

Stepping on the digital accelerator

CMP: Rs 1,123
as of (November 12, 2020)

TP: Rs 1,360 (■)
12 months

Rating: BUY (■)

Upside: 21.1 %

- At its first virtual analyst meet, Infosys provided an update on its growth strategy that is built around four pillars: 1) scaling the agile digital business (~US\$6.3bn revenue run rate), 2) energizing clients' core technology landscape via AI and automation, 3) reskilling employees, and 4) expanding localization in markets such as US, Europe and Australia.
- Large deal signing remained robust with deal TCV of US\$8.3bn on TTM basis (net new share ~54%). Net new deal TCV grew ~59% YoY in H1. The pipeline of large deals expanded significantly with a higher ratio of net new TCV share.
- The company reaffirmed its FY21 outlook of 2-3% YoY CC revenue growth and 23-24% EBIT margins. Full-year outlook implies a 0.5-1.7% CQGR over the remaining two quarters. It expects growth to accelerate in FY22.
- Infosys is likely to outgrow TCS for the second year in a row in FY21 while narrowing margin differential. We expect Infosys' valuation gap with TCS to narrow down further on the back of sustained strong operating performance. We maintain Buy/OW in EAP, with a TP of Rs1,360 at 25x Sep'22E earnings.

Pandemic has accelerated cloud adoption and digital transformation: The digital business contributed 47.3% of revenue in Q2FY21 (~US\$6.3bn annual run rate). The company has laid out a comprehensive digital service architecture, encompassing five dimensions – Experience, Insight, Innovate, Accelerate and Assure – across the entire gamut of the client's digital journey. Infosys is seeing accelerated demand in the area of digital and cloud on account of the pandemic and it believes that it is rightly placed to capture these opportunities. Cloud is evolving as the foundation of an enterprise's digital journey and Infosys expects US\$500bn of enterprise cloud spend over the next 3 years. Infosys has recently launched a set of services, solutions and platforms for enterprises branded as Cobalt to accelerate their cloud journey and drive overall digital growth as ~50% of spend in digital is cloud related. Infosys is making necessary investments into organic capabilities building and also strengthening its digital services capabilities through tuck-in M&A deals.

Recalibrating offerings to capitalize on 7 mega themes: Infosys has identified seven mega themes – a) consumerization of user experience, b) growing adoption of open-source technology in enterprises, c) cloud, d) data, e) cybersecurity, f) rise of platforms, and g) modernizing legacy systems. These themes are expected to reshape technology spending and Infosys is recalibrating its offerings to benefits from these trends. Covid-19 has accelerated these trends in last few months as enterprises faced existential crisis and accelerated their digital journey.

M&A remain integral part of growth strategy: Infosys has followed a three-pronged approach to drive M&A – 1) strengthen digital services capabilities (WongDoody, Brilliant Basics, Blue Acorn, Simplus, Fluido, and GuideVision), 2) deepen vertical capabilities (Stater JV – Mortgage/Financial Services, Kaleidoscope Innovation – Healthcare), and 3) expand geographical footprint (Compaz JV – Singapore, HIPUS JV – Japan). Infosys has invested ~US\$800mn into M&A deals (7 acquisitions and 3 JVs) and believes that M&A remains an integral part of its overall growth strategy.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Information Technology \(page 8\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	8,26,760	9,07,910	9,80,517	11,18,699	12,69,923
EBITDA	2,08,890	2,22,680	2,66,956	3,03,769	3,43,548
EBITDA Margin (%)	25.3	24.5	27.2	27.2	27.1
APAT	1,54,040	1,65,950	1,85,236	2,15,754	2,46,740
EPS (Rs)	35.3	39.1	43.5	50.7	57.9
EPS (% chg)	(3.9)	10.8	11.3	16.5	14.4
ROE (%)	23.7	25.4	26.5	27.4	27.6
P/E (x)	31.8	28.7	25.8	22.2	19.4
EV/EBITDA (x)	22.0	20.2	16.6	14.4	12.4
P/BV (x)	7.5	7.2	6.5	5.7	5.0

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	-/-
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	43.5	50.7
Consensus	43.9	49.1
Mean Consensus TP (12M)	Rs 1,295	

Stock Details

Bloomberg Code	INFO IN
Face Value (Rs)	5
Shares outstanding (mn)	4,259
52 Week H/L	1,186 / 509
M Cap (Rs bn/USD bn)	4,782 / 64.29
Daily Avg Volume (nos.)	110,72,930
Daily Avg Turnover (US\$ mn)	155.1

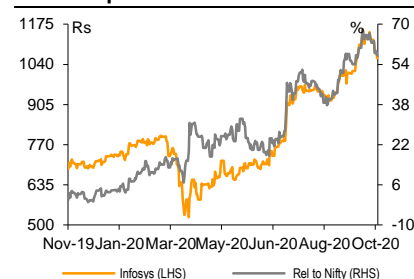
Shareholding Pattern Sep '20

Promoters	13.0%
FIIIs	31.3%
DIIIs	25.0%
Public and Others	30.8%

Price Performance

(%)	1M	3M	6M	12M
Absolute	1	18	64	59
Rel. to Nifty (5)	5	5	19	49

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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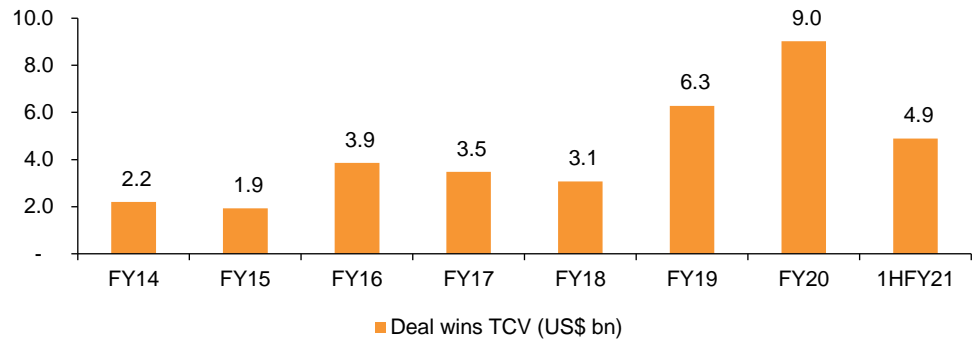
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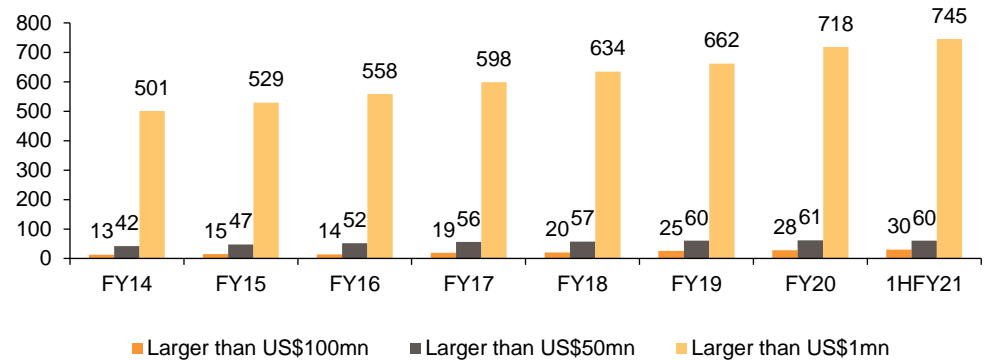
Story in charts

Exhibit 1: Deal wins were robust in H1FY21



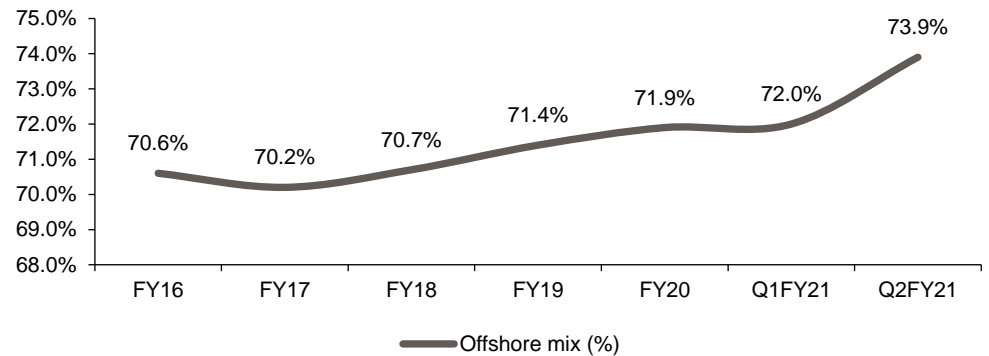
Source: Company, Emkay Research

Exhibit 2: Infosys has successfully expanded relationship across client buckets over the years



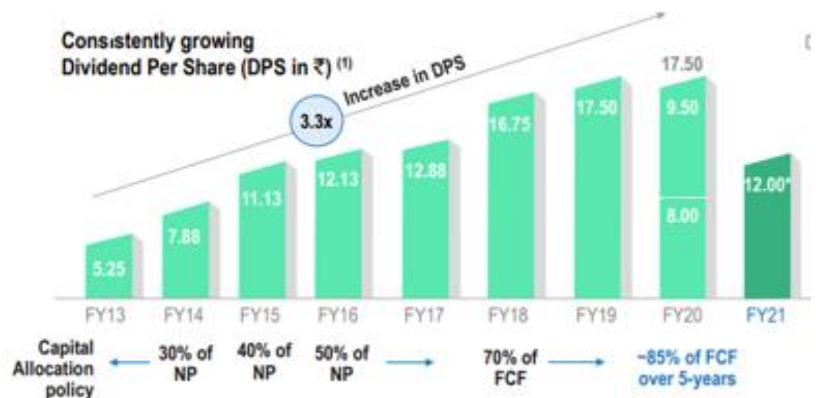
Source: Company, Emkay Research

Exhibit 3: Offshore mix increased considerably in the last two quarters



Source: Company, Emkay Research

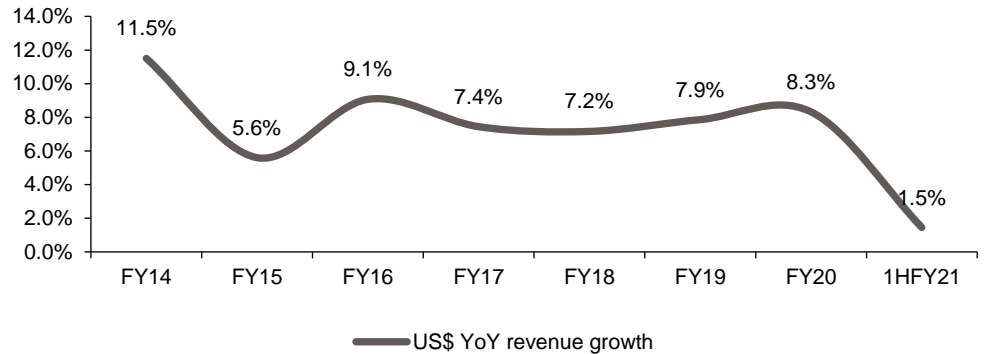
Exhibit 4: Consistent and increasing capital return policy



Source: Company

Growth momentum to stay intact: The company has guided for 2-3% revenue growth in CC for FY20, implying a 0.5-1.7% CQGR over Q3-Q4. Management expects growth momentum to return to pre-Covid levels in FY22 on the back of 1) strong deal wins and robust pipeline, 2) benefits accruing from sales transformation initiatives carried over the last three years and increased focus on client mining and large deals, and 3) strengthening relationships with ecosystem partners, startups and deal advisors.

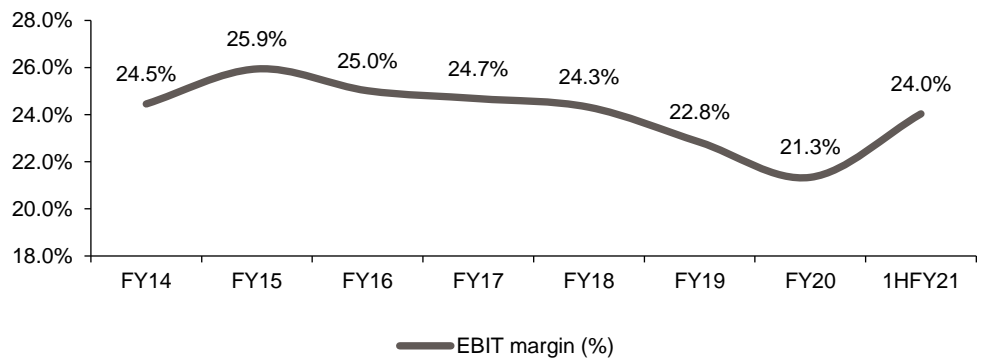
Exhibit 5: US\$ YoY revenue growth moderated in 1HFY21



Source: Company, Emkay Research

Expect to sustain margins with upward bias as investment phase behind: Infosys expects FY21 margin to be in the range of 21-23%. Infosys has seen pressure on margins over few years due to investments in digital capabilities, increased localization in the US, revamp of the sales team to accelerate growth, and re-skilling of employees. These investments are behind now and the company expects a better business mix (growing digital revenue; onsite mix down to 26.1% in Q2FY21), benefits from AI & Automation (~20k FTEs repurposed in last 3 years), development of an onsite employee pyramid, goal to drive one-third of work by remote employees, optimal utilization of subcontractors and SG&A leverage will sustain margins with upward bias.

Exhibit 6: EBIT margin expanded by 270bps in 1HFY21

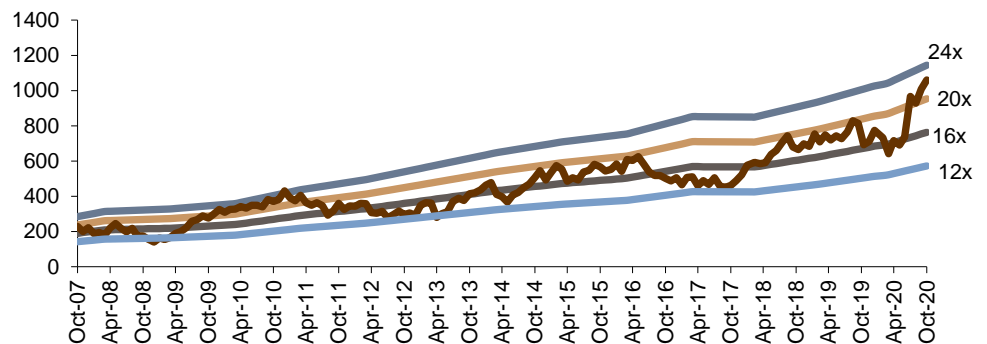


Source: Company, Emkay Research

Other Key Takeaways

- Cobalt is the company's cloud offering – across paas, saas and iaas, which helps clients achieve speed and reduce risks. It has 200 industry solutions and 15,000 cloud assets.
- Infosys aims to drive one-third of work by flexible/remote work options by 2030.
- The company achieved cost optimization of over US\$150mn in FY20 and is on track for higher savings in FY21.
- Visa independent employees were at ~67% in the US, ~50% in the Europe and Australia.
- Infosys sales transformation is being driven by five key initiatives of large deals, account expansion, new account openings, sales force transformation and sales enablement.
- The company has increased its hiring commitment to 25,000 by 2022 in US.
- Infosys is looking to increase its presence in nearshore locations like Canada and Mexico.
- It is currently operating at ~90% WFH.
- Infosys repurposed more than 20,000 FTE in last three years and built ~3,000 micro Bots.
- It is planning to hire 16,000 freshers in India next year.

Exhibit 7: Infosys' 1 year forward PE band



Source: Company, Emkay Research

Exhibit 8: Valuation Summary

Co Name	CMP	Reco.	Target Price	US\$ revenue growth (%)			EPS (Rs)			P/E			EV/EBIT		
				FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
TCS	2,689	HOLD	2,780	-1.7	13.0	10.0	83.5	100.4	114.1	32.2	26.8	23.6	25.1	20.8	18.1
Infosys	1,123	BUY	1,360	3.7	14.0	12.0	43.5	50.7	57.9	25.8	22.2	19.4	19.0	16.3	14.0
Wipro	347	HOLD	360	-2.6	8.0	6.0	17.9	19.0	20.5	19.4	18.2	16.9	14.9	13.5	12.2
HCL Tech	826	BUY	1,010	1.3	11.0	8.5	45.2	48.0	53.5	18.3	17.2	15.4	13.7	12.4	11.0
Mphasis	1,310	HOLD	1,440	5.2	12.0	10.0	64.1	75.1	85.0	20.4	17.4	15.4	14.5	12.4	10.7
Mindtree	1,330	SELL	1,330	-3.1	12.0	11.0	57.7	62.0	71.3	23.0	21.4	18.6	16.4	15.3	13.1
Persistent Systems	1,116	BUY	1,400	9.0	11.0	12.0	53.4	64.2	77.6	20.9	17.4	14.4	15.3	12.4	9.6
Coforge	2,290	HOLD	2,500	4.5	15.1	12.9	75.3	99.1	117.4	30.4	23.1	19.5	21.8	17.3	14.4
Firstsource Solutions	73	BUY	90	11.0	13.0	9.0	5.9	7.0	7.8	12.3	10.4	9.4	10.3	8.5	7.1

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	8,26,760	9,07,910	9,80,517	11,18,699	12,69,923
Expenditure	6,17,870	6,85,230	7,13,562	8,14,930	9,26,375
EBITDA	2,08,890	2,22,680	2,66,956	3,03,769	3,43,548
Depreciation	20,110	28,940	32,830	35,424	38,565
EBIT	1,88,780	1,93,740	2,34,126	2,68,345	3,04,984
Other Income	21,620	26,340	19,262	23,917	29,259
Interest expenses	0	0	0	0	0
PBT	2,10,400	2,20,080	2,53,388	2,92,263	3,34,243
Tax	56,310	53,680	67,392	75,988	86,903
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	50	450	760	520	600
Reported Net Income	1,54,040	1,65,950	1,85,236	2,15,754	2,46,740
Adjusted PAT	1,54,040	1,65,950	1,85,236	2,15,754	2,46,740

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	21,700	21,220	21,220	21,220	21,220
Reserves & surplus	6,28,360	6,37,220	7,18,100	8,16,721	9,29,289
Net worth	6,50,060	6,58,440	7,39,320	8,37,941	9,50,509
Minority Interest	0	0	0	0	0
Loan Funds	0	0	0	0	0
Net deferred tax liability	(7,000)	(7,760)	(9,000)	(10,000)	(11,000)
Total Liabilities	6,43,060	6,50,680	7,30,320	8,27,941	9,39,509
Net block	1,57,100	2,37,890	2,44,640	2,40,996	2,34,212
Investment	1,12,610	87,920	89,550	89,550	89,550
Current Assets	5,45,180	5,71,790	6,54,573	7,82,204	9,29,188
Cash & bank balance	1,95,680	1,86,490	2,47,476	3,30,672	4,25,527
Other Current Assets	0	0	0	0	0
Current liabilities & Provision	1,90,600	2,59,560	2,68,443	2,94,809	3,23,441
Net current assets	3,54,580	3,12,230	3,86,130	4,87,395	6,05,747
Misc. exp	0	0	0	0	0
Total Assets	6,43,060	6,50,680	7,30,320	8,27,941	9,39,509

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	1,88,780	1,93,740	2,34,126	2,68,345	3,04,984
Other Non-Cash items	58,470	55,130	67,392	75,988	86,903
Chg in working cap	(5,920)	(19,380)	(14,154)	(19,068)	(24,498)
Operating Cashflow	1,58,440	1,85,570	2,03,911	2,32,111	2,60,806
Capital expenditure	(32,190)	(51,730)	(36,940)	(31,780)	(31,780)
Free Cash Flow	1,26,250	1,33,840	1,66,971	2,00,331	2,29,026
Investments	16,940	33,800	(1,630)	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(15,250)	(17,930)	(38,570)	(31,780)	(31,780)
Equity Capital Raised	(8,070)	(74,720)	0	0	0
Loans Taken / (Repaid)	0	(5,710)	0	0	0
Dividend paid (incl tax)	(1,37,050)	(95,480)	(1,04,356)	(1,17,134)	(1,34,171)
Other Financing Cash Flow	(570)	(920)	0	0	0
Financing Cashflow	(1,45,690)	(1,76,830)	(1,04,356)	(1,17,134)	(1,34,171)
Net chg in cash	(2,500)	(9,190)	60,986	83,197	94,855
Opening cash position	1,98,180	1,95,680	1,86,490	2,47,476	3,30,672
Closing cash position	1,95,680	1,86,490	2,47,476	3,30,672	4,25,527

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	25.3	24.5	27.2	27.2	27.1
EBIT Margin	22.8	21.3	23.9	24.0	24.0
Effective Tax Rate	26.8	24.4	26.6	26.0	26.0
Net Margin	18.6	18.3	19.0	19.3	19.5
ROCE	32.7	34.0	36.7	37.5	37.8
ROE	23.7	25.4	26.5	27.4	27.6
RoIC	61.1	57.0	62.7	68.7	75.1

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	35.3	39.1	43.5	50.7	57.9
CEPS	39.9	45.9	51.2	59.0	67.0
BVPS	148.8	155.1	173.6	196.7	223.2
DPS	21.5	17.5	24.5	27.5	31.5

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	31.8	28.7	25.8	22.2	19.4
P/CEPS	28.5	24.8	22.2	19.3	17.0
P/BV	7.5	7.2	6.5	5.7	5.0
EV / Sales	5.6	4.9	4.5	3.9	3.4
EV / EBITDA	22.0	20.2	16.6	14.4	12.4
Dividend Yield (%)	1.9	1.6	2.2	2.4	2.8

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	(0.5)	(0.4)	(0.5)	(0.5)	(0.5)
Net Debt/EBIDTA	(1.5)	(1.2)	(1.3)	(1.4)	(1.5)
Working Cap Cycle (days)	70.2	50.6	51.6	51.1	51.8

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	17.2	9.8	8.0	14.1	13.5
EBITDA	9.9	6.6	19.9	13.8	13.1
EBIT	10.1	2.6	20.8	14.6	13.7
PAT	5.5	7.7	11.6	16.5	14.4

Quarterly (Rs mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Revenue	2,26,290	2,30,920	2,32,670	2,36,650	2,45,700
EBITDA	56,390	58,010	56,760	61,210	70,830
EBITDA Margin (%)	24.9	25.1	24.4	25.9	28.8
PAT	40,190	44,570	43,210	42,330	48,450
EPS (Rs)	9.4	10.5	10.2	9.9	11.4

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoters	13.2	13.2	13.2	13.2	13.0
FII	33.5	31.8	31.0	30.5	31.3
DII	22.8	24.0	24.7	25.4	25.0
Public and Others	30.5	31.1	31.2	31.0	30.8

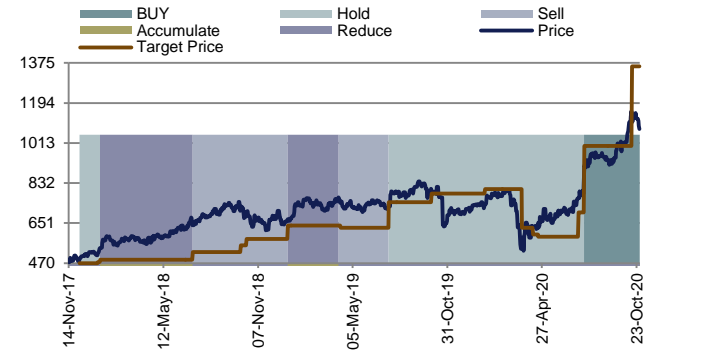
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
14-Oct-20	1,137	1,360	12m	Buy	Dipeshkumar Mehta
16-Jul-20	911	1,000	12m	Buy	Manik Taneja
05-Jul-20	763	700	12m	Hold	Manik Taneja
25-Jun-20	701	590	12m	Hold	Manik Taneja
18-Jun-20	714	590	12m	Hold	Manik Taneja
26-May-20	681	590	12m	Hold	Manik Taneja
20-Apr-20	653	590	12m	Hold	Manik Taneja
10-Apr-20	636	600	12m	Hold	Manik Taneja
20-Mar-20	585	630	12m	Hold	Manik Taneja
11-Feb-20	774	805	12m	Hold	Manik Taneja
03-Feb-20	767	805	12m	Hold	Manik Taneja
10-Jan-20	738	805	12m	Hold	Manik Taneja
08-Jan-20	718	785	12m	Hold	Manik Taneja
01-Jan-20	737	785	12m	Hold	Manik Taneja
21-Nov-19	713	785	12m	Hold	Manik Taneja
11-Oct-19	815	785	12m	Hold	Manik Taneja
01-Oct-19	794	785	12m	Hold	Manik Taneja
12-Jul-19	727	745	12m	Hold	Manik Taneja
03-Jul-19	731	630	12m	Sell	Manik Taneja
12-Apr-19	748	630	12m	Sell	Rahul Jain
08-Apr-19	767	640	12m	Sell	Rahul Jain
11-Jan-19	684	640	12m	Reduce	Rahul Jain
09-Jan-19	676	640	12m	Reduce	Rahul Jain
02-Jan-19	669	640	12m	Reduce	Rahul Jain
16-Oct-18	695	580	12m	Sell	Rahul Jain
05-Oct-18	725	550	12m	Sell	Rahul Jain
18-Aug-18	715	520	12m	Sell	Rahul Jain
13-Jul-18	659	520	12m	Sell	Rahul Jain
10-Jul-18	651	520	12m	Sell	Rahul Jain
06-Jul-18	642	520	12m	Sell	Rahul Jain
13-Apr-18	586	485	12m	Reduce	Rahul Jain
05-Apr-18	574	485	12m	Reduce	Rahul Jain
28-Mar-18	566	485	12m	Reduce	Rahul Jain
12-Jan-18	539	485	12m	Reduce	Rahul Jain
08-Jan-18	518	475	12m	Hold	Rahul Jain
04-Dec-17	493	470	12m	Hold	Rahul Jain

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Information Technology



Analyst: Dipesh Mehta

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Sector

IT Services, ITes and Software

Analyst bio

Dipesh is a seasoned Equities professional who has covered Technology sector for over 15 years. Dipesh has completed his B.E. in Information Technology from Sardar Patel University and MMS in Finance from Mumbai University.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Information Technology	13.09	12.65	-3%	-44	100.00
BirlaSoft	0.00	0.11	NA	11	0.87
Coforge*	0.00	0.00	NA	0	0.00
eClerx Services	0.00	0.00	NA	0	0.00
Firstsource Solutions	0.00	0.00	NA	0	0.00
HCL Tech	1.27	1.37	8%	10	10.47
Hexaware Technologies	0.00	0.00	NA	0	0.00
Infosys	5.82	6.09	5%	26	46.48
Intellect Design*	0.00	0.00	NA	0	0.00
L&T Infotech	0.18	0.00	-100%	-18	0.00
Majesco*	0.00	0.00	NA	0	0.00
Mindtree	0.08	0.00	-100%	-8	0.00
Mphasis	0.16	0.18	14%	2	1.35
MPS	0.00	0.00	NA	0	0.00
NIIT	0.00	0.00	NA	0	0.00
Nucleus Software*	0.00	0.00	NA	0	0.00
Oracle Financial Services*	0.10	0.00	-100%	-10	0.00
Persistent Systems	0.00	0.52	NA	52	4.00
Ramco Systems*	0.00	0.00	NA	0	0.00
TCS	4.02	2.92	-27%	-110	22.33
Tech Mahindra	0.73	0.75	3%	2	5.76
Wipro	0.73	0.70	-4%	-3	5.37
Cash	0.00	0.44	NA	44	3.37

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

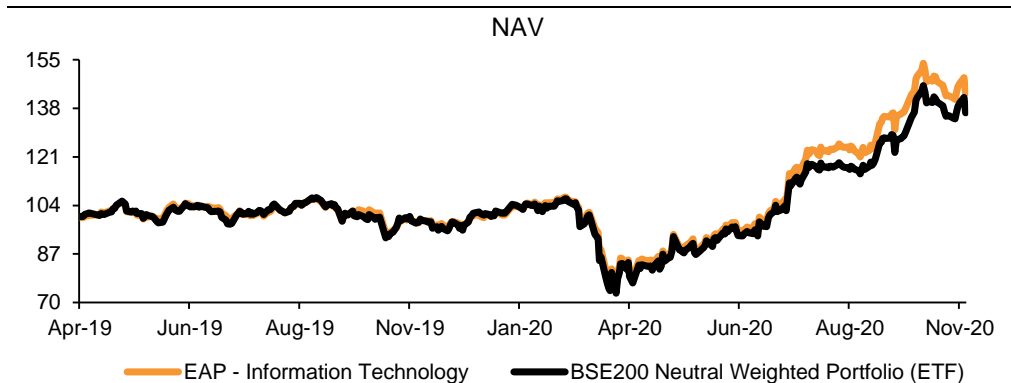
Sector portfolio NAV

	Base					Latest
	1-Apr-19	11-Feb-20	12-May-20	11-Aug-20	9-Oct-20	10-Nov-20
EAP - Information Technology	100.0	104.9	91.5	122.8	149.3	143.3
BSE200 Neutral Weighted Portfolio (ETF)	100.0	103.8	90.1	117.1	141.9	136.4

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 12 Nov 2020 03:53:15 (SGT)

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Sources for all charts and tables are Emkay Research unless otherwise specified.

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