

### Market statistics

Current stock price (₹)	727
Shares O/S (cr.)	436.2
Mcap (₹ cr)	312,293
52W H/L (₹)	774/601
6m avg. volume	8,488,156
Bloomberg	INFO.IN

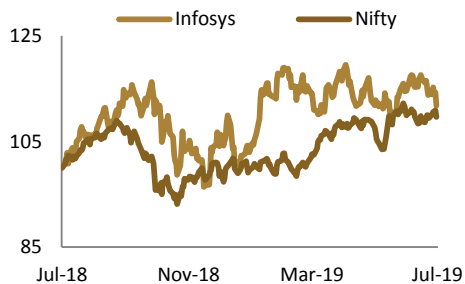
**Infosys delivered a strong quarter in terms of revenue growth and higher than-expected margin. Large deal TCV continued to gradually increase over the last eight quarters, and reached US\$2.71bn+ (against US\$1.57bn in Q4FY19, US\$1.12bn in Q1FY19). Infosys raised FY20 revenue guidance to 8.5-10.0% in cc terms from 7.5-9.5% earlier. Digital revenue grew at 41.9% YoY. Infosys raised its cash return plan to 85% of FCF from 70% earlier. We maintain a Buy rating on INFO on account of TCV deals won, client wins, client mining momentum, margin levers on account of non-linear initiatives and comforting valuations.**

### Shareholding pattern

Promoters	12.84
Domestic Institution	22.89
Foreign Institution	51.15
Non-institution	13.12
of which more than 1%	

**1QFY20 quarter:** Infosys reported robust revenue growth and higher-than-expected margin, with constant currency revenue growth of 2.8% QoQ and 2.3% QoQ on reported basis to US\$3,131mn (includes 60bps from Stater acquisition). Beat in cc revenue growth was primarily led by strong growth in financial services (11.3% YoY), Energy, Utilities (17.7%) and communication (22.6%). However, Life Sciences (up 4.3% YoY) and Retail (6.9% YoY) were laggards. Digital revenue growth accelerated to 41.9% YoY on cc basis, while core services revenue grew by 0.6% in Q1FY20. EBIT margin declined by 93bps QoQ to 20.5%, above estimates. Factors that contributed to QoQ margin decline - 1) INR appreciation of 40bps, (2) wage hike of 60bps, (3) visa cost impact of 80bps and (4) Stater acquisition impact of 40bps and were partially offset by utilization (+70bps), realization (+20bps) and other operational efficiencies. Lower profitability along with higher tax rate (26.4% in Q1FY20 vs. 22.8% in Q4FY19) resulted in a 6.7% decline in net profit. Client metrics remained strong – added two large accounts under US\$100mn client bucket. Higher attrition rate at 21.5% in Q1FY20 vs 18.3% in Q4FY19 remains a concern

### Infosys vs Nifty



**Large deal momentum continued -** Infosys signed 13 deals during the quarter, with TCVs of US\$2.71bn (highest ever in its history) including Stater deal from ABN AMRO. The company won three deals each in the financial services and retail verticals, two deals each in communication, energy and utilities and manufacturing verticals and one deal in life sciences. Geography wise, the company signed eight deals in North America, four deals in Europe and one deal in RoW. The share of new deals to overall TCVs stood at about 55%.

**Raised revenue growth guidance:** Infosys' management raised its FY20E revenue growth guidance to 8.5-10.0% in cc terms from 7.5-9.5% earlier, vs our expectation of maintaining it. Infosys requires CQGR of 1.5-2.4% to achieve its growth guidance. Strong deal wins along with healthy deal pipeline and robust digital momentum provides the confidence to increase revenue guidance. Further, management believes growth would be aided by financial services (Stater's acquisition, deal wins and digital transformation in wealth management), retail (large deal wins and new logo wins), communication (ramp up of deal wins earlier) and energy (continued growth in top account and new account opening). However, management witnessed softness in capital market segment in Europe and U.S., manufacturing and healthcare vertical.

**Margin recovery from Q2FY20:** On the margin front, the company maintained its FY20E operating margin guidance at 21-23%, despite lower EBIT margin (20.5%) in Q1FY20. We believe there would be steady improvement in EBIT margin from Q2FY20, as the company would derive benefits from the completion of investments that outlined last year. Further, key levers for margin expansion are utilization, automation and onsite pyramid structure.

**Valuation and Outlook:** INFY trades at 18.6/16.8x FY20/21E. We expect USD revenue/EPS growth at 11.1/8% CAGR over FY19-21E, and maintain a BUY. We are positive on account of TCV deals won, client mining momentum, and margin levers on account of non-linear initiatives. Strong capital allocation to act as a downside buffer.

### Capital efficiency & valuations

Particulars	FY19	FY20E	FY21E
RoE (%)	24.8	25.1	25.7
EPS (₹)	36.9	39.0	43.2
CEPS (₹)	41.5	45.4	50.1
P/E (x)	20.1	18.6	16.8
P/BV (x)	5.0	4.5	4.2
EV/EBITDA (x)	14.6	13.3	11.6
Income growth (%)	17.2	10.2	11.3
EBITDA growth (%)	9.9	8.2	13.1
PAT growth (%)	0.2	5.5	10.6

ANALYST

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**Exhibit 1: Quarterly details**

` mn	1QFY19	4QFY19	1QFY20	QoQ (%)	YoY (%)	Comments
<b>Revenues (in US\$mn)</b>	<b>2,831</b>	<b>3,060</b>	<b>3,131</b>	<b>2.3</b>	<b>10.6</b>	Revenue was up 2.8% in cc terms
<b>Revenues</b>	<b>191,280</b>	<b>215,380</b>	<b>218,030</b>	<b>1.2</b>	<b>14.0</b>	
- Operating costs	141,550	163,900	166,510	1.6	17.6	
<b>EBITDA</b>	<b>49,730</b>	<b>51,480</b>	<b>51,520</b>	<b>0.1</b>	<b>3.6</b>	Margin movement- INR appreciation (-40bps), wage hike (-60bps), visa cost (-80bps), Stater acquisition (-40bps), utilization (+70bps), realization (+20bps) & operational efficiencies
<b>EBITDA margin (%)</b>	<b>26.0</b>	<b>23.9</b>	<b>23.6</b>	<b>(27)bps</b>	<b>(237)bps</b>	
- Interest expense	-	-	-	-	-	
- Depreciation	4,360	5,310	6,810	28.2	56.2	
+ Other income, net (incl forex)	7,260	6,650	7,360	10.7	1.4	
<b>PBT</b>	<b>52,630</b>	<b>52,820</b>	<b>52,070</b>	<b>(1.4)</b>	<b>(1.1)</b>	
- Taxes	13,810	12,050	13,650	13.3	(1.2)	
Effective tax rate (%)	26.2	22.8	26.4	360bps	18bps	Tax rate to remain in the range of ~27-28%
<b>PAT</b>	<b>38,820</b>	<b>40,770</b>	<b>38,420</b>	<b>(5.8)</b>	<b>(1.0)</b>	
Net margin (%)	20.3	18.9	17.6	(131)bps	(267)bps	
<b>Reported profits</b>	<b>36,120</b>	<b>40,770</b>	<b>38,020</b>	<b>(6.7)</b>	<b>5.3</b>	

Source: Company

**Exhibit 2: Change in estimates**

` mn	FY20E			FY21E		
	Old	New	% Chg	Old	New	% Chg
Revenue (US\$ mn)	13,013	13,081	0.5	14,474	14,557	0.6
Revenue	910,881	910,923	0.0	1,013,183	1,013,691	0.1
EBITDA margin (%)	24.7	24.8	5bps	25.0	25.2	15bps
EPS (₹)	39.5	39.0	(1.3)	43.8	43.1	(1.6)

Source: Trust Research

**Geography wise Revenues:** North America and Europe reported strong growth of 13.5% and 11.4% in cc terms, in Q1FY20.**Exhibit 3: Geographical wise Performance**

Geographical mix	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
North America	61.1	60.6	60.4	59.4	60.0	60.3	60.4	61.2	61.6
Europe	22.4	23.2	24.4	24.8	24.3	24.0	24.2	24.0	23.6
India	3.6	3.3	3.0	2.8	2.6	2.5	2.6	2.3	2.3
RoW	12.9	12.9	12.2	13.0	13.1	13.2	12.8	12.5	12.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company



**Vertical wise Performance:** Five out of seven business segments i.e., financial services (up 11.3% cc YoY), communication (up 22.6%), energy and utilities (up 17.7%), manufacturing (up 12.8%) and hi-tech (up 14.6%) grew in double digits during the quarter. Retail and life science vertical growth remained soft during the quarter.

#### Exhibit 4: Vertical Segmentation

Vertical Mix	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
BFSI	33.0	33.1	32.2	32.6	31.8	32.2	32.5	31.6	31.4
Retail	16.2	16.0	16.8	15.9	16.6	16.8	16.4	15.9	15.8
Communication	12.6	12.4	12.3	12.9	12.7	12.3	11.9	13.5	13.8
Energy, utilities, Resources	11.3	11.7	12.3	12.0	12.4	12.3	12.8	12.7	13.0
Manufacturing	9.3	9.4	9.6	9.6	9.6	9.6	10.1	10.0	9.6
Hitech	7.3	7.2	7.5	7.4	7.4	7.5	7.3	7.7	7.7
Healthcare & Lifesciences	6.6	6.8	6.4	6.7	6.6	6.4	6.2	6.0	6.1
Others	3.7	3.4	2.9	2.9	2.9	2.9	2.8	2.6	2.6
<b>Total revenue</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, Trust Research

**Human Resources:** Utilization rate (ex-trainees) increased by 80bps QoQ to 83.1%. Infosys has been consistently maintaining the utilization rate at more than 80% for the past 16 quarters. Going forward, Infosys would use utilization as a margin lever. The company's headcount increased by 906 (net basis) to take the strength to 229,029.

#### Exhibit 5: Employee strength

Employees	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Total employees	198,553	198,440	201,691	204,107	209,905	217,739	225,501	228,123	229,029
Software professionals	186,882	186,806	189,998	192,179	197,637	205,150	212,358	214,727	215,412
Sales & support	11,671	11,634	11,693	11,928	12,268	12,589	13,143	13,396	13,617
Net addition	(1,811)	(113)	3,251	2,416	5,798	7,834	7,762	2,622	906

Source: Company

**Client Concentration:** The Company added 112 new clients in Q1 taking the total list to 1,336 clients (57 on a net-basis). INFY added 2 and 6 clients in the US\$100mn+ and US\$10mn+ taking the list to 27 and 228 respectively.

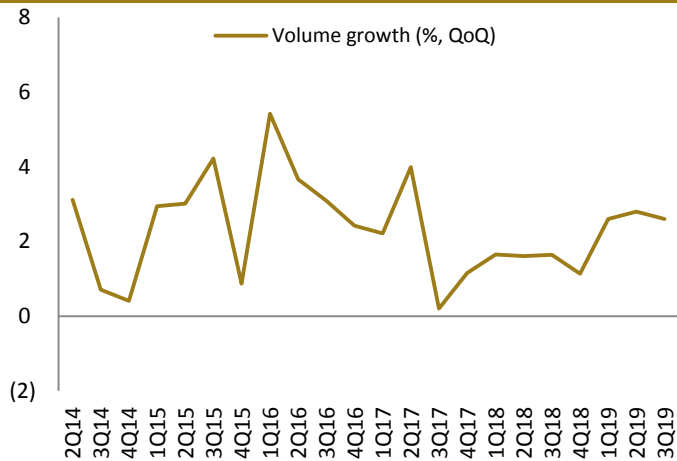
#### Exhibit 6: Client details

Client metrics	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
<b>Active clients</b>	<b>1,164</b>	<b>1,173</b>	<b>1,191</b>	<b>1,204</b>	<b>1,214</b>	<b>1,222</b>	<b>1,251</b>	<b>1,279</b>	<b>1,336</b>
<b>Clients added</b>	<b>59</b>	<b>72</b>	<b>79</b>	<b>73</b>	<b>70</b>	<b>73</b>	<b>101</b>	<b>101</b>	<b>112</b>
1 million dollar +	606	620	630	634	627	633	651	662	680
5 million dollar +	279	286	290	295	NA	NA	NA	NA	NA
10 million dollar +	190	186	198	198	200	205	214	222	228
25 million dollar +	97	100	101	105	NA	NA	NA	NA	NA
50 million dollar +	56	55	56	57	56	58	59	60	59
75 million dollar +	31	31	34	35	NA	NA	NA	NA	NA
100 million dollar +	18	18	20	20	24	23	23	25	27
<b>Top client (%)</b>	<b>3.3</b>	<b>3.4</b>	<b>3.4</b>	<b>3.6</b>	<b>3.7</b>	<b>3.9</b>	<b>3.4</b>	<b>3.3</b>	<b>3.2</b>
<b>Top-10 clients (%)</b>	<b>20.0</b>	<b>19.5</b>	<b>19.2</b>	<b>19.2</b>	<b>19.2</b>	<b>19.4</b>	<b>19.2</b>	<b>19.7</b>	<b>20.0</b>
Repeat business (%)	99.4	98.7	98.3	97.6	99.5	98.2	96.6	95.2	99.0

Source: Company

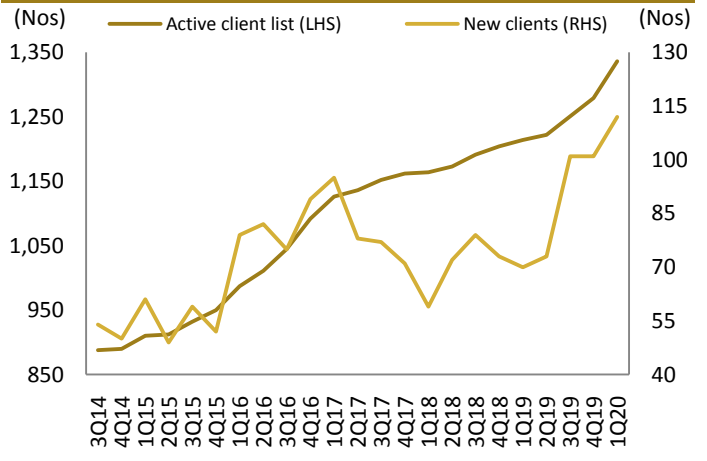


**Exhibit 7: Volume growth was as per expectation**



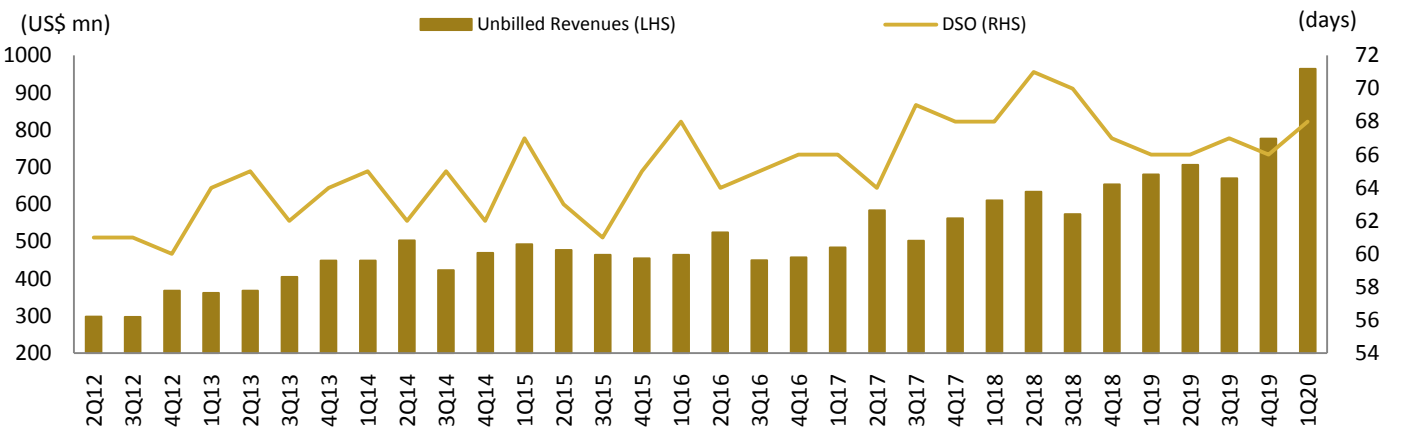
Source: Company, Trust

**Exhibit 8: New client additions was robust**



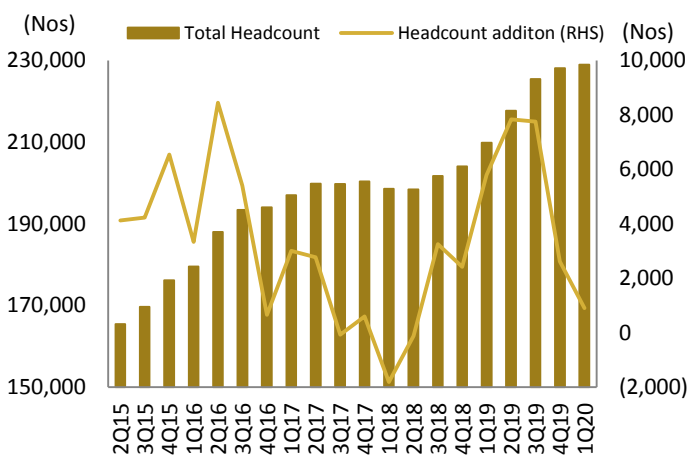
Source: Company, Trust

**Exhibit 9: Unbilled revenue increased, DSO days increased 2 days to 66**



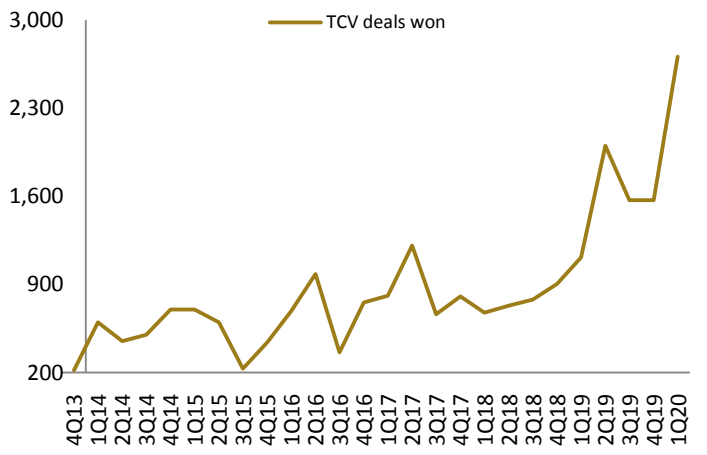
Source: Company, Trust

**Exhibit 10: Utilization used as a lever this quarter**



Source: Company, Trust

**Exhibit 11: TCV deals to help volume growth in future**



Source: Company, Trust



## Financials

### Income Statement ( ` mn)

Year End-March	FY17	FY18	FY19	FY20E	FY21E
<b>Revenues</b>	<b>684,850</b>	<b>705,220</b>	<b>826,750</b>	<b>910,923</b>	<b>1,013,691</b>
Op. Expenses	498,800	515,120	617,870	684,896	758,039
<b>EBITDA</b>	<b>186,050</b>	<b>190,100</b>	<b>208,880</b>	<b>226,027</b>	<b>255,652</b>
Other Income	30,790	31,930	28,830	34,440	36,216
Depreciation	17,030	18,620	20,100	27,872	30,372
<b>EBIT</b>	<b>199,810</b>	<b>203,410</b>	<b>217,610</b>	<b>232,596</b>	<b>261,497</b>
Interest	-	-	-	-	-
<b>PBT</b>	<b>199,810</b>	<b>203,410</b>	<b>217,610</b>	<b>232,596</b>	<b>261,497</b>
Tax	55,980	42,420	56,310	62,392	73,219
<b>PAT</b>	<b>143,830</b>	<b>160,990</b>	<b>161,300</b>	<b>170,204</b>	<b>188,278</b>
Ex. ordinary	300	710	7,210	-	-
<b>Adj Pat</b>	<b>143,530</b>	<b>160,280</b>	<b>154,090</b>	<b>170,204</b>	<b>188,278</b>

### Key Parameters

Year End-March	FY17	FY18	FY19	FY20E	FY21E
<b>Per share ( `)</b>					
EPS	31.3	36.9	36.9	39.0	43.2
CEPS	35.0	41.1	41.5	45.4	50.1
BVPS	150.2	148.7	148.8	161.6	174.3
DPS	12.9	21.8	21.5	23.0	26.0
Payout (%)	48.0	69.8	67.9	67.9	70.5
<b>Valuation (x)</b>					
P/E	16.4	15.3	20.1	18.6	16.8
P/BV	3.4	3.8	5.0	4.5	4.2
EV/EBITDA	11.4	11.9	14.6	13.3	11.6
Dividend Yield (%)	2.5	3.9	2.9	3.2	3.6
<b>Return ratio (%)</b>					
EBIDTA Margin	27.2	27.0	25.3	24.8	25.2
PAT Margin	21.0	22.8	18.6	18.7	18.6
ROAE	22.0	24.0	24.8	25.1	25.7
ROACE	30.6	30.4	33.5	34.3	35.7
<b>Leverage Ratios (x)</b>					
Long Term D/E	-	-	-	-	-
Net Debt/Equity	(0.5)	(0.4)	(0.4)	(0.3)	(0.4)
Debt/EBITDA	-	-	-	-	-
Interest Coverage	-	-	-	-	-
Current ratio	3.8	3.5	2.8	2.9	2.9
<b>Growth Ratios (%)</b>					
Income growth	9.7	3.0	17.2	10.2	11.3
EBITDA growth	8.9	2.2	9.9	8.2	13.1
PAT growth	6.4	12.2	0.2	5.5	10.6
<b>Turnover Ratios</b>					
F.A Turnover x	4.5	4.9	4.9	5.5	6.3
Debtors Days	42	40	40	39	38
Payable days	0	0	0	0	0

### Balance Sheet ( ` mn)

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Equity Share Capital	11,440	10,880	21,700	21,700	21,700
Reserves & Surplus	678,380	638,360	628,360	682,983	738,577
<b>Total Shareholders Fund</b>	<b>689,820</b>	<b>649,240</b>	<b>650,060</b>	<b>704,683</b>	<b>760,277</b>
<b>Non- current liabilities</b>	<b>(1,800)</b>	<b>(4,210)</b>	<b>(2,780)</b>	<b>(1,280)</b>	<b>220</b>
Deferred tax liabilities	(5,400)	(12,820)	(13,720)	(13,720)	(13,720)
Other LT liabilities & prov	3,600	8,610	10,940	12,440	13,940
<b>Current Liabilities</b>	<b>140,130</b>	<b>141,050</b>	<b>186,380</b>	<b>206,675</b>	<b>229,569</b>
Trade payables	3,670	6,940	16,550	19,033	21,887
Other cur liabilities & Prov	<b>136,460</b>	134,110	169,830	187,643	207,682
<b>Total Liabilities</b>	<b>828,150</b>	<b>786,080</b>	<b>833,660</b>	<b>910,078</b>	<b>990,066</b>
<b>Assets</b>					
<b>Non- current Assets</b>	<b>291,100</b>	<b>285,910</b>	<b>304,880</b>	<b>315,829</b>	<b>327,351</b>
Fixed assets	153,680	143,540	168,960	166,088	160,717
Long-term loans & adv	57,160	60,700	63,200	69,879	77,763
Other non-current assets	7,760	81,670	72,720	79,862	88,872
<b>Current assets</b>	<b>537,050</b>	<b>500,170</b>	<b>528,780</b>	<b>594,249</b>	<b>662,715</b>
Current investments	99,700	64,070	66,270	66,270	66,270
Trade receivables	123,220	131,420	148,270	164,715	183,298
Cash & bank balances	226,250	198,180	195,680	184,041	214,128
Short-term loans & adv	87,880	106,500	118,560	179,223	199,020
<b>Total Assets</b>	<b>828,150</b>	<b>786,080</b>	<b>833,660</b>	<b>910,078</b>	<b>990,066</b>

### Cash flow Statement

Year End-March	FY17	FY18	FY19	FY20E	FY21E
PBT	199,810	203,410	217,610	232,596	261,497
Depreciation	16,540	11,200	19,200	27,872	30,372
Others	(300)	(710)	(7,210)	-	-
<b>CF before W.cap</b>	<b>216,050</b>	<b>213,900</b>	<b>229,600</b>	<b>260,467</b>	<b>291,868</b>
Inc/dec in W.cap	19,440	31,130	(29,640)	69,133	30,879
<b>Op CF after W.cap</b>	<b>196,610</b>	<b>182,770</b>	<b>259,240</b>	<b>191,334</b>	<b>260,989</b>
Less Taxes	55,980	42,420	56,310	62,392	73,219
<b>Net CF From Operations</b>	<b>140,630</b>	<b>140,350</b>	<b>202,930</b>	<b>128,942</b>	<b>187,770</b>
Inc/(dec) in F.A + CWIP	27,600	8,480	45,520	25,000	25,000
(Pur)/sale of Investments	143,140	(40,920)	6,640	-	-
<b>CF from Invst Activities</b>	<b>(170,740)</b>	<b>32,440</b>	<b>(52,160)</b>	<b>(25,000)</b>	<b>(25,000)</b>
Equity Raised	(1,220)	(88,459)	(43,778)	-	(0)
Dividend	69,390	112,401	109,492	115,581	132,684
<b>CF from Fin Activities</b>	<b>(70,610)</b>	<b>(200,860)</b>	<b>(153,270)</b>	<b>(115,581)</b>	<b>(132,684)</b>
<b>Net inc/(dec) in cash</b>	<b>(100,720)</b>	<b>(28,070)</b>	<b>(2,500)</b>	<b>(11,639)</b>	<b>30,086</b>
<b>Op. bal of cash</b>	<b>326,970</b>	<b>226,250</b>	<b>198,180</b>	<b>195,680</b>	<b>184,041</b>
<b>Cl. balance of cash</b>	<b>226,250</b>	<b>198,180</b>	<b>195,680</b>	<b>184,041</b>	<b>214,128</b>



## Institutional Equity Team

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