

Strong revenue performance, margins a miss...

Infosys reported a mixed bag performance with revenues above our expectations and a miss on the margins front. Revenue growth was led by 9.9% QoQ growth in digital revenues (vs. TCS' 5.9% QoQ) partly offset by a decline in the traditional business (down 1.0% QoQ vs. TCS' 1.5% growth). Margins declined 113 bps sequentially to 21.4% mainly led by lower utilisation (70 bps), transition cost (40 bps), rupee appreciation (30 bps) and localisation and S&M cost (40 bps). This was partly offset by lower bad debt provisioning (30 bps) and absence of one offs.

Healthy deal wins, client addition key positive

Infosys added one client in the US\$50 million, two in the US\$100 million and eight in the US\$10 million client buckets, representing a healthy client mining and farming strategy. Further, the company's deal wins have also been healthy, up 2x to US\$6.3 billion. Out of the overall deal pipeline, we believe US\$ 3 billion would be net new deal wins, which can help Infosys to register double digit growth in FY20E. Further, digital growth has also been healthy (up 32.0% YoY, 31% of overall revenues). This gives us confidence that the company's current guidance of 7.5-9.5% is conservative (also includes inorganic growth of 1% from Stater). Hence, it could easily surpass the top end of the guidance. Thus, we expect the company's US\$ revenues to increase at a CAGR of 9.6% in FY19-21E.

Margin to see improved trajectory through FY19-21E

The company indicated that most of its investment in S&M is complete with incremental investment accruing from efficiency. Further, the company has many levers, which can be played in margins like higher offshoring, improving onsite pyramid, improving utilisation and also automation. Hence, we expect margins to increase from 22.8% in FY19 to 23.0% in FY20E and 23.6% in FY21E.

Digital witnessing good traction

Digital continues to drive the growth of the company with 32% YoY growth in FY19. Further, the company is seeing traction in areas of cloud, IoT and customer experience, which, we believe, will be key growth drivers.

Valuation & Outlook

Digital being a multiyear opportunity and relatively less impacted by macro slowdown, will be key growth driver for Infosys. Further, we believe healthy deal wins will enable the company to narrow the revenue and margin gap with TCS. Hence, we maintain **BUY** rating on the stock with a target price of ₹ 805 (based on 18x FY21E EPS, which is 15% discount to TCS).

Key Financial Summary

₹ Crore	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	50,133	70,522	82,676	90,475	99,126	9.5%
EBITDA	13,415	19,010	20,890	23,050	25,805	11.1%
EBITDA Margins (%)	27.2	27.0	25.3	25.5	26.0	
Net Profit	2,369	14,597	15,411	17,194	19,613	
EPS (₹)	47	32.3	35.4	39.5	45.1	12.9%
P/E	21.9	22.4	20.4	18.3	16.0	
RoNW (%)	25.7	22.5	23.7	24.4	25.6	
RoCE (%)	28.5	30.9	32.9	32.9	34.6	

Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	314,663.2
Total Debt	-
Cash and Investments (₹ Crore)	26,195.0
EV (₹ Crore)	288,468.2
52 week H/L	773 / 550
Equity capital	2,170.0
Face value	₹ 5

Key Highlights

- Healthy deal pipeline
- Robust digital growth
- Margins to increase with efficiency gains
- Maintain our recommendation to **BUY** with a revised target price of ₹ 805

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Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Revenue	21,539	21,419	18,083	19.1	21,400	0.6	Constant currency revenues grew 2.4% QoQ led by communication vertical (up 16.6% QoQ), Energy (up 1.5% QoQ) and Hi tech (up 6.9% QoQ) partly offset by a decline in BFSI and Retail, down 0.8% QoQ and 0.9% QoQ, respectively. The growth in communication was led by large deal win by the company in North America
Employee expenses	13,752	13,492	11,096	23.9	13,436	2.4	
Gross Profit	7,787	7,927	6,987	11.4	7,964	-2.2	
Gross margin (%)	36.2	37.0	38.6	-249 bps	37.2	-106 bps	
Selling & marketing costs	1,226	1,178	947	29.5	1,156	6.1	
G&A expenses	1,412	1,392	1,110	27.2	1,398	1.0	
EBITDA	5,149	5,357	4,930	4.4	5,410	-4.8	
EBITDA Margin (%)	23.9	25.0	27.3	-336 bps	25.3	-137 bps	
Depreciation	531	581	458	15.9	580	-8.4	
EBIT	4,618	4,776	4,472	3.3	4,830	-4.4	
EBIT Margin (%)	21.4	22.3	24.7	-329 bps	22.6	-113 bps	Margins declined 113 bps QoQ sequentially to 21.4% mainly led by lower utilisation (70 bps), transition cost (40 bps), rupee appreciation (30 bps) and localisation and S&M cost (40 bps). This was partly offset by lower bad debt provisioning (30 bps) and absence of one offs
Other income	665	755	534	24.5	753	-11.7	
PBT	5,283	5,532	5,006	5.5	5,583	-5.4	
Tax paid	1,205	1,494	1,316	-8.4	1,522	-20.8	
Reported PAT	4,078	4,038	3,690	10.5	3,610	13.0	Adjusting for one-off item in Q3FY19, PAT declined 1.7% QoQ

Key Metrics

Closing employees	228,123	220,000	204,107	11.8	225,501	1.2	Healthy deal wins had led to good growth in employees
LTM attrition-standalone (%)	18.3	18.8	16.6	170 bps	17.8	50 bps	Higher attrition remains key concerns
Utilisation -ex trainees (%)	82.3	83.0	84.7	-240 bps	83.8	-150 bps	
Average \$/₹	70.4	70.4	64.5	9.2	71.6	-1.8	Rupee appreciation impacted margins

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY19		FY20E		FY21E			Comments
	Current	Old	New	% Change	Old	New	% Change	
Revenue	82,676	91,425	90,475	-1.0	98,777	99,126	0.4	We expect revenues to increase at a CAGR of 9.6% (in US\$ terms) over FY19-21E
EBIT	18,879	21,485	20,850	-3.0	23,213	23,394	0.8	
EBIT Margin (%)	22.8	23.5	23.0	-46 bps	23.5	23.6	10 bps	Higher offshoring, improving onsite pyramid, improving utilisation and also automation to boost margins
PAT	15,411	17,705	17,194	-2.9	19,602	19,613	0.1	
EPS (₹)	35.4	40.7	39.5	-2.9	45.1	45.1	0.1	

Source: Company, ICICI Direct Research

Conference Call Highlights

- **Revenue outlook:** For FY20E, Infosys has given guidance of 7.5-9.5% in constant currency. This guidance also includes 1% of revenue growth from acquisition of Stater. We believe based on the pipeline and healthy digital growth, the company can easily surpass top end of guidance
- **Margin trajectory:** The management expects Q1FY20E margins to be impacted by rupee appreciation, wage hikes, higher sub contract cost and transition cost of ramp up of deals. Further, the company has guided at EBIT margins in the range of 21-23%. Infosys also has margin levers in terms of higher offshoring, improving onsite pyramid, improving utilisation and also automation. Margin headwinds are re-skilling of employees, talent shortage in digital leading to higher sub- contracting cost and rupee appreciation
- **Capital allocation plan:** The board has announced a buyback under the open market route of ₹ 8,260 crore at a maximum price of ₹ 800 per share. Out of a total buyback size of ₹ 8,260 crore, the company has bought back shares worth ₹ 1,546 crore so far. The board has declared a special dividend of ₹ 10.5 per share
- **TCV:** Large deal TCV was strong with deal signings worth ~US\$1.57 billion in the quarter leading to total TCV of \$6.3 billion in FY19. Infosys had 13 large deals with seven in the US, five in Europe and one in India. Among verticals, financial services, manufacturing and communication bagged three deals each, two in Hi Tech and one each in retail and other segment
- **Vertical commentary:** BFSI (31.6% of revenue) was muted in the quarter. The company expects the insurance segment to be impacted in the coming quarters. Infosys expects better growth in retail banking, cards and payments and some pockets in insurance. Further, the company expects client specific leadership and M&A issues in capital markets, banking, manufacturing (in Europe) and life sciences. In retail, growth is expected from cloud and analytics. In communication, growth is expected from investments in 5G
- **Client update:** Infosys added one client in US\$50 million, two in US\$100 million and eight in US\$10 million buckets, which represents healthy client mining and farming strategy
- **Employee update:** Net addition saw an accelerated up-tick of 24,016 employees in FY19 (compared to net addition of 3743 in FY18) leading to employee strength of 228,123 in FY19. Attrition (consolidated) and attrition (standalone) both witnessed an increase of 50 bps to 18.3% and 20.4%, respectively. Higher attrition and lower utilisation remains a concern since if this is not controlled it will have an impact on revenue and margins

Key Metrics

Exhibit 3: Geography-wise split up

	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Revenue by geography (%)						
North America	60.4	59.4	60.0	60.3	60.4	61.2
Europe	24.4	24.8	24.3	24.0	24.2	24.0
India	3.0	2.8	2.6	2.5	2.6	2.3
ROW	12.2	13.0	13.1	13.2	12.8	12.5
Growth QoQ in \$ terms (%)						
North America	0.7	0.1	1.9	3.7	2.4	3.8
Europe	6.2	3.5	-1.1	1.9	3.1	1.6
India	-8.2	-5.0	-6.3	-0.8	6.3	-9.4
ROW	-4.5	8.5	1.7	4.0	-0.8	0.0

Source: Company, ICICI Direct Research

Growth was led by North America and Europe

Exhibit 4: Vertical-wise split up

	% contribution to revenues Q4FY19	% contribution to revenues Q3FY19	Constant currency growth QoQ (%)
Revenue by verticals (%)			
Financial Services	31.6	32.5	-0.8
Retail	15.9	16.4	-0.9
Communication	13.5	11.9	16.6
Energy, Utilities, Resources & Services	12.7	12.8	1.5
Manufacturing	10.0	10.1	1.6
Hi Tech	7.7	7.3	6.9
Life Sciences	6.0	6.2	-1.9
Others	2.6	2.8	-5.3

Source: Company, ICICI Direct Research

Among verticals, growth was strong in communication and hi-tech

Exhibit 5: Client & human resource matrix

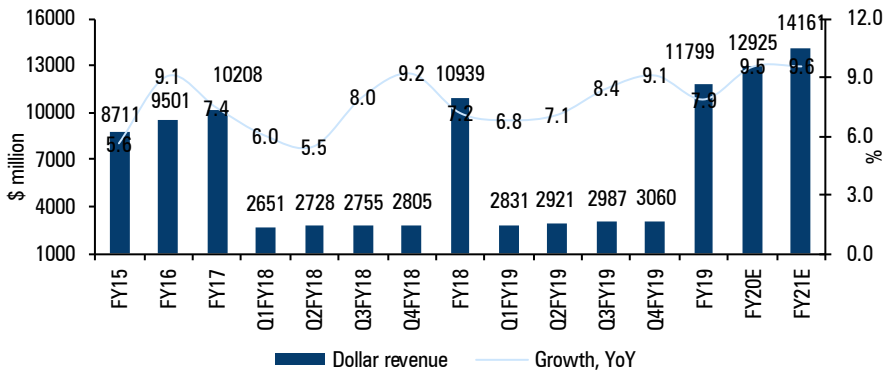
	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Client metrics						
5 Million \$ clients	630	634	627	633	651	662
25 Million \$ clients	198	198	200	205	214	222
50 Million \$ clients	56	57	56	58	59	60
100 Million \$ clients	20	20	24	23	23	25
Headcount, Utilization & Attrition						
Total Employees	201691	204107	209905	217739	225501	228123
Utilization (Excluding trainees)	84.9	84.7	85.7	85.6	83.8	82.3
LTM Attrition (Standalone)	15.8	16.6	20.6	19.9	17.8	18.3

Source: Company, ICICI Direct Research

Broad based addition across client buckets

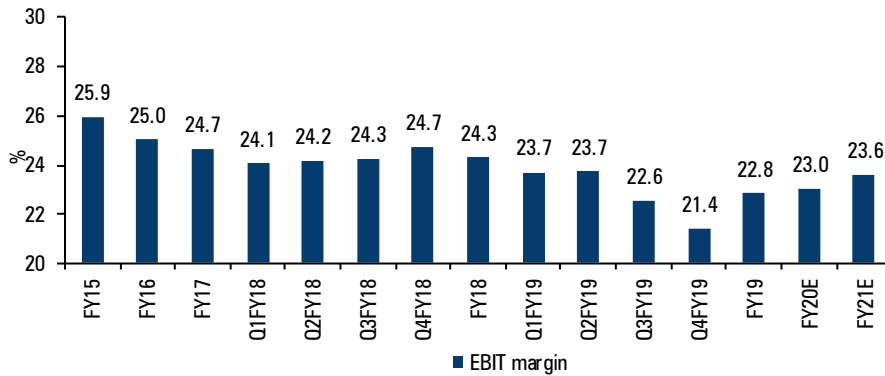
Financial story in charts

Exhibit 6: Dollar revenues may grow at 9.6% CAGR in FY19-21E



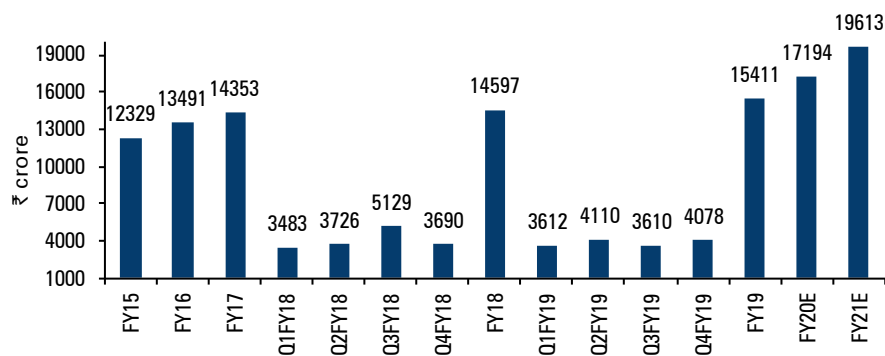
Source: Company, ICICI Direct Research

Exhibit 7: Change in margin estimates for FY20E and FY21E



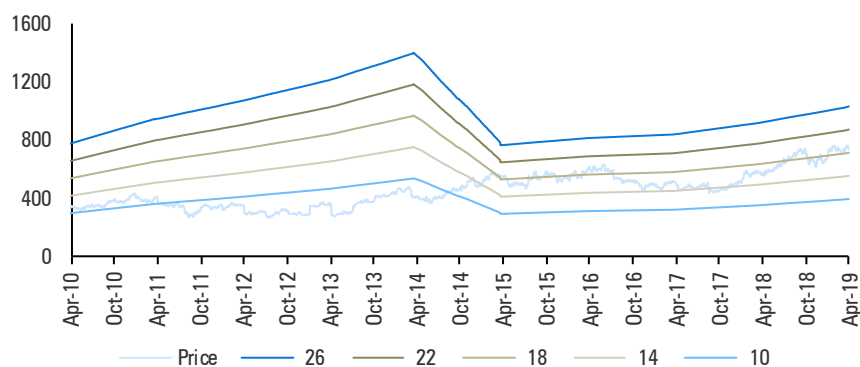
Source: Company, ICICI Direct Research

Exhibit 8: PAT trend



Source: Company, ICICI Direct Research

Exhibit 9: One year forward rolling PE



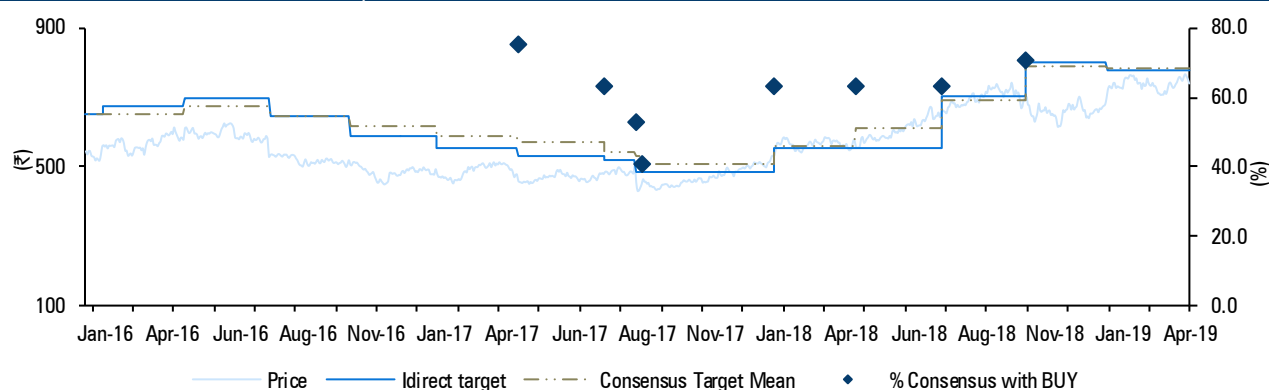
Source: Company, ICICI Direct Research

Exhibit 10: Valuation

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY17	68,485	9.7	31.4	6.4	23.0	15.2	20.8	28.8
FY18	70,522	3.0	32.3	3.0	22.4	15.2	22.5	30.9
FY19	82,676	17.2	35.4	9.5	20.4	13.8	23.7	32.9
FY20E	90,475	9.4	39.5	11.6	18.3	12.3	24.4	32.9
FY21E	99,126	9.6	45.1	14.2	16.0	10.8	25.6	34.6

Source: Company, ICICI Direct Research

Exhibit 11: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 12: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Deutsche Asset Management Americas	31-Dec-18	17.2%	746.0	0.3
2	Life Insurance Corporation of India	31-Dec-18	6.3%	271.5	-27.5
3	HDFC Asset Management Co., Ltd.	28-Feb-19	3.2%	139.2	0.4
4	Gopalakrishnan (Sudha)	31-Dec-18	3.2%	137.2	0.0
5	The Vanguard Group, Inc.	31-Mar-18	2.7%	116.9	6.9
6	BlackRock Institutional Trust Company, N.A.	31-Mar-19	2.6%	112.5	0.2
7	SBI Funds Management Pvt. Ltd.	28-Feb-19	2.3%	99.2	2.4
8	GIC Private Limited	31-Dec-18	2.0%	85.5	0.3
9	Murty (Rohan)	31-Dec-18	1.4%	60.8	0.0
10	Invest AD	31-Dec-18	1.2%	54.0	-0.3

Source: Reuters, ICICI Direct Research

Exhibit 13: Recent Activity

Buys				Sells				
Investor name	Value	Shares	Investor name	Value	Shares	Investor name	Value	Shares
Norges Bank Investment Management (NBIM)	49.0m	5.2m	Life Insurance Corporation of India	-260.6m	-27.5m	SBI Funds Management Pvt. Ltd.	-245.6m	-24.4m
Edelweiss Asset Management Ltd.	16.8m	1.6m	ICICI Prudential Asset Management Co. Ltd.	-38.9m	-3.7m	L&T Investment Management Limited	-22.1m	-2.3m
BlackRock Advisors (UK) Limited	12.9m	1.2m	SEB Investment Management AB	-23.2m	-2.3m	Stewart Investors		
			Seafarer Capital Partners, LLC					

Source: Reuters, ICICI Direct Research

Exhibit 14: Shareholding Pattern

(in %)	Mar-18	Sep-18	Dec-18
Promoter	12.90	12.82	12.82
Public	86.61	86.70	86.70
Others	0.49	0.48	0.47
Total	100.00	100.00	100.00

Source: Company, ICICI Direct Research

Financial summary

Exhibit 15: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Total operating Income	70,522	82,676	90,475	99,126
Growth (%)	3.0	17.2	9.4	9.6
COGS (employee expenses)	43,267	51,857	56,749	62,021
Admin expenses	4,684	5,454	5,881	6,245
S&M expenses	3,560	4,475	4,795	5,055
Total Operating Expenditure	51,511	61,786	67,425	73,321
EBITDA	19,010	20,890	23,050	25,805
Growth (%)	2.2	9.9	10.3	12.0
Depreciation	1,863	2,011	2,201	2,411
Other Income	3,193	2,883	2,704	3,473
PBT	20,270	21,041	23,553	26,867
Total Tax	4,241	5,630	6,359	7,254
PAT	14,597	15,411	17,194	19,613
Growth (%)	1.7	5.6	11.6	14.1
EPS (₹)	32.3	35.4	39.5	45.1
Growth (%)	3.0	9.5	11.6	14.2

Source: Company, ICICI Direct Research

Exhibit 16: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	14,597	15,411	17,194	19,613
Add: Depreciation	1,863	2,011	2,201	2,411
(Inc)/dec in Current Assets	(1,899)	(2,354)	(1,581)	(2,175)
Inc/(dec) in CL and Provisions	1,793	4,426	1,399	1,552
Taxes paid	(6,829)	(5,630)	(6,359)	(7,254)
CF from operating activities	14,559	16,611	16,510	17,928
(Inc)/dec in Investments	5,374	2,456	2,704	3,473
(Inc)/dec in Fixed Assets	(1,998)	(3,668)	(3,500)	(3,000)
CF from investing activities	3,111	(1,532)	(796)	473
Dividend paid & dividend tax	(7,464)	(11,260)	(11,709)	(13,435)
Others	5	(4,069)	-	-
CF from financing activities	(20,505)	(15,329)	(11,709)	(13,435)
Net Cash flow	(2,835)	(250)	4,005	4,966
Exchange difference	81	-	-	-
Opening Cash	22,625	19,818	19,568	23,573
Closing Cash	19,818	19,568	23,573	28,539

Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Equity Capital	2,258	2,170	2,170	2,170
Reserve and Surplus	62,666	62,836	68,321	74,499
Total Shareholders funds	64,924	65,006	70,491	76,669
Employee benefit obligations	48	44	44	44
Debt	-	-	-	-
Deferred Tax Liability	541	672	672	672
Other non current liabilities	272	378	378	378
Total Liabilities	65,785	66,100	71,585	77,763
Assets				
Property, plant and equipment	12,143	13,356	14,655	15,244
Goodwill	2,211	3,540	3,540	3,540
Intangibles	247	691	691	691
Available for sale assets	5,756	4,634	4,634	4,634
Other assets	9,516	9,639	9,639	9,639
Cash	19,818	19,568	23,573	28,539
Current Investments	6,407	6,627	6,627	6,627
Trade receivables	13,142	14,827	16,226	17,777
Unbilled revenue	4,261	5,374	4,976	4,956
Prepayment & O.fin.assets	6,373	6,146	6,726	7,369
Other current assets	16	336	336	336
Total Current Assets	50,017	52,878	58,463	65,604
Trade payables	694	1,655	1,811	1,984
Unearned revenue	2,295	2,809	3,074	3,368
OCL & provisions	11,116	14,174	15,152	16,237
Total Current Liabilities	14,105	18,638	20,037	21,590
Net Current Assets	35,912	34,240	38,426	44,015
Application of Funds	65,785	66,100	71,585	77,763

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios				
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
EPS	32.3	35.4	39.5	45.1
Cash EPS	36.5	40.0	44.6	50.7
BV	144	149	162	176
DPS	43.5	21.5	22.3	25.6
Cash Per Share	44	45	54	66
Operating Ratios (%)				
EBIT Margin	24.3	22.8	23.0	23.6
PBT Margin	28.7	25.4	26.0	27.1
PAT Margin	20.7	18.6	19.0	19.8
Debtor days	68	65	65	65
Unbilled revenue	20	21	21	18
Creditor days	4	7	7	7
Return Ratios (%)				
RoE	22	24	24	26
RoCE	31	33	33	35
RoIC	43	47	50	55
Valuation Ratios (x)				
P/E	22	20	18	16
EV / EBITDA	15	14	12	11
EV / Net Sales	4	3	3	3
Market Cap / Sales	4	4	3	3
Price to Book Value	5	5	4	4
Solvency Ratios				
Debt/EBITDA	-	-	-	-
Debt / Equity	-	-	-	-
Current Ratio	3	2	2	2
Quick Ratio	3	2	2	2

Source: Company, ICICI Direct Research

Exhibit 19: ICICI Direct coverage universe (IT)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Cyient (INFENT)	584	675	Buy	6,857	36.0	39.1	44.1	16.9	15.6	13.8	10.9	8.5	7.7	21.4	20.6	21.2	17.3	16.9	17.2
Eclerx (ECLSER)	1,124	910	Sell	3,931	72.9	58.9	64.2	14.2	17.5	16.1	9.1	11.1	9.9	28.2	22.8	23.1	24.1	17.3	17.5
Firstsource (FIRSOU)	52	55	Buy	3,296	4.8	5.1	5.6	10.1	9.3	8.6	8.3	7.1	6.2	13.0	14.1	15.6	13.9	13.8	13.6
HCL Tech (HCLTEC)	1,107	1,090	Hold	137,478	62.6	73.0	80.1	11.7	9.5	8.2	2.6	2.2	1.9	29.0	34.4	38.2	27.4	31.9	31.4
Infosys (INFTEC)	723	805	Buy	314,663	32.3	35.4	39.5	22.4	20.4	18.3	15.2	13.8	12.3	30.9	32.9	32.9	22.5	23.7	24.4
L&T Intotech (LTINFO)	1,629	1,950	Buy	28,870	64.7	87.0	96.6	25.7	19.1	17.2	22.9	14.3	12.1	36.0	40.6	36.9	28.8	31.2	28.3
NIIT Tech (NIITEC)	1,292	1,415	Buy	7,705	45.6	67.8	76.3	27.8	18.7	16.6	13.8	10.3	8.6	19.4	24.8	24.6	15.8	20.5	20.2
Persistent (PSYS)	607	630	Hold	4,615	40.5	45.3	49.8	14.3	12.7	11.6	8.1	5.9	5.3	19.8	20.8	20.4	15.2	15.2	15.0
TCS (TCS)	2,068	2,065	Hold	775,500	67.4	83.8	88.6	30.6	24.6	23.3	22.5	18.6	16.8	37.6	43.8	43.1	29.6	34.4	34.0
Tech M (TECMAH)	796	900	Buy	71,253	42.8	48.0	55.3	18.8	16.7	14.5	14.1	9.8	8.3	21.5	22.0	22.4	20.2	19.5	19.5
Wipro (WIPRO)	287	375	Buy	152,220	16.8	19.9	22.8	20.1	17.0	14.8	13.0	10.9	9.5	16.9	17.5	18.2	16.6	16.9	17.5

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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