Infosys

16 July 2020

Reuters: INFY.BO; Bloomberg: INFO IN

1QFY21 Result Update

Positive surprise; Clients open up spending on US stimulus?

Infosys' 1QFY21 performance on revenue, margin and resumption of guidance has come as a positive surprise, especially in the context of street building in low expectations. But, relatively INFY has done better than its large peers for the quarter thus far – TCS and Wipro. Three months back INFY for the first time dropped the practice of giving annual guidance due to lack of visibility. Hence, the fact that it is giving FY21 revenue growth guidance of 0-2% in constant currency (CC) begs the question as to what has changed in the last 3 months. Most companies who have reported numbers in recent times – Accenture, TCS, Wipro have indicated a YoY increase in deal inflow, which is very surprising when US, the primary market, is supposedly going through its weakest growth phase – a likely double digit YoY real GDP decline in 2QCY2020 – probably the worst since the 'Great Depression' 90 years ago. Pricing and cash flows both of which should have been problem areas are not. In fact, across companies that have reported results for 1QFY21, we have seen historic high OCF and FCF numbers. We do not know how much of a role monetary and fiscal stimulus in the US and elsewhere has played in this relatively free spending behaviour of clients. The record low interest rates, easy access to credit in the US, especially for investment grade corporates (where Fed has been buying paper) probably eased up cash conservation and penny pinching behaviour that corporates typically display during these times. Also, the need to quickly pivot to the digital way of doing business for (1) contact less customer experiences and (2) remote working likely boosted the deal pipeline. It remains to be seen whether this behaviour of customer corporates will last if and when the US Fed decides to pull back. On 9 July, we put our ratings on the sector 'Under Review' and will be shortly coming up with an updated view. Prior to that, we had a negative view on INFY with an expectation of 5.6% USD revenue decline in FY21. We expected EBIT margin to dip 100bps in FY21 (versus 100bps improvement implied in the margin guidance of 21%-23%). We believe the lower 2% CC QoQ decline in revenue in 1QFY21 for INFY versus our expectation of 5% decline and a 6.9% actual decline for TCS likely stems from the client mix of INFY. We believe that INFY likely has less exposure relatively to the key troubled sectors of Retail, Transportation and Hospitality compared to TCS. Besides, we believe it has a higher exposure to high tech clients like Apple and Microsoft – which are continuing to invest through the downturn because of their excellent balance sheets and ability to borrow. The likely 400-500bps difference in growth between INFY and TCS in FY21 in INFY's favor would support the call for INFY to trade at higher multiples compared to TCS. That could happen for a while. However, we believe TCS is superior from a capability, margin and ROIC metrics perspective and will continue to be our valuation benchmark.

No revenue and margin trajectory indicated: While a guidance for the full year has been given, INFY refused to give granular details on trajectory saying that there are uncertainties in the demand environment.

INFY cracks the largest deal in its history post 1Q: The Infosys Vanguard deal (more details inside) is likely a US$0.9bn-1bn TCV deal based on our estimates for a period of 5 years with an annual contract value of ~ US$200mn to begin with. This along with US$1.74bn TCV in 1QFY21 likely gave visibility to INFY to come out with a guidance.

Net New TCV problem persists: The net new TCV number in FY20 was flat (unlike the 3.4x in FY19 versus FY18). The incoming 1QFY21 data was also poor with only 19% of TCV being net new. In fact TTM net new TCV was down 51% YoY. Had it not been for the Vanguard deal (in 2Q) and possibly a few others in the pipeline that INFY has visibility on, it may not have given a guidance.

Under Review

Sector: Information Technology

CMP: Rs834

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Key Data

Current Shares O/S (mn)	4,259.2
Mkt Cap (Rsbn/US$bn)	3,541.3/47.1
52 Wk H / L (Rs)	848/509
Daily Vol. (3M NSE Avg.)	10,758,950

Price Performance (%)

	1 M	6 M	1 Yr
Infosys	20.9	8.3	6.7
Nifty Index	8.2	(14.0)	(8.4)

Source: Bloomberg

Y/E Mar (Rsmn)	1QFY20	4QFY20	1QFY21	YoY (%)	QoQ (%)	1QFY21E	Dev(%)
Net Sales (USD mn)	**3,131**	**3,197**	**3,121**	***(0.3)***	***(2.4)***	**3,023**	***3.2***
Net Sales	**218,030**	**232,670**	**236,650**	***8.5***	***1.7***	**229,458**	***3.1***
Software Development Expenses	147,790	155,010	157,030	*6.3*	*1.3*	155,523	*1.0*
% of Sales	*67.8*	*66.6*	*66.4*	-	-	*67.8*	-
SG&A	25,530	28,390	25,970	*1.7*	*(8.5)*	26,847	*(3.3)*
% of Sales	*11.7*	*12.2*	*11.0*	-	-	*11.7*	-
EBIT	**44,710**	**49,270**	**53,650**	***20.0***	***8.9***	**47,089**	***13.9***
EBIT Margin (%)	*20.5*	*21.2*	*22.7*	-	-	*20.5*	-
Other Income	7,360	6,140	4,750	*(35.5)*	*(22.6)*	5,826	*(18.5)*
PBT	**51,670**	**54,960**	**57,920**	*12.1*	*5.4*	**52,465**	***10.4***
Provision for Tax	13,650	11,610	15,200	*11.4*	*30.9*	12,592	*20.7*
Effective Tax Rate	*26.4*	*21.1*	*26.2*	-	-	*24.0*	-
PAT (adjusted)	**38,020**	**43,350**	**42,720**	***12.4***	***(1.5)***	**39,873**	***7.1***
Exceptional items	**0**	**0**	**0**	-	-	**0**	-
Minority Interest	**40**	**140**	**390**	-	-	**0**	-
PAT (reported)	**37,980**	**43,210**	**42,330**	***11.5***	***(2.0)***	**39,873**	***6.2***
NPM (%)	***17.4***	***18.6***	***18.1***	-	-	***17.4***	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Vertical-based YoY growth in 1QFY21

Verticals	Contribution to Revenue (%)	Reported (YoY)	CC (YoY)
Financial Services	31.50	(0.10)	2.10
Manufacturing and Hitech	18.20	5.49	6.56
Retail and CPG	14.30	(9.30)	(7.40)
Others (Energy and Utilities, Transport and Logistics)	15.90	2.51	4.60
Life Sciences	6.70	7.90	7.70
Telecom	13.40	(3.20)	(0.70)
Total	**100.00**	**(0.30)**	**1.50**

Source: Nirmal Bang Institutional Equities Research

Exhibit 2: Geography-based YoYgrowth in 1QFY21

Geographies	Contribution to Revenue	Reported (YoY)	CC (YoY)
North America	61.5	(0.50)	0.00
Europe	24.0	1.50	4.40
India	2.9	24.50	32.80
ROW	11.6	(7.30)	(2.00)
Total	**100.0**	**(0.30)**	**1.50**

Source: Nirmal Bang Institutional Equities Research

Infosys Vanguard Deal

Vanguard announced on 14 July, 2020, that it will partner with INFY as part of its ongoing strategy to enhance and evolve its full-service defined contribution (DC) business. This partnership will deliver a technology-driven approach to plan administration. Vanguard is the largest DC asset manager in the US. INFY will assume day-to-day operations supporting Vanguard's DC recordkeeping business, including software platforms, administration and associated processes. A cloud-based recordkeeping platform will enable greater insights and personalization to help deliver better outcomes for nearly five million participants and 1,500 sponsors.

Approximately 1,300 Vanguard roles will transition to INFY. Transitioning employees will receive the same salary and comparable benefits for a transition period of 12 months, plus meaningful incentive opportunities. INFY says that it is dedicated to this business and the transition offers prospects for long-term career growth and development.

INFY currently serves half of the top 20 retirement service firms in the US, helping clients to manage risk, improve participant experience and deliver better retirement plan outcomes through business transformation, technology services and digital solutions. The firm offers end-to-end, enterprise-wide insurance and retirement business-process solutions across five core businesses: life insurance and annuity services, producer services, retirement services, employer sponsored services and functional BPO services.

Our take: We think this is a US$0.9bn-1bn deal over 5 years, the largest in INFY's history till date. While the rebadging and the onsite orientation of the project in the initial phase could put pressure on margins, over the life of the contract we see greater level of automation and offshoring leading to a substantial improvement in margins. This is the kind of chunky and sticky annuity business that helps drive growth in the long term in the IT and ITES space.

Interestingly TCS has worked with Vanguard on creating an omnichannel customer experience platform called 'The Advisor' that helps Vanguard in understanding what investments make most sense for specific customers. We are sure that TCS also would have looked at this deal. Possibly INFY's deep experience of working with 10 of the top 20 retirement services players likely clinched things in its favor besides compelling commercials. We also believe that INFY would have given added assurance about the professional wellbeing of the rebadned employees who have joined the rolls of Infosys.

1QFY21conference call highlights

- **Revenue picture:** The YoY CC revenue growth stood at 1.5% for 1QFY21. Hi-Tech vertical grew the most at 13.4% in CC YoY terms followed by Lifesciences (7.7%) and BFSI (2.1%). Revenue growth in Manufacturing and Energy & Utilities verticals was flat YoY in CC terms. Retail and Communincation verticals recorded a decline in revenue growth YoY in CC terms of 7.4% and 0.7%, respectively. Geography-wise, growth in North America remained flat while Europe grew 4.4% YoY in CC terms. INFY had a large deal TCV of US$1.74bn in 1QFY21, 6% higher QoQ. Of this 19% was net new. The management stated that only 10% of the revenue impact in 1QFY21 was due to supply side issues, as the company has achieved remote work enablement for 99% of its employees.
- **Margin picture:** INFY delivered 22.7% operating margin (ahead of our expectations), an expansion of 220bps YoY and 160bps QoQ despite lower utilizations. What's more, the company rewarded its employees with a variable pay, which was not what it indicated at the start of the quarter. The QoQ improvement in margin comprises of: 70bps benefit from favourable currency movement, 230bps benefit due to lower travel and visa costs; 110bps benefit due to lower SG&A costs. These were offset by a 150bps headwind due to operational parameters like lower utilization, higher on-site mix and lower revenue per person and a 100bps increase in salary costs, including higher variable pay costs. Some of these factors are one-time temporary gains, while others are long-term structural improvements.
- **Reinstated guidance for FY21:** INFY has provided guidance for FY21, a practise it had shunned in the previous quarter due to Covid-19 uncertainty. It expects a CC growth in revenue of 0%-2% and operating margin between 21%-23%. The management believes that with a continued attention to client needs, employee well being, cost and cash focus, and strong client reaffirmation, it will emerge stronger from this crisis.
- **Strong Digital growth:** Digital revenue grew at 25.5% YoY in CC terms and now accounts for 44.5% of revenue vs 41.9% in 4QFY20. In Digital, the three key areas are cloud-related services, data analytics and customer experience. Cloud and Data Analytics are the areas which contribute the most to the Digital revenue and these are the areas where INFY is seeing the most traction, especially due to advantages from its scale. Cloud in particular is seeing momentum due to migration of large enterprises' database to public cloud.
- **Sectoral impact:** Financial Services, after an initial drop in the early part of 1QFY21, saw a recovery in volume and deals during the quarter, especially in US and APAC regions. Strength in the vertical was also driven by high level of remote enablement for employees in different geographies. Some softness in the capital markets and cards & payment sectors is expected. Likewise, near zero interest rates are also expected to affect profitability of banks. On the positive side, INFY had multiple deal signings in 1Q and in early 2Q it signed the largest ever deal in the company's history in this vertical when it signed a deal with Vanguard – the low cost asset manager from the US for what seems to be tech infused BPM services. The management stated that the Retail segment was under pressure with clients in non-grocery, apparel, lifestyle & fashion, restaurants and logistics sub-segments continuing to witness demand contraction and supply chain disruptions. As challenges persist, clients are looking for opportunities to improve efficiency of their tech spend and INFY continues to see a robust pipeline of deals in the segment. Performance in the Communications segment stabilized on a sequential basis, although clients, especially in media & entertainment industry are under pressure due to weaker advertisement spend and cancellation of events. Network resilience and business continuity remain highest priority while companies are also investing in digital channels. 5G rollout is expected to be delayed due to Covid-19 related disruptions. Energy, Utilities, Resources and Services verticals are seeing pressure due to lower activity in Energy & Resources segment. However, INFY has been winning deals in this segment and a continued strong pipeline gives hope on the future prospects despite near term volatility. Similarly, in Manufacturing, INFY has witnessed weak performance on a sequential basis due to demand, production and supply chain disruptions. This is expected to continue in the near term. Auto and Aero sectors are majorly impacted with factory closures, delays and cancellations in aircraft purchases and so on. However, the management stated that new account openings and steady deal pipeline in this segment give encouragement.
- **Vendor consolidation possiblities seem strong in medium term:** INFY talked about conversation with multiple clients across sectors where they see some small and big vendors facing challenges in remote working and financial stability. These are targets for potential vendor consolidation.

- **Large deal TCV:** Large deal wins were healthy at US$1.74bn in 1QFY21. This excludes the largest ever deal signed in the company's history that was closed in 2QFY21 - Vanguard. The management stated that the large deal pipeline has improved over the past three months, as clients are looking at expanding engagements with the company due to prolonged trust and exemplary service delivery during the crisis. Of the 15 large deals won in 1QFY21, five deals were in Financial Services, three deals each in Retail, Energy, Utilities, Resources and Services (EURS) and Hi-Tech, and one deal in Manufacturing. Region-wise, 13 were from Americas and two were from Europe. Share of net new deals was 19%. INFY announced a landmark digital transformation engagement with Vanguard wherein it will partner with Vanguard to drive the digital transformation of record-keeping services onto a cloud-based platform. Coupled with a strong 1Q results, we believe this gives the company a powerful foundation for the rest of the year.

- **Attrition rate:** From this quarter, INFY has started disclosing voluntary attrition rate for IT services. Voluntary attrition for IT services declined significantly to 11.7% compared to 20.2% in 1QFY20. The management stated that this is significantly lower than its comfort band of 14%-15%. Utilization (excluding trainees) at ~81.2% came in low during the quarter. However, the management stated that on-site utilization remained steady in 1QFY21 after a drop in the early part of the quarter. Almost 90% of the lateral hires, which were given job offers, were on-boarded during the quarter and the remaining will join in 2Q. INFY expects over 20,000 freshers to join and will start onboarding them in a phased manner in 2Q.

- **Impact of ban on H-1B visa -** With more than 60% of its employees in the US being visa independent as a part of its localisation drive, INFY does not see much impact due to the ban on H-1B visas in the short term. INFY has recruited more than 13,000 US nationals since May 2017.

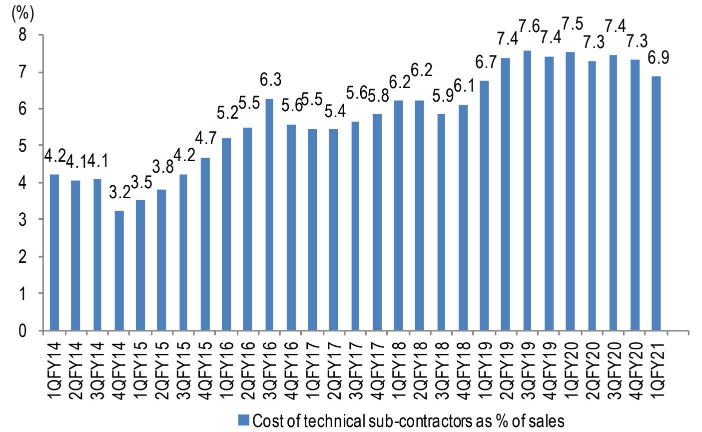
- **Cost optimization:** INFY has adopted a three-pronged approach for cost optimization: (1) Cost avoidance measures like hiring freeze, reskilling bench talent to improve utilization, etc. These measures are critical to avoid any margin deterioration. (2) Short-term discretionary cost cuts like travel, professional charges, marketing, wage negotiation with vendors, etc. (3) Strategic cost levers of automation, pyramid, on-site mix and subcon.

- **Strong cash position:** DSO stood at 71 days vs. 69 days in 4QFY20 and 68 days in 1QFY20. With increased focus on collections, OCF was US$783mn in 1QFY21. The management stated that a healthy cash and liquidity position was a priority this quarter. FCF of US$728mn grew by 50% YoY and was at a record high, supported by robust collections despite some increases due to client extension requests, government tax deferrals in some jurisdictions and site capex control. FCF as a percentage of net profit was a creditable 130%. INFY's balance sheet remains strong with cash and investments position at US$3.8bn (excluding the US$536mn earmarked for dividend payout made in early July) with no debt.

- **Lower subcontractor costs:** As a part of INFY's cost optimization strategy, subcontracting costs decreased during the quarter (6.9% vs 7.3% in 4QFY20 and 7.5% in 1QFY20).

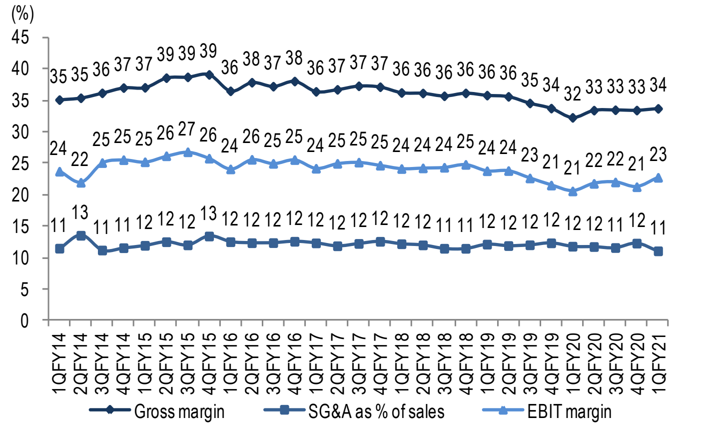
- **Pressure in 'core' business:** While the Digital business is seeing growth, the 'Core' which comprised 55.5% of revenue in 1QFY21 is seeing pressure. Core services were down 14% in 1QFY21 YoY - the steepest fall in recent quarters.

Exhibit 3: Sub-contractor charges declined in 1QFY21



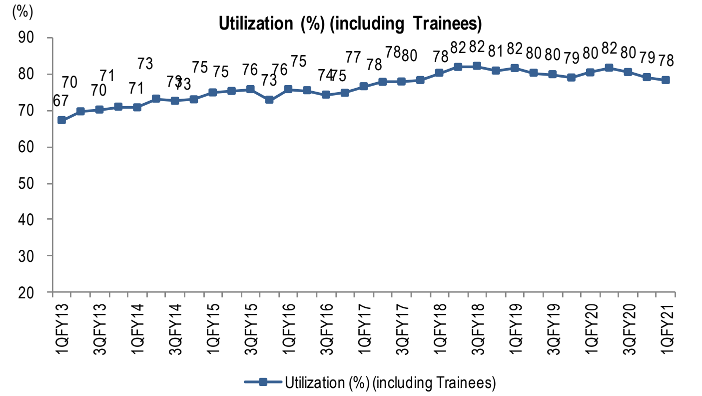
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Margins improved in 1QFY21



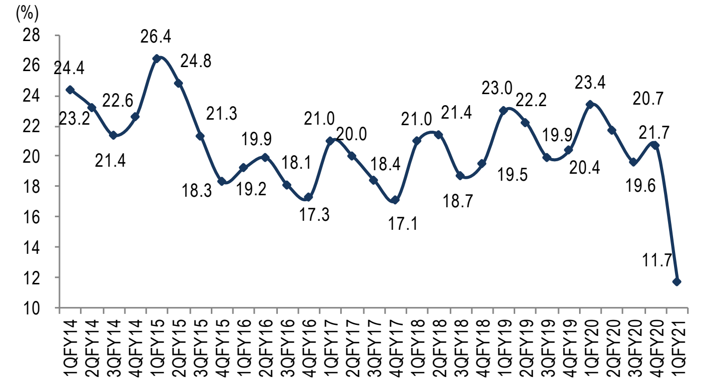
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Utilization decreases in 1QFY21 due to Covid-19 impact



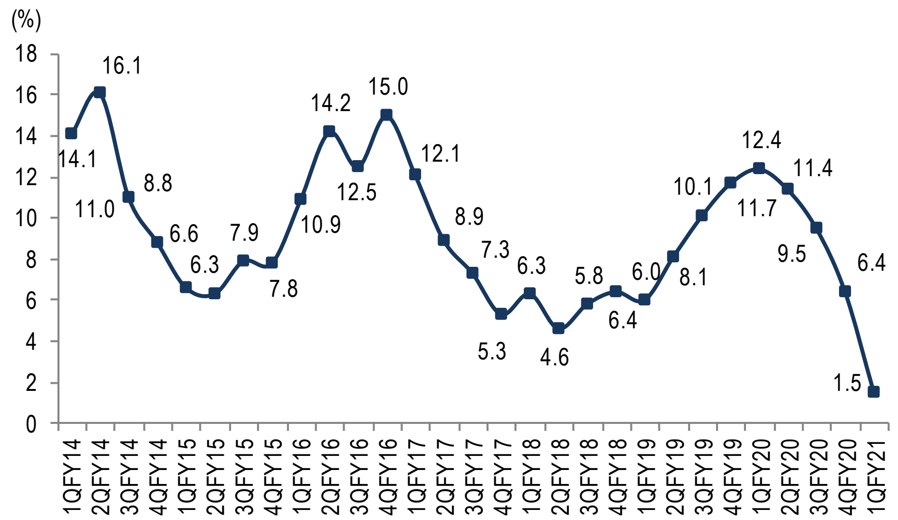
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Attrition rate declines sharply



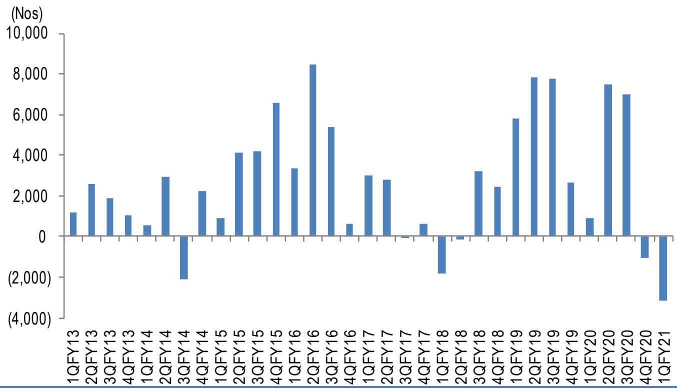
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: YoY revenue growth (CC terms) declines



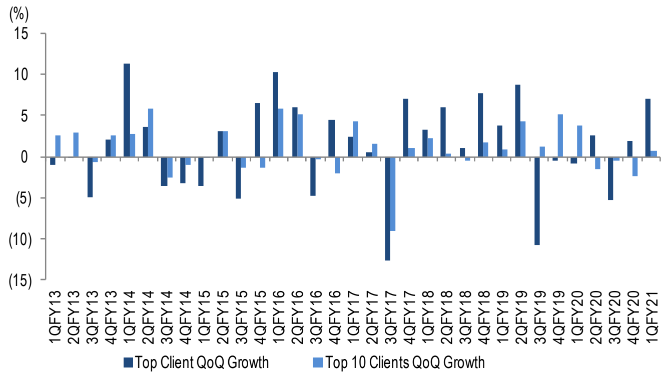
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8:Net employee addition was negative in 1QFY21



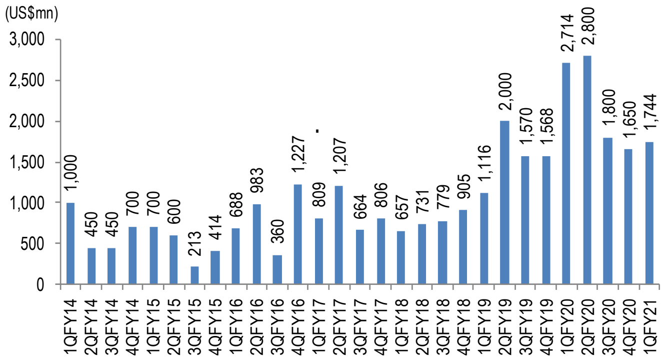
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Top client grew QoQ in 1QFY21



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Infosys sees an increase in TCV QoQ



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Quarterly snapshot

Year to 31 March (Rsmn)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21E
INR/USD	67.5	70.6	71.6	70.4	69.6	70.5	71.2	72.8	75.8
USD Revenue (USD mn)	2831	2921	2987	3060	3131	3210	3243	3197	3121
INR Revenue	191,280	206,090	214,000	215,390	218,030	226,290	230,920	232,670	236,650
Gross margin	68,400	73,280	73,840	72,560	70,240	75,500	77,190	77,660	79,620
SGA	23,030	24,340	25,540	26,380	25,530	26,380	26,550	28,390	25,970
EBIT	45,370	48,940	48,300	46,180	44,710	49,120	50,640	49,270	53,650
Other income	7,260	7,390	7,530	6,650	7,360	6,260	8,270	6,140	4,750
PBT	52,630	56,330	51,320	52,830	51,670	54,960	58,490	54,960	57,920
Tax	13,810	15,230	15,220	12,050	13,650	14,590	13,830	11,610	15,200
PAT-Adjusted	38,820	41,100	36,100	40,780	37,980	40,190	44,570	43,210	42,330
Shares Outstanding (basic)	4,347	4,347	4,348	4,347	4,302	4,249	4,240	4,240	4,241
EPS Adjusted (Rs)	8.9	9.5	8.3	9.4	8.8	9.5	10.5	10.2	10.0
YoY Growth (%)									
USD Revenue	**6.8**	**7.1**	**8.4**	**9.1**	**10.6**	**9.9**	**8.6**	**4.5**	**(0.3)**
INR Revenue	12.0	17.3	20.3	19.1	14.0	9.8	7.9	8.0	8.5
Gross profit	10.7	15.6	16.4	11.1	2.7	3.0	4.5	7.0	13.4
EBIT	10.4	15.3	11.8	3.3	(1.5)	0.4	4.8	6.7	20.0
Net profit	11.5	10.3	(2.4)	8.0	(2.2)	(2.2)	23.5	6.0	11.5
QoQ Growth (%)									
USD Revenue	**0.9**	**3.2**	**2.3**	**2.4**	**2.3**	**2.5**	**1.0**	**(1.4)**	**(2.4)**
INR Revenue	5.8	7.7	3.8	0.6	1.2	3.8	2.0	0.8	1.7
EBIT	1.5	7.9	(1.3)	(4.4)	(3.2)	9.9	3.1	(2.7)	8.9
Net profit	2.8	5.9	(12.2)	13.0	(6.9)	5.8	10.9	(3.1)	(2.0)
Margins (%)									
Gross margin	35.8	35.6	34.5	33.7	32.2	33.4	33.4	33.4	33.6
EBIT	12.0	11.8	11.9	12.2	11.7	11.7	11.5	12.2	11.0
PAT	23.7	23.7	22.6	21.4	20.5	21.7	21.9	21.2	22.7
SGA	20.3	19.9	16.9	18.9	17.4	17.8	19.3	18.6	17.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Key metrics**

Key Metrics	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
P and L (Rsmn)													
Revenue	170,780	175,670	177,940	180,830	191,280	206,090	214,000	215,390	218,030	226,290	230,920	232,670	236,650
EBITDA	41,110	42,460	43,190	44,720	45,370	48,940	48,300	46,180	44,710	49,120	50,640	49,270	53,650
PAT	34,830	37,260	36,970	37,770	38,820	41,100	36,100	40,780	37,980	40,190	44,570	43,210	42,330
Vertical Mix (%)													
Manufacturing	22.2	22.0	21.8	21.9	17.0	17.1	17.4	17.7	17.3	17.7	17.9	18.0	18.2
Insurance Finance and Banking	33.3	33.4	33.1	33.0	31.8	32.2	32.5	31.6	31.4	31.9	31.5	31.3	31.5
Telecom	10.4	10.4	10.5	10.8	12.7	12.3	11.9	13.5	13.8	13.1	13.0	13.0	13.4
Retailing & CPG	14.2	13.8	14.1	13.3	16.6	16.8	16.4	15.9	15.8	15.2	15.3	15.5	14.3
Others (utilities, logistic, transportation,etc)	13.3	13.6	14.0	14.4	15.3	15.2	15.6	15.3	15.6	15.7	15.6	15.8	15.9
Life Sciences	4.6	4.8	4.6	4.7	6.6	6.4	6.2	6.0	6.1	6.4	6.7	6.4	6.7
Healthcare	2.0	2.0	1.9	1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Geographic Mix (%)													
North America	61.1	60.6	60.4	59.4	60.0	60.3	60.4	61.2	61.6	61.4	61.3	61.6	61.5
Europe	22.4	23.2	24.4	24.8	24.3	24.0	24.2	24.0	23.6	24.1	24.4	24.4	24.0
India	3.6	3.3	3.0	2.8	2.6	2.5	2.6	2.3	2.3	2.7	2.8	2.6	2.9
Rest of the world	12.9	12.9	12.2	13.0	13.1	13.2	12.8	12.5	12.5	11.8	11.5	11.4	11.6
Project Type													
T&M	51	50	49	49	48	48	47	47	NA	NA	NA	NA	0
Fixed Price	49	50	51	51	52	52	53	53	NA	NA	NA	NA	0
Utilization (%) (Including Trainees)	80	82	82	81	82	80	80	79	80	82	80	79	78
Clients Concentration (%)													
Top client	3.3	3.4	3.4	3.6	3.7	3.9	3.4	3.3	3.2	3.2	3.0	3.1	3.4
Top 10 clients	20.0	19.5	19.2	19.2	19.2	19.4	19.2	19.7	20.0	19.2	18.9	18.7	19.3
Number of Client													
$1m	606	620	630	634	627	633	651	662	680	693	705	718	729
$5m	279	286	290	295	0	0	0	0	0	0	0	0	0
$10m	190	186	198	198	200	205	214	222	228	228	232	234	236
$25m+	97	100	101	105	0	0	0	0	0	0	0	0	0
$50m	56	55	56	57	56	58	59	60	59	61	61	61	60
$75m+	31	31	34	35	0	0	0	0	0	0	0	0	0
$100m	18	19	20	20	24	23	23	25	27	27	28	28	25
Employees	198,553	198,440	201,691	204,107	209,905	217,739	225,501	228,123	229,029	236,486	243,454	242,371	239,233
Attrition (consolidated)(%)	21.0	21.4	18.7	19.5	23.0	22.0	19.9	20.4	23.4	21.7	19.6	20.7	11.7

***Note: Starting 1QFY19, Infosys has reclassified a number of parameters and therefore the data is not strictly comparable across quarters*

Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 13: Income statement

Y/E March (Rsbn)	FY16	FY17	FY18	FY19	FY20
Average INR/USD	**65.7**	**67.1**	**64.5**	**70.0**	**71.0**
Net Sales (USD mn)	**9,499**	**10,206**	**10,940**	**11,799**	**12,781**
-Growth (%)	***9.0***	***7.4***	***7.2***	***7.9***	***8.3***
Net Sales	**624**	**685**	**705**	**827**	**908**
-Growth (%)	*17.1*	*9.7*	*3.0*	*17.2*	*9.8*
Direct Costs	391	433	451	539	607
Gross Margin	233	252	254	288	301
% of sales	*37.4*	*36.8*	*36.0*	*34.8*	*33.1*
SG& A	77	83	82	99	107
% of sales	*12.4*	*12.2*	*11.7*	*12.0*	*11.8*
EBIT	**156**	**169**	**171**	**189**	**194**
% of sales	***25.0***	***24.7***	***24.3***	***22.8***	***21.3***
Other income (net)	31	31	32	29	28
PBT	187	200	204	213	220
-PBT margin (%)	*30.0*	*29.1*	*28.9*	*25.8*	*24.2*
Provision for tax	53	56	57	56	54
Effective tax rate (%)	*28.0*	*28.1*	*28.0*	*26.4*	*24.4*
Net profit (adjusted)	**135**	**144**	**147**	**157**	**166**
-Growth (%)	*9.4*	*6.4*	*2.3*	*6.8*	*5.8*
-Net profit margin (%)	*21.6*	*21.0*	*20.8*	*19.0*	*18.3*
Shares Outstanding (Basic)	4,594	4,594	4,347	4,347	4,240

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Cash flow

Y/E March (Rsbn)	FY16	FY17	FY18	FY19	FY20
EBIT	156	169	171	189	194
(Inc.)/dec. in working capital	(26)	(19)	(46)	18	(8)
Cash flow from operations	130	150	126	206	186
Other Income	31	31	32	29	28
Depreciation & Amortisation	15	17	19	20	29
Financial Expenses	0	0	0	0	(2)
Tax Paid	(53)	(56)	(57)	(56)	(54)
Dividends Paid	(123)	(143)	(179)	(113)	(90)
Net Cash from Operations	**1**	**(1)**	**(59)**	**86**	**98**
Capital Expenditure	(39)	(26)	(3)	(50)	(62)
Net Cash after Capex	(38)	(26)	(63)	36	36
Inc./(Dec.) in Debt	-	-	-	-	-
(Inc.)/Dec. in Investments	3	(145)	43	9	(17)
Share Issue/(Share Buyback)			(130)	0	(83)
Cash from Financial Activities	3	(145)	(87)	9	(100)
Others	58	71	122	(48)	54
Opening Cash	304	327	226	198	196
Closing Cash	327	226	198	196	186
Change in Cash	23	(101)	(28)	(3)	(9)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Balance sheet

Y/E March (Rsbn)	FY16	FY17	FY18	FY19	FY20
Equity capital	11.4	11.4	10.9	21.7	21.2
Reserves & surplus	606	678	638	628	637
Net worth	618	690	649	650	658
Deferred tax liability	3	2	5	7	10
Other liabilities	1	2	3	4	11
Lease Liabilities					40
Total liabilities and Equity	**622**	**693**	**658**	**661**	**719**
Goodwill	38	37	22	35	53
Other intangible assets	10	8	2	7	19
Net block	105	117	121	134	137
Investments	19	164	122	113	88
Deferred tax asset - net	5	5	13	14	17
Other non-current assets	61	65	82	83	73
Unbilled revenue	30	36	43	54	71
Derivative financial instrument	1	3	0	3	1
Other current assets	44	49	64	57	56
Income tax assets-current	-	-	-	4	0
Debtors	113	123	131	148	185
Cash & bank balance	327	226	198	196	186
Right-of-use Assets					42
Total current assets	516	437	436	463	541
Total current liabilities	132	140	141	186	209
Net current assets	384	297	295	276	332
Total assets	**622**	**693**	**658**	**661**	**719**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Key ratios

Y/E March	FY16	FY17	FY18	FY19	FY20
Per Share (Rs)					
Per Share (Rs)	29.4	31.2	32.5	36.1	39.0
EPS-Adjusted	31.0	31.2	32.5	36.0	38.9
FDEPS-Adjusted	24.3	25.8	33.5	21.5	17.5
Dividend Per Share	2.9	3.1	4.0	2.6	2.1
Dividend Yield (%)	134	150	149	150	155
Book Value	91.0	99.3	122.1	71.8	53.9
Dividend Payout Ratio (incl DT)					
Return ratios (%)	23.2	22.0	21.9	24.1	25.4
RoE	32.2	30.5	30.5	32.8	33.4
RoCE	58.8	51.1	44.9	47.5	43.0
Pre Tax ROIC (%)					
Tunover Ratios	0.8	0.8	0.9	1.0	1.0
Asset Turnover Ratio	83	84	89	88	102
Debtor Days (incl. unbilled Rev)	33	37	49	35	41
Working Capital Cycle Days					
Valuation ratios (x)	26.9	26.7	25.7	23.2	21.4
PER	6.2	5.6	5.6	5.6	5.4
P/BV	19.3	18.3	18.0	16.4	15.4
EV/EBTDA	5.3	5.0	4.9	4.1	3.8
EV/Sales	5.8	5.3	5.1	4.4	4.0

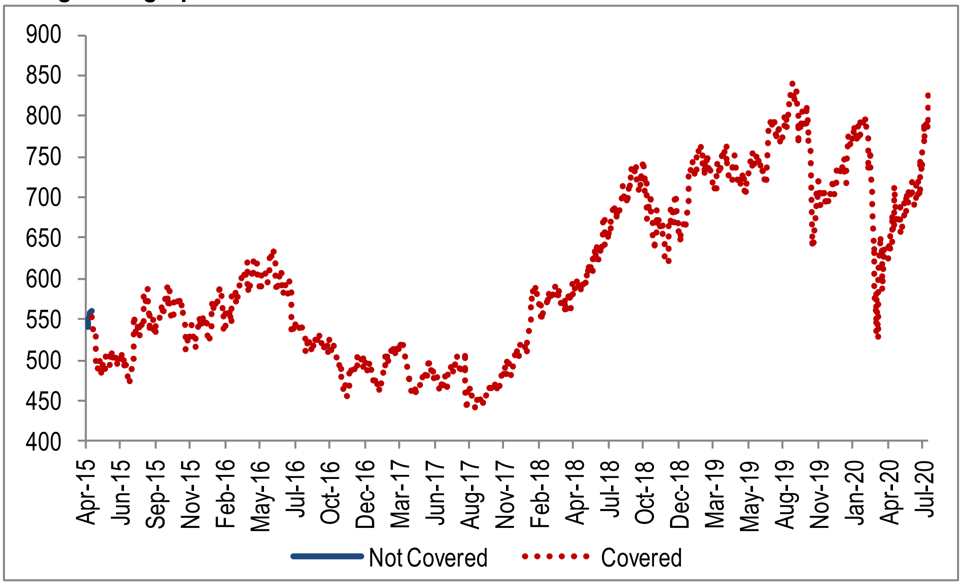
Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
13 April 2015	Accumulate	2,229	2,147
27 April 2015	Sell	1,995	1,823
4 June 2015	Sell	2,032	1,823
22 July 2015**	Accumulate	1,116	1,189
7 September 2015	Accumulate	1,074	1,189
14 September 2015	Accumulate	1,091	1,189
13 October 2015	Accumulate	1,122	1,194
8 January 2016	Under Review	1,063	-
14 January 2016	Under Review	1,133	-
14 March 2016	Sell	1,141	1,002
15 April 2016	Sell	1,173	1,010
9 June 2016	Sell	1,238	1,010
18 July 2016	Sell	1,072	988
29 August 2016	Sell	1,020	970
17 October 2016	Sell	1,027	964
10 January 2017	Sell	970	920
16 January 2017	Sell	975	910
14 February 2017	Sell	985	926
15 April 2017	Sell	931	887
15 May 2017	Sell	964	887
21 June 2017	Sell	944	844
17 July 2017	Sell	972	846
21 August 2017	Sell	923	794
28 August 2017	Sell	912	836
11 September 2017	Sell	884	836
28 September 2017	Sell	906	833
25 October 2017	Sell	924	873
26 December 2017	Under Review	1,039	-
15 January 2018	Under Review	1,079	-
17 March 2018	Accumulate	1,170	1,154
14 April 2018	Accumulate	1,171	1,157
24 April 2018	Accumulate	1,188	1,157
3 July 2018	Accumulate	1,307	1,314
14 July 2018	Accumulate	1,317	1,328
5 October 2018**	Accumulate	711	752
17 October 2018	Accumulate	695	756
27 December 2018	Accumulate	644	688
7 January 2019	Sell	661	620
14 January 2019	Sell	684	603
19 March 2019	Sell	710	620
15 April 2019	Sell	748	601
27 June 2019	Sell	739	601
15 July 2019	Sell	727	596
23 September 2019	Sell	765	607
14 October 2019	Sell	815	625
22 October 2019	Sell	768	625
8 November 2019	Sell	708	625
2 January 2020	Under Review	737	-
13 January 2020	Under Review	740	-
31 March 2020	Sell	654	550
21 April 2020	Sell	653	543
9 July 2020	Under Review	775	-
16 July 2020	Under Review	834	-

** Post 1:1 bonus issue of equity shares

Rating track graph



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