



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

Q1 FY20 Result Update@ Dalal&Broacha

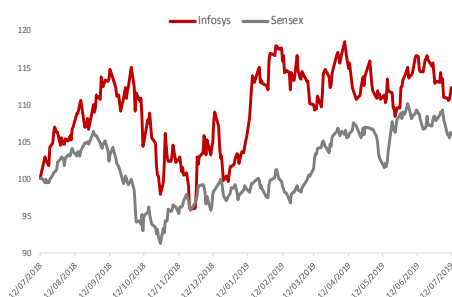
HOLD

Current Price	779
Target Price	776
Upside	-0.3%
52 Week Range	600/780

Key Share Data

Market Cap (Rs.Bn)	3337.24
Market Cap (US\$ Bn)	48.67
No of o/s shares (Mn)	4302
Face Value	5
Monthly Avg.	
Vol(BSE+NSE) Nos (in '000)	3158
BSE Code	500209
NSE Code	INFY
Bloomberg	INFY:IN

Price performance



% Shareholding	Mar-19	Dec-18
Promoters	12.84	12.82
Public	86.69	86.70
Others	0.47	0.47
Total	100	100

Infosys reported it's Q1FY20 performance which was in-line with our estimates

- Revenue in \$ terms was reported at \$3,131 Mn, +2.3% qoq / +10.6% yoy and in line with our estimate of \$3,133 Mn
- In Rupee terms, revenue at INR 2,18,030 Mn, +1.2% qoq / +14% yoy and marginally above our estimate of INR 2,17,808 Mn. Reported revenue translates into cc growth of 2.8% qoq and 12.4 yoy.
- EBIT was reported at INR 44,710, -3.2% qoq / -1.5% yoy and 0.5% above our estimate of INR 44,475 Mn. EBIT margin came in at 20.5% versus 21.4% / 23.7% in Q4FY19 / Q1FY19 respectively and versus our estimate of 20.4%
- PAT came in at INR 38,020, -6.8% qoq / +5.3% yoy and in line with our estimate of INR 38,031 Mn
- PAT margin at 17.4% in Q1FY20 vs 18.9% / 20.3% in Q4FY19 / Q1FY19 respectively and versus our estimate of 17.5%
- EPS came in at INR 8.8 versus INR 9.4 in Q4FY19
- Notably, the company increased revenue growth guidance in FY20 from 7.5-9.5% to 8.5-10% and maintained margin guidance in the range of 21-23% which is a huge positive considering the margin pressure which has been an overhang on the sector
- Company also changed its capital allocation policy and increased the percentage of FCF returned to the shareholders from 70% of FCF to 85% of FCF
- Digital stood at 35.7% of revenues and grew at a robust rate of 41.9% yoy

Segmental Highlights

- Communication segment outperformed with 16.6% qoq and 17.7% yoy in cc terms
- Financial services (31% of revenue) de-grew 0.8% sequentially, however on a yoy basis it reported a cc growth of 11.3%
- Manufacturing (10% of revenue) grew 1.6% qoq and 12.8% yoy in cc terms
- Life-sciences & Healthcare (6% of revenue) reported de-growth of 1.9% qoq and a growth of 4.3% yoy in cc terms

Key Concall Takeaways

- (i) Digital stood at 35.7% of total revenues and reported a solid growth of 41.9% yoy in cc terms
- (ii) Infosys signed large deals worth \$2.7 Bn in Total Contract Value (TCV), which is the largest ever deal win in a quarter historically. For reference, TCV of large deals was \$1,568 / \$1,116 Mn in Q4FY19 / Q1FY19 respectively. Management stated that investment in Digital capabilities in FY19 gave a competitive edge and enabled them to win large deals (which is evident from the fact that Digital contributed to 55% of large deal win TCV). Digital is also helping company negotiate for higher billing rates, as witnessed during the quarter
- (iii) All investments planned in S&M during FY19 are completed and company will focus on operating efficiency and cost discipline through FY20. This enabled company to maintain stable EBIT margin guidance of 21-23% in FY20
- (iv) Revenue growth increased from 7.5-9.5% to 8.5-10% in cc terms; Strong growth during the quarter and large deal wins has strengthened the company's confidence on improving guidance

Consolidated Financials (In INR Mn)

Year	Net Sales	% Growth	EBIT	EBIT Margin (%)	PAT	AT 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%	12.4x	20.9%	20.8%
FY18	7,05,220	3.0%	1,71,480	24.3%	1,60,990	22.8%	74.0	17.7%	10.5x	22.7%	22.5%
FY19	8,26,760	17.2%	1,88,790	22.8%	1,61,310	19.5%	37.1	-49.9%	21.0x	23.5%	23.1%
FY20E	8,94,363	8.2%	1,90,813	21.3%	1,61,742	18.1%	37.2	0.3%	20.9x	22.1%	21.8%
FY21E	9,82,534	9.9%	2,22,450	22.6%	1,87,493	19.1%	43.1	15.9%	18.1x	22.6%	22.4%

Source: Company, Dalal&Broacha Research

Bonus Shares Issue in FY19 therefore shares issued have doubled and EPS has halved



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(v) Localization target in the US market is complete (vi) Stater (ABN AMRO subsidiary) acquisition should enhance position in Europe, mainly in the Mortgage space; Revenue growth guidance for FY20 given at the end of Q4FY19 incorporated Stater acquisition in the beginning itself, therefore current increase in guidance comes completely from organic means (vii) Management expects some headwinds in the Manufacturing space due to pressure on world trade initiated by the US; Life-sciences & Healthcare might be impacted due to cutback in IT spend due to M&As and revenue pressures; Communication segment was strong during the quarter due to ramp ups of deals won in the earlier quarters, however, it should also see some pain due to Teleco focus on spend on spectrum; BFSI space witnessed strong trends in Corporate, Transaction and Commercial banking, in Finacle and Mortgage space (due to Stater), however Capital markets and Insurance space might see some headwinds; Retail segment was strong due to digital initiatives by retailers to enhance customer experience (viii) Utilization improved to 83.1% from 82.3% in the previous quarter (ix) Major part of wage hikes completed during the quarter (x) Stater acquisition contributed 60 bps to sequential cc growth (xi) Margin walk: Currency impact of 40 bps on margins, 60 bps impact due to compensation increase and 80 bps impact due to new H1B visas and 20 bps due to Stater Acquisition. These impacts were mainly offset by increase in Utilization which helped margin by 70 bps, +20 bps benefit due to increase in realizations and 10 bps due to IFRS 16 implementation (xii) FCF of \$485Mn during the quarter (xiii) Completed 75% of the INR 8000 cr buyback program and will complete the balance in Q2 (xiv) Capital allocation to shareholders increased from 70% of FCF to 85% of FCF notwithstanding increase in tax on buyback (xv) Although attrition was very high at 23.4% during the quarter, it was largely involuntary, at lower levels and mainly due to employees leaving for higher studies. Company has already initiated employee engagement programs which should reduce attrition to 13-15% over the longer term

Q1FY20 Performance Review

YE March (Rs. Mn)	Q1 FY20	Q4 FY19	Q-o-Q change %	Q4 FY18	Y-o-Y change %	Q1 FY20 estimates	Deviation %
Net Sales (US\$ Mn)	3,131	3,060	2.3%	2,831	10.6%	3,133	(0.1%)
Net Sales (INR Mn)	2,18,030	2,15,390	1.2%	1,91,280	14.0%	2,17,808	0.1%
Less:							
Employees Remuneration & Benefits	1,47,790	1,42,830	3.5%	1,22,880	20.3%	1,46,325	1.0%
Administrative & Other Expenses	25,530	26,380	(3.2%)	23,030	10.9%	27,008	(5.5%)
Total Operating Expenditure	1,73,320	1,69,210	2.4%	1,45,910	18.8%	1,73,333	(0.0%)
EBIT	44,710	46,180	(3.2%)	45,370	(1.5%)	44,475	0.5%
Less: Depreciation	6,810	5,310	28.2%	4,360	56.2%	5,010	
Less: Interest							
Add: Other income	7,360	6,650	10.7%	7,260	1.4%	7,623	(3.5%)
Finance Costs	400	0					
Extraordinary Expense		0		2,700			
Profit Before Tax	51,670	52,830	(2.2%)	49,930	3.5%	52,098	(0.8%)
Adjusted Profits	51,670	52,830	(2.2%)	55,330	(6.6%)	52,098	
Less: Total Tax	13,650	12,050	13.3%	13,810	(1.2%)	14,066	
PAT	38,020	40,780	(6.8%)	36,120	5.3%	38,031	(0.0%)
Adjusted PAT	38,020	40,780	(6.8%)	41,520	(8.4%)	38,031	(0.0%)
Reported Diluted EPS (Rs.)	8.8	9.4	(5.8%)	16.6	(46.8%)	8.7	
Adjusted Diluted EPS (Rs.)	8.8	9.4	(5.8%)	19	(53.7%)	8.7	1.0%
No of Shared Diluted (mn)	4,302	4,347		2,173		4,348	
Margin Analysis %			Change in bps		Change in bps		Deviation in bps
EBIT Margin	20.5%	21.4%	(93)	23.7%	(321)	20.4%	9
EBIDTA Margin	23.6%	23.9%	(28)	26.0%	(237)	22.7%	91
NPM	17.4%	18.9%	(150)	18.9%	(145)	17.5%	(2)
Adjusted NPM	17.4%	18.9%	(150)	21.7%	(427)	17.5%	(2)
Effective Tax Rate %	26.4%	22.8%	361	27.7%	(124)	27.0%	(58)
Cost Analysis %			Change in bps		Change in bps		Deviation in bps
Employee Cost/Net Sales	67.8%	66.3%	147	64.2%	354	67.2%	60
SG&A/Net sales	11.7%	12.2%	(54)	12.0%	(33)	12.4%	(69)

Source: Company, Dalal & Broacha Research

Valuation & Outlook

At CMP of INR 779, Infosys is currently trading at 20.9x / 18.1x FY20e/FY21e EPS. Q1FY20 performance, upgrade of FY20 revenue guidance and stability of margin guidance are a big positive and should serve as a huge trigger in the short term. However, we believe that at 18x FY21e EPS, all the positives are fully factored in. We maintain a NEUTRAL view on the stock with a target price of INR 776, ie 18x FY21e as we wait for consistency in performance before upgrading our target price.



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Profit & Loss A/c				
YEMarch (INR Mn)	FY18	FY19	FY20E	FY21E
Net Sales	7,05,220	8,26,760	8,94,363	9,82,534
Growth%	3.0%	17.2%	8.2%	9.9%
Total Revenue	7,05,220	8,26,760	8,94,363	9,82,534
Less:				
Employees Cost	4,51,310	5,38,680	5,98,720	6,47,590
SG&A	82,430	99,290	1,04,829	1,12,493
Operating Expenditure	5,33,740	6,37,970	7,03,549	7,60,083
EBITDA	1,90,100	2,08,890	2,18,748	2,45,049
EBITDA Growth%	2.2%	9.9%	4.7%	12.0%
Less: Depreciation	18,620	20,100	27,935	22,598
Operating Profit	1,71,480	1,88,790	1,90,813	2,22,450
Growth%	1.5%	10.1%	1.1%	16.6%
Non-operating Income	31,930	28,830	30,191	34,389
Profit Before tax	2,03,410	2,17,620	2,21,004	2,56,839
Tax	42,420	56,310	59,262	69,347
Net Profit	1,60,990	1,61,310	1,61,742	1,87,493
Adjusted Profit	1,60,990	1,61,310	1,61,742	1,87,493
Diluted EPSRs	74.0	37.1	37.2	43.1
Growth %	17.7%	-49.9%	0.3%	15.9%
Adjusted EPS	74.0	37.1	37.2	43.1
Growth%	17.7%	-49.9%	0.3%	15.9%

Bonus Shares Issue in FY19 therefore shares issued have doubled and EPS has halved

Free Cash Flow Statement				
YEMarch (INR Mn)	FY18	FY19	FY20E	FY21E
EBITDA	1,90,100	2,08,890	2,18,748	2,45,049
FC Investment	18,470	27,120	20,000	15,000
WC Changes	9,740	14,210	(1,409)	(32,365)
Depreciation Tax Shield	3,883	5,201	7,491	6,102
Tax (EBITDA * Tax Rate)	39,644	54,051	58,657	66,163
FCFF	1,45,609	1,47,130	1,46,172	1,37,622

Key Ratios				
YE March (Rs.mn)	FY18	FY19	FY20E	FY21E
EBITDA Margin(%)	24.3%	22.8%	21.3%	22.6%
Tax/PBT(%)	20.9%	25.9%	26.8%	27.0%
Net Profit Margin(%)	22.8%	19.5%	18.1%	19.1%
RoE(%)	22.7%	23.5%	22.1%	22.6%
RoCE(%)	22.5%	23.1%	21.8%	22.4%
Current Ratio(x)	3.5x	2.8x	3.6x	5.7x
Dividend Payout(%)	47.7%	47.7%	47.7%	48.1%
Book Value Per Share(Rs.)	298.5	149.4	168.9	191.3
Growth Indicators%				
Growth in Gross Block(%)	10.1%	13.4%	8.7%	6.0%
Sales Growth(%)	3.0%	17.2%	8.2%	9.9%
EBITDA Growth(%)	1.5%	10.1%	1.1%	16.6%
Net Profit Growth(%)	12.0%	0.2%	0.3%	15.9%
Diluted EPS Growth(%)	17.7%	(49.9%)	0.3%	15.9%
Turnover Ratios				
Debtors (Days of net sale)	68	65	64	65

BalanceSheet				
YE March (INR Mn)	FY18	FY19	FY20E	FY21E
Liabilities				
Equity Capital	10,880	21,700	21,700	21,700
Reserves & Surplus	6,38,350	6,27,780	7,12,410	8,09,743
Equity	6,49,230	6,49,480	7,34,110	8,31,443
Net Worth	6,49,230	6,49,480	7,34,110	8,31,443
Net Deferred tax liability/(Ass)	5,410	6,720	6,720	6,720
Total Loans	3,200	4,220	4,220	4,220
Capital Employed	6,57,840	6,60,420	7,45,050	8,42,383
Assets				
Gross Block	2,01,790	2,28,910	2,48,910	2,63,910
Less: Depreciation	1,00,630	1,14,120	1,42,055	1,64,653
Net Block	1,01,160	1,14,790	1,06,855	99,257
Capital WIP	40,640	56,190	55,725	57,048
Investments	60,760	49,650	49,650	49,650
Others-Assets	96,170	97,970	97,970	34,673
Current Assets				
Sundry Debtors	1,31,420	1,48,270	1,56,820	1,74,972
Cash and Bank Balance	1,98,180	1,95,100	2,86,720	4,21,260
Loans and Advances	69,230	57,460	80,493	1,13,974
Total Current Assets	5,00,170	5,28,200	6,04,525	7,29,857
Less: Current Liabilities				
Sundry Creditors	6,940	16,550	5,783	4,165
Provisions	25,350	21,430	35,557	5,548
Other Current Liabilities	1,08,770	1,48,400	1,28,336	1,18,390
Total Current Liabilities	1,41,060	1,86,380	1,69,676	1,28,102
Capital Applied	6,57,840	6,60,420	7,45,050	8,42,383

Cash Flow Statement (Consolidated)				
YE March (Rs. Mn)	FY18	FY19	FY20E	FY21E
PAT	1,60,990	1,61,310	1,61,742	1,87,493
Less: Non Operating Income	-31,930	-28,830	-30,191	-34,389
Add: Depreciation	18,620	20,100	27,935	22,598
Operating Profit before Working Capital Changes	1,47,680	1,52,580	1,59,486	1,75,702
(Inc)/Dec in Current Assets	8,810	-31,110	15,295	9,209
Inc/(Dec) in Current Liabilities	930	45,320	-16,704	-41,574
Net Cash Generated From Operations	1,57,420	1,66,790	1,58,077	1,43,337
Cash Flow from Investing Activities				
(Inc)/Dec in Fixed Assets	-22,270	-33,730	-20,000	-15,000
(Inc)/Dec in Capital Work In Progress	-2,410	2,180	465	-1,323
Add: Non Operating Income Income	31,930	28,830	30,191	34,389
Net Cash Flow from/(used in) Investing Activities	11,080	-11,140	10,655	81,363
Cash Flow from Financing Activities				
Dividend Paid	-66,167	-66,298	-66,476	-77,059
Tax Paid on Dividend	-10,587	-10,608	-10,636	-13,100
Net Cash Flow from Financing Activities	-1,99,800	-1,67,520	-75,802	-90,160
Net Inc/Dec in cash equivalents	-31,300	-11,870	92,930	1,34,540
Opening Balance	2,26,250	1,98,180	1,95,100	2,86,720
Closing Balance Cash and Cash Equivalents	1,94,950	1,86,310	2,88,030	4,21,260



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