

Infosys (INFO IN)

Rating: BUY | CMP: Rs1,221 | TP: Rs1,436

December 23, 2020

Event Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	1,436		1,436	
Sales (Rs. m)	11,18,843	12,51,133	11,18,843	12,51,133
% Chng.	-	-	-	-
EBITDA (Rs. m)	2,85,443	3,06,395	2,85,443	3,06,395
% Chng.	-	-	-	-
EPS (Rs.)	50.8	55.6	50.8	55.6
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	908	989	1,119	1,251
EBITDA (Rs. bn)	223	268	285	306
Margin (%)	24.5	27.1	25.5	24.5
PAT (Rs. bn)	166	197	215	236
EPS (Rs.)	39.1	46.4	50.8	55.6
Gr. (%)	10.3	18.7	9.4	9.5
DPS (Rs.)	20.9	24.0	21.6	24.0
Yield (%)	1.7	2.0	1.8	2.0
RoE (%)	25.4	27.4	25.6	25.7
RoCE (%)	29.6	33.0	30.6	30.6
EV/Sales (x)	5.5	4.9	4.2	3.7
EV/EBITDA (x)	22.3	18.1	16.5	15.2
PE (x)	31.2	26.3	24.0	22.0
P/BV (x)	7.9	6.6	5.7	5.5

Key Data

INFY.BO | INFO IN

52-W High / Low	Rs.1,224 / Rs.509	
Sensex / Nifty	46,007 / 13,466	
Market Cap	Rs.5,199bn / \$ 70,397m	
Shares Outstanding	4,260m	
3M Avg. Daily Value	Rs.26032.55m	

Shareholding Pattern (%)

Promoter's	13.57
Foreign	30.47
Domestic Institution	25.43
Public & Others	30.53
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	10.6	73.4	66.8
Relative	5.5	31.6	51.2

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Announces IT infra transformation deal with Daimler

Quick Pointers:

- Infosys has announced a mega deal IT infrastructure transformation deal with Daimler AG. Infosys will absorb Daimler's employees across various geos including Germany, rest of Europe, US and APAC region.
- Infosys has not announced size of the deal but we expect the size to be substantial as it involves multiple deliverables.

Daimler and Infosys Announce Strategic Partnership to Drive Hybrid Cloud-powered Innovation & IT Infrastructure Transformation in the Automotive Sector. The partnership will enable the Daimler to deepen its focus on software engineering and to establish a fully scalable on-demand digital IT infrastructure and anytime-anywhere workplace. The impressive deliverables of deal include 1) Create of zero-trust network, 2) building a smart hybrid cloud, 3) multi cloud journey, 4) persona-driven and cognitive, AI powered anytime-anywhere workplace solution.

We believe that Daimler deal truly highlights Infosys success in its large deal strategy & also helping client to navigate in every aspect of their digital journey. This deal also reinforces that companies are aggressively using digital transformation as a tool to reduce their cost & increase their productivity. The collaboration will strengthen Infosys's automotive expertise. This is the second re-badging deal announced by Infosys in last one month, first being the outsourcing of ER&D services for Rolls-Royce's civil aerospace business. This indicates an increasing in demand for outsourcing of IT & ER&D services by global companies to save costs.

Infosys is well-placed to benefit from this transition. Infy's deal pipeline remains strong with clients focusing on accelerated digital transformation, cloud deployment, SaaS and automation projects to improve cost efficiencies. Infosys stays our top pick in the sector as it benefits from near term margin defense and long term growth acceleration from DX/cloud/AI megatrends.

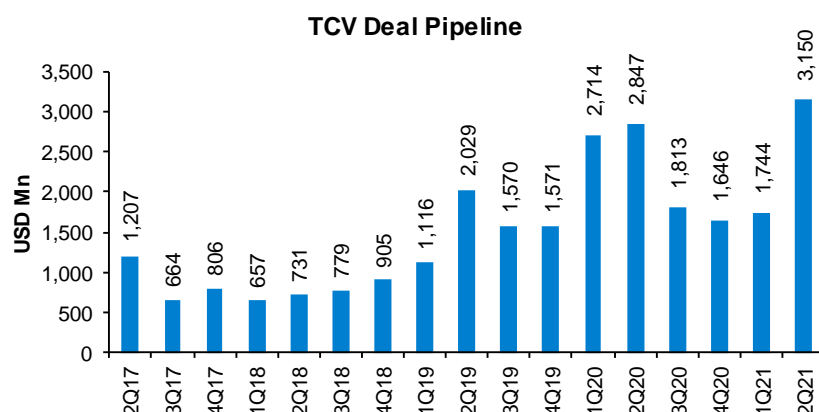
We value Infy at 27x due to following factors 1) Strong revenue acceleration 2) Best in class metrics along with broad based recovery 3) Excellent supply chain mechanism 4) Strong dividend payouts & 5) All time high deal wins. Infy is currently trading at 24X/22X FY22/23 earnings of INR 51/55.6 on FY22/23E respectively with revenue/EPS CAGR of 10.6%/9.5% over FY21-23E. Reiterate BUY.

- Partnership with Daimler:** Daimler and Infosys Announce Strategic Partnership to Drive Hybrid Cloud-powered Innovation & IT Infrastructure Transformation in the Automotive Sector. The partnership will enable the Daimler to deepen its focus on software engineering and to establish a fully scalable on-demand digital IT infrastructure and anytime-anywhere workplace. Daimler AG will transform its IT operating model and infrastructure landscape

across workplace services, service desk, data center, networks and SAP Basis together with Infosys. Infosys will build a smart hybrid cloud, leveraging Cobalt and leading cloud providers, accelerating the multi-cloud journey for Daimler with a focus on open source adoption. Key deliverable of the partnership also includes Persona-driven and cognitive, AI powered anytime-anywhere workplace solution that empowers the end-users. Daimler will take three steps at once to transform its IT infrastructure: consolidation, scaling and modernization.

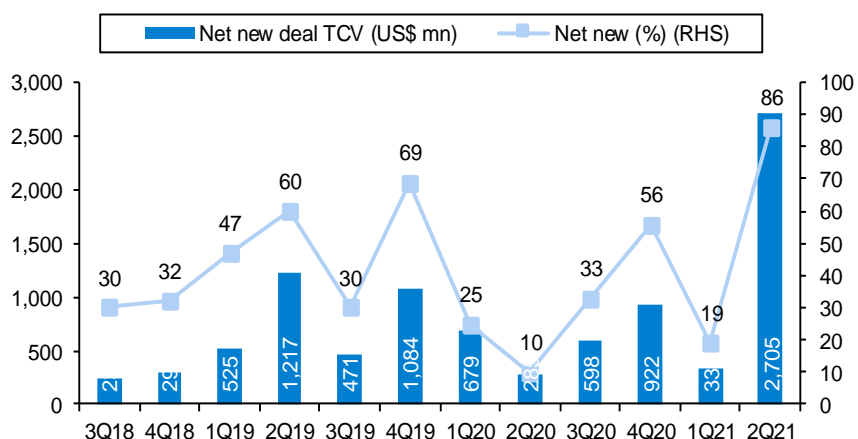
- **Size & tenure not disclosed:** Infosys has not disclosed deal size or duration. The deal will be included in 3QFY21 TCV numbers. Unauthenticated media reports have pegged the deal at US\$1.3 bn in size in November with an onboarding of 500-600 employees from Daimler to INFO. We believe the size to be substantially big looking at the impressive deliverables.
- **Strongest ever deal pipeline:** Infy's new deal wins hit a new high of US\$2.7 bn. Net new deals at US\$2.7 bn was 2.2X of the previous high achieved in Sep-18. The value of new deals won in the quarter is equal to net new deals of the previous five quarters. Even adjusting for US\$1.5 bn Vanguard deal, value of net new deals was remarkably strong at US\$1.2 bn. Infosys won 16 large deals, highest ever, in 2QFY21.

Exhibit 1: Strong deal win momentum to accelerate further

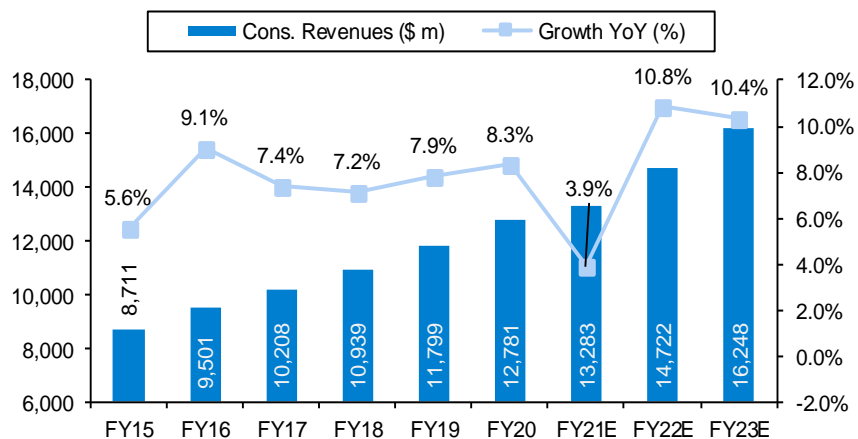


Source: Company, PL

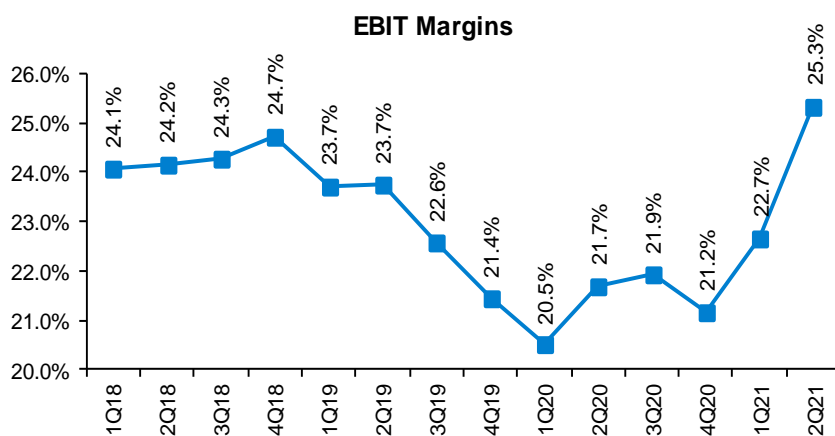
Exhibit 2: Strong net new deal TCV



Source: Company, PL

Exhibit 3: Double digit revenue growth over FY22-23


Source: Company, PL

Exhibit 4: Improved EBIT margins to sustain in the range of 23-24%


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	9,07,910	9,89,216	11,18,843	12,51,133
YoY gr. (%)	9.8	9.0	13.1	11.8
Employee Cost	5,78,390	6,12,887	7,10,327	7,88,214
Gross Profit	3,29,520	3,76,329	4,08,516	4,62,919
Margin (%)	36.3	38.0	36.5	37.0
SG&A Expenses	59,730	59,272	67,131	81,456
Other Expenses	-	-	-	-
EBITDA	2,22,670	2,67,641	2,85,443	3,06,395
YoY gr. (%)	6.6	20.2	6.7	7.3
Margin (%)	24.5	27.1	25.5	24.5
Depreciation and Amortization	28,930	30,267	28,445	25,393
EBIT	1,93,740	2,37,374	2,56,998	2,81,002
Margin (%)	21.3	24.0	23.0	22.5
Net Interest	-	-	-	-
Other Income	26,340	25,048	29,203	28,241
Profit Before Tax	2,20,080	2,62,422	2,86,201	3,09,243
Margin (%)	24.2	26.5	25.6	24.7
Total Tax	53,680	66,196	70,904	73,415
Effective tax rate (%)	24.4	25.2	24.8	23.7
Profit after tax	1,66,400	1,96,226	2,15,297	2,35,828
Minority interest	(10)	(520)	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,66,410	1,96,746	2,15,297	2,35,828
YoY gr. (%)	8.0	18.2	9.4	9.5
Margin (%)	18.3	19.9	19.2	18.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,66,410	1,96,746	2,15,297	2,35,828
YoY gr. (%)	8.0	18.2	9.4	9.5
Margin (%)	18.3	19.9	19.2	18.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,66,410	1,96,746	2,15,297	2,35,828
Equity Shares O/s (m)	4,258	4,242	4,242	4,242
EPS (Rs)	39.1	46.4	50.8	55.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	3,55,720	4,12,480	4,45,620	4,52,699
Tangibles	2,83,860	3,41,360	3,74,500	3,81,579
Intangibles	71,860	71,120	71,120	71,120
Acc: Dep / Amortization	1,46,870	1,77,137	2,05,582	2,11,583
Tangibles	1,46,870	1,77,137	2,05,582	2,11,583
Intangibles	-	-	-	-
Net fixed assets	2,08,850	2,35,343	2,40,038	2,41,116
Tangibles	1,36,990	1,64,223	1,68,918	1,69,996
Intangibles	71,860	71,120	71,120	71,120
Capital Work In Progress	-	-	-	-
Goodwill	-	-	-	-
Non-Current Investments	-	-	-	-
Net Deferred tax assets	7,760	4,420	4,420	4,420
Other Non-Current Assets	1,13,950	1,63,090	1,63,090	1,63,090
Current Assets				
Investments	-	-	-	-
Inventories	-	-	-	-
Trade receivables	1,84,870	2,02,789	2,12,580	2,13,025
Cash & Bank Balance	2,33,040	3,34,396	4,70,280	5,08,577
Other Current Assets	56,640	57,880	57,880	57,880
Total Assets	9,27,680	10,70,847	12,24,048	12,65,828
Equity				
Equity Share Capital	21,220	21,230	21,230	21,230
Other Equity	6,37,220	7,57,314	8,80,985	9,12,978
Total Network	6,58,440	7,78,544	9,02,215	9,34,208
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	51,000	55,950	55,950	55,950
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	28,520	3,957	4,475	4,606
Other current liabilities	1,80,040	2,23,766	2,52,777	2,62,434
Total Equity & Liabilities	9,27,680	10,70,847	12,24,048	12,65,828

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	2,20,080	2,62,422	2,86,201	3,09,243
Add. Depreciation	28,930	30,267	28,445	25,393
Add. Interest	-	-	-	-
Less Financial Other Income	26,340	25,048	29,203	28,241
Add. Other	-	-	-	-
Op. profit before WC changes	2,49,010	2,92,689	3,14,646	3,34,636
Net Changes-WC	38,130	(37,275)	16,907	7,383
Direct tax	(53,680)	(66,196)	(70,904)	(73,415)
Net cash from Op. activities	2,33,460	1,89,218	2,60,649	2,68,604
Capital expenditures	(61,910)	(56,760)	(33,139)	(26,471)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invst. activities	(61,910)	(56,760)	(33,139)	(26,471)
Issue of share cap. / premium	1,560	1,460	-	-
Debt changes	-	-	-	-
Dividend paid	(89,132)	(1,01,806)	(91,625)	(1,01,806)
Interest paid	-	-	-	-
Others	(67,488)	23,173	-	(1,02,029)
Net cash from Fin. activities	(1,55,060)	(77,172)	(91,625)	(2,03,835)
Net change in cash	16,490	55,286	1,35,884	38,297
Free Cash Flow	1,71,550	1,32,458	2,27,509	2,42,133

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	39.1	46.4	50.8	55.6
CEPS	45.9	53.5	57.5	61.6
BVPS	154.6	183.5	212.7	220.2
FCF	40.3	31.2	53.6	57.1
DPS	20.9	24.0	21.6	24.0
Return Ratio(%)				
RoCE	29.6	33.0	30.6	30.6
ROIC	30.8	33.2	29.4	29.1
RoE	25.4	27.4	25.6	25.7
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.4)	(0.5)	(0.5)
Debtor (Days)	74	75	69	62
Valuation(x)				
PER	31.2	26.3	24.0	22.0
P/B	7.9	6.6	5.7	5.5
P/CEPS	26.6	22.8	21.2	19.8
EV/EBITDA	22.3	18.1	16.5	15.2
EV/Sales	5.5	4.9	4.2	3.7
Dividend Yield (%)	1.7	2.0	1.8	2.0

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	2,30,920	2,32,670	2,36,650	2,45,700
YoY gr. (%)	7.9	8.0	8.5	8.6
Raw Material Expenses	1,46,370	1,47,520	1,49,470	1,49,160
Gross Profit	84,550	85,150	87,180	96,540
Margin (%)	36.6	36.6	36.8	39.3
EBITDA	58,000	56,760	61,210	70,830
YoY gr. (%)	7.2	10.2	18.8	25.6
Margin (%)	25.1	24.4	25.9	28.8
Depreciation / Depletion	7,360	7,490	7,560	8,550
EBIT	50,640	49,270	53,650	62,280
Margin (%)	21.9	21.2	22.7	25.3
Net Interest	-	-	-	-
Other Income	7,850	5,690	4,270	5,220
Profit before Tax	58,490	54,960	57,920	67,500
Margin (%)	25.3	23.6	24.5	27.5
Total Tax	13,830	11,610	15,200	18,920
Effective tax rate (%)	23.6	21.1	26.2	28.0
Profit after Tax	44,660	43,350	42,720	48,580
Minority interest	(90)	(140)	(390)	(130)
Share Profit from Associates	-	-	-	-
Adjusted PAT	44,570	43,210	42,330	48,450
YoY gr. (%)	23.5	6.1	11.5	20.6
Margin (%)	19.3	18.6	17.9	19.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	44,570	43,210	42,330	48,450
YoY gr. (%)	23.5	6.1	11.5	20.6
Margin (%)	19.3	18.6	17.9	19.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	44,570	43,210	42,330	48,450
Avg. Shares O/s (m)	4,246	4,246	4,246	4,249
EPS (Rs)	10.5	10.2	10.0	11.4

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	15-Oct-20	BUY	1,436	1,137
2	05-Oct-20	BUY	1,259	1,018
3	01-Oct-20	BUY	1,259	1,008
4	16-Jul-20	BUY	1,037	831
5	04-Jul-20	Hold	788	763
6	21-Apr-20	Hold	668	651
7	12-Apr-20	BUY	693	636
8	11-Feb-20	BUY	820	773
9	12-Jan-20	BUY	820	738
10	03-Jan-20	BUY	834	746

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Coforge	BUY	2,784	2,457
2	Cyient	BUY	584	491
3	HCL Technologies	BUY	1,108	870
4	Infosys	BUY	1,436	1,137
5	L&T Technology Services	BUY	2,509	2,157
6	Larsen & Toubro Infotech	BUY	3,465	3,259
7	Mindtree	BUY	1,625	1,441
8	Mphasis	BUY	1,711	1,382
9	Persistent Systems	BUY	1,368	1,189
10	Redington (India)	BUY	138	138
11	Sonata Software	BUY	427	339
12	Tata Consultancy Services	BUY	3,200	2,736
13	TeamLease Services	BUY	2,677	2,724
14	Tech Mahindra	BUY	1,042	848
15	Wipro	BUY	415	364
16	Zensar Technologies	BUY	215	225

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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