

Industry
Bloomberg
BSE CODE

TECHNOLOGY
INFO IN
500209

Uncertainty remains in near term, Suspended Guidance for FY21

RATING	BUY
CMP	653
Price Target	751
Potential Upside	15%
Rating Change	↔
Estimate Change	↓
Target Change	↓

STOCK INFO	
52wk Range H/L	847/511
Mkt Capital (Rs Cr)	278070
Free float (%)	87%
Avg. Vol 1M (,000)	840
No. of Shares (Crs)	426
Promoters Pledged %	0

Fig in Rs Cr

FINANCIAL	FY18	FY19	FY20
Net Sales	70,522	82,675	90,791
EBITDA	19,011	20,170	22,267
EBIT	1,863	2,011	2,893
PAT	16,029	15,411	16,639
EPS (Rs)	36.9	35.5	39.1
EPS growth (%)	18%	-4%	10%
ROE (%)	25%	24%	24%
ROCE (%)	24%	23%	24%
BV	149	150	163
P/B (X)	4	5	4
P/E (x)	15	21	17

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4QFY20 Result Update

- Infosys reported a mixed set of numbers in 4QFY20 result. Revenue stood at USD 3197 million, a growth of 6.4%YoY in cc terms (below our estimates of USD 3235mn) while revenue declined sequentially by 0.8% cc. However PAT for the quarter came at Rs 4335 crore, a decline of 2.9% mainly led by lower ETR and revenue.
- EBIT for the quarter came at Rs 4927 crore, a decline of 2.7%QoQ.
- EBIT Margin stood at 21.2%, a contraction of 80bps mainly attributable to Covid impact related lower Utilization which negatively impacted 90 bps and 40bps came from 1H visa. The company took hit of higher CSR which further impacted 50 bps However it was partially mitigated by INR depreciation (50bps) and cost optimization measures(50bps).
- Utilization for the quarter dropped sequentially to 83.5% partly due to Covid 19 related supply constraints while Attrition on a standalone basis again stood higher at 18.2%.
- The company won TCV of USD1.6 billion in 4Q, some of which came in the last few weeks of the quarter despite covid19 situation. New deals increased significantly by 56%YoY. 12 large deal were won in 4Q out of which 4 came in Retail and Energy, Utility resource and 1 deal each in FS, Communication, Manufacturing and Hitech. Region wise, 7 from America and 5 from Europe.
- Digital revenue stood at USD1.34 billion in 4Q, contributing 42% of overall revenues and posting 31.7%YoY in cc terms during the quarter.

Single digit growth YoY In 4Q, challenges to persist across industries

- The company reported a single digit growth across most of its verticals. Life science and other segments led the growth by growing 11.9/21.1%YoY in cc terms, followed by Energy, Utilities, Manufacturing and Hitech which grew 7.3/7.4/7.7YoY in cc terms. Financial and retail remained soft and grew 5.7 and 4.2%YoYCC. However most of the segments declined sequentially in 4Q.
- Amid the Covid 19, there is near term uncertainty across most industries, especially in the area of discretionary spending. The management sees an increase in loan loss in the near future which will impact the FS while a slow conversion rate will pressure the retail segment. Even Insurance will see increased pressure due to higher clients. Communication is expected to remain weak with delay in 5G rollout. Also in Energy Utility resource, with low energy prices and demand & supply chain issues in other sub segments, the performance is expected to be weak in the near term.

Suspends FY21 guidance

- Given the uncertain environment with the global pandemic and client business seeing volatility, the company has suspended its revenue and operating margin guidance for FY21 as it remains unsure of immediate impact. However, seeing large deal pipelines and vendor consolidation will result in benefitting the company in the medium term.

View and valuation

Infosys ended FY20 with meeting its revenue and margin guidance. However Covid crisis came as a hurdle to accelerating growth expected in coming quarters. 4QFY20 revenue saw a hit USD 32million due to Covid while margin declined majorly impacted by lower Utilization and Visa issue. Focus on business resulted in large deal win(USD1.65billion) despite a challenges environment in 4Q. Going forward, we expect the revenue to plunge in coming quarters like of most of peers due to reduction in Discretionary spending and weakness in major industries (FS, Retail and manufacturing). However post Covid we expect Infosys to be better placed than most of Tier1 peers as its diversified verticals, strong large client mining and digital growth (highest digital growth in tier-1 IT) will support growth. Also Completion of accelerated investment phase and rapid initiative will mitigate some margin pressure.

Thus we maintained our Buy stance for the stock with the reduced target price of Rs 751.

Key Risks to our rating and target

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

4QFY20 Results Mixed quarter

Fig in Rs Cr

FINANCIALS	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY%	QoQ%	FY19	FY20	YoY%
Net Sales	21,539	21,803	22,629	23,092	23,267	8.0%	0.8%	82675	90791	9.8%
Other Income	665	736	626	827	614	-7.7%	-25.8%	2,883	2,803	-2.8%
Employee Exp	12,074	12,302	12,675	12,994	12,916	7.0%	-0.6%	38,893	38,893	0.0%
Other Expenses	932	847	915	814	1,071	14.9%	31.6%	2,932	2,932	0.0%
EBITDA	5,149	5,152	5,639	5,801	5,676	10.2%	-2.2%	20170	22267	10.4%
Depreciation	531	681	727	737	749	41.1%	1.6%	2,011	2,893	43.9%
EBIT	4,618	4,471	4,912	5,064	4,927	6.7%	-2.7%	18,159	19,374	6.7%
Interest	-	40	42	42	45	-	7.1%	-	170	-
PBT	5,283	5,167	5,496	5,849	5,496	4.0%	-6.0%	21,042	22,007	4.6%
Tax	1,205	1,365	1,459	1,383	1,161	-3.7%	-16.1%	5,631	5,368	-4.7%
PAT	4,078	3,802	4,037	4,466	4,335	6.3%	-2.9%	15,411	16,639	8.0%

Concall Highlights

4QFY20 & FY20 performance

- The company did exceptionally well in FY20 by growing 9.8% in cc terms for the full year with 21.3% operating margin. The digital grew by 38% and contributed 42% overall business in 4Q. TCV for FY20 was above USD 9 billion (up by 44%). Volume growth for FY20 was 8%.
- The company saw the highest cash collection in the quarter and full year in history.
- 4Q revenue grew 6.4% YoY in cc terms.
- The company won TCV of USD 1.6 billion in 4Q, some of which came in last few weeks of the quarter despite covid19 situation. New deal increased significantly by 56% YoY. 12 large deal were won in 4Q out of which 4 came in Retail and Energy, Utility resource and 1 deal each in FS, Communication, Manufacturing and Hitech. Region wise, 7 from America and 5 from Europe
- Significant impact of Covid was experienced by the company in March (USD 32 million). 2/3rd came from supply side and rest was demand led.

Margin performance

- 4Q operating margins were 21.1%. The 80 bps decline was mainly attributable to 90bps due to Covid related Utilization impact, 40 bps impact of 1H visa (for FY21). The company took hit of receivable closing account and higher CSR impacting 50 bps. However INR depreciation benefitted 50 bps and other 50bps gains came from cost optimization measures.
- Offshore / onsite mix remained stable during the quarter and improved 110bps against 4QFY19.
- Utilization dropped sequentially to 83.5% partly due to Covid 19 related supply constraints.
- Attrition on a standalone basis again is higher at 18.2% however voluntary attrition reduced further to 15.1% from 15.6% last quarter.
- Higher voluntary was caused on account of suppression that occurred due to yearly performance review which closed in December.
- IN 1Q, the company will try to improve the supply side equations through automation and pyramid optimization. Saving from subcontracting, reduction in the cost and freezing the discretionary spending will be some lever to scope up with the margin pressure.

Update on supply side initiative:

- The Company has 93% of employees working remotely today. Additionally in order to go smooth, the company has added financial security and focus on liquidity of cash. The Company has started a comprehensive program for cost control and reduction.
- Liquidity and financial security top priority: the company will give vigorous focus on working capital cycle items including collections, receivable and any other blocked cash.
- Reduction in capex barring any committed non-discretionary spends.
- In order to meet the near term margin pressure, deferral in salary hike, lower hiring process and completely freezing discretionary spending.
- The company will also work on other levers as the situation evolves.

Outlook on business segment

- The company sees near term weakness across the industry especially in the area of discretionary spending. Clients are focused on safety and maintaining business continuity while at the same time conserving cash.
- This will create near term performance impact as they reprioritize and delay the projects and reduce volumes.
- Financial service is seeing impact from interest rate decline across the world which has severely compressed the net interest margins. The banking sector is also expected to experience an increase in loan loss in near future which will impact their profit. Insurance will see increased pressure due to higher clients. Post Covid 19 the company expects strong opportunity in cloud, data services creating new digital banking capabilities.
- Retail segment has seen a hard hit and expects to see significant pressure in coming quarters. Deal pipeline is strong but the conversion rate will slow down.
- Communication segment: Large deals in this segment have led to stellar performance in last Fiscal. The company expects relatable stable performance from telecom players, Media and entertainment is seeing pressure. Spend on 5G rollout and B2B users of 5G will also get delayed.
- Energy Utility resource: With low energy prices and demand & supply chain issues in other sub segments, the performance is expected to be weak in near term.

Outlook for FY21

- The company anticipates near term challenges Due to the current environment across industries.
- The company is seeing interest from client in cloud, Virtualization, Workforce transformation and cost reduction program.
- The discussion with clients is reflecting vendor consolidation thus resulting in better performance in the medium term.
- However given the uncertain environment with the global pandemic and client business seeing volatility, the company is suspending its revenue and operating margin guidance for FY21 as its remains unsure of immediate impact.
- The company does not see GFC as straight comparison with the current situation.

Revenues by Business Segments

SINGLE DIGIT GROWTH IN MOST OF THE VERTICALS

VERTICALS (USD MN)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY%	YoY% cc
Financial services	941	971	967	983	1,024	1,022	1,001	3.5%	5.7%
Retail	491	490	487	495	488	496	496	1.8%	4.2%
Communication	359	355	413	432	421	422	416	0.6%	3.1%
E& U	359	382	389	407	421	415	412	6.1%	7.3%
Manufacturing	280	302	306	301	324	334	323	5.5%	7.4%
Hi tech	219	218	236	241	244	246	253	7.2%	7.7%
Life sciences	187	185	184	191	205	217	205	11.4%	11.9%
Others	85	84	80	81	83	91	93	16.5%	21.1%

Revenues by Client Geography

COVID IMPACT SEEING IN MAJOR GEOGRAPHIES

GEOGRAPHY (USD MN)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY%	YoY% cc
Americas	1,761	1,804	1,873	1,929	1,971	1,988	1,969	5.2%	5.5%
Europe	701	723	734	739	774	791	780	6.2%	9.6%
India	73	78	70	72	87	91	83	18.1%	22.3%
ROW	386	382	383	391	379	373	364	-4.7%	1.8%

Revenues by Offering

DIGITAL AT >40% OF REVENUES

SERVICES(USD MN)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY%	YoY% cc
Digital	905	942	1,035	1,119	1,230	1,318	1,341	29.6%	31.7%
Core	2,016	2,045	2,025	2,012	1,980	1,925	1,856	-8.3%	-6.6%
Total	2,921	2,987	3,060	3,131	3,210	3,243	3,197	4.5%	6.4%
Digital Revenues as % of Total Revenues	31	32	34	36	38	41	42		

Exhibit: Revenue trend

Covid 19 largely impacted 4Q revenue.

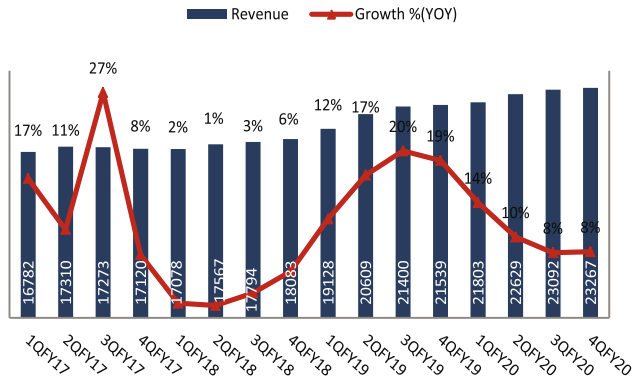


Exhibit: Digital Revenue

Digital continued to drive growth for the company.

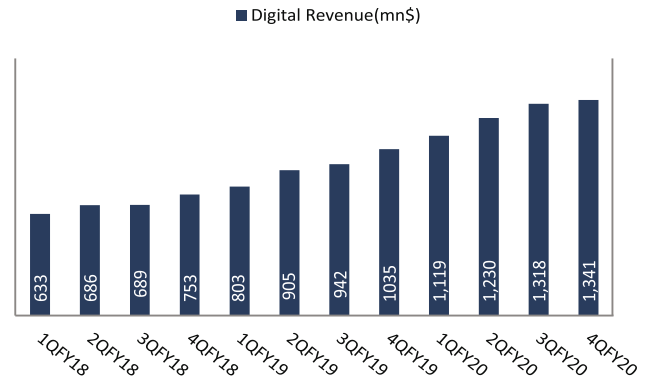


Exhibit: Margin Trend

Margin contracted mainly led by lower utilization and visa cost. Partially offset by currency benefit.

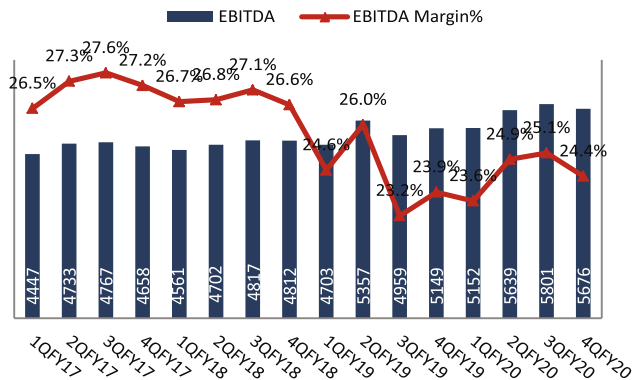


Exhibit: Utilization trend

Dip in Utilization due to furlougs.

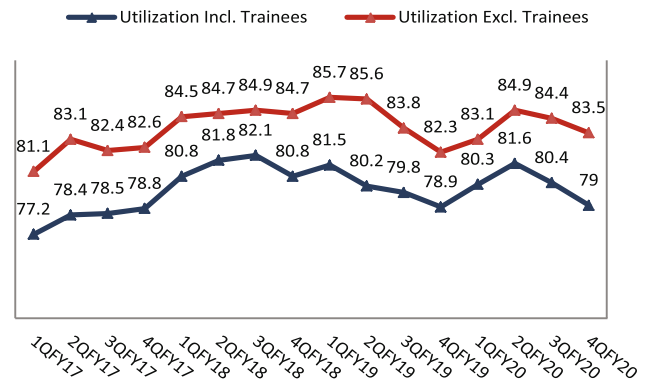


Exhibit: Deal wins

Large deal TCV continued during the quarter.

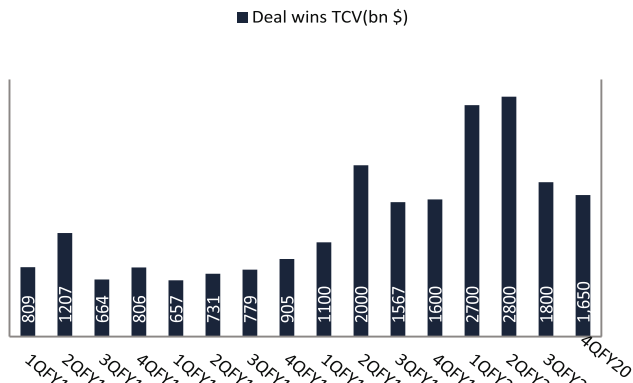
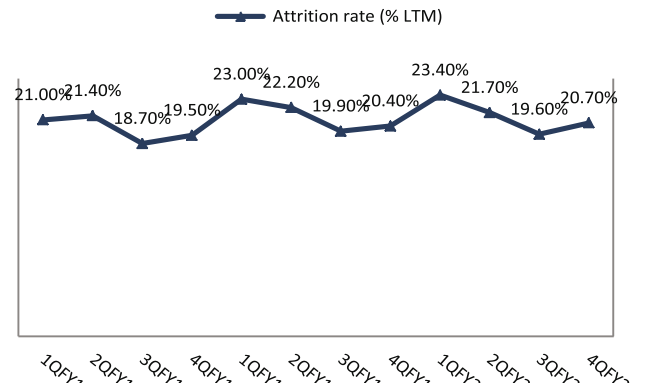


Exhibit: Attrition rate

Rise in Attrition rate.



Operational Details

GEOGRAPHY %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
America	60.0	60.3	60.4	61.2	61.6	61.4	61.3	61.6
Europe	24.3	24.0	24.2	24.0	23.6	24.1	24.4	24.4
India	2.6	2.5	2.6	2.3	2.3	2.7	2.8	2.6
Rest of world	13.1	13.2	12.8	12.5	12.5	11.8	11.5	11.4

VERTICAL %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Financial Services	31.8	32.2	32.5	31.6	31.4	31.9	31.5	31.3
Retail	16.6	16.8	16.4	15.9	15.8	15.2	15.3	15.5
Communications	12.7	12.3	11.9	13.5	13.8	13.1	13.0	13.0
Energy, Utilities, Resources	12.4	12.3	12.8	12.7	13.0	13.1	12.8	12.9
Manufacturing	9.6	9.6	10.1	10.0	9.6	10.1	10.3	10.1
Hi Tech	7.4	7.5	7.3	7.7	7.7	7.6	7.6	7.9
Life Sciences	6.6	6.4	6.2	6.0	6.1	6.4	6.7	6.4
other	2.9	2.9	2.8	2.6	2.6	2.6	2.8	2.9

SERVICE (USD mn)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Digital	803	905	942	1035	1119	1230	1318	1341
Core	2028	2016	2045	2025	2012	1980	1925	1856

CLIENT CONTRIBUTION	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Top client	3.7%	3.9%	3.4%	3.3%	3.2%	3.2%	3.0%	3.1%
Top 10 clients	19.2%	19.4%	19.2%	19.7%	20.0%	19.2%	18.9%	18.7%
Repeat business	99.5%	98.2%	96.6%	95.2%	99.0%	98.1%	97.2%	95.9%
Days Sales Outstanding	66	66	67	66	68	66	73	69
1 Million dollar +	627	633	651	662	680	693	705	718
10 Million dollar +	200	205	214	222	228	228	232	234
50 Million dollar +	56	58	59	60	59	61	61	61
100 Million dollar +	24	23	23	25	27	27	28	28

ATTRITION	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Attrition	23.0%	22.2%	19.9%	20.4%	23.4%	21.7%	19.6%	20.7%

UTILIZATION	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Utilization Incl. Trainees	81.5	80.2	79.8	78.9	80.3	81.6	80.4	79
Utilization Excl. Trainees	85.7	85.6	83.8	82.3	83.1	84.9	84.4	83.5

EMPLOYEE METRICS (NOS.)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Total employees	209905	217739	225501	228123	2,29,029	2,36,486	2,43,454	2,42,371
S/W professionals	197637	205150	212358	214727	2,15,412	2,22,851	2,29,658	2,28,449
Sales & Support	12268	12589	13143	13396	13617	13635	13796	13922
Gross addition	17709	19721	18773	14203	N/A	N/A	N/A	N/A
Attrition	11911	11887	11011	11581	N/A	N/A	N/A	N/A
Net addition	5798	7834	7762	2622	N/A	N/A	N/A	N/A

EFFORT IN %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Onsite	28.6	28.4	28.7	28.7	28.7	28.2	27.7	27.6
Offshore	71.4	71.6	71.3	71.3	71.3	71.8	72.3	72.4

Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Share Capital	286	286	572	1,144	1,144	1,088	2,170	2,129
Reserves	37,708	44,244	50,164	60,600	67,838	63,835	62,778	67,121
Networth	37,994	44,530	50,736	61,744	68,982	64,923	64,948	69,250
Debt	-	-	-	-	-	-	-	-
Other Non Current Liab	238	405	50	367	360	861	1,094	1,094
Total Capital Employed	38,232	44,935	50,786	62,111	69,342	65,784	66,042	70,344
Net Fixed Assets (incl CWIP)	8,279	9,339	12,122	10,582	11,892	11,969	13,558	14,055
Non Current Investments	377	1,307	1,398	1,714	6,382	5,756	4,634	4,634
Other Non Cur Asst	67	53	85	1,357	1,059	2,265	2,105	2,265
Non Current Assets	10,544	12,528	17,564	20,526	22,209	21,852	25,121	25,618
Current investments	1,739	3,024	872	75	9,970	6,407	6,627	7,580
Debtors	7,083	8,351	9,713	11,330	12,322	13,142	14,827	16,168
Cash & Bank	21,832	25,950	30,367	32,697	22,625	19,818	19,568	20,912
Other Curr Assets	-	-	-	2,158	2,536	1,667	5,687	6,355
Other financial assets	-	-	-	5,190	5,980	6,684	5,505	5,505
Short-term loans and advances	4,689	5,753	6,290	303	272	239	241	241
Current Assets	35,343	43,078	47,242	51,753	53,705	50,017	52,878	56,762
Creditors	189	173	140	386	367	694	1,655	1,741
Provisions	-	6,409	8,443	512	405	492	576	633
Other Curr Liab	3,969	5,449	6,920	2,629	3,007	3,606	4,388	4,540
Other financial liabilities	3,941	-	-	6,302	6,349	6,946	10,452	10,452
Income tax liabilities	-	-	-	3,410	3,885	2,043	1,567	1,567
Curr Liabilities	8,099	12,031	15,503	13,239	14,013	14,106	18,638	18,933
Net Curr Assets	27,244	31,047	31,739	38,514	39,692	35,911	34,240	37,829
Total Assets	46,331	56,966	66,289	75,350	83,355	79,890	84,738	89,278

Income Statement

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Revenue from Operation	40352	50133	53319	62441	68485	70522	82675	90791
Change (%)	20%	24%	6%	17%	10%	3%	17%	10%
EBITDA	11,533	13,381	14,871	17,120	18,605	19,011	20,170	22,267
Change (%)	8%	16%	11%	15%	9%	2%	6%	10%
Margin (%)	29%	27%	28%	27%	27%	27%	24%	25%
Depr & Amor.	1,090	1,317	1,017	1,266	1,703	1,863	2,011	2,893
EBIT	10,443	12,064	13,854	15,854	16,902	17,148	18,159	19,374
Int. & other fin. Cost	-	-	-	-	-	-	-	170
Other Income	2,365	2,664	3,430	3,128	3,079	3,193	2,883	2,803
EBT	12,808	14,728	17,284	18,982	19,981	20,341	21,042	22,007
Exp Item	-	-	-	-	-	-	-	-
Tax	3,370	4,072	4,911	5,301	5,598	4,241	5,631	5,368
Minority Int & P/L share of Ass.	-	-	(1)	(3)	(30)	(71)	-	-
Reported PAT	9,438	10,656	12,372	13,678	14,403	16,029	15,411	16,639
Adjusted PAT	9,438	10,656	12,372	13,678	14,403	16,029	15,411	16,639
Change (%)	11%	13%	16%	11%	5%	11%	-4%	8%
Margin(%)	23%	21%	23%	22%	21%	23%	19%	18%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
ROE	25%	24%	24%	22%	21%	25%	24%	24%
ROCE	25%	24%	24%	22%	21%	24%	23%	24%
Asset Turnover	1	1	1	1	1	1	1	1
Current Ratio	4	4	3.0	3.9	3.8	3.5	2.8	3.0
Debtor Days	64	61	66	66	66	68	65	65
Book Value Per Share	83	97	111	126	150	149	150	163
Payable Days	2	1	1	2	2	4	7	7
Earnings Per Share	21	23	27	30	31	37	36	39
P/E	17	18	21	20	16	15	21	17
Price / Book Value	4	4	5	5	3	4	5	4
EV/EBITDA	16	16	19	18	14	14	17	13
EV/Sales	5	4	5	5	4	4	4	3

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
PBT	12799	14728	17283	13489	14353	20341	15410	22007
(inc)/Dec in Working Capital	-1182	-281	-842	-1946	-2156	-2156	-2156	-2156
Non Cash Op Exp	-950	-748	-1337	4350	4987	4987	4987	4987
Int Paid (+)	0	0	0	0	0	0	0	0
Tax Paid	-3293	-3874	-6751	-5865	-5653	-4241	-6832	-5368
others	0	0	0	0	0	0	0	0
CF from Op. Activities	7374	9825	8353	10028	11531	18931	11409	19470
(inc)/Dec in FA & CWIP	-2095	-2748	-2247	-2723	-2760	-1940	-2445	-3390
Free Cashflow	5279	7077	6106	7305	8771	16991	8964	16080
others	-930	166	3335	1822	-11782	3563	-79826	-953
CF from Inv. Activities	-3025	-2582	1088	-901	-14542	1623	-82271	-4343
inc/(dec) in NW	0	0	0	0	0	0	-813	-7296
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)	-2815	-3618	-5111	-5570	-6980	-7469	-13705	-5000
others	0	0	0	0	0	0	0	0
CF from Fin. Activities	-2815	-3618	-5111	-5570	-6980	-7469	-14512	-12394
Inc(Dec) in Cash	1534	3625	4330	3557	-9991	10993	-246	1345.1
Add: Opening Balance	20689	21846	25861	30383	32575	22625	19871	19568
Closing Balance	22223	25471	30191	33940	22584	33618	19625	20913

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Disclosure of Interest Statement-

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