

# Infosys Limited



**Infosys Limited.**

 CMP Target Potential Upside  
**INR 1,897 INR 2,094 10.4%**
**Stellar performance continues but supply side crunch to impact margins in the near term**

 Market Cap (INR Mn) Recommendation  
**INR 7,978,058 ACCUMULATE**

 Sector  
**Internet Software & Services**
**Synopsis:**

Infosys Limited (INFO) Q3FY22 performance was higher than with our estimate. Dollar Revenue was up 6.3% QoQ and in CC term grew by 21.5% YoY to USD 4,250mn (KRChoksey est. USD 4,136mn). Rupee revenue grew by 7.7% QoQ to INR 318,670Mn (KRChoksey est. INR 310,343Mn). Reported operating margin witnessed a meagre de-growth, down by 7bps to 23.5% QoQ. Revenue acceleration, improving business mix, employee pyramid, right pricing in digital projects, automation and other operating efficiencies would support margins going ahead. Reported Net profit grew by ~7.4% QoQ to INR 58,220mn (KRChoksey est. INR 59,670mn) with margin of 18.3% (marginally down by 4bps on QoQ basis). Infosys has raised FY22 revenue growth guidance by 250-300bps to 19.5-20% (earlier 16.5-17.5%), implying 0.5-2% QoQ growth in Q4. Infosys' strong broad-based revenue growth in a seasonally soft quarter clearly reflects the confidence clients have in the company's capabilities, leading to consistent market share gains and company's operating margin guidance remains the same at 22%-24%. Our target price of INR 2,094 is based on 28.5x Mar-24E EPS with EPS CAGR of ~18.7% over FY22-24E.

**MARKET DATA**

Shares outs (Mn)	4245
Mkt Cap (INR Mn)	7,978,058
52 Wk H/L (INR)	1914/1230
Volume Avg (3m K)	5691
Face Value (INR)	5
Bloomberg Code	INFO:IN

**KEY FINANCIALS**

(INR Mn)	Q3FY22A	Q2FY22A	Q3FY21A	QoQ	YoY	KRChoksey Est.	Variance (%)
USD Revenue	4,250	3,998	3,516	6.3%	20.9%	4,136	2.8%
Revenue	3,18,670	2,96,020	2,59,270	7.7%	22.9%	3,10,343	2.7%
EBIT	74,840	69,720	65,890	7.3%	13.6%	76,386	-2.0%
PAT	58,220	54,210	51,970	7.4%	12.0%	59,670	-2.4%
OPM (%)	23.5%	23.6%	25.4%	-7bps	-193bps	24.6%	-113bps
NPM(%)	18.3%	18.3%	20.0%	-4 bps	-178bps	19.2%	-96bps

Source: Company, KRChoksey Research

**SHARE PRICE PERFORMANCE**

**Robust revenue performance; FY22 revenue guidance raised to 19.5-20%**

Infosys' reported revenue of USD 4,250mn showed growth of 7% QoQ and 21.5% YoY in CC terms, which is the highest in 11 years. Growth was broad-based, with most verticals reporting healthy QoQ growth in 3Q. Manufacturing (up 10% QoQ) on the back of ramp up of revenues from the Daimler Deal, Life Sciences (+12.3% QoQ), and Communications (+7.2% QoQ) drove growth. Revenue growth was healthy across both North America (+6.1% QoQ) and Europe (+6.7% QoQ). India business saw a sharp revival with 23% QoQ growth on a low base. Infosys' stronger growth in Europe is mainly driven by the Daimler deal. Digital revenues, up 11% QoQ, continued to be the key growth driver.

**Steady deal wins; growth guidance raised**

Large deal wins accelerated with 25 deals in 3QFY22 with TCV of USD 2.53bn (Large deal bookings were up 18% QoQ, and 43% net new) taking TTM TCV to USD 9.3Bn, compared to USD 2.15bn in 2QFY22 and USD 7.12bn in 3QFY21 (included the mega deal with Daimler). Out of these, 6 were in retail, 5 each in BFSI, Communication and Energy, 2 in Manufacturing and 1 each in High-tech and Life Sciences. 16 deal wins were from America, 7 were from Europe and 2 from ROW. The company has raised its annual revenue guidance from 16.5-17.5% to 19.5%-20%, which is a reflection of strong growth delivery.

**Stable pricing environment with rising digital businesses**

Management is expecting some improvement in pricing from the current level going ahead. As we see a clear indication that there is a significant increase in amount being spent by clients on technology-based platforms. USD 100mn+ client accounts increased to 37, 4 additions were made to the USD 10mn+ client bucket and 13 additions to the USD 1mn+ client bucket. Infosys added 111 new clients (gross) in 3QFY22.

**EBIT margin to sustain in the range of 22-24 %**

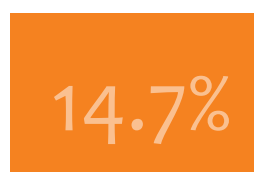
Operating margin contracted by 7bps QoQ to 23.5% due to salary hikes, promotions and other employee interventions (-80bps), and lower utilization (-40bps), partially offset by cost optimization and improvement in operational parameters (+50bps), SG&A leverage (+40bps) and currency benefits (+20bps). Supply side inflation and likely normalization of discretionary costs (travel, facility and other related costs) remain headwinds to margins in the next couple of quarters.

**MARKET INFO**

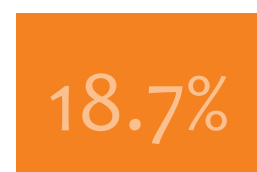
SENSEX	61,235
NIFTY	18,258

**SHARE HOLDING PATTERN (%)**

Particulars	Dec-21	Sep-21	Jun-21
Promoters	13.1	13.1	13
FIIs	33.2	33.2	33.4
DIIIs	16.3	16.3	22
Others	37.4	37.4	31.6
Total	100	100	100



Revenue CAGR between FY22 and FY24E



PAT CAGR between FY22 and FY22E

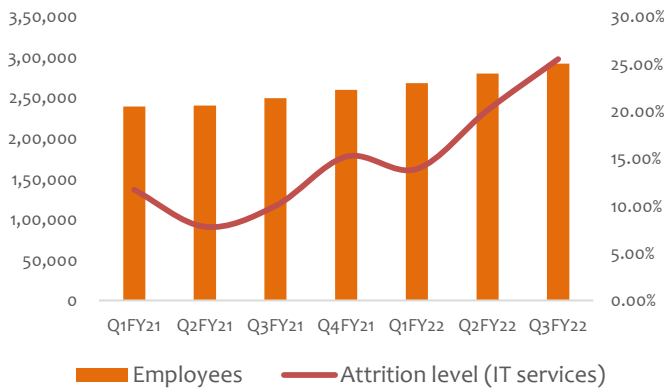
## Infosys Limited.

**Key Concall Highlights:** (i) The core (Traditional) revenues turned positive (+0.6%) on CC growth YoY growth basis after 9 quarters of negative YoY growth (ii) Infosys has increased the fresher hiring target for CY22 to 55K from 45K (Q2FY22) (iii) In terms of supply side cost and challenges, Infosys plans to focus on ensuring increased fresher intake (iv) it has been able to start securing better rates on the Digital deals through increased pricing in new deals that involves high in-demand Digital talent (v) The tax rate will remain around 27.5%-28% in the long run (vi) Costs for 3<sup>rd</sup> party items bought for service delivery has inched up to 4.9% of revenue in Q3 (+140bps QoQ) on the back of digital end-to-end transformational/full stack bundled deals involving infrastructure and software licenses (vii) Focus areas for M&A remain cloud, cybersecurity and IoT

### Valuation and view

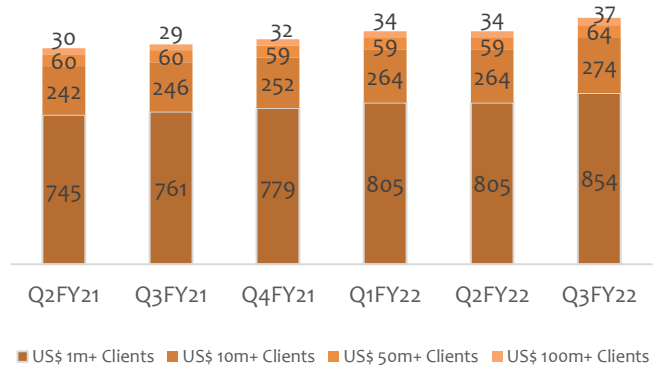
Infosys is currently trading at a valuation with a P/E multiple of 32.8x/25.8x on FY23E/FY24E earnings. Infosys has managed to report a material decline of 4% in average employee costs in 3Q despite high attrition. Sharp rise in pass through costs possibly due to ramp up of Daimler deal which dents the employee cost savings. Factoring strong performance, confident commentary and upgrade in guidance, we are assigning a P/E multiple of 28.5x to the FY24 estimated EPS of INR 73.6 to arrive at a target price of INR 2,094 per share, an upside of 10.4% over the CMP. We change our rating to “ACCUMULATE” from “BUY” rating to the stock.

Total Employee Base & Attrition



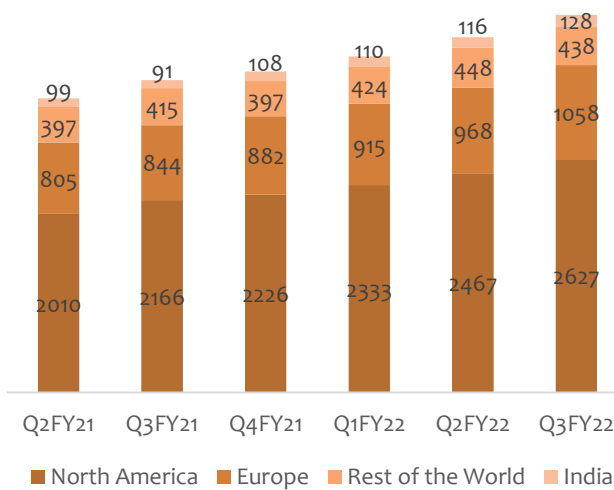
Source: Company, KRChoksey Research

Client Contribution



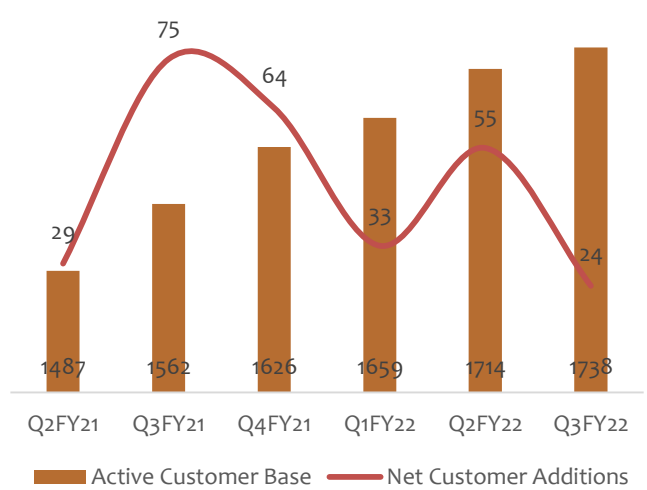
Source: Company, KRChoksey Research

Revenue by Geography (USD Mn)



Source: Company, KRChoksey Research

Active Customer Base



Source: Company, KRChoksey Research

**Infosys Limited.**
**KEY FINANCIALS**
**Exhibit 1: Balance Sheet**

Particulars (INR Mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Property, Plant and Equipment	1,14,790	1,24,350	1,25,600	1,20,073	1,13,767	1,08,708
Right-of-use Asset	0	41680	47940	47940	47940	47940
CWIP	13,880	9,540	9,220	9,220	9,220	9,220
Goodwill	35,400	52,860	60,790	60,790	60,790	60,790
Intangible Assets	6,910	19,000	20,720	20,720	20,720	20,720
Deferred Tax Assets	13,720	17,440	10,980	10,980	10,980	10,980
Income Tax Assets	63200	53840	58110	58110	58110	58110
Other non current assets	24,360	21,840	24,540	24,540	24,540	24,540
Investments	46,340	41,370	1,18,630	1,18,630	1,18,630	1,18,630
<b>Total non current assets</b>	<b>3,18,600</b>	<b>3,81,920</b>	<b>4,76,530</b>	<b>4,71,003</b>	<b>4,64,697</b>	<b>4,59,638</b>
Cash & equivalent	195680	186490	247140	214546	228081	253837
Available for sale financial assets	66,270	46,550	23,420	23,420	23,420	23,420
Sundry debtors	1,48,270	1,84,870	1,92,940	2,58,661	3,04,790	3,52,876
Unbilled revenue	53,740	71,210	75,270	1,13,164	1,33,810	1,53,055
Derivative financial instruments	3,360	620	1,880	1,880	1,880	1,880
Prepayments and other current assets	61,460	56,020	66,680	66,680	66,680	66,680
<b>Total current assets</b>	<b>5,28,780</b>	<b>5,45,760</b>	<b>6,07,330</b>	<b>6,78,352</b>	<b>7,58,662</b>	<b>8,51,748</b>
<b>Total Assets</b>	<b>8,47,380</b>	<b>9,27,680</b>	<b>10,83,860</b>	<b>11,49,354</b>	<b>12,23,358</b>	<b>13,11,386</b>
Equity Share Capital	21,700	21,220	21,240	21,240	21,240	21,240
Other Equity	6,27,780	6,33,280	7,42,270	7,77,538	8,16,587	8,65,694
Equity Attributable to Owners of the Company	6,49,480	6,54,500	7,63,510	7,98,778	8,37,827	8,86,934
Non controlling Interest	580	3,940	4,310	4,310	4,310	4,310
<b>Total Equity</b>	<b>6,50,060</b>	<b>6,58,440</b>	<b>7,67,820</b>	<b>8,03,088</b>	<b>8,42,137</b>	<b>8,91,244</b>
Deferred Income Tax Liabilities	6,720	9,680	8,750	8,750	8,750	8,750
Employee Benefit Obligations	1,470	8,070	15,140	15,140	15,140	15,140
Lease Liabilities	0	40,140	45,870	45,870	45,870	45,870
Other Liabilities	2,750	2,790	7,630	7,630	7,630	7,630
<b>Total non current liabilities</b>	<b>10,940</b>	<b>60,680</b>	<b>77,390</b>	<b>77,390</b>	<b>77,390</b>	<b>77,390</b>
Trade Payables	16,550	28,520	26,450	23,905	25,199	30,845
Derivative Financial Instruments	150	4,910	560	560	560	560
Client Deposits	260	180	0	0	0	0
Unearned Revenue	28,090	29,900	40,500	47,571	54,688	62,553
Lease Liabilities	0	6,190	7,380	7,380	7,380	7,380
Other Liabilities	1,03,710	99,920	1,14,970	1,38,210	1,61,875	1,78,331
Income Tax Liabilities	15,670	14,900	21,460	22,675	24,302	31,871
Employee Benefit Obligations	16,190	18,320	20,200	20,200	20,200	20,200
Post-Sales Client Support and Warranties	5,760	5,720	7,130	8,375	9,628	11,012
<b>Total Current Liabilities</b>	<b>1,86,380</b>	<b>2,08,560</b>	<b>2,38,650</b>	<b>2,68,876</b>	<b>3,03,832</b>	<b>3,42,752</b>
<b>Total liabilities</b>	<b>8,47,380</b>	<b>9,27,680</b>	<b>10,83,860</b>	<b>11,49,354</b>	<b>12,23,358</b>	<b>13,11,386</b>

Source: Company, KRChoksey Research

## Infosys Limited.

### KEY FINANCIALS

#### Exhibit 2: Profit & Loss Statement

Particulars (INR Mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	8,26,750	9,07,910	10,04,720	11,80,143	13,56,689	15,51,805
Employee Cost	4,53,160	5,08,870	5,55,410	6,57,996	7,74,042	8,42,339
SG&A and Other Cost	1,63,690	1,76,370	1,70,420	2,14,553	2,47,911	2,83,500
<b>EBITDA</b>	<b>2,09,900</b>	<b>2,22,670</b>	<b>2,78,890</b>	<b>3,07,594</b>	<b>3,34,736</b>	<b>4,25,966</b>
Depreciation	21,100	28,930	32,670	35,031	36,832	39,974
<b>EBIT</b>	<b>1,88,800</b>	<b>1,93,740</b>	<b>2,46,220</b>	<b>2,72,563</b>	<b>2,97,904</b>	<b>3,85,992</b>
Other income, net	28,820	28,030	22,010	26,307	29,792	31,849
Finance costs	0	1,700	1,950	1,598	1,331	3,195
Provision for Investments	4,510	0	0	0	0	0
<b>Pre-tax Income</b>	<b>2,13,110</b>	<b>2,20,070</b>	<b>2,66,280</b>	<b>2,97,273</b>	<b>3,26,365</b>	<b>4,14,646</b>
Income tax expense	56,310	53,680	72,050	76,128	81,591	1,07,003
<b>Net profit Before EI &amp; MI</b>	<b>1,56,800</b>	<b>1,66,390</b>	<b>1,94,230</b>	<b>2,21,145</b>	<b>2,44,774</b>	<b>3,07,643</b>
Extraordinary Item	-2,700	0	0	0	0	0
Minority Interest, MI	-60	-450	-720	-720	-720	-720
<b>Net profit Before MI</b>	<b>1,54,040</b>	<b>1,65,940</b>	<b>1,93,510</b>	<b>2,20,425</b>	<b>2,44,054</b>	<b>3,06,923</b>
Diluted EPS (INR)	35.38	38.91	45.52	51.86	57.41	72.20
Shares in Million	4,353	4,265	4,251	4,251	4,251	4,251

Source: Company, KRChoksey Research

#### Exhibit 3: Free Cash Flow Analysis

Particulars (INR Mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Cash Generated From Operations	2,32,950	2,48,370	2,44,560	3,27,400	2,58,194	3,30,657	4,25,490
Net Cash Flow from/(used in) Investing Activities	-15,930	-17,120	-29,180	-1,10,860	-29,504	-30,526	-34,916
Net Cash Flow from Financing Activities	-2,42,360	-1,90,670	-2,24,090	-2,41,960	-2,61,285	-2,86,597	-3,64,819
Others	-2,730	-43,080	-480	86,070	0	0	0
Net Inc/Dec in cash equivalents	-25,340	40,580	-8,710	-25,420	-32,594	13,535	25,756
Opening Balance	2,26,250	1,98,180	1,95,680	1,86,490	2,47,140	2,14,546	2,28,081
Closing Balance Cash & Cash Equivalents	1,98,180	1,95,680	1,86,490	2,47,140	2,14,546	2,28,081	2,53,837

#### Exhibit 4: Ratio Analysis

Key Ratio	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
EBIT Margin (%)	27.0%	25.4%	24.5%	27.8%	26.1%	24.7%	27.4%
Tax rate (%)	20.7%	26.4%	24.4%	27.1%	25.6%	25.0%	25.8%
Net Profit Margin (%)	22.7%	18.6%	18.3%	19.3%	18.7%	18.0%	19.8%
RoE (%)	23.9%	23.7%	25.5%	27.3%	28.2%	29.8%	35.6%
RoCE (%)	20.3%	21.4%	22.5%	25.3%	26.0%	27.3%	33.2%
Current Ratio	3.5	2.8	2.6	2.5	2.5	2.5	2.5
EPS (INR per share)	36.8	35.4	38.9	45.5	51.9	57.4	72.2

Source: Company, KRChoksey Research

**Infosys Limited.**

Infosys Limited				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP(INR)	Recommendation	Our Rating	Upside
14-Jan-22	1897	2094	ACCUMULATE	Buy	More than 15%
13-Oct-21	1708	2094	BUY	Accumulate	5% – 15%
25-Aug-21	1737	1850	ACCUMULATE	Hold	0 – 5%
				Reduce	-5% – 0
				Sell	Less than – 5%

**ANALYST CERTIFICATION:**

I, Saptarshi Mukherjee (MBA, PGDSM and MSc Investment & Finance), Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

**Terms & Conditions and other disclosures:**

KRChoksey Shares and Securities Pvt. Ltd (hereinafter referred to as KRCSPL) is a registered member of National Stock Exchange of India Limited and Bombay Stock Exchange Limited. KRCSPL is a registered Research Entity vide SEBI Registration No. INH00001295 under SEBI (Research Analyst) Regulations, 2014.

We submit that no material disciplinary action has been taken on KRCSPL and its associates (Group Companies) by any Regulatory Authority impacting Equity Research Analysis activities.

KRCSPL prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analyst covers. The information and opinions in this report have been prepared by KRCSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KRCSPL. While we would endeavor to update the information herein on a reasonable basis, KRCSPL is not under any obligation to update the information. Also, there may be regulatory, compliance or other reasons that may prevent KRCSPL from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or KRCSPL policies, in circumstances where KRCSPL might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KRCSPL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. KRCSPL accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Our employees in sales and marketing team, dealers and other professionals may provide oral or written market commentary or trading strategies that reflect opinions that are contrary to the opinions expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

Associates (Group Companies) of KRCSPL might have received any commission/compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of brokerage services or specific transaction or for products and services other than brokerage services.

KRCSPL or its Associates (Group Companies) have not managed or co-managed public offering of securities for the subject company in the past twelve months.

KRCSPL encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. KRCSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither KRCSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that Saptarshi Mukherjee (MBA, PGDSM and MSc Investment & Finance), Research Analyst of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific brokerage service transactions.

KRCSPL or its associates (Group Companies) collectively or its research analyst do not hold any financial interest/beneficial ownership of more than 1% (at the end of the month immediately preceding the date of publication of the research report) in the company covered by Analyst, and has not been engaged in market making activity of the company covered by research analyst.

It is confirmed that, Saptarshi Mukherjee (MBA, PGDSM and MSc Investment & Finance), Research Analyst do not serve as an officer, director or employee of the companies mentioned in the report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other Jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KRCSPL and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform them of and to observe such restriction.

Please send your feedback to [research.insti@krchoksey.com](mailto:research.insti@krchoksey.com)

Visit us at [www.krchoksey.com](http://www.krchoksey.com)

**KR Choksey Shares and Securities Pvt. Ltd**

**Registered Office:**

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

**Corporate Office:**

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.