

April 15, 2019

# Infosys Limited

## Q4 FY19 Result Update

Infosys Limited (INFO) revenue rose 0.6% QoQ to INR 2,15,390 million, in constant currency terms. Revenue in dollar terms rose 2.4% to \$3,060 million. Operating profit fell 4.4% to INR 46,180 million. Operating margin fell to 21.4% from 22.6%.

Infosys has given an operating margin guidance of 21-23% on a revenue growth outlook of 7.5-9.5% in constant currency terms. In the last quarter, Infosys' operating margin was 21.5%. Subcontracting costs declined marginally on a sequential basis. Subcontractors typically cost 20-25% more than own employees. As a percentage of revenues, subcontracting costs declined by 20 bps QoQ but was up 130 bps YoY. YoY margin impact due to subcontractor use is ~35 bps.

INFO reported Q4FY19 digital revenues at \$1,035 million (33.8% of total revenues), YoY growth of 41.1% and sequential growth of 9.7% in constant currency. The board of the company recommended a final dividend of INR 10.50/share. Infosys added ~14,200/2,600 gross/net employees in Q4FY19, taking its total employee count to ~221,100. Utilization levels stood at 82.3% in Q4FY19 vs. 83.8% in Q3FY19, down ~150bps on higher local hiring.

### Slowdown in BFSI:

Infosys expects fall in revenues from the insurance segment after a strong performance in the past couple of quarters. The company will be facing client specific issues related to M&A and leadership changes in capital markets and banking verticals to continue in FY2020. Customer acquisition, digital banking, lending and cyber security are key areas of spending for BFSI clients.

### Margins:

Infosys margins narrowed to 21.4% in Q4 FY19, as compared to 22.6% YoY, down 120 bps. On the operational front, Infosys' EBIT or operating profit came in at INR 4,618 crores compared with INR 4,830 crore QoQ, down 4.4%.

### Deal Wins:

The quarter also marked large deal wins for Infosys. Large deal signings rose to \$1.57 billion in the March quarter, taking the overall large deal wins to \$6.28 billion for the financial year. The company won 13 large deals across geographies (US: 7, Europe: 5, India: 1) and verticals (BFSI: 3, Manufacturing: 3, Lifesciences: 3, Hi-Tech: 2, Retail: 1).

The management stated that such deal wins are competitive at the start and their margin profiles improve gradually over time with the help of automation and AI.

Financial Snapshot (INR Mn)	FY18	FY19	FY20E	FY21E
Net Sales	7,05,220	8,26,750	9,42,033	10,95,997
EBIT	1,88,930	2,01,700	2,23,419	2,53,188
<b>EBIT Margin</b>	<b>27%</b>	<b>24%</b>	<b>24%</b>	<b>23%</b>
PAT	1,60,290	1,54,100	1,65,882	1,84,105
<b>PAT Margin</b>	<b>23%</b>	<b>19%</b>	<b>18%</b>	<b>17%</b>
P/E	10.38	20.60	19.14	17.25
EPS in INR	70.1	35.3	38.0	42.2
EV/ EBITDA	7.65	14.90	12.68	10.93

Source: Company, NSPL Research

\* Read last page for disclaimer & rating rationale

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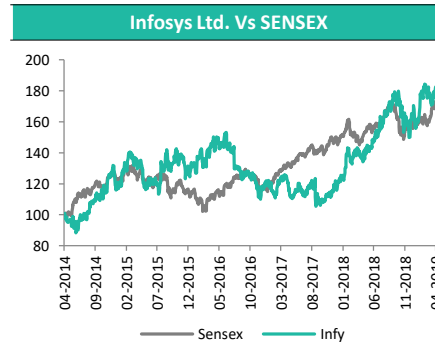
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# HOLD\*

Downside Scenario	Current Price	Price Target	Upside Scenario
	728.2	735	
		1% ▲	

Market Data	
Industry	IT
Sensex	38,906
Nifty	11,690
Bloomberg Code	INFO:IN
Face Value (INR)	5
52-w H/L	773.65/ 549.5
Market Cap (INR Mn)	31,78,400

Valuation Data	FY19	FY20E	FY21E
P/E (x)	20.60	19.14	17.25
EV/ EBITDA (x)	14.90	12.68	10.93



	Shareholding Pattern		
	Dec'18	Sep'18	Jun'18
Promoters	12.82	12.82	12.9
FIIIs	34.46	35.05	34.87
DIIIs	22.57	22.17	22.5
Others/ Retail	30.15	29.96	29.73



(INR Mn)	Mar-19	Dec-18	QoQ	Mar-18	YoY
Sales	2,15,390	2,14,000	1%	1,80,830	19%
Expenses	1,63,900	1,64,410	0%	1,32,710	24%
EBITDA	51,490	49,590	4%	48,120	7%
EBITDA Margin	24%	23%		27%	
Other Income	6,650	7,530	-12%	6,520	2%
Depreciation	5,310	5,800	-8%	4,580	16%
Profit before tax	52,830	51,320	3%	50,060	6%
Tax	12,050	15,396	-22%	13,016	-7%
Net Profit	40,780	35,924	14%	37,044	10%
PAT Margin	19%	17%		20%	

Source: Company, NSPL Research

**Valuation:**

- Infosys’ FY2020E revenue growth guidance of 7.5-9.5% is a touch lighter than expected.
- This includes contribution from Stater acquisition (the mortgage processing arm of ABN AMRO) though the management did not quantify the magnitude.
- The company reported that clients are monitoring spends closely and could curtail spends in the event of a slowdown.
- While growth in large deal TCV has been decent, Infosys’ modest organic guidance of 6.5-8.5% indicates pressure/contraction in renewals.
- Further the company faces headwinds from wage hikes in H1FY20E and increased levels of attrition.

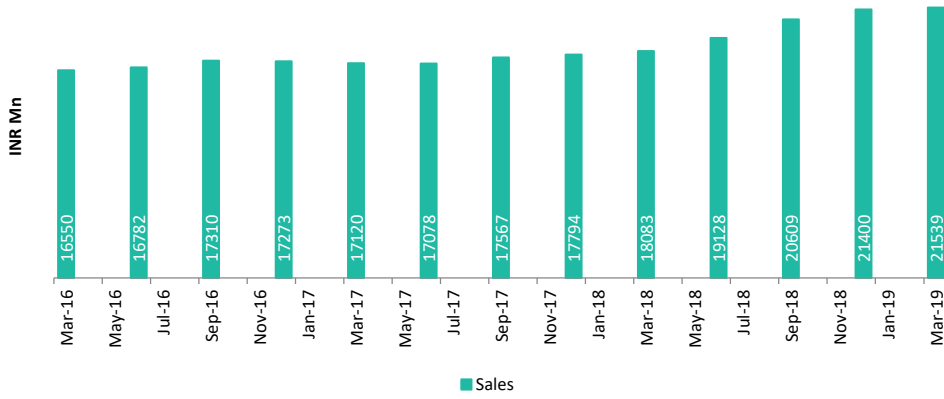
At CMP of INR 728, the company is trading at 17.3x FY21E EPS. We value the company using P.E. multiple methodology. We have given an exit multiple of 17.4x for PE to arrive at a target price of INR 735 which is an upside of 1%.

**Conference call highlights:**

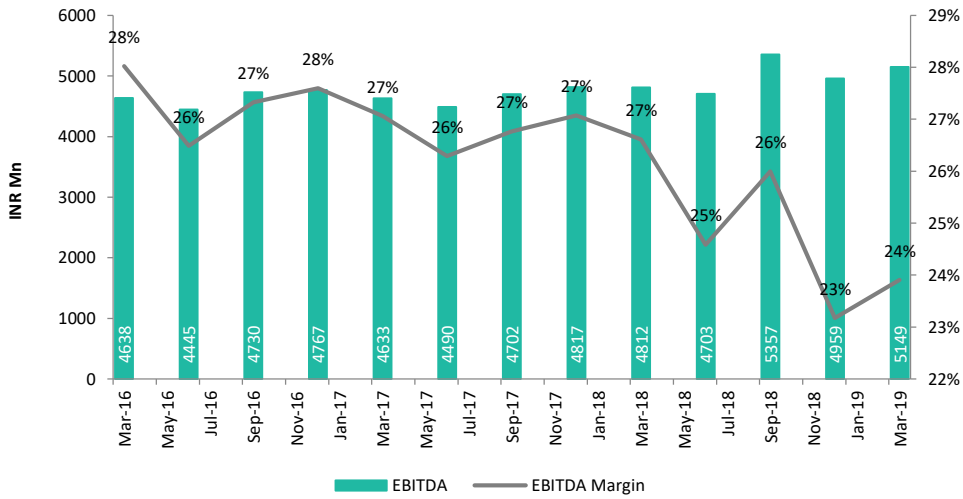
- Infosys has provided 7.5-9.5% growth guidance and has lowered its margin guidance by 100bps to 21-23% for FY20 – both lower than the Street’s expectations.
- Going ahead, Infosys expects margin headwinds in the form of wage hikes in Q1FY20 (wage hikes for 85% of the workforce) and Q2FY20 (wage hikes for 15% of the workforce).
- Infosys stated that it is trying to improve deal originations by increasing engagements with deal advisors, tapping the best talent within Infosys, and incentivizing people to increase large deal wins.
- Infosys is buying a controlling stake in Stater, the mortgage service unit of ABN AMRO Bank for INR 1,000 crore (€127.5 million), This deal will expand Infosys’ business in key growth regions of Japan and South East Asia as well as in the banking space in continental Europe. The Bengaluru-headquartered company will retain the existing management at Stater and expects to close the transaction by June 2020.
- The company reported that operating efficiencies can be achieved by leveraging better onsite-offshore mix, higher utilization, lower subcontracting, local pyramid, automation and higher digital mix.
- The company expects to raise offshore wages by 6% and onsite wages by 2%. A wage hike for 85% of the employees would be effective from the start of the June quarter. The remaining 15% of employees would receive a wage hike in the September quarter.
- The company has stepped up monetary incentives to retain talent.



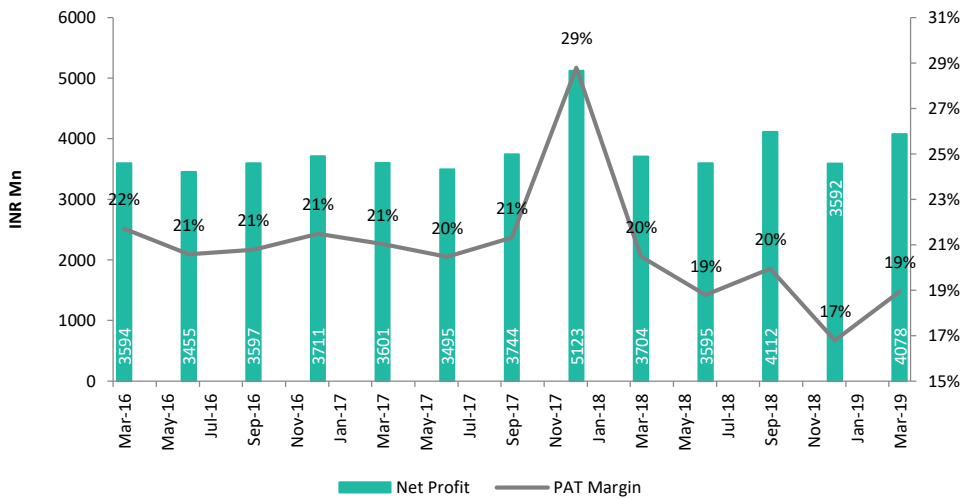
Sales



EBITDA & EBITDA Margin



PAT & PAT Margin



Source: Company, NSPL Research



Profit & Loss (INR Mn)	FY18	FY19	FY20E	FY21E
Net Sales	7,05,220	8,26,750	9,42,033	10,95,997
Total Operating Expenditure	5,16,290	6,25,050	7,18,613	8,42,809
Operating Profit	1,88,930	2,01,700	2,23,419	2,53,188
Depreciation	18,630	20,110	22,121	24,333
Non-operating Income	33,110	28,820	25,938	23,344
Profit Before Tax	2,02,700	2,10,410	2,27,236	2,52,199
Tax	42,410	56,310	61,354	68,094
Profit After Tax	1,60,290	1,54,100	1,65,882	1,84,105

Liabilities	FY18	FY19	FY20E	FY21E
Equity Capital	10,880	21,700	21,700	21,700
Total Reserves	6,38,350	6,27,780	7,14,498	8,09,985
Equity	6,49,230	6,49,480	7,36,198	8,31,685
Minority Interest	10	580	580	580
Total Loans	8,610	10,940	10,940	10,940
Capital Employed	6,57,850	6,61,000	7,47,718	8,43,205

**Assets**

Net Block	2,41,170	2,72,260	1,19,517	1,15,184
Cash and Bank Balance	2,27,558	1,80,487	3,52,825	4,19,814
Loans and Advances:	1,23,414	1,43,028	1,62,030	1,87,415
Operating Loans and Advances	1,05,783	1,24,013	1,41,305	1,64,399
Non-operating Loans & Advances	17,631	19,015	20,725	23,016
Others:	17,631	20,669	23,551	27,400
Others-Operating Current Assets	3,526	4,134	4,710	5,480
Others-Non-operating Current Assets	14,104	16,535	18,841	21,920
<b>Total Current Assets</b>	<b>4,15,340</b>	<b>4,62,510</b>	<b>7,06,164</b>	<b>8,29,806</b>
Sundry Creditors	2,829	3,425	3,938	4,618
Operating Other Current Liabilities	1,19,887	1,40,548	1,60,146	1,86,319
Non-operating Other Current Liabilities	16,220	19,015	21,667	24,112
<b>Total Current Liabilities &amp; Provisions</b>	<b>1,41,050</b>	<b>1,86,380</b>	<b>1,90,658</b>	<b>2,20,497</b>
<b>Net Current Assets</b>	<b>2,74,290</b>	<b>2,76,130</b>	<b>5,15,506</b>	<b>6,09,310</b>
Capital Applied	6,57,850	6,61,000	7,47,718	8,43,205



Cash Flow (Rs Mn)	FY18	FY19	FY20E	FY21E
PBT (Ex-Other income) (NI+Dep)	2,02,700	2,10,410	2,27,236	2,52,199
Other Non-Cash items	1,900	0	0	0
Chg in working cap	840	(5,920)	(34,576)	(41,517)
Operating Cashflow	1,32,180	1,58,440	1,01,795	1,13,431
Capital expenditure	(19,980)	(26,750)	(28,000)	(29,000)
Free Cash Flow	1,12,200	1,31,690	73,795	84,431
Investments	46,820	10,970	(12,000)	(16,500)
Loans Taken / (Repaid)	0	0	0	0
Other Financing Cash Flow	280	(40)	24,509	21,400
Opening cash position	2,26,250	-47,071	1,72,338	66,989
Closing cash position	2,27,558	1,80,487	3,52,825	4,19,814

	FY18	FY19	FY20E	FY21E
Book Value (Rs.)	284.04	148.96	168.85	190.75
P/E (x)	10.38	20.60	19.14	17.25
P/BV (x)	2.56	4.89	4.31	3.82
P/CEPS (x)	9.27	18.22	16.89	15.23
EV/EBITDA (x)	7.65	14.90	12.68	10.93

Number of clients	FY16	FY17	FY18	FY19
USD1mn+ clients	558	598	634	662
USD10mn+ clients	177	189	198	222
USD50mn+ clients	52	56	57	60
USD100mn+ clients	14	19	20	25

Client Concentration (% of sales)	FY16	FY17	FY18	FY19
Top10	22.5	21.0	19.3	19.0
Non Top-10 clients	77.5	79.0	80.7	81.0

Geography (% of sales)	FY16	FY17	FY18	FY19
Americas	62.7	61.9	60.4	60.5
Europe	23.0	22.5	23.7	24.1
RoW	15.9	15.6	15.9	15.4



Infosys Limited				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
April 15, 2019	728	735	Hold	Buy	5% - 15%
				Hold	0 - 5%
				Reduce	-5% - 0
				Sell	Less than -5%

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Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
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Has research analyst or NSPL engaged in market making activity for the subject company	NO
Other disclosures	NO