

HSIE Results Daily

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Results Reviews

- **Infosys:** We maintain BUY on Infosys (INFY), following a strong 2Q print across revenue, operations and deal wins translating into growth leadership in FY21. Increase in revenue guidance to 2-3% CC for FY21 and margin guidance increase to 23-24% reflect 2Q outperformance and growth visibility for 2H. Growth visibility is predicated on (1) strongest-ever deal wins with large deal TCV at USD 3,145mn comprising USD 2,705mn in new wins (including Vanguard deal), (2) strong commentary on BFSI vertical (five large deal wins ex-Vanguard), Life-science & Hi-tech verticals and recovery in Retail & CPG vertical (three large deals), (3) better supply-side indicators of a wage increase, local hiring program (margin implications), and (4) traction in digital (47.3% of revenue and 25.4% YoY CC), supported by industry tailwinds of cloud migration/DX projects and vendor consolidation. Our target price of Rs 1,230 is based on 23x Sep-22E EPS (15% discount to TCS) with EPS CAGR at 14% over FY20-23E.

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Infosys

Positive trends

We maintain BUY on Infosys (INFY), following a strong 2Q print across revenue, operations and deal wins translating into growth leadership in FY21. Increase in revenue guidance to 2-3% CC for FY21 and margin guidance increase to 23-24% reflect 2Q outperformance and growth visibility for 2H. Growth visibility is predicated on (1) strongest-ever deal wins with large deal TCW at USD 3,145mn comprising USD 2,705mn in new wins (including Vanguard deal), (2) strong commentary on BFSI vertical (five large deal wins ex-Vanguard), Life-science & Hi-tech verticals and recovery in Retail & CPG vertical (three large deals), (3) better supply-side indicators of a wage increase, local hiring program (margin implications), and (4) traction in digital (47.3% of revenue and 25.4% YoY CC), supported by industry tailwinds of cloud migration/DX projects and vendor consolidation. Our target price of Rs 1,230 is based on 23x Sep-22E EPS (15% discount to TCS) with EPS CAGR at 14% over FY20-23E.

- **2QFY21 highlights:** (1) Revenue came at a eight-quarter high growth of 4% QoQ CC (2.2% YoY CC). (2) EBIT margin was at 18-quarter high of 25.3%, +268bps QoQ supported by pricing, offshore-mix, higher utilisation, lower SG&A and cross-currency offset by INR appreciation. (3) Wage increase effective 4QFY21 and resumption in variable payout and promotion cycle. (4) Local hiring plans of 12,000 over the next two years planned and current localisation at 63% in the US, hiring in Canada/Mexico to offset H-1B regulatory hurdles.
- **Outlook:** INFY's growth leadership and scale, large deal momentum and improving capabilities in Salesforce, ServiceNow, Adobe are key positives. We have factored in USD revenue growth of 5.1%, 11.6%, 10.3% for FY21/22/23E with 3Q/4QFY21 at 3.5/2.5% QoQ. EBIT margin factored in at 24.4/23.0% for 3Q/4Q and 22.8/23.3% for FY22/23E. Valuations are at 22.7/19.9x (~15% discount to TCS) with FY20-23E EPS CAGR at 14%.

Quarterly financial summary

YE March (Rs bn)	2Q FY21	2Q FY20	YoY (%)	1Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD mn)	3,312	3,210	3.2	3,121	6.1	11,799	12,774	13,430	14,994	16,542
Net Revenue	245.70	226.29	8.6	236.65	3.8	826.76	907.91	999.35	1,139.54	1,282.04
EBIT	62.28	49.12	26.8	53.65	16.1	188.79	193.74	238.31	259.60	298.96
APAT	48.45	40.19	20.6	42.33	14.5	157.73	164.04	189.32	213.26	243.09
Diluted EPS (Rs)	11.4	9.5	20.5	10.0	14.4	37.1	38.6	44.6	50.2	57.2
P/E (x)						30.6	29.4	25.5	22.7	19.9
EV / EBITDA (x)						21.6	20.5	16.8	15.2	13.1
RoE (%)						24.3	25.2	27.9	29.0	30.2

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)	13,046	13,430	2.9	14,484	14,994	3.5	15,860	16,542	4.3
Revenue	975.44	999.35	2.5	1100.77	1139.54	3.5	1229.12	1282.04	4.3
EBIT	218.66	238.31	9.0	245.21	259.60	5.9	275.70	298.96	8.4
EBIT margin (%)	22.4	23.8	143bps	22.3	22.8	50bps	22.4	23.3	89bps
APAT	178.83	189.32	5.9	204.66	213.26	4.2	228.35	243.09	6.5
EPS (Rs)	42.1	44.6	5.8	48.2	50.2	4.1	53.8	57.2	6.4

Source: Company, HSIE Research

BUY

CMP (as on 14 Oct 2020) Rs 1,137

Target Price Rs 1,230

NIFTY 11,971

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 1,115	Rs 1,230
EPS %	FY21E +5.8	FY22E +4.1

KEY STOCK DATA

Bloomberg code	INFO IN
No. of Shares (mn)	4,259
MCap (Rs bn) / (\$ mn)	4,843/66,063
6m avg traded value (Rs mn)	9,964
52 Week high / low	Rs 1,166/509

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	45.2	78.4	44.6
Relative (%)	31.9	45.5	37.9

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	13.15	13.15
FIs & Local MFs	24.52	25.42
FPIs	31.01	30.47
Public & Others	31.32	30.96
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Apurva Prasad	Infosys	MBA	NO
Amit Chandra	Infosys	MBA	NO
Vinesh Vala	Infosys	MBA	NO

Disclosure:

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