

Retail Equity Research Infosys Limited

IT Services

BSE CODE: 500209

NSE CODE: INFY

Bloomberg CODE: INFO:IN

SENSEX: 40,432

BUY

12M Investment period

Rating as per Large Cap

CMP Rs. 1,126 TARGET Rs. 1,319 RETURN 17%
(Closing: 19-10-20) 

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Growth momentum sustained

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 up 4.0% QoQ on constant currency ("cc") basis, led by growth seen across most segments on the back of strong execution.
- EBIT margin improved 268bps QoQ to 25.3% on better utilization and improved onsite-offshore mix. PAT rose 14.5% QoQ (+20.6% YoY).
- Q2 saw addition of 96 new clients with the number of \$100mn+ clients increasing by 5 sequentially to reach 30.
- Company declared an interim dividend of Rs. 12.
- In the new-normal WFH scenario, Infosys is leading from the front in adopting technologies to ensure seamless connectivity to both its employees, and clients. We remain bullish on INFY's growth story and retain our BUY with a revised TP of Rs. 1.319 based on 26x FY22E EPS.

Bottom-line soars as margins expand

Q2FY21 revenue grew +4.0% QoQ on cc basis (+8.6% YoY) to Rs. 24,570cr aided by growth across almost all segments. Amongst its business segments, Hi-Tech segment, acting as a growth driver, registered growth of 8.8% QoQ (+31.0% YoY) to Rs. 2,244cr. Life Sciences grew 6.2% QoQ (15.0% YoY) to Rs. 1,672cr. Financials Services went up +5.6% QoQ to Rs. 7,871cr. Geographically, positive revenue growth was seen across all geographies, with India growing 8.0% QoQ, Europe (+5.2% QoQ) and North America (+2.5% QoQ). EBIT stood at Rs. 6,228cr, while EBIT margin expanded 268bps QoQ to 25.3% due to better utilization, increase in RPP and improvement in onsite offshore mix. Resultantly, PAT rose 14.5% QoQ (+20.6% YoY) to Rs. 4,845cr.

Key concall highlights

- Company won 16 large deals worth over \$3.15bn, of which, 11 were from Americas, 4 from Europe and 1 from rest of world.
- On the back of continued strong deal wins and its solid performance across verticals, management has revised its revenue guidance for the year to 2-3% on cc basis, and also raised its operating profits margins guidance to 23-24%.
- Attrition rate declined significantly to 7.8% from 18.3% in Q2 FY20
- Infosys Cobalt platform launched during the quarter offering over 14,000 cloud assets for enterprises to help them leverage cloud solutions.
- Free cash flows grew 70% YoY to a healthy \$674mn during the quarter.

Kaleidoscope acquisition to strengthen INFY's digital offerings

Company recently announced it has completed acquisition of Kaleidoscope Innovation. The product design firm's addition further strengthens Infosys' engineering services portfolio. Infosys expects medical devices sector to witness significant investments and consumerization in the post-COVID era, and the firm's upstream innovation and design offerings should complement well its own validation & commercialisation services.

Valuation

Company has a strong balance sheet, high cash reserves and no debt. It has managed to deliver strong performance and is expected to improve from current levels aided by a robust order book and strong execution capabilities. With a bullish outlook, we retain our BUY rating with a revised TP of Rs. 1,319 based on 26x FY22E EPS.

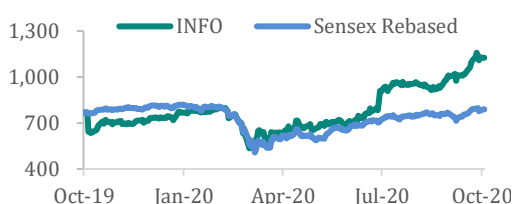
Company Data

Market Cap (cr)	Rs. 478,242
Enterprise Value (cr)	Rs. 452,304
Outstanding Shares (cr)	424.9
Free Float	87.0%
Dividend Yield	1.6%
52 week high	Rs. 1,185
52 week low	Rs. 511
6m average volume (lacs)	4.8
Beta	0.9
Face value	Rs. 5

Shareholding %	Q4FY20	Q1FY21	Q2FY21
Promoters	13.2	13.2	13.0
FII's	31.0	30.5	31.3
MFs/Insti	25.2	25.9	25.4
Public	27.2	27.0	26.9
Others	3.5	3.5	3.4
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	24.5%	78.9%	46.6%
Absolute Sensex	9.2%	28.0%	2.9%
Relative Return*	15.3%	50.9%	43.7%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	90,791	98,250	103,718
Growth (%)	9.8	8.2	5.6
EBITDA	22,267	26,008	28,676
EBITDA Margin (%)	24.5	26.5	27.6
Adj. PAT	16,594	18,856	21,509
Growth (%)	7.7	13.6	14.1
Adj. EPS	39.1	44.4	50.7
Growth (%)	10.5	13.6	14.1
P/E	16.2	25.3	22.2
P/B	4.1	6.2	5.3
EV/EBITDA	11.2	17.4	15.4
ROE (%)	25.4	24.5	23.6
D/E	0.0	0.0	0.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY21	Q2FY20	YoY Growth %	Q1FY21	QoQ Growth %	H1FY21	H1FY20	YoY Growth %
Revenue	24,570	22,629	8.6	23,665	3.8	48,235	44,432	8.6
EBITDA	7,083	5,639	25.6	6,121	15.7	13,204	10,791	22.4
EBITDA margins	28.8	24.9	390bps	25.9	290bps	27.4	24.3	310bps
Depreciation	855	727	17.6	756	13.1	1,611	1,408	14.4
EBIT	6,228	4,912	26.8	5,365	16.1	11,593	9,383	23.6
Interest	48	42	14.3	48	-	96	82	17.1
Other Income	570	626	(8.9)	475	20.0	1,045	1,362	(23.3)
Exceptional Items	-	-	-	-	-	-	-	-
PBT	6,750	5,496	22.8	5,792	16.5	12,542	10,663	17.6
Tax	1,892	1,459	29.7	1,520	24.5	3,412	2,824	20.8
Share of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	13	18	(27.8)	39	(66.7)	52	22	136.4
Reported PAT	4,845	4,019	20.6	4,233	14.5	9,078	7,817	16.1
Adjustments	-	-	-	-	-	-	-	-
Adj. PAT	4,845	4,019	20.6	4,233	14.5	9,078	7,817	16.1
No. of shares	424.9	425.6	(0.2)	424.6	0.1	424.9	425.6	(0.2)
Adj. EPS (Rs.)	11.4	9.4	20.7	10.0	14.4	21.4	18.4	16.3

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs. cr	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	97,595	106,051	98,250	103,718	0.7	(2.2)
EBITDA	24,399	27,236	26,008	28,676	6.6	5.3
Margins (%)	25.0	25.7	26.5	27.6	150bps	190bps
Adj. PAT	17,580	19,613	18,856	21,509	7.3	9.7
Adj. EPS	41.4	46.2	44.4	50.7	7.3	9.7

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	70,522	82,675	90,791	98,250	103,718
% change	3.0	17.2	9.8	8.2	5.6
EBITDA	19,011	20,891	22,267	26,008	28,676
% change	2.2	9.9	6.6	16.8	10.3
Depreciation	1,863	2,011	2,893	2,919	3,118
EBIT	17,148	18,880	19,374	23,090	25,558
Interest	-	-	170	186	186
Other Income	3,122	2,161	2,803	2,102	3,153
PBT	20,270	21,041	22,007	25,006	28,525
% change	1.6	3.8	4.6	13.6	14.1
Tax	4,241	5,631	5,368	6,100	6,958
Tax Rate (%)	20.9	26.8	24.4	24.4	24.4
Reported PAT	16,029	15,404	16,594	18,856	21,509
Adj*	-	-	-	-	-
Adj PAT	16,029	15,404	16,594	18,856	21,509
% change	11.7	(3.9)	7.7	13.6	14.1
No. of shares (cr)	451.5	435.3	424.6	424.6	424.6
Adj EPS (Rs.)	35.5	35.4	39.1	44.4	50.7
% change	13.1	(0.3)	10.5	13.6	14.1
DPS (Rs.)	43.5	21.5	17.5	17.5	17.5
CEPS (Rs.)	39.6	40.0	45.9	51.3	58.0

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	17,892	17,415	19,487	21,774	24,627
Non-cash adj.	(3,479)	(609)	1,750	(1,708)	(1,355)
Changes in W.C	(1,195)	(1,965)	(4,234)	(1,535)	(1,002)
C.F. Operation	13,218	14,841	17,003	18,531	22,270
Capital exp.	(1,998)	(2,445)	(3,307)	(3,579)	(3,778)
Change in inv.	4,714	1,330	2,702	(2,069)	(310)
Other invest.CF	1,736	540	366	1,936	1,181
C.F - Investment	4,452	(575)	(239)	(3,711)	(2,907)
Issue of equity	(13,041)	(807)	(7,472)	-	-
Issue/repay debt	-	-	-	-	-
Dividends paid	(7,464)	(13,705)	(9,515)	(7,421)	(7,421)
Other finance.CF	-	-	(604)	-	-
C.F - Finance	(20,505)	(14,512)	(17,591)	(7,421)	(7,421)
Chg. in cash	(2,835)	(246)	(827)	7,399	11,942
Closing cash	19,818	19,568	18,649	26,048	37,990

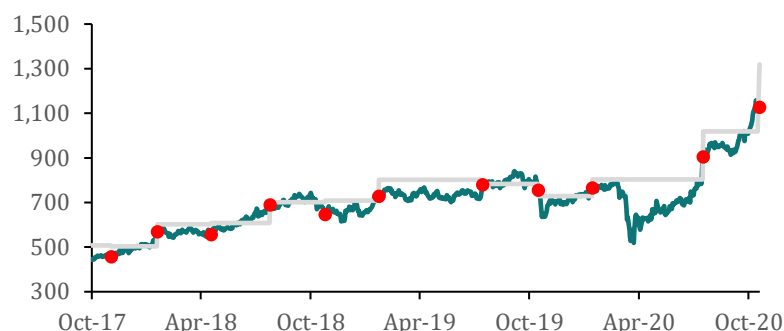
BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	19,818	19,568	18,649	26,048	37,990
Accounts Receivable	13,142	14,827	18,487	20,104	21,327
Inventories	-	-	-	-	-
Other Cur. Assets	17,057	18,483	17,440	17,908	18,251
Investments	5,756	4,634	4,137	6,206	6,516
Gross Fixed Assets	20,179	22,891	26,198	29,777	33,555
Net Fixed Assets	10,116	11,479	12,435	13,047	13,657
CWIP	1,606	1,388	954	1,002	1,052
Intangible Assets	2,458	4,231	11,354	11,407	11,460
Def. Tax (Net)	1,282	1,372	1,744	1,501	1,712
Other Assets	8,655	8,756	7,568	7,622	7,676
Total Assets	79,890	84,738	92,768	104,844	119,640
Current Liabilities	14,105	18,638	20,856	21,500	22,021
Provisions	-	-	-	-	-
Debt Funds	-	-	-	-	-
Other Liabilities	861	1,094	6,068	6,015	6,144
Equity Capital	1,088	2,170	2,122	2,122	2,122
Reserves & Surplus	63,835	62,778	63,328	74,762	88,850
Shareholder's Fund	64,923	64,948	65,450	76,884	90,972
Minority Interest	1	58	394	445	503
Total Liabilities	79,890	84,738	92,768	104,844	119,640
BVPS (Rs.)	144	149	154	181	214

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	27.0	25.3	24.5	26.5	27.6
EBIT margin (%)	24.3	22.8	21.3	23.5	24.6
Net profit mgn.(%)	22.7	18.6	18.3	19.2	20.7
ROE (%)	24.7	23.7	25.4	24.5	23.6
ROCE (%)	26.4	29.0	29.4	29.9	27.9
W.C & Liquidity					
Receivables (days)	68.0	65.5	74.3	74.7	75.1
Inventory (days)	-	-	-	-	-
Payables (days)	41.1	70.4	110.5	110.9	111.3
Current ratio (x)	3.5	2.8	2.6	3.0	3.5
Quick ratio (x)	2.8	2.2	2.0	2.4	2.9
Turnover & Leverage					
Gross asset T.O (x)	3.7	3.8	3.7	3.5	3.3
Total asset T.O (x)	0.9	1.0	1.0	1.0	0.9
Int. coverage ratio (x)	-	-	114.0	124.3	137.6
Adj. debt/equity (x)	-	-	-	-	-
Valuation					
EV/Sales (x)	3.5	3.7	2.8	4.6	4.2
EV/EBITDA (x)	12.8	14.6	11.2	17.4	15.4
P/E (x)	16.4	21.0	16.2	25.3	22.2
P/BV (x)	4.1	5.0	4.1	6.2	5.3

Recommendation Summary



Dates	Rating	Target
25-Jul-18	HOLD	702
25-Oct-18	HOLD	708
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

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.

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