

Beat Estimates; Strong deal wins and Double digit growth guidance in FY22

CMP: Rs 1371

Rating: Accumulate

Target Price: Rs 1543

Stock Info

BSE	500209
NSE	INFOSYSTCH
Bloomberg	INFO IN
Reuters	INFO.BO
Sector	Computers-Software
Face Value (Rs)	5
Equity Capital (Rs Cr)	2129
Mkt Cap (Rs Cr)	587,205
52w H/L (Rs)	1393 / 509
Avg Yearly Vol (in 000')	11038

Shareholding Pattern %

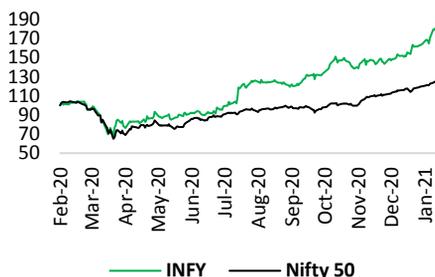
(As on Dec, 2020)

Promoters	12.95
FII	32.26
DII	23.75
Public & Others	31.04

Stock Performance (%)

	3m	6m	12m
INFY	21.4	76.0	77.7
Nifty	22.0	37.6	18.1

INFY Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

Infosys Q3FY21 earnings were above our estimates on all fronts. Consolidated revenue stood at Rs 25,927 Cr, registering +12.3% YoY/5.5% QoQ. Consolidated EBIT stood at Rs 6,589 Cr, up by 30.1% YoY/5.8% QoQ. On the margins front, EBIT margin improved by 348bps YoY/7bps QoQ to 25.4%. Revenue and margin guidance band increased to 4.5%-5.0% and 24.0%-24.5% respectively on the back of continued strong performance. Consolidated PAT saw a rise of 7.3% YoY to Rs 5,215 cr vs 4,466 Cr in Q3FY20. Infosys has delivered highest QoQ growth of 5.3% in the last 8 years in constant currency. Digital revenues grew by 31.3% and overall digital revenue crossed more than half of total revenues.

Q3FY21 Segments Highlights

- Financial services saw continued improvement in performance, both on 13.9% YoY/9.8%QoQ. The uptick in business has been in areas that banks are investing in significantly post-COVID such as mortgage servicing, call center technology and operations, lending services to cater to various government relief programs, as well as pickup of large digital transformation programs. They have signed six large deals in this segment in the last quarter, including the Vanguard deal. This should propel revenue growth for financial services in the coming quarters.
- Energy, utility, resources, and services vertical is also under pressure due to constraint spending in the oil and gas, travel and hospitality, and resources sector. However, the current volatility is presenting significant opportunity for cost takeout and company continue to build a strong pipeline.
- Manufacturing segments were stable during the quarter 8.5%/-2.1YoY, which is a massive improvement from the sequential decline in Q1FY21. While there are disruptions segments, company is seeing opening up of pockets, although the pace of recovery may remain sluggish.

Valuations

We raise our FY21E-22E EPS from Rs 41.6/46.2 to Rs 47.5/55.1 driven by strong Q3FY21 result and company aspires to register double digit growth in FY22E. Large deal TCW was at all-time high of \$7.13bn with 73% being net new. TCW includes Daimler deal, which is expected to be the largest ever IT services deal signed with India. We believe, Infosys will continue to perform well. Considering, its significant contribution from cloud and digital, remains a major beneficiary of this tech upcycle. At CMP of Rs 1371, Infosys currently trades at FY20 P/E of 35x.

We value Infosys at P/E of 28x to its FY22E EPS 55, which yields target Price of Rs 1543 per share. We change our rating from Hold to Accumulate.

Y/E March (Rs. In Cr)	FY19	FY20	FY21E	FY22E
Net Revenue	82,675	90,791	1,05,164	1,17,874
EBIT	18,880	19,374	24,924	29,704
EBIT Margin (%)	22.8%	21.3%	23.7%	25.2%
Net Profit	15,410	16,639	20,207	23,428
EPS	35	39	48	55
P/E (x)	39	35	29	25
ROE	23.7%	25.2%	27.1%	27.3%

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Q3 FY21 - Quarterly Performance (Consolidated)

Rs Cr (Consolidated)	Q3FY21	Q2FY21	Q3FY20	Q-o-Q	Y-o-Y
Net Revenue	25,927	24,570	23,092	5.5%	12.3%
Cost of Sales	16,777	15,771	15,373	6.4%	9.1%
Gross Profit	9,150	8,799	7,719	4.0%	18.5%
S&M and Admin. Expenses	2,561	2,571	2,655	-0.4%	-3.5%
EBIT	6,589	6,228	5,064	5.8%	30.1%
EBIT margin %	25.4%	25.3%	21.9%	7bps	348bps
Other Income	562	522	785	7.7%	-28.4%
PBT	7,151	6,750	5,849	5.9%	22.3%
Tax Expense	1,936	1,892	1,383	2.3%	40.0%
Effective tax rate %	27.1%	28.0%	23.6%	-96bps	343bps
Reported PAT	5,215	4,858	4,466	7.3%	16.8%
MI & Associates	-18	-13	-9	NA	NA
Consolidated PAT	5,197	4,845	4,457	7.3%	16.6%
Adj PAT Margin %	20.0%	19.7%	19.3%	33bps	74bps
EPS (Rs)	12	11	10.5	7.9%	17.0%

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Q3FY21 Concall Highlights

- **Deal Wins:** Infosys large deal TCV \$7.1 bn; TCS's large + small deals TCV \$6.8 bn. Overall deal value for the 9 months of this financial year is over \$12 billion and the net new large deal value for the 9 months of this financial year is over \$8 billion. In Q3, company has signed what is probably the largest deal signed in Indian IT services industry. Apart from this, Company has signed another deal of \$500 million. Overall, company won 22 large deals in Q3, 18 financial services, four deals each in manufacturing and energy utilities, resources and services sector, 3 deals in communication, and 1 deal each in retail, Hi-Tech and other segments.
- **Financial:** Operating cash flow was robust at \$829 million for the quarter. Infosys balance sheet remains solid with cash and investments at \$4.5 billion, which is stable sequentially after the pay-out of interim dividend.
- **Ratios:** Q3 EPS grew by 12.5% in dollar terms and by 16.5% in INR on a YoY basis. Nine months EPS grew by 10.6% in dollar terms and 16.9% in INR on a YoY basis. Return on equity increased further to 27.4%, an improvement of 130 basis points over the last year. DSO measured on an LTM revenue basis remained stable YoY, while increasing four days QoQ.
- **Capex:** Collection remained strong and helped in generating operational cash flow of \$829 million. Coupled with lower Capex of \$57 million FCF for Q3 increased to a record \$772 million, a growth of 15.1% YoY and a growth of 40% on a YTD basis.
- **Employee:** Recognizing continuing the performance of the Company at contribution from Infosys employees during these times, company is paying out variable pay for the quarter at 100%. As announced earlier, the initial in salary increases for employees, which will be effective January 1, 2021. And company is expanding promotion cycle across all levels in this quarter.
- Employee attrition during the quarter was more than 9100, and share of human employees increase the country's voluntary attrition 5% to 10% lower than company band of 14% to 15%.
- **Business:** Infosys BPM has grown at double-digit with strong pipeline of both traditional and digital deals. Digital portfolio also saw strong growth of 31.3% year-on-year in constant currency and crossed 50% share of overall revenues. 3 acquisitions completed in the last quarter, GuideVision, one of the largest ServiceNow Elite Partners in Europe; Blue Acorn, Adobe Platinum Partner in the US; and Kaleidoscope Innovation will further enrich company capabilities and offerings in the digital space
- **Guidance:** Going ahead, Infosys continue to see momentum in business, strong market share gain and increased speed, digital transformation at Infosys clients. Keeping that in mind, company has increased revenue growth guidance for the full year from 2% to 3% to the new guidance at 4.5% to 5% growth in constant currency. Company has increased operating margin guidance for the full year from 23% to 24% previously to 24% to 24.5% for the full year.

Key Financials

Profit & Loss Statement (Consolidated)				
Particulars (Rs Cr)	FY19	FY20	FY21E	FY22E
Income	82,675	90,791	1,05,164	1,17,874
Software development expenses	53,867	60,732	70,039	76,618
Gross Profit	28,808	30,059	35,125	41,256
Sales and development expenses	4,473	4,711	4,207	4,715
General and administrative expenses	5,455	5,974	5,994	6,837
EBIT	18,880	19,374	24,924	29,704
Finance Cost (Lease expense)	-	170	150	161
Other Income	2,882	2,803	2,314	2,593
Provision for investment/ Shares profit / (Loss)	-721			
PBT	21,041	22,007	27,087	32,137
Tax	5,631	5,368	6,880	8,709
PAT	15,410	16,639	20,207	23,428
Adjusted PAT	15,404	16,594	20,162	23,383
Growth (%)	-4.6%	7.7%	21.5%	16.0%
Adjusted EPS	35	39	48	55

Balance Sheet (Consolidated)				
Particulars (Rs Cr)	FY19	FY20	FY21E	FY22E
Shareholder's Funds				
Share Capital	2,170	2,122	2,122	2,122
Reserves & Surplus	62,836	63,722	72,280	83,456
Net Worth	65,006	65,844	74,402	85,578
Total Non Current Liabilities	1,094	6,068	6,393	6,681
Total Current Liabilities	18,638	20,856	22,461	25,033
Total Liabilities	84,738	92,768	1,03,256	1,17,292
Net Block	15,710	19,621	23,449	27,740
Capital Work-in-Progress	1,388	954	954	954
Total Non Current Assets	31,860	38,192	38,098	42,800
Cash and bank balance	19,568	18,649	27,409	36,793
Total Current Assets	52,878	54,576	65,158	74,491
Total Assets	84,738	92,768	1,03,256	1,17,292

Cash Flow Statement (Consolidated)				
Particulars (Rs Cr)	FY19	FY20	FY21E	FY22E
PAT	15,410	16,639	20,207	23,428
Add:- Depreciation & Others	2,011	2,893	3,365	3,772
Change in Working Capital	-453	-2,367	5,713	3,041
Cash generated from operations	21,673	21,553	34,491	37,515
Taxes paid	-6,832	-4,550	-6,880	-8,709
Cash flow from operating activities	14,841	17,003	27,611	28,806
Others	1,870	3,068	257	257
Cash flow from investing activities	-575	-239	-3,571	-4,034
Other fin. Activities	-813	-7,478	-7,478	-7,478
Dividend paid, including div. tax	-13,705	-9,515	-7,882	-7,990
Cash flow from financing activities	-14,512	-17,591	-15,360	-15,468
Exchange Fluctuations	-57	-92	80	80
Net Cash Flow	-246	-827	8,680	9,305
Opening Cash balance	19,871	19,568	18,649	27,409
Closing Cash balance	19,568	18,649	27,409	36,793

Key Ratios (Consolidated)				
Particulars	FY19	FY20	FY21E	FY22E
EPS	35	39	48	55
Book Value	150	155	175	202
DPS	22	18	18	18
Payout %	89%	57%	39%	34%
Dividend Yield %	2.9	1.3	1.3	1.3
P/E	39.2	35.6	29.2	25.2
EBIT Margin	22.8%	21.3%	23.7%	25.2%
PBT Margin	25.5%	24.2%	25.8%	27.3%
Adjusted PAT Margin	18.6%	18.3%	19.2%	19.8%
Debt/Equity	0.0	0.1	0.1	0.1
Current Ratio	2.8	2.6	2.9	3.0
ROE	23.7%	25.2%	27.1%	27.3%
ROCE	22.3%	20.9%	24.1%	25.3%

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880