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STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

Analyst Day 2020 @ Dalal&Broacha

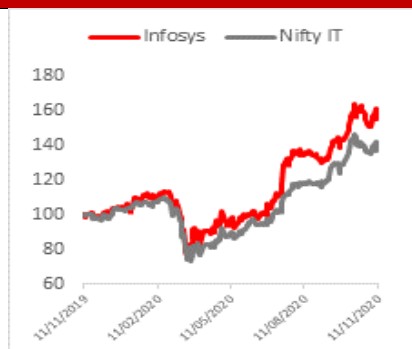
BUY

Current Price	1,122
Target Price	1,277
Upside	14%
52 Week Range	511/1185

Key Share Data

Market Cap (Rs. Bn)	4782
Market Cap (US\$ Million)	64157
No of o/s shares (Million)	4259
Face Value	5
Monthly Avg. Vol (BSE+NSE) ('000)	13774
BSE Code	500209
NSE Code	INFY
Bloomberg	INFY:IN

Price performance



% Shareholding	Sep-20	Jun-20
Promoters	12.95	13.15
Institutions	86.65	86.43
Others	0.40	0.42
Total	100	100

Infosys' Analyst Day 2020 was focused around trends in a post-COVID world – specifically around Digital and Cloud, Operational Resilience and Sales & Execution

Trends in the last 6 months

- Large enterprises (which missed the bus earlier) are accelerating digital transformation. Enterprises which underwent transformation earlier were better prepared and able to connect with their customers, suppliers and employees in the last 6 months
- Vendor consolidation is in focus and therefore only reliable delivery partners have managed to retain clients over the last 6 months
- Cost efficiency is high on clients agenda

Strategic Blueprint remains the same...

- Scale Digital Capabilities** – through Infosys Cobalt which focuses on Cloud offerings
- Deepen Automation & AI** – to reduce costs and improve delivery speed
- Re-skill employees** – using Infosys' internal platform called Lex
- Expand localization**

Growth Drivers

- Digital:** Leverage strong partnerships to deliver industry leading solutions and platforms
- Large Deals:** such as Vanguard Defined Contribution deal
- Account Expansion**
- New Accounts:** +\$100 Mn increased from 27 in Q2FY20 to 30 in Q3FY20

Margin Drivers

- Employee Mix:** hiring freshers to rationalize the employee mix
- Pyramid:** Onsite effort has dropped to 26% from 28% over the last 3-4 quarters
- Automation:** BOTS and other automation initiatives have enabled Infosys to repurpose more than 20,000 full time employees
- Sub-contractors:** Sub-con costs have dropped to historically low levels as company is replacing subcons through hiring and inducing talent
- Digital Value**

On Cloud...

- is practically part of every aspect of Digital and is therefore a general-purpose technology.
- Out of the \$1 Tn that is expected to be spent on Digital in a post-COVID era, approximately 50% will be towards Cloud which represents a huge opportunity for Infosys in the Systems Integration space
- Cloud will have an orchestrating effect on the technology landscape and will unlock various other spends by an enterprise as it can be leveraged for a variety of functions

Consolidated Financials (In INR Million)

Year	Net Sales	% Growth	EBIT	EBIT Margin (%)	PAT	PAT Margin (%)	EPS	Growth (%)	PE (x)	ROE (%)	ROCE (%)
FY18	7,05,220	3.0%	1,71,480	24.3%	1,60,990	22.8%	37.0	18%	15.2x	22.8%	22.6%
FY19	8,26,760	17.2%	1,88,790	22.8%	1,61,310	19.5%	37.1	0%	30.3x	22.5%	22.2%
FY20	9,07,910	9.8%	1,93,740	21.3%	1,66,400	18.3%	38.3	3%	29.3x	23.8%	22.8%
FY21E	9,79,871	7.9%	2,34,372	23.9%	1,85,164	18.9%	42.6	11%	26.4x	24.8%	23.1%
FY22E	10,59,030	8.1%	2,48,860	23.5%	1,98,208	18.7%	45.6	7.0%	24.6x	23.9%	22.5%

Source: Company, Dalal&Broacha Research



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- iv. Infosys Cobalt are a set of industry solutions (Smart Grid, Sentient Telco Ops, etc) data solutions and platforms (Finacle, Stater, Edge, etc.) across PaaS, SaaS and IaaS with over 200+ industry solutions and 15,000+ cloud assets. Cobalt speeds up an enterprises' journey to cloud while reducing risk. Cobalt currently has a 35K+ strong community (of Infoscons, Clients, Partners, Academia, etc.) which leverage platforms such as Lex, Living Labs, InfyMe, etc. and completely different Approach which revolutionizes Cloud offerings

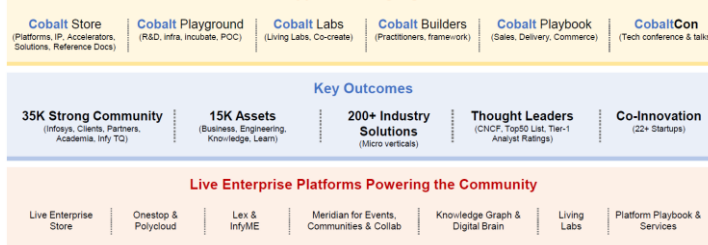
Opportunity for Infosys to Reimagine the Enterprise Value Chain



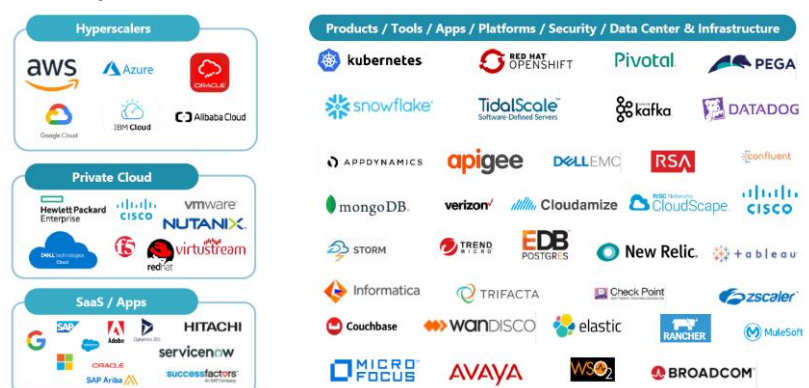
Vision

Build the world's largest enterprise cloud community to drive innovation at scale for Infosys clients

Approach & Highlights



Rich Ecosystem of Partners...



Workforce Trends during COVID

- Productivity and Quality of work has sustained despite majority employees on WFH. This is mainly due to investments in Network Bandwidth, devices, Cybersecurity controls, comprehensive playbooks on Sales and Execution and several interventions for employee wellness
- Although operating in a "Remote First environment" (wherein an enterprise is fully enabled to work remotely but physical spaces and office co-exist, Infosys is prepared for a hybrid work environment in a post-COVID world and expects to operate with at least 1/3rd of the workforce from home.
- Re-skilling has been a major part of the pandemic as 90% of Infoscons are on Lex platform which houses over 270,000 resources and 1,200 courses



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- Localization in foreign markets has been central as close to 63% and 53% of employees in US and Europe are Visa independent
- Outcome of initiatives are clearly evident as Voluntary Attrition is historically the lowest ever at 7.8% (v/s 18.3% in Q2FY20), utilization is at a solid 83.6% and onsite effort is at a steady range of 26-28%

Sales Strategy & Acceleration

Sales transformation has happened through 5 key initiatives:

- Large Deals:** Partnership with Vanguard embodies Infosys' strategy. More than 1300 employees transferred. Infosys will handle operations + technology + transformation. Partnership will enable on demand business and data insights, redesign web experiences cloudify the Defined Contribution plans
- Sales Force Transformation:** as company quickly adapted with rollout of strategies such as Cost Take Outs, Captive Carve Outs, ITaaS, Vendor Consolidation and Digital Transformation. Launched the **Virtual Selling Playbook**.
- Sales Enablement:** Through Infosys Meridian which enabled virtual facility tours, interactive presentations, collaboration etc.
- New Account Openings:** >\$100 Mn accounts have increased from 27 in Q2FY20 to 30 in Q2FY21
- Account expansions**

On M&A...

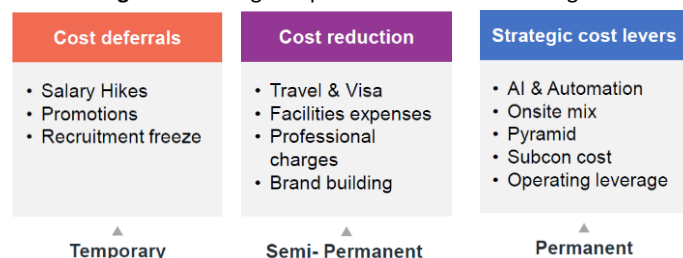
Infosys follows a 3-pronged approach to M&A

- Strengthen Digital Service Capabilities
- Deepen Vertical Expertise
- Expand Geographical Footprint

- To this tune, company has done 7 acquisitions, 3 JVs and invested ~\$800 Mn to acquire assets in fast growing technologies such as Salesforce, ServiceNow and Adobe
- **Going ahead, AI, Data and Analytics will be key focus areas of M&A going ahead**

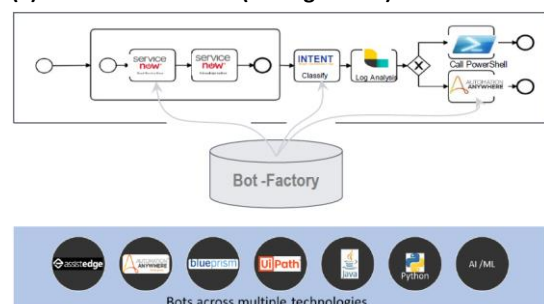
Financials

Cost Management during and post COVID in the following 3 buckets



Strategic Cost Levers

(a) AI and automation (through BOTs) has enabled Infosys to repurpose >20,000 Full Time Employees





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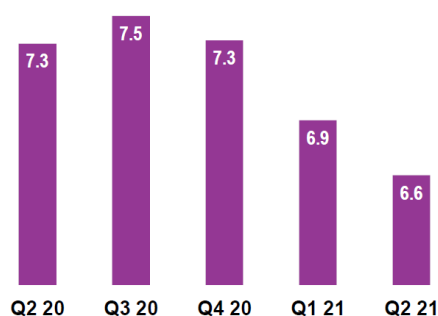
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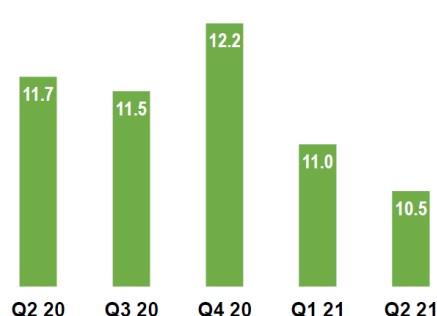
(b) Onsite mix is lowest in the last several quarters at 26.1%

(c) Subcon and SG&A cost has been trending lower since the last 5 quarters and are now at 6.6% and 10.5% respectively

Subcon cost %



SG&A cost %



Cost Dynamics going ahead involves lower travel spend, lower infrastructure & facilities costs offset by higher technology, security and communications spend

Margin expansion on the back of all these costs savings has led to lower capex and higher cash generation which has in turn resulted in consistent and increase in dividend payouts – FY21 interim dividend payout was 50% higher than FY20 interim dividend

Valuation & Outlook

Infosys is currently trading at 26.4x / 24.6x FY21e / FY22e EPS. Performance has not only remained robust, but also gained stability over the last several quarters. Salil Parekh has successfully transformed the organization in terms of capabilities, execution, sales, financials and operations through organic (employee training through Lex, employee retention, etc) as well as inorganic methods. **We believe that Infosys is completely equipped to deliver consistently and perform tirelessly in the IT landscape over the longer term and therefore maintain our BUY rating on the stock with a target price of INR 1,277 (based on 28x FY22e EPS)**



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Profit & Loss A/c					
YEMarch (INR Mn)	FY18	FY19	FY20	FY21E	FY22E
Net Sales	705,220	826,760	907,910	979,871	1,059,030
Growth%	3.0%	17.2%	9.8%	7.9%	8.1%
Total Revenue	705,220	826,760	907,910	979,871	1,059,030
Less:					
Employees Cost	451,310	538,680	607,320	638,381	687,832
SG&A	82,430	99,290	106,850	107,119	122,338
Operating Expenditure	533,740	637,970	714,170	745,500	810,170
EBITDA	190,100	208,890	222,670	273,414	291,658
EBITDA Growth%	2.2%	9.9%	6.6%	22.8%	6.7%
Less: Depreciation	18,620	20,100	28,930	39,043	42,797
Operating Profit	171,480	188,790	193,740	234,372	248,860
Growth%	1.5%	10.1%	2.6%	21.0%	6.2%
Non-operating Income	31,930	28,830	28,030	21,505	24,358
Profit Before tax	203,410	217,620	220,080	254,067	271,518
Tax	42,420	56,310	53,680	68,903	73,310
Net Profit	160,990	161,310	166,400	185,164	198,208
Adjusted Profit	160,990	161,310	166,400	185,164	198,208
Diluted EPSRs	37.0	37.1	38.3	42.6	45.6
Growth %	17.7%	0.3%	3.2%	11.3%	7.0%
Adjusted EPS	37.0	37.1	38.3	42.6	45.6
Growth%	17.7%	0.3%	3.2%	11.3%	7.0%

Key Ratios					
OPM(%)	24.3%	22.8%	21.3%	23.9%	23.5%
NPM(%)	22.8%	19.5%	18.3%	18.9%	18.7%
RoE(%)	22.8%	22.5%	23.8%	24.8%	23.9%
RoCE(%)	22.6%	22.2%	22.8%	23.1%	22.5%
BV/PerShareRs.	299	149	151	168	186

Valuation Ratios					
YE March (Rs.mn)	FY18	FY19	FY20	FY21E	FY22E
P/E(x)	15.2x	30.3x	29.3x	26.4x	24.6x
P/BV(x)	3.8x	7.5x	7.5x	6.7x	6.0x
EV/EBITDA(x)	13.1x	24.8x	24.3x	20.0x	18.6x
MarketCap./Sales(x)	3.5x	5.9x	5.4x	5.0x	4.6x

Cash Flow Statement					
YE March (Rs. Mn)	FY18	FY19	FY20	FY21E	FY22E
PAT	160,990	161,310	166,400	185,164	198,208
Less: Non Operating Income	(31,930)	(28,830)	(28,030)	(21,505)	(24,358)
Add: Depreciation	18,620	20,100	28,930	39,043	42,797
Operating Profit before WC Changes	147,680	152,580	168,990	204,511	218,348
(Inc)/Dec in Current Assets	8,810	(31,110)	(26,170)	(21,001)	(36,015)
Inc/Dec in Current Liabilities	930	45,320	22,180	(371)	(7,838)
Net Cash Generated From Operations	157,420	166,790	165,000	183,139	174,494
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	(22,270)	(33,730)	(38,490)	(30,000)	(30,000)
(Inc)/Dec in Capital Work In Progress	(2,410)	2,180	4,340	(5,158)	(1,187)
Add: Non Operating Income	31,930	28,830	28,030	21,505	24,358
Net Cash Flow from Investing Activities	11,080	(11,140)	(22,540)	(37,911)	(13,852)
Cash Flow from Financing Activities					
Dividend Paid	(47,269)	(112,000)	(76,136)	(55,549)	(90,185)
Tax Paid on Dividend	(27,380)	(25,050)	(19,034)	(11,110)	(18,037)
Net Cash Flow from Financing Activities	(199,800)	(167,520)	(154,640)	(65,509)	(109,922)
Net Inc/Dec in cash equivalents	(31,300)	(11,870)	(12,180)	79,719	50,721
Opening Balance	226,250	198,180	195,100	182,550	256,979
Closing Balance Cash and Cash Equivalents	194,950	186,310	182,920	262,269	307,700

Free Cash Flow Statement					
YEMarch (INR Mn)	FY18	FY19	FY20	FY21E	FY22E
EBITDA	190,100	208,890	222,670	273,414	291,658
FC Investment	18,470	27,120	27,500	30,000	30,000
WC Changes	9,740	14,210	(3,990)	(21,372)	(43,854)
Depreciation Tax Shield	3,883	5,201	7,056	10,588	11,555
Tax (EBITDA * Tax Rate)	39,644	54,051	54,312	74,150	78,748
FCFF	145,609	147,130	143,925	158,481	150,612

Balance Sheet					
YE March (INR Mn)	FY18	FY19	FY20	FY21E	FY22E
Liabilities					
Equity Capital	10,880	21,700	21,220	21,220	21,220
Reserves & Surplus	638,350	627,780	633,280	751,785	841,771
Equity	649,230	649,480	654,500	773,005	862,991
Net Worth	649,230	649,480	654,500	773,005	862,991
Net Deferred tax liability	5,410	6,720	9,680	9,680	9,680
Total Loans	3,200	4,220	10,860	10,860	10,860
Lease Liabilities			40,140	40,140	40,140
Capital Employed	657,840	660,420	715,180	833,685	923,671
Assets					
Gross Block	201,790	228,910	256,410	286,410	316,410
Less: Depreciation	100,630	114,120	132,060	171,103	213,900
Net Block	101,160	114,790	124,350	115,307	102,510
Right of Use Assets			41,680	44,010	43,263
Capital WIP	40,640	56,190	81,400	86,558	87,745
Investments	60,760	49,650	48,950	48,950	48,950
Others-Assets	96,170	97,970	85,540	109,798	116,821
Current Assets					
Sundry Debtors	131,420	148,270	184,870	174,498	188,594
Cash and Bank Balance	198,180	195,100	182,550	256,979	308,446
Loans and Advances	69,230	57,460	56,960	78,390	90,018
Total Current Assets	500,170	528,200	541,820	637,250	724,732
Less: Current Liabilities					
Sundry Creditors	6,940	16,550	28,520	24,510	26,636
Provisions	25,350	21,430	20,620	26,468	28,160
Other Current Liabilities	108,770	148,400	159,420	157,212	145,554
Total Current Liabilities	141,060	186,380	208,560	208,189	200,350
Capital Applied	657,840	660,420	715,180	833,685	923,671

Key Ratios					
YE March (Rs.mn)	FY18	FY19	FY20	FY21E	FY22E
EBITDA Margin(%)	24.3%	22.8%	21.3%	23.9%	23.5%
Tax/PBT(%)	20.9%	25.9%	24.4%	27.1%	27.0%
Net Profit Margin(%)	22.8%	19.5%	18.3%	18.9%	18.7%
RoE(%)	22.8%	22.5%	23.8%	24.8%	23.9%
RoCE(%)	22.6%	22.2%	22.8%	23.1%	22.5%
Current Ratio(x)	3.5x	2.8x	2.6x	2.8x	3.3x
Dividend Payout(%)	46.4%	85.0%	57.2%	60.0%	60.0%
Book Value Per Share(Rs.)	298.5	149.4	150.6	167.6	185.8
Growth Indicators%					
Growth in Gross Block(%)	10.1%	13.4%	12.0%	11.7%	10.5%
Sales Growth(%)	3.0%	17.2%	9.8%	7.9%	8.1%
EBITDA Growth(%)	1.5%	10.1%	2.6%	21.0%	6.2%
Net Profit Growth(%)	12.0%	0.2%	3.2%	11.3%	7.0%
Diluted EPS Growth(%)	17.7%	0.3%	3.2%	11.3%	7.0%
Turnover Ratios					
Debtors (Days of net sales)	68	65	74	65	65



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