

Retail Equity Research

Infosys Limited

IT Services

BSE CODE: 500209

NSE CODE: INFY

Bloomberg CODE: INFO:IN

SENSEX: 53,140

BUY

12 Months Investment period Rating as per Large Cap
CMP Rs. 1,555 TARGET Rs. 1,797 RETURN 16%
(Closing: 16-07-21) 

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Growth momentum sustained

Infosys Limited provides IT consulting and software services, including e-business, program management and supply chain solutions. The Group's services include application development, product co-development, and system implementation and system engineering. Infosys targets businesses specializing in the insurance, banking, telecommunication and manufacturing sectors.

- Infosys Limited posted Q1FY22 revenue of Rs. 27,896cr (+17.9% YoY), aided by strong growth across segments.
- EBITDA grew 21.4% YoY due to increase in revenue and decline in employee expense. EBITDA margin expanded 70bps YoY to 26.6%. As a result, PAT also increased to Rs. 5,195cr (+22.7% YoY).
- Free cash flow at Rs. 6,363cr (+15.2% YoY); FCF conversion at 122.3% of net profit.
- Significant growth opportunity in Digital space will continue to drive company's performance in the near to medium-term. Hence, we reiterate our BUY rating on the stock with a revised target price of Rs. 1,797 based on 30x FY23E adj. EPS.

Segmental revenue in double digit growth momentum

Infosys posted Q1FY22 revenue of Rs. 27,896cr (+17.9% YoY and +16.9% YoY on constant currency "cc" basis) due to strong performance from its business segments. Financial services and Retail revenue increased by 23.6% YoY to Rs. 9,217cr (+22.6% YoY cc) and 23.1% YoY to Rs. 4,175cr (+22.2% YoY cc), respectively. Manufacturing and Life Sciences revenue rose by 19.8% YoY (+18.5% YoY cc) and 20.1% YoY (+21.2% YoY cc), respectively. Energy and Communication segments revenue rose by 11.4% YoY (+10.5% YoY cc) and 7.5% YoY (+4.6% YoY cc), respectively. Regionally, North America revenue rose 21.1% YoY growth on cc basis. Europe and India posted growth of 12.2% YoY and 20.7% YoY, respectively, on cc basis.

Margins expanded with revenue growth

EBITDA rose 21.4% YoY to Rs. 7,432cr and EBITDA margin expanded by 70bps YoY to 26.6% supported by higher revenue and decline in employee expense, partially offset by increase in cost of sub-contractors and software. EBIT Margin expanded by 100bps YoY to 23.7%. PAT increased to Rs. 5,195cr, a rise of 22.7% YoY, due to increase in operating profit and other income (+30.9% YoY).

Key concall highlights

- In Q1FY22, company won 22 large deals worth US\$2.6bn, out of which 9 in financial services, 4 each in retail & energy, utilities, resources and services, 2 in manufacturing, and 1 each in communications, high-tech & life sciences segments.
- Company increased its FY22 revenue guidance to 14%-16% growth on constant currency basis from 12%-14% and operating margin remained at 22%-24%
- Company completed share buy-back of 9.8mn shares worth Rs. 1,542cr at an average price of Rs. 1,569/share.
- During Q1FY22, the company added 113 new clients along with improvement in 100mn client count to 34 (+9% YoY).

Valuation

Strong order book with significant growth opportunity across segments will continue to drive performance. We reiterate our BUY rating on the stock with a revised target price of Rs. 1,797 based on 30x FY23E adj. EPS.

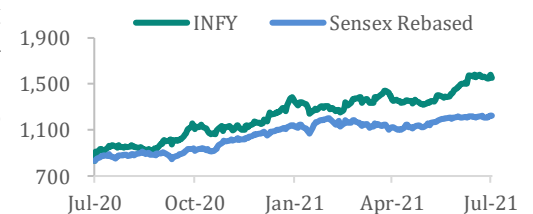
Company Data

Market Cap (cr)	Rs. 6,62,430
Enterprise Value (cr)	Rs. 6,40,129
Outstanding Shares (cr)	426.0
Free Float	87.0%
Dividend Yield	1.7%
52 week high	Rs. 1,597
52 week low	Rs. 892
6m average volume (lac)	4.8
Beta	0.7
Face value	Rs. 5

Shareholding %	Q3FY21	Q4FY21	Q1FY22
Promoters	13.0	13.0	13.0
FII's	32.3	32.7	33.4
MFs/Insti	24.1	23.5	22.3
Public	27.1	27.3	27.7
Others	3.6	3.6	3.6
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	15.0%	15.6%	70.7%
Absolute Sensex	8.8%	8.4%	45.7%
Relative Return*	6.1%	7.2%	25.0%

*over or under performance to benchmark index



Consolidated (cr)	FY21A	FY22E	FY23E
Sales	1,00,472	1,18,477	1,33,760
Growth (%)	10.7	17.9	12.9
EBITDA	27,889	31,637	35,477
EBITDA Margin (%)	27.8	26.7	26.5
Adj. PAT	19,351	22,545	25,476
Growth (%)	16.6	16.5	13.0
Adj. EPS	45.5	53.0	59.9
Growth (%)	16.5	16.4	13.0
P/E	30.0	29.3	26.0
P/B	7.6	8.6	7.5
EV/EBITDA	20.0	20.2	17.8
ROE (%)	25.3	29.3	28.7
D/E	0.0	0.0	0.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q1FY22	Q1FY21	YoY Growth %	Q4FY21	QoQ Growth %
Revenue	27,896	23,665	17.9	26,310	6.0
EBITDA	7,432	6,121	21.4	7,270	2.2
EBITDA margins	26.6	25.9	70bps	27.6	(100bps)
Depreciation	829	756	9.7	830	(0.1)
EBIT	6,603	5,365	23.1	6,440	2.5
Interest	49	48	2.1	50	(2.0)
Other Income	622	475	30.9	545	14.1
Exceptional Items	-	-	n.m.	-	n.m.
PBT	7,176	5,792	23.9	6,935	3.5
Tax	1,975	1,520	29.9	1,857	6.4
Share of profit from Associate	-	-	n.m.	-	n.m.
Minority Interest	6	39	(84.6)	2	200.0
Reported PAT	5,195	4,233	22.7	5,076	2.3
Adjustments	-	-	n.m.	-	n.m.
Adj. PAT	5,195	4,233	22.7	5,076	2.3
No. of shares	425.3	424.6	0.2	425.1	0.1
Adj. EPS (Rs.)	12.2	10.0	22.5	11.9	2.3

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	1,16,506	1,31,550	1,18,477	1,33,760	1.7	1.7
EBITDA	31,360	35,013	31,637	35,477	0.9	1.3
Margins (%)	26.9	26.6	26.7	26.5	(20bps)	(10bps)
Adj. PAT	22,598	25,415	22,545	25,476	(0.2)	0.2
Adj. EPS	53.2	59.8	53.0	59.9	(0.3)	0.2

PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	82,675	90,791	1,00,472	1,18,477	1,33,760
% change	17.2	9.8	10.7	17.9	12.9
EBITDA	20,891	22,267	27,889	31,637	35,477
% change	9.9	6.6	25.2	13.4	12.1
Depreciation	2,011	2,893	3,267	3,418	3,516
EBIT	18,880	19,374	24,622	28,218	31,960
Interest	-	170	195	209	212
Other Income	2,161	2,803	2,201	3,302	3,632
PBT	21,041	22,007	26,628	31,310	35,381
% change	3.8	4.6	21.0	17.6	13.0
Tax	5,631	5,368	7,205	8,704	9,836
Tax Rate (%)	26.8	24.4	27.1	27.8	27.8
Reported PAT	15,404	16,594	19,351	22,545	25,476
Adj*	-	-	-	-	-
Adj PAT	15,404	16,594	19,351	22,545	25,476
% change	(3.9)	7.7	16.6	16.5	13.0
No. of shares (cr)	435.3	424.6	425.1	425.3	425.3
Adj EPS (Rs.)	35.4	39.1	45.5	53.0	59.9
% change	(0.3)	10.5	16.5	16.4	13.0
DPS (Rs.)	21.5	17.5	27.0	30.0	32.0
CEPS (Rs.)	40.0	45.9	53.2	61.0	68.2

CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	17,415	19,487	22,618	25,963	28,992
Non-cash adj.	(609)	1,750	2,686	(1,997)	(1,766)
Changes in W.C	(1,965)	(4,234)	(2,080)	(2,544)	(2,703)
C.F. Operation	14,841	17,003	23,224	21,422	24,523
Capital exp.	(2,445)	(3,307)	(2,107)	(2,606)	(2,943)
Change in inv.	1,330	2,702	(5,366)	(593)	(623)
Other invest.CF	540	366	17	796	1,200
C.F - Investment	(575)	(239)	(7,456)	(2,404)	(2,366)
Issue of equity	(807)	(7,472)	15	(9,200)	-
Issue/repay debt	-	-	-	-	-
Dividends paid	(13,705)	(9,515)	(9,117)	(12,780)	(13,632)
Other finance.CF	-	(604)	(684)	-	-
C.F - Finance	(14,512)	(17,591)	(9,786)	(21,980)	(13,632)
Chg. in cash	(246)	(827)	5,982	(2,961)	8,525
Closing cash	19,568	18,649	24,714	21,753	30,278

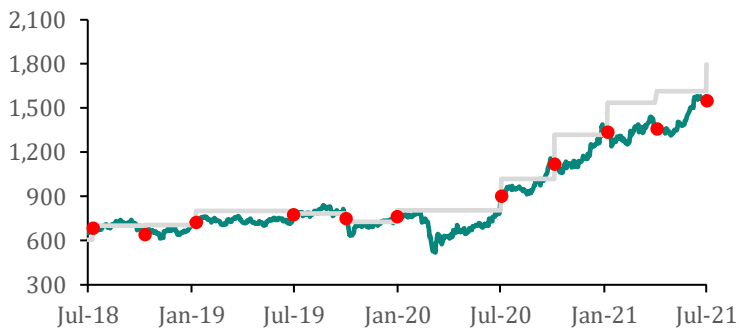
BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	19,568	18,649	24,714	21,753	30,278
Accounts Receivable	14,827	18,487	19,294	22,511	25,682
Inventories	-	-	-	-	-
Other Cur. Assets	18,483	17,440	16,725	18,579	20,291
Investments	4,634	4,137	11,863	12,456	13,079
Gross Fixed Assets	22,891	26,198	28,305	30,911	33,854
Net Fixed Assets	11,479	12,435	12,560	11,702	11,080
CWIP	1,388	954	922	968	1,017
Intangible Assets	4,231	11,354	12,945	13,006	13,067
Def. Tax (Net)	1,372	1,744	1,098	1,588	1,662
Other Assets	8,756	7,568	8,265	8,556	8,861
Total Assets	84,738	92,768	1,08,386	1,11,118	1,25,016
Current Liabilities	18,638	20,856	23,865	25,664	27,373
Provisions	-	-	-	-	-
Debt Funds	-	-	-	-	-
Other Liabilities	1,094	6,068	7,739	8,046	8,322
Equity Capital	2,170	2,122	2,124	2,124	2,124
Reserves & Surplus	62,778	63,328	74,227	74,792	86,636
Shareholder's Fund	64,948	65,450	76,351	76,916	88,760
Minority Interest	58	394	431	492	561
Total Liabilities	84,738	92,768	1,08,386	1,11,118	1,25,016
BVPS (Rs.)	149	154	180	181	209

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	25.3	24.5	27.8	26.7	26.5
EBIT margin (%)	22.8	21.3	24.5	23.8	23.9
Net profit mgn.(%)	18.6	18.3	19.3	19.0	19.0
ROE (%)	23.7	25.4	25.3	29.3	28.7
ROCE (%)	29.0	29.4	32.1	36.5	35.8
W.C & Liquidity					
Receivables (days)	65.5	74.3	70.1	69.4	70.1
Inventory (days)	-	-	-	-	-
Payables (days)	70.4	110.5	85.4	91.3	93.1
Current ratio (x)	2.8	2.6	2.5	2.4	2.8
Quick ratio (x)	2.2	2.0	1.9	1.8	2.1
Turnover & Leverage					
Gross asset T.O (x)	3.8	3.7	3.7	4.0	4.1
Total asset T.O (x)	1.0	1.0	1.0	1.1	1.1
Int. coverage ratio (x)	-	114.0	126.3	134.9	151.1
Adj. debt/equity (x)	-	-	-	-	-
Valuation					
EV/Sales (x)	3.7	2.8	5.5	5.4	4.7
EV/EBITDA (x)	14.6	11.2	20.0	20.2	17.8
P/E (x)	21.0	16.2	30.0	29.3	26.0
P/BV (x)	5.0	4.1	7.6	8.6	7.5

Recommendation Summary (Last 3 Years)



Dates	Rating	Target
15-Jul-19	HOLD	783
16-Oct-19	REDUCE	729
14-Jan-20	HOLD	804
17-Jul-20	BUY	1,018
20-Oct-20	BUY	1,319
22-Jan-21	BUY	1,535
19-Apr-21	BUY	1,614
19-Jul-21	BUY	1,797

Source: Bloomberg, Geojit research

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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