

Better than expected guidance for FY22; Deal Wins continue to be robust

CMP: INR 1,577

Rating: Accumulate

Target Price: INR 1,812

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)	1478 / 604
Avg Yearly Vol (in 000')	8739

Shareholding Pattern %

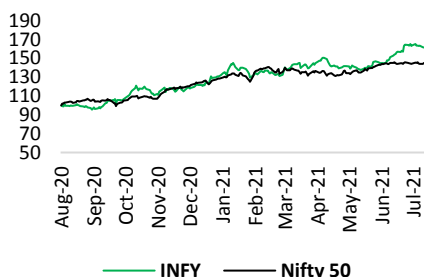
(As on June, 2021)

Promoters	12.95
FII	33.39
DII	21.98
Public & Others	31.68

Stock Performance (%)

	3m	6m	12m
INFY	7.3	14.5	100.4
Nifty	0.2	9.3	49.4

INFY Vs Nifty



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Infosys (INFY) has reported a mixed set of Numbers in Q1FY22. CC Revenue, INR Revenue is above our estimate, and PAT, EBIT are below our estimate. Consolidated revenue INR 27,896 Cr, +6%/+17.9% QoQ/YoY against our estimate of INR 27,784 Cr. Consolidated EBIT stood at INR 6,603 Cr, against our estimate of INR 6,699 cr, up by 23.1% YoY/2.5% QoQ. On the margins front, EBIT margin improved by 100bps YoY/-81bps QoQ to 23.7%. Consolidated PAT saw a rise of 21.7% YoY to INR 5,201 Cr vs estimates of INR 5,527 Cr, impacted by higher tax outgo and lower operating margin. Revenues in CC terms grew by 21.2% YoY and 4.7% QoQ. EPS stood at INR 12.24 in Q1FY22 vs 10.0 in Q1FY21 respectively.

Q1FY22 Concall Highlights

- **The digital** business reported \$2,040 Mn to 42% YoY CC growth in digital business was the highest since the company started reported that since FY18.
- **Large deal** TCVs to \$2.6 bn up by 49% YoY and was also higher than the deal wins in last quarter. Management also indicated strong order win potential due to a healthy deal pipeline for FY22.
- **In segments:** The growth in the business was due to the financial services and retail verticals, which grew 22% on-year in constant currency terms. Besides BFSI and retail, the life sciences vertical also jumped over 21% on-year growth in the June quarter.
- **Headcount:** The management has guided for 35,000 fresher hirings in FY22E and hiring remained strong.
- **Client:** The company added 113 new clients. In \$100mn+ 6 new clients were added and Top-5,10,25 clients growth was also higher than company average growth.

Valuations

At a CMP of INR 1,577, Currently, Infosys is trading at FY23 P/E of 26.1x to its FY23E EPS of INR 60.4. The company has guided for revenue growth from 12-14% to 14-16% for FY22, based on performance in Q1 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 35,000 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 30x to its FY23E EPS INR 60.4, which yields target Price of INR 1,812 per share. We upgrade our rating to Accumulate from Hold.

Y/E March (INR. In Cr)	FY19	FY20	FY21	FY22E	FY23E
Revenues (US\$ mn)	11,799	12,780	13,561	15,564	17,788
Net Revenue	82,675	90,791	1,00,472	1,15,212	1,31,845
EBIT	16,869	16,481	21,355	25,807	29,665
EBIT Margin(%)	20.4%	18.2%	21.3%	22.4%	22.5%
Net Profit	15,404	16,594	19,351	22,824	25,657
EPS	35.4	38.9	45.6	53.7	60.4
P/E (x)	39.5	35.9	30.7	25.3	26.1
ROE	23.7%	25.2%	25.2%	25.3%	24.5%

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

Q1 FY22 - Quarterly Performance (Consolidated)

INR Cr (Consolidated)	Q1FY22	Q4FY21	Q1FY21	Q-o-Q	Y-o-Y
Revenue (CC Terms) (Mn USD)	3,782	3,613	3,121	4.7%	21.2%
Net Revenue	27,896	26,311	23,665	6.0%	17.9%
Cost of Sales	18,506	17,164	15,703	7.8%	17.9%
Gross Profit	9,390	9,147	7,962	2.7%	17.9%
S&M and Admin. Expenses	2,787	2,707	2,597	3.0%	7.3%
EBIT	6,603	6,440	5,365	2.5%	23.1%
EBIT margin %	23.7%	24.5%	22.7%	-81bps	100bps
Other Income	573	495	427	15.8%	34.2%
PBT	7,176	6,935	5,792	3.5%	23.9%
Tax Expense	1,975	1,857	1,520	6.4%	29.9%
Effective tax rate %	27.5%	26.8%	26.2%	75bps	128bps
Reported PAT	5,201	5,078	4,272	2.4%	21.7%
MI & Associates	-6	-2	-39	200.0%	-84.6%
Consolidated PAT	5,195	5,076	4,233	2.3%	22.7%
Adj PAT Margin %	18.6%	19.3%	17.9%	-3.5%	4.1%
EPS (INR)	12.2	12.0	10.0	2.3%	22.6%

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

Other Important Concall Highlights

- **Guidance for FY22:** The company has increased revenue growth guidance from 12-14% to 14-16% for FY22, based on performance in Q1 and deal pipeline. EBIT Margin guidance remains at 22-24% for FY22.
- Going ahead, Infosys sees some costs to return in FY22 (COVID led cost saving in FY21 and some uptick in Travel costs) and some transition impact of large deals. The commentary around demand is still strong and it is witnessing good traction on transformation and AI, Cyber Security components.
- **Digital** segment now contributes 53.9% of revenue compared to 51.5% in Q4FY21 and grew 46.9% YoY.
- **Pipeline** is starting to replenished quite well and is quite robust. Management mentioned they see good demand across industries. Management feels quite comfortable with pipeline and will continue to gain market share.
- The increase in subcontracting cost in the quarter was due to higher attrition and strong demand environment and likely to normalize going ahead.
- **Wage:** Hike for FY22 would be implemented from July FY22.

Effort (IT Services and Consulting)	Q1 21	Q4 21	Q1FY22	Revenues by Business segments	Q1 21	Q4 21	Q1FY22
Onsite-Offshore Effort Split				Financial Services	31.5%	33.0%	33.0%
Onsite	28.0%	24.3%	24.1%	Retail	14.3%	14.8%	15.0%
Offshore	72.0%	75.7%	75.9%	Communication	13.4%	12.0%	12.2%
Utilization measures				Energy, Utilities, Resources and Services	12.8%	12.3%	12.1%
Including trainees	78.2%	82.2%	83.3%	Manufacturing	9.5%	9.6%	9.7%
Excluding trainees	81.2%	87.7%	88.5%	Hi Tech	8.7%	8.1%	8.3%
				Life Sciences	6.7%	6.8%	6.8%
				Others	3.1%	3.4%	2.9%
				Total	100.0%	100.0%	100.0%

Key Financials

Profit & Loss Statement (Consolidated)					
Particulars (INR Cr)	FY19	FY20	FY21	FY22E	FY23E
Revenues (US\$ mn)	11,799	12,780	13,561	15,564	17,788
Growth (%)	8%	8%	6%	14.8%	14.3%
Income	82,675	90,791	1,00,472	1,15,212	1,31,845
Software development expenses	53,867	60,732	65,413	74,888	87,017
Gross Profit	28,808	30,059	35,059	40,324	44,827
Sales and development expenses	4,473	4,711	4,627	5,185	5,933
General and administrative expenses	5,455	5,974	5,810	5,991	5,933
EBITDA	18,880	19,374	24,622	29,149	32,961
EBITDA Margin (%)	23%	21%	25%	25%	25%
EBIT	16,869	16,481	21,355	25,807	29,665
EBIT Margin (%)	20%	18%	21%	22%	22.5%
Finance Cost (Lease expense)	-	170	195	170	175
Other Income	2,882	2,803	2,201	2,304	2,373
Provision for investment/ Shares profit / (Loss)	-721				
PBT	21,041	22,007	26,628	31,283	35,159
Tax	5,631	5,368	7,205	8,384	9,423
PAT	15,410	16,639	19,423	22,899	25,737
Adjusted PAT	15,404	16,594	19,351	22,824	25,657
Growth (%)	-4.6%	7.7%	16.6%	17.9%	12.4%
Adjusted EPS	35	39	46	54	60.4

Cash Flow Statement (Consolidated)					
Particulars (Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
PAT	15,410	16,639	19,423	22,899	25,737
Add:-					
Depreciation & Others	2,011	2,893	3,267	3,341	3,296
Change in Working Capital	-453	-2,367	768	4,819	4,304
Cash generated from operations	21,673	21,553	29,613	35,580	39,410
Taxes paid	-6,832	-4,550	-6,389	-8,384	-9,423
Cash flow from operating activities	14,841	17,003	23,224	27,196	29,988
Purchase of FA and Capex	-2,445	-3,307	-2,107	-4,194	-4,799
Others	1,870	3,068	-5,349	-8,731	-8,731
Cash flow from investing activities	-575	-239	-7,456	-12,925	-13,530
Other fin. Activities	-813	-7,478	0	0	0
Dividend paid, including div. tax	-13,705	-9,515	-9,117	-11,985	-12,147
Cash flow from financing activities	-14,512	-17,591	-9,786	-12,020	-12,121
Exchange Fluctuations	-57	-92	83	83	83
Net Cash Flow	-246	-827	5,982	2,251	4,337
Opening Cash balance	19,871	19,568	18,649	24,714	27,048
Closing Cash balance	19,568	18,649	24,714	27,048	31,468

Balance Sheet (Consolidated)					
Particulars (INR Cr)	FY19	FY20	FY21	FY22E	FY23E
Shareholder's Funds					
Share Capital	2,170	2,122	2,124	2,124	2,124
Reserves & Surplus	62,836	63,722	74,658	88,205	1,02,614
Net Worth	65,006	65,844	76,782	90,329	1,04,738
Total Non Current Liabilities					
	1,094	6,068	7,739	7,193	7,570
Total Current Liabilities					
	18,638	20,856	23,865	13,346	15,015
Total Liabilities	84,738	92,768	1,08,386	1,10,868	1,27,323
Net Block					
	15,710	19,621	20,711	24,905	29,704
Capital Work-in-Progress					
	1,388	954	922	922	922
Total Non Current Assets					
	31,860	38,192	47,653	46,207	50,578
Cash and bank balance					
	19,568	18,649	24,714	27,048	31,468
Total Current Assets	52,878	54,576	60,733	64,661	76,745
Total Assets	84,738	92,768	1,08,386	1,10,868	1,27,323

Key Ratios (Consolidated)					
Particulars	FY19	FY20	FY21	FY22E	FY23E
EPS	35.4	38.9	45.6	53.7	60.4
Book Value	149.8	155.1	180.7	212.6	246.6
DPS	21.5	17.5	27.0	27.0	27.0
Payout %	89%	57%	47%	52%	47%
Dividend Yield %	2.9	1.3	1.9	2.0	1.7
P/E	39.5	35.9	30.7	25.3	26.1
EBITDA Margin (%)	22.8%	21.3%	24.5%	25.3%	25.0%
EBIT Margin	20.4%	18.2%	21.3%	22.4%	22.5%
PBT Margin	25.5%	24.2%	26.5%	27.2%	26.7%
Adjusted PAT Margin	18.6%	18.3%	19.3%	19.8%	19.5%
Debt/Equity	0.0	0.1	0.1	0.1	0.1
Current Ratio	2.8	2.6	2.5	4.8	5.1
ROE	23.7%	25.2%	25.2%	25.3%	24.5%
ROCE	22.3%	20.9%	22.7%	26.3%	25.9%

Source: Arihant 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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