

Revenue guidance increases further...

About the stock: Infosys Ltd (Infy) is one of the leading IT players catering to BFSI, retail, communication, manufacturing & hi tech verticals.

- The company generates >56% of revenues from digital technologies
- Dividend payout (>80%), margins (>20%) and RoCE (>31%) key positives

Q2FY22 Results: Infosys reported robust Q2FY21 results in revenue terms

- Digital revenues increased 42.4% YoY. It now contributes 56.1% of revenues
- Margins were resilient at 23.6% despite salary hikes
- Revised revenue guidance upwards from 14-16% earlier to 16.5-17.5% for FY22E and maintained margin guidance at 22-24% for FY22E

What should investors do? Infy's share price has grown by ~4x over the past five years (from ~₹ 445 in October 2016 to ~₹ 1,726 levels in October 2021).

- We continue to remain positive and retain our BUY rating on the stock

Target Price and Valuation: We value Infosys at ₹ 2,060 i.e. 32x P/E on FY23E EPS

Key triggers for future price performance:

- Infy is key beneficiary of multi-year growth (15-20%) in digital technologies
- Increase in outsourcing in Europe, vendor consolidation and large deal pipeline other key growth drivers
- Infosys to register industry leading growth in revenues (CAGR of 16% in FY21-23E)
- Healthy cash generation, robust dividend distribution & buyback

Alternate Stock Idea: Apart from Infosys, in our IT coverage we also like TCS.

- Strong organic growth, consistent financials, industry leading margins and healthy capital allocation policy prompt us to be positive on the stock
- BUY with a target price of ₹ 4,530



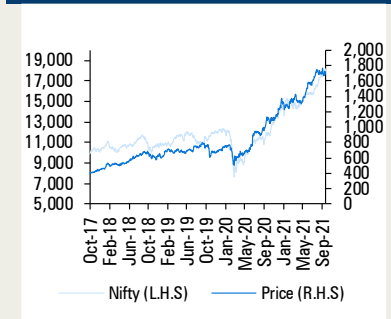
Particulars

Particular	Amount
Market CAP (₹Cr ore)	7,26,406.4
Total Debt	-
CC&E (₹Cr ore)	27,056.0
EV (₹Cr ore)	6,99,350.4
52 week H/L	1787.5 / 1051
Equity capital	2,124.0
Face value	₹5

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoters	13.0	13.0	13.0	13.0
FII	31.3	32.3	32.7	33.4
DII	25.0	23.8	23.1	22.0
Public	30.8	31.0	31.3	31.7

Price Chart



Recent Event & Key risks

- Revised guidance upwards to 16.5% -17.5% for FY22
- Key Risk:** (i) Muted digital demand prospects, (ii) more than estimates rise in wage and travel costs.

Research Analyst

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Key Financial Summary

₹ Crore	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	2 years CAGR (FY21-23E)
Net Sales	82,676	90,791	1,00,472	10.0%	1,18,734	1,37,538	17.0%
EBITDA	20,890	22,268	27,890	10.3%	32,596	38,033	16.8%
EBITDA Margins (%)	25.3	24.5	27.8		27.5	27.7	
Net Profit	15,411	16,595	19,351	7.5%	23,313	27,325	18.8%
EPS (₹)	35.4	38.9	45.6		54.9	64.4	
P/E	44.5	40.5	34.6		28.8	24.5	
RoNW (%)	23.7	25.2	25.2		27.8	30.3	
RoCE (%)	32.9	30.8	31.7		34.0	37.0	

Source: Company, ICICI Direct Research

Key takeaways of conference call

Q1FY22 Earnings Conference Call highlights

- Going forward, Infosys has further revised revenue growth guidance to 16.5-17.5% from earlier 14-16%, which represents strong growth potential despite a robust FY21 performance. The company expects healthy traction in large deals, traction in digital technologies (in cloud & experience) to be key drivers of growth. Infosys has also increased fresher hiring from 35000 to 45000 to address attrition and demand
- Reported EBIT margins declined 10 bps QoQ to 23.6%. There was (-120 bps) wage hike impact and (-50 bps) impact in terms of increase in subcontractor costs. It was mitigated by cost optimisation (+80bps), savings in SG& A (+50 bps) and cross currency tailwind of (+30 bps)
- Demand environment has been strong. Demand from existing clients has been robust and is expanding, which made the company further invest into technologies like cloud, data analytics, etc, where large enterprises are accelerating their spend
- In terms of verticals, demand was driven by BFSI (especially North America in mortgages, wealth and retirement service), Communication, E&U and manufacturing are also seeing healthy demand. Manufacturing is expected to improve due to the Daimler deal
- The management indicated there would some margin headwinds in Q3, Q4 due to elevated costs and seasonality (furlough). However, the company maintained margin guidance since it is looking to optimise cost. Hence, we expect margins of 24.2% & 24.4% in FY22E & FY23E, respectively
- The management indicated that the current rise in attrition due to elevated attrition at the lower end of the pyramid i.e. two to six year of experience that is also a reflection of high demand of talent in the market. Management expects attrition to come down as demand-supply mismatch narrows
- Digital now accounts for ~56% of revenues
- There was addition of 11,664 employees taking employee strength to 279,617. The company is also creating two layers of talent at the bottom of the pyramid as per demand, one for normal programmers and others as digital associates, which are to be trained for future technologies

Peer comparison

Exhibit 1: Peer Comparison

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
HCL Tech (HCLTEC)	1,266	1,475	BUY	353,387	45.8	50.6	60.9	27.6	25.0	20.8	23.5	24.1	25.7	20.8	20.5	21.4
Infosys (INFTEC)	1,735	2,060	BUY	739,225	45.5	54.8	64.3	38.1	31.6	27.0	31.7	34.0	37.0	25.2	27.8	30.3

Source: Company, ICICI Direct Research

Infosys has been outperforming TCS in terms of revenues over the past two years and has also narrowed the margin gap. We expect the company to outperform TCS in revenue terms and, hence, expect the multiple discount to narrow.

Exhibit 2: Variance Analysis

	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Revenue	29,602	29,040	24,570	20.5	27,896	6.1	The company reported dollar revenue growth of 5.7% QoQ with broad based growth
Employee expenses	18,947	18,702	14,916	27.0	17,677	7.2	
Gross Profit	10,655	10,338	9,654	10.4	10,219	4.3	
Gross margin (%)	36.0	35.6	39.3	-330 bps	36.6	-64 bps	
Selling & marketing cost	1,235	1,307	1,136	8.7	1,248	-1.0	
G&A expenses	1,589	1,655	1,435	10.7	1,539	3.2	
EBITDA	7,831	7,376	7,083	10.6	7,432	5.4	
EBITDA Margin (%)	26.5	25.4	28.8	-237 bps	26.6	-19 bps	
Depreciation	859	830	855	0.5	829	3.6	
EBIT	6,972	6,546	6,228	11.9	6,603	5.6	
EBIT Margin (%)	23.6	22.5	25.3	-180 bps	23.7	-12 bps	EBIT margin declined 10 bps QoQ. There was (-120 bps) wage hike impact and (-50 bps) impact in terms of increase in subcontractor costs. It was mitigated by cost optimisation (+80bps), savings in SG&A (+50 bps) and cross currency tailwind of (+30 bps)
Other income	524	700	570	-8.1	622	-15.8	
PBT	7,496	7,246	6,798	10.3	7,225	3.8	
Tax paid	2,020	2,000	1,892	6.8	1,975	2.3	
Reported PAT	5,421	5,266	4,851	11.8	5,195	4.4	PAT was above our estimates on account of a strong operating performance

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

	FY22E			FY23E			Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenue	1,18,734	1,18,734	0.0	1,37,538	1,37,538	0.0	We expect dollar revenues to grow at 16% CAGR over FY21-23E
EBIT	28,734	28,734	0.0	33,559	33,559	0.0	
EBIT Margin (%)	24.2	24.2	0 bps	24.4	24.4	0 bps	We expect margins to stabilise at 24.4% in FY23E
PAT	23,313	23,313	0.0	27,325.5	27,325	0.0	
EPS (₹)	54.9	54.9	0.0	64.4	64.4	0.0	

Source: Company, ICICI Direct Research

Key Metrics

Exhibit 4: Geography-wise split

	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
<u>Revenue by geography (%)</u>					
North America	60.7	61.6	61.6	61.7	61.9
Europe	24.3	24.0	24.4	24.2	24.8
India	3.0	2.6	3.0	2.9	2.6
ROW	12.0	11.8	11.0	11.2	10.7
<u>Growth QoQ in \$ terms (%)</u>					
North America	4.7	7.7	2.8	4.8	6.1
Europe	7.4	4.8	4.5	3.8	8.3
India	9.8	-8.0	18.6	1.2	-5.2
ROW	9.8	4.4	-4.2	6.6	1.0

Source: Company, ICICI Direct Research

Revenues growth was led by Europe and North America

Exhibit 5: Vertical-wise break-up

	%contribution to revenues Q2FY22	%contribution to revenues Q1FY22	Growth QoQ (%)
<u>Revenue by verticals (%)</u>			
Financial Services	32.3	33.0	3.5
Insurance			
Retail	14.6	15.0	2.9
Communication	12.4	12.2	7.4
E&U	11.8	12.1	3.1
Manufacturing	10.9	9.7	18.8
Hi Tech	8.5	8.3	8.3
Life Sciences	7.1	6.8	10.4
Others	2.4	2.9	-21.9

Source: Company, ICICI Direct Research

The company has seen growth in financial services, manufacturing, Hi Tech and retail

Exhibit 6: Client & human resource matrix

	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
<u>Client metrics</u>					
5 Million \$ clients	745	761	779	805	841
25 Million \$ clients	242	246	252	264	270
50 Million \$ clients	60	60	59	59	62
100 Million \$ clients	30	29	32	34	35
<u>Headcount, Utilization & Attrition</u>					
Total Employees	240208	249312	259619	267953	279617
Utilization (Excluding trainees)	83.6	86.3	87.7	88.5	89.2
LTM Attrition	7.8	10.0	10.9	13.9	20.1

Source: Company, ICICI Direct Research

The company has seen increase in attrition, up ~600 bps in the quarter. The employee addition of 11,664 continues to be healthy. It added one client in US\$100 million category

Financial summary

Exhibit 7: Profit and loss statement ₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	90,791	1,00,472	1,18,734	1,37,538
Growth (%)	9.8	10.7	18.2	15.8
COGS (employee expenses)	57,838	62,145	73,553	85,063
Admin expenses	5,973	5,810	7,124	8,252
S&M expenses	4,712	4,627	5,462	6,189
Total Operating Expenditure	68,523	72,582	86,138	99,505
EBITDA	22,268	27,890	32,596	38,033
Growth (%)	6.6	25.2	16.9	16.7
Depreciation	2,894	3,268	3,862	4,474
Other Income	2,803	2,201	2,394	2,685
PBT	22,007	26,628	30,933	36,049
Total Tax	5,367	7,205	7,548	8,652
PAT	16,595	19,351	23,313	27,325
Growth (%)	7.7	16.6	20.5	17.2
EPS (₹)	38.9	45.6	54.9	64.4
Growth (%)	9.9	17.2	20.5	17.2

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement ₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	16,595	19,351	23,313	27,325
Add: Depreciation	2,894	3,267	3,862	4,474
(Inc)/dec in Current Assets	(3,357)	(2,504)	(6,928)	(5,851)
Inc/(dec) in CL and Provisions	1,419	3,137	3,441	3,543
Taxes paid	(4,550)	(6,389)	(7,548)	(8,652)
CF from operating activities	18,557	24,127	21,294	26,806
(Inc)/dec in Investments	(322)	1,235	2,394	2,685
(Inc)/dec in Fixed Assets	(3,307)	(2,107)	(2,200)	(2,200)
CF from investing activities	(1,793)	(8,359)	194	485
Dividend paid & dividend tax	(9,515)	(9,117)	(16,230)	(20,915)
Others	(27)	29	-	-
CF from financing activities	(17,591)	(9,786)	(16,230)	(20,915)
Net Cash flow	(827)	5,982	5,258	6,376
Exchange difference	(92)	83	-	-
Opening Cash	19,568	18,649	24,714	29,972
Closing Cash	18,649	24,714	29,972	36,348

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet ₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E
Equity Capital	2,122	2,124	2,124	2,124
Reserve and Surplus	63,722	74,658	81,742	88,152
Total Shareholders funds	65,844	76,782	83,866	90,276
Employee benefit obligation	38	97	97	97
Debt	-	-	-	-
Deferred Tax Liability	968	875	875	875
Other non current liabilities	5,062	6,767	6,767	6,767
Total Liabilities	71,912	84,521	91,605	98,015
Assets				
Property, plant and equipme	17,867	18,417	16,755	14,481
Goodwill	5,286	6,079	6,079	6,079
Intangibles	1,900	2,072	2,072	2,072
Available for sale assets	4,137	11,863	11,863	11,863
Other assets	9,002	9,222	9,222	9,222
Cash	18,649	24,714	29,972	36,348
Current Investments	4,655	2,342	2,342	2,342
Trade receivables	18,487	19,294	22,801	26,412
Unbilled revenue	7,121	7,527	9,736	10,728
Prepayment & O.fin.assets	5,602	6,668	7,880	9,128
Other current assets	62	188	188	188
Total Current Assets	54,576	60,733	72,919	85,146
Trade payables	2,852	2,645	3,126	3,621
Unearned revenue	2,990	4,050	4,786	5,544
OCL & provisions	15,014	17,170	19,394	21,684
Total Current Liabilities	20,856	23,865	27,306	30,849
Net Current Assets	33,720	36,868	45,614	54,298
Application of Funds	71,912	84,521	91,605	98,015

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	38.9	45.5	54.8	64.3
Cash EPS	45.7	53.2	63.9	74.8
BV	154	181	197	212
DPS	17.5	27.0	38.2	49.2
Cash Per Share	44	58	71	86
Operating Ratios (%)				
EBIT Margin	21.3	24.5	24.2	24.4
PBT Margin	24.2	26.5	26.1	26.2
PAT Margin	18.3	19.3	19.6	19.9
Debtor days	74	70	70	70
Unbilled revenue	25	27	27	27
Creditor days	11	10	10	10
Return Ratios (%)				
RoE	25.2	25.2	27.8	30.3
RoCE	30.8	31.7	34.0	37.0
RoIC	39.9	42.8	48.5	56.6
Valuation Ratios (x)				
P/E	44.7	38.2	31.7	27.1
EV / EBITDA	32.2	25.5	21.7	18.4
EV / Net Sales	7.9	7.1	6.0	5.1
Market Cap / Sales	8.1	7.4	6.2	5.4
Price to Book Value	11.3	9.6	8.8	8.2
Solvency Ratios				
Debt/EBITDA	-	-	-	-
Debt / Equity	-	-	-	-
Current Ratio	2.1	2.3	2.3	2.2
Quick Ratio	2.1	2.3	2.3	2.2

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct coverage universe (IT)

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
HCL Tech (HCLTEC)	1,266	1,475	BUY	353,387	45.8	50.6	60.9	27.6	25.0	20.8	23.5	24.1	25.7	20.8	20.5	21.4
Infosys (INFTEC)	1,735	2,060	BUY	739,225	45.5	54.8	64.3	38.1	31.6	27.0	31.7	34.0	37.0	25.2	27.8	30.3
TCS (TCS)	3,625	4,530	BUY	1,340,906	87.6	110.9	133.0	41.4	32.7	27.3	45.9	51.9	55.8	37.5	43.8	46.8
Tech M (TECMAH)	1,403	1,611	BUY	135,581	50.2	64.7	74.6	28.0	21.7	18.8	19.8	22.8	23.7	17.8	20.4	20.8
Wipro (WIPRO)	673	743	BUY	357,486	19.1	21.3	25.6	35.2	31.5	26.3	21.3	23.0	27.3	19.5	21.8	26.1
LTI (LTINF)	5,950	6,599	BUY	102,657	111.0	126.2	146.4	53.6	47.1	40.6	31.9	30.9	30.6	26.5	25.7	25.4
Mindtree (MINCON)	4,363	4,314	HOLD	70,441	67.4	81.1	95.8	64.7	53.8	45.5	32.5	33.1	33.1	25.7	25.9	25.7
Coforge (NIITEC)	5,337	6,139	BUY	32,503	73.3	106.3	139.1	72.8	50.2	38.4	23.3	26.8	29.8	18.5	23.4	26.2
TeamLease (TEASER)	5,096	4,550	BUY	9,027	46.5	67.5	100.3	109.6	75.5	50.8	14.2	16.4	19.8	11.6	15.8	18.6
Infoedge (INFEDG)	6,815	6,270	BUY	85,403	20.9	37.1	51.0	325.9	183.8	133.8	7.7	13.1	16.7	6.0	9.9	12.6

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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