

| Current                   | Previous              |
|---------------------------|-----------------------|
| <b>CMP: Rs 633</b>        | <b>Rating</b>         |
| <b>Rating: Accumulate</b> | <b>Accumulate</b>     |
| <b>Target: Rs 737</b>     | <b>Target: Rs 869</b> |

(NR-Not Rated)

| Stock Info               |                        |
|--------------------------|------------------------|
| INDEX                    | IT                     |
| BSE                      | 500209                 |
| NSE                      | INFOSYSTCH             |
| Bloomberg                | INFO IN                |
| Reuters                  | INFY.BO                |
| Sector                   | Information Technology |
| Face Value (Rs)          | 5                      |
| Equity Capital (Rs Mn)   | 21780                  |
| Mkt Cap (Rs Mn)          | 3,143,938              |
| 52w H/L (Rs)             | 847 / 509              |
| Avg Weekly Vol (BSE+NSE) | 12,161,99              |

| Shareholding Pattern     | %     |
|--------------------------|-------|
| <b>(As on Jan, 2020)</b> |       |
| Promoters                | 13.15 |
| Public & Others          | 86.5  |

Source: NSE, Arihant Research

| Stock Performance (%) | 3m     | 6m     | 12m    |
|-----------------------|--------|--------|--------|
| INFOSYS               | -17.60 | -1.61  | -12.18 |
| SENSEX                | -23.80 | -18.80 | -18.10 |

Source: ACE Equity, Arihant Research

#### INFOSYS v/s SENSEX



Source: ACE Equity, Arihant Research

**Infosys reported muted results in Q4FY20, mostly in line with our estimate. Consolidated revenue stood at Rs 2,32,670 mn, slightly above our estimate of Rs 2,23818 mn, registering +8.0% YoY/+0.8% QoQ growth. Considering the business uncertainty emanating from COVID-19 the company has not provided guidance on revenues and margins for FY21 at this stage. The company will provide guidance after visibility improves. Infosys has historical track record of adapting to multiple business challenges and technology change cycles, Infosys will be ahead of the recovery in IT firms. We maintain our recommendation of ACCUMULATE rating on the stock with a revised target price of Rs 737.**

#### Q4FY20 Highlights

- Revenues were Rs 2,32,670mn vs 2,18,030mn in Q4FY19, growth of 8.0% YoY. While Rs 2,30,920mn in Q3FY20 growth of 0.8% QoQ
- Revenue in constant currency (CC) terms during the quarter grew +9.8% Q4 20 Digital revenues at \$1,341 million (41.9% of total revenues), YoY growth of 31.7% and sequential growth of 2.6% in constant currency Company also announced a final dividend of Rs. 9.50 per share
- PAT stood at Rs 1,65,940 mn vs 1,54,040 mn in FY19, growth of 7.7% YoY.
- PAT Margin at 18.5%, contraction of 339bps YoY.
- On a segmental basis, Financial services segment saw slight growth of 8.1% YoY basis, while life sciences, manufacturing and Hi-Tech segments witnessed growth of 12.2%,12.0% and 12.9% YoY growth

#### Valuations

Despite near term weakness on account of Covid-19 disruption, subsequent improvement after normalcy will be supported by (1) Strong growth in digital (42% of rev), (2) Resilience in large deal wins (bookings tracking well), (3) Market-share gains from vendor consolidation, and (4) Operational prudence & favorable onsite supply metrics. At CMP of Rs 633, Infosys is trading at a P/E of 16.3x and 15.5x its FY20 and FY22E earnings respectively.

Due to muted Q4FY20 results and due to COVID-19 uncertainty the company is unable to provide guidance on revenues and margins for FY21 at this stage At CMP 633, Infosys trading at a P/E of 16.3x of its FY20 earning. We maintain our Accumulate rating with a revised target price of Rs 737 at 18x FY22 EPS, which gives 16.4% upside.

| Y/E March (Rs. In Mn) | FY19     | FY20     | FY21E    | FY22E    |
|-----------------------|----------|----------|----------|----------|
| Net Revenue           | 8,26,750 | 9,07,910 | 8,92,476 | 9,37,099 |
| EBIT                  | 1,88,800 | 1,93,740 | 1,87,420 | 1,94,917 |
| EBIT Margin           | 22.8%    | 21.3%    | 21.0%    | 20.8%    |
| Net Profit            | 1,54,100 | 1,66,390 | 1,67,836 | 1,73,697 |
| EPS                   | 35.4     | 38.9     | 39.3     | 40.8     |
| P/E (x)               | 17.9     | 16.3     | 16.1     | 15.5     |
| ROE                   | 24.8%    | 19.1%    | 19.2%    | 19.7%    |

Source: Company, Arihant Research

| Rs Mn (Consolidated)       | Q4FY20          | Q3FY20          | Q4FY19          | Q-o-Q         | Y-o-Y         |
|----------------------------|-----------------|-----------------|-----------------|---------------|---------------|
| <b>Net Revenue</b>         | <b>2,32,670</b> | <b>2,30,920</b> | <b>2,15,390</b> | <b>0.8%</b>   | <b>8.0%</b>   |
| Cost of Sales              | 1,55,010        | 1,53,730        | 1,42,830        | 0.8%          | 8.5%          |
| <b>Gross Profit</b>        | <b>77,660</b>   | <b>77,190</b>   | <b>72,560</b>   | <b>0.6%</b>   | <b>7.0%</b>   |
| S&M and Admin. Expenses    | 28,390          | 26,550          | 26,380          | 6.9%          | 7.6%          |
| <b>EBIT</b>                | <b>49,270</b>   | <b>50,640</b>   | <b>46,180</b>   | <b>-2.7%</b>  | <b>6.7%</b>   |
| <b>EBIT margin %</b>       | <b>21.2%</b>    | <b>21.9%</b>    | <b>21.4%</b>    | <b>-75bps</b> | <b>-26bps</b> |
| Other Income               | 6,140           | 8,270           | 6,650           | -25.8%        | -7.7%         |
| Adjustments                | -450            | -420            | -               | NA            | NA            |
| <b>PBT</b>                 | <b>54,960</b>   | <b>58,490</b>   | <b>52,830</b>   | <b>-6.0%</b>  | <b>4.0%</b>   |
| Tax Expense                | 11,610          | 13,830          | 12,050          | -16.1%        | -3.7%         |
| Effective tax rate %       | 21.1%           | 23.6%           | 22.8%           | -252bps       | -168bps       |
| <b>Reported PAT</b>        | <b>43,350</b>   | <b>44,660</b>   | <b>40,780</b>   | <b>-2.9%</b>  | <b>6.3%</b>   |
| <b>MI &amp; Associates</b> | <b>-140</b>     | <b>-90</b>      | <b>-40</b>      | <b>NA</b>     | <b>NA</b>     |
| Consolidated PAT           | 43,210          | 44,570          | 40,740          | -3.1%         | 6.1%          |
| <b>Adjusted PAT</b>        | <b>43,210</b>   | <b>44,570</b>   | <b>40,740</b>   | <b>-3.1%</b>  | <b>6.1%</b>   |
| <b>Adj PAT Margin %</b>    | <b>18.6%</b>    | <b>19.3%</b>    | <b>18.9%</b>    | <b>-73bps</b> | <b>-34bps</b> |
| EPS (Rs)                   | 10.2            | 10.5            | 9.4             | -3.0%         | 8.8%          |
| <b>Adj EPS (Rs)</b>        | <b>10.2</b>     | <b>10.5</b>     | <b>9.4</b>      | <b>-3.0%</b>  | <b>8.8%</b>   |

Source: Company, Arianth Research

## Q4FY20 Conference Call Highlights

- Considering the business uncertainty emanating from COVID-19, the company is unable to provide guidance on revenues and margins for FY21 at this stage. The company will provide guidance after visibility improves.
- 93% of employees have been enabled for WFH, still have some supply constraints, target is to get to 100% capability. The remaining 7% are where client permissions are not given and this could impact revenues during the period of lockdowns.
- Onsite offshore mix remained stable QoQ while utilization dropped by 90bps to 83.5% partly due to COVID 19.
- Large deal wins at 1.65bn, with net new deals at 56% with deal closures taking place in the last two weeks of March as well.
- **Industry Commentary:** BFSI: Rate cuts and expected loan losses will impact NIMs for Banks and could lead to reduced discretionary spending, • Insurance is also coming under increased pressure.
- Retail: Retail segment (Non grocery, lifestyle/fashion, apparel, and logistics) also coming under stress. Although new deal wins have been particularly robust there will be pressure on conversion to revenues.
- **Communications and Media:** Large deal wins in Communications led to strong performance last fiscal, stable outlook from the telecom carrier side but seeing increased pressure in Media due to cancellation of large sporting events etc. Expect 5G rollout to get delayed as carriers reprioritize their capex needs.
- **Outlook:** First order effect is already visible on most affected sectors while second order may be visible in Q2 or Q3. 1) Cloud migration, virtualization, security and collaboration will be key spend areas for digital readiness going ahead. 2) Seeing near term weakness particularly in discretionary spending oriented sectors with most clients focusing on conserving cash.3) Pricing pressure will depend on industry segment. (See real strength in telco, life sciences, consumer staples, Hi Tech)
- Margin levers to offset pricing pressures are- Deferring salary increases and promotions, hiring freeze, freeze on discretionary expenses, Focus on automation, lower subcontractors' expenses, pyramid rationalization, offshore-onshore mix.

## Key Financial

| Profit & Loss Statement (Consolidated) |                 |                 |                 |                 |
|--|-----------------|-----------------|-----------------|-----------------|
| Particulars (Rs Mn)                    | FY19            | FY20            | FY21E           | FY22E           |
| <b>Income</b>                          | <b>8,26,750</b> | <b>9,07,910</b> | <b>8,92,476</b> | <b>9,37,099</b> |
| Software development expense           | 5,38,670        | 6,07,320        | 5,89,034        | 6,27,857        |
| Gross Profit                           | 2,88,080        | 3,00,590        | 3,03,442        | 3,09,243        |
| Sales and development expenses         | 44,730          | 47,110          | 51,764          | 56,226          |
| General and administrative expenses    | 54,550          | 59,740          | 64,258          | 58,100          |
| <b>EBIT</b>                            | <b>1,88,800</b> | <b>1,93,740</b> | <b>1,87,420</b> | <b>1,94,917</b> |
| EBIT Margin (%)                        | 22.8            | 21.3            | 21.0            | 20.8            |
| Finance Cost (Lease expense)           | 0               | 1,700           | 1,500           | 1,610           |
| Other Income                           | 28,820          | 28,030          | 30,344          | 26,239          |
| <b>PBT</b>                             | <b>2,10,410</b> | <b>2,20,070</b> | <b>2,16,264</b> | <b>2,19,545</b> |
| Tax                                    | 56,310          | 53,680          | 48,428          | 45,848          |
| <b>PAT</b>                             | <b>1,54,100</b> | <b>1,66,390</b> | <b>1,67,836</b> | <b>1,73,697</b> |
| Adjusted PAT                           | 1,61,250        | 1,65,940        | 1,67,836        | 1,73,697        |
| Growth (%)                             | -0.1%           | 2.9%            | 1.1%            | 3.5%            |
| Adjusted EPS                           | 35              | 39              | 39              | 41              |

Source: Company, Arianth Research

| Balance Sheet (Consolidated)  |                 |                  |                  |                  |
|-------------------------------|-----------------|------------------|------------------|------------------|
| Particulars (Rs Mn)           | FY19            | FY20             | FY21E            | FY22E            |
| Shareholder's Funds           |                 |                  |                  |                  |
| Share Capital                 | 21,700          | 21,220           | 21,350           | 21,300           |
| Reserves & Surplus            | 6,27,780        | 8,49,420         | 8,51,850         | 8,60,545         |
| <b>Net Worth</b>              | <b>6,49,480</b> | <b>8,70,640</b>  | <b>8,73,200</b>  | <b>8,81,845</b>  |
| Minority Interest             | 580             | 3,940            | 580              | 650              |
| Total Non Current Liabilities | -2,780          | 35,520           | 8,900            | 8,900            |
| Total Current Liabilities     | 1,86,380        | 2,08,560         | 1,54,969         | 1,69,553         |
| <b>Total Liabilities</b>      | <b>8,33,660</b> | <b>10,83,140</b> | <b>10,28,749</b> | <b>10,52,048</b> |
| Net Block                     | 1,57,100        | 1,46,010         | 1,55,000         | 1,58,000         |
| Capital Work-in-Progress      | 13,356          | 13,669           | 13,750           | 13,800           |
| Total Non Current Assets      | 3,04,880        | 4,41,920         | 4,38,549         | 4,44,748         |
| Cash and bank balance         | 1,95,680        | 1,86,490         | 1,94,000         | 1,93,000         |
| Total Current Assets          | 5,28,780        | 6,41,220         | 5,90,200         | 6,07,300         |
| <b>Total Assets</b>           | <b>8,33,660</b> | <b>10,83,140</b> | <b>10,28,749</b> | <b>10,52,048</b> |

Source: Company, Arianth Research

| Cash Flow Statement (Consolidated)         |                  |                  |                  |                  |
|--|------------------|------------------|------------------|------------------|
| Particulars (Rs Mn)                        | FY19             | FY20             | FY21E            | FY22E            |
| <b>PAT</b>                                 | <b>1,54,100</b>  | <b>1,66,390</b>  | <b>1,67,836</b>  | <b>1,73,697</b>  |
| Add:- Depreciation & Others                | 20,110           | 28,930           | 28,559           | 34,673           |
| Change in Working Capital                  | -9,350           | 1,01,121         | 1,21,794         | 1,30,415         |
| Cash generated from operations             | 2,62,703         | 2,75,838         | 2,89,630         | 3,04,112         |
| Taxes paid                                 | -58,632          | -45,500          | -48,428          | -45,848          |
| <b>Cash flow from operating activities</b> | <b>2,04,072</b>  | <b>2,30,338</b>  | <b>2,41,202</b>  | <b>2,58,263</b>  |
| Purchase of FA and Capex                   | -24,803          | -31,777          | -31,237          | -32,798          |
| Others                                     | 1,922            | 0                | 0                | 0                |
| <b>Cash flow from investing activities</b> | <b>-22,881</b>   | <b>-31,777</b>   | <b>-31,237</b>   | <b>-32,798</b>   |
| Other fin. Activities                      | -47,202          | -31,520          | -31,104          | -31,104          |
| Dividend paid, including div. tax          | -1,38,360        | -1,74,137        | -1,74,137        | -1,74,137        |
| <b>Cash flow from financing activities</b> | <b>-1,85,562</b> | <b>-2,05,657</b> | <b>-2,05,241</b> | <b>-2,05,241</b> |
| Exchange Fluctuations                      | 860              | 800              | 800              | 800              |
| <b>Net Cash Flow</b>                       | <b>-4,371</b>    | <b>-7,095</b>    | <b>4,725</b>     | <b>20,224</b>    |
| Opening Cash balance                       | 1,98,720         | 1,95,209         | 1,88,914         | 1,94,439         |
| <b>Closing Cash balance</b>                | <b>1,95,209</b>  | <b>1,88,914</b>  | <b>1,94,439</b>  | <b>2,15,463</b>  |

Source: Company, Arianth Research

| Key Ratios (Consolidated) |       |       |       |       |
|---------------------------|-------|-------|-------|-------|
| Particulars               | FY19  | FY20  | FY21E | FY22E |
| EPS                       | 35.4  | 38.9  | 39.3  | 40.8  |
| Book Value                | 150   | 205   | 204   | 207   |
| DPS                       | 37    | 40    | 40    | 40    |
| Payout %                  | 90%   | 105%  | 104%  | 100%  |
| Dividend Yield %          | 2.9   | 6.3   | 6.3   | 6.3   |
| P/E                       | 17.9  | 16.3  | 16.1  | 15.5  |
| EBIT Margin               | 22.8% | 21.3% | 21.0% | 20.8% |
| PBT Margin                | 25.5% | 24.2% | 24.2% | 23.4% |
| Adjusted PAT Margin       | 19.5% | 18.3% | 18.8% | 18.5% |
| Debt/Equity               | 0.0   | 0.0   | 0.0   | 0.0   |
| Current Ratio             | 2.8   | 3.1   | 3.8   | 3.6   |
| ROE                       | 24.8% | 19.1% | 19.2% | 19.7% |
| ROCE                      | 22.6% | 17.9% | 18.2% | 18.5% |

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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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Source: Company, Arihant Research

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