

Good set of numbers, factors like improving EBIT margin, raising of FY20E revenue guidance provide comfort, raising target price to Rs 911, maintain Accumulate

Current	Previous
CMP: Rs 815	Rating
Rating: Accumulate	Accumulate
Target: Rs 911	Target: Rs 840

(NR-Not Rated)

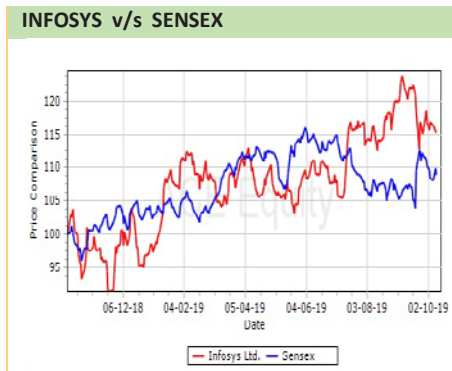
Stock Info	
INDEX	
BSE	500209
NSE	INFOSYSTCH
Bloomberg	INFO IN
Reuters	INFY.BO
Sector	Information Technology
Face Value (Rs)	5
Equity Capital (Rs Mn)	21210
Mkt Cap (Rs Mn)	3,457,230
52w H/L (Rs)	847 / 600
Avg Weekly Vol (BSE+NSE)	7,938,190

Shareholding Pattern	%
(As on June, 2019)	
Promoters	13.0
Public & Others	87.0

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
INFOSYS	9.2	3.8	11.8
SENSEX	-1.7	-1.8	9.0

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

Monami Manna
Sr. Research Analyst
Tel: +91 22 42254817
monami.manna@arihantcapital.com

Infosys reported good set of numbers in Q2FY20, mostly in line with our estimate. Consolidated revenue stood at Rs 226,290 mn, slightly above our estimate of Rs 224,760 mn, registering +9.8% YoY/+3.8% QoQ growth. Consolidated EBIT stood at Rs 49,120 mn, registering +0.4% YoY/+9.9% QoQ growth. EBIT margin expanded 120bps QoQ, though on YoY basis margin suffered a decline of 204bps. Consolidated PAT saw a growth of 5.8% YoY to Rs 40,190 mn, a tad below our estimate of Rs 41,080 mn. 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 911.

Q2FY20 Highlights

- Revenue in constant currency (CC) terms during the quarter grew +11.4% YoY/+3.3% QoQ to US\$ 3210 mn. Digital revenues grew 9.9% QoQ and 38.4% YoY in CC terms to US\$ 1230 mn. Digital revenue share as percentage of total revenue increased to 38.3% in Q2FY20 against 35.7% in Q1FY20 and 31% in Q2FY19.
- As far as segmental revenues are concerned, communication and energy segments saw robust growth of 19.2% and 19.1% YoY respectively in CC terms for the quarter, while manufacturing and financial services segments witnessed 16.9% & 10.3% YoY growth.
- Number of active clients increased to 1364 in Q2FY20 against 1336 in Q1FY20 and 1222 in Q2FY19. Client concentration to revenue remained constant with top client contributing 3.2% in Q2FY20.

Valuations

Infosys management has raised its constant currency (CC) revenue guidance to 9-10% for FY20E, against 8.5-10% earlier, which is mostly in line with our estimate of 8.7% (unchanged) for FY20E. With increasing share of digital business, which carries higher margin, Infosys maintained its EBIT margin guidance at 21-23% for FY20E, which is in line with our revised estimate of 21.8% (21.3% earlier) for FY20E. At CMP of Rs 815, Infosys is trading at a P/E of 21.2x and 18.9x its FY20E and FY21E earnings respectively.

After factoring in good Q2FY20 results, we have increased our target multiple by 150 bps and now value the stock at 21x FY21E earnings against 19.5x FY21E earlier. The revised multiple yields a target price of Rs 911 per share, which gives 12% upside from CMP. Maintain Accumulate.

Financial Performance

YE March (Rs Mn)	Net Sales	EBIT	Adj. PAT	Adj. EPS (Rs)	EBIT Margin %	RoE (%)	Adj. P/E (x)
FY18	705,220	171,480	161,470	35.8	24.3	24.9	22.8
FY19	826,750	188,800	161,250	37.0	22.8	24.8	22.0
FY20E	899,058	195,995	167,696	39.5	21.8	24.1	20.6
FY21E	988,963	217,572	184,231	43.4	22.0	24.5	18.8

Source: Company, Arihant Research

Q2FY20 Financial Performance

Rs Mn (Consolidated)	Q2FY20	Q1FY20	Q2FY19	Q-o-Q	Y-o-Y
Net Revenue	2,26,290	2,18,030	2,06,090	3.8%	9.8%
Cost of Sales	1,50,790	1,47,790	1,32,810	2.0%	13.5%
Gross Profit	75,500	70,240	73,280	7.5%	3.0%
S&M and Admin. Expenses	26,380	25,530	24,340	3.3%	8.4%
EBIT	49,120	44,710	48,940	9.9%	0.4%
EBIT margin %	21.7%	20.5%	23.7%	+120bps	-204bps
Other Income	6,260	7,360	7,390	-14.9%	-15.3%
Adjustments	-420	-400	-		
PBT	54,960	51,670	56,330	6.4%	-2.4%
Tax Expense	14,590	13,650	15,230	6.9%	-4.2%
Effective tax rate %	26.5%	26.4%	27.0%	+13bps	-49bps
Reported PAT	40,370	38,020	41,100	6.2%	-1.8%
MI & Associates	-180	-40	-		
Consolidated PAT	40,190	37,980	41,100	5.8%	-2.2%
Adjusted PAT	40,190	37,980	41,100	5.8%	-2.2%
Adj PAT Margin %	17.8%	17.4%	19.9%	+34bps	-218bps
EPS (Rs)	9.4	8.8	9.4	7.0%	0.0%
Adj EPS (Rs)	9.4	8.8	9.4	7.0%	0.0%

Source: Company, Arianth Research

Post Result Conference Call Highlights

- Fourth consecutive quarter of double digit growth in CC terms. Growth was broad based across verticals. The company raised its CC revenue guidance to 9-10% for FY20E, against 8.5-10% earlier.
- 110 bps margin expansion during Q2FY20 due to benefit of cost optimization, while another 110 bps expansion due to lower visa and travel costs. These were offset by 70 bps margin contraction due to compensation of wages and further 30 bps due to increase in other costs, which cumulatively led to 120 bps expansion for Q2.
- Margin for digital business is higher than overall margin of the company. Hence as Infosys moves more into digital business margin picture will improve further. Currently maintaining its EBIT margin guidance of 21-23% for FY20E.
- Financial services vertical continued its growth this quarter as well, however in subsequent quarters growth might be muted due to issues in US banks operating in capital markets.
- Infosys completed its buyback on 26th August, 2019. Due to buyback and large shareholder payout, the RoE increased to 25.8% in Q2FY20 from 23.1% in Q2FY19.
- Attrition rate came down during the quarter to 19.4% against 21.5% in Q1FY20, among this voluntary attrition was even lower below 18%, which is a good sign.

Profit & Loss Statement (Consolidated)				
Particulars (Rs Mn)	FY18	FY19	FY20E	FY21E
Income	7,05,220	8,26,750	8,99,058	9,88,963
Software development expenses	4,31,910	5,38,670	5,99,671	6,52,716
Gross Profit	2,73,310	2,88,080	2,99,386	3,36,248
Sales and development expenses	43,540	44,730	44,953	54,393
General and administrative expenses	58,290	54,550	40,458	44,503
Depreciation & Amortisation	18,620	20,635	17,981	19,779
EBIT	1,71,480	1,88,800	1,95,995	2,17,572
EBIT Margin (%)	24.3	22.8	21.8	22.0
Finance Cost (Lease expense)	0	0	1,600	1,600
Other Income	33,110	28,820	29,200	29,669
PBT	2,03,410	2,10,410	2,23,595	2,45,641
Tax	42,410	56,310	55,899	61,410
PAT	1,61,000	1,54,100	1,67,696	1,84,231
Adjusted PAT	1,61,470	1,61,250	1,67,696	1,84,231
Growth (%)	12.5%	-0.1%	4.0%	9.9%
Adjusted EPS	35.8	37.0	39.5	43.4

Source: Company, Arihant Research

Cash Flow Statement (Consolidated)				
Particulars (Rs Mn)	FY18	FY19	FY20E	FY21E
PAT	1,61,000	1,54,100	1,67,696	1,84,231
Add:- Depreciation & Others	18,620	20,635	52,971	54,769
Change in Working Capital	-1,060	-9,350	91,192	86,703
Cash generated from operations	2,14,580	2,63,685	2,76,869	2,90,713
Taxes paid	-68,290	-58,962	-55,899	-61,410
Cash flow from operating activities	1,46,290	2,04,724	2,20,971	2,29,303
Purchase of FA and Capex	-19,980	-24,974	-31,467	-34,614
Others	5,109	1,922	0	0
Cash flow from investing activities	-14,871	-23,052	-31,467	-34,614
Other fin. Activities	-85,139	-47,202	-31,520	-31,104
Dividend paid, including div. tax	-74,640	-1,38,360	-1,74,137	-1,74,137
Cash flow from financing activities	-1,59,779	-1,85,562	-2,05,657	-2,05,241
Exchange Fluctuations	820	860	800	800
Net Cash Flow	-28,360	-3,890	-16,153	-10,552
Opening Cash balance	2,26,250	1,98,710	1,95,680	1,80,327
Closing Cash balance	1,98,710	1,95,680	1,80,327	1,70,575

Source: Company, Arihant Research

Balance Sheet (Consolidated)				
Particulars (Rs Mn)	FY18	FY19	FY20E	FY21E
Shareholder's Funds				
Share Capital	10,880	21,700	21,210	21,210
Reserves & Surplus	6,38,350	6,27,780	6,75,819	7,31,088
Net Worth	6,49,230	6,49,480	6,97,029	7,52,298
Minority Interest	10	580	580	580
Total Non Current Liabilities	8,610	-2,780	8,900	8,900
Total Current Liabilities	1,41,050	1,86,380	1,46,538	1,24,135
Total Liabilities	7,98,891	8,33,660	8,53,047	8,85,913
Net Block	1,25,740	1,57,100	1,88,567	2,23,181
Capital Work-in-Progress	16,060	13,880	13,880	13,880
Total Non Current Assets	2,98,730	3,04,880	3,31,546	3,66,169
Cash and bank balance	1,98,710	1,95,680	1,80,327	1,70,575
Total Current Assets	5,00,161	5,28,780	5,21,501	5,19,744
Total Assets	7,98,891	8,33,660	8,53,047	8,85,913

Source: Company, Arihant Research

Key Ratios (Consolidated)				
Particulars	FY18	FY19	FY20E	FY21E
EPS	35.8	37.0	39.5	43.4
Book Value	144	150	164	177
DPS	22	37	40	40
Payout %	46%	90%	104%	95%
Dividend Yield %	2.7	4.5	4.9	4.9
P/E	22.8	22.0	20.6	18.8
EBIT Margin	24.3%	22.8%	21.8%	22.0%
PBT Margin	28.8%	25.5%	24.9%	24.8%
Adjusted PAT Margin	22.9%	19.5%	18.7%	18.6%
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	3.5	2.8	3.6	4.2
ROE	24.9%	24.8%	24.1%	24.5%
ROCE	21.5%	22.6%	23.0%	24.6%

Source: Company, Arihant Research

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park ,
Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road
Chakala, Andheri (E).
Mumbai – 400093
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

Arihant House
E-5 RatlamKothi
Indore - 452003, (M.P.)
Tel: (91-731) 3016100
Fax: (91-731) 3016199

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%

Research**Analyst****Contact****Website****Email Id****Registration No.****INH000002764****SMS: 'Arihant' to 56677**www.arihantcapital.comresearch@arihantcapital.com

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Arihant Capital Markets Ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880