



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

## Q2 FY20 Result Update@ Dalal&Broacha

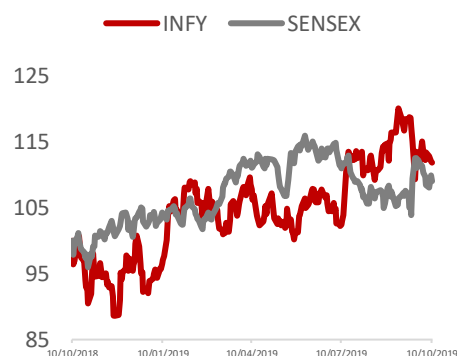
### Buy on Dips

Current Price	815
Target Price	823
Upside	1%
52 Week Range	847/600

### Key Share Data

Market Cap (Rs.Bn)	3503.46
Market Cap (US\$ Bn)	49.35
No of o/s shares (Mn)	4258.41
Face Value	5
Monthly Avg. Vol(BSE+NSE) ('000)	8905
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
<b>Total</b>	<b>100</b>	<b>100</b>

### Strong Digital growth, vertical performance and steady outlook mark a solid Q2FY20 performance

- USD revenue was reported at USD 3,210 Mn, +2.5% qoq/+9.9% yoy and -0.4% vs our est.
- Digital Revenues stood at USD 1,203 Mn, +36% yoy, accounting for 38% of overall revenues
- Revenue in INR terms was reported at INR 226,290 Mn, -0.2% vs our est. and +3.8% qoq/+9.8% yoy
- EBIT was reported at INR 49,120 Mn, -3.4% vs our est and +9.9% qoq/+0.4% yoy. EBIT Margins were reported 21.7% vs our est. of 22.4%
- PAT was reported at INR 40,190 Mn, -8.4% vs our est. and 5.7% qoq/-2.2% yoy
- EPS came in at INR 9.4 vs INR 8.8 in Q1FY20 and INR 9.5 in Q2FY20
- Large deal signings stood at \$2.8 Bn vs \$2.7 Bn in Q1 FY20 and \$2 Bn in Q2FY19

### Segmentwise Performance

- N. America (61.4% of revenue) and Europe (24.1% of revenue) outperformed with a cc growth of 11.9% yoy and 14.6% yoy. ROW (13.2% of revenue) was a laggard at 2% yoy
- FS (31.9% of rev), Comms (13.1% of rev), Energy & Util (13.1% of rev) and Manufacturing (10.1% of rev) reported strong cc growth at 10.3%, 19.2%, 19.1% and 16.9% yoy respectively. Hi-Tech and Lifesciences also reported double digit growth. Retail (15.2% of rev) had a muted performance with 1.1% yoy cc growth.
- While Digital (38.3% of rev) reported a strong 38.4% cc growth, Core services reported muted growth at -0.7% yoy.
- No client additions in the \$100 Mn+ band while \$50 Mn+ band had 2 additions
- Headcount addition was strong at 7439 in Q2 vs 685 in Q1FY20

### Concall Key Takeaways

- Margin improvement in Q2 mainly due to increase in utilization levels (83.1% in Q1FY20 to 85% in Q2FY20 excluding trainees), lower onsite mix, lower Visa & Travel costs and other efficiency initiatives boosted margins by 220 bps. These were offset by compensation hikes (70 bps) and other costs (30 bps)
- Financial Services (32% of revenue) outperformed due to contribution from Stater and Digital. Strong demand came from North American banks in Transformation of User Interface in retail banking, Cloud Migration, Data Analytics and marginal contribution from Corporate Banking as well
- Expect Q3 to be slightly weak for FS due to furloughs, sluggishness in capital markets and European banking and correction in global interest rates which can impact IT spend
- Retail (15% of revenue)** was muted largely due to cautious spending by players due to trade wars and geopolitical risks; remain cautiously optimistic going ahead
- Although **Manufacturing (10% of revenue)** faced severe headwinds as players were cautious in spending due to trade wars and weak automotive industry, infosys managed to deliver to due new account additions and healthy pipeline in Europe and America

### 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%	13.0x	20.9%	20.8%
FY18	7,05,220	3.0%	1,71,480	24.3%	1,60,990	22.8%	74.0	17.7%	11.0x	22.7%	22.5%
FY19	8,26,760	17.2%	1,88,790	22.8%	1,61,310	19.5%	37.1	-49.9%	22.0x	23.5%	23.1%
FY20E	9,05,682	9.5%	1,94,573	21.5%	1,65,840	18.3%	38.1	2.8%	21.4x	22.6%	22.3%
FY21E	9,91,457	9.5%	2,13,003	21.5%	1,83,547	18.5%	42.2	10.7%	19.3x	22.2%	21.9%

Source: Company, Dalal&Broacha Research



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(vii) **Energy & Utilities (13% of topline)** outperformed due to strong demand from Utilities in Europe (viii) Management was cautious on H2FY20 outlook vis-à-vis previous H2's due to weak macroeconomic outlook, rate cuts and trade conflicts. Expect Communications and Energy & Utilities performance to remain steady (ix) 10% of TCV was Net New deals whereas 90% was renewal (vi) **Comms (13% of revenue)** was strong due to large deal wins and customers witnessing a shift in discretionary to non-discretionary spend due to increasing competition from digitally transformed competitors

### Quarterly Deviation Analysis

YE March (Rs. Mn)	Q2 FY20	Q1 FY20	Q-o-Q change %	Q2 FY19	Y-o-Y change %	Q1 FY20 estimates	Deviation %
<b>Net Sales (US\$ Mn)</b>	<b>3,210</b>	<b>3,131</b>	<b>2.5%</b>	<b>2,921</b>	<b>9.9%</b>	<b>3,222</b>	<b>(0.4%)</b>
<b>Net Sales (INR Mn)</b>	<b>2,26,290</b>	<b>2,18,030</b>	<b>3.8%</b>	<b>2,06,090</b>	<b>9.8%</b>	<b>2,26,807</b>	<b>(0.2%)</b>
<b>Less:</b>							
Employees Remuneration & Benefits	1,50,790	1,47,790	2.0%	1,32,810	13.5%	1,49,340	1.0%
Administrative & Other Expenses	26,380	25,530	3.3%	24,340	8.4%	26,593	(0.8%)
<b>Total Operating Expenditure</b>	<b>1,77,170</b>	<b>1,73,320</b>	<b>2.2%</b>	<b>1,57,150</b>	<b>12.7%</b>	<b>1,75,932</b>	<b>0.7%</b>
<b>EBIT</b>	<b>49,120</b>	<b>44,710</b>	<b>9.9%</b>	<b>48,940</b>	<b>0.4%</b>	<b>50,875</b>	<b>(3.4%)</b>
Less: Depreciation	7,270	6,810	6.8%	4,630	57.0%	7,084	
Less: Interest							
Add: Other income	6,260	7,360	(14.9%)	7,390	(15.3%)	7,656	(18.2%)
Finance Costs	420	400				0	
Extraordinary Expense		0		0			
<b>Profit Before Tax</b>	<b>54,960</b>	<b>51,670</b>	<b>6.4%</b>	<b>56,330</b>	<b>(2.4%)</b>	<b>58,531</b>	<b>(6.1%)</b>
<b>Adjusted Profits</b>	<b>54,960</b>	<b>51,670</b>	<b>6.4%</b>	<b>56,330</b>	<b>(2.4%)</b>	<b>58,531</b>	
Less: Total Tax	14,590	13,650	6.9%	15,230	(4.2%)	14,633	
<b>PAT</b>	<b>40,370</b>	<b>38,020</b>	<b>6.2%</b>	<b>41,100</b>	<b>(1.8%)</b>	<b>43,899</b>	<b>(8.0%)</b>
<b>Adjusted PAT</b>	<b>40,370</b>	<b>38,020</b>	<b>6.2%</b>	<b>41,100</b>	<b>(1.8%)</b>	<b>43,899</b>	<b>(8.0%)</b>
<b>Reported Diluted EPS (Rs.)</b>	<b>9.5</b>	<b>8.8</b>	<b>7.5%</b>	<b>9.5</b>	<b>0.5%</b>	<b>10.2</b>	
Adjusted Diluted EPS (Rs.)	9.5	8.8	7.5%	9	0.5%	10.2	(6.9%)
<b>No of Shared Diluted (mn)</b>	<b>4,249</b>	<b>4,302</b>		<b>4,347</b>		<b>4,302</b>	
<b>Margin Analysis %</b>			<b>Change in bps</b>		<b>Change in bps</b>		<b>Deviation in bps</b>
EBIT Margin	21.7%	20.5%	120	23.7%	(204)	22.4%	(72)
EBIDTA Margin	24.9%	23.6%	129	26.0%	(107)	25.6%	(64)
NPM	17.8%	17.4%	40	19.9%	(210)	19.4%	(152)
Adjusted NPM	17.8%	17.4%	40	19.9%	(210)	19.4%	(152)
Effective Tax Rate %	26.5%	26.4%	13	27.0%	(49)	25.0%	155
<b>Cost Analysis %</b>			<b>Change in bps</b>		<b>Change in bps</b>		<b>Deviation in bps</b>
Employee Cost/Net Sales	66.6%	67.8%	(115)	64.4%	219	65.8%	79
SG&A/Net sales	11.7%	11.7%	(5)	11.8%	(15)	11.7%	(7)

### Valuation & Outlook

Infosys delivered a steady performance in Q2FY20 in terms of topline growth and operating margins. Furthermore, a consecutive 4 quarter double digit topline cc revenue growth, maintenance of FY20E margin outlook and increase in the bottom range of growth from 8.5 – 10% to 9 – 10% reinforces our confidence in the management's 3 year plan set out in late FY18 / end of FY19. A solid Q2 performance vis-à-vis TCS, despite a muted outlook (for H2FY20) given by both companies, should see some focus shifting from TCS to Infosys. The stock is currently trading at 21.4x and 19.3x FY20e / FY21e EPS. Although the above factors provide us the impetus to increase our Target Price, the stock has already outperformed and therefore factored in the positives. We therefore recommend a **BUY ON DIPS** strategy with a target price of INR 823, i.e. 19.5x FY21E EPS (revised from earlier TP of INR 776).



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

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

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

Valuation Ratios				
YE March (Rs.mn)	FY18	FY19	FY20E	FY21E
P/E(x)	11.0x	22.0x	21.4x	19.3x
P/BV(x)	2.7x	5.5x	4.8x	4.3x
EV/EBIDTA(x)	9.2x	17.8x	16.8x	14.6x
MarketCap./Sales(x)	2.5x	4.3x	3.9x	3.6x

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

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



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Contact	Email ID	Contact No.	Sector
Mr. Kunal Bhatia	kunal.bhatia@dalal-broacha.com	022 67141442	Auto, Auto Ancillary, FMCG
Ms. Charulata Gaidhani	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma /Healthcare
Ms. Abhilasha Satale	abhilasha.satale@dalal-broacha.com	022 67141135	Mid cap
Mr. Mayank Babla	mayank.babla@dalal-broacha.com	022 67141412	I.T/Media
Mr. Avinash Tanawde	avinash.tanawde@dalal-broacha.com	022 67141149	BFSI
Ms. Nidhi Babaria	nidhi.babaria@dalal-broacha.com	022 67141450	Associate
Mr. Suraj Nandu	suraj.nandu@dalal-broacha.com	022 67141438	Associate
Mr. Tanush Mehta	tanush.mehta@dalal-broacha.com	022 67141441	Associate

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021. Tel: 91-22- 2282 2992, 2287 6173, Fax: 91-22-2287 0092  
E-mail: research@dalalbroachaindia.com, equity.research@dalal-broacha.com