

Q4FY21 result review
and earnings revision

Technology

Target price: Rs1,600

Earnings revision

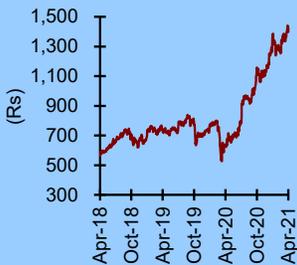
(%)	FY22E	FY23E
Sales	↑ 4.1	↑ 3.4
EBIT	↑ 11.5	↑ 3.1
EPS	↑ 9.3	↑ 1.0

Shareholding pattern

	Jun '20	Sep '20	Dec '20
Promoters	13.2	13.0	13.0
Institutional investors	55.9	56.3	56.4
MFs and other	13.8	14.2	14.0
FIs/Insurance	11.4	10.4	9.8
FPI	30.5	31.3	32.7
Others	31.0	30.8	31.7

Source: www.nseindia.com

Price chart



INDIA

Infosys

A reality check!

Our anti-consensus sector stance on impending growth disappointments in IT ([Link](#), [Link](#), [Link](#), [Link](#)) has started playing out. Organic growth reported by TCS / Infosys in Mar-21 (2.6%/2% QoQ, CC) hint at mean reversion towards growth in a typical March quarter even pre-Covid. That challenges the current consensus expectation of structurally higher growth rates for the sector post-Covid. Management commentary on medium-term growth outlook sounded more cautious (vs in previous quarters). Large deal signings (US\$2.1bn) were a tad lower than street expectations. Both revenue growth (12%-14% YoY, CC) and EBIT margin guidance (22%-24%) for FY22 were in line with consensus. However, understanding the FX assumptions baked into margin guidance is the key – (could it be 21%-23% without the recent INR depreciation?! Retention costs (absent over TTM) may become a key overhang on profitability as attrition jumped 520bps QoQ to 15.2%. Both the quantum (Rs92bn) and mode of buyback were disappointing given the tax / signalling inefficiency associated with open market buybacks. As we rebase our exchange rate assumptions (FY22 / FY23E to INR 75 / 76 per USD), our FY22E EPS witnesses an upgrade of 9.3% even as FY23E EPS stays stable. Despite the multiple disappointments and demanding valuations (27x FY22E EPS), we remain buyers given Infosys' relative business momentum in the sector. (1) Intense 2nd wave in India, 2) depreciating INR, and 3) buyback can offer tactical price support.

- **Disappointments at multiple levels.** Revenue growth (+2% QoQ, CC) fell short of our / consensus expectations (+3%-3.2%). It should be noted this is roughly in line with the average March quarter growth of the company pre-Covid. This further corroborates our arguments that industry growth is unlikely to accelerate materially post-Covid. Strong volume growth (+4.6%) did not translate into a proportionate revenue growth due to offshore shift of the effort mix. Lower than expected impact of wage hikes (130bps) led to a slight beat (+30bps) on consensus' margin expectations. While overall utilizations (82.2%) remained stable, effort mix shifted further offshore (+100bps) aiding margins. While attrition usually inches up post wage revisions, the spike is very sharp this time (+520bps to 15.2%).
- **Medium-term outlook sounded more cautious; Guidance on expected lines.** Management commentary on medium-term growth outlook sounded more cautious (vs in previous quarters). Large deal signings (US\$2.1bn) were a tad lower than street expectations. Both revenue growth (12%-14% YoY, CC) and EBIT margin guidance (22%-24%) for FY22 were in line with consensus. However, understanding FX assumptions baked into margin guidance is the key – (could it be 21%-23% without the recent INR depreciation?!)
- **Remain BUYers given the relative business momentum in the sector.** As we rebase our exchange rate assumptions (FY22E/FY23E to INR 75 / 76 per USD), our FY22E EPS witnesses an upgrade of 9.3% even as FY23E EPS stays stable. Despite the multiple disappointments and demanding valuations (27x FY22E EPS), we remain buyers given Infosys' relative business momentum in the sector. (1) Intense 2nd wave in India, 2) depreciating INR, and 3) buyback can offer tactical price support.

Market Cap	Rs5953bn/US\$79.5bn
Reuters/Bloomberg	INFY.BO/INFO IN
Shares Outstanding (mn)	4,260.7
52-week Range (Rs)	1441/624
Free Float (%)	87.0
FII (%)	32.7
Daily Volume (US\$'000)	1,67,398
Absolute Return 3m (%)	0.7
Absolute Return 12m (%)	124.6
Sensex Return 3m (%)	(1.8)
Sensex Return 12m (%)	59.9

Year to March	2021	2022E	2023E	2024E
Revenue (Rs mn)	1004730	1185274	1320786	1426674
Net Income (Rs mn)	1,93,510	2,18,391	2,42,704	2,62,361
EPS (Rs)	45.5	51.9	58.0	62.7
% Chg YoY	17.0	13.9	11.8	8.1
P/E (x)	30.7	26.9	24.1	22.3
CEPS (Rs)	53.3	60.7	68.0	74.4
EV/E (x)	21.3	18.6	16.6	15.2
Dividend Yield	1.9	1.7	2.0	2.1
RoCE (%)	21.2	24.0	23.3	22.0
RoE (%)	25.2	28.2	26.9	25.2

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Table 1: Q4FY21 result review*(Rs mn, year ending March 31)*

	Q4FY21	Q3FY21	Q4FY20	% change (QoQ)	% change (YoY)
Revenues (US\$ mn)	3,613	3,516	3,197	2.8	13.0
INR/USD	72.8	73.7	72.8	(1.2)	0.1
Net Sales	2,63,110	2,59,270	2,32,670	1.5	13.1
Cost of development	1,63,330	1,59,510	1,47,520	2.4	10.7
Selling & marketing	12,000	11,450	11,720	4.8	2.4
General & Admin	15,070	14,160	16,670	6.4	(9.6)
Total Expenses	1,90,400	1,85,120	1,75,910	2.9	8.2
EBITDA	72,710	74,150	56,760	(1.9)	28.1
Depreciation	8,310	8,260	7,490	0.6	10.9
EBIT	64,400	65,890	49,270	(2.3)	30.7
Other Income	5,450	6,110	6,140	(10.8)	(11.2)
Finance cost	-500	-490	-450	2.0	11.1
Recurring pre-tax income	69,350	71,510	54,960	(3.0)	26.2
Share in associate's profit/(loss)	-20	-180	-140	(88.9)	(85.7)
Taxation	18,570	19,360	11,610	(4.1)	59.9
Recurring Net Income	50,760	51,970	43,210	(2.3)	17.5
Extraordinary income/(expense)	0	0	0		
Reported Net Income	50,760	51,970	43,210	(2.3)	17.5
Recurring EPS (Rs)	12.0	12.2	10.2	(2.2)	17.5
Ratios (%)					
EBITDA margin	27.6	28.6	24.4		
EBIT margin	24.5	25.4	21.2		
Effective tax rate	26.8	27.1	21.1		
Net profit margins	19.3	20.0	18.6		

Source: Company data, I-Sec research

Table 2: Q4FY21 actuals vs estimates

	Mar-21A	Dec-20	QoQ	Mar-20	YoY	Mar-21E	vs I-Sec	Consensus	% chg
CC Growth	2.0%	5.3%	-330 bps	-0.8%	280 bps	3.2%	-120 bps	3.0%	-100 bps
Net sales (US\$ mn)	3,613	3,516	2.8%	3,197	13.0%	3,657	-1.2%	3,644	-0.9%
Rs bn									
Net sales	263	259	1.5%	233	13.1%	266	-1.2%	265.8	-1.0%
EBIT	64.4	65.9	-2.3%	49.3	30.7%	61.8	4%	64.3	0.1%
EBIT margins	24.5%	25.4%	-90 bps	21.2%	330 bps	23.2%	130 bps	24.2%	30 bps
Recurring net Income	50.7	52.0	-2.4%	43.2	17.3%	49.8	2%	51.3	-1.2%
Net Income margin	19.3%	20.0%	-80 bps	18.6%	70 bps	18.7%	60 bps	19.3%	00 bps
EPS (Rs/share)	11.9	12.2	-2.3%	10.2	17.3%	11.8	2%	12.1	-1.2%

Source: Company data, I-Sec research

Table 3: Change in estimates

	Revised		Earlier		Change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
INR/USD	75.0	76.0	73.0	74.5	2.7%	2.0%
USD Revenue - m	15,804	17,379	15,598	17,152	1.3%	1.3%
Growth (%)	16.5	10.0	15.1	10.0	140bps	0bps
EBIT margin - Overall (%)	23.5	23.5	22.0	23.5	160bps	0bps
PAT (Rs mn)	218	243	201	243	8.7%	-0.2%
EPS	51.9	58.0	47.5	57.4	9.3%	1.0%

Source: Company data, I-Sec research

Financial summary

Table 4: Profit and Loss statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Revenues (US \$mn)	13,562	15,804	17,379	18,772
Operating Revenues (Sales)	10,04,730	11,85,274	13,20,786	14,26,674
Operating Expenses	7,25,840	8,71,194	9,69,074	10,42,870
EBITDA	2,78,890	3,14,080	3,51,712	3,83,804
% margins	27.8	26.5	26.6	26.9
Depreciation & Amortisation	32,670	35,242	41,327	48,536
EBIT	2,46,220	2,78,838	3,10,385	3,35,268
% margins	24.5	23.5	23.5	23.5
Other Income	20,060	18,408	19,949	21,819
Recurring PBT	2,66,280	2,97,246	3,30,333	3,57,087
Add: Extraordinary exps / (Inc)				
Less: Taxes	72,050	78,770	87,538	94,628
Less: Minority Interest	720	84	91	99
Net Income (Reported)	1,93,510	2,18,391	2,42,704	2,62,361
Recurring Net Income	1,93,510	2,18,391	2,42,704	2,62,361

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
LIABILITIES				
Equity Capital	21,220	21,240	21,240	21,240
Reserves and Surpluses	6,37,220	7,46,580	7,54,295	8,82,123
Shareholders' funds	6,58,440	7,67,820	7,75,535	9,03,363
Non-current Liabilities	60,680	77,390	77,390	77,390
Total Liabilities	7,19,120	8,45,210	8,52,925	9,80,753
ASSETS				
Fixed Assets	2,50,530	2,65,680	3,10,690	3,65,336
Other non-current assets	1,31,390	2,10,850	2,10,850	2,10,850
Total non-current assets	3,81,920	4,76,530	5,21,540	5,76,186
Current Assets				
Cash and cash equivalents	2,33,040	2,70,560	2,50,026	3,13,907
Other current assets	3,12,720	3,36,770	3,66,645	4,08,563
Total Current Assets	5,45,760	6,07,330	6,16,671	7,22,470
less: Current Liabilities	2,08,560	2,38,650	2,85,285	3,17,902
Net Current Assets	3,37,200	3,68,680	3,31,385	4,04,568
Total Assets	7,19,120	8,45,210	8,52,925	9,80,753

Source: Company data, I-Sec research

Table 6: Quarterly trend

(Rs mn, year ending March 31)

	Jun-20	Sep-20	Dec-20	Mar-21
Net sales	2,36,650	2,45,700	2,59,270	2,63,110
% growth (YoY)	8.5	8.6	12.3	13.1
Recurring EBITDA	61,210	70,830	74,140	72,710
Margin (%)	25.9	28.8	28.6	27.6
Other income	4,270	5,220	5,620	4,950
Extraordinary Inc / (Loss)	0	0	0	0
Recurring Net Income	42,330	48,450	51,970	50,760

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Op CF before W Cap changes	2,10,351	2,31,085	2,52,714	2,72,489
Working Capital Inflow / (Outflow)	6,040	16,761	(9,302)	(7,268)
Operating Cashflow (OCF)	2,16,391	2,47,845	2,43,412	2,65,221
Capex	(47,820)	(80,252)	(95,973)	(1,11,085)
Free Cashflow (FCF)	1,68,571	1,67,594	1,47,439	1,54,135
Cashflow from other				
Invst Act (ex-capex)	(79,460)	-	-	-
Dividend paid and buyback	(1,27,253)	(2,10,676)	(1,14,876)	(1,23,728)
Others	43,123	-	-	-
Inc./(Dec.) in Cash	4,981	(43,083)	32,563	30,407

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY21	FY22E	FY23E	FY24E
Per Share Data (Rs)				
Fully Diluted Recurring EPS	45.5	51.9	58.0	62.7
Recurring Cash EPS	53.3	60.7	68.0	74.4
Dividend per share (DPS)	27.0	24.0	27.5	29.6
Book Value per share (BV)	180.9	185.6	216.2	249.4
Growth Ratios (%)				
Operating Income (Sales) - US\$ terms	6.1	16.5	10.0	8.0
Operating Income (Sales)	10.7	18.0	11.4	8.0
EBITDA	25.2	12.6	12.0	9.1
Recurring Net Income	16.6	12.9	11.1	8.1
Diluted Recurring EPS	17.0	13.9	11.8	8.1
Diluted Recurring CEPS	24.4	13.9	12.0	9.5
Valuation Ratios (x)				
P/E	30.7	26.9	24.1	22.3
P/CEPS	26.2	23.0	20.6	18.8
P/BV	7.7	7.5	6.5	5.6
EV / EBITDA	21.3	18.6	16.6	15.2
EV / Sales	5.9	4.9	4.4	4.1
Operating Ratios				
Software Development Expenses/Sales (%)	65.1	65.5	65.5	65.5
SG&A/Sales (%)	10.4	11.0	11.0	11.0
Other Income / PBT (%)	7.5	6.2	6.0	6.1
Effective Tax Rate (%)	27.1	26.5	26.5	26.5
Fixed Asset Turnover (x) on average	3.8	3.8	3.6	3.3
Receivables (days)	97	88	88	88
D/E Ratio (x)	-	-	-	-
Return/Profitability Ratios (%)				
Recurring Net Income Margins	19.3	18.4	18.4	18.4
RoCE	21.2	24.0	23.3	22.0
RoNW	25.2	28.2	26.9	25.2
Dividend Payout Ratio	59.3	46.3	47.4	47.2
Dividend Yield	1.9	1.7	2.0	2.1
EBITDA Margins	27.8	26.5	26.6	26.9
EBIT Margins	24.5	23.5	23.5	23.5

Source: Company data, I-Sec research

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