(4,550)	(5,897)	(6,829)
<b>CF from operating activities</b>	<b>15,844</b>	<b>18,557</b>	<b>18,051</b>	<b>19,150</b>
(Inc)/dec in Investments	1,369	(322)	2,414	3,861
(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>(586)</b>	<b>861</b>
Dividend paid & dividend tax	(13,705)	(9,515)	(12,793)	(13,728)
Others	6	(27)	-	-
<b>CF from financing activities</b>	<b>(14,512)</b>	<b>(17,591)</b>	<b>(12,793)</b>	<b>(13,728)</b>
Net Cash flow	(246)	(827)	4,672	6,284
Exchange difference	(57)	(92)	-	-
Opening Cash	19,818	19,568	18,649	23,321
<b>Closing Cash</b>	<b>19,568</b>	<b>18,649</b>	<b>23,321</b>	<b>29,605</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	69,199	76,630
Total Shareholders funds	65,006	65,844	71,321	78,752
Employee benefit obligations	44	38	38	38
Debt	-	-	-	-
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>77,389</b>	<b>84,820</b>
<b>Assets</b>				
Property, plant and equipment	13,356	17,867	17,787	17,407
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	23,321	29,605
Current Investments	6,627	4,655	4,655	4,655
Trade receivables	14,827	18,487	19,594	21,508
Unbilled revenue	5,374	7,121	7,548	8,285
Prepayment & O.fin.assets	6,146	5,602	5,938	6,518
Other current assets	336	62	62	62
Total Current Assets	52,878	54,576	61,118	70,633
Trade payables	1,655	2,852	3,022	3,317
Unearned revenue	2,809	2,990	3,169	3,479
OCL & provisions	14,174	15,014	15,651	16,749
Total Current Liabilities	18,638	20,856	21,842	23,545
Net Current Assets	34,240	33,720	39,276	47,088
<b>Application of Funds</b>	<b>66,100</b>	<b>71,912</b>	<b>77,389</b>	<b>84,820</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	43.1	49.9
Cash EPS	40.0	45.7	50.3	57.9
BV	149	154	168	186
DPS	21.5	22.3	30.1	32.3
Cash Per Share	45	44	55	70
<b>Operating Ratios (%)</b>				
EBIT Margin	22.8	21.3	22.8	23.0
PBT Margin	25.4	24.2	25.1	26.5
PAT Margin	18.6	18.3	19.0	20.0
Debtor days	65	74	74	74
Unbilled revenue	21	25	28	27
Creditor days	7	11	11	11
<b>Return Ratios (%)</b>				
RoE	23.7	25.2	25.6	26.9
RoCE	32.9	30.8	31.5	33.2
RoIC	47.3	39.9	44.4	48.1
<b>Valuation Ratios (x)</b>				
P/E	23.5	21.4	19.3	16.7
EV / EBITDA	16.1	15.2	13.3	11.8
EV / Net Sales	4.1	3.7	3.5	3.1
Market Cap / Sales	4.4	4.0	3.8	3.4
Price to Book Value	5.6	5.4	4.9	4.5
<b>Solvency Ratios</b>				
Debt/EBITDA	-	-	-	-
Debt / Equity	-	-	-	-
Current Ratio	2.2	2.1	2.1	2.1
Quick Ratio	2.2	2.1	2.1	2.1

Source: Company, ICICI Direct Research

**Exhibit 14: ICICI Direct coverage universe (IT)**

Company	Cmp (₹)	TP (₹)	Rating	Mcap (₹Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
					FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
HCL Tech (HCLTECH)	615	585	Buy	1,54,290	40.8	39.1	43.5	14	15	13	23.0	19.8	19.5	21.6	17.8	17.0
Infosys (INFTECH)	831	1,000	Buy	3,61,863	38.9	43.1	49.9	21	19	17	30.8	31.5	33.2	25.2	25.6	26.9
TCS (TCS)	2,233	2,400	Hold	8,20,125	86.2	83.6	94.4	25	26	23	43.5	42.4	49.1	37.5	36.7	42.8
Tech M (TECMAH)	615	630	Buy	50,432	44.8	33.7	44.3	13	17	13	19.1	13.2	15.9	18.5	12.8	15.3
Wipro (WIPRO)	263	300	Buy	1,48,751	16.6	16.9	18.9	15	15	13	19.3	17.7	18.4	17.4	15.8	16.4
Mindtree (MINCON)	975	1,160	Buy	16,419	38.3	50.5	59.7	26	20	17	20.0	22.5	23.1	23.0	26.1	27.2
LTi (LTINF)	2,195	2,050	Buy	34,130	86.6	95.0	110.4	23	21	18	30.7	29.0	28.7	28.1	25.9	25.3
NIIT Tech (NIITECH)	1,689	1,330	Hold	8,561	71.4	75.5	88.6	20	19	16	24.2	24.7	25.6	19.4	20.0	20.7
Infoedge (INFEDGE)	3,045	3,290	Hold	33,948	26.8	21.6	33.8	166	129	82	18.0	13.6	19.1	13.5	10.1	14.3
Teamlease (TEAMLEASE)	1,819	2,000	Buy	2,855	20.5	38.9	61.5	81	43	27	15.0	11.3	14.6	6.8	10.4	14.2

Source: Company, ICICI Direct Research



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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com

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