

Estimate change	↔
TP change	↑
Rating change	↔

CMP: INR1,709
TP: INR1,960 (+15%)
Buy
Strong all-round beat, guidance revision above our expectation
Long-term traction intact, reiterate Buy

Bloomberg	INFO IN
Equity Shares (m)	4,572
M.Cap.(INRb)/(USDb)	7281.4 / 96.6
52-Week Range (INR)	1788 / 1051
1, 6, 12 Rel. Per (%)	-3/-3/-2
12M Avg Val (INR M)	11346

Financials & Valuations (INR b)

Y/E Mar	2021	2022E	2023E
Sales	1,005	1,201	1,408
EBIT Margin (%)	24.5	23.6	24.2
PAT	194	224	276
EPS (INR)	45.6	53.0	65.4
EPS Gr. (%)	17.1	16.2	23.4
BV/Sh. (INR)	180	166	174

Ratios

RoE (%)	27.3	30.6	38.4
RoCE (%)	23.0	25.3	30.7
Payout (%)	106.7	75.0	75.0

Valuations

P/E (x)	37.5	32.3	26.1
P/BV (x)	9.5	10.3	9.8
EV/EBITDA (x)	26.0	22.3	18.6
Div Yield (%)	1.6	2.3	2.9

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	13.0	13.0	13.2
DII	22.0	23.1	25.4
FII	33.8	33.0	30.9
Others	31.3	30.9	30.5

FII Includes depository receipts

- INFO reported a growth of 6.3% QoQ CC, ahead of our estimate of 5.7%, on the back of a broad based performance. Large deal TCV of USD2.15b was a tad soft (net new at 37%). However, the management indicated good traction in medium and small size deals, and reiterated that the pipeline remains strong on robust demand.

- EBIT margin dipped 10bp QoQ to 23.6%, above our estimate of 22.3%, despite the impact of higher subcontracting expenses and wage hike in 2QFY22. Utilization (+70bp QoQ) and offshore mix (+50bp) remains stretched, despite strong hiring (11.7k, up 4.4%) in 2QFY22.

- We were positively surprised by the increase in its FY22 USD revenue growth guidance to 16.5-17.5% YoY CC (from 14-16%), an increase of 200bp at the mid-point v/s our expectation of a 100bp rise. We continue to see scope for a beat and a raise over the next two quarters as INFO benefits from a better large deal focus and demand tailwind.

- A strong topline growth (est. +19% YoY) should allow INFO to keep EBIT margin impact (due to supply side challenges) within a narrow band at the upper end of its guidance (maintained at 22-24%). Apart from operating leverage, it should also benefit from further flattening of the pyramid and continued operating efficiency measures in FY23.

- We see a sharp increase in attrition (20.1% in 2QFY22, up 620bp QoQ) as concerning, especially as utilization was at a record high of 89.2%, which is unsustainable. This remains a key monitorable in our view.

- INFO reported a strong FCF/PAT conversion of 97% for 2QFY22. FCF in 2QFY22 increased by 6% YoY.

- We have increased our FY22E EPS estimate by 2% on stronger than expected performance in 2Q. However, our FY23E EPS estimate remains unchanged. We continue to see INFO as a key beneficiary of an acceleration in IT spends, given its capabilities around Cloud and Digital transformation. We value the company at 30x FY23E EPS and reiterate our **Buy** rating.

Strong growth performance, revenue and margin beat

- In CC terms, revenue grew 19.4% YoY in 2QFY22. In INR terms, EBIT/PAT grew 12% each YoY.
- In 1HFY22, USD revenue/INR EBIT/INR PAT grew by 21%/17%/17% YoY.
- In 2QFY22, revenue grew by 6.3% QoQ CC, a tad higher than our estimate of 5.7%. USD revenue grew by 5.7% QoQ (est. 4.9%) and 20.7% YoY in 2QFY22.
- Growth was a function of outperformance in Manufacturing (+42.5% YoY CC), BFSI (+20.5%), Retail (+17.2%), and Life Sciences (+26.1%).
- US grew 23.1% YoY CC, Europe rose 19.6%, and RoW increased by only 4.7%.
- Digital grew by 42% YoY CC, implying 56.1% of total revenue.
- Large deal TCV in 2QFY22 stood at USD2.15b.

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 Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- EBIT margin dipped by 10bp sequentially to 23.6% v/s our estimate of 22.3%. Margin was resilient, despite headwinds from wage hike (110bp) and sub-contracting cost (50bp). Margin performance in 2QFY22 was aided by cost optimization (80bp) and SGA leverage (50bp).
- PAT grew 11.9% YoY to INR54.2b, 3% below our estimates.
- Attrition inched up by 620bp QoQ, while utilization, including trainees, stretched further to 84.1%, an increase of 80bp.
- DSO (LTM) reduced by four days sequentially to 66 days. FCF grew 6% YoY to USD712m, with FCF conversion at 97% of net profit.
- Total cash and equivalents in 2QFY22 stood at USD4.42b.
- The management increased its FY22 guidance to 16.5-17.5% YoY CC from 14-16%. Its EBIT margin guidance remained unchanged at 22-24%.

Highlights from the management commentary

- The company witnessed broad based growth across all sectors and core geographies, with the Digital business growing 42% YoY CC.
- Financial Services is seeing demand across all regions. Growth in North America is led by large transformation programs and an increase in market share. Digital transformation led cost takeout agendas and core modernization are areas of traction.
- The performance of the Retail vertical remains strong. Areas of commerce, marketing, supply chain, and analytics are witnessing traction. The company has a strong pipeline in this vertical and expects better performance in coming quarters.
- Communication growth was led by the ramp up of earlier deal wins. INFO is seeing increased momentum for capex for 5G deployment.
- E&U growth accelerated further, with continued large deal wins.
- Manufacturing growth in 2QFY22 was aided by the ramp up of the Daimler deal. The management sees strong traction in areas of Engineering, IoT supply chain, and Cloud migration. Growth in manufacturing will continue to be market leading for the company.

Valuation and view – Expect multiples to converge with TCS

- INFO posted a strong growth performance in 2QFY22. We expect the company to deliver top quartile growth performance in FY22E on the back of its strong capabilities and ramp up of large deal wins in FY21.
- We expect INFO to be able to sustain margin at the top end of its guidance band, led by: 1) strong topline growth and resultant operating leverage, 2) further flattening of the pyramid, and 3) continued operating efficiency measures. While there are near term headwinds from the supply-side, we expect them to normalize over the next couple of quarters.
- We expect INFO to be a key beneficiary of an acceleration in IT spends.
- Our relative preference for INFO over TCS is premised on its headroom for increased growth potential, which was further reinforced by this result.
- As INFO has outperformed TCS in FY21 and in 1HFY22, we expect no valuation divergence between the two companies. Based on our revised estimates, the stock is currently trading at 26x FY23E EPS. We value the stock at 30x FY23E EPS, implying a TP of INR1,960.

Quarterly performance (IFRS)

(INR b)

Y/E March	FY21				FY22				FY21	FY22E	FY22E 2QE	Var. (%/bp)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Revenue (USD m)	3,121	3,312	3,516	3,613	3,782	3,998	4,091	4,251	13,562	16,122	3,966	0.8
QoQ (%)	-2.4	6.1	6.2	2.8	4.7	5.7	2.3	3.9	6.1	18.9	4.9	83bp
Revenue (INR m)	237	246	259	263	279	296	307	319	1,005	1,201	294	0.7
YoY (%)	8.5	8.6	12.3	13.1	17.9	20.5	18.3	21.2	10.7	19.5	19.6	86bp
GPM (%)	33.6	35.8	35.3	34.8	33.7	33.1	33.2	33.3	34.9	33.3	32.6	51bp
SGA (%)	10.9	10.5	9.9	10.3	10.0	9.5	9.8	9.6	10.4	9.7	10.3	-73bp
EBITDA	61	71	74	73	74	79	81	85	279	319	74	5.7
EBITDA Margin (%)	25.9	28.8	28.6	27.6	26.6	26.6	26.4	26.7	27.8	26.6	25.3	125bp
EBIT	54	62	66	64	66	70	72	75	246	283	66	6.4
EBIT Margin (%)	22.7	25.3	25.4	24.5	23.7	23.6	23.4	23.7	24.5	23.6	22.3	125bp
Other income	4	5	6	5	6	5	6	6	20	23	6	-19.0
ETR (%)	26.2	28.0	27.1	26.8	27.5	27.1	26.0	26.0	27.0	26.6	26.0	112bp
PAT	42	48	52	51	52	54	57	60	194	224	53	2.8
QoQ (%)	-1.7	14.0	7.3	-2.3	2.3	4.4	5.7	5.4			1.5	281bp
YoY (%)	11.9	20.6	16.6	17.5	22.3	11.9	10.3	19.0	16.7	15.6	8.9	301bp
EPS (INR)	10.0	11.4	12.2	11.9	12.2	12.9	13.6	14.3	45.5	52.8	12.4	3.6

Key performance indicators

Y/E March	FY21				FY22				FY21	FY22E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue (QoQ CC %)	-2.0	4.0	5.3	2.0	4.8	6.3			5.0	
Margins										
Gross Margin	33.6	35.8	35.3	34.8	33.7	33.1	33.2	33.3	34.9	33.3
EBIT Margin	22.7	25.3	25.4	24.5	23.7	23.6	23.4	23.7	24.5	23.6
Net Margin	18.0	19.7	20.0	19.3	18.6	18.3	18.7	18.9	19.3	18.6
Operating metrics										
Headcount	239	240	249	260	268	280			260	
Voluntary attrition (%)	11.7	7.8	10	15.2	13.9	20.1			15.2	
Deal win TCV (USD b)	1.7	3.2	7.1	2.1	2.6	2.2			14.1	
Key verticals (YoY CC %)										
BFSI	2.1	2.9	12.0	15.6	22.6	20.5			8.2	
Retail	(7.4)	(0.3)	2.0	4.5	22.2	17.2			-0.2	
Key geographies (YoY CC %)										
North America	-	1.9	8.8	12.3	21.1	23.1			5.8	
Europe	4.4	0.6	1.3	5.1	12.2	19.6			2.8	

Highlights from the management commentary

2QFY22 performance and demand outlook

- INFO reported a growth of 6.3% QoQ and 19.4% YoY (CC) in 2QFY22. This had been the fastest YoY growth in the past 11 years.
- The company witnessed broad based growth across all sectors and core geographies, with the Digital business growing 42% YoY CC.
- INFO reported a TCV of USD2.15b, of which 37% were net new. The pipeline is healthy and has a good mix of medium, large, and mega deals.
- Financial Services is seeing demand across all regions. Growth in North America is led by large transformation programs and an increase in market share. Digital transformation led cost takeout agendas and core modernization are areas of traction.
- The performance of the Retail vertical remains strong. Areas of commerce, marketing, supply chain, and analytics are witnessing traction. The company has a strong pipeline in this vertical and expects better performance in coming quarters.

- Communication growth was led by the ramp up of earlier deal wins. INFO is seeing increased momentum for capex for 5G deployment.
- E&U growth accelerated further, with continued large deal wins.
- Manufacturing growth in 2QFY22 was aided by the ramp up of the Daimler deal. The management sees strong traction in areas of Engineering, IoT supply chain, and Cloud migration. Growth in manufacturing will continue to be market leading for the company.
- The management has upgraded its revenue growth guidance to 16.5-17.5% YoY cc (v/s its earlier guidance of 14-16% YoY cc).

Margin performance

- Margin in 2QFY22 stood at 23.6% (-10bp QoQ). The increase in compensation/sub-contracting expenses had a 110bp/50bp impact. This was offset by tailwinds from cost optimization (80bp), SG&A leverage (50bp), and a currency benefit.
- The management continues to see headwinds from wage inflation, higher sub-contracting cost, and strong hiring. Moreover, 3QFY22 will have some impact from furloughs. It continues to focus on its cost optimization program, pyramid rationalization, and higher offshoring.
- It is confident to achieve its margin guidance of 22-24%.

Other highlights

- The management alluded that attrition is expected to remain high in the near term due to strong demand. Attrition is highest in 3-6 year experience band. It is expected to stay elevated for a couple of quarters and normalize from there on. The strong fresher intake should aid normalization of attrition.

Exhibit 1: Manufacturing/BFSI/Retail/Life Sciences outperforms

Verticals	Contribution to revenue (%)	Growth YoY (CC)
Financial Services	32.3	20.5
Retail	14.6	17.2
Communications	12.4	16.6
Energy, Utilities, Resources	11.8	14.6
Manufacturing	10.9	42.5
Hi-Tech	8.5	12.2
Life Sciences	7.1	26.1
Others	2.4	-9.6

Source: Company, MOFSL

Exhibit 2: Growth led by North America in 2QFY22

Geographies	Contribution to revenue (%)	Growth YoY (CC)
North America	61.9	23.1
Europe	24.8	19.6
India	2.6	4.2
RoW	10.7	4.7

Source: Company, MOFSL

Valuation and view – Expect multiples to converge with TCS

- INFO posted a strong growth performance in 2QFY22. We expect the company to deliver top quartile growth performance in FY22E on the back of its strong capabilities and ramp up of large deal wins in FY21.
- We expect INFO to be able to sustain margin at the top end of its guidance band, led by: 1) strong topline growth and resultant operating leverage, 2) further flattening of the pyramid, and 3) continued operating efficiency measures. While there are near term headwinds from the supply-side, we expect them to normalize over the next couple of quarters.
- We expect INFO to be a key beneficiary of an acceleration in IT spends.
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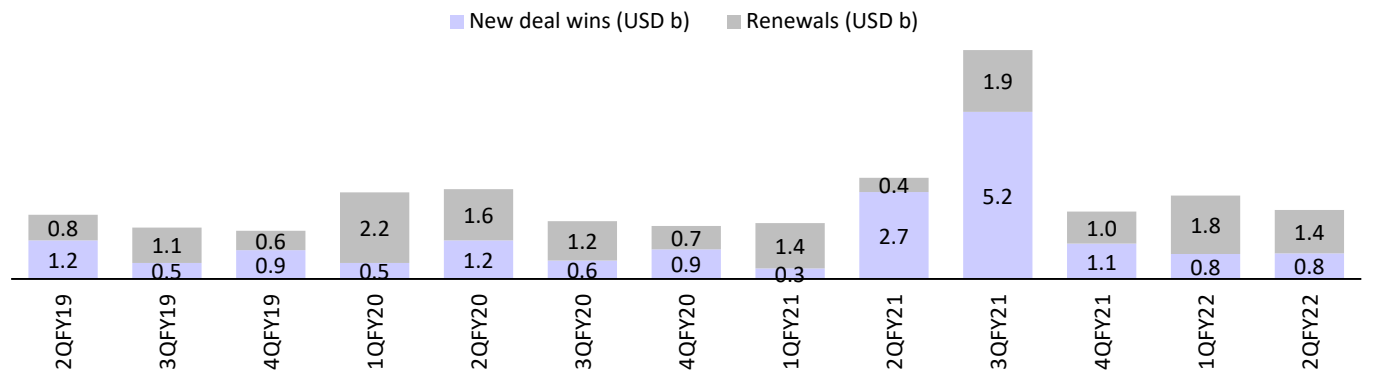
Exhibit 3: Revisions to our estimates

	Revised		Earlier		Change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
USD:INR	74.5	75.0	74.1	75.6	0.5%	-0.8%
Revenue (USD m)	16,122	18,767	16,035	18,667	0.5%	0.5%
Growth (%)	18.9	16.4	18.2	16.4	60bp	0bp
EBIT margin (%)	23.6	24.2	23.2	24.2	40bp	0bp
PAT (INR b)	224	276	220	277	1.8%	-0.4%
EPS (INR)	52.8	65.3	51.7	65.1	2.1%	0.3%

Source: MOFSL

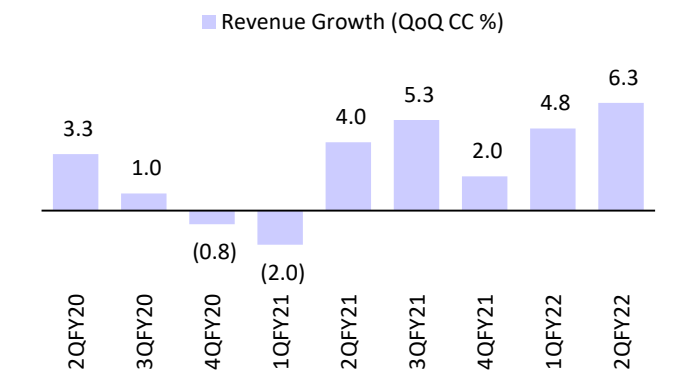
Story in charts

Exhibit 4: Net new deal wins constitute 37% of total large deals in 2QFY22



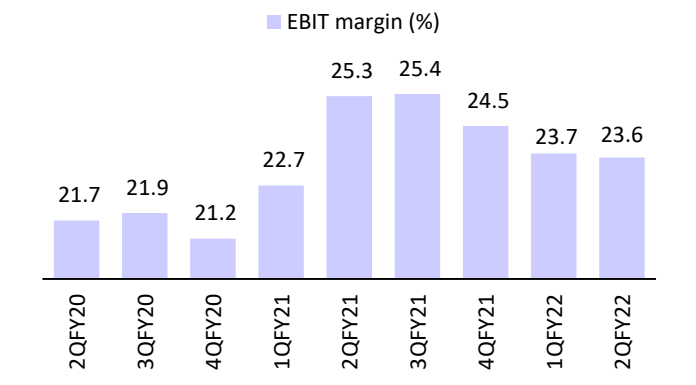
Source: Company, MOFSL

Exhibit 5: Revenue grew by 6.4% QoQ (CC) in 2QFY22



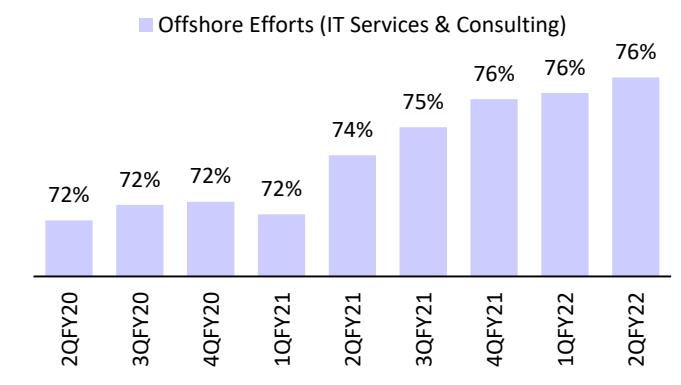
Source: Company, MOFSL

Exhibit 6: Margin resilient despite headwinds



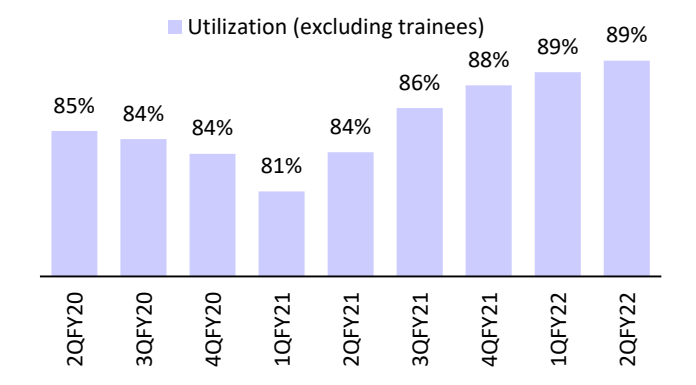
Source: Company, MOFSL

Exhibit 7: Offshoring ratio was largely stable



Source: Company, MOFSL

Exhibit 8: Utilization expands 70bp QoQ



Source: Company, MOFSL

Exhibit 9: Operating metrics

	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22
Effort (IT Services and Consulting)									
Onsite	28%	28%	28%	28%	26%	25%	24%	24%	24%
Offshore	72%	72%	72%	72%	74%	75%	76%	76%	76%
Utilization (IT Services and Consulting)									
Including trainees	82%	80%	79%	78%	81%	82%	82%	83%	84%
Excluding trainees	85%	84%	84%	81%	84%	86%	88%	89%	89%
Employee metrics									
Total employees (consolidated, in k)	236	243	242	239	240	249	260	268	280
S/W professional (k)	186	191	228	225	226	235	245	253	265
Support and sales (k)	11	12	14	14	14	14	15	14	15
Revenue by client geography									
North America	61%	61%	62%	62%	61%	62%	62%	62%	62%
Europe	24%	24%	24%	24%	24%	24%	24%	24%	25%
India	3%	3%	3%	3%	3%	3%	3%	3%	3%
RoW	12%	12%	11%	12%	12%	12%	11%	11%	11%
Revenue by business segments									
Financial Services	32%	32%	31%	32%	32%	33%	33%	33%	32%
Retail	15%	15%	16%	14%	15%	15%	15%	15%	15%
Communications	13%	13%	13%	13%	13%	12%	12%	12%	12%
Energy, Utilities, Resources, and Services	13%	13%	13%	13%	12%	13%	12%	12%	12%
Manufacturing	10%	10%	10%	10%	9%	9%	10%	10%	11%
Hi-Tech	8%	8%	8%	9%	9%	8%	8%	8%	9%
Life Sciences	6%	7%	6%	7%	7%	7%	7%	7%	7%
Others	3%	3%	3%	3%	3%	3%	3%	3%	2%
Revenue by offerings									
Digital	38%	41%	42%	45%	47%	50%	51%	54%	56%
Core	62%	59%	58%	55%	53%	50%	49%	46%	44%
Geography (YoY CC)									
North America	12%	10%	6%	0%	2%	9%	12%	21%	23%
Europe	15%	12%	10%	4%	1%	1%	5%	12%	20%
India	18%	18%	22%	33%	20%	4%	31%	21%	4%
RoW	2%	0%	2%	-2%	4%	6%	-1%	5%	5%
Business segments (YoY CC)									
Financial Services	10%	6%	6%	2%	3%	12%	16%	23%	21%
Retail	1%	3%	4%	-7%	0%	2%	5%	22%	17%
Communications	19%	21%	3%	-1%	-2%	1%	-1%	5%	17%
Energy, Utilities, Resources, and Services	19%	9%	7%	0%	-4%	5%	5%	11%	15%
Manufacturing	17%	12%	7%	0%	-8%	-4%	3%	19%	43%
Hi-Tech	12%	12%	8%	13%	24%	17%	16%	15%	12%
Life Sciences	11%	18%	12%	8%	7%	11%	18%	21%	26%
Others	0%	12%	21%	24%	25%	3%	26%	10%	-10%
DSO	66	73	69	71	69	73	71	70	66
Large deal TCV (USD m)	2,847	1,813	1,650	1,740	3,150	7,130	2,100	2,600	2,152
Client (as a percentage of revenue)									
Top 10 client	19.2%	18.9%	18.7%	19.3%	18.7%	18.5%	18.3%	18.8%	19.4%
Top 25 client	34.6%	34.2%	34.1%	34.6%	34.2%	34.6%	34.2%	34.4%	35.4%
Number of active clients	1,364	1,384	1,411	1,458	1,487	1,562	1,626	1,659	1,714
New clients added in the period	96	84	84	110	96	139	130	113	117

Source: Company, MOFSL

Financials and valuations

Income Statement								(INR b)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Sales	624	685	705	827	908	1,005	1,201	1,408
Change (%)	17.1	9.7	3.0	17.2	9.8	10.7	19.5	17.2
Software Develop. Exp.	391	433	451	539	607	654	801	927
SGA expenses	77	83	82	99	107	104	117	139
EBITDA	171	186	190	209	223	279	323	387
As a percentage of Net Sales	27.4	27.2	27.0	25.3	24.5	27.8	26.9	27.5
Depreciation	15	17	19	20	29	33	40	46
Interest	0	0	0	0	0	0	0	0
Other Income	31	31	32	29	26	20	23	32
PBT	187	200	204	218	220	266	306	373
Tax	53	56	57	56	54	72	81	97
Rate (%)	28.0	28.1	27.8	25.9	24.4	27.0	26.6	26.0
Minority Interest	0	0	0	0	0	1	0	0
Adjusted PAT	135	144	147	161	166	194	224	276
Extraordinary Items	0	0	-13	7	0	0	0	0
Reported PAT	135	144	160	154	166	194	224	276
Change (%)	9.4	6.4	11.7	-3.9	7.7	16.7	15.6	23.1

Balance Sheet								(INR b)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Share Capital	22	24	2	2	21	21	21	21
Reserves	595	666	647	647	633	742	679	713
Net Worth	618	690	649	649	655	764	700	734
Capital Employed	622	693	658	661	719	845	797	847
Gross Block	249	274	278	328	428	479	508	546
Less: Depreciation	96	113	132	152	181	213	253	299
Net Block	153	161	146	176	247	266	255	246
Investments and Other Assets	84	135	153	143	134	211	226	241
Curr. Assets	517	537	500	529	546	607	593	678
Debtors	144	160	174	202	240	268	304	352
Cash and Bank Balance	327	226	198	196	186	247	188	218
Investments	1	100	64	66	47	23	23	23
Other Current Assets	46	51	64	65	73	69	78	84
Current Liab. and Prov.	132	140	141	186	209	239	278	318
Net Current Assets	385	397	359	342	337	369	316	360
Application of Funds	622	693	658	661	719	845	797	847

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Basic (INR)								
EPS	29.5	31.4	35.5	35.4	38.9	45.6	53.0	65.4
Cash EPS	32.7	35.1	39.6	40.0	45.7	53.3	62.3	76.4
Book Value	135.1	150.9	144.0	149.4	153.7	180.0	165.9	174.4
DPS	12.1	12.9	21.8	21.5	17.5	27.0	39.6	49.0
Payout (%)	41.1	41.0	75.5	109.2	45.4	106.7	75.0	75.0
Valuation (x)								
P/E	57.9	54.4	48.1	48.3	43.9	37.5	32.3	26.1
Cash P/E	52.3	48.7	43.1	42.7	37.4	32.1	27.4	22.4
EV/EBITDA	45.7	42.0	40.5	35.6	32.7	26.0	22.3	18.6
EV/Sales	12.5	11.4	10.9	9.0	8.0	7.2	6.0	5.1
Price/Book Value	12.6	11.3	11.9	11.4	11.1	9.5	10.3	9.8
Dividend Yield (%)	0.7	0.8	1.3	1.3	1.0	1.6	2.3	2.9
Profitability Ratios (%)								
RoE	23.2	22.0	22.0	24.8	25.5	27.3	30.6	38.4
RoCE	19.2	18.5	18.3	21.2	21.2	23.0	25.3	30.7
Turnover Ratios								
Debtors (Days)	84	85	90	89	96	97	92	91
Fixed Asset Turnover (x)	4.1	4.2	4.8	4.7	3.7	3.8	4.7	5.7

Cash Flow Statement

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
(INR b)								
CF from Operations	145	160	147	164	205	235	260	314
Cash for Working Capital	-23	-19	-1	-6	-19	6	-6	-13
Net Operating CF	122	141	146	158	186	241	254	300
Net Purchase of FA	-27	-28	-20	-24	-34	-21	-25	-30
Free Cash Flow	95	113	126	134	152	220	229	271
Net Purchase of Invest.	-4	-143	51	9	16	-63	0	0
Net Cash from Invest.	-31	-171	31	-16	-18	-84	-25	-30
Proceeds from Equity	0	0	0	0	0	0	0	0
Others	0	0	0	0	-6	-7	0	0
Dividend Payments	-68	-69	-205	-145	-95	-91	-196	-241
Buyback of shares	0	0	0	0	-75	0	-92	0
Cash Flow from Fin.	-68	-69	-205	-145	-176	-98	-288	-241
Net Cash Flow	23	-100	-28	-2	-8	60	-59	30
Effect of forex on cash flow	0	-1	0	0	-1	1	0	0
Opening Cash Bal.	304	327	226	198	196	186	247	188
Add: Net Cash	23	-101	-28	-2	-9	61	-59	30
Closing Cash Bal.	327	226	198	196	186	247	188	218

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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