

**CMP: INR 1361**

**Rating: HOLD**

**Target Price: INR 1463**

**Stock Info**

|                          |                    |
|--------------------------|--------------------|
| BSE                      | 500209             |
| NSE                      | INFY               |
| Bloomberg                | INFO IN            |
| Reuters                  | INFO.BO            |
| Sector                   | Computers-Software |
| Face Value (INR)         | 5                  |
| Equity Capital (INR Cr)  | 2124               |
| Mkt Cap (INR Cr)         | 576,638            |
| 52w H/L (INR)            | 1478 / 604         |
| Avg Yearly Vol (in 000') | 7414               |

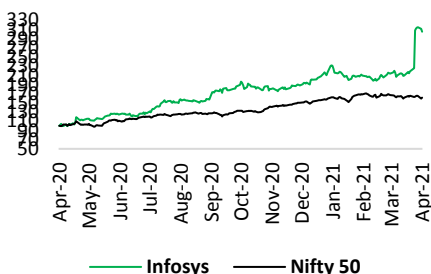
**Shareholding Pattern %**

(As on March, 2020)

|                 |       |
|-----------------|-------|
| Promoters       | 12.95 |
| FII             | 32.67 |
| DII             | 23.10 |
| Public & Others | 31.28 |

| Stock Performance (%) | 3m   | 6m   | 12m   |
|-----------------------|------|------|-------|
| INFY                  | 0.63 | 22.1 | 111.7 |
| Nifty                 | 22.0 | 37.6 | 18.1  |

**INFY Vs Nifty**



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Infosys' Q4FY21 revenue and PAT performance were below our estimates while margins estimate was above our estimates. Consolidated revenue stood at INR 26,311 Cr, below against our estimates of INR 31,002 cr registering +13.1% YoY/1.5% QoQ. Consolidated EBIT stood at INR 6,440 Cr, below our estimates of INR 6,742 cr, up by 30.7% YoY/-2.3% QoQ. On the margins front, EBIT margin improved by 330bps YoY/-94bps QoQ to 24.5%. Consolidated PAT saw a rise of 16.3% YoY to INR 5,076 cr vs estimates of INR 5,862 Cr, impacted by weak margin performance but supported by revenue growth. Revenues in CC terms grew by 9.6% YoY and 2.0% QoQ. EPS at INR 11.96 in Q4FY21 vs 10.2 in Q4FY20 respectively.

**Q4FY21 Segments Highlights**

- **Telecom** (-0.6% qoq) - With deals won in past, expect performance to improve. Cyber security, 5G etc will be themes.
- **BFSI** (+2.4% qoq)- Major demand from Consumer Experience, front to back digitization, mortgage, operations, lending, call centres, high end digital 25 large deals in FY21, 6 in Q4 - provides solid base for growth.
- **Manufacturing**: +6.1% qoq - Automotive and Industrials are bouncing back strongly; Aero will take few quarters. Signed Daimler deal in Q3. Pipeline is strong and confident of gaining market share.
- **E&U**: +1.1% qoq - Remained soft in FY21 due to oil prices and travel. Signs of stability in Q4. Cost takeout, vendor consolidation, asset monetization are opportunities and Strong deal pipeline in ENU
- **Retail**: +3.5% qoq - sub segments remain challenge - infra and apps modernization, cloud, cybersecurity are opportunities. Infosys remains optimistic about this sector.

**Valuations**

At CMP of INR 1361, Infosys currently trades at FY23 P/E of 23x. Infosys result were below our estimates. In-line revenue guidance was offset by slightly disappointing OPM guidance. Revenue guidance get negated by lower OPM. The company has guided for 22-24% EBITM for FY22, considering the impact of salary hikes (Jan'21 and planned wef Jul'21), large deals' transition costs, likely normalization of travel and related costs in H2. However, revenue acceleration, improving business mix, employee pyramid, offshore shift, automation and other operating efficiencies would help to negate these headwinds.

**We value Infosys at P/E of 25x to its FY23E EPS 58.5, which yields target Price of INR 1463 per share. We change our rating to Hold from Accumulate.**

| Y/E March (INR. In Cr)    | FY19          | FY20          | FY21          | FY22E         | FY23E         |
|---------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Revenues (US\$ mn)</b> | <b>11,799</b> | <b>12,780</b> | <b>13,561</b> | <b>15,300</b> | <b>16,506</b> |
| Net Revenue               | 82,675        | 90,791        | 1,00,472      | 1,14,886      | 1,27,760      |
| EBIT                      | 16,869        | 16,481        | 21,355        | 25,734        | 28,746        |
| EBIT Margin(%)            | 20%           | 18%           | 21%           | 22%           | 23%           |
| Net Profit                | 15,404        | 16,594        | 19,351        | 22,759        | 24,855        |
| EPS                       | 35.4          | 38.9          | 45.6          | 53.6          | 58.5          |
| P/E (x)                   | 38            | 35            | 30            | 25            | 23            |
| ROE                       | 24%           | 25%           | 25%           | 25%           | 24%           |

## Q4 FY21 - Quarterly Performance (Consolidated)

| INR Cr (Consolidated)   | Q4FY21        | Q3FY21        | Q4FY20        | Q-o-Q         | Y-o-Y         |
|-------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Net Revenue</b>      | <b>26,311</b> | <b>25,927</b> | <b>23,267</b> | <b>1.5%</b>   | <b>13.1%</b>  |
| Cost of Sales           | 17,164        | 16,777        | 15,501        | 2.3%          | 10.7%         |
| <b>Gross Profit</b>     | <b>9,147</b>  | <b>9,150</b>  | <b>7,766</b>  | <b>0.0%</b>   | <b>17.8%</b>  |
| S&M and Admin. Expenses | 2,707         | 2,561         | 2,839         | 5.7%          | -4.6%         |
| <b>EBIT</b>             | <b>6,440</b>  | <b>6,589</b>  | <b>4,927</b>  | <b>-2.3%</b>  | <b>30.7%</b>  |
| <b>EBIT margin %</b>    | <b>24.5%</b>  | <b>25.4%</b>  | <b>21.2%</b>  | <b>-94bps</b> | <b>330bps</b> |
| Other Income            | 495           | 562           | 614           | -11.9%        | -19.4%        |
| <b>PBT</b>              | <b>6,935</b>  | <b>7,151</b>  | <b>5,541</b>  | <b>-3.0%</b>  | <b>25.2%</b>  |
| Tax Expense             | 1,857         | 1,936         | 1,161         | -4.1%         | 59.9%         |
| Effective tax rate %    | 26.8%         | 27.1%         | 21.0%         | -2707bps      | 582bps        |
| <b>Reported PAT</b>     | <b>5,078</b>  | <b>5,215</b>  | <b>4,380</b>  | <b>-2.6%</b>  | <b>15.9%</b>  |
| MI & Associates         | -2            | -18           | -14           | -88.9%        | -85.7%        |
| Consolidated PAT        | 5,076         | 5,197         | 4,366         | -2.3%         | 16.3%         |
| <i>Adj PAT Margin %</i> | <i>19.3%</i>  | <i>20.0%</i>  | <i>18.8%</i>  | <i>-3.8%</i>  | <i>2.8%</i>   |
| <b>EPS (Rs)</b>         | <b>12.0</b>   | <b>12.3</b>   | <b>10.2</b>   | <b>-2.8%</b>  | <b>17.4%</b>  |

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

**Q4FY21 Concall Highlights**

- **Deal Wins:** Deal wins: FY21 large deals at \$14bn, 57% yoy; 66% of FY21 deal wins were net new. For Q4FY21, out of \$2.1bn, 52% were net new deal wins. Verticals wise: 6 BFSI, 3 in Life Sciences, 2 Communications, 2 Manufacturing, 2 in EN&U, 2 in Hi-tech; Geography wise: 16 in North America, 6 Europe, 1 Rest of world
- **Pipeline** is starting to replenished quite well and is quite robust. Management mentioned they see good demand across industries. Last year deal wins had very large deal (Daimler) which is not there in pipeline. Management feels quite comfortable with pipeline and will continue to gain market share.
- **Outlook for FY22:** 1) Revenue growth guidance of 12%-14% in constant currency, 2) Operating margin guidance of 22%-24%. Infy has highlighted that next salary hike cycle will start from July'21. Utilization is near peak at 82.2% and Infy highlighted that this will gradually decline as they scale up hiring (almost 20K hires in H2FY21 already and plans to hire 26k in FY22).
- **Supply Side:** The supply situation is tightening. This was visible is attrition which inched up to 15.2% from 10.0% QoQ (wage hike was effective Jan) and increase in Sub-con cost (Cost of technical sub-contractors in Soft. Development Expenses) as a % of Revenue to 7.5% from 7.1% last quarter and 7.3% last year same quarter. Infosys has highlighted some supply side pressure but plans to hire fresh and laterals to meet the demand.
- **Capex:** focus reduction during the year although there was some increase technology related largely to support remote working continue to optimize capex related to physical infrastructure creation. Capex reduces for FY21 \$285mn compare to \$465mn FY20 despite higher technology enable spend.
- **Employee:** 10300 and share of Women Employees increase to 38.6%. Voluntary Attrition % (Annualized - IT Services) 15.2%.
- **Guidance:** Going ahead, Infosys sees some costs to return in FY22 (COVID led cost saving in FY21 and some uptick in Travel costs) and some transition impact of large deals. The commentary around demand is still strong and it is witnessing good traction on transformation and AI, Cyber Security components. However, Infy didn't offer a commentary over multi-year outlook as it believes that outlook is partly a function of Macro (GDP).

Key Financials

| Profit & Loss Statement (Consolidated)           |               |               |               |               |               | Balance Sheet (Consolidated)  |               |               |                 |                 |                 |
|--|---------------|---------------|---------------|---------------|---------------|-------------------------------|---------------|---------------|-----------------|-----------------|-----------------|
| Particulars (Rs Cr)                              | FY19          | FY20          | FY21          | FY22E         | FY23E         | Particulars (Rs Cr)           | FY19          | FY20          | FY21            | FY22E           | FY23E           |
| Revenues (US\$ mn)                               | 11,799        | 12,780        | 13,561        | 15,300        | 16,506        | Shareholder's Funds           |               |               |                 |                 |                 |
| Growth (%)                                       | 8%            | 8%            | 6%            | 13%           | 8%            | Share Capital                 | 2,170         | 2,122         | 2,124           | 2,124           | 2,124           |
| Income   | 82,675        | 90,791        | 1,00,472      | 1,14,886      | 1,27,760      | Reserves & Surplus            | 62,836        | 63,722        | 74,658          | 87,889          | 1,00,935        |
| Software development expenses                    | 53,867        | 60,732        | 65,413        | 74,676        | 84,322        | <b>Net Worth</b>              | <b>65,006</b> | <b>65,844</b> | <b>76,782</b>   | <b>90,013</b>   | <b>1,03,059</b> |
| Gross Profit                                     | 28,808        | 30,059        | 35,059        | 40,210        | 43,439        | Total Non Current Liabilities | 1,094         | 6,068         | 7,739           | 7,186           | 7,477           |
| Sales and development expenses                   | 4,473         | 4,711         | 4,627         | 5,170         | 5,749         | Total Current Liabilities     | 18,638        | 20,856        | 23,865          | 13,304          | 14,504          |
| General and administrative expenses              | 5,455         | 5,974         | 5,810         | 5,974         | 5,749         | <b>Total Liabilities</b>      | <b>84,738</b> | <b>92,768</b> | <b>1,08,386</b> | <b>1,10,503</b> | <b>1,25,040</b> |
| <b>EBITDA</b>                                    | <b>18,880</b> | <b>19,374</b> | <b>24,622</b> | <b>29,066</b> | <b>31,940</b> | Net Block                     | 15,710        | 19,621        | 20,711          | 24,893          | 29,543          |
| EBITDA Margin (%)                                | 23%           | 21%           | 25%           | 25%           | 25%           | Capital Work-in-Progress      | 1,388         | 954           | 922             | 922             | 922             |
| EBIT   | 16,869        | 16,481        | 21,355        | 25,734        | 28,746        | Total Non Current Assets      | 31,860        | 38,192        | 47,653          | 46,208          | 50,485          |
| EBIT Margin (%)                                  | 20%           | 18%           | 21%           | 22%           | 23%           | Cash and bank balance         | 19,568        | 18,649        | 24,714          | 26,834          | 30,037          |
| Finance Cost (Lease expense)                     | -             | 170           | 195           | 170           | 175           | Total Current Assets          | 52,878        | 54,576        | 60,733          | 64,295          | 74,556          |
| Other Income                                     | 2,882         | 2,803         | 2,201         | 2,298         | 2,300         | <b>Total Assets</b>           | <b>84,738</b> | <b>92,768</b> | <b>1,08,386</b> | <b>1,10,503</b> | <b>1,25,040</b> |
| Provision for investment/ Shares profit / (Loss) | -721          |               |               |               |               |                               |               |               |                 |                 |                 |
| <b>PBT</b>                                       | <b>21,041</b> | <b>22,007</b> | <b>26,628</b> | <b>31,194</b> | <b>34,065</b> |                               |               |               |                 |                 |                 |
| Tax  | 5,631         | 5,368         | 7,205         | 8,360         | 9,129         |                               |               |               |                 |                 |                 |
| <b>PAT</b>                                       | <b>15,410</b> | <b>16,639</b> | <b>19,423</b> | <b>22,834</b> | <b>24,935</b> |                               |               |               |                 |                 |                 |
| Adjusted PAT                                     | 15,404        | 16,594        | 19,351        | 22,759        | 24,855        |                               |               |               |                 |                 |                 |
| Growth (%)                                       | -4.6%         | 7.7%          | 16.6%         | 17.6%         | 9.2%          |                               |               |               |                 |                 |                 |
| Adjusted EPS                                     | 35.4          | 38.9          | 45.6          | 53.6          | 58.5          |                               |               |               |                 |                 |                 |

| Cash Flow Statement (Consolidated)         |                |                |               |                |                | Key Ratios (Consolidated) |       |       |       |       |       |
|--|----------------|----------------|---------------|----------------|----------------|---------------------------|-------|-------|-------|-------|-------|
| Particulars (INR Cr)                       | FY19           | FY20           | FY21          | FY22E          | FY23E          | Particulars               | FY19  | FY20  | FY21  | FY22E | FY23E |
| <b>PAT</b>                                 | <b>15,410</b>  | <b>16,639</b>  | <b>19,423</b> | <b>22,834</b>  | <b>24,935</b>  | EPS                       | 35    | 39    | 46    | 54    | 59    |
| Add:- Depreciation & Others                | 2,011          | 2,893          | 3,267         | 3,332          | 3,194          | Book Value                | 150   | 155   | 181   | 212   | 243   |
| Change in Working Capital                  | -453           | -2,367         | 768           | 4,680          | 3,933          | DPS                       | 22    | 18    | 27    | 27    | 27    |
| Cash generated from operations             | 21,673         | 21,553         | 29,613        | 35,330         | 37,730         | Payout %                  | 89%   | 57%   | 47%   | 52%   | 49%   |
| Taxes paid                                 | -6,832         | -4,550         | -6,389        | -8,360         | -9,129         | Dividend Yield %          | 2.9   | 1.3   | 2.0   | 2.0   | 2.0   |
| <b>Cash flow from operating activities</b> | <b>14,841</b>  | <b>17,003</b>  | <b>23,224</b> | <b>26,970</b>  | <b>28,600</b>  | P/E                       | 38.5  | 35.0  | 29.9  | 25.4  | 23.3  |
| Purchase of FA and Capex                   | -2,445         | -3,307         | -2,107        | -4,182         | -4,650         | EBITDA Margin (%)         | 23%   | 21%   | 25%   | 25%   | 25%   |
| Others                                     | 1,870          | 3,068          | -5,349        | -8,731         | -8,731         | EBIT Margin               | 20.4% | 18.2% | 21.3% | 22.4% | 22.5% |
| <b>Cash flow from investing activities</b> | <b>-575</b>    | <b>-239</b>    | <b>-7,456</b> | <b>-12,913</b> | <b>-13,381</b> | PBT Margin                | 25.5% | 24.2% | 26.5% | 27.2% | 26.7% |
| Other fin. Activities                      | -813           | -7,478         | 0             | 0              | 0              | Adjusted PAT Margin       | 18.6% | 18.3% | 19.3% | 19.8% | 19.5% |
| Dividend paid, including div. tax          | -13,705        | -9,515         | -9,117        | -11,985        | -12,147        | Debt/Equity               | 0.0   | 0.1   | 0.1   | 0.1   | 0.1   |
| <b>Cash flow from financing activities</b> | <b>-14,512</b> | <b>-17,591</b> | <b>-9,786</b> | <b>-12,021</b> | <b>-12,099</b> | Current Ratio             | 2.8   | 2.6   | 2.5   | 4.8   | 5.1   |
| Exchange Fluctuations                      | -57            | -92            | 83            | 83             | 83             | ROE                       | 23.7% | 25.2% | 25.2% | 25.3% | 24.1% |
| <b>Net Cash Flow</b>                       | <b>-246</b>    | <b>-827</b>    | <b>5,982</b>  | <b>2,037</b>   | <b>3,120</b>   | ROCE                      | 22.3% | 20.9% | 22.7% | 26.3% | 25.5% |
| Opening Cash balance                       | 19,871         | 19,568         | 18,649        | 24,714         | 26,834         |                           |       |       |       |       |       |
| <b>Closing Cash balance</b>                | <b>19,568</b>  | <b>18,649</b>  | <b>24,714</b> | <b>26,834</b>  | <b>30,037</b>  |                           |       |       |       |       |       |

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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| Stock Rating Scale | Absolute Return |
|--------------------|-----------------|
| BUY                | >20%            |
| ACCUMULATE         | 12% to 20%      |
| HOLD               | 5% to 12%       |
| NEUTRAL            | -5% to 5%       |
| REDUCE             | -5% to -12%     |
| SELL               | <-12%           |

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