

Industry
Bloomberg
BSE CODE

IT
INFO IN
500209

Large deal wins continue to be impressive, FY20 revenue guidance revised

RATING	ACCUMULATE
CMP	727
Price Target	822
Potential Upside	13%
Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	774/601
Mkt Capital (Rs Cr)	312293
Free float (%)	87%
Avg. Vol 1M (,000)	63003
No. of Shares (Cr)	436
Promoters Pledged (Cr)	0

1QFY20 Result Update

- Solid quarter on revenues: Infosys 1QFY20 result came in line with the estimates. Revenue grew 2.3%QoQ in USD terms vs our estimates of 2.2%QoQ, EBIT margin dropped 100bps (bit higher than anticipated). PAT for the quarter came in Rs3802 mainly due higher other income.
- Strong deal win momentum: 1QFY20 saw the highest TCV win for Infosys. The company won on 13 large deals which a TCV of USD2.7 billion (included deal closed in ABN AMRO). Three each won in financial service and retail, two deals in manufacturing, communication and E&U, 1 deal won in life sciences vertical.
- Broad based growth across verticals: The BFSI vertical grew 11.3% CC YoY, benefiting from Stater's contribution. The communications vertical continued to witness strong growth (22.6% YoY in CC) on the back of large deal ramp-up. Retail grew 6.9% YoY in CC with customers increasingly investing in digital technologies to transform the user experience.
- Attrition inched up again: Attrition remains high (23.4% in Q1FY20 vs. 23% in Q1FY19), which is an area of concern. The management indicated that involuntary attrition was higher and hopes that the steps it has taken will help lower it to the optimal range of 13-15%.
- Revised revenue guidance: Infosys has revised its FY20 cc revenue growth guidance to 8.5%-10% (earlier 7.5%-9.5%). However Maintained FY20 operating margin guidance range of 21%-23% for FY20. Infosys has also revised its capital allocation policy and will return ~85% of FCF (earlier ~70%) cumulatively over 5 years to shareholders through dividends and buyback.

View and Valuation

Going forwards, we see Infosys to post strong revenue growth in FY20 despite industry seeing some macro challenges. The confidence of strong revenue growth comes from robust deal intake (13 large deal won in 1QFY20), growing deal pipeline (USD 2.7bn in 1QFY20; ~55% net new wins) and continued traction in digital business. Though BFSI continues to witness some pressure due to M&A activity and softness in capital market and insurance sub-segments, the management has indicated that growth to come from consumer and commercial banking business which is witnessing good traction along with mortgage services. Cloud services and Data & Analytics continue to be key focus areas within digital that will continue to grow at a healthy pace.

On margin front, we expect EBIT margins to remain in guided range of 21% to 23% as operational efficiency, improving business mix, automation and moderation in investment will support margin expansion. However, higher Attrition rate and subcontracting cost will continue to weigh on the margins in near terms.

Seeing the revised guidance and Inline 1QFY20 performance, we largely maintain our target price of Rs822 and recommend Accumulate.

Key Risks to our rating and target

- Slow down in TCV wins.
- Weakness in major verticals

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KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	68485	70522	82675	90608	100057
EBITDA	18605	19011	20170	22697	25786
EBIT	16902	17148	18159	20152	22811
PAT	14403	16029	15411	16576	18708
EPS (Rs)	31	37	36	39	44
EPS growth (%)	5%	18%	-4%	10%	13%
ROE (%)	21%	25%	24%	24%	25%
ROCE (%)	21%	24%	23%	24%	25%
BV	150	149	150	162	176
P/B (X)	3.4	3.8	5.0	4.5	4.1
P/E (x)	16.3	15.4	20.9	18.7	16.5

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In line revenue performance

1QFY20 Results

FINANCIALS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	19,128	20,609	21,400	21,539	21,803	14.0%	1.2%	70,522	82,675	17.2%
Other Income	726	739	753	665	736	1%	11%	3,193	2,883	-9.7%
Employee Exp	10,462	11,158	11,622	12,074	12,302	17.6%	1.9%	38,893	38,893	0.0%
Other Expenses	827	953	946	932	847	2.4%	-9.1%	2,932	2,932	0.0%
EBITDA	4,703	5,357	4,959	5,149	5,152	9.5%	0.1%	19,011	20,170	6.1%
Deprication	436	463	580	531	681	56.2%	28.2%	1,863	2,011	7.9%
EBIT	4,267	4,894	4,379	4,618	4,471	4.8%	-3.2%	17,148	18,159	5.9%
Interest	-	-	-	-	40			-	-	
PBT	4,993	5,633	5,132	5,283	5,167	3.5%	-2.2%	20,341	21,042	3.4%
Tax	1,381	1,523	1,522	1,205	1,365	-1.2%	13.3%	4,241	5,631	32.8%
Exceptional	-	-	-	-	-			-	-	
PAT	3,612	4,110	3,610	4,078	3,802	5.3%	-6.8%	16,029	15,411	-3.9%

1QFY20: Solid start for the year

- Revenue for the quarter stood at Rs21803 crore (growth of 1.2% QoQ) led by continued growth in digital and large deal won during the quarter. In constant currency term revenue grew 2.8%QoQ. Cross currency headwind impacted revenue growth 50 bps to 2.3% .
- Digital grew 41.9%YoY in 1QFY20. It now contributes 35.7% of overall revenues. The company continued to benefit from building deeper capabilities from digital portfolio especially in areas of experience data analytics, Cloud, SAAS, IoT , Cyber security and machine learning.
- Large deal TCV continued during the quarter (signed above its targeted threshold of USD1billion).The company won on 13 large deals which a TCV of USD2.7 billion (included deal closed in ABN AMRO). Three each won in financial service and retail, two deals in manufacturing, communication and E&U, 1 deal won in life sciences vertical .Geography wise, 8 deals came from America, 4 came from Europe and 1 came from RoW. 55% of the total deal wins (USD2.7b) were net new

Communication, Hi tech led the growth in 4QFY19, softness seen in FS

VERTICALS (USD MN)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	QoQ%	YoY%
Financial services	914	900	941	971	967	983	1.7%	9.2%
Retail	446	470	491	490	487	495	1.7%	5.3%
Communication	362	360	359	355	413	432	4.6%	20.2%
E& U	337	351	359	382	389	407	4.7%	15.9%
Manufacturing	269	272	280	302	306	301	-1.8%	10.6%
Hi tech	208	209	219	218	236	241	2.3%	15.1%
Life sciences	188	187	187	185	184	191	4.0%	2.2%
Others	81	82	85	84	80	81	2.3%	-0.8%

- Vertical wise, BFSI vertical grew 1.7%QoQ, benefiting from Stater's contribution. The communications vertical continued to witness strong growth (grew 4.6% QoQ) on the back of large deal ramp-up. Retail grew 1.7% YoY in CC with customers increasingly investing in digital technologies to transform the user experience. Energy, Utilities, Resources and Services and life sciences posted a strong growth of 4.7%/4QoQ.however Manufacturing saw a decline of 1.8%QoQ due to trade war and weakness in client spend.

Americas and RoW continued the growth momentum in 1QFY20

GEOGRAPHY(USD MN)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	QoQ%	YoY%
Americas	1,666	1,699	1,761	1,804	1,873	1,929	3%	13.5%
Europe	696	688	701	723	734	739	1%	7.4%
India	79	74	73	78	70	72	2%	-2.2%
ROW	365	371	386	382	383	391	2%	5.5%

Compensation initiative and visa cost impacted the margins

- Adjusted Ebit during the quarter stood at Rs4471 crore (contraction of 3.2% QoQ). The operating margin contracted 100 bps to 20.5% as compared 21.5% last quarter. The contraction mainly came from Rupee appreciation which impacted 40 bps, compensation increased impacted 60bps, 80bps impact came in due to expenses on Visas and 20 bps due to stater NV acquisition. However some portion was mitigated by Improvement in Utilization (70bps), realization increase also supported margins by 20bps.
- Utilization during the quarter improved to 83.1%. Attrition during the quarter stood 23.4% due to seasonality as employees' leaves to pursue higher studies in 1Q
- PAT for the quarter came in Rs3802 mainly due higher other income.

FY20 revenue growth guidance revised upwards to 8.5%-10%

- Seeing business evolution and strong deal pipeline, Infosys has raised its revenue guidance for FY20 from 7.5% to 9% to 8.5%-10% in constant currency. However Maintained FY 20 operating margin guidance range of 21%-23% for FY20. The company expects operating margins to improve verses 1Q with continued improvement in Operational efficiencies like improved utilization , rationalizing the pyramid, improvement in onsite /offshore mix, automation and other overhead efficiencies measures.

Concall highlights

- Continued growth in digital business:** Digital grew 41.9%YoY in 1QFY20. It now contributes 35.7% of overall revenues. The company continued to benefit from building deeper capabilities from digital portfolio especially in areas of experience data analytics, Cloud, SAAS, IoT , Cyber security and machine learning. Overall deal pipeline is growing and company is managing to gain market share in these areas. Continued traction is seen in cloud services and data & Analytics
- Margins under pressure:** The company completed the wage revision during the quarter baring the leadership team all receive their compensation from effective 1july. Utilization during the quarter improved to 83.1%. The operating margin came in at 20.5% as compared 21.5% last quarter. Rupee appreciation impacted 40 bps, compensation increased impacted 60bps, 80bps due to expenses on Visas and 20 bps due to stater NV acquisition. However some portion was mitigated by Improvement in Utilization (70bps), realization increase also supported margins by 20bps
- Strong deal win momentum:** Large deal TCV continued during the quarter. The company won on 13 large deals which a TCV of USD2.7 billion (included deal closed in ABN AMRO). Three each won in financial service and retail, two deals in manufacturing, communication and E&U, 1 deal won in life sciences vertical .Geography wise, 8 deals came from America, 4 came from Europe and 1 came from RoW. 55% of the total deal wins (USD2.7b) were net new. The company expects strong TCV wins for the years however sees lumpy QoQ.
- Localization target achieved:** As company made its target of 10000 localization in US, the company has managed to complete the localization of more 10000 employees in US.
- New capital return policy:** The Company is on track towards completing its previously announced share buyback of Rs8260 crore. The company has till date bought back shares worth Rs5934 crore. The Company's current policy is to pay up to 70% of the free cash flow annually by way of dividend and/or buyback. The Board has revised Capital Allocation Policy of the Company after taking into consideration the strategic and operational cash requirements. From now on the company expects to return approximately 85% of the free cash flow cumulatively over a 5-year period through a combination of semi-annual dividends and/or share buyback and/or special dividends.
- Vertical wise:** Double digit growth YoY across all verticals in 1QFY20

Financial service

- Continued its growth acceleration aided by recent acquisition.
- The company is seeing some challenges due to ongoing merger and acquisition in large US banks and also in capital market business in Europe and US.
- However the company is seeing growth opportunities in consumer, corporate and commercial banking; cards and payments management driven by digital transformation and technology modernization.
- The company remains reasonably optimistic about growth prospects in FS due to increase in win rates and increase in large deal pipeline.
- Retail:** Growth is driven by large deal wins and opening new logos and differentiation on digital deal .Acceleration towards digital spending is seen.
- Communication:** Growth in communication vertical is driven due to ramp of deal wins in last few quarters .The company continue to win large deals within this segment .
- Energy and Utilities:** E&U maintained strong growth during the quarter. The company's expect broad based growth to continue in FY20 on the back of continued momentum in top accounts and new account opening.
- Manufacturing vertical:** Seeing impact due to global Trade war especially in Europe due to cost cutting initiative was placed in multiple clients.

Exhibit: Revenue trend

Large order booking and continued growth in segment, resulted in solid start for the year.

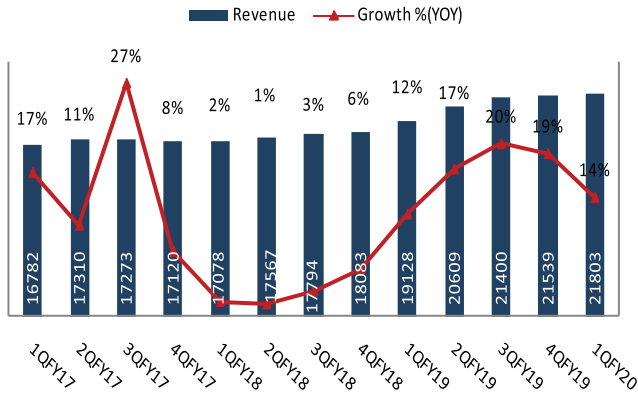


Exhibit: Digital revenue

Digital continued to drive growth for the company.

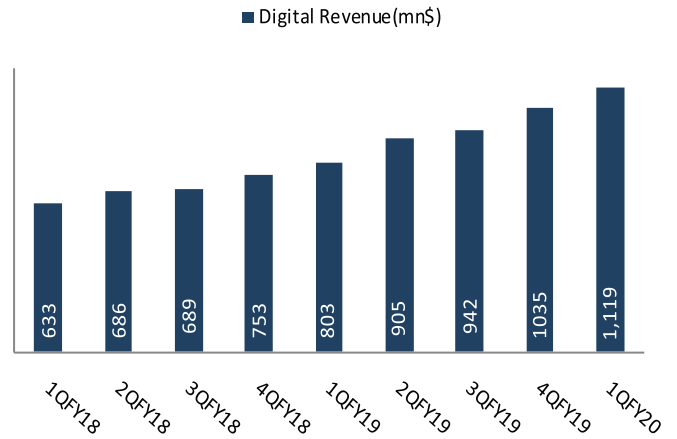


Exhibit: Margin Trend

Compensation initiative and visa cost weighed heavily on the margins in 1QFY20, Maintained margin guidance.

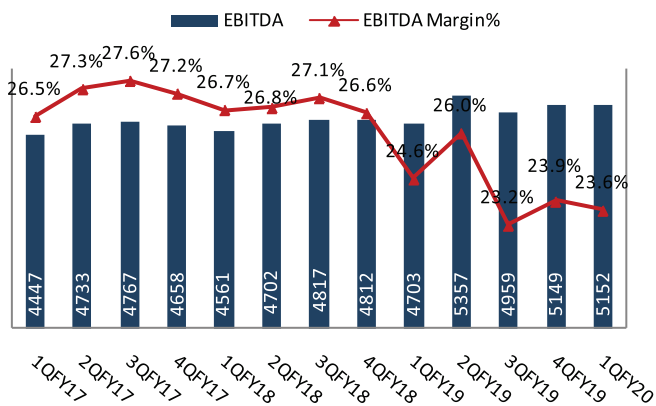


Exhibit: Utilization trend

Utilization improvement offset wage impact

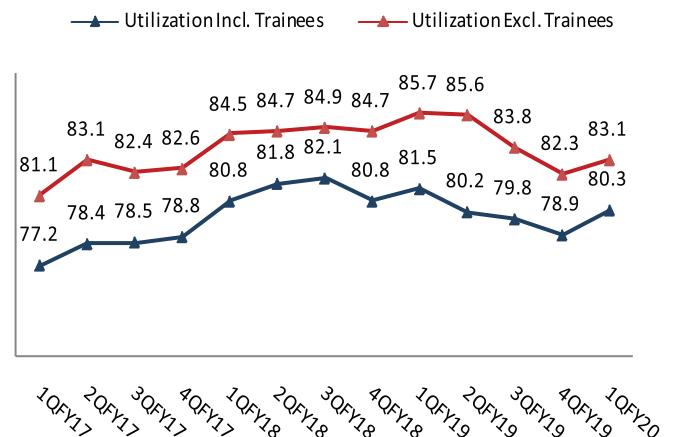


Exhibit: Deal wins

Large deal TCV continued during the quarter

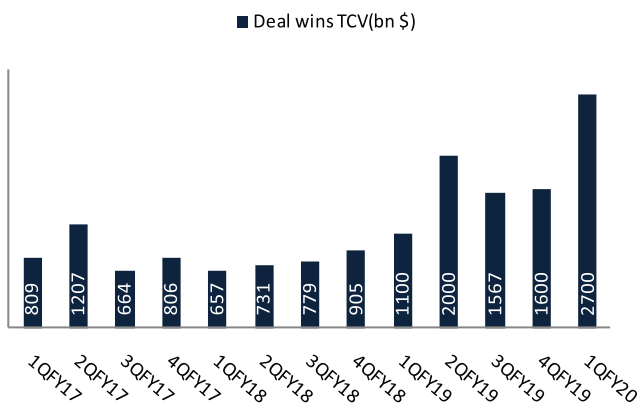
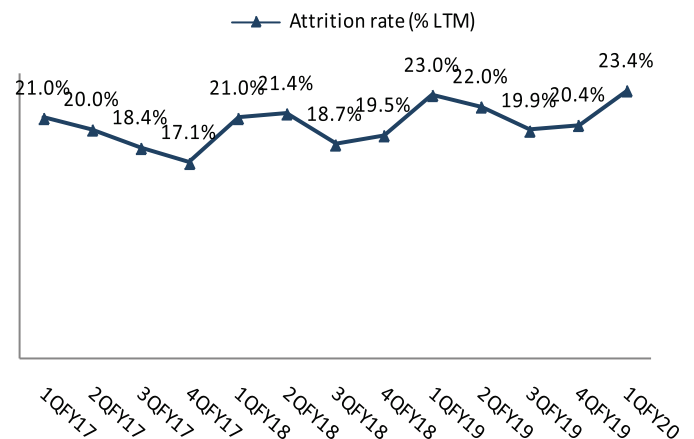


Exhibit: Attrition rate

Increased attrition raising concern for margin sustainability



Operational Details

GEOGRAPHY %	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
America	61.1	60.6	60.4	59.4	60	60.3	60.4	61.2	61.6
Europe	22.4	23.2	24.4	24.8	24.3	24	24.2	24	23.6
India	3.6	3.3	3	2.8	2.6	2.5	2.6	2.3	2.3
Rest of world	12.9	12.9	12.2	13	13.1	13.2	12.8	12.5	12.5

VERTICAL %	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Financial Services	32.9	33.1	33.1	32.6	31.8	32.2	32.5	31.6	31.4
Retail	16.2	16	16.2	15.9	16.6	16.8	16.4	15.9	15.8
Communications	12.5	12.4	12.4	12.9	12.7	12.3	11.9	13.5	13.8
Energy, Utilities, Resources	11.3	11.7	12	12	12.4	12.3	12.8	12.7	13
Manufacturing	9.4	9.4	9.5	9.6	9.6	9.6	10.1	10	9.6
Hi Tech	7.3	7.2	7.1	7.4	7.4	7.5	7.3	7.7	7.7
Life Sciences	6.6	6.8	6.5	6.7	6.6	6.4	6.2	6	6.1
other	3.7	3.4	3.2	2.9	2.9	2.9	2.8	2.6	2.6

SERVICE	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Digital		686	719	753	803	905	942	1035	1119
Core		2042	2036	2052	2028	2016	2045	2025	2012

PRODUCT	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Digital	1.5	1.6	1.8	1.5	1.7	2.1	2.2	2.4	n/a
Core	3.9	3.6	3.5	3.4	3.1	3	3.3	3	n/a

CLIENT CONTRIBUTION	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Top client (%)	3%	3%	3%	4%	4%	4%	3%	3%	3%
Top 10 client(%)	20%	20%	19%	19%	19%	19%	19%	20%	20%
\$1million clients	606	620	630	634	627	633	651	662	680
\$10 million clients	190	186	198	198	200	205	214	222	228
\$50 million clients	56	55	56	57	56	58	59	60	59
\$100million clients	18	19	20	20	24	23	23	25	27
Repeat business	99%	99%	98%	98%	100%	98%	97%	95%	99%

UTILIZATION	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Utilization Incl. Trainees	80.8	81.8	82.1	80.8	81.5	80.2	79.8	78.9	80.3
Utilization Excl. Trainees	84.5	84.7	84.9	84.7	85.7	85.6	83.8	82.3	83.1

ATTRITION	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Attrition	0.21	0.214	0.187	0.195	0.23	0.222	0.199	0.204	0.234

EFFORT	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Total employees	1,98,553	198440	201691	204107	209905	217739	225501	228123	2,29,029
S/W professionals	1,86,882	186806	189998	192179	197637	205150	212358	214727	2,15,412
Sales & Support	11634	11693	11928	12268	12589	13143	13396	13617	n/a
Gross addition	10514	12622	12329	17709	19721	18773	14203	n/a	n/a
Attrition	10627	9371	9913	11911	11887	11011	11581	n/a	n/a
Net addition	-113	3251	2416	5798	7834	7762	2622	n/a	n/a

Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	286	572	1144	1144	1088	2170	2129	2129
Reserves	44244	50164	60600	67838	63835	62778	67058	72766
Networth	44530	50736	61744	68982	64923	64948	69187	74895
Debt	0	0	0	0	0	0	0	0
Other Non Cur Liab	405	50	367	360	861	1094	1094	1094
Total Capital Employed	44935	50786	62111	69342	65784	66042	70281	75989
Net Fixed Assets (incl CWIP)	9339	12122	10582	11892	11969	13558	14392	15166
Non Cur Investments	1307	1398	1714	6382	5756	4634	4634	4634
Other Non Cur Asst	53	85	1357	1059	2265	2105	2265	2265
Non Curr Assets	12528	17564	20526	22209	21852	25121	25955	26729
Current investments	3024	872	75	9970	6407	6627	7580	7580
Debtors	8351	9713	11330	12322	13142	14827	16136	17818
Cash & Bank	25950	30367	32697	22625	19818	19568	20543	23852
Other Curr Assets	0	0	2158	2536	1667	5687	6343	7004
current financial asset	0	0	5190	5980	6684	5505	5505	5505
Short-term loans and advances	5753	6290	303	272	239	241	241	241
Curr Assets	43078	47242	51753	53705	50017	52878	56347	62000
Trade payables	173	140	386	367	694	1655	1738	1919
Provisions	6409	8443	512	405	492	576	632	697
Other Curr Liab	5449	6920	2629	3007	3606	4388	4530	5003
Other financial liability	0	0	6302	6349	6946	10452	10452	10452
Income tax liabilities (Net)	0	0	3410	3885	2043	1567	1567	1567
Curr Liabilities	12031	15503	13239	14013	14106	18638	18919	19638
Net Curr Assets	31047	31739	38514	39692	35911	34240	37428	42362
Total Assets	56966	66289	75350	83355	79890	84738	89202	95628

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	50,133	53,319	62,441	68,485	70,522	82,675	90,608	100057
Change (%)	24%	6%	17%	10%	3%	17%	10%	10%
EBITDA	13,381	14,871	17,120	18,605	19,011	20,170	22,697	25,786
Change (%)	16%	11%	15%	9%	2%	6%	13%	14%
Margin (%)	27%	28%	27%	27%	27%	24%	25%	26%
Depr & Amor.	1,317	1,017	1,266	1,703	1,863	2,011	2,546	2,975
EBIT	12,064	13,854	15,854	16,902	17,148	18,159	20,152	22,811
Int. & other fin. Cost	-	-	-	-	-	-	160	160
Other Income	2,664	3,430	3,128	3,079	3,193	2,883	2,878	3,332
EBT	14,728	17,284	18,982	19,981	20,341	21,042	22,869	25,983
Exp Item	-	-	-	-	-	-	-	-
Tax	4,072	4,911	5,301	5,598	4,241	5,631	6,293	7,275
Minority Int & P/L share of Ass.	-	(1)	(3)	(30)	(71)	-	-	-
Reported PAT	10,656	12,372	13,678	14,403	16,029	15,411	16,576	18,708
Adjusted PAT	10,656	12,372	13,678	14,403	16,029	15,411	16,576	18,708
Change (%)	13%	16%	11%	5%	11%	-4%	8%	13%
Margin(%)	21%	23%	22%	21%	23%	19%	18%	19%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	23.9%	24.4%	22.2%	20.9%	24.8%	23.7%	24.0%	25.0%
ROCE	23.7%	24.4%	22.0%	20.7%	24.5%	23.3%	23.6%	24.6%
Asset Turnover	1	1	1	1	1	1	1	1
Current Ratio	4	3	4	4	4	3	3	3
Debtor Days	61	66	66	66	68	65	65	65
Book Value Per Share	97	111	126	150	149	150	162	176
Payable Days	1	1	2	2	4	7	7	7
Earnings Per Share	23	27	30	31	37	36	39	44
P/E	18	21	20	16	15	21	19	17
Price / Book Value	4	5	5	3	4	5	4	4
EV/EBITDA	16	19	18	14	14	17	15	13
EV/Sales	4	5	5	4	4	4	4	3
EPS growth	13%	16%	10%	5%	18%	-4%	10%	13%

Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
PBT	14728	17283	13489	14353	20341	15410	22869	25983
(inc)/Dec in Working Capital	-281	-842	-1946	-2156	-2156	-2156	-2156	-2156
Non Cash Op Exp	-748	-1337	4350	4987	4987	4987	4987	4987
Int Paid (+)	0	0	0	0	0	0	0	0
Tax Paid	-3874	-6751	-5865	-5653	-4241	-6832	-6293	-7275
others	0	0	0	0	0	0	0	0
CF from Op. Activities	9825	8353	10028	11531	18931	11409	19407	21539
(inc)/Dec in FA & CWIP	-2748	-2247	-2723	-2760	-1940	-2445	-3380	-3748
Free Cashflow	7077	6106	7305	8771	16991	8964	16027	17790
(Pur)/Sale of Inv	166	3335	1822	-11782	3563	-79826	-953	0
CF from Inv. Activities	-2582	1088	-901	-14542	1623	-82271	-4333	-3748
inc/(dec) in NW	0	0	0	0	0	-813	-7296	0
inc/(dec) in Debt	0	0	0	0	0	0	0	0
Int. Paid	0	0	0	0	0	0	0	0
Div Paid (inc tax)	-3618	-5111	-5570	-6980	-7469	-13705	-5000	-13000
others	0	0	0	0	0	0	0	0
CF from Fin. Activities	-3618	-5111	-5570	-6980	-7469	-14512	-12394	-13000
Inc(Dec) in Cash	3625	4330	3557	-9991	10993	-246	976	3309
Add: Opening Balance	21846	25861	30383	32575	22625	19871	19568	20543
Closing Balance	25471	30191	33940	22584	33618	19625	20544	23853

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Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
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