

April 15, 2021

Robust revenue guidance keeps us positive...

Infosys' volume in the quarter increased 4.6% QoQ but revenue growth was lower by 2% QoQ in constant currency (CC) terms due to offshoring. The revenue growth was across verticals & geographies. Digital revenues increased 5.6% QoQ, 38.6% YoY and now accounts for 51.5% of overall revenues. In terms of deal pipeline, it increased 27.3% YoY to US\$2.1 billion. Further, despite wage hike, margins were healthy. In terms of guidance, the company expects FY22E revenues to grow in the range of 12-14% with operating margin in the range of 22-24%. Robust revenue guidance points at strong demand environment.

Improving IT spend, large deal momentum key positive

We expect IT spends to improve led by cloud migration, increased spend by companies in customer & employee experience (P&L led investment) and ancillary technologies like AI, IOT, data analytics. Infosys is in a sweet spot to capture this growth considering the investment it has made in digital technologies. This, coupled with an increase in outsourcing in the US and Europe, vendor consolidation opportunities, captive carve outs and cost take out deals will further boost its revenues. In addition, Infosys has executed well on large deal conversion that is expected to be a key driver of revenue growth in the long run. Hence, we expect the company to register 13.8% CAGR in dollar revenues over FY21-23E.

Margins to remain healthy in coming years

The company believes there will be margin headwinds in FY22E led by lower utilisation, higher travel cost, large deal transition cost and phased wage hike starting from July 2021. Hence, the company has guided for 22-24% margin guidance for FY22E. However, we believe with many levers (like offshoring, revenue growth, pyramid rationalisation, rupee depreciation and automation) available to Infosys, the company will surpass the top end of its guidance in FY22E. Hence, we expect margins of 24.2% and 24.4% in FY22E and FY23E, respectively.

Valuation & Outlook

An improved demand environment, traction in large deals, increase in outsourcing in the US and Europe, vendor consolidation opportunities, captive carve outs and cost takeout deals are expected to drive revenues in the long term. In addition, healthy traction in digital revenues, revenue growth outpacing TCS over the past 12 months and margin gap narrowing with TCS are other key positives. This, coupled with healthy cash conversion, robust capital allocation policy and EPS accretive buyback prompt us to be positive on the stock. Hence, we maintain our **BUY** rating on the stock with a revised target price of ₹ 1,650 (26x P/E on FY23E EPS) (earlier target price ₹ 1,610).

Particulars

Particular	Amount
Market CAP (₹ Crore)	5,96,498.8
Total Debt	-
CC&E (₹ Crore)	27,056.0
EV (₹ Crore)	5,69,442.8
52 week H/L	1480 / 604
Equity capital	2,124.0
Face value	₹ 5

Key Risk

- Largely we assume acceleration in digital technologies will drive revenue growth of IT companies. However, a slower-than-expected pace of growth in digital technologies will impact Infosys' revenue growth
- If Infosys is unable to realise cost savings, it may impact its margins adversely

Research Analyst

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Key Financial Summary

₹ Crore	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Net Sales	82,676	90,791	1,00,472	1,19,073	1,37,115	16.8%
EBITDA	20,890	22,268	27,890	32,689	37,916	16.6%
EBITDA Margins (%)	25.3	24.5	27.8	27.5	27.7	
Net Profit	15,411	16,595	19,351	23,375	27,247	
EPS (₹)	35.4	38.9	45.6	55.1	64.2	18.7%
P/E	39.5	35.9	30.7	25.4	21.8	
RoNW (%)	23.7	25.2	25.2	27.9	30.2	
RoCE (%)	32.9	30.8	31.7	34.1	36.9	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Revenue	26,311	26,986	23,267	13.1	25,927	1.5	Dollar revenues were below our estimate. The growth in dollar revenues of 2.8% was led by BFSI, retail, manufacturing and hi tech
Employee expenses	16,333	17,041	14,752	10.7	15,951	2.4	
Gross Profit	9,978	9,945	8,515	17.2	9,976	0.0	
Gross margin (%)	37.9	36.9	36.6	133 bps	38.5	-55 bps	
Selling & marketing	1,200	1,187	1,172	2.4	1,145	4.8	
G&A expenses	1,507	1,430	1,667	-9.6	1,416	6.4	
EBITDA	7,271	7,327	5,676	28.1	7,415	-1.9	
EBITDA Margin (%)	27.6	27.2	24.4	324 bps	28.6	-96 bps	
Depreciation	831	826	749	10.9	826	0.6	
EBIT	6,440	6,501	4,927	30.7	6,589	-2.3	
EBIT Margin (%)	24.5	24.1	21.2	330 bps	25.4	-94 bps	EBIT margins were above our estimates. The company reported a decline in EBIT margins led by wage hikes (130 bps impact)
Other income	545	599	614	-11.2	611	-10.8	
PBT	6,985	7,100	5,541	26.1	7,200	-3.0	
Tax paid	1,857	1,763	1,161	59.9	1,936	-4.1	
Reported PAT	5,076	5,271	4,321	17.5	5,197	-2.3	PAT was below our estimates due to lower-than-expected other income

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	115,735	119,073	2.9	132,539.0	137,115	3.5	We revise our estimates upwards led by healthy traction in digital technologies & rupee depreciation
EBIT	28,355	28,816	1.6	32,605.0	33,456	2.6	
EBIT Margin (%)	24.5	24.2	-30 bps	24.6	24.4	-20 bps	We expect margins to stabilise at 24.4% in FY23E
PAT	23,202	23,375	0.7	26,980.0	27,247	1.0	
EPS (₹)	54.6	55.1	0.9	63.5	64.2	1.1	

Source: Company, ICICI Direct Research

Conference Call Highlights

- **Revenue outlook:** The company's volume in the quarter increased by 4.6% QoQ but revenue growth was lower by 2% QoQ due to offshoring. Going forward, Infosys has guided revenue growth of 12-14% (augmented by Daimler deal), which represents strong growth potential despite a robust FY21 performance. The company expects healthy traction in large deals, traction in digital technologies, healthy deal pipeline (US\$9.4 billion net new out of US\$14 billion won), captive carve outs, vendor consolidation opportunities and cost take out kind of deals to be key drivers of growth. This coupled with improved tech spend (investment via P&L), improving spend across verticals and traction in Cloud data analytics AI and IOT and cybersecurities prompt us to believe the demand outlook in the medium term remains robust. Further, the company's digital prowess and market share gains are expected to drive revenues in the medium term
- **Vertical wise commentary:** Financial services are seeing traction in customer experience, mortgage transformation, lending services, call centre transformation and end to end transformation. The company has won 25 large deals in this vertical of which six were in Q4FY21. In retail, there is traction in mass modernisation, cloud and cybersecurity. Infosys has seen healthy net new deal in second half and remains optimistic on its growth. In communication, there is traction in digital led 5G, cybersecurity, IOT, AI and improved deals. Energy & utility (E&U) & travel continue to be impacted but the company is seeing healthy deal wins and vendor consolidation opportunity in the E&U vertical. In manufacturing, auto is seeing improving traction but aerospace is expected to lag. Largest deal of Daimler will support growth in the vertical in FY22E
- **Margin trajectory:** The company reported healthy margins despite a wage hike in the quarter. Infosys believes there will be margin headwinds in FY22E led by lower utilisation, higher travel cost, large deal transition cost, higher sub-contracting cost and phased wage hike starting from July 2021. Hence, the company has guided for 22-24% margin for FY22E. However, we believe with many levers (like offshoring, revenue growth, pyramid rationalisation, rupee depreciation and automation) available to Infosys, the company will surpass the top end of its guidance in FY22E. Hence, we expect margins of 24.2% & 24.4% in FY22E & FY23E, respectively
- **TCV:** Large deal TCV was healthy with deal signings worth ~US\$2.1 billion, up 27.3% YoY. On a QoQ basis, it saw a dip due to one off large deal in the previous quarter. In Q4FY21, 52% of deal wins were net new deals. Total 15 deals were in Americas, six in Europe and one in RoW. On an annual basis, the company has won US\$14 billion of which US\$9.4 billion was net new deal wins (which is higher than FY20 deals won cumulatively)
- **Digital story:** Digital continues to drive the growth of the company with 38.6% YoY growth and constituting 51.5% of revenues (vs. 41.9% in Q4FY20). Further, the company continues to see acceleration in digital technology like cyber security, cloud, data, experience and automation
- **Employee update:** There was addition of 10,307 employees taking employee strength to 259,619. The company is planning to give a second wage hike from July 2021 in a phased manner. Infosys plans to hire 2600 freshers in FY22E

Key Metrics

Exhibit 3: Geography wise split

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Revenue by geography (%)					
North America	61.6	61.5	60.7	61.6	61.6
Europe	24.4	24.0	24.3	24.0	24.4
India	2.6	2.9	3.0	2.6	3.0
ROW	11.4	11.6	12.0	11.8	11.0
Growth QoQ in \$ terms (%)					
North America	-0.9	-2.5	4.7	7.7	2.8
Europe	-1.4	-4.0	7.4	4.8	4.5
India	-8.5	8.9	9.8	-8.0	18.6
ROW	-2.3	-0.7	9.8	4.4	-4.2

Source: Company, ICICI Direct Research

Revenues growth was across geographies except RoW

Exhibit 4: Vertical wise split

	% contribution to revenues Q4FY21	% contribution to revenues Q3FY21	Growth QoQ (%)
Revenue by verticals (%)			
Financial Services	33.0	33.1	2.4
Insurance			
Retail	14.8	14.7	3.5
Communication	12.0	12.4	-0.6
E&U	12.3	12.5	1.1
Manufacturing	9.6	9.3	6.1
Hi Tech	8.1	8.2	1.5
Life Sciences	6.8	7.1	-1.6
Others	3.4	2.7	15.9

Source: Company, ICICI Direct Research

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

Exhibit 5: Client & human resource matrix

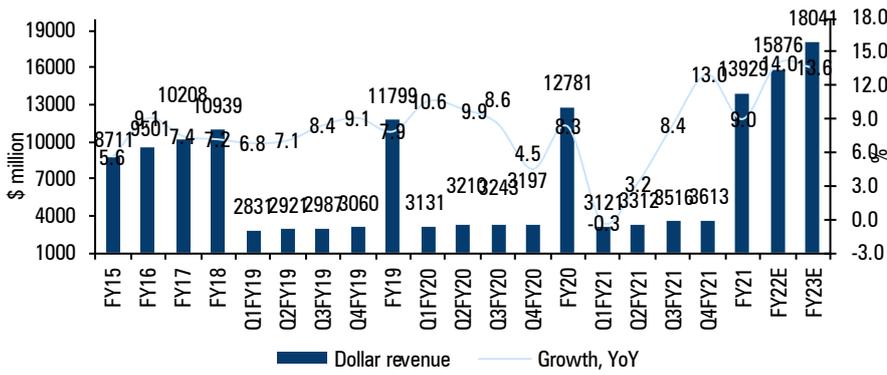
	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Client metrics					
5 Million \$ clients	718	729	745	761	779
25 Million \$ clients	234	236	242	246	252
50 Million \$ clients	61	60	60	60	59
100 Million \$ clients	28	25	30	29	32
Headcount, Utilization & Attrition					
Total Employees	242371	239233	240208	249312	259619
Utilization (Excluding trainees)	83.5	81.2	83.6	86.3	87.7
LTM Attrition	20.7	11.7	7.8	10.0	15.2

Source: Company, ICICI Direct Research

The company has seen increase in attrition up ~500 bps in the quarter. The company's employee addition of 10307 continues to be healthy

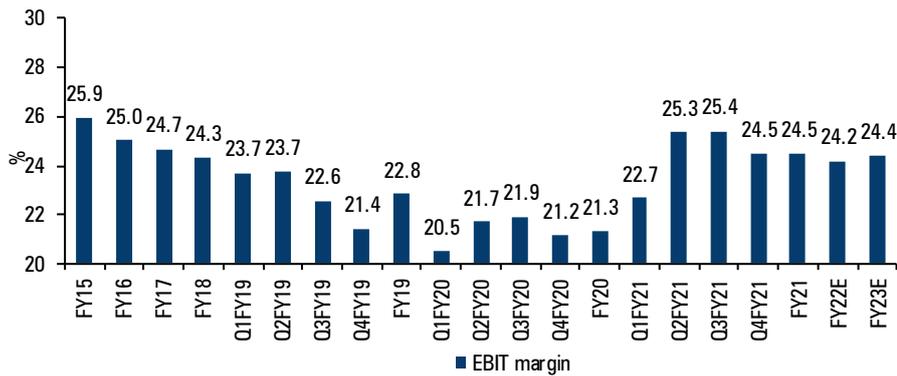
Financial story in charts

Exhibit 6: Dollar revenues to increase at a CAGR of 13.8% over FY21-23E



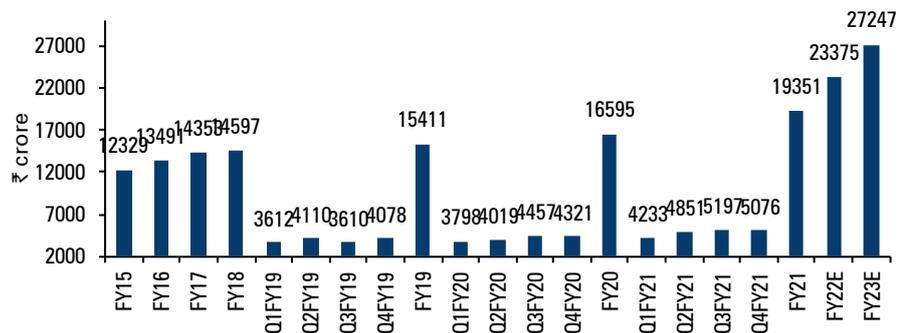
Source: Company, ICICI Direct Research

Exhibit 7: Change in margin estimates for FY22E & FY23E



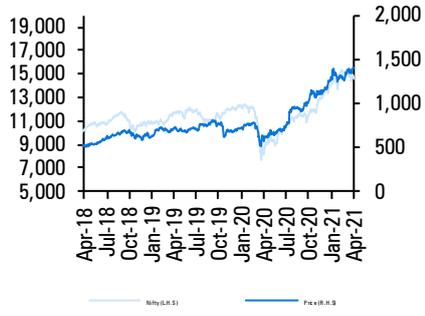
Source: Company, ICICI Direct Research

Exhibit 8: PAT trend



Source: Company, ICICI Direct Research

Exhibit 9: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	90,791	1,00,472	1,19,073	1,37,115
Growth (%)	9.8	10.7	18.5	15.2
COGS (employee expenses)	57,838	62,145	73,762	84,802
Admin expenses	5,973	5,810	7,144	8,227
S&M expenses	4,712	4,627	5,477	6,170
Total Operating Expenditure	68,523	72,582	86,384	99,199
EBITDA	22,268	27,890	32,689	37,916
Growth (%)	6.6	25.2	17.2	16.0
Depreciation	2,894	3,268	3,873	4,460
Other Income	2,803	2,201	2,394	2,685
PBT	22,007	26,628	31,015	35,946
Total Tax	5,367	7,205	7,568	8,627
PAT	16,595	19,351	23,375	27,247
Growth (%)	7.7	16.6	20.8	16.6
EPS (₹)	38.9	45.6	55.1	64.2
Growth (%)	9.9	17.2	20.8	16.6

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	16,595	19,351	23,375	27,247
Add: Depreciation	2,894	3,267	3,873	4,460
(Inc)/dec in Current Assets	(3,357)	(2,504)	(7,043)	(5,593)
Inc/(dec) in CL and Provisions	1,419	3,137	3,505	3,399
Taxes paid	(4,550)	(6,389)	(7,568)	(8,627)
CF from operating activities	18,557	24,127	21,315	26,828
(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)	(16,248)	(20,934)
Others	(27)	29	-	-
CF from financing activities	(17,591)	(9,786)	(16,248)	(20,934)
Net Cash flow	(827)	5,982	5,262	6,380
Exchange difference	(92)	83	-	-
Opening Cash	19,568	18,649	24,714	29,976
Closing Cash	18,649	24,714	29,976	36,355

Source: Company, ICICI Direct Research

Exhibit 12: 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	81,785	88,099
Total Shareholders funds	65,844	76,782	83,909	90,223
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	91,648	97,962
Assets				
Property, plant and equipme	17,867	18,417	16,744	14,484
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	29,976	36,355
Current Investments	4,655	2,342	2,342	2,342
Trade receivables	18,487	19,294	22,866	26,331
Unbilled revenue	7,121	7,527	9,764	10,695
Prepayment & O.fin.assets	5,602	6,668	7,902	9,100
Other current assets	62	188	188	188
Total Current Assets	54,576	60,733	73,038	85,011
Trade payables	2,852	2,645	3,135	3,610
Unearned revenue	2,990	4,050	4,800	5,527
OCL & provisions	15,014	17,170	19,435	21,632
Total Current Liabilities	20,856	23,865	27,370	30,769
Net Current Assets	33,720	36,868	45,668	54,242
Application of Funds	71,912	84,521	91,648	97,962

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	38.9	45.5	55.0	64.1
Cash EPS	45.7	53.2	64.1	74.6
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	26.0	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	27.9	30.2
RoCE	30.8	31.7	34.1	36.9
RoIC	39.9	42.8	48.6	56.5
Valuation Ratios (x)				
P/E	35.9	30.7	25.4	21.8
EV / EBITDA	25.7	20.4	17.3	14.7
EV / Net Sales	6.3	5.7	4.7	4.1
Market Cap / Sales	6.6	5.9	5.0	4.4
Price to Book Value	9.1	7.7	7.1	6.6
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 14: ICICI Direct coverage universe (IT)

Company	Cmp (₹)	TP (₹)	Rating	Mcap (₹ Cr)	EPS (₹)				P/E (x)				RoCE (%)				RoE (%)			
					FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
HCL Tech (HCLTEC)	982	1,150	Buy	2,66,390	40.8	48.3	54.1	62.6	24	20	18	16	23.0	23.6	24.4	24.8	21.6	21.5	20.8	20.6
Infosys (INFTEC)	1,399	1,650	Buy	5,96,498	38.9	45.5	55.0	64.1	36	31	25	22	30.8	31.7	34.1	36.9	25.2	25.2	27.9	30.2
TCS (TCS)	3,105	3,800	Buy	11,48,850	86.2	86.7	109.3	128.7	36	36	28	24	44.4	45.9	51.2	54.4	38.4	37.5	43.3	45.7
Tech M (TECMAH)	1,001	1,120	Buy	92,924	45.9	53.4	58.9	69.2	22	19	17	14	19.1	20.5	20.4	21.5	18.5	19.4	18.8	19.3
Wipro (WIPRO)	419	490	Hold	2,45,449	16.6	19.5	20.3	22.7	25	21	21	18	19.3	22.0	22.9	25.5	17.4	19.7	20.5	23.0
Mindtree (MINCON)	2,048	1,970	Buy	33,754	38.3	66.4	75.4	87.7	53	31	27	23	23.0	33.6	32.6	32.8	20.0	28.2	27.2	27.0
LTI (LTINFC)	4,120	4,580	Hold	71,985	86.6	107.7	125.5	149.1	48	38	33	28	30.7	32.4	31.7	31.6	28.1	28.7	28.0	27.9
Coforge (NIITEC)	2,889	2,875	Buy	17,391	71.4	72.6	95.3	111.7	40	40	30	26	23.0	23.5	26.6	27.4	18.5	19.4	22.4	22.9
Infoedge (INFEDG)	4,560	5,725	Hold	58,634	26.8	21.8	38.9	49.0	170	209	117	93	18.0	8.3	14.0	16.3	13.5	6.3	10.5	12.3
Teamlease (TEASER)	3,365	3,290	Buy	5,753	20.5	53.1	68.8	85.6	164	63	49	39	15.0	13.5	15.7	16.5	6.5	14.4	15.5	16.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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