

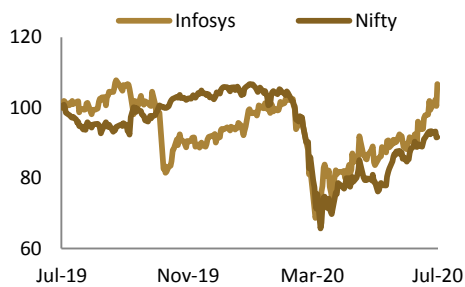
### Market statistics

Current stock price (₹)	831
Shares O/S (cr.)	425.9
Mcap (₹ cr)	354,127
52W H/L (₹)	848/511
Bloomberg	INFO.IN

### Shareholding pattern

Promoters	13.15
Domestic Institution	24.68
Foreign Institution	48.37
Non-institution	13.80
of which more than 1%	

### Infosys vs Nifty



### Capital efficiency & valuations

Particulars	FY20	FY21E	FY22E
RoE (%)	25.4	26.2	26.3
EPS (₹)	38.7	41.8	46.4
CEPS (₹)	45.5	49.0	54.1
P/E (x)	16.5	19.9	17.9
P/BV (x)	4.2	5.0	4.4
EV/EBITDA (x)	11.5	13.5	11.9
Income growth (%)	9.8	7.1	9.1
EBITDA growth (%)	6.6	14.9	10.7
PAT growth (%)	3.2	8.0	10.8

We maintain our Buy rating on Infosys, following Q1 revenue / margin outperformance (both absolute and relative compared to IT peers). Key positives of Q1: (1) large deal renewals (16% YoY) and largest-ever deal win (Vanguard) provide growth visibility; (2) resilience in core geography (North America, BFSI) and large accounts supported by demand in cloud, workplace transformation, and automation; (3) operational rigour, aided by cost optimisation (including short-term discretionary cuts), coupled with strong cash flows (Q1 FCF/PAT at 130%). Infosys's operational outperformance vs. TCS is reflected in margin differential being the lowest in two years (94bps), lower supply-side disruption, converging attrition coupled with revenue growth momentum. We maintain a Buy rating on INFO on account of TCV deals won, client wins, client mining momentum and margin levers on account of non-linear initiatives.

**1QFY21 quarter:** Revenue and margin beat estimates with revenue declining just 2% QoQ and EBIT margin at 22.7%, +149bps QoQ. Total revenue impact during the quarter was contributed by supply-side constraints (10% of total impact) and the remaining by demand side. Digital (44.5% of revenue) grew 25.5% YoY (cc terms). Life Sciences grew 7.7% cc YoY, communication, -0.7%, energy and utilities, -0.2%, manufacturing, 0.3% and hi-tech, +13.4% during the quarter. Retail remained soft during the quarter. The Americas was flat YoY, cc, while Europe grew 4.4% YoY cc and RoW declined 2.2%. Margin improvement was driven by currency tailwinds (+70 bps), lower travel expenses (+230 bps), and lower SG&A expenses (+110 bps), partially offset by lower utilisation (-150 bps) and higher variable pay (-100 bps). Utilisation dropped QoQ to 81.2% from 83.5% in Q4FY20, primarily owing to supply-side constraints in view of COVID-19. Onsite utilisation remained steady despite drop in the beginning of the quarter.

**Large deal wins:** Infosys has signed 15 large deals during the quarter, with TCVs of US\$1.74bn (versus US\$1.65bn/US\$2.7bn in Q4FY20/Q1FY20). Out of 15 large deals, the company won five deals in financial services, three deals each in retail, energy and utilities, and hi-tech and one deal in manufacturing. Geography wise, the company signed 13 deals in North America and two deals in Europe. The share of new deals to overall TCVs stood at about 19% versus 66% in Q4FY20.

**Guidance reinstated; deal wins remains strong** Infosys' management resumed its annual revenue growth guidance. Surprisingly, management has guided FY21E revenue growth of 0-2% in CC terms. Further, the company expects operating margin to remain at 21-23% (EBIT margin was 21.3% in FY20). Even as reduction of IT spending is expected in CY20, Infosys is well positioned to gain share in the recessionary environment and outperform peers in terms of revenue growth. Management indicated faster recovery in volume and deals in financial services vertical especially in USA and APAC, though it continues to see softness in capital market and payment sector. However, deal wins momentum remains strong across the vertical, given strong demand for digital transformation, cloud, work transformation, cost efficiency, automation, and cyber security.

**Strong balance sheet and cash flows:** Infosys had cash balance of US\$3.8bn with no debt. Increased focus on cash collections resulted in US\$728mn of FCF during the quarter. FCF grew by 22.8% QoQ and 50.1% YoY.

**Valuation and Outlook:** We have revised our earnings estimates upwards for FY21/FY22E, factoring in strong Q1FY21 results and impressive annual guidance. We are positive on account of TCV deals won, client mining momentum, vendor consolidation benefits and margin levers on account of non-linear initiatives and comforting valuations. We maintain our Buy recommendation.

ANALYST

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**Exhibit 1: Quarterly details**

₹ mn	1QFY20	4QFY20	1QFY21	QoQ (%)	YoY (%)	Comments
<b>Revenues (in US\$mn)</b>	<b>3,131</b>	<b>3,197</b>	<b>3,121</b>	<b>(2.4)</b>	<b>(0.3)</b>	Revenue declined 2% QoQ in cc terms
<b>Revenues</b>	<b>218,030</b>	<b>232,670</b>	<b>236,650</b>	<b>1.7</b>	<b>8.5</b>	
- Operating costs	166,510	175,910	175,440	(0.3)	5.4	
<b>EBITDA</b>	<b>51,520</b>	<b>56,760</b>	<b>61,210</b>	<b>7.8</b>	<b>18.8</b>	<b>Key margin movers:</b> currency tailwinds (+70 bps), lower travel expenses (+230 bps), lower SG&A expenses (+110 bps), lower utilisation (-150 bps) and higher variable pay (-100 bps)
<b>EBITDA margin (%)</b>	<b>23.6</b>	<b>24.4</b>	<b>25.9</b>	<b>147bps</b>	<b>224bps</b>	
- Interest expense	-	450	480	6.7	-	
- Depreciation	6,810	7,490	7,560	0.9	11.0	
+ Other income, net (incl forex)	7,360	6,140	4,750	(22.6)	(35.5)	
<b>PBT</b>	<b>52,070</b>	<b>55,410</b>	<b>58,400</b>	<b>5.4</b>	<b>12.2</b>	
- Taxes	13,650	11,610	15,200	30.9	11.4	
Effective tax rate (%)	26.4	21.1	26.2	512bps	(17)bps	Tax rate to remain in the range of ~25-26%
<b>PAT</b>	<b>38,420</b>	<b>43,800</b>	<b>43,200</b>	<b>(1.4)</b>	<b>12.4</b>	
Net margin (%)	17.6	18.8	18.3	(57)bps	63bps	
<b>Reported profits</b>	<b>38,020</b>	<b>43,350</b>	<b>42,720</b>	<b>(1.5)</b>	<b>12.4</b>	

Source: Company

**Exhibit 2: Change in estimates**

₹ mn	FY21E			FY22E		
	Old	New	% Chg	Old	New	% Chg
Revenue (US\$ mn)	12,382	12,929	4.4	13,548	14,148	4.4
Revenue	903,906	972,323	7.6	980,029	1,061,071	8.3
EBITDA margin (%)	24.2	26.3	210bps	24.3	26.7	230bps
EPS (₹)	37.3	41.8	12.1	41.1	46.4	12.9

Source: Trust Research

**Geography wise Revenues:** The Americas was flat YoY, cc, while Europe grew 4.4% YoY cc and RoW declined 2.2%**Exhibit 3: Geographical wise Performance**

Geographical mix	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
North America	60.0	60.3	60.4	61.2	61.6	61.4	61.3	61.6	61.5
Europe	24.3	24.0	24.2	24.0	23.6	24.1	24.4	24.4	24.0
India	2.6	2.5	2.6	2.3	2.3	2.7	2.8	2.6	2.9
RoW	13.1	13.2	12.8	12.5	12.5	11.8	11.5	11.4	11.6
<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:** Life Sciences grew 7.7% cc YoY, communication, -0.7%, energy and utilities, -0.2%, manufacturing, 0.3% and hi-tech, +13.4% during the quarter. Retail remained soft during the quarter.

#### Exhibit 4: Vertical Segmentation

Vertical Mix	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
BFSI	31.8	32.2	32.5	31.6	31.4	31.9	31.5	31.3	31.5
Retail	16.6	16.8	16.4	15.9	15.8	15.2	15.3	15.5	14.3
Communication	12.7	12.3	11.9	13.5	13.8	13.1	13.0	13.0	13.4
Energy, utilities, Resources	12.4	12.3	12.8	12.7	13.0	13.1	12.8	12.9	12.8
Manufacturing	9.6	9.6	10.1	10.0	9.6	10.1	10.3	10.1	9.5
Hitech	7.4	7.5	7.3	7.7	7.7	7.6	7.6	7.9	8.7
Healthcare & Lifesciences	6.6	6.4	6.2	6.0	6.1	6.4	6.7	6.4	6.7
Others	2.9	2.9	2.8	2.6	2.6	2.6	2.8	2.9	3.1
<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) decreased by 230bps QoQ to 81.2%. Infosys has been consistently maintaining the utilization rate at more than 80% for the past 18 quarters. Going forward, Infosys would use utilization as a margin lever. The company's headcount decreased by 3,138 (net basis) to take the strength to 239,233.

#### Exhibit 5: Employee strength

Employees	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
<b>Total employees</b>	<b>209,905</b>	<b>217,739</b>	<b>225,501</b>	<b>228,123</b>	<b>229,029</b>	<b>236,486</b>	<b>243,454</b>	<b>242,371</b>	<b>239,233</b>
Software professionals	197,637	205,150	212,358	214,727	215,412	222,851	229,658	228,449	225,167
Sales & support	12,268	12,589	13,143	13,396	13,617	13,635	13,796	13,922	14,066
Net addition	5,798	7,834	7,762	2,622	906	7,457	6,968	(1,083)	(3,138)

Source: Company

**Client Concentration:** The Company added 110 new clients in Q1 taking the total list to 1,458 clients (47 on a net-basis). INFY lost 3 clients in the US\$100mn+ taking the list to 25.

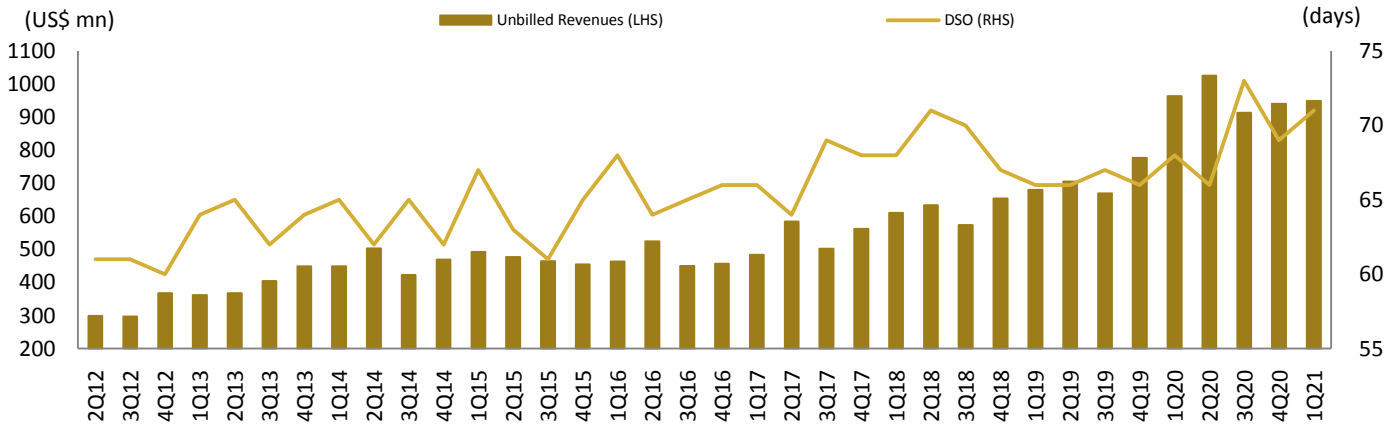
#### Exhibit 6: Client details

Client metrics	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
<b>Active clients</b>	<b>1,214</b>	<b>1,222</b>	<b>1,251</b>	<b>1,279</b>	<b>1,336</b>	1,364	1,384	1,411	1,458
<b>Clients added</b>	<b>70</b>	<b>73</b>	<b>101</b>	<b>101</b>	<b>112</b>	96	84	84	110
1 million dollar +	627	633	651	662	680	693	705	718	729
10 million dollar +	200	205	214	222	228	228	232	234	236
50 million dollar +	56	58	59	60	59	61	61	61	60
100 million dollar +	24	23	23	25	27	27	28	28	25
<b>Top client (%)</b>	<b>3.7</b>	<b>3.9</b>	<b>3.4</b>	<b>3.3</b>	<b>3.2</b>	<b>3.2</b>	<b>3.0</b>	<b>3.1</b>	<b>3.4</b>
<b>Top-10 clients (%)</b>	<b>19.2</b>	<b>19.4</b>	<b>19.2</b>	<b>19.7</b>	<b>20.0</b>	<b>19.2</b>	<b>18.9</b>	<b>18.7</b>	<b>19.3</b>
Repeat business (%)	99.5	98.2	96.6	95.2	99.0	98.1	97.2	95.9	99.0

Source: Company

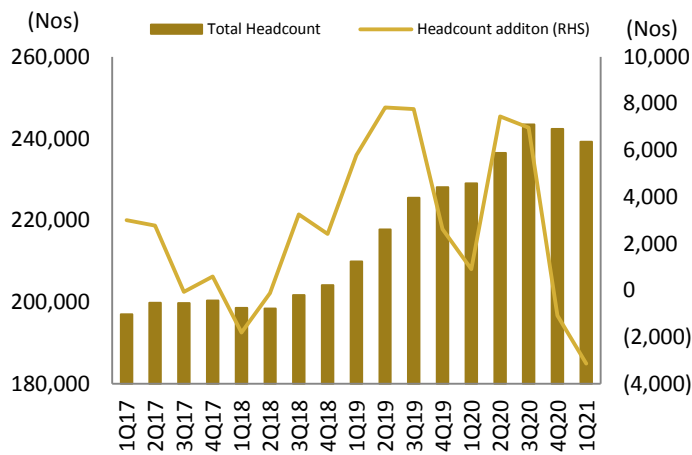


**Exhibit 7: Unbilled revenue increased, DSO days increased 2 days to 71**



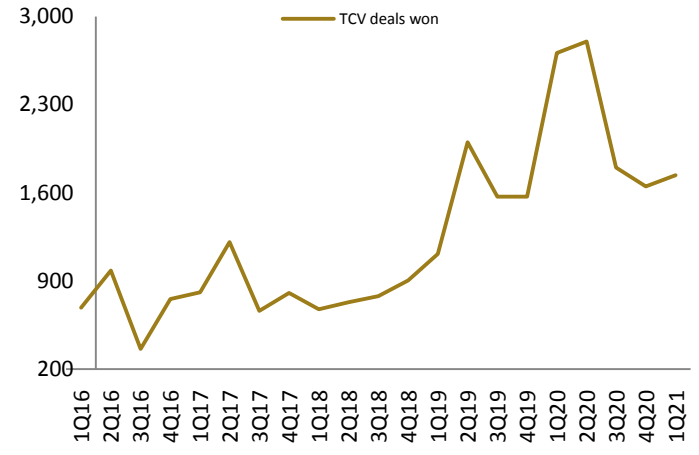
Source: Company, Trust

**Exhibit 8: Utilization to be used as a lever**



Source: Company, Trust

**Exhibit 9: TCV deals to help volume growth in future**



Source: Company, Trust



## Financials

### Income Statement (₹ mn)

Year End-March	FY18	FY19	FY20	FY21E	FY22E
<b>Revenues</b>	<b>705,220</b>	<b>826,750</b>	<b>907,910</b>	<b>972,323</b>	<b>1,061,071</b>
Op. Expenses	515,120	617,870	685,230	716,465	777,947
<b>EBITDA</b>	<b>190,100</b>	<b>208,880</b>	<b>222,680</b>	<b>255,858</b>	<b>283,124</b>
Other Income	31,930	28,830	28,030	19,900	21,400
Depreciation	18,620	20,100	28,940	30,782	33,435
<b>EBIT</b>	<b>203,410</b>	<b>217,610</b>	<b>221,770</b>	<b>244,976</b>	<b>271,089</b>
Interest	-	-	1,690	1,920	2,016
<b>PBT</b>	<b>203,410</b>	<b>217,610</b>	<b>220,080</b>	<b>243,056</b>	<b>269,073</b>
Tax	42,420	56,310	53,680	63,335	69,959
<b>PAT</b>	<b>160,990</b>	<b>161,300</b>	<b>166,400</b>	<b>179,721</b>	<b>199,114</b>
Ex. ordinary	710	7,210	-	-	-
<b>Adj Pat</b>	<b>160,280</b>	<b>154,090</b>	<b>166,400</b>	<b>179,721</b>	<b>199,114</b>

### Key Parameters

Year End-March	FY18	FY19	FY20	FY21E	FY22E
<b>Per share (₹)</b>					
EPS	36.9	37.0	38.7	41.8	46.4
CEPS	41.1	41.5	45.5	49.0	54.1
BVPS	148.7	148.8	153.3	165.7	188.1
DPS	21.8	21.5	17.5	21.0	24.0
Payout (%)	69.8	67.9	52.3	50.2	51.8
<b>Valuation (x)</b>					
P/E	15.3	20.1	16.5	19.9	17.9
P/BV	3.8	5.0	4.2	5.0	4.4
EV/EBITDA	11.9	14.6	11.5	13.5	11.9
Dividend Yield (%)	3.9	2.9	2.7	2.5	2.9
<b>Return ratio (%)</b>					
EBIDTA Margin	27.0	25.3	24.5	26.3	26.7
PAT Margin	22.8	18.6	18.3	18.5	18.8
ROAE	24.0	24.8	25.4	26.2	26.3
ROACE	30.4	33.5	33.9	35.8	35.7
<b>Leverage Ratios (x)</b>					
Long Term D/E	-	-	-	-	-
Net Debt/Equity	(0.4)	(0.4)	(0.4)	(0.3)	(0.4)
Debt/EBITDA	-	-	-	-	-
Interest Coverage	-	-	-	-	-
Current ratio	3.5	2.8	2.8	2.6	2.8
<b>Growth Ratios (%)</b>					
Income growth	3.0	17.2	9.8	7.1	9.1
EBITDA growth	2.2	9.9	6.6	14.9	10.7
PAT growth	12.2	0.2	3.2	8.0	10.8
<b>Turnover Ratios</b>					
F.A Turnover x	5	5	5	5.1	5.5
Debtors Days	66	62	67	69	68
Payable days	4	7	12	12	12

### Balance Sheet (₹ mn)

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	10,880	21,700	21,220	21,220	21,220
Reserves & Surplus	638,360	628,360	637,220	690,693	786,725
<b>Total Shareholders Fund</b>	<b>649,240</b>	<b>650,060</b>	<b>658,440</b>	<b>711,913</b>	<b>807,945</b>
<b>Non- current liabilities</b>	<b>(4,210)</b>	<b>(2,780)</b>	<b>43,240</b>	<b>47,220</b>	<b>48,720</b>
Deferred tax liabilities	(12,820)	(13,720)	(17,440)	(14,960)	(14,960)
Other LT liabilities & prov	8,610	10,940	60,680	62,180	63,680
<b>Current Liabilities</b>	<b>141,050</b>	<b>186,380</b>	<b>208,560</b>	<b>229,090</b>	<b>250,198</b>
Trade payables	6,940	16,550	28,520	32,798	37,062
Other cur liabilities & Prov	134,110	169,830	180,040	196,292	213,136
<b>Total Liabilities</b>	<b>786,080</b>	<b>833,660</b>	<b>910,240</b>	<b>988,223</b>	<b>1,106,863</b>
<b>Assets</b>					
<b>Non- current Assets</b>	<b>285,910</b>	<b>304,880</b>	<b>364,480</b>	<b>376,047</b>	<b>394,389</b>
Fixed assets	143,540	168,960	189,850	192,238	193,803
Long-term loans & adv	60,700	63,200	53,840	55,942	61,048
Other non-current assets	81,670	72,720	120,790	127,867	139,538
<b>Current assets</b>	<b>500,170</b>	<b>528,780</b>	<b>545,760</b>	<b>588,226</b>	<b>688,524</b>
Current investments	64,070	66,270	46,550	46,550	46,550
Trade receivables	131,420	148,270	184,870	223,742	227,443
Cash & bank balances	198,180	195,680	186,490	200,123	272,587
Short-term loans & adv	106,500	118,560	127,850	141,760	165,894
<b>Total Assets</b>	<b>786,080</b>	<b>833,660</b>	<b>910,240</b>	<b>988,223</b>	<b>1,106,863</b>

### Cash flow Statement

Year End-March	FY18	FY19	FY20	FY21E	FY22E
PBT	203,410	217,610	220,080	243,056	269,073
Depreciation	11,200	19,200	25,220	30,782	33,435
Others	(710)	(7,210)	-	-	-
<b>CF before W.cap</b>	<b>213,900</b>	<b>229,600</b>	<b>245,300</b>	<b>273,838</b>	<b>302,508</b>
Inc/dec in W.cap	31,130	(29,640)	590	15,982	22,003
<b>Op CF after W.cap</b>	<b>182,770</b>	<b>259,240</b>	<b>244,710</b>	<b>257,856</b>	<b>280,505</b>
Less Taxes	42,420	56,310	53,680	63,335	69,959
<b>Net CF From Operations</b>	<b>140,350</b>	<b>202,930</b>	<b>191,030</b>	<b>194,521</b>	<b>210,546</b>
Inc/(dec) in F.A + CWIP	8,480	45,520	49,830	33,170	35,000
(Pur)/sale of Investments	(40,920)	6,640	(7,630)	21,470	-
<b>CF from Invst Activities</b>	<b>32,440</b>	<b>(52,160)</b>	<b>(42,200)</b>	<b>(54,640)</b>	<b>(35,000)</b>
Equity Raised	(144,659)	(43,778)	(70,991)	(36,050)	-
Dividend	56,201	109,492	87,029	90,198	103,082
<b>CF from Fin Activities</b>	<b>(200,860)</b>	<b>(153,270)</b>	<b>(158,020)</b>	<b>(126,248)</b>	<b>(103,082)</b>
<b>Net inc/(dec) in cash</b>	<b>(28,070)</b>	<b>(2,500)</b>	<b>(9,190)</b>	<b>13,633</b>	<b>72,464</b>
<b>Op. bal of cash</b>	<b>226,250</b>	<b>198,180</b>	<b>195,680</b>	<b>186,490</b>	<b>200,123</b>
<b>Cl. balance of cash</b>	<b>198,180</b>	<b>195,680</b>	<b>186,490</b>	<b>200,123</b>	<b>272,587</b>



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