



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Suraj Nandu (022) 67141412

Q4 FY19 Result Update@ Dalal&Broacha

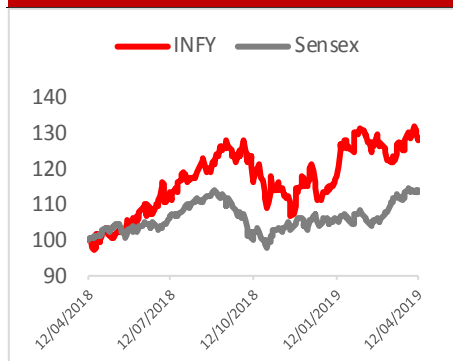
HOLD

Current Price	727
Target Price	772
Upside	6%
52 Week Range	549/773

Key Share Data

Market Cap (Rs.Bn)	3174.68
Market Cap (US\$ Bn)	45.35
No of o/s shares (Mn)	4347
Face Value	5
Monthly Avg.	
Vol(BSE+NSE) Nos	8926.35
BSE Code	500209
NSE Code	INFY
Bloomberg	INFY:IN

Price performance



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

Consolidated Financials (In INR Mn)

Year	Net Sales	% Growth	EBIT	EBIT Margin (%)	PAT	PAT Margin (%)	EPS	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%	9.8x	22.7%	22.5%
FY19	8,26,760	17.2%	1,88,790	22.8%	1,61,310	19.5%	37.1	0%	19.6x	22.1%	21.8%
FY20E	9,10,484	10.1%	1,99,258	21.9%	1,68,721	18.5%	38.8	5%	18.7x	20.6%	20.4%
FY21E	9,98,105	9.6%	2,20,394	22.1%	1,86,389	18.7%	42.9	10%	17.0x	20.4%	20.2%

Source: Company, Dalal&Broacha Research

Performance in line with estimates, Margins and Guidance dissapoint

- Infosys' Q4FY19 numbers were largely in line with our estimates on the revenue and PAT front whereas operating margins were below ours and street estimates
- \$ revenue came in at \$3060 Mn versus our estimate of \$3067 Mn | \$ revenue was +2.4% qoq and +9.1% yoy
- Revenue in INR terms was reported at INR 215390 Mn, +0.6% qoq and +19.1% yoy and 0.3% below our estimate of INR 2,16,039 Mn
- EBIT was reported at INR 46,180 Mn, -4.4% qoq and +3.3% yoy and 2.6% below our estimate of INR 47,416 Mn
- EBIT Margin came in at 21.4% which was below our estimate of 21.9% and below street estimate of 22.2%
- PAT was reported at INR 40,780 Mn, +13% qoq and +10.5% yoy and 1.2% above our estimate of INR 40,291 mn
- EPS came in at INR 9.4 vs INR 8.3 in Q2FY19 and INR 9.3 in Q4FY18
- Large deal wins were recorded at \$1.6 Bn for the quarter which was similar to last quarter figure
- Company gave its FY20 EBIT guidance at 21-23% versus 22-24% in FY19
- FY20e revenue guidance has been given at 7.5-9.5% compared to 8.5-9% in FY19 which basically shows an increase in range where reported revenues will come at. In our opinion, this shows uncertainty in ramp ups and conversion of deal wins.
- Digital division continued to report strong double digit growth at 41.1% YoY and now contribute 33.8% of total revenues

Key Concall Takeaways

(i) Guidance revised to 7.5-9.5% in CC - Growth captures the macro environment we see today. *The guidance includes inorganic growth as well. (ii) Margin guidance: 21-23% from 22-24% earlier taking into account balance wage hike in Q1FY20 and several back ended and business investments which have flowed through FY19 to FY20. Q1 slower led by hikes but all this is factored in the guidance. Will witness margin improvement from Q2 onwards. Operational levers such as onsite-offshore mix and push on Digital deals will play out post FY20 (iii) Q4FY19 margins were down 120 bps QoQ: negatively impacted by -70bps due to low utilisation, -40bps due to ramp up of large deals 30bps due to investments in sales and localisation and 30bps due to rupee appreciation; Positives - lower provision for bad debts +40bps and +30bps from absence of one-off which were there in Q3. (iv) Salary hikes were conducted for 85% of the workforce. Hike of 6% for offshore and 1.5% for onsite. (v) BFSI (32% of rev) declined -0.4% qoq and 5.7% yoy in reported terms due to some US clients seeing early year weakness due to budget constraints. Deal wins in Europe enabled some growth. Overall momentum weaker than Q3. Even Finacle saw some slowdown in Q4FY19 (vi) Insurance be slower in FY20 than FY19.



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(vii) Retail (16% of rev) de-grew -0.7% qoq and +9.1% yoy in reported terms: Company seeing significant pickup in digital - especially cloud and analytics. Remain optimistic in Retail for FY20. (viii) Manufacturing (10% of rev) grew 1.4% qoq and 13.6% yoy in reported terms. Growth continued despite macro issues in Europe. Company witnessed good order booking in engineering and systems integration (ix) Life sciences reported de-growth of -0.9% qoq as clients facing cost pressures and therefore causing budget constraints (x) FY19 Dividend: INR17.5/Share (xi) Investments in FY19 consisted of Sales and BPM, localisation of talent and hub centres and sub-contractor costs (xii) FY19 margin walkthrough: Investments had -140bps impact. Got +70bps from operation efficiencies. Currency benefits 210bps, which was passed on to employees. Overall margins declined by 150bps in FY19 (xiii) FY20 tax rate at 27-28%

Q4FY19 Performance Review

YE March (Rs. Mn)	Q4 FY19	Q3 FY19	Q-o-Q change %	Q4 FY18	Y-o-Y change %	Q4 FY19 estimates	Deviation %
Net Sales (US\$ Mn)	3,060	2,987	2.4%	2,805	9.1%	3,067	(0.2%)
Net Sales (INR Mn)	2,15,390	2,14,000	0.6%	1,80,830	19.1%	2,16,039	(0.3%)
Less:							
Employees Costs	1,42,830	1,40,160	1.9%	1,15,540	23.6%	1,42,736	0.1%
Administrative & Other Expenses	26,380	25,540	3.3%	20,570	28.2%	25,887	1.9%
Total Operating Expenditure	1,69,210	1,65,700	2.1%	1,36,110	24.3%	1,68,623	0.3%
Operating Profit	46,180	48,300	(4.4%)	44,720	3.3%	47,416	(2.6%)
Less: Depreciation	5,310	5,800	(8.4%)	4,580	15.9%	5,855	
Add: Other income	6,650	7,530	(11.7%)	5,340	24.5%	7,777	(14.5%)
Extraordinary Expense		4,510					
Profit Before Tax	52,830	51,320	2.9%	50,060	5.5%	55,194	(4.3%)
Adjusted Profits	52,830	60,340	(12.4%)	50,060	5.5%	55,194	
Less: Total Tax	12,050	15,220	(20.8%)	13,160	(8.4%)	14,902	
PAT	40,780	36,100	13.0%	36,900	10.5%	40,291	1.2%
Adjusted PAT	40,780	45,120	(9.6%)	36,900	10.5%	40,291	1.2%
Reported Diluted EPS (Rs.)	9.4	8.3	13.0%	17.0	(44.8%)	9.3	
Adjusted Diluted EPS (Rs.)	9.4	10.4	(9.6%)	17	(44.8%)	9.3	1.2%
No of Shared Diluted (mn)	4,348	4,348		2,173		4,348	
Margin Analysis %			Change in bps		Change in bps		Deviation in bps
Operating margin	21.4%	22.6%	(113)	24.7%	(329)	21.9%	(51)
EBIDTA Margin	23.9%	25.3%	(137)	27.3%	(336)	24.7%	(75)
NPM	18.9%	16.9%	206	20.4%	(147)	18.7%	28
Adjusted NPM	18.9%	21.1%	(215)	20.4%	(147)	18.7%	28
Effective Tax Rate %	22.8%	29.7%	(685)	26.3%	(348)	27.0%	(419)
Cost Analysis %			Change in bps		Change in bps		Deviation in bps
Employee Cost/Net Sales	66.3%	65.5%	82	63.9%	242	66.1%	24
SG&A/Net sales	12.2%	11.9%	31	11.4%	87	12.0%	26

Source: Company, Dalal & Broacha Research

Communications (13.5% of rev) and Hi-Tech (7.7%) were the only 2 segments which reported strong performance at 16.8% qoq and 7.1% qoq (cc terms) growth. Financial Services (31.6% of rev) and Retail (15.9% of rev) had a soft quarter with a de-growth of -0.4% and -0.8% qoq in cc terms.

N. America (61.2% of rev) grew 3.7% qoq and Europe (24% of rev) grew 1.4% qoq in cc terms.

Valuation & Outlook

Despite strong order bookings, Infosys' revenue growth guidance of 7.5-9.5% (including inorganic growth) coupled with lower operating margin band is disappointing. Margins should remain under pressure through FY20 due to investments flowing through in FY20. Unlike TCS, levers at hand to improve margins are operational related rather than through innovative offerings, which is unimpressive as it misses the mojo that a tech company should attract. The stock is currently trading at 19.3x and 17.4x FY20e / FY21e EPS. **We cut our target price on the stock from INR 832 to INR 772 as we assign a multiple of 18x FY21e EPS of INR 42.9.**



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YEMarch (INR Mn)	FY18	FY19	FY20E	FY21E
Net Sales	7,05,220	8,26,760	9,10,484	9,98,105
Growth%	3.0%	17.2%	10.1%	9.6%
Total Revenue	7,05,220	8,26,760	9,10,484	9,98,105
Less:				
Employees Cost	4,51,310	5,38,680	6,04,252	6,60,444
SG&A	82,430	99,290	1,06,974	1,17,267
Operating Expenditure	5,33,740	6,37,970	7,11,225	7,77,712
EBITDA	1,90,100	2,08,890	2,20,199	2,43,350
EBITDA Growth%	2.2%	9.9%	5.4%	10.5%
Less: Depreciation	18,620	20,100	20,941	22,956
Operating Profit	1,71,480	1,88,790	1,99,258	2,20,394
Growth%	1.5%	10.1%	5.5%	10.6%
Non-operating Income	31,930	28,830	31,867	34,934
Profit Before tax	2,03,410	2,17,620	2,31,125	2,55,327
Tax	42,420	56,310	62,404	68,938
Net Profit	1,60,990	1,61,310	1,68,721	1,86,389
Adjusted Profit	1,60,990	1,61,310	1,68,721	1,86,389
Diluted EPSRs	37.0	37.1	38.8	42.9
Growth %	-41.2%	0.3%	4.6%	10.5%
Adjusted EPS	74.0	37.1	38.8	42.9
Growth%	17.7%	-49.9%	4.6%	10.5%

YE March (Rs.mn)	FY18	FY19	FY20E	FY21E
EBITDA Margin(%)	24.3%	22.8%	21.9%	22.1%
Tax/PBT(%)	20.9%	25.9%	27.0%	27.0%
Net Profit Margin(%)	22.8%	19.5%	18.5%	18.7%
RoE(%)	22.7%	22.1%	20.6%	20.4%
RoCE(%)	22.5%	21.8%	20.4%	20.2%
Current Ratio(x)	3.5x	3.8x	4.1x	4.7x
Dividend Payout(%)	47.7%	47.7%	47.7%	48.1%
Book Value Per Share(Rs.)	298.5	168.8	189.1	211.4
Growth Indicators%				
Growth in Gross Block(%)	10.1%	9.9%	9.0%	6.2%
Sales Growth(%)	3.0%	17.2%	10.1%	9.6%
EBITDA Growth(%)	1.5%	10.1%	5.5%	10.6%
Net Profit Growth(%)	12.0%	0.2%	4.6%	10.5%
Diluted EPS Growth(%)	(41.2%)	0.3%	4.6%	10.5%
Turnover Ratios				
Debtors (Days of net sales)	68	65	64	65

Free Cash Flow Statement				
YEMarch (INR Mn)	FY18	FY19	FY20E	FY21E
EBITDA	1,90,100	2,08,890	2,20,199	2,43,350
FC Investment	18,470	20,000	20,000	15,000
WC Changes	9,740	12,626	10,089	53,499
Depreciation Tax Shield	3,883	5,201	5,654	6,198
Tax (EBITDA * Tax Rate)	39,644	54,051	59,454	65,704
FCFF	1,45,609	1,52,665	1,56,488	2,22,343

Valuation Ratios				
YE March (Rs.mn)	FY18	FY19	FY20E	FY21E
P/E(x)	9.8x	19.6x	18.7x	17.0x
P/BV(x)	2.4x	4.3x	3.8x	3.4x
EV/EBITDA(x)	8.1x	15.2x	13.9x	11.6x
MarketCap./Sales(x)	2.2x	3.8x	3.5x	3.2x

YE March (INR Mn)	FY18	FY19	FY20E	FY21E
Liabilities				
Equity Capital	10,880	21,746	21,746	21,746
Reserves & Surplus	6,38,350	7,11,895	8,00,177	8,96,937
Equity	6,49,230	7,33,642	8,21,923	9,18,683
Net Worth	6,49,230	7,33,642	8,21,923	9,18,683
Net Deferred tax liability/(As)	5,410	5,410	5,410	5,410
Total Loans	3,200	3,200	3,200	3,200
Capital Employed	6,57,840	7,42,252	8,30,533	9,27,293
Assets				
Gross Block	2,01,790	2,21,790	2,41,790	2,56,790
Less: Depreciation	1,00,630	1,20,730	1,41,671	1,64,628
Net Block	1,01,160	1,01,060	1,00,119	92,162
Capital WIP	40,640	36,981	38,237	39,552
Investments	60,760	60,760	60,760	60,760
Others-Assets	96,170	96,170	96,170	34,469
Current Assets				
Sundry Debtors	1,31,420	1,47,231	1,59,646	1,77,745
Cash and Bank Balance	1,98,180	2,98,976	3,97,032	6,15,634
Loans and Advances	69,230	76,062	79,667	25,951
Total Current Assets	5,00,170	6,04,945	7,09,184	8,89,197
Less: Current Liabilities				
Sundry Creditors	6,940	5,244	5,846	4,261
Provisions	25,350	33,786	37,442	41,363
Other Current Liabilities	1,08,770	1,18,635	1,30,649	1,43,222
Total Current Liabilities	1,41,060	1,57,665	1,73,937	1,88,847
Capital Applied	6,57,840	7,42,252	8,30,533	9,27,293

Cash Flow Statement (Consolidated)				
YE March (Rs. Mn)	FY18	FY19	FY20E	FY21E
PAT	1,60,990	1,61,310	1,68,721	1,86,389
Less: Non Operating Income	-31,930	-28,830	-31,867	-34,934
Add: Depreciation	18,620	20,100	20,941	22,956
Operating Profit before Working Capital Changes	1,47,680	1,52,580	1,57,795	1,74,412
(Inc)/Dec in Current Assets	8,810	-3,979	-6,183	38,590
Inc/(Dec) in Current Liabilities	930	16,605	16,272	14,910
Net Cash Generated From Operations	1,57,420	1,65,206	1,67,884	2,27,911
Cash Flow from Investing Activities				
(Inc)/Dec in Fixed Assets	-22,270	-20,000	-20,000	-15,000
(Inc)/Dec in Capital Work In Progress	-2,410	3,659	-1,256	-1,314
Add: Non Operating Income Income	31,930	28,830	31,867	34,934
Net Cash Flow from/(used in) Investing Activities	11,080	12,489	10,611	80,320
Cash Flow from Financing Activities				
Dividend Paid	-66,167	-66,298	-69,344	-76,606
Tax Paid on Dividend	-10,587	-10,608	-11,095	-13,023
Net Cash Flow from Financing Activities	-1,99,800	-84,425	-80,440	-89,629
Net Inc/Dec in cash equivalents	-31,300	93,269	98,056	2,18,602
Opening Balance	2,26,250	1,98,180	2,98,976	3,97,032
Closing Balance Cash and Cash Equivalents	1,94,950	2,91,449	3,97,032	6,15,634



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