

October 15, 2020

## Q2FY21 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
<b>Rating</b>	<b>BUY</b>		<b>BUY</b>	
<b>Target Price</b>	<b>1,436</b>		<b>1,259</b>	
Sales (Rs. m)	11,18,843	12,51,133	11,12,392	12,45,550
% Chng.	0.6	0.4		
EBITDA (Rs. m)	2,85,443	3,06,395	2,82,208	3,06,736
% Chng.	1.1	(0.1)		
EPS (Rs.)	50.8	55.6	49.7	55.3
% Chng.	2.2	0.6		

### Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	908	989	1,119	1,251
EBITDA (Rs. bn)	223	268	285	306
Margin (%)	24.5	27.1	25.5	24.5
PAT (Rs. bn)	166	197	215	236
EPS (Rs.)	39.1	46.4	50.8	55.6
Gr. (%)	10.3	18.7	9.4	9.5
DPS (Rs.)	20.9	24.0	21.6	24.0
Yield (%)	1.8	2.1	1.9	2.1
RoE (%)	25.4	27.4	25.6	25.7
RoCE (%)	29.6	33.0	30.6	30.6
EV/Sales (x)	5.1	4.5	3.9	3.4
EV/EBITDA (x)	20.7	16.8	15.2	14.1
PE (x)	29.1	24.5	22.4	20.5
P/BV (x)	7.4	6.2	5.3	5.2

### Key Data

INFO.BO | INFO IN

52-W High / Low	Rs.1,166 / Rs.509
Sensex / Nifty	40,795 / 11,971
Market Cap	Rs.4,843bn/ \$ 66,067m
Shares Outstanding	4,259m
3M Avg. Daily Value	Rs.24051.39m

### Shareholding Pattern (%)

Promoter's	13.57
Foreign	30.47
Domestic Institution	25.43
Public & Others	30.53
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	16.2	78.4	44.6
Relative	10.4	34.2	35.5

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## Unrivalled Performance

### Quick Pointers:

- Infy's results were beat on all parameters: - 1) Revenues, 2) Margins, 3) Guidance, 4) TCV & 5) Dividend.
- 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 5 quarters, 3) Strong deal momentum & market share gains, 4) Equally strong cash conversion, payouts 5) Vendor Consolidation. INFY is currently trading at 20% 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 far surpassed growth expectations reporting 4% QoQ CC growth in revenues as compared to Ple 3.4%/Cons 2.6% QoQ CC. This translates to USD3312mn revenues up 6.1% QoQ (Ple:4%, Cons: 4.1% QoQ in reported terms) beat of 1.2% on our estimates. H1 revenues grew by 1.9% in CC. Growth beat was significantly driven by BFSI (40% of incremental growth), Retail (~25% of incremental growth) and Hitech (~16% of incremental growth). Infy posted a strong margin expansion of ~270bps QoQ to 25.3% (Ple: 23%, Cons:22.9%). We were impressed by the 100 bps contribution to margins from the increase in realization in pandemic times, this reflects pricing power. Infy has added 5 clients in US\$100mn bucket, remarkable. Infosys' new deal wins hit a new high of US\$2.7 bn. Net new deals at US\$2.7 bn was 2.2X of the previous high achieved in Q2FY19. Even adjusting for US\$1.5 bn Vanguard deal, value of net new deals was remarkably strong at US\$1.2 bn.**

**Infy's deal pipeline remains strong with clients focusing on accelerated digital transformation, cloud deployment, SaaS and automation projects to improve cost efficiencies. Infosys stays our top pick in the sector as it benefits from near term margin defense and long term growth acceleration from DX/cloud/AI megatrends. We are assigning 27X multiple (earlier 24X, 11% discount to TCS multiple) to Infy as we believe higher multiple is justified due to following factors 1) Strong revenue acceleration 2) Best in class metrics along with broad based recovery 3) Excellent supply chain mechanism 4) Strong dividend payouts & 5) All time high deal wins. As we were already 3% ahead than cons estimates, there is just avg 2.7% increase in earnings for FY22/23 for us. We value Infy at 27x to arrive at a changed target price of INR 1436 (earlier: INR1259) on Sep-22 EPS of Rs. 53.2. Infy is currently trading at 22.3X/20.4X FY22/23 earnings of INR 51/55.6 on FY22/23E respectively. Reiterate BUY.**

- Broad-based growth:** Infy far surpassed growth expectations reporting 4% QoQ CC rise in revenues as compared to Ple 3.4%/Cons 2.6% QoQ CC. This translates to USD3312mn revenues up 6.1% QoQ (Ple:4%, Cons: 4.1% QoQ in reported terms) beat of 1.2% on our estimates. H1 revenues grew by 1.9% in CC. Digital revenues are sharply rising at 47.3% of total revenues (vs 44.5%

*FY21E revenue growth guidance is in the range of 2-3% (vs our est. of 1 to 2% YoY) improvement from 0-2% guidance stated in 1Q21. The guidance implies a CQGR of 0.5 to 1.8% CQGR over 3Q-4Q. Operating margin guidance for FY21E in the range of 23-24% (versus 21-23% earlier).*

*Strategic levers like improvement in offshore-onsite mix, pyramid reshaping (hiring more freshers), and automation – to improve productivity will have continued long lasting impact on margins.*

*Won 6 deals in BSFI, 3 in retail, 2 each in hi-tech and communication, and 1 each in energy, retail, manufacturing and others. 11 deals won in in US, 4 in Europe and 1 in RoW. Share of new net deals jumped to 86% vs 11% of net new with USD2.1bn large deal wins last year.*

in 1Q21 and 42% in 4Q20). Digital revenues delivered growth of +25.4% YoY in cc terms. Revenue growth was broad based led by 7.8% QoQ USD rise in BFSI, 7.7% QoQ USD rise in Life Sciences and 10.6% QoQ rise in HiTech. Retail vertical rebounded sharply at +10.6% QoQ USD (vs -9.9% QoQ in 1Q21). (all in reported terms). Growth beat was significantly driven by BFSI (40% of incremental growth), Retail (~25% of incremental growth) and Hitech (~16% of incremental growth).

- **Strong guidance on both fronts:** FY21E revenue growth guidance is in the range of 2-3% (vs our est. of 1 to 2% YoY) improvement from 0-2% guidance stated in 1Q21. The guidance implies a CQGR of 0.5 to 1.8% CQGR over 3Q-4Q. Operating margin guidance for FY21E in the range of 23-24% (versus 21-23% earlier). For Q3FY21, management expects continued steady improvement in hi-tech and life sciences, stable revenue from BSFI and progress in retail vertical. There will also be furlough impact in Q3FY21 which is built into the guidance.
- **Strong Operational Performance:** Infy posted a strong margin expansion of ~270bps QoQ to 25.3% (Ple: 23%, Cons:22.9%). Tailwinds were i) +100 bps increase due to Higher pricing RFP, low discount environment and higher productivity achieved through automation, ii) 80bps because of higher utilization Travel (240 bps improvement) iii) Lower SG&A (+80bps) & travel costs. Cost reduction measures taken in last quarter continued in 2Q21 like i) Reducing on discretionary spends like branding, marketing, ii) Traditional levers like mix, deploying automation, etc. iii) Reduction in travel cost. Deferral of costs such as wage hike and promotions will be back in H2FY21.
- As the business normalizes management expects sustainable margin levels to be in the range of 21-23%. Strategic levers like improvement in offshore-onsite mix, pyramid reshaping (hiring more freshers), and automation – to improve productivity will have continued long lasting impact on margins. Net Profit came at INR48.5 bn up 20.6 YoY led by strong margin performance & strong revenue growth. EPS grew at 9.5% in dollar terms at Rs.11.42.
- **Highest ever large deal wins:** Infosys reported deal wins of USD3.145bn (vs USD1.74bn last quarter). LTM deal wins at USD8.3bn were lower than USD8.7bn signed in prior year. 2Q deal flow included Vanguard deal which is the largest deal in Infosys history and as per news reports is between USD1.5-2bn in value. Contribution from Vanguard deal was marginal this quarter which is expected to ramp up in Q3. Won 6 deals in BSFI, 3 in retail, 2 each in hi-tech and communication, and 1 each in energy, retail, manufacturing and others. 11 deals won in in US, 4 in Europe and 1 in RoW. Share of new net deals jumped to 86% vs 11% of net new with USD2.1bn large deal wins last year. In Q1FY21, there were higher discounts which have moderated in Q2FY21. Deal pipeline remains strong with clients focusing on accelerated digital transformation, cloud deployment, SaaS and automation projects to improve cost efficiencies.

*Infosys will pay variable pay to employees at 100% and pay one-time special incentive in Q3 to junior employees. With ongoing visa restrictions Infosys will give impetus to local hiring in the US. In past three years Infosys has hired over 13000 U.S. workers and now plan to hire additional 12000 over next two years, bringing hire commitment in the U.S to 25000 over 5 years. Employee base dependent on Visa in US stands at 37%.*

*Management indicated that deal pipeline for Life sciences and Hi-Tech continue to remain strong. Financial Services saw a continued improvement in performance, both on year-on-year and sequential basis.*

*Management mentioned that momentum is back in Retail, with increased volumes in Q2 and ramp-up of earlier deal wins. Clients are mainly spending on ecommerce growth and analytics.*

*Grocery and essential retail is doing well. There is a lot of focus on online retails by the customers.*

*Cloud is going to be a multi-year growth story for IT industry. To benefit from accelerated migration to cloud, Infosys launched Cobalt, bringing together all their cloud services, platforms and solutions, to support clients in their cloud journey and reducing the risk to their cloud programs.*

- **Pyramid reshaping, valuing employees, focus on localization:** Number of hiring was on lower side this quarter with net headcount addition was at 975 and IT services annualized attrition level at all-time low of 7.8%. 99% of the workforce continues to work from home. Attrition is lower because of higher engagement with employees and focus on health and safety of employees. In 2Q21, Infosys had 5500 additions out of which 3000 were fresh hires including both India and abroad. In terms of fresh hires company expects to hire 16500 fresh hires in India in FY21 and about 15000 in next year. Infosys will pay variable pay to employees at 100% and pay one-time special incentive in Q3 to junior employees. With ongoing visa restrictions Infosys will give impetus to local hiring in the US. In past three years Infosys has hired over 13000 U.S. workers and now plan to hire additional 12000 over next two years, bringing hire commitment in the U.S to 25000 over 5 years. Employee base dependent on Visa in US stands at 37%.
- **Sustained growth momentum in HiTech & Lifesciences, stability in BFSI, recovery in retail:** Management indicated that deal pipeline for Life sciences and Hi-Tech continue to remain strong. Financial Services saw a continued improvement in performance, both on year-on-year and sequential basis. The uptick in business has been in areas that banks are investing in significantly post COVID, such as mortgage servicing, call center technology and operations, lending services to cater to various government relief programs, as well as pickup of large digital transformation programs. 6 large deals signed in this segment in Q2, including the Vanguard deal should propel revenue growth for Financial Services in the coming quarters. FINACLE is seeing a lot of tractions as banks are looking for digital transformation.
- Management mentioned that momentum is back in Retail, with increased volumes in Q2 and ramp-up of earlier deal wins. Clients are mainly spending on ecommerce growth and analytics. However, they remain cautious on this segment given continuing demand and liquidity issues and possibly increased furloughs in the coming months. Grocery and essential retail is doing well. There is a lot of focus on online retails by the customers.
- Infy is seeing disruptions in Manufacturing sector with projects centered around improving cost efficiency. Manufacturing is severely impacted by COVID-19. Manufacturing has also been impacted because of trade war. The activity level in manufacturing vertical is improving. Communications segment remained weak, given pressure on spending, especially in media, entertainment, advertising and OEM segments. However, Infy has a strong pipeline of deals in this segment and have won 2 large deals in the last quarter, which should help in stabilizing performance for this segment in H2FY21.
- **Where are clients investing?** Clients have realized the urgency to modernize their legacy systems to become resilient and reap the benefits due to innovation on top of digital core. Cloud is going to be a multi-year growth story for IT industry. To benefit from accelerated migration to cloud, Infosys launched Cobalt, bringing together all their cloud services, platforms and solutions, to support clients in their cloud journey and reducing the risk to their cloud programs. Infosys will continue to expand in newer areas of demand and has done three acquisitions in Q2: Guide Vision focused on ServiceNow, Blue Acon focused on Adobe and Kaleidoscope, focused on medical product design. Most of the tech spends for new areas are coming from of cost take-outs. **Though**

*Citi tech spend jumped to 11% of revenue in this quarter as compared to 8.8% in last quarter & JPM tech spend as % of revenue rose to 8.8% as compared to 7.7% in last quarter.*

**management mentioned that for most of the clients, IT spends will remain same as a % of revenue, we believe IT spends will improve going forward as investments will be diverted from physical assets to digital assets.**

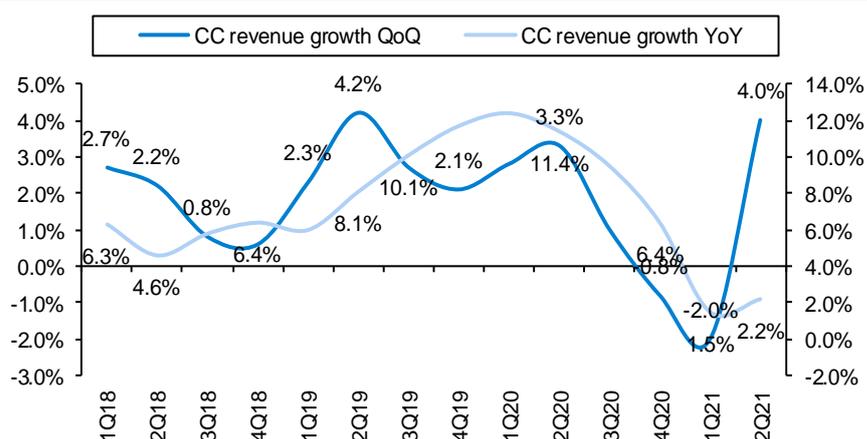
- We would like to highlight that US banks posted a strong steady growth in Tech Spends **in their Q3 results** Citi tech spend jumped to 11% of revenue in this quarter as compared to 8.8% in last quarter & JPM tech spend as % of revenue rose to 8.8% as compared to 7.7% in last quarter.
- **Robust cash flows:** FCF for Q2 was a healthy \$674 million, which is a growth of 70% Y-o-Y and 59% growth in H1 Y-o-Y. FCF/NI was 103% for Q2 and 116% for H1. DSO reduced by 2 days QoQ was at 69 days. Return on equity increased to 26.7% compared to 25.1% in the prior year. Board declared interim dividend of INR12, which is a 50% growth over the interim dividend per share of FY20

**Exhibit 1: Q2FY21 Result Overview (Rs mn)**

Y/e March	2Q21	1Q21	QoQ	2Q20	YoY	Variance(Ple VS ACTUAL)
Net sales (US\$ m)	3,312	3,121	6.1%	3,210	3.2%	1.2%
Net sales	2,45,700	2,36,650	3.8%	2,26,290	8.6%	0.9%
EBITDA	70,830	61,210	15.7%	56,390	25.6%	11.4%
<i>EBITDA Margin</i>	<i>28.8%</i>	<i>25.9%</i>	<i>296 bps</i>	<i>24.9%</i>	<i>391 bps</i>	<i>273 bps</i>
EBIT	62,280	53,650	16.1%	49,120	26.8%	11.1%
<i>EBIT Margin</i>	<i>25.3%</i>	<i>22.7%</i>	<i>268 bps</i>	<i>21.7%</i>	<i>364 bps</i>	<i>233 bps</i>
Adj. Net Profit	48,450	42,330	14.5%	40,190	20.6%	0.7%
Adjusted EPS	11.4	10.0	14.4%	9.4	20.7%	0.6%

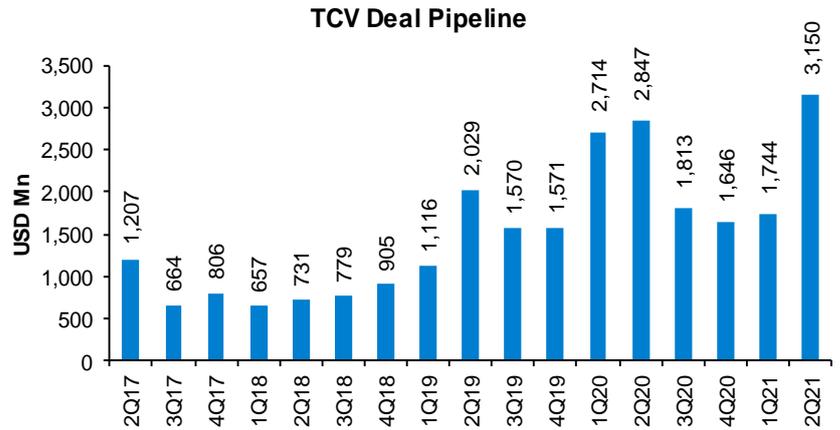
Source: Company, PL

**Exhibit 2: Strong Revenue growth**



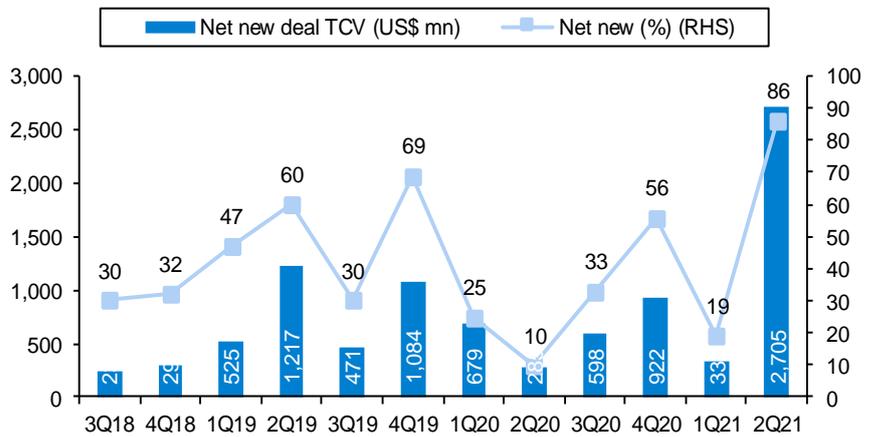
Source: Company, PL

**Exhibit 3: Strong TCV Deal Pipeline**



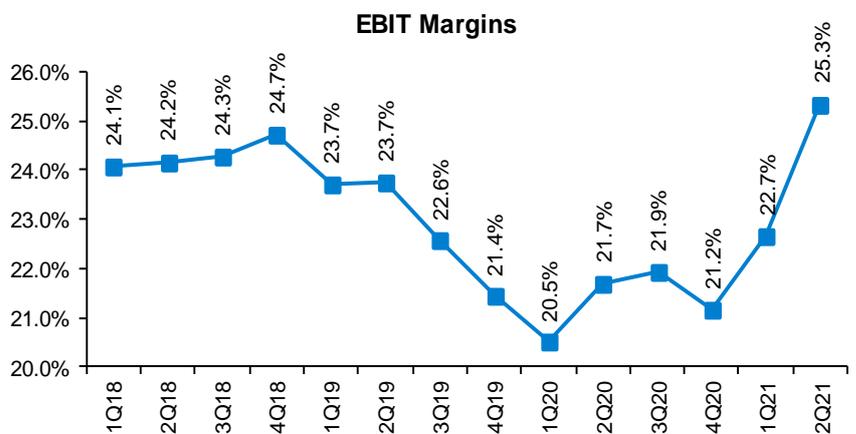
Source: Company, PL

**Exhibit 4: Net New deal wins improved**



Source: Company, PL

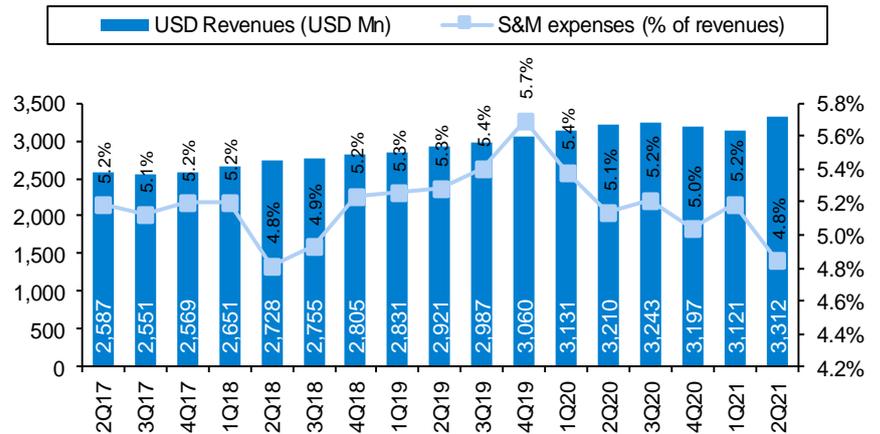
**Exhibit 5: Margins improved led by cost optimization**



Source: Company, PL

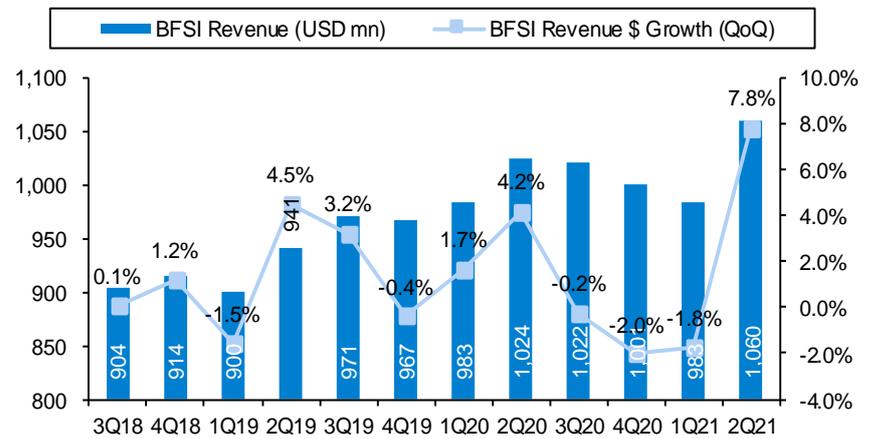
The margins benefited from Cost reduction measure like i) hiring freeze ii) Reducing on discretionary spends like branding, marketing, re-negotiation of rates iii) Traditional levers like mix, deploying automation, etc.iv) No travel cost.

**Exhibit 6: SGA Expenses decline during the quarter**



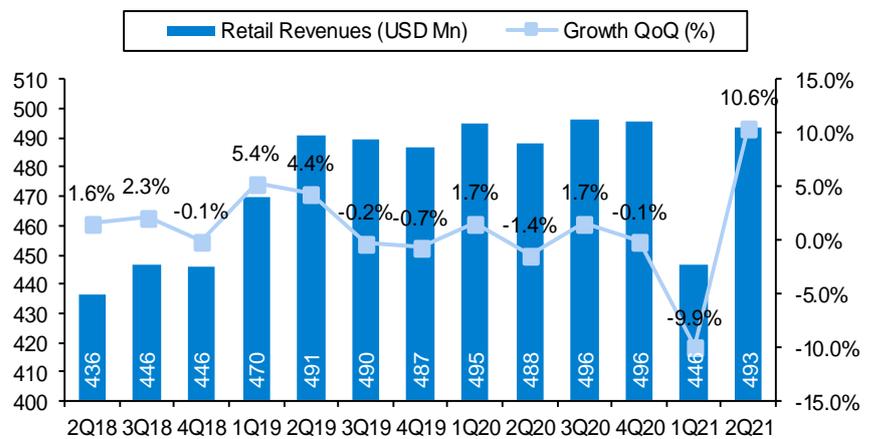
Source: Company, PL

**Exhibit 7: BFSI rebounded**

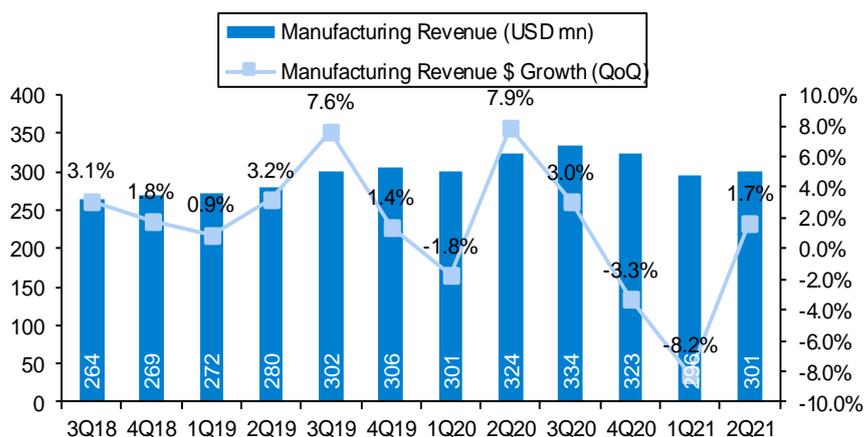


Source: Company, PL

**Exhibit 8: Retail growth is back on track**



Source: Company, PL

**Exhibit 9: Manufacturing vertical to improve ahead**


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.

Infosys stays our top pick in the sector as it benefits from near term margin defense and long term growth acceleration from DX/cloud/AI megatrends.

We are assigning 27X multiple (earlier 24X, 11% discount to TCS multiple) to Infy as we believe higher multiple is justified due to following factors 1) Strong revenue acceleration 2) Best in class metrics along with broad based recovery 3) Excellent supply chain mechanism 4) Strong dividend payouts & 5) All time high deal wins. As we were already 3% ahead than cons estimates, there is just avg 2.7% increase in earnings for FY22/23 for us. We value Infy at 27x to arrive at a changed target price of INR 1436 (earlier: INR1259) on Sep-22 EPS of Rs. 53.2. Infy is currently trading at 22.3X/20.4X FY22/23 earnings of INR 51/55.6 on FY22/23E respectively. Reiterate BUY.

**Exhibit 10: Changes in Estimates**

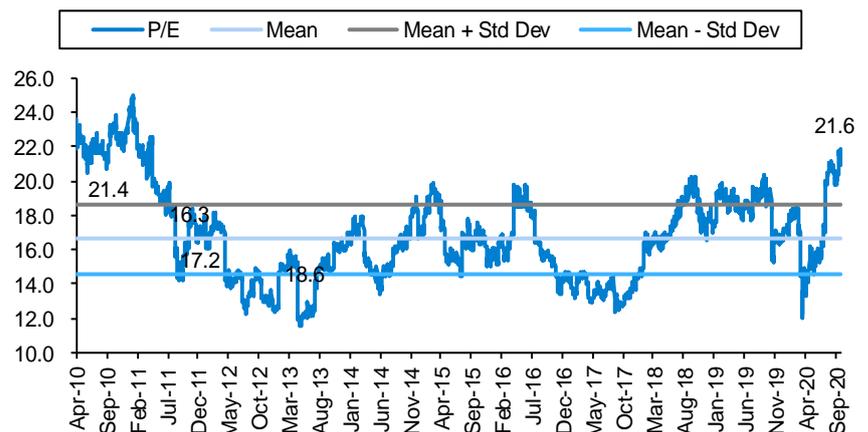
	FY21E	FY22E	FY23E
<b>USD revenues (US\$ m)</b>			
- New	13,283	14,722	16,248
- Old	13,203	14,642	16,159
<i>Change (%)</i>	<i>0.6%</i>	<i>0.5%</i>	<i>0.6%</i>
<b>EBIT Margin</b>			
- New	24.0%	23.0%	22.5%
- Old	22.8%	22.7%	22.5%
<i>Change (%)</i>	<i>117 bps</i>	<i>27 bps</i>	<i>-5 bps</i>
<b>Recurring EPS - Fully diluted (Rs)</b>			
- New	46.3	50.7	55.5
- Old	44.8	49.6	55.2
<i>Change (%)</i>	<i>3.4%</i>	<i>2.1%</i>	<i>0.6%</i>

Source: PL

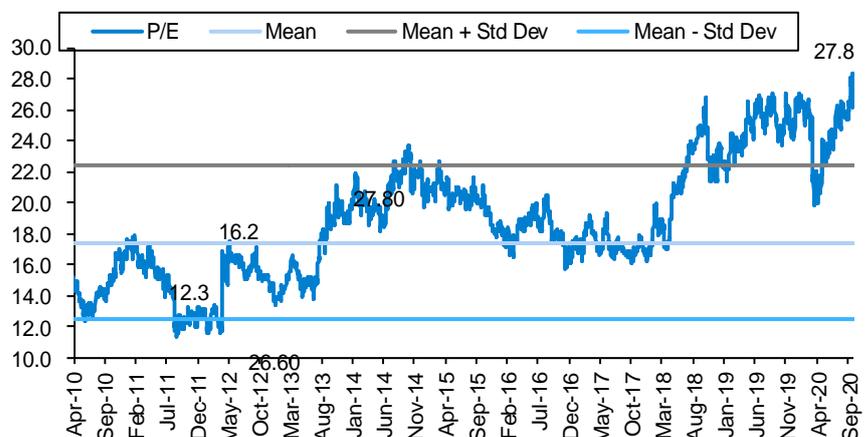
**Exhibit 11: Key Financials**

Rs m	FY20	1Q21	2Q21	3Q21	4Q21	FY21E	FY22E	FY23E
Revenue (US\$ m)	12,781	3,121	3,312	3,386	3,464	13,283	14,722	16,248
Revenue	9,07,910	2,36,650	2,45,700	2,50,529	2,56,337	9,89,216	11,18,843	12,51,133
Cost of revenue	6,07,320	1,57,030	1,57,710	1,62,420	1,65,994	6,43,154	7,38,772	8,13,607
Gross profit	3,00,590	79,620	87,990	88,109	90,343	3,46,062	3,80,071	4,37,527
<i>Gross margin</i>	33.1%	33.6%	35.8%	35.2%	35.2%	35.0%	34.0%	35.0%
Operating expenses	1,06,850	25,970	25,710	28,811	28,197	1,08,688	1,23,073	1,56,524
EBITDA	2,22,670	61,210	70,830	66,390	69,211	2,67,641	2,85,443	3,06,395
<i>EBITDA margin</i>	24.5%	25.9%	28.8%	26.5%	27.0%	27.1%	25.5%	24.5%
Depreciation & Amortisation	28,930	7,560	8,550	7,092	7,065	30,267	28,445	25,393
EBIT	1,93,740	53,650	62,280	59,298	62,146	2,37,374	2,56,998	2,81,002
<i>EBIT margin</i>	21.3%	22.7%	25.3%	23.7%	24.2%	24.0%	23.0%	22.5%
Other income	28,030	4,750	5,700	7,938	8,580	26,968	31,203	30,241
Profit before tax	2,20,080	57,920	67,500	66,756	70,246	2,62,422	2,86,201	3,09,243
PAT	1,66,410	42,330	48,450	51,097	53,830	1,96,746	2,15,297	2,35,828
EPS- Diluted	39.0	10.0	11.4	12.0	12.7	46.3	50.7	55.5

Source: Company, PL

**Exhibit 12: Infosys One year forward PE**


Source: Company, PL

**Exhibit 13: TCS One Year Forward P/E chart**


Source: Company, PL

**Exhibit 14: Geography-wise revenues**

(US\$ m)	2Q20	1Q21	QoQ gr.	2Q20	YoY gr.
North America	2,010	1,919	4.7%	1,971	2.0%
Europe	805	749	7.4%	774	4.0%
India	99	91	9.8%	87	14.6%
Rest of World	397	362	9.8%	379	4.9%
<b>Total</b>	<b>3,312</b>	<b>3,121</b>	<b>6.1%</b>	<b>3,210</b>	<b>3.2%</b>
<b>as % of Total</b>					
North America	60.7%	61.5%	-80 bps	61.4%	-70 bps
Europe	24.3%	24.0%	30 bps	24.1%	20 bps
India	3.0%	2.9%	10 bps	2.7%	30 bps
Rest of World	12.0%	11.6%	40 bps	11.8%	20 bps

Source: Company, PL

**Exhibit 15: Vertical-wise revenues**

	2Q20	1Q21	QoQ gr.	2Q20	YoY gr.
Financial Services	1,060	983	7.8%	1,024	3.5%
Manufacturing	301	296	1.7%	324	-7.0%
Communication Services	417	399	4.5%	421	-0.8%
Retail CPG	493	446	10.6%	488	1.1%
Life Sc & Healthcare	225	209	7.7%	205	9.6%
Others	815	786	3.6%	748	8.9%
<b>Total</b>	<b>3,312</b>	<b>3,121</b>	<b>6.1%</b>	<b>3,210</b>	<b>3.2%</b>
<b>as % of Total</b>					
Financial Services	32.0%	31.5%	50 bps	31.9%	10 bps
Manufacturing	9.1%	9.5%	-40 bps	10.1%	-100 bps
Communication Services	12.6%	12.8%	-20 bps	13.1%	-50 bps
Retail CPG	14.9%	14.3%	60 bps	15.2%	-30 bps
Life Sc & Healthcare	6.8%	6.7%	10 bps	6.4%	40 bps
Others	24.6%	25.2%	-60 bps	23.3%	130 bps

Source: Company, PL

**Exhibit 16: Client Metrics**

	2Q20	1Q21	QoQ gr.	2Q20	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	113	106	6.1%	103	9.6%
Top 10 clients	619	602	2.8%	616	0.5%
Top 2-10 clients	507	496	2.1%	514	-1.3%
Top 25 clients	1,133	1,080	4.9%	1,111	2.0%
Top 11-25 clients	513	478	7.5%	494	3.8%
Non Top 25	2,179	2,041	6.8%	2,099	3.8%
<b>Total</b>	<b>3,312</b>	<b>3,121</b>	<b>6.1%</b>	<b>3,210</b>	<b>3.2%</b>
<b>Revenue concentration (%)</b>					
Top client	3.4%	3.4%	0 bps	3.2%	20 bps
Top 10 clients	18.7%	19.3%	-60 bps	19.2%	-50 bps
Top 25 clients	34.2%	34.6%	-40 bps	34.6%	-40 bps
Repeat Business	98.0%	99.0%	-100 bps	98.1%	-10 bps
Repeat Business (in US\$ m)	3,246	3,090	5.0%	3,149	3.1%
New Business (in US\$ m)	66	31	112.2%	61	8.6%
Account Receivables (days)	71	69	2	68	3

Source: Company, PL

**Exhibit 17: Onsite-Offshore Mix**

	2Q20	1Q21	QoQ gr.	2Q20	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 18: Traditional Vs Digital Revenues**

Revenues by offering	2Q20	1Q21	QoQ gr.	2Q20	YoY gr.
Digital	47.3%	44.5%	280 bps	35.7%	1160 bps
Core	52.7%	55.5%	-280 bps	64.3%	-1160 bps
Services	0.0%	0.0%	0 bps	94.3%	-9430 bps
Products & platforms	0.0%	0.0%	0 bps	5.7%	-570 bps
<b>Revenue by offering ( \$mn)</b>					
Digital	1,443	1,443	0.0%	1118	29.1%
Core	1,926	1,800	7.0%	2013	-4.3%
Services	3,063	-	#DIV/0!	2953	3.7%
Products & platforms	249	-	#DIV/0!	178	39.5%

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>9,89,216</b>	<b>11,18,843</b>	<b>12,51,133</b>
YoY gr. (%)	9.8	9.0	13.1	11.8
Employee Cost	5,78,390	6,12,887	7,10,327	7,88,214
Gross Profit	3,29,520	3,76,329	4,08,516	4,62,919
Margin (%)	36.3	38.0	36.5	37.0
SG&A Expenses	59,730	59,272	67,131	81,456
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>2,22,670</b>	<b>2,67,641</b>	<b>2,85,443</b>	<b>3,06,395</b>
YoY gr. (%)	6.6	20.2	6.7	7.3
Margin (%)	24.5	27.1	25.5	24.5
Depreciation and Amortization	28,930	30,267	28,445	25,393
<b>EBIT</b>	<b>1,93,740</b>	<b>2,37,374</b>	<b>2,56,998</b>	<b>2,81,002</b>
Margin (%)	21.3	24.0	23.0	22.5
Net Interest	-	-	-	-
Other Income	26,340	25,048	29,203	28,241
<b>Profit Before Tax</b>	<b>2,20,080</b>	<b>2,62,422</b>	<b>2,86,201</b>	<b>3,09,243</b>
Margin (%)	24.2	26.5	25.6	24.7
Total Tax	53,680	66,196	70,904	73,415
Effective tax rate (%)	24.4	25.2	24.8	23.7
<b>Profit after tax</b>	<b>1,66,400</b>	<b>1,96,226</b>	<b>2,15,297</b>	<b>2,35,828</b>
Minority interest	(10)	(520)	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>1,66,410</b>	<b>1,96,746</b>	<b>2,15,297</b>	<b>2,35,828</b>
YoY gr. (%)	8.0	18.2	9.4	9.5
Margin (%)	18.3	19.9	19.2	18.8
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,66,410</b>	<b>1,96,746</b>	<b>2,15,297</b>	<b>2,35,828</b>
YoY gr. (%)	8.0	18.2	9.4	9.5
Margin (%)	18.3	19.9	19.2	18.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,66,410	1,96,746	2,15,297	2,35,828
<b>Equity Shares O/s (m)</b>	<b>4,258</b>	<b>4,242</b>	<b>4,242</b>	<b>4,242</b>
<b>EPS (Rs)</b>	<b>39.1</b>	<b>46.4</b>	<b>50.8</b>	<b>55.6</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>4,12,480</b>	<b>4,45,620</b>	<b>4,52,699</b>
Tangibles	2,83,860	3,41,360	3,74,500	3,81,579
Intangibles	71,860	71,120	71,120	71,120
<b>Acc: Dep / Amortization</b>	<b>1,46,870</b>	<b>1,77,137</b>	<b>2,05,582</b>	<b>2,11,583</b>
Tangibles	1,46,870	1,77,137	2,05,582	2,11,583
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>2,08,850</b>	<b>2,35,343</b>	<b>2,40,038</b>	<b>2,41,116</b>
Tangibles	1,36,990	1,64,223	1,68,918	1,69,996
Intangibles	71,860	71,120	71,120	71,120
Capital Work In Progress	-	-	-	-
Goodwill	-	-	-	-
Non-Current Investments	-	-	-	-
Net Deferred tax assets	7,760	4,420	4,420	4,420
Other Non-Current Assets	1,13,950	1,63,090	1,63,090	1,63,090
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	-	-	-	-
Trade receivables	1,84,870	2,02,789	2,12,580	2,13,025
Cash & Bank Balance	2,33,040	3,34,396	4,70,280	5,08,577
Other Current Assets	56,640	57,880	57,880	57,880
<b>Total Assets</b>	<b>9,27,680</b>	<b>10,70,847</b>	<b>12,24,048</b>	<b>12,65,828</b>
<b>Equity</b>				
Equity Share Capital	21,220	21,230	21,230	21,230
Other Equity	6,37,220	7,57,314	8,80,985	9,12,978
<b>Total Network</b>	<b>6,58,440</b>	<b>7,78,544</b>	<b>9,02,215</b>	<b>9,34,208</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	51,000	55,950	55,950	55,950
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	28,520	3,957	4,475	4,606
Other current liabilities	1,80,040	2,23,766	2,52,777	2,62,434
<b>Total Equity &amp; Liabilities</b>	<b>9,27,680</b>	<b>10,70,847</b>	<b>12,24,048</b>	<b>12,65,828</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	2,20,080	2,62,422	2,86,201	3,09,243
Add. Depreciation	28,930	30,267	28,445	25,393
Add. Interest	-	-	-	-
Less Financial Other Income	26,340	25,048	29,203	28,241
Add. Other	-	-	-	-
Op. profit before WC changes	2,49,010	2,92,689	3,14,646	3,34,636
Net Changes-WC	38,130	(37,275)	16,907	7,383
Direct tax	(53,680)	(66,196)	(70,904)	(73,415)
<b>Net cash from Op. activities</b>	<b>2,33,460</b>	<b>1,89,218</b>	<b>2,60,649</b>	<b>2,68,604</b>
Capital expenditures	(61,910)	(56,760)	(33,139)	(26,471)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
<b>Net Cash from Inv. activities</b>	<b>(61,910)</b>	<b>(56,760)</b>	<b>(33,139)</b>	<b>(26,471)</b>
Issue of share cap. / premium	1,560	1,460	-	-
Debt changes	-	-	-	-
Dividend paid	(89,132)	(1,01,806)	(91,625)	(1,01,806)
Interest paid	-	-	-	-
Others	(67,488)	23,173	-	(1,02,029)
<b>Net cash from Fin. activities</b>	<b>(1,55,060)</b>	<b>(77,172)</b>	<b>(91,625)</b>	<b>(2,03,835)</b>
<b>Net change in cash</b>	<b>16,490</b>	<b>55,286</b>	<b>1,35,884</b>	<b>38,297</b>
Free Cash Flow	1,71,550	1,32,458	2,27,509	2,42,133

Source: Company Data, PL Research

**Key Financial Metrics**

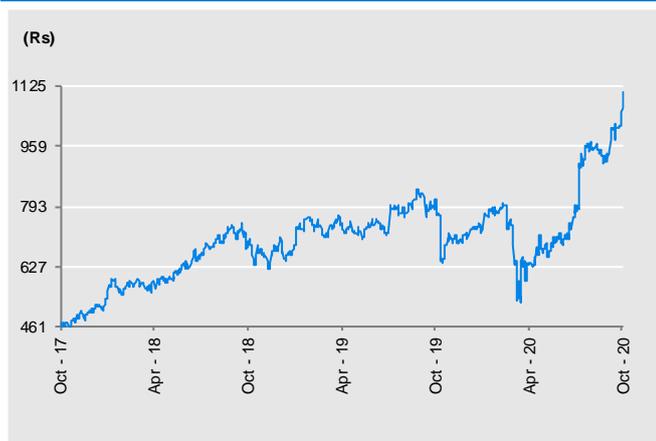
Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	39.1	46.4	50.8	55.6
CEPS	45.9	53.5	57.5	61.6
BVPS	154.6	183.5	212.7	220.2
FCF	40.3	31.2	53.6	57.1
DPS	20.9	24.0	21.6	24.0
<b>Return Ratio(%)</b>				
RoCE	29.6	33.0	30.6	30.6
ROIC	30.8	33.2	29.4	29.1
RoE	25.4	27.4	25.6	25.7
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.4)	(0.4)	(0.5)	(0.5)
Debtor (Days)	74	75	69	62
<b>Valuation(x)</b>				
PER	29.1	24.5	22.4	20.5
P/B	7.4	6.2	5.3	5.2
P/CEPS	24.8	21.2	19.8	18.5
EV/EBITDA	20.7	16.8	15.2	14.1
EV/Sales	5.1	4.5	3.9	3.4
Dividend Yield (%)	1.8	2.1	1.9	2.1

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
<b>Net Revenue</b>	<b>2,30,920</b>	<b>2,32,670</b>	<b>2,36,650</b>	<b>2,45,700</b>
YoY gr. (%)	7.9	8.0	8.5	8.6
Raw Material Expenses	1,46,370	1,47,520	1,49,470	1,49,160
Gross Profit	84,550	85,150	87,180	96,540
Margin (%)	36.6	36.6	36.8	39.3
<b>EBITDA</b>	<b>58,000</b>	<b>56,760</b>	<b>61,210</b>	<b>70,830</b>
YoY gr. (%)	7.2	10.2	18.8	25.6
Margin (%)	25.1	24.4	25.9	28.8
Depreciation / Depletion	7,360	7,490	7,560	8,550
<b>EBIT</b>	<b>50,640</b>	<b>49,270</b>	<b>53,650</b>	<b>62,280</b>
Margin (%)	21.9	21.2	22.7	25.3
Net Interest	-	-	-	-
Other Income	7,850	5,690	4,270	5,220
<b>Profit before Tax</b>	<b>58,490</b>	<b>54,960</b>	<b>57,920</b>	<b>67,500</b>
Margin (%)	25.3	23.6	24.5	27.5
Total Tax	13,830	11,610	15,200	18,920
Effective tax rate (%)	23.6	21.1	26.2	28.0
<b>Profit after Tax</b>	<b>44,660</b>	<b>43,350</b>	<b>42,720</b>	<b>48,580</b>
Minority interest	(90)	(140)	(390)	(130)
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>44,570</b>	<b>43,210</b>	<b>42,330</b>	<b>48,450</b>
YoY gr. (%)	23.5	6.1	11.5	20.6
Margin (%)	19.3	18.6	17.9	19.7
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>44,570</b>	<b>43,210</b>	<b>42,330</b>	<b>48,450</b>
YoY gr. (%)	23.5	6.1	11.5	20.6
Margin (%)	19.3	18.6	17.9	19.7
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>44,570</b>	<b>43,210</b>	<b>42,330</b>	<b>48,450</b>
Avg. Shares O/s (m)	4,246	4,246	4,246	4,249
<b>EPS (Rs)</b>	<b>10.5</b>	<b>10.2</b>	<b>10.0</b>	<b>11.4</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Oct-20	BUY	1,259	1,018
2	01-Oct-20	BUY	1,259	1,008
3	16-Jul-20	BUY	1,037	831
4	04-Jul-20	Hold	788	763
5	21-Apr-20	Hold	668	651
6	12-Apr-20	BUY	693	636
7	11-Feb-20	BUY	820	773
8	12-Jan-20	BUY	820	738
9	03-Jan-20	BUY	834	746
10	07-Nov-19	BUY	819	720

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Coforge	BUY	2,634	2,336
2	Cyient	BUY	456	379
3	HCL Technologies	BUY	1,029	813
4	Hexaware Technologies	BUY	495	466
5	Infosys	BUY	1,259	1,018
6	L&T Technology Services	Hold	1,529	1,587
7	Larsen & Toubro Infotech	BUY	2,839	2,527
8	Mindtree	BUY	1,560	1,336
9	Mphasis	BUY	1,693	1,345
10	Persistent Systems	BUY	1,304	1,304
11	Redington (India)	BUY	146	117
12	Sonata Software	BUY	436	311
13	Tata Consultancy Services	BUY	3,200	2,736
14	TeamLease Services	BUY	2,753	2,265
15	Tech Mahindra	BUY	966	823
16	Wipro	BUY	415	376
17	Zensar Technologies	BUY	216	192

**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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