

Estimate change

TP change

Rating change


Motilal Oswal values your support in the Asiamoney Brokers Poll 2020 for India Research, Sales and Trading team. We [request your ballot](#).



Bloomberg	INFO IN
Equity Shares (m)	4,572
M.Cap.(INRb)/(USDb)	3541.3 / 44.4
52-Week Range (INR)	848 / 511
1, 6, 12 Rel. Per (%)	12/22/14
12M Avg Val (INR M)	7651

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	908	982	1,111
EBIT Margin (%)	21.3	22.4	22.9
PAT	166	177	204
EPS (INR)	38.9	41.6	48.2
EPS Gr. (%)	5.1	6.9	15.8
BV/Sh. (INR)	145	165	190

Ratios

RoE (%)	25.2	25.2	25.4
RoCE (%)	20.4	21.4	21.7
Payout (%)	44.9	48.0	41.5

Valuations

P/E (x)	21.4	20.0	17.3
P/BV (x)	5.8	5.1	4.4
EV/EBITDA (x)	17.0	14.1	12.2
Div Yield (%)	2.1	2.4	2.4

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	13.2	13.2	12.8
DII	24.7	24.0	22.9
FII	31.4	32.2	34.5
Others	30.7	30.7	29.8

FII Includes depository receipts

CMP: INR831
TP: INR1,050 (+26%)
Buy

Strong surprise at multiple levels

Margin reversion on track; Reiterate Buy

- Infosys' 1QFY21 revenue and margin performance reflect its unparalleled resilience in navigating COVID-19-led disruption. Supply-side challenges were managed better than even TCS (10% impact for Infosys v/s 20% for TCS). Despite a higher variable payout (100bp impact), robust EBIT margin expansion (+150bp QoQ) was a key positive.
- Deal wins (~USD1.7b, ex-Vanguard) and the deal pipeline are healthy. The reinstatement of revenue (0–2% YoY, CC) and margin (21–23%) guidance is a key morale booster. As the company and its clients have been through the COVID-19 learning curve, we understand the company should be able to manage revenue/margin performance within a narrow band despite incremental risks, such as a second wave of infections, the re-imposition of lockdown, etc.
- We upgrade our FY21/FY22E EPS estimates by 11%/12% as we adjust our EBIT margin trajectory to the beat in 1QFY21. Infosys should be a key beneficiary in terms of recovery in IT spends in FY22. Additionally, sub-optimal EBIT margin levels and headroom for margin expansion, led by back-ended productivity benefits, should translate into strong outperformance on EPS growth (v/s the sector). Reiterate **Buy**.

Strong beat on both revenue and margin

- Revenue (CC) / EBIT/ PAT grew 1.5%/20%/11% YoY v/s our estimate of -5%/6%/1% YoY.
- Barring Retail (-7.4% YoY, CC), most other verticals remained resilient. Hi-Tech (13.4% YoY, CC) and Life Sciences (+7.7% YoY, CC) were the growth drivers, while BFSI's performance was reasonable (+2.1% YoY, CC).
- While Europe reported decent growth (+4.4% YoY, CC), revenue from North America and RoW remained largely stable (YoY).
- The EBIT margin improved 220bp YoY / 150bp QoQ despite higher variable pay to employees. Margin movers during the quarter were: [1] reduced travel and visa costs (+230bp), [2] favorable currency (+70bp), [3] reduction in other discretionary costs (+110bp), [4] operational impact – low utilization, onsite mix (-150bp), and [5] variable pay (-100bp).
- Free cash generation remained healthy and showed strong improvement. This was despite a slight increase in DSO (from 69 to 71 days).
- Large deal signings (~USD1.7b) were near the pre-COVID-19 quarterly run-rate (USD2b), excluding the deal from Vanguard.

Highlights from management commentary

- Management still sees elements of uncertainty in the global economy. Despite this, visibility is higher given that the business has adapted to some of the shocks brought on by the pandemic. Accordingly, revenue and margin guidance was reinstated, which came as a surprise.
- For FY21, Infosys has guided for revenue growth of 0–2% (YoY, CC). We currently build in growth at the higher end of the band (1.1%, USD).

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- The company has guided for EBIT margins of 21–23%. As the back-ended productivity benefits from some of its earlier investments kick in, we expect an EBIT margin of 22.4% for FY21.
- Management indicated supply-side challenges resulted in 10% impact on overall revenue (v/s 20% impact in case of TCS) during the quarter.
- The deal pipeline is robust. Infosys is seeing significant traction in cloud, digital, cybersecurity, workplace transformation, cost efficiency, and consolidation-related opportunities.
- While BFSI started off on a weak note at the beginning of the quarter, volumes improved, led by the Banking sub-segment in the US and APAC.
- Even as the Communications vertical largely stabilized, the Energy & Utilities, Retail, and Manufacturing verticals should see some challenges in the near term.
- The company does not expect any material impact from the recent H1B visa ban in the near term as it has de-risked the business model through localization.

Valuation and view – Multiple divergence v/s TCS should narrow

- The company's absolute and relative performance (v/s TCS and Wipro) during the quarter is indicative of some of the investments made in the previous years now paying off.
- Notwithstanding the higher variable payouts, the company delivered robust margin expansion. Notably, this was witnessed in a quarter that has faced significant disruption on both the demand and supply fronts.
- As the COVID-19-led disruption eases, we expect further expansion in margins as investments stabilize and back-ended productivity benefits kick in.
- We expect Infosys to be a key beneficiary in terms of recovery in IT spends in FY22.
- Given the phenomenal resilience demonstrated by the IT sector in the current context, we foresee significant scope for a sector re-rating.
- Within the sector, our relative preference for Infosys over TCS is premised on the company's headroom for margin expansion. This result reinforces our confidence in this premise.
- As its outperformance v/s TCS continued in this quarter, we expect the valuation divergence to narrow (to 10%). On our revised estimates, the stock is currently trading at 20x FY21E EPS. We value the stock at 22x FY22E EPS.
- Political uncertainty in the US further impacting IT spending decisions in key verticals such as BFSI and Retail is a key monitorable risk.

Quarterly Performance (IFRS)

(INR b)

Y/E March	FY20				FY21E				FY20	FY21E	Est. 1QFY21	Var. (%/bp)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Revenue (USD m)	3,131	3,210	3,243	3,197	3,121	3,215	3,253	3,335	12,781	12,923	3,044	2.5
QoQ (%)	2.3	2.5	1.0	-1.4	-2.4	3.0	1.2	2.5	8.2	1.1	-4.8	242bp
Revenue (INR m)	218	226	231	233	237	244	247	253	908	982	231	2.3
YoY (%)	14.0	9.8	7.9	8.0	8.5	8.0	7.1	8.9	9.8	8.1	6.1	245bp
GPM (%)	32.2	33.4	33.4	33.4	33.6	33.5	33.5	33.2	33.1	33.5	32.5	114bp
SGA (%)	11.7	11.7	11.5	12.2	11.0	11.0	11.0	11.2	11.8	11.0	12.0	-103bp
EBITDA	52	56	58	57	61	63	63	64	223	251	56	10.1
EBITDA Margin (%)	23.6	24.9	25.1	24.4	25.9	25.6	25.6	25.2	24.5	25.6	24.0	182bp
EBIT	45	49	51	49	54	55	56	56	194	220	47	13.1
EBIT Margin (%)	20.5	21.7	21.9	21.2	22.7	22.5	22.5	22.0	21.3	22.4	20.5	217bp
Other income	7	6	8	6	4	5	5	6	26	20	5	-14.6
ETR (%)	26.4	26.5	23.6	21.1	26.2	26.0	26.0	26.0	24.4	26.1	26.5	-26bp
PAT	38	40	45	43	42	44	45	46	166	177	39	9.9
QoQ (%)	-6.8	5.8	10.9	-3.1	-2.0	4.2	1.8	1.4			-11.1	909bp
YoY (%)	5.1	-2.2	23.5	6.1	11.5	9.7	0.7	5.3	7.7	6.5	1.3	1012bp
EPS (INR)	8.8	9.4	10.5	10.2	10.0	10.4	10.6	10.7	38.9	41.6	9.1	9.9

Key Performance Indicators

Y/E March	FY20				FY21				FY20	FY21
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Revenue (QoQ CC %)	2.8	3.3	1.0	-0.8	-2.0				9.8	
Margins										
Gross Margin	32.2	33.4	33.4	33.4	33.6	33.5	33.5	33.2	33.1	33.5
EBIT Margin	20.5	21.7	21.9	21.2	22.7	22.5	22.5	22.0	21.3	22.4
Net Margin	17.4	17.8	19.3	18.6	17.9	18.0	18.1	18.0	18.3	18.0
Operating metrics										
Headcount	2,29,029	2,36,486	2,43,454	2,42,371	2,39,233				2,42,371	
Attrition (%)	20.2	18.3	15.8	15.3	11.7				15.3	
Deal Win TCV (USD b)	2.7	2.8	1.8	1.6	1.7				9.0	
Key Verticals (YoY CC %)										
BFSI	11.3	10.3	6.2	5.7	2.1				8.2	
Retail	6.9	1.1	2.5	4.2	-7.4				3.6	
Key Geographies (YoY CC%)										
North America	13.5	11.9	10.1	5.5	0.0				10.2	
Europe	11.4	14.6	12.0	9.6	4.4				11.8	

Management commentary highlights

- Management still sees elements of uncertainty in the global economy. Despite this, visibility is higher given that the business has adapted to some of the shocks brought on by the pandemic. Accordingly, revenue and margin guidance was reinstated, which came as a surprise.
- For FY21, Infosys has guided for revenue growth of 0–2% (YoY, CC). We currently build in growth at the higher end of the band (1.1%, USD).
- The company has guided for EBIT margins of 21–23%. As the back-ended productivity benefits from some of its earlier investments kick in, we expect an EBIT margin of 22.4% for FY21.
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Exhibit 1: Hi-Tech and Life Sciences were the growth drivers for the quarter

Verticals	Contribution to rev.(%)	Growth YoY (CC)
Financial Services	31.5	2.1
Retail	14.3	-7.4
Communications	13.4	-0.7
Energy, Utilities, Resources	12.8	-0.2
Manufacturing	9.5	0.3
Hi-Tech	8.7	13.4
Life Sciences	6.7	7.7
Others	3.1	24.4

Source: Company, MOFSL

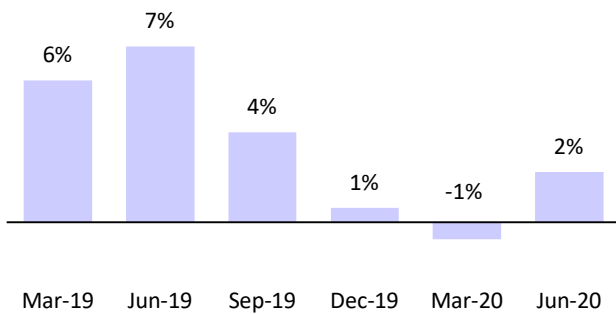
Exhibit 2: Europe reported decent growth while America remained largely stable

Geographies	Contribution to rev.(%)	Growth YoY (CC)
North America	61.5	0.0
Europe	24	4.4
India	2.9	32.8
ROW	11.6	-2.0

Source: Company, MOFSL

Exhibit 3: BFSI reported reasonable performance...

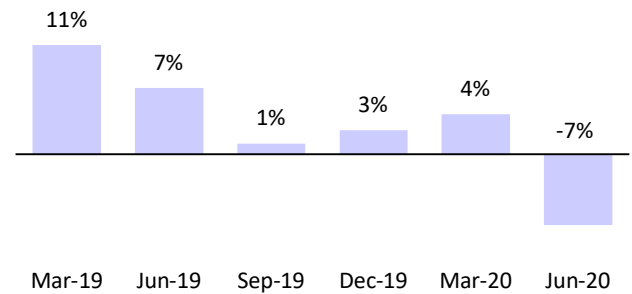
Infosys - BFSI Organic (YoY CC %)



Source: Company, MOFSL

Exhibit 4: ...while Retail lagged due to COVID-19 impact

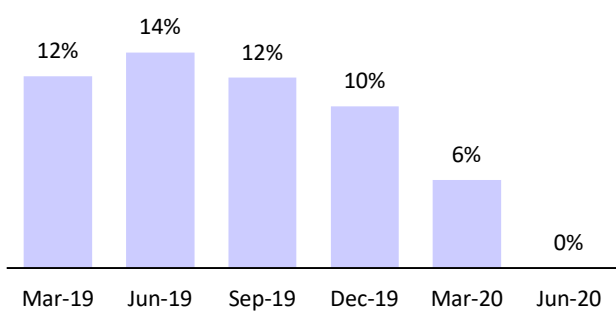
Infosys - Retail (YoY CC %)



Source: Company, MOFSL

Exhibit 5: Growth in US was largely stable...

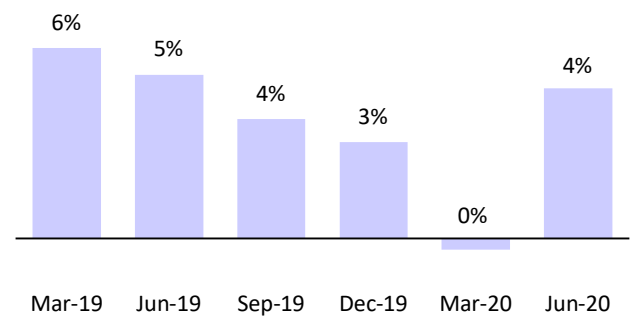
Infosys - US (YoY CC %)



Source: Company, MOFSL

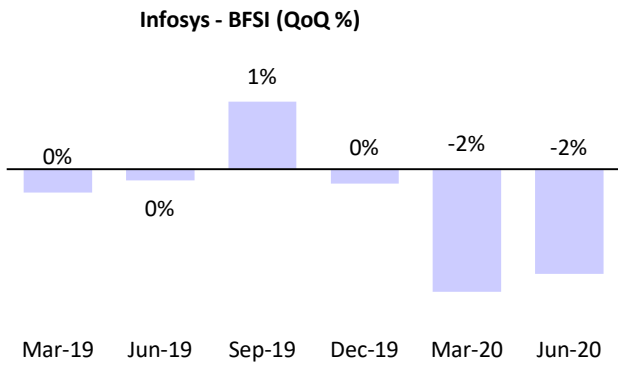
Exhibit 6: ...while Europe reported decent growth

Infosys - Europe Organic (YoY CC %)



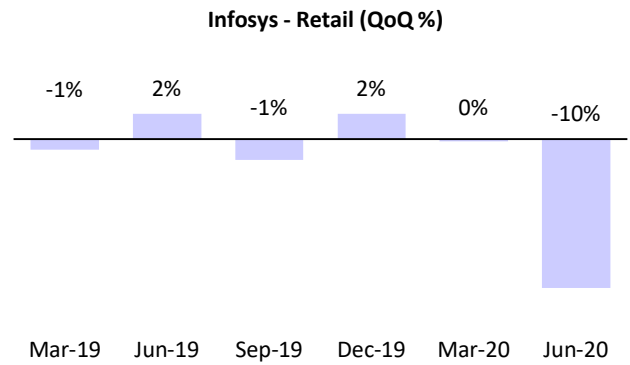
Source: Company, MOFSL

Exhibit 7: BFSI reported sequential decline while...



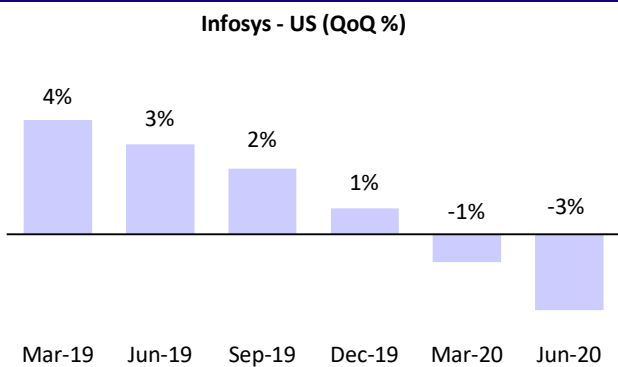
Source: Company, MOFSL

Exhibit 8: ...COVID-19 impact on Retail led to steep decline



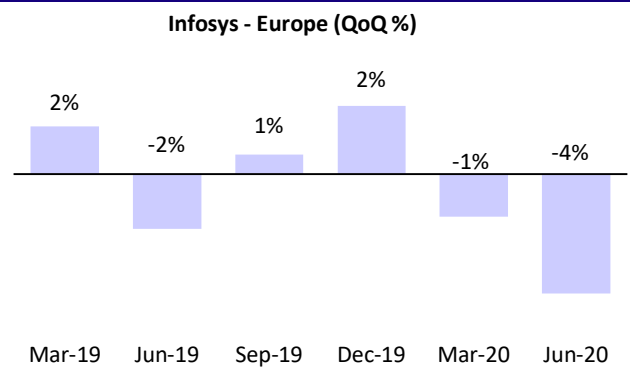
Source: Company, MOFSL

Exhibit 9: Key geographies such as US and Europe reported...



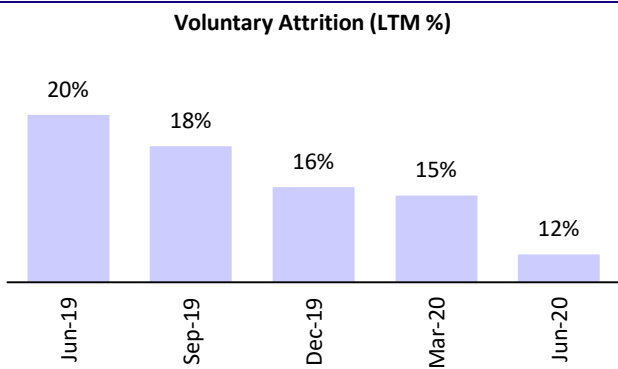
Source: Company, MOFSL

Exhibit 10: ...sequential decline



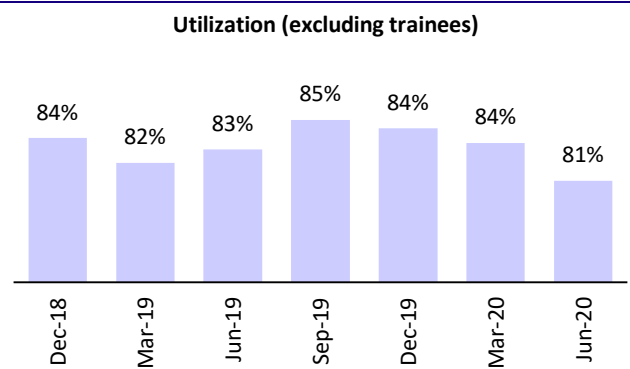
Source: Company, MOFSL

Exhibit 11: Voluntary attrition declined in the quarter



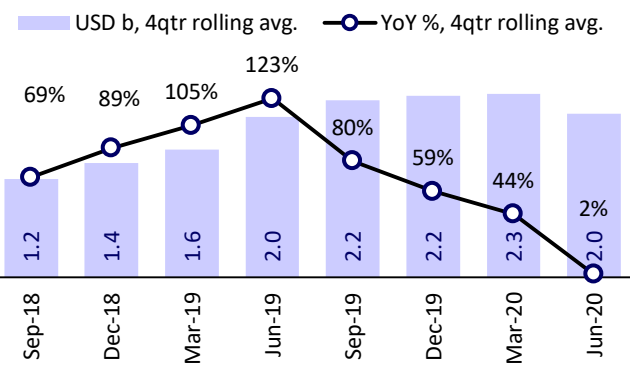
Source: Company, MOFSL

Exhibit 12: Utilization was impacted due to COVID-19



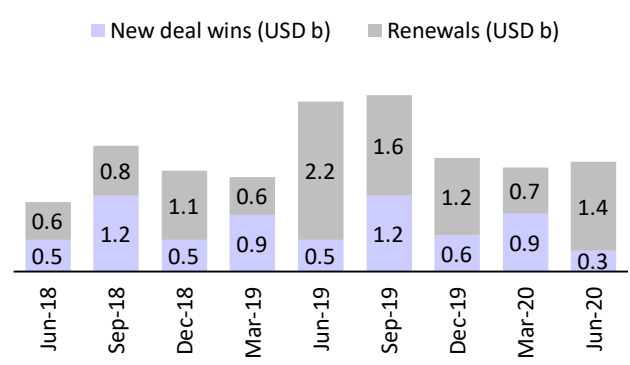
Source: Company, MOFSL

Exhibit 13: Large deal signings were impacted in Jun'20...



Source: Company, MOFSL

Exhibit 14: ...however, renewals reported robust increase



Source: Company, MOFSL

Valuation and view – Multiple divergence v/s TCS should narrow

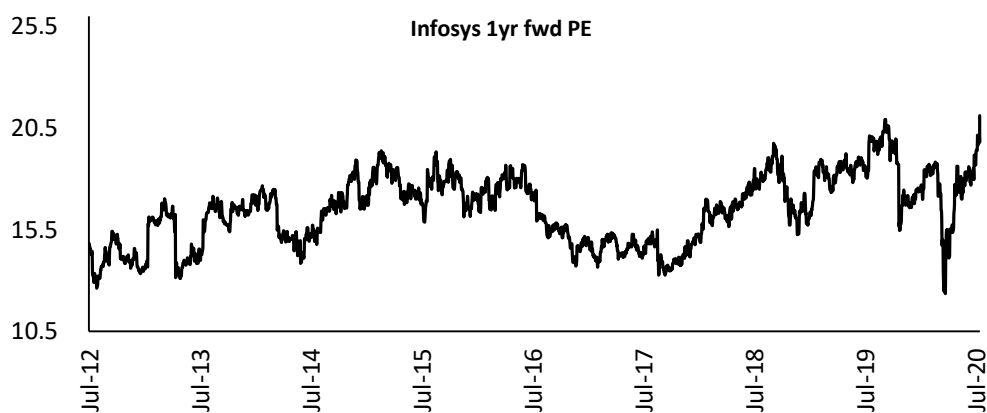
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- As its outperformance v/s TCS continued in this quarter, we expect the valuation divergence to narrow (to 10%). On our revised estimates, the stock is currently trading at 20x FY21E EPS. We value the stock at 22x FY22E EPS.
- Political uncertainty in the US further impacting IT spending decisions in key verticals such as BFSI and Retail is a key monitorable risk.

Exhibit 15: Revision to our estimates

	Revised		Earlier		Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
INR/USD	76.0	77.0	76.0	77.0	0.0%	0.0%
USD Revenue - m	12,923	14,426	12,113	13,383	6.7%	7.8%
Growth (%)	1.1	11.6	(5.2)	10.5	630bps	110bps
EBIT margin(%)	22.4	22.9	21.2	21.8	120bps	110bps
PAT (INR B)	177	204	160	183	10.8%	11.9%
EPS	41.6	48.2	37.6	43.0	10.7%	12.1%

Source: MOFSL

Exhibit 16: Over the long term, 1-year forward P/E multiples averaged to ~18x



Source: Bloomberg, MOFSL

Operating Metrics

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
Effort (IT Services and Consulting)									
Onsite	29%	28%	29%	29%	29%	28%	28%	28%	28%
Offshore	71%	72%	71%	71%	71%	72%	72%	72%	72%
Utilization (IT Services and Consulting)									
Including trainees	82%	80%	80%	79%	80%	82%	80%	79%	78%
Excluding trainees	86%	86%	84%	82%	83%	85%	84%	84%	81%
Employee Metrics									
Total Employees (Consolidated, in k)	210	218	226	228	229	236	243	242	239
S/W professional (k)	165	172	177	180	215	223	230	228	225
Support and sales (k)	10	10	11	11	14	14	14	14	14
Women employees (%)	NA	NA	NA	NA	37%	37%	38%	38%	38%
Voluntary Attrition - annualized %	NA	NA	NA	NA	20%	18%	16%	15%	12%
Revenues by client geography									
North America	60%	60%	60%	61%	62%	61%	61%	62%	62%
Europe	24%	24%	24%	24%	24%	24%	24%	24%	24%
India	3%	3%	3%	2%	2%	3%	3%	3%	3%
ROW	13%	13%	13%	13%	13%	12%	12%	11%	12%
Revenues by Business segments									
Financial Services	32%	32%	33%	32%	31%	32%	32%	31%	32%
Retail	17%	17%	16%	16%	16%	15%	15%	16%	14%
Communications	13%	12%	12%	14%	14%	13%	13%	13%	13%
Energy, Utilities, Resources and Services	12%	12%	13%	13%	13%	13%	13%	13%	13%
Manufacturing	10%	10%	10%	10%	10%	10%	10%	10%	10%
Hi Tech	7%	8%	7%	8%	8%	8%	8%	8%	9%
Life Sciences	7%	6%	6%	6%	6%	6%	7%	6%	7%
Others	3%	3%	3%	3%	3%	3%	3%	3%	3%
Revenues by offerings									
Digital	28%	31%	32%	34%	36%	38%	41%	42%	45%
Core	72%	69%	69%	66%	64%	62%	59%	58%	56%
Geography YoY % CC									
North America	5%	7%	9%	13%	14%	12%	10%	6%	0%
Europe	11%	11%	10%	12%	11%	15%	12%	10%	4%
India	-19%	-12%	-2%	-6%	1%	18%	18%	22%	33%
ROW	10%	15%	20%	12%	11%	2%	0%	2%	-2%
Business Segments YoY % CC									
Financial Services	3%	5%	9%	8%	11%	10%	6%	6%	2%
Retail	7%	14%	11%	11%	7%	1%	3%	4%	-7%
Communications	7%	8%	6%	18%	23%	19%	21%	3%	-1%
Energy, Utilities, Resources and Services	16%	13%	17%	18%	18%	19%	9%	7%	0%
Manufacturing	8%	11%	16%	17%	13%	17%	12%	7%	0%
Hi Tech	8%	11%	11%	13%	15%	12%	12%	8%	13%
Life Sciences	6%	2%	4%	-1%	4%	11%	18%	12%	8%
Others	-14%	-6%	-3%	0%	-1%	0%	12%	21%	24%
DSO	66	66	67	66	68	66	73	69	71
Large deal TCV (USD m)	1,116	2,029	1,570	1,568	2,714	2,847	1,813	1,646	1,744
Client (% of revenues)									
Top client	3.70%	3.90%	3.40%	3.30%	3.20%	3.20%	3.00%	3.10%	3.40%
Top 10 client	19.20%	19.40%	19.20%	19.70%	20.00%	19.20%	18.90%	18.70%	19.30%
Top 25 client	34.90%	34.70%	33.90%	35.00%	34.90%	34.60%	34.20%	34.10%	34.60%
Number of active clients	1,214	1,222	1,251	1,279	1,336	1,364	1,384	1,411	1,458
New clients added in the period	70	73	101	101	112	96	84	84	110
Repeat business %	99.50%	98.20%	96.60%	95.20%	99.00%	98.10%	97.20%	95.90%	99.00%

Financials and valuations

Income Statement							(INR b)	
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Sales	533	624	685	705	827	908	982	1,111
Change (%)	6.4	17.1	9.7	3.0	17.2	9.8	8.1	13.2
Software Develop. Exp.	329	391	433	451	539	607	653	734
SGA expenses	66	77	83	82	99	107	108	122
EBITDA	149	171	186	190	209	223	251	290
% of Net Sales	27.9	27.4	27.2	27.0	25.3	24.5	25.6	26.1
Depreciation	11	15	17	19	20	29	31	35
Interest	0	0	0	0	0	0	0	0
Other Income	34	31	31	32	29	26	20	22
PBT	173	187	200	203	218	220	240	277
Tax	49	53	56	42	56	54	62	72
Rate (%)	28.6	28.0	28.0	20.9	25.9	24.4	26.1	26.0
Minority Interest	0	0	0	0	0	0	0	0
Adjusted PAT	123	135	144	161	161	166	177	204
Extraordinary Items	0	0	0	0	7	0	0	0
Reported PAT	123	135	144	161	154	166	177	204
Change (%)	11.2	9.4	6.6	11.9	-4.3	7.7	6.5	15.5

Balance Sheet							(INR b)	
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Share Capital	6	11	11	11	22	21	21	21
Reserves	542	606	678	638	628	637	679	784
Net Worth	548	618	690	649	650	658	700	805
Capital Employed	550	622	693	658	661	719	761	866
Gross Block	164	175	258	261	311	414	467	555
Less : Depreciation	67	79	96	115	135	164	195	230
Net Block	129	153	161	146	176	251	273	325
Investments & Other Assets	63	84	135	153	143	131	151	151
Curr. Assets	472	517	537	500	529	546	600	688
Debtors	126	144	160	174	202	256	239	271
Cash & Bank Balance	312	328	326	262	262	233	249	290
Loans & Advances	0	0	0	0	0	0	0	0
Other Current Assets	34	46	51	64	65	57	112	127
Current Liab. & Prov	114	132	140	141	186	209	264	298
Net Current Assets	358	385	397	359	342	337	337	390
Application of Funds	550	622	693	658	661	719	761	866

Financials and valuations

Ratios

Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Basic (INR)								
EPS	53.9	29.5	31.5	35.7	37.1	38.9	41.6	48.2
Cash EPS	58.6	32.7	35.2	39.3	38.1	42.8	49.0	56.5
Book Value	239.6	135.1	150.9	142.0	142.2	144.7	165.1	189.9
DPS	22.3	24.3	25.8	43.5	21.5	17.5	20.0	20.0
Payout %	41.2	82.2	81.9	122.0	58.0	44.9	48.0	41.5
Valuation (x)								
P/E	15.5	28.3	26.5	23.4	22.5	21.4	20.0	17.3
Cash P/E	14.2	25.5	23.7	21.2	21.9	19.5	17.0	14.8
EV/EBITDA	12.8	22.3	20.5	20.1	18.3	17.0	14.1	12.2
EV/Sales	3.6	6.1	5.6	5.4	4.6	4.2	3.6	3.2
Price/Book Value	3.5	6.2	5.5	5.9	5.9	5.8	5.1	4.4
Dividend Yield (%)	2.7	2.9	3.1	5.2	2.6	2.1	2.4	2.4
Profitability Ratios (%)								
RoE	24.1	23.2	22.0	24.0	23.7	25.2	25.2	25.4
RoCE	19.2	19.2	18.5	20.1	21.2	20.4	21.4	21.7
Turnover Ratios								
Debtors (Days)	86	84	85	90	89	103	89	89
Fixed Asset Turnover (x)	4.1	4.1	4.2	4.8	4.7	3.6	3.6	3.4

Cash Flow Statement

Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
(INR b)								
CF from Operations	7,624	204	217	236	230	251	264	296
Cash for Working Capital	1,680	-23	-19	-26	16	-24	16	-12
Net Operating CF	9,237	122	141	168	190	174	218	212
Net Purchase of FA	11	-27	-21	-3	-50	-104	-53	-87
Free Cash Flow	9,248	95	119	164	141	70	165	125
Net Purchase of Invest.	786	4	-63	1	0	0	0	0
Net Cash from Invest.	797	-31	-48	-21	-40	-92	-73	-87
Proceeds from Equity	0	0	0	0	0	0	0	0
Others	-13	-17	-2	26	-41	-68	-36	0
Dividend Payments	-50	-70	-69	-227	-112	-89	-99	-99
Cash Flow from Fin.	-63	-86	-71	-202	-153	-158	-135	-99
Net Cash Flow	9,971	5	22	-55	-3	-76	10	26
Opening Cash Bal.	290	312	328	326	262	262	233	249
Add: Net Cash	9,971	5	22	-55	-3	-76	10	26
Closing Cash Bal.	312	328	326	262	262	233	249	290

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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