

RESILIENT BUSINESS, HEALTHY ORDER BOOK

Infosys Ltd (Infy) reported strong broad based growth in Q1 FY21, revenue stood at Rs. 23,665 crs up 8.5% YoY and 1.5% QoQ. Operating profit showed a growth of 20% YoY at Rs. 5,365cr, operating margin grew by 222 bps at 22.7% than previous quarter aided by strong execution, lower utilization and lower travel cost. Net profit for Q1 FY21 stood at Rs.4,233 cr reported a growth of 11.5% YoY. Infy management guided for 0%-2% revenue growth in CC terms for FY21 and operating margin will be in the range of 21%-23%. The management commentary is positive in the verticals like BFSI, Hi tech Media and Life Sciences. While Retail, Communication vertical will recover slowly across geographies in near term. However digital business continues to show robust performance with \$1,389 mn (44% to the top line) showed a strong growth of 25.5% YoY and 3.5% QoQ in cc terms. Deal wins for the quarter remained strong at \$1.74bn.

Strong broad based performance

On vertical front, BFSI vertical grew by 2.0% YoY, Retail vertical declined by 7% YoY, Communication vertical declined by 0.7% YoY, Life Sciences, Manufacturing verticals also reported growth of 7% YoY, 0.3% YoY, Hi tech vertical showed a growth of 13.4% YoY. Majority of the verticals sees strong recovery and likely to report growth backed by strong deal pipeline in forthcoming quarters.

On geographical front, North America (62% of revenue) declined by 0% YoY, Europe (24% of 4.4% QoQ, India business grew by 32.8% YoY in CC terms. For Q1FY21 Free cash grew 12.1%

Our Take:

We believe Infy has a resilient business structure from a long term perspective and multiple long term contracts with world's leading brands. With depreciation in INR, lower travel cost, lower on site expenses EBITDA margins likely to expand in near term. We recommend BUY and assign 20x P/E multiple to its FY22E earnings of Rs. 48.5 per share which gives a TP of Rs. 940 per share, an upside of 13%.

Key Financials (Consolidated)

(Rs. Cr)	FY19	FY20	FY21E	FY22E
Net Sales	82,675	90,791	91,580	105,225
EBIDTA	20,889	22,540	22,950	25,900
Net Profit	15,773	16,594	16,969	18,974
EPS (Rs)	37.1	38.9	39.9	48.5
PER (x)	19.9	16.8	16.4	13.5
EV/EBIDTA (x)	13.5	12.8	11.3	10.8
P/BV (x)	4.9	4.4	4.1	3.8
ROE (%)	24.3	25.4	28.2	28.3

Source: Company, Axis Research

(CMP as of Jul 15, 2020)

CMP (Rs)	831
Upside /(Downside (%))	13%
High/Low (Rs)	952/511
Market cap (Cr)	Rs 3,93,354
Avg. daily vol. (6m) Shrs.	18,39,129
No. of shares (Cr)	425.13

Shareholding (%)

	Mar-20	Dec-19	Sep-19
Promoter	13.2	13.2	13.2
FII's	31.0	31.8	33.5
MFs / UTI	13.7	13.4	12.9
Banks / FI's	0.1	0.1	0.1
Others	42.1	41.6	40.3

Financial & Valuations

Y/E Mar (Rs. Cr)	2020	2021E	2022E
Net Sales	90,791	91,580	105,225
EBITDA	22,540	22,950	25,900
Net Profit	16,594	16,969	18,974
EPS (Rs)	38.91	39.9	48.5
PER (x)	16.8	16.4	13.5
EV/EBITDA (x)	12.8	11.3	10.8
P/BV (x)	4.4	4.1	3.8
RoE (%)	25.4	28.2	28.3

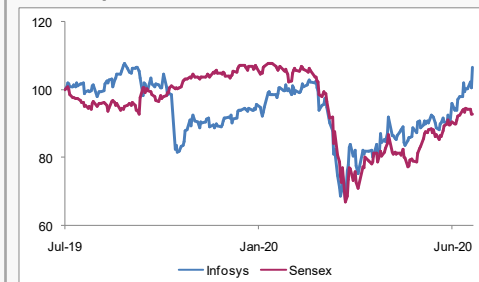
Change in Estimates (%)

Y/E Mar	FY21E	FY22E
Sales	91,580	105,225
EBITDA	22,950	25,900
PAT	16,969	18,974

Axis vs Consensus

EPS Estimates	2020	2021	2022E
Axis			
Consensus			
Mean Consensus TP (12M)			

Relative performance



Source: Capitaline, Axis Securities

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Key Investment Arguments

- 1) Financial Services declined by 1.8% QoQ in Q1. It witnessed sharp decline in March-April, but was the fastest to recover in business volumes and deals especially in US and APAC Banking. Spends in the vertical was driven by high levels of remote enablement for employees in different geographies.
- 2) The Retail segment remains under pressure impacted by clients in non-grocery, apparel, lifestyle & fashion. However, clients are looking for opportunities to improve efficiency of spend and Infosys continues to see a robust pipeline of deals in this segment.
- 3) The communication segment is under pressure due to weaker advertisement spent and cancellation of events. Network resilience and business continuity remain the highest priority, while companies are also investing in digital channels. 5G rollout is expected to witness some delay.
- 4) In the Manufacturing vertical challenges are expected to continue in the near term. Auto and aerospace verticals are majorly impacted with factory closures, delays and cancellations in aircraft purchases, etc. Infosys has witnessed new account openings and steady deal pipeline in this segment.

No of Active clients

	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21
Active clients	1336	1364	1384	1411	1458
Added during the quarter	112	28	84	84	110

Source: Company, Axis Research

Client Parameters

No of Active clients	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21
\$1 mn clients	693	705	718	729	693
\$10 Mn clients	228	232	234	236	228
\$50 Mn clients	61	61	61	60	61
\$100 mn clients	27	28	28	135	27

Source: Company, Axis Research

Employee Matrix

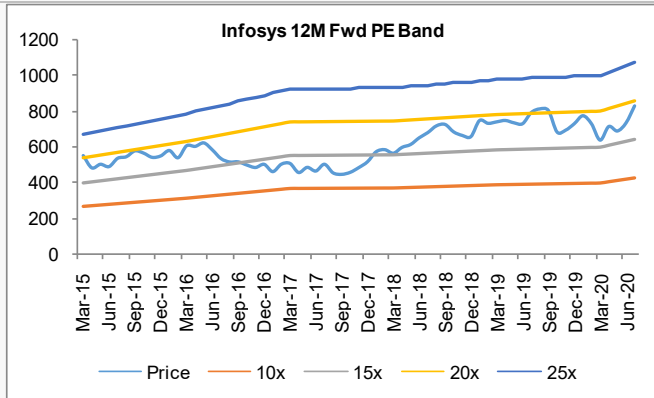
No of Active clients	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21
Total Employees	228029	236486	243454	242371	239233
Net Addition	906	7457	6968	-1083	-3138
Attrition	23%	22%	20%	21%	11.70%

Source: Company, Axis Research

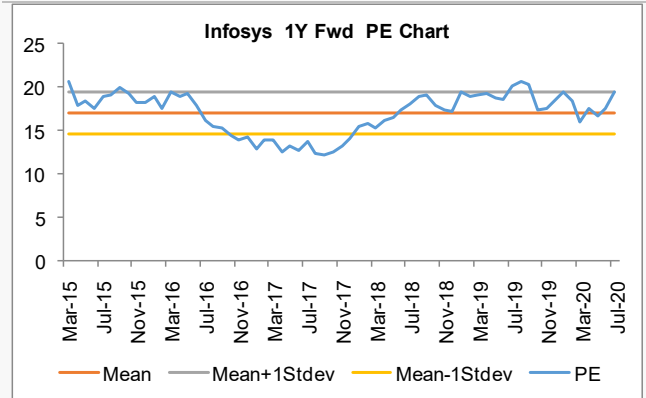
Valuation and Outlook

Although there are near term challenges to growth owing to COVID-19, we believe in Infy's track record of delivering profitable growth in tough environment thereby reaffirming our confidence in management's ability to deliver in longer term. **We maintain BUY rating and target price of Rs. 940/share.**

Infosys 12M Fwd PE Band



Infosys 1Y Fwd PE Chart



Source: Company, Axis Securities

Result Update
(Rs Cr)

Y/E March	Q1 FY21	Q4 FY20	Q1 FY20	% change (YoY)	% change (QoQ)
Total Revenue	23,665	23,267	21,803	9%	2%
Total Cost of Sales	15,703	15,501	14,779		
Gross Profit	7,962	7,766	7,024	13%	3%
Margin(%)	34%	33%	32%	143	27
Employee Cost	1,146	1,172	1,174		
Other Costs	1,451	1,667	1,379		
Total Operating Expenses	2,597	2,839	2,553		
Operating Income	5,365	4,927	4,471	20%	9%
Margin(%)	23%	21%	21%	216	149
Total Other Income/(Expense)	427	614	696		
Income Before Income Taxes	5,792	5,496	5,167		
Total Taxes	1,520	1,161	1,365		
ETR (%)	26%	21%	26%	-17	512
Net Profit After Taxes	4,272	4,335	3,802	12%	-1%
Non Controlling Interest	39	14	14		
Net Income After Extraordinary Items	4,233	4,321	3,798	11%	-2%
Margin(%)	20%	20%	21%	-123	-
EPS	9.97	10.18	8.82	13%	-2%

Source: Company, Axis Securities

Financials (Consolidated)
Profit & Loss
(Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
Net sales	82,675	90,791	98,750	110,580
Growth, %	8.5	10%	9%	12%
Other income	2,161	2,803	3,300	3,300
Total income	84,836	93,594	102,050	113,880
Employee expenses	51,858	58,013	63,711	72,489
Other Operating expenses	9,929	-19,031	10,486	12,827
EBITDA (Core)	20,889	22,540	25,306	28,504
Growth, %	7%	8%	12%	13%
Margin, %	25%	25%	26%	26%
Depreciation	2,010	2,869	3,094	3,355
EBIT	18,879	19,671	25,512	28,449
Growth, %	8%	4%	30%	12%
Margin, %	23%	22%	26%	26%
Interest paid	0	0	0.8	0.8
Pre-tax profit	21,040	22,007	25,511	28,448
Tax provided	5,631	5,368	5,950	7,570
Profit after tax	15,773	16,594	19,561	20,878
Net Profit	15,773	16,594	19,561	21,850
Growth, %	8%	5%	18%	12%
Net Profit (adjusted)	15,773	16,594	19,561	21,850

Source: Company, Axis Securities

Balance Sheet
(Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
Cash & bank	30,690	27,626	32,439	37,782
Debtors	14,827	16,333	18,203	20,412
Other current assets	11,615	13,066	14,171	15,477
Total current assets	26,442	29,399	32,374	35,889
Goodwill and Intangible Assets	423	430	439	449
Net fixed assets	11,479	14,614	15,015	15,696
CWIP	1,388	1,388	1,388	1,388
Other Non current assets	8,997	9,021	9,052	9,088
Total Non Current Assets	26,234	29,464	29,982	30,802
Total assets	52,676	58,863	62,356	66,691
Creditors	1,655	1,823	2,032	2,278
Provisions	16,983	18,549	20,493	22,790
Total current liabilities	18,638	20,372	22,525	25,068
Other liabilities	422	422	422	422
Paid-up capital	2,170	2,121	2,121	2,121
Reserves & surplus	62,778	60,374	66,537	73,672
Shareholders' equity	64,948	62,495	68,658	75,793
Total equity & liabilities	52,676	58,863	62,356	66,691

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
Pre-tax profit	21,040	22,210	25,345	28,039
Depreciation	2,010	2,869	3,094	3,355
Chg in working capital	-453	-1,357	-1,377	-1,088
Total tax paid	-6,832	-5,717	-6,843	-7,570
Cash flow from operating activities	14,388	16,162	17,978	20,671
Capital expenditure	-2,445	-2,443	-3,495	-4,036
Cash flow from investing activities	-991	-433	-1,085	-1,804
Free cash flow	10,952	13,286	13,398	14,831
Dividend (incl. tax)	-14,518	-18,848	-12,313	-13,298
Cash flow from financing activities	-14,512	-19,014	-12,481	-13,466
Net chg in cash	-1,115	-3,285	4,412	5,401

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY19	FY20	FY21E	FY22E
Per Share data				
EPS (INR)	37.1	38.91	39.9	48.5
Growth, %	14%	5%	3%	21%
Book NAV/share (INR)	149.2	149.6	157.7	174.1
FDEPS (INR)	35	39	42	46
CEPS (INR)	40.9	43.7	49.9	54.6
CFPS (INR)	28.1	36.5	43.8	42.8
DPS (INR)	21.5	23	25	27
Return ratios				
Return on assets (%)	41.2	40.3	41.3	43
Return on equity (%)	24.3	25.4	28.2	28.3
Return on capital employed (%)	24.3	24.8	26.7	26.9
Turnover ratios				
Asset turnover (x)	2.5	2.6	2.6	2.8
Sales/Total assets (x)	1.1	1.2	1.2	1.3
Receivables Days	65	73	73	73
Cash conversion cycle	34	36	35	35
Liquidity ratios				
Current ratio (x)	3.1	2.4	2.6	2.8
Interest cover (x)	0	0	112	132
Net debt/Equity (%)	-0.2	-0.2	-0.2	-0.2
Valuation				
PER (x)	19.9	16.8	16.4	13.5
Price/Book (x)	4.9	4.4	4.1	3.8
EV/Net sales (x)	3.6	3.4	3.1	2.9
EV/EBITDA (x)	13.5	12.8	11.3	10.8
Dividend Yield	3.3	4.3	5.4	5.4

Source: Company, Axis Securities

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