

# Infosys

## Growth certainty on explosive deal wins

We maintain BUY on Infosys (INFY), following a strong 3Q print (best 3Q in 8 years) and the highest-ever deal wins translating into growth leadership in tier-1 IT. TCV of large deal wins (including largest-ever Daimler deal) stood at USD 7.1bn (net new TCV at USD 5.2bn). Growth in 3Q was led by NorthAm-BFSI (Vanguard ramp-up), E&U, Life sciences vertical and NorthAm-Manufacturing/Communications. INFY scores high on growth visibility based on a staggering 3.5x growth in 9MFY21 net-new large deal TCV over the prior period. Growth ahead is predicated on (1) strong momentum in BFSI (8 large deal wins), (2) 4-4-3 large deal wins in Manufacturing, Communications, E&U verticals, (3) consolidation opportunities and continued growth in digital, driven by improving competitive advantage led by Infosys Cobalt and strong supply-side metrics (80% of digital fulfilment over past 3 years via re-skilling). Our target price is Rs 1,580 at 25x Dec-22E (~10% discount to TCS and 24x earlier), supported by 20% EPS CAGR over FY21-23E.

- 3QFY21 highlights:** (1) INFY delivered its best sequential growth in the past eight years at 5.3% QoQ CC (6.6% YoY CC). (2) EBIT margin stood at 25.4%, remained flat (+7bps QoQ), supported by operating levers of higher utilisation & offshore mix (+100bps), FX tailwind (+20bps), offset by transition & re-badging (-50bps), employee promotion (-20bps) and higher sub-con cost (-50bps). (3) Wage increase effective 4QFY21 will impact margins. (4) Out of the 22 large deals wins, 8 were in BFSI, 4 in Manufacturing, 4 in E&U, 3 in Communication and 1 each in Retail/Hi-tech/Other vertical. By region, 13 deal in US, 7 in EU and 2 in ROW. (5) Utilisation stood at an all-time high of 86.3% and management is targeting 82-85%.
- Outlook:** INFY's growth leadership is backed by large deal wins which is key positive for revenue visibility in the near term. We have factored in USD revenue growth of 7%, 16.1%, 12.9% for FY21/22/23E with 4QFY21 at 3.5% QoQ. EBIT margin factored in at 23.9% for 4Q and 24.1/24.5% for FY22/23E. Valuations are at 24.8/21.2x (~14% discount to TCS) with FY21-23E EPS CAGR at 20%.

### Quarterly financial summary

YE March (Rs bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD mn)	3,516	3,243	8.4	3,312	6.2	11,799	12,774	13,669	15,876	17,931
Net Revenue	259.27	230.92	12.3	245.70	5.5	826.76	907.91	1,010.98	1,198.86	1,389.64
EBIT	65.89	50.64	30.1	62.28	5.8	188.79	193.74	246.32	289.20	340.42
APAT	51.97	42.72	21.6	48.45	7.3	157.73	164.04	192.18	238.19	277.66
Diluted EPS (Rs)	12.2	10.1	21.5	11.4	7.2	37.1	38.6	45.2	56.0	65.3
P/E (x)						37.3	35.9	30.7	24.8	21.2
EV / EBITDA (x)						26.7	25.2	19.9	16.9	14.2
RoE (%)						24.3	25.2	27.8	30.8	31.9

Source: Company, HSIE Research, Consolidated Financials

### Change in Estimates

YE March (Rs bn)	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %
Revenue (USD mn)	13,520	13,669	1.1	15,385	15,876	3.2	17,299	17,931	3.7
Revenue	1001.43	1010.98	1.0	1161.78	1198.86	3.2	1340.66	1389.64	3.7
EBIT	241.75	246.32	1.9	271.40	289.20	6.6	317.01	340.42	7.4
EBIT margin (%)	24.1	24.4	22bps	23.4	24.1	76bps	23.6	24.5	85bps
APAT	191.82	192.18	0.2	221.63	238.19	7.5	255.88	277.66	8.5
EPS (Rs)	45.2	45.2	0.2	52.2	56.0	7.4	60.2	65.3	8.5

Source: Company, HSIE Research

BUY

CMP (as on 13 Jan 2021)	Rs 1,387
Target Price	Rs 1,580
NIFTY	14,565

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 1,400	Rs 1,580
EPS %	FY21E	FY22E
	+0.2	+7.4

### KEY STOCK DATA

Bloomberg code	INFY IN
No. of Shares (mn)	4,260
MCap (Rs bn) / (\$ mn)	5,911/80,756
6m avg traded value (Rs mn)	12,691
52 Week high / low	Rs 1,393/509

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	19.9	74.1	79.4
Relative (%)	(2.0)	39.2	61.2

### SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	12.95	12.95
FIs & Local MFs	24.96	23.75
FPIs	31.31	32.26
Public & Others	30.78	31.04
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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