

Better than expected guidance for FY22; Growth remained broad-based and deal momentum robust

CMP: INR 1,877

Rating: Accumulate

Target Price: INR 2,124

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)	795,608
52w H/L (INR)	1914 / 1230
Avg Yearly Vol (in 000')	6,593

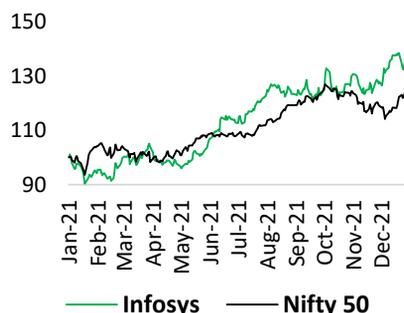
Shareholding Pattern %

(As on December, 2021)

Promoters	13.12
FII	33.46
DII	16.02
Public & Others	37.40

Stock Performance (%)	1m	3m	12m
INFY	6.2	10.9	36.2
Nifty	4.0	0.6	24.7

INFY Vs Nifty



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Infosys (INFY) has reported robust Q3FY22 numbers, above our estimate on the revenue front, and raised growth guidance for FY22.

- Constant Currency Revenue growth +20.9% YoY/6.3% QoQ to (Mn USD) 4,250 against our estimate 4,124 (Mn USD).
- Infosys has reported consolidated revenue of INR 31,867 Cr, +22.9% YoY/7.7% QoQ in Q3FY22 against our estimate of INR 30,958 cr.
- Consolidated EBIT stood at INR 7,484 Cr, up by 13.6% YoY/7.3% QoQ against our estimate of INR 7,614 Cr.
- On the margins front, EBIT margin contracted by 193 bps YoY/ 7bps QoQ to 23.5% against our estimate of 24.6%.
- Consolidated PAT stood at INR 5,809 Cr, up by 11.8% YoY/7.2% QoQ against our estimate of INR 5,935 Cr.
- TCV of \$2.53 Bn in Q3 against \$2.15 Bn in Q2FY22.
- Raised revenue growth guidance to 19.5%-20.0%. (Expected 17.5-18.5%)

Q3FY22 Concall Highlights

- **Guidance:** The company guidance on revenue for FY22 revised upwards to 19.5%-20.0%, powered by sequential growth of 7.0% in Q3. Differentiated digital and cloud capabilities drive broad-based growth; healthy operating margins at 23.5%.
- Ramping up of the Daimler deal leading to strong revenue growth in manufacturing vertical.
- **Deal wins:** The company won 25 large deals with TCV of \$2.53 bn and 6 deals in retail, 5 in communication, financial service retail and Energy, Utilities, resources and Services, 2 in Manufacturing and 1 in hi-tech and life science.

Valuations

At a CMP of INR 1,877, currently, Infosys is trading at P/E of 24.7x to its FY24E EPS of INR 76. The company has upgraded the guidance for revenue growth from 16.5-17.5% to 19.5%-20.0% for FY22 in cc terms, while maintaining the margin range of 22-24% and it is well positioned for FY23 in terms of capabilities. 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 55k fresher hiring, indicating a huge tech demand cycle, which is positive for the company medium term.

We value Infosys at P/E of 28x to its FY24E EPS of INR 75.9, which yields a Target Price of INR 2,124 per share. We maintain our Accumulate rating on the stock.

Y/E March (INR. In Cr)	FY21	FY22E	FY23E	FY24E
Revenues (US\$ mn)	13,561	16,508	19,462	22,378
Net Revenue	1,00,472	1,22,227	1,43,728	1,66,457
EBIT	21,355	25,790	30,902	35,788
EBIT Margin(%)	21.3%	21.1%	21.5%	21.5%
Net Profit	19,351	23,063	27,444	31,815
EPS (INR)	46.1	55.0	65.4	75.9
P/E (x)	36.7	32.1	28.7	24.7
ROE	28.3%	28.1%	27.9%	26.8%

Source: Arihant Research, Company Filings,

Q3FY22 - Quarterly Performance (Consolidated)

INR Cr (Consolidated)	Q3FY22	Q2FY22	Q3FY21	Q-o-Q	Y-o-Y
Revenue (CC Terms) (Mn USD)	4,250	3,998	3,516	6.3%	20.9%
Net Revenue	31,867	29,602	25,927	7.7%	22.9%
Cost of Sales	21,415	19,806	16,777	8.1%	27.6%
Gross Profit	10,452	9,796	9,150	6.7%	14.2%
S&M and Admin. Expenses	2,968	2,824	2,561	5.1%	15.9%
EBITDA	7,484	6,972	6,589	7.3%	13.6%
EBITDA margin %	23.5%	23.6%	25.4%	-7bps	-193bps
Other Income	459	476	562	-3.6%	-18.3%
PBT	7,943	7,448	7,151	6.6%	11.1%
Tax Expense	2,121	2,020	1,936	5.0%	9.6%
Effective tax rate %	26.7%	27.1%	27.1%	-42bps	-37bps
Reported PAT	5,822	5,428	5,215	7.3%	11.6%
MI & Associates	-13	-7	-18	85.7%	-27.8%
Consolidated PAT	5,809	5,421	5,197	7.2%	11.8%
Adj PAT Margin %	18.2%	18.3%	20.0%	-0.5%	-9.1%
EPS (INR)	13.9	12.9	12.3	7.9%	12.7%

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

Q3FY22 Concall Highlights

- The company is seeing improvement in sub-segment and geography and continue focus in smart manufacturing, IOT, digital supply chain and connected products.
- Business segment:** 1) Hi-tech: Grew by 18.9% in CC terms and the company is continue seeing the engagement of the client. 2) Life Sciences: Performance improve further 29.2% growth in CC terms as adoption of the digital health daily health and patient access and this lead to significant uptick in the cloud.
- Digital services:** The company has very strong performance in India Income tax program in India over >58mn tax return file using new system by the deadline of Dec 31 FY21 and last day it was 4.6mn tax return file. In the digital services company is leader in 12 digital related capabilities from artificial intelligence, automation, cloud services IOT, engineering, modernisation, big data and analytics. The company has strong performance from all of the area relevance for the client and deep strategic for the client.
- Geography:** The North America grew by 21.4% on YoY in cc terms, Europe up by 27.2% in cc terms. Segment: Retail, communication and Manufacturing grew by 19.8%, 22.2% and 48.4% in cc terms.
- Deal wins:** The company won 25 large deals with TCV of \$2.53 bband 6 deals in retail, 5 in communication, financial service retail and Energy, Utilities, resources and Services, 2 in Manufacturing and 1 in hi-tech and life science.
- Normalized tax rate is around 27-28%
- The company has increased fresher hiring as well as training of employees to cater to demand environment. Clients have realized that work can be done from offshore location. Expect offshoring to continue. We will have to watch out for how much travel expense come back in post Covid world.

Source: Arian Research, Company Filings

Key Financials

Profit & Loss Statement (Consolidated)					
Particulars (INR Cr)	FY20	FY21	FY22E	FY23E	FY24E
Revenues (US\$ mn)	12,780	13,561	16,507.8	19,462	22,378
Growth (%)	8%	6%	21.7%	17.9%	15.0%
Income	90,791	1,00,472	1,22,226.7	1,43,728	1,66,457
Growth (%)	9.8%	10.7%	21.7%	17.6%	15.8%
Software development expenses	60,732	65,413	81,891.9	95,579	1,10,694
Gross Profit	30,059	35,059	40,334.8	48,149	55,763
Sales and development expenses	4,711	4,627	5,500.2	6,755	7,990
General and administrative expenses	5,974	5,810	5,500.2	6,899	7,823
EBITDA	19,374	24,622	29,334.4	34,495	39,950
EBITDA Margin (%)	21.3%	24.5%	24.00%	24.00%	24.00%
EBIT	16,481	21,355	25,789.8	30,902	35,788
EBIT Margin (%)	18%	21%	21.1%	21.5%	21.5%
Finance Cost (Lease expense)	170	195	170.0	175	176
Other Income	2,803	2,201	2,444.5	2,875	3,329
Provision for investment/ Shares profit / (Loss)					
PBT	22,007	26,628	31,609	37,194	43,103
Tax	5,368	7,205	8,471	9,671	11,207
PAT	16,639	19,423	23,138	27,524	31,896
Adjusted PAT	16,594	19,351	23,062.8	27,444	31,815
Growth (%)	7.7%	16.6%	19.2%	19.0%	15.9%
Adjusted EPS	39	46	55	65	76

Balance Sheet (Consolidated)					
Particulars (INR Cr)	FY20	FY21	FY22E	FY23E	FY24E
Shareholder's Funds					
Share Capital	2,122	2,097	2,097	2,097	2,097
Reserves & Surplus	63,722	66,176	79,934	96,131	1,16,549
Net Worth	65,844	68,273	82,031	98,228	1,18,646
Total Non Current Liabilities	6,068	7,739	6,580	6,930	7,301
Total Current Liabilities	20,856	23,865	16,342	17,182	21,264
Total Liabilities	92,768	99,877	1,04,953	1,22,340	1,47,210
Net Block					
Net Block	19,621	20,711	25,160	30,392	36,451
Capital Work-in-Progress	954	922	922	922	922
Total Non Current Assets	38,192	47,653	50,752	55,658	61,866
Cash and bank balance	18,649	16,205	20,870	28,800	41,315
Total Current Assets	54,576	52,224	54,201	66,682	85,344
Total Assets	92,768	99,877	1,04,953	1,22,340	1,47,210

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

Key Financials

Cash Flow Statement (Consolidated)					
Particulars (INR Cr)	FY20	FY21	FY22E	FY23E	FY24E
PAT	16,639	19,423	23,138	27,524	31,896
Add:- Depreciation & Others	2,893	3,267	3,545	3,593	4,161
Change in Working Capital	-2,367	768	4,383	3,802	4,309
Cash generated from operations	21,553	29,615	38,381	43,637	50,776
Taxes paid	-4,550	-6,389	-8,471	-9,671	-11,207
Cash flow from operating activities	17,003	23,226	29,910	33,967	39,569
Purchase of FA and Capex	-3,307	-2,107	-4,449	-5,232	-6,059
Others	3,068	-5,349	-8,731	-8,731	-8,731
Cash flow from investing activities	-239	-7,456	-13,180	-13,963	-14,790
Other fin. Activities	-7,478	-8,509	0	0	0
Dividend paid, including div. tax	-9,515	-9,117	-11,985	-12,147	-12,309
Cash flow from financing activities	-17,591	-18,295	-12,150	-12,157	-12,347
Exchange Fluctuations	-92	83	83	83	83
Net Cash Flow	-827	-2,525	4,580	7,847	12,432
Opening Cash balance	19,568	18,649	16,207	20,870	28,800
Closing Cash balance	18,649	16,207	20,870	28,800	41,315

Key Ratios (Consolidated)					
Particulars	FY20	FY21	FY22E	FY23E	FY24E
EPS (INR)	38.9	46.1	55.0	65.4	75.9
Book Value	155.1	162.8	195.6	234.2	282.9
DPS	17.5	27.0	27.0	27.0	27.0
Payout %	57%	47%	52%	44%	39%
Dividend Yield %	1.1	1.6	1.5	1.4	1.4
P/E	40.5	36.7	32.1	28.7	24.7
EBITDA Margin (%)	21.3%	24.5%	24.0%	24.0%	24.0%
EBIT Margin	18.2%	21.3%	21.1%	21.5%	21.5%
PBT Margin	24.2%	26.5%	25.9%	25.9%	25.9%
Adjusted PAT Margin	18.3%	19.3%	18.9%	19.1%	19.1%
Debt/Equity	0.1	0.1	0.1	0.1	0.1
Current Ratio	2.6	2.2	3.3	3.9	4.0
ROE	25.2%	28.3%	28.1%	27.9%	26.8%
ROCE	20.9%	24.7%	28.0%	28.2%	27.1%

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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