

Retail Equity Research

Infosys Limited

IT Services

BSE CODE: 500209

NSE CODE: INFY

Bloomberg CODE: INFO:IN

SENSEX: 48,879

BUY

12M Investment period

Rating as per Large Cap

CMP Rs. 1,340 TARGET Rs. 1,535 RETURN 15% ↑
(Closing: 22-01-21)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Strong quarter; Outlook remains positive

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, and tele-communication and manufacturing sectors.

- Revenue grew 12.3% YoY to Rs. 25,927cr (+ 6.6% YoY constant currency "CC" basis), driven by strong growth across all the segments.
- EBIT rose 30.1% YoY to 6,589cr, with EBIT margin improving 350bps YoY to 25.4% owing to better utilization and offshore-mix. Resultantly, bottom-line also increased 16.6% YoY to Rs. 5,197cr.
- Large deal contract value reached all-time high of USD 7.13bn during the quarter, largely contributed from the Daimler wins. Additionally, active clients stood at 1,562 (139 new clients in Q3FY21).
- We expect growth momentum to continue over the medium-term on the back of strong pipeline and large deal wins. We reiterate our BUY with a rolled forward TP of Rs. 1.535 based on 26x FY23E EPS.

Growth momentum continues

Company recorded revenue growth of 12.3% YoY to Rs. 25,927cr (+6.6% YoY CC), led by double digit growth across almost all segments. Financials Services grew +17.9% YoY (+12.0% CC) to Rs. 8,578cr. Hi-Tech increased +21.8% YoY (+17.4% CC) to Rs. 2,130cr. Life Sciences was up 17.2% YoY (11.0% YoY CC) to Rs. 1,827cr. While energy and communication rose 10.3% YoY (+4.9% YoY CC) to Rs. 3,251cr and 7.1% YoY (+0.8% YoY CC) to Rs. 3,215cr, respectively. Geographically, North America grew 8.8% YoY on CC basis, Europe increased +1.3% YoY (CC), and RoW +6.1% YoY (CC), while India was up +4.3% YoY (CC).

Margin expansion continues on utilization and offshore mix

EBIT margin improved by 350bps YoY to 25.4%, benefitted by improved utilization and offshore mix. Margins were further supported by lower staff costs and selling expenses as percentage of sales 54.4% (vs. 56.3% in Q3FY20) and 0.5% (vs. 2.7% prior). As a result, Net Profit rose 16.6% YoY to Rs. 5,197cr.

Key concall highlights

- In Q3FY21, Digital contribution surpassed ~50% of total revenue, also, company witnessed shift towards offshore with 74.8% mix vs. 73.9% in Q2FY21.
- Utilization including trainee and without trainee improved 170bps QoQ to 82.3% and 270 QoQ to 86.3%, respectively. Attrition rate rose to 10.0% vs. 7.8% in Q2.
- Company continues to invest in Cobalt platform, which was launched in Q2FY20. This should help company to strengthen digital transformation further.
- Management revised its guidance upward for FY21 revenue and operating margin to 4.5-5.0% CC (earlier; 2-3% YoY on CC) and 24.0%- 24.5% (earlier; 23-24% YoY on CC), respectively, on the back of large deal wins and strong pipeline.
- Infosys recorded highest deals ever of USD 7.13bn, of which 73% contributed from net new deals, 13 deals were signed in America and 7 signed in Europe.

Valuation

Robust pipeline, large deal and higher utilization should improve company's growth prospects over the medium-term. Additionally, higher investment in IT, digital transformation should support company's performance further. We reiterate our BUY rating on the stock with a rolled forward TP of Rs. 1,535 based on 26x FY23E adj. EPS.

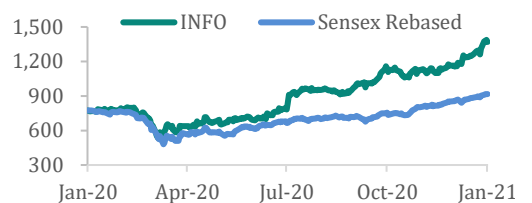
Company Data

Market Cap (cr)	Rs. 571,127
Enterprise Value (cr)	Rs. 546,289
Outstanding Shares (cr)	425.1
Free Float	87.0%
Dividend Yield	1.3%
52 week high	Rs. 1,393
52 week low	Rs. 511
6m average volume (lac)	5.9
Beta	0.9
Face value	Rs. 5

Shareholding %	Q1FY21	Q2FY21	Q3FY21
Promoters	13.2	13.0	13.0
FII's	30.5	31.3	32.3
MFs/Insti	25.9	25.4	24.1
Public	27.0	26.9	27.1
Others	3.5	3.4	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	21.4%	61.8%	75.2%
Absolute Sensex	23.4%	36.0%	17.1%
Relative Return*	-2.0%	25.8%	58.1%

*over or under performance to benchmark index



Consolidated (cr)	FY21E	FY22E	FY23E
Sales	100,965	117,965	130,011
Growth (%)	11.2	16.8	10.2
EBITDA	27,106	31,738	34,783
EBITDA Margin (%)	26.8	26.9	26.8
Adj. PAT	19,683	22,938	25,065
Growth (%)	18.6	16.5	9.3
Adj. EPS	46.4	54.0	59.0
Growth (%)	18.6	16.5	9.3
P/E	29.0	24.9	22.8
P/B	7.3	6.1	5.2
EV/EBITDA	20.2	16.9	15.1
ROE (%)	25.3	24.6	22.6
D/E	0.0	0.0	0.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q3FY21	Q3FY20	YoY Growth %	Q2FY21	QoQ Growth %	9MFY21	9MFY20	YoY Growth %
Revenue	25,927	23,092	12.3	24,570	5.5	74,162	67,524	9.8
EBITDA	7,415	5,801	27.8	7,083	4.7	20,619	16,592	24.3
EBITDA margins	28.6	25.1	350bps	28.8	(20bps)	27.8	24.6	320bps
Depreciation	826	737	12.1	855	(3.4)	2,437	2,145	13.6
EBIT	6,589	5,064	30.1	6,228	5.8	18,182	14,447	25.9
Interest	49	42	16.7	48	2.1	145	124	16.9
Other Income	611	827	(26.1)	570	7.2	1,656	2,189	(24.3)
Exceptional Items	-	-	-	-	-	-	-	-
PBT	7,151	5,849	22.3	6,750	5.9	19,693	16,512	19.3
Tax	1,936	1,383	40.0	1,892	2.3	5,348	4,207	27.1
Sh. of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	18	9	100.0	13	38.5	70	31	125.8
Reported PAT	5,197	4,457	16.6	4,845	7.3	14,275	12,274	16.3
Adjustments	-	-	-	-	-	-	-	-
Adj. PAT	5,197	4,457	16.6	4,845	7.3	14,275	12,274	16.3
No. of shares	425.1	424.6	0.1	424.9	0.0	425.1	424.6	0.1
Adj. EPS (Rs.)	12.2	10.5	16.5	11.4	7.2	33.6	28.9	16.2

Change in Estimates

Year / Rs. cr	Old estimates		New estimates			Change %	
	FY21E	FY22E	FY21E	FY22E	FY23E	FY21E	FY22E
Revenue	98,250	103,718	100,965	117,965	130,011	2.8	13.7
EBITDA	26,008	28,676	27,106	31,738	34,783	4.2	10.7
Margins (%)	26.5	27.6	26.8	26.9	26.8	30bps	(70bps)
Adj. PAT	18,856	21,509	19,683	22,938	25,065	4.4	6.6
Adj. EPS	44.4	50.7	46.4	54.0	59.0	4.4	6.6

PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	82,675	90,791	100,965	117,965	130,011
% change	17.2	9.8	11.2	16.8	10.2
EBITDA	20,891	22,267	27,106	31,738	34,783
% change	9.9	6.6	21.7	17.1	9.6
Depreciation	2,011	2,893	2,919	3,133	3,314
EBIT	18,880	19,374	24,187	28,605	31,470
Interest	-	170	186	186	186
Other Income	2,161	2,803	2,102	3,153	3,216
PBT	21,041	22,007	26,104	31,572	34,500
% change	3.8	4.6	18.6	20.9	9.3
Tax	5,631	5,368	6,367	8,572	9,367
Tax Rate (%)	26.8	24.4	24.4	27.2	27.2
Reported PAT	15,404	16,594	19,683	22,938	25,065
Adj*	-	-	-	-	-
Adj PAT	15,404	16,594	19,683	22,938	25,065
% change	(3.9)	7.7	18.6	16.5	9.3
No. of shares (cr)	435.3	424.6	424.6	424.6	424.6
Adj EPS (Rs.)	35.4	39.1	46.4	54.0	59.0
% change	(0.3)	10.5	18.6	16.5	9.3
DPS (Rs.)	21.5	17.5	17.5	17.5	17.5
CEPS (Rs.)	40.0	45.9	53.2	61.4	66.8

CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Net inc. + Depn.	17,415	19,487	22,602	26,071	28,379
Non-cash adj.	(609)	1,750	(1,687)	(1,239)	(1,406)
Changes in W.C	(1,965)	(4,234)	(2,918)	(4,828)	(4,325)
C.F. Operation	14,841	17,003	17,996	20,005	22,649
Capital exp.	(2,445)	(3,307)	(3,678)	(4,297)	(4,736)
Change in inv.	1,330	2,702	(2,069)	(310)	(326)
Other invest.CF	540	366	1,807	1,459	1,372
C.F - Investment	(575)	(239)	(3,939)	(3,148)	(3,689)
Issue of equity	(807)	(7,472)	-	-	-
Issue/repay debt	-	-	-	-	-
Dividends paid	(13,705)	(9,515)	(7,421)	(7,421)	(7,421)
Other finance.CF	-	(604)	-	-	-
C.F - Finance	(14,512)	(17,591)	(7,421)	(7,421)	(7,421)
Chg. in cash	(246)	(827)	6,636	9,435	11,538
Closing cash	19,568	18,649	25,285	34,720	46,259

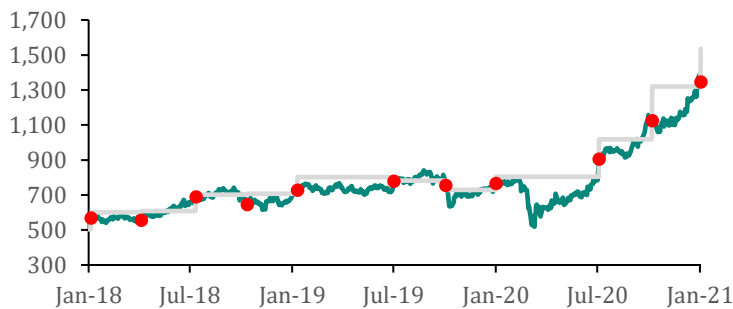
BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash	19,568	18,649	25,285	34,720	46,259
Accounts Receivable	14,827	18,487	21,568	26,969	31,673
Inventories	-	-	-	-	-
Other Cur. Assets	18,483	17,440	18,078	19,145	19,901
Investments	4,634	4,137	6,206	6,516	6,842
Gross Fixed Assets	22,891	26,198	29,876	34,172	38,908
Net Fixed Assets	11,479	12,435	13,146	14,260	15,629
CWIP	1,388	954	1,002	1,052	1,104
Intangible Assets	4,231	11,354	11,407	11,460	11,514
Def. Tax (Net)	1,372	1,744	1,630	1,564	1,583
Other Assets	8,756	7,568	7,622	7,676	7,731
Total Assets	84,738	92,768	105,944	123,362	142,235
Current Liabilities	18,638	20,856	21,730	23,238	24,280
Provisions	-	-	-	-	-
Debt Funds	-	-	-	-	-
Other Liabilities	1,094	6,068	6,055	6,386	6,505
Equity Capital	2,170	2,122	2,122	2,122	2,122
Reserves & Surplus	62,778	63,328	75,590	91,106	108,751
Shareholder's Fund	64,948	65,450	77,712	93,228	110,873
Minority Interest	58	394	447	510	578
Total Liabilities	84,738	92,768	105,944	123,362	142,235
BVPS (Rs.)	149	154	183	220	261

RATIOS

Y.E March	FY19A	FY20A	FY21E	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	25.3	24.5	26.8	26.9	26.8
EBIT margin (%)	22.8	21.3	24.0	24.2	24.2
Net profit mgn.(%)	18.6	18.3	19.5	19.4	19.3
ROE (%)	23.7	25.4	25.3	24.6	22.6
ROCE (%)	29.0	29.4	30.9	30.5	28.2
W.C & Liquidity					
Receivables (days)	65.5	74.3	78.0	83.4	88.9
Inventory (days)	-	-	-	-	-
Payables (days)	70.4	110.5	110.9	111.3	111.6
Current ratio (x)	2.8	2.6	3.0	3.5	4.0
Quick ratio (x)	2.2	2.0	2.4	2.9	3.4
Turnover & Leverage					
Gross asset T.O (x)	3.8	3.7	3.6	3.7	3.6
Total asset T.O (x)	1.0	1.0	1.0	1.0	1.0
Int. coverage ratio (x)	-	114.0	130.2	154.0	169.5
Adj. debt/equity (x)	-	-	-	-	-
Valuation					
EV/Sales (x)	3.7	2.8	5.4	4.6	4.0
EV/EBITDA (x)	14.6	11.2	20.2	16.9	15.1
P/E (x)	21.0	16.2	29.0	24.9	22.8
P/BV (x)	5.0	4.1	7.3	6.1	5.2

Recommendation Summary



Dates	Rating	Target
25-Oct-18	HOLD	708
23-Jan-19	HOLD	802
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

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. The stock may still be a quality stock.

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.

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