

Better than expected guidance for FY22; Demand continue to be robust

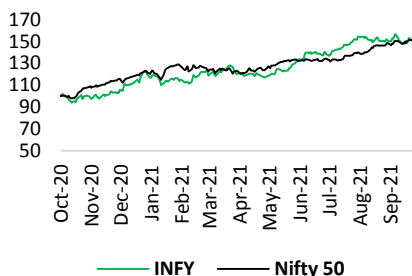
CMP: INR 1,709
Rating: Accumulate
Target Price: INR 1,932
Stock Info

BSE	500209
NSE	INFY
Bloomberg	INFO IN
Reuters	INFO.BO
Sector	Computers-Software
Face Value (INR)	5
Equity Capital (INR Cr)	2124
Mkt Cap (INR Cr)	671,615
52w H/L (INR)	1788 / 1051
Avg Yearly Vol (in 000')	9277

Shareholding Pattern %
(As on June, 2021)

Promoters	12.95
FII	33.39
DII	21.98
Public & Others	31.68

Stock Performance (%)	1m	3m	12m
INFY	0.3	9.9	46.7
Nifty	4.6	14.8	52.1

INFY Vs Nifty


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Infosys (INFY) has reported robust Q2FY22 numbers, above our estimate on all fronts, and raised growth guidance for FY22E.

- Constant Currency Revenue growth +20.7% YoY/5.7% QoQ to (Mn USD) 3,998 against our estimate 3,941 (Mn USD).
- Infosys has reported consolidated revenue of INR 29,602 Cr, +20.5% YoY/6.1% QoQ in Q2FY22 against our estimate of INR 29,479 cr.
- Consolidated EBITDA stood at INR 6,972 Cr, up by 14.1% YoY/3.6% QoQ against our estimate of INR 6,996 Cr.
- On the margins front, EBITDA margin contracted by 180 bps YoY/12bps QoQ to 23.6% against our estimate of 23.7%.
- Consolidated PAT stood at INR 5,421 Cr, up by 11.9% YoY/4.4% QoQ against our estimate of INR 5,352 Cr.
- TCV of \$2.15 Bn in Q2 against \$2.6 Bn in Q2 FY21.
- Interim dividend of `15 per share for FY22
- Raised revenue growth guidance to 16.5%-17.5%. (*Expected 15-17%)

Q2FY22 Concall Highlights

- Has increased revenue growth guidance from 14-16% to 16.5-17.5% for FY22 in constant currency, based on performance in Q2 and deal pipeline.
- EBIT margin came above expectation and declined only 12 bps QoQ to 23.6, even after absorbing wage hike and higher attrition, led by cost optimization.
- Attrition increased by 620 bps QoQ to 20.1% led by higher demand for talent in the industry. Net addition of 11,800 employees in the quarter. Has guided for around 45,000 hiring in FY22.

Valuations

At a CMP of INR 1,709, Currently, Infosys is trading at FY23 P/E of 24.1x to its FY24E EPS of INR 71. The company has upgraded the guidance for revenue growth from 14-16% to 16.5-17.5% for FY22, based on performance in Q2 and deal pipeline. EBIT Margin guidance remains at 22-24% for FY22. However, We believe, Infosys's better than expected growth and Guidance on a higher side should be very positive in the near term. The company has increased the guidance for 45,000 fresher hiring, which is positive for the stock in the medium term as a huge tech demand cycle.

We value Infosys at P/E of ~27x to its FY24E EPS INR 71, which yields a target Price of INR 1,932 per share. We upgrade our rating to Accumulate from Hold.

Y/E March (INR. In Cr)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenues (US\$ mn)	11,799	12,780	13,561	15,899	18,292	20,776
Net Revenue	82,675	90,791	100,472	117,538	134,453	152,887
EBIT	16,869	16,481	21,355	26,328	30,252	34,400
EBIT Margin(%)	20.4%	18.2%	21.3%	22.4%	22.5%	22.5%
Net Profit	15,404	16,594	19,351	23,289	26,168	29,783
EPS (INR)	35.4	38.9	46.1	55.5	62.4	71.0
P/E (x)	44.6	40.5	36.7	30.5	27.4	24.1
ROE	23.7%	25.2%	28.3%	28.3%	26.9%	25.8%

Source: Arihant Research, Company Filings,

Q2 FY22 - Quarterly Performance (Consolidated)

INR Cr (Consolidated)	Q2FY22	Q1FY22	Q2FY21	Q-o-Q	Y-o-Y
Revenue (CC Terms) (Mn USD)	3,998	3,782	3,312	5.7%	20.7%
Net Revenue	29,602	27,896	24,570	6.1%	20.5%
Cost of Sales	19,806	18,506	15,771	7.0%	25.6%
Gross Profit	9,796	9,390	8,799	4.3%	11.3%
S&M and Admin. Expenses	2,824	2,787	2,571	1.3%	9.8%
EBITDA	6,972	6,603	6,228	5.6%	11.9%
EBITDA margin %	23.6%	23.7%	25.3%	-12bps	-180bps
Other Income	476	573	522	-16.9%	-8.8%
PBT	7,448	7,176	6,750	3.8%	10.3%
Tax Expense	2,020	1,975	1,892	2.3%	6.8%
Effective tax rate %	27.1%	27.5%	28.0%	-40bps	-91bps
Reported PAT	5,428	5,201	4,858	4.4%	11.7%
MI & Associates	-7	-6	-13	16.7%	-46.2%
Consolidated PAT	5,421	5,195	4,845	4.4%	11.9%
Adj PAT Margin %	18.3%	18.6%	19.7%	-1.7%	-7.1%
EPS (INR)	12.9	12.2	11	5.0%	12.7%
Dividend	15.0	-	12	-	25.0%

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

Other Important Concall Highlights

- DSO was 66 days, improved by 4 days QoQ.
- Demand environment and deal pipeline remains strong for the company.
- Q3 will have seasonality due to furlough and holidays. There would be another wage hike for seniors in Q3FY22.
- Expect attrition to remain high for next two quarters. Has been doing targeted employee intervention to reduce attrition. Also has increased fresher hiring to manage the supply constrained environment.
- Deal Wins: Net new deal out of \$2.15bn large deal wins for the quarter was at 37%. 22 large deal win over 50 Mn \$ 5 each in financial services and energy utility, Resources & Services, 3 each in retail, manufacturing, 2 each in communication & Hi-tech, 1 each in life sciences & others. Region-wise 16 of America, 6 from Europe, and 1 from ROA.

Effort (IT Services and Consulting)	Q2 FY22	Q1 FY22	Q1FY20	Revenues by Business segments	Q2 FY22	Q1 FY22	Q1FY20
Onsite-Offshore Effort Split				Financial Services	32.3%	33.0%	32.0%
Onsite	23.6%	24.1%	26.1%	Retail	14.6%	15%	14.9%
Offshore	76.4%	75.9%	73.9%	Communication	12.4%	12.2%	12.6%
Utilization measures				Energy, Utilities, Resources and Services	11.8%	12.1%	12.3%
Including trainees	84.1%	83.3%	80.6%	Manufacturing	10.9%	9.7%	9.1%
Excluding trainees	89.2%	88.5%	83.6%	Hi Tech	8.5%	8.3%	9.1%
				Life Sciences	7.1%	6.8%	6.8%
				Others	2.4%	2.9%	3.2%
				Total	100.0%	100.0%	100.0%

Source: Arihant Research, Company Filings

Key Financials

Profit & Loss Statement (Consolidated)						
Particulars (INR Cr)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenues (US\$ mn)	11,799	12,780	13,561	15,898.9	18,292	20,776
Growth (%)	8%	8%	6%	17.2%	15.0%	13.6%
Income	82,675	90,791	100,472	117,537.7	134,453	152,887
Software development expenses	53,867	60,732	65,413	76,399.5	88,739	100,905
Gross Profit	28,808	30,059	35,059	41,138.2	45,714	51,982
Sales and development expenses	4,473	4,711	4,627	5,289.2	6,050	6,880
General and administrative expenses	5,455	5,974	5,810	6,112.0	6,050	6,880
EBITDA	18,880	19,374	24,622	29,737.0	33,613	38,222
EBITDA Margin (%)	23%	21%	25%	25.30%	25.00%	25.00%
EBIT	16,869	16,481	21,355	26,328.4	30,252	34,400
EBIT Margin (%)	20%	18%	21%	22.4%	22.5%	22.5%
Finance Cost (Lease expense)	-	170	195	170.0	175	176
Other Income	2,882	2,803	2,201	2,350.8	2,420	2,752
Provision for investment/ Shares profit / (Loss)	-721					
PBT	21,041	22,007	26,628	31,918	35,859	40,798
Tax	5,631	5,368	7,205	8,554	9,610	10,934
PAT	15,410	16,639	19,423	23,364	26,248	29,864
Adjusted PAT	15,404	16,594	19,351	23,288.8	26,168	29,783
Growth (%)	-4.6%	7.7%	16.6%	20.3%	12.4%	13.8%
Adjusted EPS	35	39	46	56	62	71

Balance Sheet (Consolidated)						
Particulars (INR Cr)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Shareholder's Funds						
Share Capital	2,170	2,122	2,097	2,097	2,097	2,097
Reserves & Surplus	62,836	63,722	66,176	80,161	95,082	113,467
Net Worth	65,006	65,844	68,273	82,258	97,179	115,564
Total Non Current Liabilities	1,094	6,068	7,739	6,503	6,779	7,080
Total Current Liabilities	18,638	20,856	23,865	15,688	16,162	19,621
Total Liabilities	84,738	92,768	99,877	104,448	120,120	142,265
Net Block	15,710	19,621	20,711	24,989	29,883	35,449
Capital Work-in-Progress	1,388	954	922	922	922	922
Total Non Current Assets	31,860	38,192	47,653	50,738	55,221	60,726
Cash and bank balance	19,568	18,649	16,205	20,811	27,692	38,260
Total Current Assets	52,878	54,576	52,224	53,710	64,899	81,539
Total Assets	84,738	92,768	99,877	104,448	120,120	142,265

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

Key Financials

Cash Flow Statement (Consolidated)						
Particulars (INR Cr)	FY19	FY20	FY21	FY22E	FY23E	FY24E
PAT	15,410	16,639	19,423	23,364	26,248	29,864
Add:- Depreciation & Others	2,011	2,893	3,267	3,409	3,361	3,822
Change in Working Capital	-453	-2,367	768	4,073	3,883	4,543
Cash generated from operations	21,673	21,553	29,615	38,191	42,072	48,279
Taxes paid	-6,832	-4,550	-6,389	-8,554	-9,610	-10,934
Cash flow from operating activities	14,841	17,003	23,226	29,637	32,462	37,345
Purchase of FA and Capex	-2,445	-3,307	-2,107	-4,278	-4,894	-5,565
Others	1,870	3,068	-5,349	-8,731	-8,731	-8,731
Cash flow from investing activities	-575	-239	-7,456	-13,009	-13,625	-14,296
Other fin. Activities	-813	-7,478	-8,509	0	0	0
Dividend paid, including div. tax	-13,705	-9,515	-9,117	-11,985	-12,147	-12,309
Cash flow from financing activities	-14,512	-17,591	-18,295	-12,106	-12,039	-12,565
Exchange Fluctuations	-57	-92	83	83	83	83
Net Cash Flow	-246	-827	-2,525	4,521	6,798	10,484
Opening Cash balance	19,871	19,568	18,649	16,207	20,811	27,692
Closing Cash balance	19,568	18,649	16,207	20,811	27,692	38,260

Key Ratios (Consolidated)						
Particulars	FY19	FY20	FY21	FY22E	FY23E	FY24E
EPS (INR)	35.4	38.9	46.1	55.5	62.4	71.0
Book Value	149.8	155.1	162.8	196.1	231.7	275.5
DPS	21.5	17.5	27.0	27.0	27.0	27.0
Payout %	89%	57%	47%	51%	46%	41%
Dividend Yield %	2.9	1.1	1.6	1.6	1.6	1.6
P/E	44.6	40.5	36.7	30.5	27.4	24.1
EBITDA Margin (%)	22.8%	21.3%	24.5%	25.3%	25.0%	25.0%
EBIT Margin	20.4%	18.2%	21.3%	22.4%	22.5%	22.5%
PBT Margin	25.5%	24.2%	26.5%	27.2%	26.7%	26.7%
Adjusted PAT Margin	18.6%	18.3%	19.3%	19.8%	19.5%	19.5%
Debt/Equity	0.0	0.1	0.1	0.1	0.1	0.1
Current Ratio	2.8	2.6	2.2	3.4	4.0	4.2
ROE	23.7%	25.2%	28.3%	28.3%	26.9%	25.8%
ROCE	22.3%	20.9%	24.7%	28.5%	28.0%	26.9%

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

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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%

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