

CMP: Rs 934

Rating: Accumulate

Target Price: Rs 1062

Stock Info

BSE	500209
NSE	INFOSYSTCH
Bloomberg	INFO IN
Reuters	INFO.BO
Sector	Computers-Software
Face Value (Rs)	5
Equity Capital (Rs Cr)	2129
Mkt Cap (Rs Cr)	384,678
52w H/L (Rs)	956 / 509
Avg Yearly Vol (in 000')	10667

Shareholding Pattern %

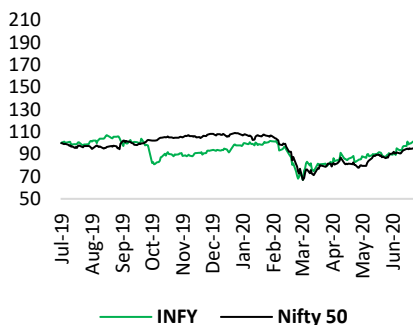
(As on March, 2020)

Promoters	13.15
FII	31.01
DII	24.68
Public & Others	31.16

Stock Performance (%)

	3m	6m	12m
INFY	38.9	17.5	13.7
Nifty	16.5	-11.6	-7.5

INFY Vs Nifty



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Infosys Q1FY21 earnings were above our estimates on all fronts. Consolidated revenue stood at Rs 23,665 Cr, above our estimate of Rs 22,312 cr, registering a growth of +8.5% YoY/+1.7% QoQ. Reported EBIT grew by +20% YoY/+8.9% QoQ to Rs 5,365 Cr, above our estimate of Rs 4,686 Cr, while EBIT margin expanded by 216bps YoY/149bps QoQ driven by pre-emptive deployment of strategic cost levers along with tactical opportunities triggered by the Covid-19 situation. PAT for the quarter grew by +11.5% YoY to Rs 4,233 Cr, beating our estimate of Rs 4,196 Cr.

Q1FY20 Segments Highlights

- 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).
- Retail, and Manufacturing verticals should see some challenges in the near term.
- While Europe reported decent growth (+4.4% YoY, CC), revenue from North America and RoW remained largely stable (YoY).
- Large deal signings (~USD1.7b) were near the pre-COVID-19 quarterly run-rate (USD2b), excluding the deal from Vanguard.
- Performance in the Communications segment stabilized on a sequential basis, although clients, especially in media & entertainment industry are under pressure due to weaker advertisement spend and cancellation of events. Network resilience and business continuity remain highest priority while companies are also investing in digital channels. 5G rollout is expected to be delayed due to Covid-19 related disruptions.

Valuations

Infosys Q1FY21 performance was better than peers as well as expectations and positive commentary drive to raise in our revenue (8.1%)/PAT (13.2%) estimates for FY21-22. 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. At CMP of Rs 934, Infosys currently trades at FY20 P/E of 23x. We value Infosys at P/E of 23x to its FY22E EPS 46, which yields target price of Rs 1062 per share. **We Maintain our Accumulate rating on the stock.**

Y/E March (Rs. In Mn)	FY19	FY20	FY21E	FY22E
Net Revenue	82,675	90,791	98,145	1,11,100
EBIT	18,880	19,374	20,610	23,109
EBIT Margin (%)	22.8%	21.3%	21.0%	20.8%
Net Profit	15,410	16,639	17,658	19,596
EPS	35.4	38.9	41.6	46.2
P/E (x)	25.5	23.2	21.7	20.2
ROE	23.7%	25.2%	24.0%	23.5%

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

Q1 FY21 - Quarterly Performance (Consolidated)

Rs Cr (Consolidated)	Q1FY21	Q4FY20	Q1FY20	Q-o-Q	Y-o-Y
Net Revenue	23,665	23,267	21,803	1.7%	8.5%
Cost of Sales	15,703	15,501	14,779	1.3%	6.3%
Gross Profit	7,962	7,766	7,024	2.5%	13.4%
S&M and Admin. Expenses	2,597	2,839	2,553	-8.5%	1.7%
EBIT	5,365	4,927	4,471	8.9%	20.0%
EBIT margin %	22.7%	21.2%	20.5%	149bps	216bps
Other Income	427	614	696	-30.5%	-38.6%
Adjustments	-	-45	-40	NA	NA
PBT	5,792	5,496	5,167	5.4%	12.1%
Tax Expense	1,520	1,161	1,365	30.9%	11.4%
Effective tax rate %	26.2%	21.1%	26.4%	512bps	-17bps
Reported PAT	4,272	4,335	3,802	-1.5%	12.4%
MI & Associates	-39	-14	-4	NA	NA
Consolidated PAT	4,233	4,321	3,798	-2.0%	11.5%
Adjusted PAT	4,233	4,321	3,798	-2.0%	11.5%
<i>Adj PAT Margin %</i>	<i>17.9%</i>	<i>18.6%</i>	<i>17.4%</i>	<i>-68bps</i>	<i>47bps</i>
EPS (Rs)	10.0	10.2	8.8	-2.1%	13.0%
Adj EPS (Rs)	10.0	10.2	8.8	-2.0%	13.2%

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

Q1FY21 Concall Highlights

- Management stated that Collections were robust and capex was focused, which led to 50% YoY increase in free cash flows. Company liquid and debt free balance sheet is a huge source of strength in these times.
- The company announced large deal wins worth \$1.74 billion during the quarter. Large deal Pipeline has improved over the past three months as plans and expanding engagements.
- IT services is bound to be 11.7%. Increase focus on collections. And this was evident operating cash flow of 783 million for the quarter.
- Balance sheet remain strong in cash and investment position at 3.8 million.
- Infosys announced a landmark digitally transformation engagement with Vanguard. Through this partnership, Vanguard will provide a cloud-based record keeping platform to help deliver better outcomes for nearly five million participants and 1,500 sponsors.
- Management mentioned that in Q1FY21 results, especially growth, are a clear testimony to the relevance of service offerings and deep understanding of clients' business priorities which is resonating with them in these times. It also demonstrates the remarkable dedication of Infosys employees and leadership during this period. Company confidence and visibility for the rest of the year is improving driven by Q1 performance and large deal wins.
- Digital investments company has made over the past several years, and operate with tremendous stability and combat uncertainty resilient.
- Infosys investment localisation in the US over the past several years resulting in 6 digital centres, college hiring. The majority of US workforce local, helped company to better manage the evolving visa regulations in the US.
- Business model more resilient as company look ahead. Company has put in place a comprehensive cost programme, and cash management programme, as the crisis started, and it has provided a significant benefit and company will form a basis operating approach for this financial year.
- Company remain committed to supporting the communities within and working in India, providing medical support food supplies state nomination contract racing for government agencies. Company also providing medical and contract racing support in the US and UK government bonds.
- Ongoing strong client contact, company feel the strength of franchise is coming through Cleary, and will reinstate guidance for the Full financial year Revenue guidance 0% to 2% YoY in constant currency and operating margin for the full year 21% to 23%.

Key Financials

Profit & Loss Statement (Consolidated)				
Particulars (Rs Cr)	FY19	FY20	FY21E	FY22E
Income	82,675	90,791	98,145	1,11,100
Software development expenses	53,867	60,732	64,776	74,437
Gross Profit	28,808	30,059	33,369	36,663
Sales and development expenses	4,473	4,711	5,692	6,666
General and administrative expenses	5,455	5,974	7,066	6,888
EBIT	18,880	19,374	20,610	23,109
EBIT Margin (%)	22.8	21.3	21.0	20.8
Finance Cost (Lease expense)	-	170	150	161
Other Income	2,882	2,803	3,337	3,111
Provision for investment/ Shares profit / (Loss)	-721			
PBT	21,041	22,007	23,797	26,059
Tax	5,631	5,368	6,140	6,463
PAT	15,410	16,639	17,658	19,596
Adjusted PAT	15,404	16,594	17,658	19,596
Growth (%)	-4.6%	7.7%	6.4%	11.0%
Adjusted EPS	35	39	42	46

Balance Sheet (Consolidated)				
Particulars (Rs Cr)	FY19	FY20	FY21E	FY22E
Shareholder's Funds				
Share Capital	2,170	2,122	2,122	2,122
Reserves & Surplus	62,836	63,722	71,527	81,136
Net Worth	65,006	65,844	73,649	83,258
Total Non Current Liabilities	1,094	6,068	6,234	6,527
Total Current Liabilities	18,638	20,856	21,072	24,007
Total Liabilities	84,738	92,768	1,00,956	1,13,793
Net Block	15,710	19,621	23,193	27,238
Capital Work-in-Progress	1,388	954	954	954
Total Non Current Assets	31,860	38,192	37,681	42,062
Cash and bank balance	19,568	18,649	22,274	31,988
Total Current Assets	52,878	54,576	63,275	71,730
Total Assets	84,738	92,768	1,00,956	1,13,793

Key Ratios (Consolidated)				
Particulars	FY19	FY20	FY21E	FY22E
EPS	35.4	38.9	41.6	46.2
Book Value	150	155	174	196
DPS	22	18	18	18
Payout %	89%	57%	43%	40%
Dividend Yield %	2.9	1.9	1.9	1.9
P/E	25.5	23.2	21.7	19.6
EBIT Margin	22.8%	21.3%	21.0%	20.8%
PBT Margin	25.5%	24.2%	24.2%	23.5%
Adjusted PAT Margin	18.6%	18.3%	18.0%	17.6%
Debt/Equity	0.0	0.1	0.1	0.1
Current Ratio	2.8	2.6	3.0	3.0
ROE	23.7%	25.2%	24.0%	23.5%
ROCE	22.3%	20.9%	20.4%	20.3%

Cash Flow Statement (Consolidated)				
Particulars (Rs Cr)	FY19	FY20	FY21E	FY22E
PAT	15,410	16,639	17,658	19,596
Add:- Depreciation & Others	2,011	2,893	3,141	4,111
Change in Working Capital	-453	-2,367	2,850	6,501
Cash generated from operations	21,673	21,553	28,141	35,130
Taxes paid	-6,832	-4,550	-6,140	-6,463
Cash flow from operating activities	14,841	17,003	22,001	28,667
Purchase of FA and Capex	-2,445	-3,307	-3,572	-4,044
Others	1,870	3,068	257	257
Cash flow from investing activities	-575	-239	-3,315	-3,787
Other fin. Activities	-813	-7,478	-7,478	-7,478
Dividend paid, including div. tax	-13,705	-9,515	-7,663	-7,768
Cash flow from financing activities	-14,512	-17,591	-15,141	-15,246
Exchange Fluctuations	-57	-92	80	80
Net Cash Flow	-246	-827	3,545	9,634
Opening Cash balance	19,871	19,568	18,649	22,274
Closing Cash balance	19,568	18,649	22,274	31,988

Source: Arihant 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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