

Industry
Bloomberg
BSE CODE

TECHNOLOGY
INFO IN
500209

Impressive deal wins; acquisition supports growth

RATING	ACCUMULATE
CMP	816
Price Target	927
Potential Upside	14%
Rating Change	↔
Estimate Change	↔
Target Change	↑

STOCK INFO	
52wk Range H/L	847/601
Mkt Capital (Rs Cr)	350347
Free float (%)	87%
Avg. Vol 1M (,000)	263
No. of Shares (Cr)	429
Promoters Pledged %	0

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
Net Sales	82,675	91,414	101,060
EBITDA	20,170	22,749	26,043
EBIT	18,159	19,988	23,067
PAT	15,411	16,544	18,807
EPS (Rs)	36	39	44
EPS growth (%)	-4%	9%	14%
ROE (%)	24%	24%	25%
ROCE (%)	23%	24%	25%
BV	150	162	176
P/B (X)	5	5	5
P/E (x)	21	21	18

2QFY20 Result Update

- Infosys reported healthy revenue growth of 11.4% YoY in cc terms (in line with our estimates 11.6%YoY)while PAT came at Rs8039 crore, a growth of 6.2%QoQ and a de-growth 1.8%YoY(in line) mainly driven by margin beat .
- EBIT margin came at 21.7% vs. our estimates of 21.6 % (up by 110 bps QoQ) for the quarter. The significant expansion in margins were attributed by improvement in utilization, lower onsite mix, employee pyramid improvement and tightness in overall cost management.
- Digital revenue stood at USD1.23 billion in 2Q, contributing 38.3% of overall revenues and posted 38.4%YoY in cc terms during the quarter.

Performance broad-based

- Revenue growth was broad-based with six of its seven verticals delivering double digit growth .Financial Services vertical grew 10.3%YoY in cc terms benefiting from Stater's contribution .The communications vertical continued to witness strong growth (19.2% YoY in CC) on the back of large deal ramp-up.Even verticals like Energy/Utilities/Resources grew 19.1%YoYin cc terms . Geography wise, barring Row which remained soft , all the other geography posted a double digit growth in 2Q(North America grew 11.9%YoY, Europe grew 14.6%YoY and India posted 17.9% YoY in cc terms).

Deal wins remain healthy; Raised revenue guidance

- Company reported total contract value (TCV) of deal wins worth USD2.8billion for 2QFY20, which is highest ever. Net new deals TCV stood at 10%, rest came from renewals. 13 large deals were won during the quarter (4 deals each in FS and retail, 2 each in communication and 1each in life and E&NU). Large TCV for 1HFY20 were up by 75% as compared to 1HFY19.
- Given the growth in H1, Infosys has raised the lower end of its full-year revenue guidance by 50bps, taking the full-year revenue growth guidance to 9%-10% CC. However, maintained its operating margin guidance of 21% to 23% for Fy20.

View and Valuation

We expect Infosys to post 10% revenue growth in FY20 . The confidence of strong revenue growth comes from robust deal intake, growing deal pipeline (USD 2.8bn in 2QFY20; ~35% net new wins in 1H) and continued traction in digital business. Though, macro challenges in financial services, Manufacturing as well as Retail cannot be ignored but we still expect to see double digit YoY growth driven by strong deal wins coupled with robust execution. Even lowering of margins due continued investment in localization has bottomed out and higher attrition has started to soothe which further gives us the sense of improved performance in FY20.

Despite macro concern that hauls around the industry, we remain positive on the stock. Post results, with stable organic/ inorganic growth expectations going ahead, we have raised our target price slightly to Rs927 valuing the stock at 21 times FY21E EPS and recommend Accumulate.

Key Risks to our rating and target

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

RESEARCH ANALYST

NIHARIKA OJHA

niharika@narnolia.com
+91-22-62701230

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2QFY20 Results

Strong quarter

Fig in Rs Cr

FINANCIALS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	20,609	21,400	21,539	21,803	22,629	9.8%	3.8%	70522	82675	17.2%
Other Income	739	753	665	736	626	-15.3%	-14.9%	3,193	2,883	360.5%
Employee Exp	11,158	11,622	12,074	12,302	12,675	13.6%	3.0%	38,893	38,893	0.0%
Other Expenses	953	946	932	847	915	-4.0%	8.0%	2,932	2,932	0.0%
EBITDA	5,357	4,959	5,149	5,152	5,639	5.3%	9.5%	19011	20170	6.1%
Depreciation	463	580	531	681	727	57.0%	6.8%	1,863	2,011	7.9%
EBIT	4,894	4,379	4,618	4,471	4,912	0.4%	9.9%	17,148	18,159	5.9%
Interest	-	-	-	40	42	-	5.0%	-	-	-
PBT	5,633	5,132	5,283	5,167	5,496	-2.4%	6.4%	20,341	21,042	3.4%
Tax	1,523	1,522	1,205	1,365	1,459	-4.2%	6.9%	4,241	5,631	32.8%
PAT	4,110	3,610	4,078	3,802	4,037	-1.8%	6.2%	16,029	15,411	-3.9%

Concall Highlights

- **Solid quarter:** The Company delivered another strong quarter of 11.4%YoY in cc terms in 2Q with robust growth in all dimensions. Reasons that play out for the quarter were; 1) double digit growth for four consecutive quarter (90bps came from stater); 2) continued strong growth in digital; 3) expansion in operating margin; 4) improvement of operational parameters specially utilization and onsite/offshore mix 5) large deal signing; 6) reduction in attrition.
- **Expansion in margins:** Operating margin in 2Q saw healthy moment of 21.7% as compared to 20.5% last quarter. Rupee depreciation was completely offset by cross currency impact. Margin improvement came in despite wake revision (70bps) and other expense (30bps). The significant expansion was attributed by improvement in utilization, lower onsite mix, employee pyramid improvement and tightness in overall cost management. Utilization excluding trainee improved by 180 bps sequentially to 84.9%. Onsite effort mix further reduced to 28.3%.
- **Acceleration in digital revenue:** Digital revenue in 2Q USD1.23 billion which contributed 38.3% of overall revenues and posted 38.4%YoY in cc terms during the quarter. With Client are continuing to lever Digital transformation, there are three areas where the company is focusing. These are experience, data analytic and cloud
- **Deal win:** Large deal signing in 2Q was extremely strong at USD2.8 billion. 13 large deals won during the quarter (4 deal each in FS and retail, 2 each in communication and 1 each in life and E&NU). Large part of TCV was renewal and only 10% were net new wins. Large TCV for 1HFY20 were up by 75% as compared to 1HFY19.
- **Lower Attrition:** With the continued focused and initiative taken in last few quarters, finally company saw reduction in attrition rate by 2% (21.7% in 2QFY20 as compared to 23.1% last quarter). High performance is now below companies average.
- **Business segments:**
 - **Financial vertical:** Continued its growth momentum in 2Q aided by Stater acquisition. The management expect the performance in vertical to be impacted in next couple of quarters driven by seasonality, sluggishness in capital market and European banking space. The recent reduction in interest rate in major geographies can have impact on client revenue which may also impact their IT spending. However sees strength in corporate banking side specifically in payment transformation, trade transformation across the board (large global bank or regional market). Company's strong position across digital and core services along with diversified portfolio is helping the company to mitigate risk and grow this business.
 - **Retail vertical:** Performance was muted as client remained cautious due to increase in persuade risk coming from trade war and geopolitical developments. The company is seeing delay in decision making in some key client due to Business volatility in this sector however in medium to long terms sees as gear opportunity to increase client relevance. The company expect weakness in customer experience, digital marketing, investment in top firm and remain cautiously optimistic given recent deal wins and pipeline.
 - **Manufacturing:** weakness in vertical especially in Europe. Impact of trade war in auto segment affecting the supply chain. Despite sectoral challenges, company is seeing healthy pipeline and deal wins.
- **Revised lower end of guidance:** Given the growth in H1, the company has updated its guidance by 50bps from 8.5% to 10 to now increasing the lower to 9% to 10% in cc terms for FY20. However maintained its operating margin guidance of 21% to 23% for full year leveraging. With continued deploying measures like rationalizing the pyramid, onsite/offshore mix, automation and other overhead efficiencies, The company is confident to deliver margin within guided range.

Revenues by Business Segments

GROWTH WAS BROAD BASED ACROSS VERTICALS

VERTICALS (USD MN)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YOY%	YoY% cc
Financial services	914	900	941	971	967	983	1,024	8.9%	10.3%
Retail	446	470	491	490	487	495	488	-0.6%	1.1%
Communication	362	360	359	355	413	432	421	17.0%	19.2%
E& U	337	351	359	382	389	407	421	17.0%	19.1%
Manufacturing	269	272	280	302	306	301	324	15.6%	16.9%
Hi tech	208	209	219	218	236	241	244	11.4%	11.7%
Life sciences	188	187	187	185	184	191	205	9.9%	10.9%
Others	81	82	85	84	80	81	83	-1.5%	0.3%

Revenues by Client Geography

ALL GEOGRAPHIES EXCEPT ROW GREW IN DOUBLE DIGITS

GEOGRAPHY (USD MN)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YOY%	YoY% cc
Americas	1,666	1,699	1,761	1,804	1,873	1,929	1,971	11.9%	11.9%
Europe	696	688	701	723	734	739	774	10.4%	14.6%
India	79	74	73	78	70	72	87	18.7%	17.9%
ROW	365	371	386	382	383	391	379	-1.8%	1.9%

Revenues by Offering

DIGITAL AT >38% OF REVENUES

SERVICES(USD MN)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YOY%	YoY% cc
Digital	753	803	905	942	1,035	1,119	1,230	35.9%	38.4%
Core	2,052	2,028	2,016	2,045	2,025	2,012	1,980	-1.8%	-0.7%
Total	2,805	2,831	2,921	2,987	3,060	3,131	3,210	9.9%	11.4%
Digital Revenues as % of Total Revenues	27	28	31	32	34	36	38		

Exhibit: Revenue trend

Large order booking and continued growth in segment, resulted in solid H1.

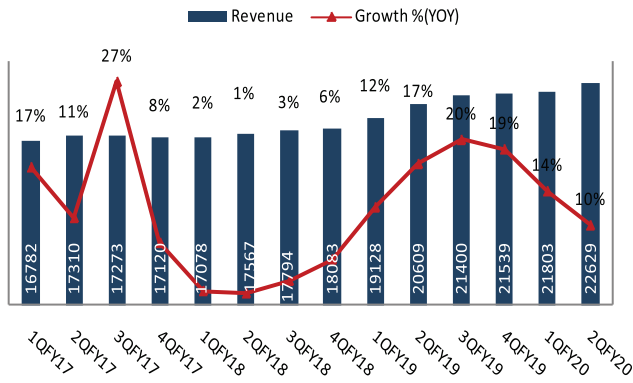


Exhibit: Digital Revenue

Digital continued to drive growth for the company.

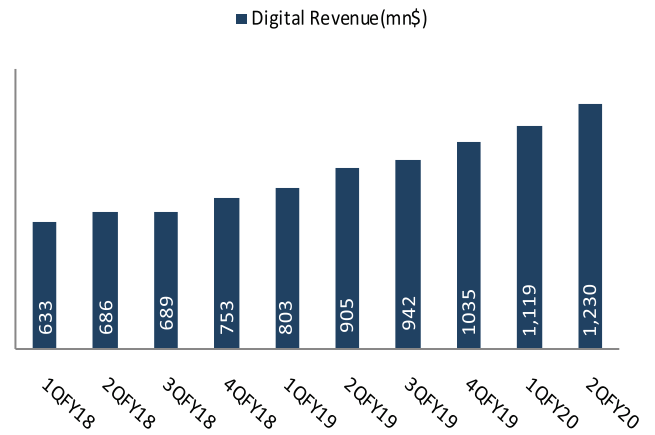


Exhibit: Margin Trend

Margin expansion due to better operational execution and tightness in overall cost

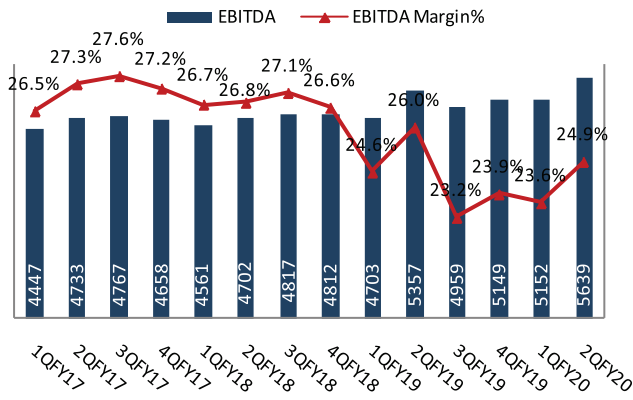


Exhibit: Utilization trend

Steady growth in Utilization

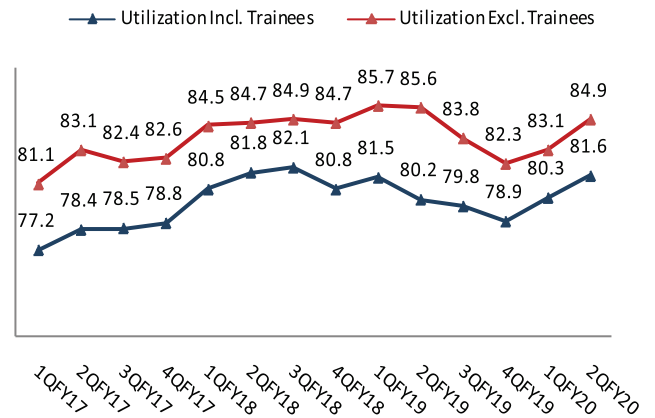


Exhibit: Deal wins

Large deal TCV continued during the quarter

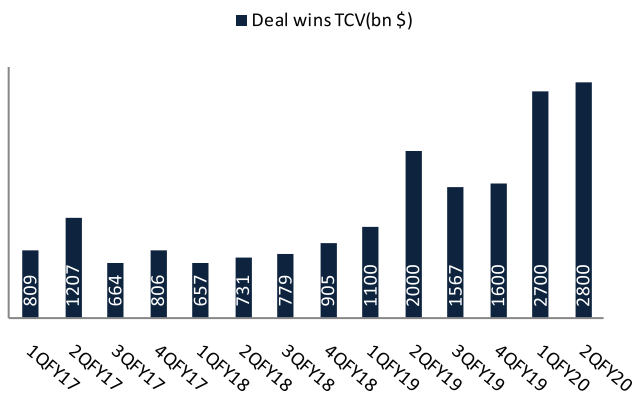
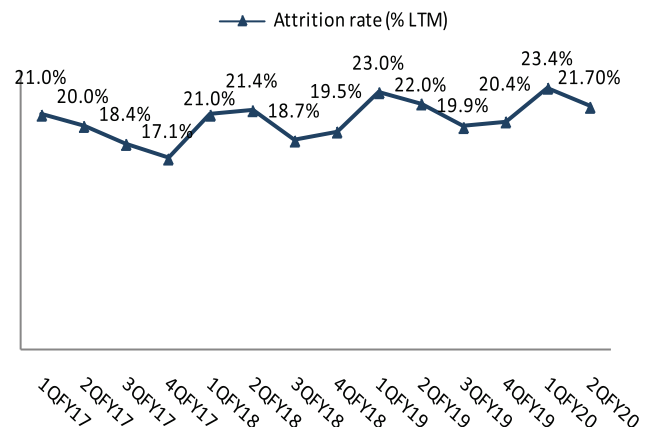


Exhibit: Attrition rate

Initiative taken started to soothe the attrition rate



Operational Details

GEOGRAPHY %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
America	60.4	59.4	60.0	60.3	60.4	61.2	61.6	61.4
Europe	24.4	24.8	24.3	24.0	24.2	24.0	23.6	24.1
India	3.0	2.8	2.6	2.5	2.6	2.3	2.3	2.7
Rest of world	12.2	13.0	13.1	13.2	12.8	12.5	12.5	11.8

VERTICAL %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Financial Services	33.1	32.6	31.8	32.2	32.5	31.6	31.4	31.9
Retail	16.2	15.9	16.6	16.8	16.4	15.9	15.8	15.2
Communications	12.4	12.9	12.7	12.3	11.9	13.5	13.8	13.1
Energy, Utilities, Resources	12.0	12.0	12.4	12.3	12.8	12.7	13.0	13.1
Manufacturing	9.5	9.6	9.6	9.6	10.1	10.0	9.6	10.1
Hi Tech	7.1	7.4	7.4	7.5	7.3	7.7	7.7	7.6
Life Sciences	6.5	6.7	6.6	6.4	6.2	6.0	6.1	6.4
other	3.2	2.9	2.9	2.9	2.8	2.6	2.6	2.6

SERVICE	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Digital	26.1	26.8	28.4	31.0	31.5	33.8	35.7	38.3
Core	73.9	73.2	71.6	69.0	68.5	66.2	64.3	61.7

CLIENT CONTRIBUTION	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Top client	1191	1204	1214	1222	1251	1279	1336	1364
Top 10 clients	79	73	70	73	101	101	112	96
Repeat business	98.3	97.6	99.5	98.2	96.6	95.2	99	98.1
Days Sales Outstanding	70	67	66	66	67	66	68	66
1 Million dollar +	630	634	627	633	651	662	680	693
10 Million dollar +	198	198	200	205	214	222	228	228
50 Million dollar +	56	57	56	58	59	60	59	61
50 Million dollar +	20	20	24	23	23	25	27	27

ATTRITION	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Attrition	18.7	19.5	23	22.2	19.9	20.4	23.4	21.7

UTILIZATION	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Utilization Incl. Trainees	82.1	80.8	81.5	80.2	79.8	78.9	80.3	81.6
Utilization Excl. Trainees	84.9	84.7	85.7	85.6	83.8	82.3	83.1	84.9

EMPLOYEE METRICS (NOS.)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Total employees	201691	204107	209905	217739	225501	228123	2,29,029	2,36,486
S/W professionals	189998	192179	197637	205150	212358	214727	2,15,412	2,22,851
Sales & Support	201691	204107	209905	217739	225501	228123	2,29,029	2,36,486
Gross addition	189998	192179	197637	205150	212358	214727	2,15,412	2,22,851
Attrition	9371	9913	11911	11887	11011	11581	N/A	N/A
Net addition	3251	2416	5798	7834	7762	2622	N/A	N/A

EFFORT IN %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Onsite	29.0	28.7	28.6	28.4	28.7	28.7	28.7	28.2
Offshore	71.0	71.3	71.4	71.6	71.3	71.3	71.3	71.8

Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	286	572	1,144	1,144	1,088	2,170	2,129	2,129
Reserves	44,244	50,164	60,600	67,838	63,835	62,778	67,026	72,833
Networth	44,530	50,736	61,744	68,982	64,923	64,948	69,155	74,962
Debt	-	-	-	-	-	-	-	-
Other Non Current Liab	405	50	367	360	861	1,094	1,094	1,094
Total Capital Employed	44,935	50,786	62,111	69,342	65,784	66,042	70,249	76,056
Net Fixed Assets (incl CWIP)	9,339	12,122	10,582	11,892	11,969	13,558	14,208	15,019
Non Current Investments	1,307	1,398	1,714	6,382	5,756	4,634	4,634	4,634
Other Non Cur Asst	53	85	1,357	1,059	2,265	2,105	2,265	2,265
Non Current Assets	12,528	17,564	20,526	22,209	21,852	25,121	25,771	26,582
Current investments	3,024	872	75	9,970	6,407	6,627	7,580	7,580
Debtors	8,351	9,713	11,330	12,322	13,142	14,827	16,279	17,997
Cash & Bank	25,950	30,367	32,697	22,625	19,818	19,568	20,556	23,892
Other Curr Assets	-	-	2,158	2,536	1,667	5,687	6,399	7,074
Other financial assets	-	-	5,190	5,980	6,684	5,505	5,505	5,505
Short-term loans and advances	5,753	6,290	303	272	239	241	241	241
Current Assets	43,078	47,242	51,753	53,705	50,017	52,878	56,560	62,290
Creditors	173	140	386	367	694	1,655	1,753	1,938
Provisions	6,409	8,443	512	405	492	576	638	704
Other Curr Liab	5,449	6,920	2,629	3,007	3,606	4,388	4,571	5,053
Other financial liabilities	-	-	6,302	6,349	6,946	10,452	10,452	10,452
Income tax liabilities	-	-	3,410	3,885	2,043	1,567	1,567	1,567
Curr Liabilities	12,031	15,503	13,239	14,013	14,106	18,638	18,981	19,714
Net Curr Assets	31,047	31,739	38,514	39,692	35,911	34,240	37,580	42,575
Total Assets	56,966	66,289	75,350	83,355	79,890	84,738	89,230	95,771

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	50133	53319	62441	68485	70522	82675	91414	101060
Change (%)	24%	6%	17%	10%	3%	17%	11%	11%
EBITDA	13,381	14,871	17,120	18,605	19,011	20,170	22,749	26,043
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	2,761	2,976
EBIT	12,064	13,854	15,854	16,902	17,148	18,159	19,988	23,067
Int. & other fin. Cost	-	-	-	-	-	-	166	168
Other Income	2,664	3,430	3,128	3,079	3,193	2,883	2,850	3,222
EBT	14,728	17,284	18,982	19,981	20,341	21,042	22,671	26,121
Exp Item	-	-	-	-	-	-	-	-
Tax	4,072	4,911	5,301	5,598	4,241	5,631	6,128	7,314
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	16,544	18,807
Adjusted PAT	10,656	12,372	13,678	14,403	16,029	15,411	16,544	18,807
Change (%)	0	0	0	0	0	(0)	0	0
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	24%	24%	22%	21%	25%	24%	24%	25%
ROCE	24%	24%	22%	21%	24%	23%	24%	25%
Asset Turnover	1	1	1	1	1	1	1	1
Current Ratio	4	3	3.9	3.8	3.5	2.8	3.0	3.2
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	21	18
Price / Book Value	4	5	5	3	4	5	5	5
EV/EBITDA	16	19	18	14	14	17	16	14
EV/Sales	4	5	5	4	4	4	4	4

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	14728	17283	13489	14353	20341	15410	22671	26121
(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	-6128	-7314
others	0	0	0	0	0	0	0	0
CF from Op. Activities	9825	8353	10028	11531	18931	11409	19375	21638
(inc)/Dec in FA & CWIP	-2748	-2247	-2723	-2760	-1940	-2445	-3411	-3788
Free Cashflow	7077	6106	7305	8771	16991	8964	15963	17850
others	166	3335	1822	-11782	3563	-79826	-953	0
CF from Inv. Activities	-2582	1088	-901	-14542	1623	-82271	-4364	-3788
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	989.12	3337.3
Add: Opening Balance	21846	25861	30383	32575	22625	19871	19568	20556
Closing Balance	25471	30191	33940	22584	33618	19625	20557	23893

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

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