

Retail Equity Research

Infosys Limited

IT Services

BSE CODE: 500209

NSE CODE: INFY

Bloomberg CODE: INFO:IN

SENSEX: 48,832

BUY

12M Investment period

Rating as per Large Cap

CMP Rs. 1,353 TARGET Rs. 1,614 RETURN 19%
(Closing: 16-04-21) 

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Decent quarter on strong topline

Infosys Limited provides IT consulting and software services, including e-business, program management and supply chain solutions. The Group's services include application development, product co-development, and system implementation and system engineering. Infosys targets businesses specializing in the insurance, banking, telecommunication and manufacturing sectors.

- Revenue grew by 13.1% YoY aided by double digit growth in Financial services, Hi-Tech and Life sciences verticals.
- EBIT margins expanded 330bps to 24.5% driven by higher utilization and offshore mix levels which further enabled a 17.5% growth in company's bottomline taking it to Rs. 5,076cr.
- Recurring demand in its traditional verticals and significant growth opportunity in Digital space will continue to drive company's performance in the near to medium term. We hereby reiterate our BUY rating on the stock with a revised TP of Rs. 1,614 based on 27x FY23E adj. EPS.

Broad-based segmental growth aids overall revenue

Q4FY21 revenue went up 13.1% YoY to Rs. 26,310cr (+9.6% YoY in constant currency "cc" terms) owing to strong performance seen across all of its business segments. Financial services revenue rose by 19.2% YoY (+15.6% YoY on cc basis) to Rs. 8,677cr, whereas Hi-Tech and Life Sciences segments grew by 15.9% YoY (+15.5% YoY cc) to Rs. 2,123cr and 21.1% YoY (+18.3% YoY cc) to Rs. 1,796cr respectively. Communication segment revenue stood at Rs. 3,155cr, growing at 4.6% YoY (-0.8% YoY cc), while that of Energy segment increased by 8.1% YoY to Rs. 3,234cr (+4.9% YoY cc). Revenues from retail segment stood at Rs. 3,902cr (+7.7% YoY, +4.5% YoY cc). Regionally, North America registered a 12.3% YoY growth in topline on cc basis, with Europe and India showing growth of 5.1% and 30.8% YoY, respectively.

Margins remain steady on account of cost optimization

With both utilization and offshore effort mix at all-time highs, EBIT Margin expanded by 330bps YoY (contracted by 95bps QoQ) to 24.5%. Sequential contraction is primarily due to compensation increases rolled out in this quarter and also due to slight increase in G&A costs partially offset by benefits from cost optimization techniques.

Key concall highlights

- During Q4FY21, company won 23 large deals worth 2.1bn dollars, of which share of new deals is at 52%. Digital portfolio contribution to overall revenue continued to improve (51.5% in Q4FY21 vs 50.1% in Q3FY21).
- Company reached all-time high utilization levels of 87.7% (vs. 86.3% in Q3FY21). Meanwhile, employee attrition rose to 15.2% (vs. 10.0% in Q3FY21).
- Management guided full-year revenue growth for FY22 to come in around 12-14% in cc terms, with expected EBIT margins of 22-24%.
- Board approved a final dividend of Rs. 15 per share (totaling Rs. 27 per share for FY21), and also approved buyback of equity shares up to Rs. 9,200cr.

Valuation

Strong traction and growth momentum, large deal wins coupled with improved focus on executional abilities improves the medium-term outlook of business. Along with these, Infosys' focus on margins and FCF growth should drive stock performance. Hence, we reiterate our BUY rating on the stock with a revised TP of Rs. 1,614 based on 27x FY23E adj. EPS.

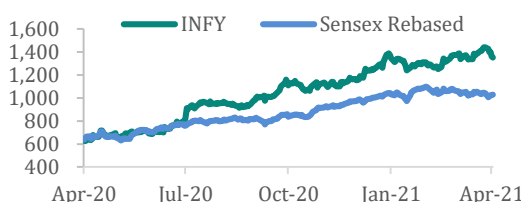
Company Data

Market Cap (cr)	Rs. 570,586
Enterprise Value (cr)	Rs. 553,565
Outstanding Shares (cr)	425.1
Free Float	87.0%
Dividend Yield	2.0%
52 week high	Rs. 1,480
52 week low	Rs. 626
6m average volume (lacs)	5.6
Beta	0.7
Face value	Rs. 5

Shareholding %	Q2FY21	Q3FY21	Q4FY21
Promoters	13.0	13.0	13.0
FII's	31.3	32.3	32.7
MFs/Insti	25.4	24.1	23.5
Public	26.9	27.1	27.3
Others	3.4	3.6	3.6
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	0.6%	19.9%	116.7%
Absolute Sensex	-0.4%	22.1%	59.6%
Relative Return*	1.0%	-2.2%	57.1%

*over or under performance to benchmark index



Consolidated (cr)	FY21A	FY22E	FY23E
Sales	100,472	116,506	131,550
Growth (%)	10.7	16.0	12.9
EBITDA	27,889	31,360	35,013
EBITDA Margin (%)	27.8	26.9	26.6
Adj. PAT	19,351	22,598	25,415
Growth (%)	16.6	16.8	12.5
Adj. EPS	45.5	53.2	59.8
Growth (%)	16.5	16.8	12.5
P/E	30.0	25.4	22.6
P/B	7.6	7.5	6.5
EV/EBITDA	20.0	17.7	15.5
ROE (%)	25.3	29.3	28.6
D/E	0.0	0.0	0.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %	FY21	FY20	YoY Growth %
Revenue	26,310	23,267	13.1	25,927	1.5	100,472	90,791	10.7
EBITDA	7,270	5,675	28.1	7,415	(2.0)	27,889	22,267	25.2
EBITDA margins	27.6	24.4	320bps	28.6	(100bps)	27.8	24.5	330bps
Depreciation	830	748	11.0	826	0.5	3,267	2,893	12.9
EBIT	6,440	4,927	30.7	6,589	(2.3)	24,622	19,374	27.1
Interest	50	45	11.1	49	2.0	195	170	14.7
Other Income	545	614	(11.2)	611	(10.8)	2,201	2,803	(21.5)
Exceptional Items	-	-	-	-	-	-	-	-
PBT	6,935	5,496	26.2	7,151	(3.0)	26,628	22,007	21.0
Tax	1,857	1,161	59.9	1,936	(4.1)	7,205	5,368	34.2
Share of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	2	14	(85.7)	18	(88.9)	72	45	60.0
Reported PAT	5,076	4,321	17.5	5,197	(2.3)	19,351	16,594	16.6
Adjustments	-	-	-	-	-	-	-	-
Adj. PAT	5,076	4,321	17.5	5,197	(2.3)	19,351	16,594	16.6
No. of shares	425.1	435.3	(2.4)	425.1	0.0	425.1	435.3	(2.4)
Adj. EPS (Rs.)	11.9	9.9	20.3	12.2	(2.3)	45.5	38.1	19.4

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	117,965	130,011	116,506	131,550	(1.2)	1.2
EBITDA	31,738	34,783	31,360	35,013	(1.2)	0.7
Margins (%)	26.9	26.8	26.9	26.6	0bps	(20bps)
Adj. PAT	22,938	25,065	22,598	25,415	(1.5)	1.4
Adj. EPS	54.0	59.0	53.2	59.8	(1.6)	1.3

PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	82,675	90,791	100,472	116,506	131,550
% change	17.2	9.8	10.7	16.0	12.9
EBITDA	20,891	22,267	27,889	31,360	35,013
% change	9.9	6.6	25.2	12.4	11.6
Depreciation	2,011	2,893	3,267	3,357	3,207
EBIT	18,880	19,374	24,622	28,002	31,806
Interest	-	170	195	199	192
Other Income	2,161	2,803	2,201	3,302	3,368
PBT	21,041	22,007	26,628	31,105	34,982
% change	3.8	4.6	21.0	16.8	12.5
Tax	5,631	5,368	7,205	8,445	9,498
Tax Rate (%)	26.8	24.4	27.1	27.2	27.2
Reported PAT	15,404	16,594	19,351	22,598	25,415
Adj*	-	-	-	-	-
Adj PAT	15,404	16,594	19,351	22,598	25,415
% change	(3.9)	7.7	16.6	16.8	12.5
No. of shares (cr)	435.3	424.6	425.1	425.1	425.1
Adj EPS (Rs.)	35.4	39.1	45.5	53.2	59.8
% change	(0.3)	10.5	16.5	16.8	12.5
DPS (Rs.)	21.5	17.5	27.0	30.0	32.0
CEPS (Rs.)	40.0	45.9	53.2	61.1	67.3

CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	17,415	19,487	22,618	25,956	28,622
Non-cash adj.	(609)	1,750	2,686	(1,612)	(1,390)
Changes in W.C	(1,965)	(4,234)	(2,080)	(3,164)	(1,835)
C.F. Operation	14,841	17,003	23,224	21,180	25,397
Capital exp.	(2,445)	(3,307)	(2,107)	(2,443)	(2,759)
Change in inv.	1,330	2,702	(5,366)	(593)	(623)
Other invest.CF	540	366	17	938	1,316
C.F - Investment	(575)	(239)	(7,456)	(2,098)	(2,066)
Issue of equity	(807)	(7,472)	15	(9,200)	-
Issue/repay debt	-	-	-	-	-
Dividends paid	(13,705)	(9,515)	(9,117)	(12,735)	(13,584)
Other finance.CF	-	(604)	(684)	(0)	-
C.F - Finance	(14,512)	(17,591)	(9,786)	(21,935)	(13,584)
Chg. in cash	(246)	(827)	5,982	(2,854)	9,747
Closing cash	19,568	18,649	24,714	21,860	31,607

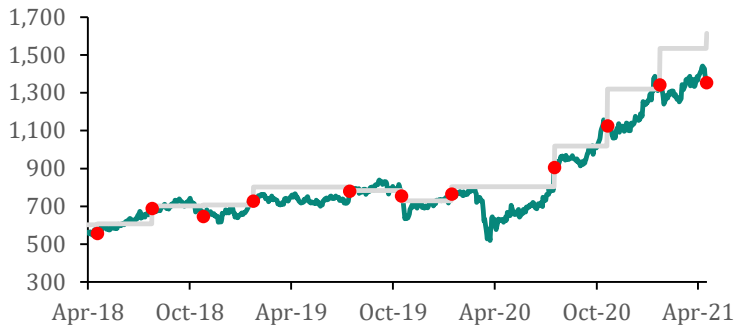
BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	19,568	18,649	24,714	21,860	31,607
Accounts Receivable	14,827	18,487	19,294	22,719	24,994
Inventories	-	-	-	-	-
Other Cur. Assets	18,483	17,440	16,725	17,465	18,409
Investments	4,634	4,137	11,863	12,456	13,079
Gross Fixed Assets	22,891	26,198	28,305	30,748	33,507
Net Fixed Assets	11,479	12,435	12,560	11,600	11,103
CWIP	1,388	954	922	968	1,017
Intangible Assets	4,231	11,354	12,945	13,006	13,067
Def. Tax (Net)	1,372	1,744	1,098	1,541	1,605
Other Assets	8,756	7,568	8,265	8,323	8,382
Total Assets	84,738	92,768	108,386	109,938	123,263
Current Liabilities	18,638	20,856	23,865	24,301	25,569
Provisions	-	-	-	-	-
Debt Funds	-	-	-	-	-
Other Liabilities	1,094	6,068	7,739	8,131	8,289
Equity Capital	2,170	2,122	2,124	2,124	2,124
Reserves & Surplus	62,778	63,328	74,227	74,890	86,720
Shareholder's Fund	64,948	65,450	76,351	77,014	88,844
Minority Interest	58	394	431	492	561
Total Liabilities	84,738	92,768	108,386	109,938	123,263
BVPS (Rs.)	149	154	180	181	209

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	25.3	24.5	27.8	26.9	26.6
EBIT margin (%)	22.8	21.3	24.5	24.0	24.2
Net profit mgn.(%)	18.6	18.3	19.3	19.4	19.3
ROE (%)	23.7	25.4	25.3	29.3	28.6
ROCE (%)	29.0	29.4	32.1	36.1	35.6
W.C & Liquidity					
Receivables (days)	65.5	74.3	70.1	71.2	69.4
Inventory (days)	-	-	-	-	-
Payables (days)	70.4	110.5	85.4	91.3	93.1
Current ratio (x)	2.8	2.6	2.5	2.6	2.9
Quick ratio (x)	2.2	2.0	1.9	1.9	2.3
Turnover & Leverage					
Gross asset T.O (x)	3.8	3.7	3.7	3.9	4.1
Total asset T.O (x)	1.0	1.0	1.0	1.1	1.1
Int. coverage ratio (x)	-	114.0	126.3	140.5	165.8
Adj. debt/equity (x)	-	-	-	-	-
Valuation					
EV/Sales (x)	3.7	2.8	5.5	4.8	4.1
EV/EBITDA (x)	14.6	11.2	20.0	17.7	15.5
P/E (x)	21.0	16.2	30.0	25.4	22.6
P/BV (x)	5.0	4.1	7.6	7.5	6.5

Recommendation Summary



Dates	Rating	Target
23-Jan-19	HOLD	802
15-Jul-19	HOLD	783
16-Oct-19	REDUCE	729
14-Jan-20	HOLD	804
17-Jul-20	BUY	1,018
20-Oct-20	BUY	1,319
22-Jan-21	BUY	1,535
19-Apr-21	BUY	1,614

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside. The stock may still be a quality stock.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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