



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

Stock Idea@ Dalal&Broacha

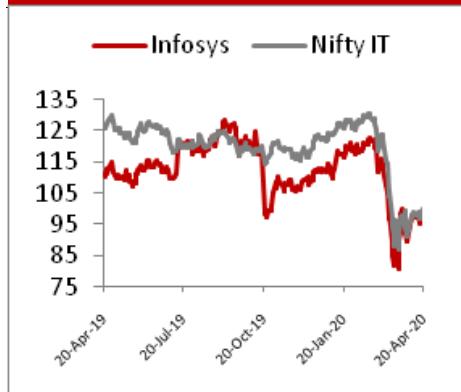
BUY

| | |
|---------------|---------|
| Current Price | 654 |
| Target Price | 776 |
| Upside | 19% |
| 52 Week Range | 847/509 |

Key Share Data

| | |
|-----------------------|----------|
| Market Cap (Rs.Bn) | 2780.69 |
| Market Cap (US\$ Bn) | 36.30 |
| No of o/s shares (Mn) | 4258.99 |
| Face Value | 5 |
| Monthly Avg. | |
| Vol(BSE+NSE)('000) | 15323.90 |
| BSE Code | 500209 |
| NSE Code | INFY |
| Bloomberg | INFY:IN |

Price performance



| % Shareholding | Mar-20 | Dec-19 |
|----------------|------------|------------|
| Promoters | 13.15 | 13.15 |
| Public | 86.42 | 86.40 |
| Others | 0.43 | 0.44 |
| Total | 100 | 100 |

Consolidated Financials (In INR Mn)

| Year | Net Sales | % Growth | EBIT | EBIT Margin (%) | PAT | PAT Margin (%) | EPS | Growth (%) | PE (x) | ROE (%) | ROCE (%) |
|-------|-----------|----------|---------|-----------------|---------|----------------|------|------------|--------|---------|----------|
| FY18 | 705,220 | 3.0% | 171,480 | 24.3% | 160,990 | 22.8% | 37.0 | 18% | 8.8x | 22.8% | 22.6% |
| FY19 | 826,760 | 17.2% | 188,790 | 22.8% | 161,310 | 19.5% | 37.1 | 0% | 17.5x | 22.5% | 22.2% |
| FY20I | 907,910 | 9.8% | 193,740 | 21.3% | 168,090 | 18.5% | 38.7 | 4% | 16.8x | 22.9% | 22.6% |
| FY21E | 935,283 | 3.0% | 203,349 | 21.7% | 165,514 | 17.7% | 38.1 | -2% | 17.1x | 20.2% | 19.9% |
| FY22E | 1,017,730 | 8.8% | 232,031 | 22.8% | 187,956 | 18.5% | 43.2 | 13.6% | 15.1x | 20.5% | 20.2% |

Source: Company, Dalal&Broacha Research

We believe that Infosys is a good BUY at current levels due to the following:

1. Highest component of Digital business as a percent of total revenue amongst Tier 1 IT companies: Digital business as a % of total revenue stands at 42% as of Q4FY20 and growth rate of Digital business has been well above 25% for past several quarters. We believe that in the post-COVID world, Digital or Cloud, Automation and Artificial Intelligence will face strong demand as clients have realized that it is necessary to be prepared for worst case scenario in the future. Cloud and Automation enable a company to transition into any working environment from anywhere across the world and therefore clients who have not transformed to Cloud, will definitely move to a Digital business environment.

2. INR depreciation and strong Balance Sheet should aid margins during COVID:

In the current quarter, Infosys witnessed a \$30-32 Mn revenue impact and 90 bps margin impact due to COVID. Further, deals across segments have been delayed however they are in touch with their client to take talks ahead. This should impact Topline Growth and Margins in the near time. However, we see 2 positive checkpoints that should aid Infosys to sail through tough times: (i) **USD/INR is currently at approximately INR 76** and has depreciated 4.4% qoq and 9.1% yoy which means that IT companies will benefit from higher INR revenue due to the higher conversion rate (ii) Infosys has INR 28,470 Cr of Cash & Bank and 9.4% of the current Market Cap is cash. This should help the company considerably if COVID situation continues for a long period of time (iii) Other **Cost control measures:** Management stated that it has ample levers to maintain margins such as freeze on salary hikes and new hirings, reduction in subcontracting costs (for example, company can transfer work to own employees and thus offset lower utilization levels due to COVID) and reduction in discretionary capex.

Valuation & Outlook

At CMP of INR 654, Infosys is trading at 17.1x and 15.1x FY21e/FY22e EPS. Expect COVID to have a sector-wide impact as clients restrict IT budgets and discretionary spending comes to a standstill. We believe that demand and supply side issues will have a magnified impact on mid-cap companies with slower recovery in companies which lack digital presence and quality talent. Additionally, we expect the impact to continue well into Q2FY21 with strong demand side recovery from Q3FY21 onwards in Digital (specifically in Automation and Cloud), which should well benefit companies like Infosys. A strong Balance Sheet and weak Rupee should act as a cushion in current times and therefore we find comfort in Infosys.

We believe that Infosys' fair value stands at 18x forward P/E and therefore maintain our BUY rating on the stock with a target price of INR 776.



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| Profit & Loss A/c | | | | | | BalanceSheet | | | | | |
|------------------------------|----------------|----------------|----------------|----------------|------------------|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| YEMarch (INR Mn) | FY18 | FY19 | FY20 | FY21E | FY22E | YE March (INR Mn) | FY18 | FY19 | FY20 | FY21E | FY22E |
| Net Sales | 705,220 | 826,760 | 907,910 | 935,283 | 1,017,730 | Liabilities | | | | | |
| Growth% | 3.0% | 17.2% | 9.8% | 3.0% | 8.8% | Equity Capital | 10,880 | 21,700 | 21,700 | 21,700 | 21,700 |
| Total Revenue | 705,220 | 826,760 | 907,910 | 935,283 | 1,017,730 | Reserves & Surplus | 638,350 | 627,780 | 715,731 | 801,654 | 899,228 |
| Less: | | | | | | Equity | 649,230 | 649,480 | 737,431 | 823,354 | 920,928 |
| Employees Cost | 451,310 | 538,680 | 607,320 | 625,538 | 673,749 | Net Worth | 649,230 | 649,480 | 737,431 | 823,354 | 920,928 |
| SG&A | 82,430 | 99,290 | 106,850 | 106,396 | 111,950 | Net Deferred tax liability/(Asset) | 5,410 | 6,720 | 6,720 | 6,720 | 6,720 |
| Operating Expenditure | 533,740 | 637,970 | 714,170 | 731,934 | 785,659 | Total Loans | 3,200 | 4,220 | 4,220 | 4,220 | 4,220 |
| EBITDA | 190,100 | 208,890 | 222,670 | 224,860 | 257,474 | Capital Employed | 657,840 | 660,420 | 748,371 | 834,294 | 931,868 |
| EBITDA Growth% | 2.2% | 9.9% | 6.6% | 1.0% | 14.5% | Assets | | | | | |
| Less: Depreciation | 18,620 | 20,100 | 28,930 | 21,512 | 25,443 | Gross Block | 201,790 | 228,910 | 248,910 | 263,910 | 278,910 |
| Operating Profit | 171,480 | 188,790 | 193,740 | 203,349 | 232,031 | Less: Depreciation | 100,630 | 114,120 | 143,050 | 164,562 | 190,005 |
| Growth% | 1.5% | 10.1% | 2.6% | 5.0% | 14.1% | Net Block | 101,160 | 114,790 | 105,860 | 99,348 | 88,905 |
| Non-operating Income | 31,930 | 28,830 | 28,030 | 23,382 | 25,443 | Capital WIP | 40,640 | 56,190 | 55,929 | 56,339 | 57,576 |
| Profit Before tax | 203,410 | 217,620 | 221,770 | 226,731 | 257,474 | Investments | 60,760 | 49,650 | 49,650 | 49,650 | 49,650 |
| Tax | 42,420 | 56,310 | 53,680 | 61,217 | 69,518 | Others-Assets | 96,170 | 97,970 | 97,970 | 30,609 | 34,759 |
| Net Profit | 160,990 | 161,310 | 168,090 | 165,514 | 187,956 | Current Assets | | | | | |
| Adjusted Profit | 160,990 | 161,310 | 168,090 | 165,514 | 187,956 | Sundry Debtors | 131,420 | 148,270 | 159,195 | 166,557 | 181,240 |
| Diluted EPSRs | 74.0 | 37.1 | 38.7 | 38.1 | 43.2 | Cash and Bank Balance | 198,180 | 195,100 | 284,701 | 447,708 | 514,842 |
| Growth % | 17.7% | -49.9% | 4.2% | -1.5% | 13.6% | Loans and Advances | 69,230 | 57,460 | 81,712 | 108,493 | 117,039 |
| Adjusted EPS | 74.0 | 37.1 | 38.7 | 38.1 | 43.2 | Total Current Assets | 500,170 | 528,200 | 607,320 | 741,464 | 833,475 |
| Growth% | 17.7% | -49.9% | 4.2% | -1.5% | 13.6% | Less: Current Liabilities | | | | | |
| Key Ratios | | | | | | Sundry Creditors | 6,940 | 16,550 | 5,870 | 4,011 | 4,305 |
| OPM(%) | 24.3% | 22.8% | 21.3% | 21.7% | 22.8% | Provisions | 25,350 | 21,430 | 32,208 | 4,897 | 5,561 |
| NPM(%) | 22.8% | 19.5% | 18.5% | 17.7% | 18.5% | Other Current Liabilities | 108,770 | 148,400 | 130,280 | 134,208 | 122,630 |
| RoE(%) | 22.8% | 22.5% | 22.9% | 20.2% | 20.5% | Total Current Liabilities | 141,060 | 186,380 | 168,358 | 143,116 | 132,497 |
| RoCE(%) | 22.6% | 22.2% | 22.6% | 19.9% | 20.2% | Capital Applied | 657,840 | 660,420 | 748,371 | 834,294 | 931,868 |
| BV/PerShareRs. | 299 | 149 | 170 | 189 | 212 | Free Cash Flow Statement | | | | | |
| Valuation Ratios | | | | | | YEMarch (INR Mn) | FY18 | FY19 | FY20 | FY21E | FY22E |
| YE March (Rs.mn) | FY18 | FY19 | FY20 | FY21E | FY22E | EBITDA | 190,100 | 208,890 | 222,670 | 224,860 | 257,474 |
| P/E(x) | 8.8x | 17.5x | 16.8x | 17.1x | 15.1x | FC Investment | 18,470 | 27,120 | 20,000 | 15,000 | 15,000 |
| P/BV(x) | 2.2x | 4.4x | 3.8x | 3.4x | 3.1x | WC Changes | 9,740 | 14,210 | (7,541) | 3,621 | (35,496) |
| EV/EBIDTA(x) | 7.1x | 14.0x | 13.2x | 11.7x | 10.0x | Depreciation Tax Shield | 3,883 | 5,201 | 7,003 | 5,808 | 6,870 |
| MarketCap./Sales(x) | 2.0x | 3.4x | 3.1x | 3.0x | 2.8x | Tax (EBITDA * Tax Rate) | 39,644 | 54,051 | 53,898 | 60,712 | 69,518 |
| Key Ratios | | | | | | FCFF | 145,609 | 147,130 | 148,233 | 158,577 | 144,330 |
| YE March (Rs.mn) | FY18 | FY19 | FY20 | FY21E | FY22E | | | | | | |
| EBITDA Margin(%) | 24.3% | 22.8% | 21.3% | 21.7% | 22.8% | | | | | | |
| Tax/PBT(%) | 20.9% | 25.9% | 24.2% | 27.0% | 27.0% | | | | | | |
| Net Profit Margin(%) | 22.8% | 19.5% | 18.5% | 17.7% | 18.5% | | | | | | |
| RoE(%) | 22.8% | 22.5% | 22.9% | 20.2% | 20.5% | | | | | | |
| RoCE(%) | 22.6% | 22.2% | 22.6% | 19.9% | 20.2% | | | | | | |
| Current Ratio(x) | 3.5x | 2.8x | 3.6x | 5.2x | 6.3x | | | | | | |
| Dividend Payout(%) | 46.4% | 85.0% | 47.7% | 48.1% | 48.1% | | | | | | |
| Book Value Per Share(Rs.) | 298.5 | 149.4 | 169.6 | 189.4 | 211.8 | | | | | | |
| Growth Indicators% | | | | | | | | | | | |
| Growth in Gross Block(%) | 10.1% | 13.4% | 8.7% | 6.0% | 5.7% | | | | | | |
| Sales Growth(%) | 3.0% | 17.2% | 9.8% | 3.0% | 8.8% | | | | | | |
| EBITDA Growth(%) | 1.5% | 10.1% | 2.6% | 5.0% | 14.1% | | | | | | |
| Net Profit Growth(%) | 12.0% | 0.2% | 4.2% | (1.5%) | 13.6% | | | | | | |
| Diluted EPS Growth(%) | 17.7% | (49.9%) | 4.2% | (1.5%) | 13.6% | | | | | | |
| Turnover Ratios | | | | | | | | | | | |
| Debtors (Days of net sales) | 68 | 65 | 64 | 65 | 65 | | | | | | |



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