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STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

Event Update@ Dalal&Broacha

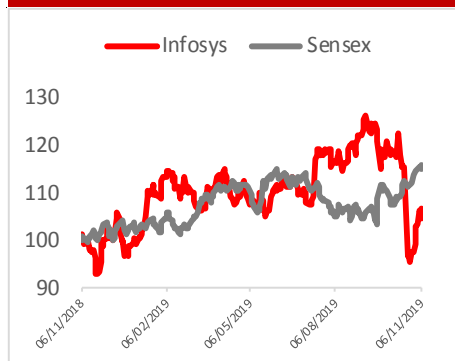
BUY

Current Price	720
Target Price	823
Upside	14%
52 Week Range	847/600

Key Share Data

Market Cap (Rs.Bn)	3092.44
Market Cap (US\$ Bn)	43.55
No of o/s shares (Mn)	4255.68
Face Value	5
Monthly Avg.	
Vol(BSE+NSE) ('000)	22501.67
BSE Code	500209
NSE Code	INFY
Bloomberg	INFY:IN

Price performance



% Shareholding	Sept-19	Jun-19
Promoters	13.15	13.04
Public	86.39	86.49
Others	0.46	0.47
Total	100	100

Board of Directors comments on the Whistleblower incident:

- Assure that company has followed highest moral code of conduct since the last 38 years
- Independent investigation is under process. Will release the results as soon as investigation is complete
- US Sec has given ample time to carry out investigation .
- Company has been following highest form of Disclosure Policy
- Company condemns any group that tries to manipulate the image of the company
- Nevertheless, if allegations are proven, corrective steps will be taken but business will run as usual
- Everything is being done to run the Business As Usual. Despite the distractions, focus remains on continuity of operations
- Nothing was wrong with Panaya Deal after investigation. However company had to take write off for it
- Board completely supporting management as far as strategy is considered. 1st year was to drive growth, now optimization.

Salil Parekh on Whistleblower case and Business:

- Management has reclused itself from commenting on the whistleblower case
- Focus on transformation of Infosys and execution of strategy. Focus on operational excellence and driving margins
- Digital Reskilling outcomes are starting to have impact, which is visible in reduced attrition (down by 200 bps) since last quarter

Business Highlights and Levers:

- **Key Growth Drivers going ahead:** Digital and large deals
- **Key Margin Levers:** Onsite Offshore mix, AI, Automation in Delivery and Operational Efficiency
- Onsite % has reduced from 29.8% in FY17 to 25.2% in Q2FY20 – biggest margin lever
- **Another Example:** Internal productivity improved by consolidating mobile apps from 100 apps to only 4 now. This has increased efficiency in terms of higher onboarding, better and quicker matching of skills to project requirement, reduced time to set up project infrastructure by 90%, 50% reduction in time taken to conduct background checks, etc
- Shorter recruitment times, lack of skill set and short duration projects have pushed subcontracting costs across the industry. However, expect subcontractor cost to come down gradually as company is taking several steps such as conversion to Full Time Employees, Re-skilling, etc. Output of efforts already seen in Q2 vs Q1
- Will look at strategic M&A (which are complementary to Digital services) and opportunistic consolidation

Consolidated Financials (In INR Mn)

Year	Net Sales	% Growth	EBIT	EBIT Margin (%)	PAT	PAT Margin (%)	EPS	Growth (%)	PE (x)	ROE (%)	ROCE (%)
FY17	6,84,850	9.7%	1,69,020	24.7%	1,43,775	21.0%	62.9	6.6%	10.9x	20.9%	20.8%
FY18	7,05,220	3.0%	1,71,480	24.3%	1,60,990	22.8%	74.0	17.7%	9.3x	22.7%	22.5%
FY19	8,26,760	17.2%	1,88,790	22.8%	1,61,310	19.5%	37.1	-49.9%	18.5x	23.5%	23.1%
FY20E	9,05,682	9.5%	1,94,573	21.5%	1,65,840	18.3%	38.1	2.8%	18.0x	22.6%	22.3%
FY21E	9,91,457	9.5%	2,13,003	21.5%	1,83,547	18.5%	42.2	10.7%	16.2x	22.2%	21.9%

Source: Company, Dalal&Broacha Research



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Management on Sales Transformation Agenda

- Invested a great amount of time, effort and money in the past 12-18 months on 3 specific things: 1. Large Deals , 2. Account Expansion – increase large accounts and 3. New Account openings: Hunting for new logos – focus on priority accounts and compensation linked to outcomes
- Working closely with advisors, Private Equity firms, rating institutions close to clients to improve visibility and ranking
- Changed strategy to Centralized Committee of Deal Directors which have worked with Client partners and large deals earlier and who have experience in large deals.
- Asia Pacific is a high growth area due to high revenue per share
- Management is very bullish on its recent acquisition – WongDoody, which has a healthy penetration in the B2C segment

Other Key Highlights:

- Focus on Growth and Margin expansion in consulting business
- Efforts to optimize costs led to 110 bps improvement due to operating efficiencies in Q2FY20 sequentially and management believes that it is only halfway through to target. This gives management confidence to maintain margin guidance along with growth
- Media report of layoffs is pure speculation, there is no plan as such. Every year, Infosys evaluates the performance and if there is no scale up in performance then there is involuntary attrition.
- There is no growth margin trade off as per popular street view due to 2 reasons 1. The company is using automation in delivery to maintain margins and 2. Digital Margins are comparatively higher to traditional

Outlook

While we await the outcome from the independent investigator on the whistleblower case, we believe that it is BAU at Infosys and will continue to be so irrespective of the outcome. Management's strategy to optimize costs (in the 2nd stage of its Navigate Next strategy) is already bearing fruit through improving sequential operational efficiencies and we believe reskilling initiatives should buttress Digital growth and reduce attrition going ahead. **We maintain our BUY rating TP at INR 823, based onFY21e EPS of INR 42.2.**



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Profit & Loss A/c					
YEMarch (INR Mn)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	6,84,850	7,05,220	8,26,760	9,05,682	9,91,457
Growth%	9.7%	3.0%	17.2%	9.5%	9.5%
Total Revenue	6,84,850	7,05,220	8,26,760	9,05,682	9,91,457
Less:					
Employees Cost	4,32,530	4,51,310	5,38,680	6,04,193	6,62,454
SG&A	83,300	82,430	99,290	1,06,916	1,16,000
Operating Expenditure	5,15,830	5,33,740	6,37,970	7,11,110	7,78,454
EBITDA	1,86,050	1,90,100	2,08,890	2,23,475	2,35,806
EBITDA Growth%	8.9%	2.2%	9.9%	7.0%	5.5%
Less: Depreciation	17,030	18,620	20,100	28,902	22,804
Operating Profit	1,69,020	1,71,480	1,88,790	1,94,573	2,13,003
Growth%	8.2%	1.5%	10.1%	3.1%	9.5%
Non-operating Income	30,735	31,930	28,830	28,384	31,727
Profit Before tax	1,99,755	2,03,410	2,17,620	2,22,956	2,44,730
Tax	55,980	42,420	56,310	57,117	61,182
Net Profit	1,43,775	1,60,990	1,61,310	1,65,840	1,83,547
Adjusted Profit	1,43,775	1,60,990	1,61,310	1,65,840	1,83,547
Diluted EPSRs	62.9	74.0	37.1	38.1	42.2
Growth %	6.6%	17.7%	-49.9%	2.8%	10.7%
Adjusted EPS	62.9	74.0	37.1	38.1	42.2
Growth%	6.6%	17.7%	-49.9%	2.8%	10.7%

Free Cash Flow Statement					
YEMarch (INR Mn)	FY17	FY18	FY19	FY20E	FY21E
EBITDA	1,86,050	1,90,100	2,08,890	2,23,475	2,35,806
FC Investment	22,420	18,470	27,120	20,000	15,000
WC Changes	(1,12,500)	9,740	14,210	(5,033)	(8,218)
Depreciation Tax Shield	4,773	3,883	5,201	7,404	5,701
Tax (EBITDA * Tax Rate)	52,139	39,644	54,051	57,249	58,952
FCFF	3,763	1,45,609	1,47,130	1,48,597	1,59,338

Key Ratios					
YE March (Rs.mn)	FY17	FY18	FY19	FY20E	FY21E
EBITDA Margin(%)	24.7%	24.3%	22.8%	21.5%	21.5%
Tax/PBT(%)	28.0%	20.9%	25.9%	25.6%	25.0%
Net Profit Margin(%)	21.0%	22.8%	19.5%	18.3%	18.5%
RoE(%)	20.9%	22.7%	23.5%	22.6%	22.2%
RoCE(%)	20.8%	22.5%	23.1%	22.3%	21.9%
Current Ratio(x)	3.8x	3.5x	2.8x	3.6x	5.0x
Dividend Payout(%)	47.7%	47.7%	47.7%	47.7%	48.1%
Book Value Per Share(Rs.)	301.8	298.5	149.4	169.4	191.3
Growth Indicators%					
Growth in Gross Block(%)	13.9%	10.1%	13.4%	8.7%	6.0%
Sales Growth(%)	9.7%	3.0%	17.2%	9.5%	9.5%
EBITDA Growth(%)	8.2%	1.5%	10.1%	3.1%	9.5%
Net Profit Growth(%)	6.6%	12.0%	0.2%	2.8%	10.7%
Diluted EPS Growth(%)	6.6%	17.7%	(49.9%)	2.8%	10.7%
Turnover Ratios					
Debtors (Days of net sale)	66	68	65	64	65

Valuation Ratios					
YE March (Rs.mn)	FY17	FY18	FY19	FY20E	FY21E
P/E(x)	11.4x	9.7x	19.4x	18.9x	17.1x
P/BV(x)	2.4x	2.4x	4.8x	4.3x	3.8x
EV/EBITDA(x)	8.4x	8.0x	15.6x	14.6x	12.6x
MarketCap./Sales(x)	2.4x	2.2x	3.8x	3.5x	3.2x

BalanceSheet					
YE March (INR Mn)	FY17	FY18	FY19	FY20E	FY21E
Liabilities					
Equity Capital	11,440	10,880	21,700	21,700	21,700
Reserves & Surplus	6,78,380	6,38,350	6,27,780	7,14,554	8,09,839
Equity	6,89,820	6,49,230	6,49,480	7,36,254	8,31,539
Net Worth	6,89,820	6,49,230	6,49,480	7,36,254	8,31,539
Net Deferred tax liability/(Asset)	2,070	5,410	6,720	6,720	6,720
Total Loans	1,530	3,200	4,220	4,220	4,220
Capital Employed	6,93,420	6,57,840	6,60,420	7,47,194	8,42,479
Assets					
Gross Block	1,83,320	2,01,790	2,28,910	2,48,910	2,63,910
Less: Depreciation	85,810	1,00,630	1,14,120	1,43,022	1,65,826
Net Block	97,510	1,01,160	1,14,790	1,05,888	98,084
Capital WIP	57,930	40,640	56,190	55,895	57,182
Investments	67,910	60,760	49,650	49,650	49,650
Others-Assets	73,150	96,170	97,970	97,970	30,591
Current Assets					
Sundry Debtors	1,23,220	1,31,420	1,48,270	1,58,805	1,76,561
Cash and Bank Balance	2,26,250	1,98,180	1,95,100	2,86,038	4,47,001
Loans and Advances	62,520	69,230	57,460	81,511	1,15,009
Total Current Assets	5,37,050	5,00,170	5,28,200	6,07,866	7,58,400
Less: Current Liabilities					
Sundry Creditors	3,670	6,940	16,550	5,845	4,266
Provisions	42,900	25,350	21,430	34,270	4,895
Other Current Liabilities	93,560	1,08,770	1,48,400	1,29,960	1,42,268
Total Current Liabilities	1,40,130	1,41,060	1,86,380	1,70,075	1,51,428
Capital Applied	6,93,420	6,57,840	6,60,420	7,47,194	8,42,479

Cash Flow Statement					
YE March (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
PAT	1,43,775	1,60,990	1,61,310	1,65,840	1,83,547
Less: Non Operating Income	-30,735	-31,930	-28,830	-28,384	-31,727
Add: Depreciation	17,030	18,620	20,100	28,902	22,804
Operating Profit before Working Capital Changes	1,30,070	1,47,680	1,52,580	1,66,358	1,74,624
(Inc)/Dec in Current Assets	-1,20,240	8,810	-31,110	11,273	10,428
Inc/(Dec) in Current Liabilities	7,740	930	45,320	-16,305	-18,646
Net Cash Generated From Operations	17,570	1,57,420	1,66,790	1,61,325	1,66,406
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	-28,170	-22,270	-33,730	-20,000	-15,000
(Inc)/Dec in Capital Work In Progress	-4,050	-2,410	2,180	295	-1,287
Add: Non Operating Income	30,735	31,930	28,830	28,384	31,727
Net Cash Flow from/(used in) Investing Activities	-46,825	11,080	-11,140	8,678	82,819
Cash Flow from Financing Activities					
Dividend Paid	-59,150	-66,167	-66,298	-68,160	-75,438
Tax Paid on Dividend	-9,464	-10,587	-10,608	-10,906	-12,824
Net Cash Flow from Financing Activities	-70,085	-1,99,800	-1,67,520	-77,756	-88,262
Net Inc/Dec in cash equivalents	-99,340	-31,300	-11,870	92,248	1,60,963
Opening Balance	3,26,970	2,26,250	1,98,180	1,95,100	2,86,038
Closing Balance Cash and Cash Equivalents	2,27,630	1,94,950	1,86,310	2,87,348	4,47,001



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