

Good set of numbers, factors like large deal wins, raising of FY20E revenue guidance etc provide comfort; high attrition rate is the only dampener, maintain Accumulate

Current	Previous
CMP: Rs 727	Rating
Rating: Accumulate	Accumulate
Target: Rs 840	Target: Rs 849

(NR-Not Rated)

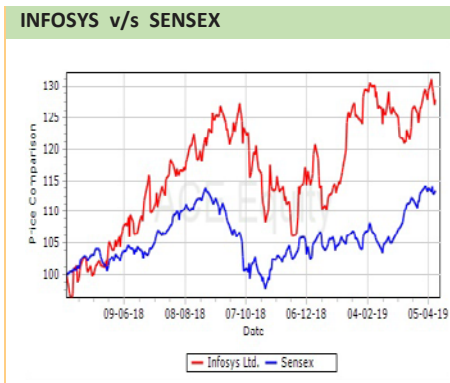
Stock Info	
INDEX	
BSE	500209
NSE	INFOSYSTCH
Bloomberg	INFO IN
Reuters	INFY.BO
Sector	Information Technology
Face Value (Rs)	5
Equity Capital (Rs Cr)	2151
Mkt Cap (Rs Cr)	321,803
52w H/L (Rs)	773 / 600
Avg Weekly Vol (BSE+NSE)	7,938,190

Shareholding Pattern	%
(As on December, 2018)	
Promoters	12.8
Public & Others	87.2

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
INFOSYS	9.4	10.1	28.7
SENSEX	7.7	11.6	5.4

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

Infosys came out with good set of numbers in Q1FY20, ahead of our estimate though EBIT margin faced some pressure. Revenue grew 1.2% sequentially to Rs 21,803cr against our estimate of Rs 21,459cr. PAT for the quarter stood at Rs 3798cr, little below our estimate of Rs 3982cr. We are positive on the stock from longer term perspective, on the back of management raising its FY20E revenue guidance and maintaining its EBIT margin guidance. We maintain our Accumulate rating on the stock with a revised target price of Rs 840.

Q1FY20 Highlights

- Revenue in rupee terms during the quarter grew by 1.2% sequentially to Rs 21,803 crore and revenue in dollar terms increased 2.8% QoQ to US \$3,131 million. Digital revenues grew 8.1% QoQ and 41.9% YoY in constant currency (CC) terms to US \$1119 million (35.7% of total revenue).
- Despite decent revenue growth margins took hit sequentially due to multiple factors like wage hike (-60bps), visa cost (-80bps), rupee appreciation (-40bps) and Stater acquisition (-30bps). Stater impact on numbers is for 1-month in June as it was acquired in May 2019. EBIT margins in rupee terms for Q1FY20 stood at 20.5%, a decline of 93bps QoQ and 321bps YoY.
- Operating profit (EBIT) stood at Rs 4471 crore in Q1FY20, facing a decline of 3.2% QoQ and 1.5% on YoY basis.
- Adjusted PAT on consolidated basis for the quarter stood at Rs 3,798 crore, registering a de-growth of 6.8% sequentially and 2.2% on YoY basis.

Valuations

Infosys management has raised its CC revenue guidance to 8.5-10% for FY20E, which is mostly in line with our estimate of 8-10%. Despite cross currency headwinds and wage hike impact, Infosys maintained its EBIT margin guidance at 21-23% for FY20E, which is a tad higher than our estimate of 21.3% for FY20E. After factoring in Q1FY20 results we have revised our FY20E estimates slightly downwards and introduced FY21E estimates. At CMP of Rs 727, Infosys is trading at a P/E of 18.9x and 16.9x its FY20E and FY21E earnings respectively. We have rolled over our target multiple to FY21E and now value the stock at 19.5x FY21E earnings (21.5x FY20E earlier) which yields a target price of Rs 840. Maintain **Accumulate**.

Financial Performance

YE March (Rs Cr)	Net Sales	EBIT	Adj. PAT	Adj. EPS (Rs)	EBIT Margin %	RoE (%)	Adj. P/E (x)
FY18	70,522	17,148	16,147	35.8	24.3	24.9	20.3
FY19	82,675	18,880	16,125	37.0	22.8	24.8	19.6
FY20E	89,906	19,150	16,432	38.4	21.3	23.6	18.9
FY21E	98,896	21,757	18,423	43.1	22.0	24.5	16.9

Source: Company, Arihant Research

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Q4FY19 and FY19 Financial Performance

Rs Cr (Consolidated)	Q1FY20	Q4FY19	Q1FY19	Q-o-Q	Y-o-Y
Net Revenue	21,803	21,539	19,128	1.2%	14.0%
Cost of Sales	14,779	14,283	12,288	3.5%	20.3%
Gross Profit	7,024	7,256	6,840	-3.2%	2.7%
S&M and Admin. Expenses	2,553	2,638	2,303	-3.2%	10.9%
EBIT	4,471	4,618	4,537	-3.2%	-1.5%
EBIT margin %	20.5%	21.4%	23.7%	-93bps	-321bps
Other Income	736	665	726	10.7%	1.4%
Adjustments	-40	-	-270		
PBT	5,167	5,283	4,993	-2.2%	3.5%
Tax Expense	1,365	1,205	1,381	13.3%	-1.2%
Effective tax rate %	26.4%	22.8%	27.7%		
Reported PAT	3,802	4,078	3,612	-6.8%	5.3%
MI & Associates	-4	-4	-		
Consolidated PAT	3,798	4,074	3,612	-6.8%	5.1%
Adjusted PAT	3,798	4,074	3,882	-6.8%	-2.2%
<i>Adj PAT Margin %</i>	<i>17.4%</i>	<i>18.9%</i>	<i>20.3%</i>	<i>-149bps</i>	<i>-288bps</i>
EPS (Rs)	8.8	9.4	8.3	-5.7%	6.2%
Adj EPS (Rs)	8.8	9.4	8.9	-5.7%	-1.2%

Source: Company, Arianth Research

Post Result Conference Call Highlights

- Seeing some challenges in M&A in some US banks and also on capital market side both on buy side and sell side.
- 70% buyback completed, intend to complete rest in Q2.
- 85% of free cash flows to return to shareholders by semi-annual dividend, share buyback and special dividend over next five years.
- 8.5-10% CC growth guidance in FY20E; EBIT margin expected to improve in coming quarters.
- Not overtly concerned over wage hike's impact on EBIT margins and confident of delivering 21-23% margin in FY20E.
- Investment made in digital capabilities helping in large deal wins alongwith increased engagement with customers; Large deal pipeline gave the confidence to raise its guidance.
- Seeing lot of traction in digital especially in cloud, google cloud, SAS (salesforce), Infosys has expertise in IOT, digital designing and seeing traction in these areas.
- Seeing huge opportunity in mortgage in Europe and expect the Europe market to reach US market level in few years time with respect to mortgage opportunities.
- Historically comfortable with 13-15% attrition level, however present situation is a bit challenging due to talent shortage, so seeing high attrition, but taking many initiatives at company level and expect to go back to 13-15% level in sometime.

Profit & Loss Statement (Consolidated)				
Particulars (Rs Cr)	FY18	FY19	FY20E	FY21E
Income	70,522	82,675	89,906	98,896
Software development expens	43,191	53,867	59,967	65,272
Gross Profit	27,331	28,808	29,939	33,625
Sales and development expen	4,354	4,473	4,945	5,439
General and administrative ex	5,829	5,455	4,046	4,450
Depreciation & Amortisation	1,862	2,064	1,798	1,978
EBIT	17,148	18,880	19,150	21,757
EBIT Margin (%)	24.3	22.8	21.3	22.0
Finance Cost (Lease expense)	0	0	160	160
Other Income	3,311	2,882	2,920	2,967
PBT	20,341	21,041	21,910	24,564
Tax	4,241	5,631	5,477	6,141
PAT	16,029	15,410	16,432	18,423
Adjusted PAT	16,147	16,125	16,432	18,423
Growth (%)	12.5%	-0.1%	1.9%	12.1%
Adjusted EPS	35.8	37.0	38.4	43.1

Balance Sheet (Consolidated)				
Particulars (Rs Cr)	FY18	FY19	FY20E	FY21E
Shareholder's Funds				
Share Capital	1,088	2,170	2,138	2,138
Reserves & Surplus	63,835	62,778	67,481	73,008
Total	64,923	64,948	69,618	75,145
Minority Interest	1	58	58	58
Total Non Current Liabilities	861	-278	890	890
Total Current Liabilities	14,105	18,638	14,657	15,566
Total Liabilities	79,890	83,366	85,224	91,659
Net Block	12,574	15,710	18,857	22,318
Capital Work-in-Progress	1,606	1,388	1,388	1,388
Total Non Current Assets	29,873	30,488	33,155	36,617
Cash and bank balance	19,871	19,568	13,913	15,285
Total Current Assets	50,017	52,878	52,069	55,042
Total Assets	79,890	83,366	85,224	91,659

Cash Flow Statement (Consolidated)				
Particulars (Rs Cr)	FY18	FY19	FY20E	FY21E
PAT	16,029	15,410	16,432	18,423
Add:- Depreciation & Others	1,862	2,064	5,297	5,477
Change in Working Capital	-106	-935	3,544	2,462
Cash generated from operations	21,387	20,738	21,774	22,863
Taxes paid	-6,829	-5,896	-5,477	-6,141
Cash flow from operating activities	14,558	14,841	16,297	16,722
Purchase of FA and Capex	-1,998	-2,497	-3,147	-3,461
Others	5,109	1,922	0	0
Cash flow from investing activities	3,111	-575	-3,147	-3,461
Others	-13,046	-813	-1,438	5,519
Dividend paid, including div. tax	-7,464	-13,836	-17,414	-17,414
Cash flow from financing activities	-20,505	-14,649	-18,852	-11,895
Exchange Fluctuations	82	80	80	80
Net Cash Flow	-2,836	-383	-5,701	1,366
Opening Cash balance	22,625	19,871	19,568	13,946
Closing Cash balance	19,871	19,568	13,946	15,393

Key Ratios (Consolidated)				
Particulars	FY18	FY19	FY20E	FY21E
EPS	35.8	37.0	38.4	43.1
Book Value	144	150	163	176
DPS	22	37	40	40
Payout %	47%	90%	106%	95%
Dividend Yield %	3.0	5.1	5.5	5.5
P/E	20.3	19.6	18.9	16.9
EBIT Margin	24.3%	22.8%	21.3%	22.0%
PBT Margin	28.8%	25.5%	24.4%	24.8%
Adjusted PAT Margin	22.9%	19.5%	18.3%	18.6%
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	3.5	2.8	3.6	3.5
ROE	24.9%	24.8%	23.6%	24.5%
ROCE	21.5%	22.6%	22.5%	23.7%

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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%

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