

Infosys' Q4FY21 performance was dismal with revenue below our estimates while operating margins and guidance were in-line with our estimates

- \$ Revenue came in at \$3,613 Mn, +2.8% qoq / +13% yoy and -1.5% vs. estimates
- INR revenue came in at INR 2,63,110 Mn, +1.5% qoq / +13.1% yoy and -1.6% above our estimates
- EBIT was reported at INR 64,400 Mn, -2.3% qoq / +30.7% yoy and -1.8% vs our estimates
- EBIT margins stood at 24.5% vs 25.4% / 21.2% in Q3FY21 / Q4FY20 respectively and in-line with our estimates
- PAT came in at INR 50,760 Mn, -2.3% qoq / +17.5% yoy and -3.9% above our estimates
- EPS at INR 11.96 in Q4FY21 vs 12.2 / 10.1 in Q3FY21 / Q4FY20 respectively

Segmental Trends

Growth across the verticals was led by

- **Manufacturing (9.6% of topline)** had a healthy growth of 3.2% QoQ & 7.1% YoY on reported basis followed by **Retail (14.8% of topline)** which had a minor growth of 0.7% QoQ but had a healthy growth of 7.6% YoY on reported basis indicating recovery after pandemic impact. **Others (3.4% of topline)** had a robust growth of 25.9% QoQ.
- **BFSI (33% of topline)** had a minor decline of -0.3% QoQ but healthy growth of 19.1% YoY on reported terms, followed by **Hi-Tech (8.1% of topline)** declined by -1.2% QoQ but grew 15.9% YoY on reported basis. **Energy & Utilities (12.3% of topline)** de-grew by -1.6% QoQ.
- **Communications (12% of topline)** had major decline of -3.2% QoQ but had a healthy growth of 4.5% YoY on reported terms and lastly **Lifesciences (6.8% of Revenue)** de-grew -4.2% QoQ but had a robust growth of 20.8% YoY on reported basis.

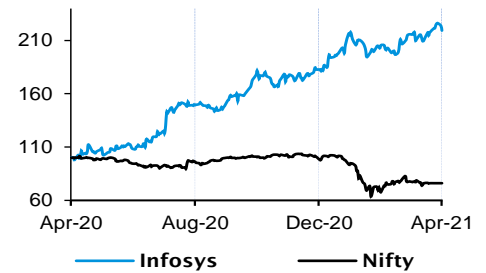
Rating	TP (Rs)	Up/Dn (%)
HOLD	1458	4

Market data

Current price	Rs	1,399
Market Cap (Rs.Bn)	(Rs Bn)	5959
Market Cap (US\$ Mn)	(US\$ Mn)	79453
Face Value	Rs	5
52 Weeks High/Low	Rs	1480/604
Average Daily Volume	('000)	21164
BSE Code		500209
Bloomberg		INFY:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-20	Sep-20
Promoters	12.95	12.95
Public	86.67	86.65
Others	0.38	0.40
Total	100	100

Source: BSE

Please note: Shareholding Pattern for Q4FY21 was not updated on the exchanged during the result update.

Financial Summary

Y/E Mar (Rs mn)	FY 19	FY 20	FY21E	FY22E	FY23E
Net sales	8,26,760	9,07,910	10,05,531	11,22,544	12,39,445
EBIT	1,88,790	1,93,740	2,47,021	2,62,410	2,85,400
Adjusted net profit	1,61,310	1,66,400	1,94,551	2,08,756	2,26,438
Free cash flow	1,47,130	1,43,925	1,62,996	1,44,269	1,93,203
EPS (Rs)	37.1	38.3	44.8	48.0	52.1
growth (%)	0%	3%	17%	7%	8%
P/E (x)	37.7	36.5	31.3	29.1	26.9
P/B (x)	9.4	9.3	8.3	7.5	6.7
EV/EBITDA (x)	31.2	30.5	23.8	22.3	20.3
ROCE (%)	22.2	22.8	24.1	23.4	22.9
RoE (%)	22.5	23.8	25.9	24.9	24.4
Dividend yield (%)	1.8	1.3	1.6	1.7	1.9

Source: Company

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Geographical Trends

- Growth was primarily led by **India (3% of Revenue)** growing at 15.4% QoQ & 30.8% YoY on reported basis, followed by **Europe (24.4% of Revenue)** having a minor growth of 1.7% QoQ but healthy growth of 12.8% YoY on reported basis.
- **North America (61.6% of Revenue)** remained flat sequentially but had a robust growth of 13% YoY on reported basis. **Rest of the World (11% of Revenue)** had a major decline of -6.8% QoQ but growth of 9.3% YoY on reported basis.

Conference Call Key Highlights

Operational Highlights

- **Volume Growth in Q4** was at 4.6% QoQ reflecting accelerating momentum in the business. **Digital Business (51.5% of Revenue Mix)** grew at 34% YoY in cc terms.
- **Attrition for the quarter inched up to 15.2% for Q4** vs 10% in Q3FY21 and 15.3% in Q4FY20. Attrition was high due to increasing demand for talent in the industry. **Sub-Con Cost increased by 50 bps** led by growth acceleration.
- **Balance Sheet Metrics: In FY21, Cash & Balances stood at \$5.3 Bn and FCF stood at \$ 3 Bn growing at 39% YoY** led by strong focus on DSO (71 Days) & capex Optimization. Capex stood at \$285 Mn in FY21 vs \$465 Mn in FY20.
- **Onboarded 20,000 new employees in FY21 and target to onboard 26,000 new employees in FY22** due to strong demand for talent acquisition.
- **Company announced a buyback of INR 9200 Cr (\$1.2 Bn)** upto INR 1,750 per share through open market offer.
- **Utilization stood at 87.7% in Q4FY21 (all time high) vs 86.3% in Q3FY21 & 83.5% in Q4FY20.** The current rate of Utilization is quite high and will further reduce as and when new talent is acquired.

Deal Wins & Pipeline

- **Large deal signings stood at \$2.1 Bn (23 Large Deals)** in Q4FY21 vs \$7.13 Bn in Q3FY21. Over 50% of these are net new additions.
- **Out of \$14.1 Bn large wins in FY21, \$9.4 Bn were net new deals.**
- **Vertical Deal Wins:** BFSI – 6 Deals, Lifesciences – 3 Deals, Communication, Manufacturing, Energy & Utilities and Hi-Tech – 2 Deals each vertical.
- **Geographical Deal Wins:** America – 16 Deals, Europe – 6 Deals & Rest of World – 1 Deal.

Revenue growth was at 2% QoQ in cc terms with 100 bps increase in offshore mix, lower contribution from third party deal & weaker seasonality. Operating Margins improved by 320 bps to 24.5% in FY21.

Operating Margins stood at 24.5% in Q4FY21 vs 25.4% in Q3FY21. Margin impact was led by 1.3% impact from wage hike & 0.3% impact from rise in SG&A costs which was partly offset by lower lease cost, improved operating parameters, cost optimization and other one-offs.

Large Deal Wins for FY21 stood at \$14 Bn, growing at 57% YoY. Net New was at 66% for FY21 and setting up strong growth momentum for FY22.

Vertical Performance Highlights

- **BFSI: Industry Leading performance with 25 large deals in FY21 and strong demand uptick from customers** in areas of Customer Experience Transformation, Call Centre Technology & Operations, Mortgage and lending services. which also provides strong base for growth in FY22.
- **Retail:** Sequential improvement continued however certain sub-segments yet have to recover. Customers continue to invest in areas like cloud strategy, workload migration technology, etc. **Given the deal wins, firm remains optimistic on the performance of Retail business.**
- **Communications: Weakened marginally in Q4 however due to the deal wins, the performance will improve in FY22.** Digital-led Transformation, Consolidation, 5G, Cyber Security, AI, IoT will be key areas to watch.
- **Energy & Utilities: FY21 highlighted soft performance due to constraints spend in Oil & Gas, Travel & Hospitality and Resources sector.** Based on recent new large deal wins shows stability returning to these segments.
- **Manufacturing: Most adversely impacted sector due to covid, however Automotive & Industrial segments are emerging strongly. Aerospace segment will take more time to return to normalcy.** Pipeline remains strong and the firm is confident of gaining market share.

Outlook & Guidance

- **Management guided 12-14% cc growth for FY22E** and EBIT margins in the range of 22-24% given headwinds such as resumption of travel and related costs and facility expenses in a post COVID world
- **Next Wage Hike & Promotion Cycle will begin on 1st July, 2021.**
- Multi-year theme includes strong demand from clients on digital transformation side along with **good traction seen in cloud, data analytics, AI, Cyber Security, etc.**

BFSI, Hi-Tech & Lifesciences grew by double digits on YoY basis in reported terms. Infosys BPM has grown at double digit rate investing significantly in digital transformation. Lot of growth is driven by combined IT-led BPM Deals, captive carveouts, vendor consolidation and managed services.

EBIT Margin guidance stood at 22-24% for FY22E which includes the impact of wage hike, transition of large deals (ramp ups) & travel and rebound of costs like travel & others.

Quarterly Performance Analysis

Exhibit 1

YE March (Rs. Mn)	Q4 FY21	Q3 FY21	Q-o-Q change %	Q4 FY20	Y-o-Y change %	Q4 FY21 Est.	Deviation %
Net Sales (US\$ Mn)	3,613	3,516	2.8%	3,197	13.0%	3,667	(1.5%)
Net Sales (INR Mn)	2,63,110	2,59,270	1.5%	2,32,670	13.1%	2,67,318	(1.6%)
Less:							
Employees Remuneration & Benefits	1,71,640	1,67,770	2.3%	1,55,010	10.7%	1,75,035	(1.9%)
Administrative & Other Expenses	27,070	25,610	5.7%	28,390	(4.6%)	26,732	1.3%
Total Operating Expenditure	1,98,710	1,93,380	2.8%	1,83,400	8.3%	2,01,767	(1.5%)
EBIT	64,400	65,890	(2.3%)	49,270	30.7%	65,551	(1.8%)
Less: Depreciation	8,310	8,260	0.6%	7,490	10.9%	8,516	
Add: Other income	4,950	6,110	(19.0%)	6,140	(19.4%)	7,218	(31.4%)
Finance Costs	0	490		450		425	
Profit Before Tax	69,350	71,510	(3.0%)	54,960	26.2%	72,344	(4.1%)
Adjusted Profits	69,350	71,510	(3.0%)	54,960	26.2%	72,344	
Less: Total Tax	18,570	19,360	(4.1%)	11,610	59.9%	19,533	
Minority Interest	20	180		140		0	
PAT	50,760	51,970	(2.3%)	43,210	17.5%	52,811	(3.9%)
Adjusted PAT	50,760	51,970	(2.3%)	43,210	17.5%	52,811	(3.9%)
Reported Diluted EPS (Rs.)	11.9	12.2	(2.4%)	10.1	17.7%	12.4	
Adjusted Diluted EPS (Rs.)	11.9	12.2	(2.4%)	10.1	17.7%	12.4	(3.9%)
No of Shared Diluted (mn)	4,249	4,246		4,259		4,249	
Margin Analysis %			Change in bps		Change in bps		Deviation in bps
EBIT Margin	24.5%	25.4%	(94)	21.2%	330	24.5%	(5)
EBIDTA Margin	27.6%	28.6%	(96)	24.4%	324	27.7%	(7)
NPM	19.3%	20.0%	(75)	18.6%	72	19.8%	(46)
Adjusted NPM	19.3%	20.0%	(75)	18.6%	72	19.8%	(46)
Effective Tax Rate %	26.8%	27.1%	(30)	21.1%	565	27.0%	(22)
Cost Analysis %			Change in bps		Change in bps		Deviation in bps
Employee Cost/Net Sales	65.2%	64.7%	53	66.6%	(139)	65.5%	(24)
SG&A/Net sales	10.3%	9.9%	41	12.2%	(191)	10.0%	29

Source: Dalal & Broacha Research, Company

Valuation & Outlook

Infosys is currently trading at 29.1x / 26.9x FY22e/FY23e EPS respectively. The company did not deliver revenue growth as per our expectations (albeit at double digit yoy growth) and given the "strong demand environment". FY22e revenue guidance was marginally below our expectations and margins will see some contraction on account of headwinds such as resumption of travel and return of facility expenses. However, management has indicated that demand environment is still strong and pipeline is healthy. **We downgrade our rating on Infosys from Buy on dips to HOLD and reduce the target price from INR 1,492 to INR 1,458, at 28x FY23e EPS.**

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