

October 14, 2021

**RESULT REPORT Q2 FY22** | Sector: Information Technology

# Infosys

## Revenue and EBIT margin above estimates

### Our view

Reported strong financial performance with both revenue and EBIT margin above estimates. Deal booking remains strong and would support growth momentum. There are near term margin headwind as employee attrition has sharply picked up. We expect it to report revenue CAGR of 14.9% with average EBIT margin of 24.7% over FY22-FY24. We maintain BUY Rating in the stock with revised target price of Rs 2026.

### Result Highlights

- Reported revenue of Rs 468.7bn ( \$6.3bn), ( up 3.2% QoQ in INR terms; up 2.9% QoQ in USD terms) which was slightly below consensus estimate of 473
- Reported revenue of Rs 296 bn( up 6.1% QoQ in INR terms; up 5.7% in USD terms; The growth was broadbased across verticals with Digital services recording 43% YoY growth and now forms 56.1% of revenue. CC revenue growth was 6.3% QoQ.
- EBIT margin came above expectation and declined only 11 bps QoQ to 23.6, even after absorbing wage hike and higher attrition, led by cost optimisation.
- Demand environment remains robust as it recorded large deal signings of \$2.15bn compared to \$2.6bn in Q1FY22.
- Utilization (excluding trainees) increased by 70 bps QoQ to 89.2%. Attrition increased by 620 bps QoQ to 20.1% led by higher demand for talent in the industry.Net addition of 11,800 employees in the quarter. Has guided for around 45,000 hiring in FY22.
- Offshore effort mix increased by 50 bps QoQ to 76.4% as per industry trend.

### Valuation

The stock trades at PER of 23.7x on FY24E EPS. Robust deal booking and growing share of digital revenue provides strong visibility about revenue and margin outlook. It is expected to meet its FY22 revenue growth guidance of 16.5-17.5% YoY in cc terms with EBIT margin band of 22-24%. We rollover to FY24 estimates and value the stock at 15% discount to TCS, i.e at 28x on FY24 earnings, arriving at target price of Rs 2,026/share

### Exhibit 1: Result table

Particulars (Rs mn)	Q1FY22	Q1FY21	yoy%	Q4FY21	qoq%
Sales (\$ mn)	3,998	3,312	20.7	3,782	5.7
Sales (Rs mn)	296,020	245,700	20.5	278,960	6.1
EBITDA	78,310	70,830	10.6	74,320	5.4
EBITDA %	26.5	28.8	-237 bps	26.6	-19 bps
Depreciation	8,590	8,550	0.5	8,290	3.6
EBIT	69,720	62,280	11.9	66,030	5.6
EBIT Margin %	23.6	25.3	-180 bps	23.7	-12 bps
Other income	5,240	5,700	-8.1	6,220	(15.8)
Interest	(480)	(480)	0.0	(490)	0.0
PBT	74,480	67,500	10.3	71,760	3.8
Tax	20,200	18,920	6.8	19,750	2.3
PAT	54,280	48,580	11.7	52,010	4.4
NPM (%)	18.3	19.8	-144 bps	18.6	-31 bps
EPS	12.9	11.0	11.9	12.0	4.3

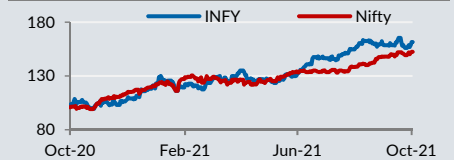
Source: Company, YES Sec

Reco	: <b>BUY</b>
CMP	: Rs 1,709
Target Price	: Rs 2,026
Potential Return	: 18.5%

### Stock data (as on October 13, 2021)

Nifty	18,162
52 Week h/l (Rs)	1788 / 1051
Market cap (Rs/USD mn)	7283366 / 96630
Outstanding Shares (mn)	4,261
6m Avg t/o (Rs mn):	9,682
Div yield (%):	1.8
Bloomberg code:	INFY
NSE code:	INFY

### Stock performance



	1M	3M	1Y
Absolute return	1.0%	10.6%	50.8%

### Shareholding pattern (As of Jun'21 end)

Promoter	13.0%
FII+DII	55.8%
Others	13.7%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	2,026	1,765

### Δ in earnings estimates

	FY22E	FY23E	FY24E
EPS (New)	52.9	63.1	72.4
EPS (Old)	51.0	61.0	69.0
% change	3.7%	3.4%	4.9%

### Financial Summary

(Rs mn)	FY22E	FY23E	FY24E
Net Revenue	1,183,714	1,340,885	1,523,640
YoY Growth	17.8%	13.3%	13.6%
EBIDTA	318,286	374,913	429,059
YoY Growth	14.1%	17.8%	14.4%
PAT	223,001	266,047	305,300
YoY Growth	14.8%	19.3%	14.8%
ROE	27.3%	28.9%	29.0%
EPS	53	63	72
P/E	32.3	27.0	23.6
BV	205	232	267
P/BV	8.3	7.4	6.4

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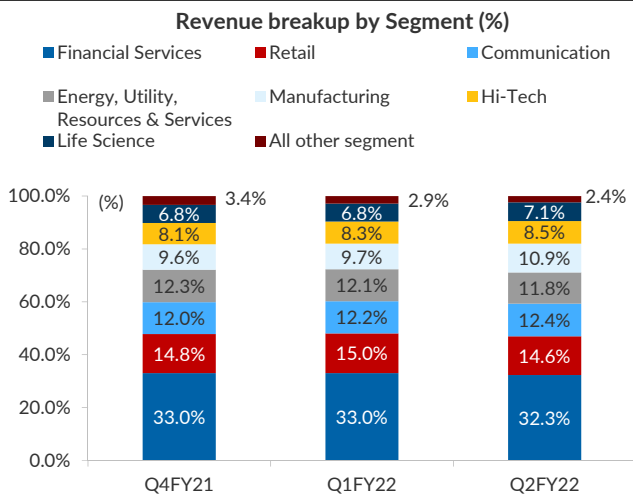
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## KEY CON-CALL HIGHLIGHTS

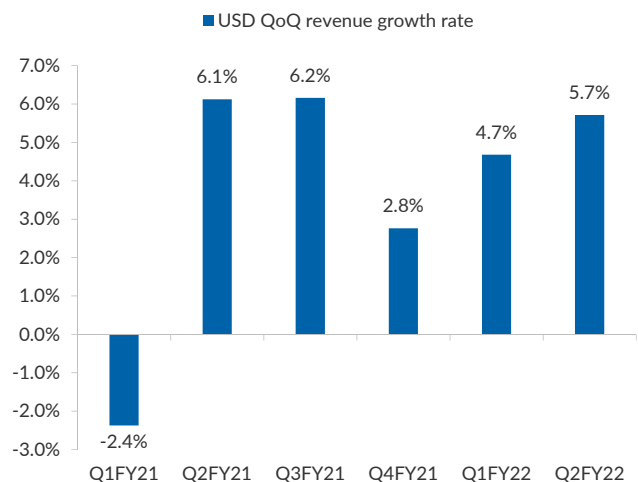
- The revenue growth of 19.4% YoY in cc terms for the quarter was fastest in 11 years.
- DSO was 66 days, improved by 4 days QoQ.
- Demand environment and deal pipeline remains strong for the company.
- Expect attrition to remain high for next two quarters. Has been doing targeted employee intervention to reduce attrition. Also has increased fresher hiring to manage the supply constrained environment.
- Q3 will have seasonality due to furlough and holidays.
- There would be another wage hike for seniors in Q3FY22.
- It has increased its revenue growth guidance for FY22 from 14-16% to 16.5- 17.5% with unchanged EBIT margin band of 22- 24%.
- Demand environment remains robust as it recorded large deal signings of \$2.15bn compared to \$2.6bn in Q1FY22.
- Utilization (excluding trainees) increased by 70 bps QoQ to 89.2%.
- Offshore effort mix increased by 50 bps QoQ to 76.4% as per industry trend.
- Attrition increased by 620 bps QoQ to 20.1% led by higher demand for talent in the industry. Net addition of 11,800 employees in the quarter. Has guided for around 45,000 hiring in FY22.

**Exhibit 2: Manufacturing saw highest sequential growth in % terms**

**Exhibit 3: Maintains revenue growth momentum**



Source: Company, YES Sec



Source: Company, YES Sec

## FINANCIALS

### Exhibit 4: Balance Sheet

Y/e March 31 (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Share capital	11,440	10,880	21,700	21,220	21,240	21,240	21,240	21,240
Reserves & surplus	678,380	638,350	628,360	637,220	746,580	843,033	957,221	1,105,600
Shareholders' funds	689,820	649,230	650,060	658,440	767,820	864,273	978,461	1,126,840
Non-current liabilities	3,600	8,610	10,940	60,680	77,390	78,499	79,664	80,886
Other non-current liabilities	3,600	8,610	10,940	60,680	77,390	78,499	79,664	80,886
Current liabilities	140,130	141,060	186,380	208,560	238,650	258,248	287,443	320,802
Other current liabilities	140,130	141,060	186,380	208,560	238,650	258,248	287,443	320,802
Total (Equity and Liabilities)	833,550	798,900	847,380	927,680	1,083,860	1,201,020	1,345,568	1,528,528
Non-current assets	296,500	298,730	318,600	381,920	476,530	485,938	495,710	505,865
Fixed assets (Net block)	124,920	123,900	140,470	155,990	156,950	159,072	161,212	163,371
Non-current Investments	710	0	0	0	0	0	0	0
Other non-current assets	170,870	174,830	178,130	225,930	319,580	326,867	334,498	342,493
Current assets	537,050	500,170	528,780	545,760	607,330	715,082	849,858	1,022,663
Cash & current investment	325,950	262,250	261,950	233,040	270,560	313,454	397,188	510,645
Other current assets	211,100	237,920	266,830	312,720	336,770	401,628	452,670	512,018
Total (Assets)	833,550	798,900	847,380	927,680	1,083,860	1,201,020	1,345,568	1,528,528

### Exhibit 5: Income Statement

Y/e March 31 (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net sales	684,850	705,220	826,760	907,910	1,004,730	1,183,714	1,340,885	1,523,640
Operating expenses	(498,800)	(515,120)	(617,870)	(685,240)	(725,830)	(865,428)	(965,972)	(1,094,581)
EBITDA	186,050	190,100	208,890	222,670	278,900	318,286	374,913	429,059
Depreciation	(17,030)	(18,620)	(20,100)	(28,930)	(32,680)	(35,751)	(39,534)	(44,186)
EBIT	169,020	171,480	188,790	193,740	246,220	282,535	335,379	384,873
Other income	30,490	31,930	28,830	28,030	22,010	25,765	31,511	35,806
Finance cost	0	0	0	(1,690)	(1,950)	(1,916)	(1,835)	(1,763)
Profit before tax	199,510	202,700	210,410	220,080	266,280	306,385	365,055	418,916
Tax (current + deferred)	(55,980)	(42,420)	(56,310)	(53,680)	(72,050)	(83,384)	(99,008)	(113,616)
Reported Profit / (Loss)	143,530	160,280	154,150	166,400	194,230	223,001	266,047	305,300
Adjusted net profit	143,530	160,280	154,150	166,400	194,230	223,001	266,047	305,300

## Exhibit 6: Cash Flow Statement

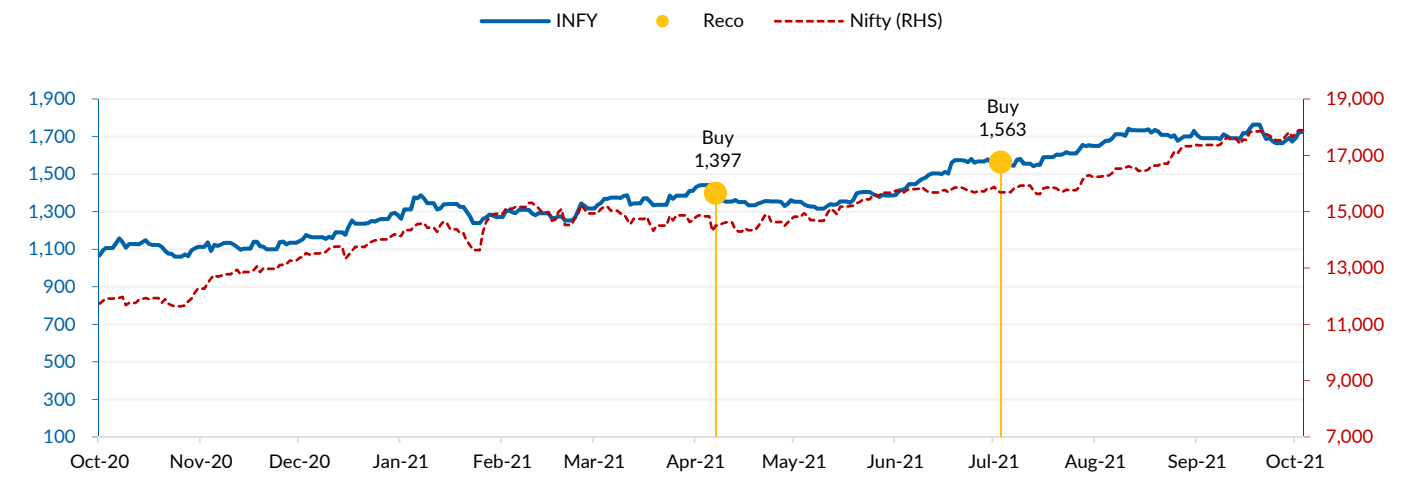
Y/e March 31 (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Profit before tax	199,510	202,700	210,410	220,080	266,280	306,385	365,055	418,916
Depreciation	17,030	18,620	20,100	28,930	32,680	35,751	39,534	44,186
Change in working capital	(14,130)	(25,890)	16,410	(23,710)	6,040	(45,260)	(21,847)	(25,989)
Total tax paid	(56,510)	(46,500)	(55,900)	(54,440)	(66,520)	(83,493)	(99,119)	(113,728)
Others	(30,490)	(31,930)	(28,830)	(26,340)	(20,060)	(23,850)	(29,676)	(34,043)
Cash flow from operations (a)	115,410	117,000	162,190	144,520	218,420	189,533	253,947	289,342
Capital expenditure	(26,800)	(17,600)	(36,670)	(44,450)	(33,640)	(37,872)	(41,674)	(46,345)
Change in investments	(98,630)	36,340	(2,200)	19,720	23,130	(937)	(974)	(1,013)
Others	(20,700)	20,980	39,720	1,410	(70,170)	18,589	23,990	27,922
Cash flow from investing (b)	(146,130)	39,720	850	(23,320)	(80,680)	(20,221)	(18,658)	(19,436)
Free cash flow (a+b)	(30,720)	156,720	163,040	121,200	137,740	169,312	235,290	269,905
Equity raised/(repaid)	1,150	(22,260)	12,920	1,560	3,950	0	0	0
Dividend (incl. tax)	(141,251)	(116,358)	(108,620)	(86,053)	(109,404)	(126,549)	(151,859)	(156,920)
Others	70,101	(46,172)	(69,840)	(45,897)	28,364	(806)	(671)	(541)
Cash flow from financing (c)	(70,000)	(184,790)	(165,540)	(130,390)	(77,090)	(127,355)	(152,529)	(157,461)
Net change in cash (a+b+c)	(100,720)	(28,070)	(2,500)	#REF!	335,710	41,957	82,760	112,444

## Exhibit 7: Ratio Analysis

Y/e March 31	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Growth (%)</b>								
Revenue Growth	9.7	3.0	17.2	9.8	10.7	17.8	13.3	13.6
EBITDA Growth	8.9	2.2	9.9	6.6	25.3	14.1	17.8	14.4
EBIT Growth	8.2	1.5	10.1	2.6	27.1	14.7	18.7	14.8
Net Profit Growth	6.4	11.7	(3.8)	7.9	16.7	14.8	19.3	14.8
<b>Profitability Ratios (%)</b>								
EBITDA Margin	27.2	27.0	25.3	24.5	27.8	26.9	28.0	28.2
EBIT margin	24.7	24.3	22.8	21.3	24.5	23.9	25.0	25.3
Net Profit margin	21.0	22.7	18.6	18.3	19.3	18.8	19.8	20.0
RoA	21.3	21.0	22.9	21.8	24.5	24.7	26.3	26.8
RoE	22.0	23.9	23.7	25.4	27.2	27.3	28.9	29.0
RoCE	25.7	25.4	28.6	28.1	31.5	31.6	33.5	34.0
<b>Liquidity Ratios</b>								
Net debt/Equity (x)	(0.5)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.5)
Current ratio (x)	3.8	3.5	2.8	2.6	2.5	2.8	3.0	3.2
Quick ratio (x)	3.8	3.5	2.8	2.6	2.5	2.8	3.0	3.2
<b>Valuation Ratios</b>								
PER(x)	NA	NA	NA	40.0	37.0	32.3	27.0	23.6
PCE(x)	NA	NA	NA	34.1	31.7	27.8	23.5	20.6
Price/Book(x)	NA	NA	NA	10.1	9.4	8.3	7.4	6.4
EV/EBITDA(x)	NA	NA	NA	28.8	24.8	21.6	18.1	15.6

Dupont Analysis	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net margin (%)	21.0	22.7	18.6	18.3	19.3	18.8	19.8	20.0
Asset turnover (x)	0.9	0.9	1.0	1.0	1.0	1.0	1.1	1.1
Leverage factor (x)	1.2	1.2	1.3	1.4	1.4	1.4	1.4	1.4
Return on Equity (%)	22.0	23.9	23.7	25.4	27.2	27.3	28.9	29.0

## Recommendation Tracker



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Name of the Research Analyst : Piyush Pandey

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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