

Institutional Equity Research

Infosys

IT | India

CMP* (Rs)	1,705
Upside/ (Downside) (%)	24
Bloomberg Ticker	INFO IN
Market Cap. (Rs bn)	7,269

BUY 

1 Year Target Price: Rs2,120

2QFY22 Result Update | 14 October, 2021

Superior Execution Deserves Multiple Re-rating; Raise TP to Rs2,120

Strong Print; One More Revenue Guidance Upgrade

2QFY22 revenue is at US\$3.99bn, which is 110bps above our estimate of US\$3.95bn. The sequential constant currency growth is at 6.3% vs. our estimate of 5% (consensus: 6%), driven by a broad-based growth across industries. EBIT margin stood at 23.6%, substantially ahead of our estimate of 22.2%, driven by a better-than-expected operating leverage and lower-than-expected wage inflation. Net profit stood at Rs54.2bn, which is 3.4% above our estimate of Rs52.1bn, driven by an outperformance in both revenue growth and EBIT margin. Large deal signings remained healthy at US\$2.15bn. Management's commentary on the demand environment and deal pipeline remained strong. Infosys (INFO) upgraded its FY22 revenue growth guidance at 16.5-17.5% in CC terms vs. the prior 14-16%. Additionally, the company retained the EBIT margin guidance at 22-24%. We expect INFO to continue to gain market share in the current technology upcycle. We have raised the FY22E-FY24E EPS estimates by (0.1)-3.9% ([previous note of Mar'21](#)) driven by an improved revenue growth visibility. **We retain the BUY recommendation and raise the target price to Rs2,120 (vs. the prior Rs1,920) and value the stock at 28.5x (earlier 27x) FY24E earnings.**

Broad-based Growth Across Verticals; Sharp Attrition Spike In Line With Larger Peers

(1) Digital revenue reported a growth of 42.4% YoY and is at ~56% of revenue. (2) INFO reported a broad-based revenue growth across verticals and geographies, and the growth was led by North America and manufacturing vertical. (3) Voluntary LTM attrition in IT services stood at 20.1%, compared to 13.9% in 1QFY22. Management expects the high attrition to ease in the next couple of quarters. (4) During 2QFY22, the company added a net work force of ~11.6k employees. It targets to hire 45k (vs. the earlier 35k target) graduates over FY22. (5) INFO stated it will launch a new company structure in the coming weeks. (6) The board has announced an interim dividend of Rs15/share.

Execution Surprise Led by Operating Efficiencies

INFO reported 2QFY22 EBIT margin of 23.6% (10bps QoQ), which was 110bps higher than consensus, as operating efficiencies (80bps), lower SG&A cost (50bps) and Fx gain (20bps) offset wage inflation (110bps) and a rise in sub-contractor cost (40bps). Additionally, we expect a limited margin upside for FY22 due to a higher SG&A cost (higher attrition and resumption of offices) and accelerated hiring over the next two quarters. We estimate an EBIT margin of 24-24.7% over FY22E-FY24E.

Superior Execution Deserves Premium Valuation

At CMP, INFO trades at 26.4x/23.0x FY23E/FY24E EPS, which is at 10% discount to the larger peer TCS. Going forward, we expect INFO to report a superior growth vs. the top 4 Indian IT peers, driven by a surge in large deals and acceleration in the digital revenue share. Also, a stable management keeps INFO in a better position to make bolder decisions and pursue aggressive market share gain. We believe the stock deserves a re-rating, considering the industry-leading double-digit revenue growth, rising share of digital business (56% of revenue), elevated EBIT margin levels vs. pre-Covid levels and a consistent capital allocation policy. Thus, we retain the BUY recommendation. We have shifted to a 1-year target price from the earlier 2-year. As we enter 2HFY22, instead of rolling forward our valuation, we maintain it based on FY24E earnings and shift to a 1-year target price of Rs2,120.

Key Financials

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	9,07,910	10,04,730	12,01,936	13,77,437	15,47,858
EBIT	1,93,740	2,46,220	2,88,673	3,34,433	3,82,846
PAT	1,65,950	1,93,410	2,33,099	2,72,469	3,12,228
Diluted EPS (Rs)	39.0	45.4	55.3	64.7	74.2
P/E (x)	43.8	37.6	30.9	26.4	23.0
EV / EBITDA (x)	34.0	27.3	23.2	20.5	18.4
RoE (%)	25.4	27.1	30.8	34.0	33.7
Dividend Yield (%)	2.6	1.4	1.0	1.6	2.0

Source: RSec Research

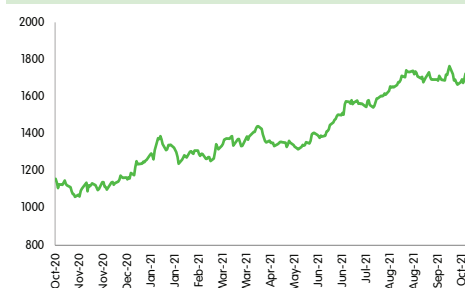
Please refer to the last page for change in rating guideline and time horizon for target price.

Recos/View	Old	Revised	Change
Recos	BUY	BUY	↔
Price Target (Rs)	1,920	2,120	↑
↑ Upgrade ↔ Maintain ↓ Downgrade			

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	1.1	16.7	50.0
Relative to Nifty	(3.4)	1.8	(1.8)

Change of Estimates (% change)	FY22E	FY23E	FY24E
Net revenues	1.8	2.6	3.0
EBIT	0.2	2.5	3.5
Net Profit	(0.7)	1.7	3.0
EPS (Rs)	(0.1)	2.4	3.9

1 Year Stock Price Performance



Note: * CMP as on October 13, 2021

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Quarterly Performance

YE March (Rs mn)	2QFY22	2QFY21	YoY (%)	1QFY22	QoQ (%)	RSec - Est	Deviation from our est. (%)
Revenue (US\$mn)	3,998	3,312	20.7	3,782	5.7	3,956	1.1
Revenue	2,96,020	2,45,700	20.5	2,78,960	6.1	2,92,742	1.1
EBIT	69,720	62,280	11.9	66,030	5.6	64,984	7.3
Net income	54,210	48,350	12.1	51,950	4.4	52,090	4.1
Diluted EPS (Rs)	12.9	11.4	13.0	12.2	5.2	12.3	4.9
Margin Analysis (%)		Change in BPS		Change in BPS			
EBIT	23.6	25.3	(180)	23.7	(12)	22.2	140
Net Income	18.3	19.7	(137)	18.6	(31)	17.8	50

Source: Company, RSec Research

Conference Call – Key Takeaways

- ▶ Revenue growth during the quarter was at 6.3%/19.4% QoQ/YoY in constant currency. This was 11 years of fastest quarterly YoY growth.
- ▶ The company recorded a broad-based double-digit growth across geographies and verticals. The largest sector, financial services, grew by 20.5% YoY, followed by manufacturing (42.5% YoY), retail (17.2% YoY) and life sciences (26.1% YoY). In terms of geographies, North America grew by 23.1% YoY, followed by Europe at 19.6% YoY.
- ▶ Digital business grew by 42% and is now 56% of the revenue. Within digital, cloud is growing faster and Cobalt cloud capabilities are resonating well with clients.
- ▶ The company recorded 22 large new deals (more than US\$50mn) totaling to US\$2.15bn. Of the total deals, 5 each were from financial services and energy & utility vertical, 3 each were from retail and manufacturing and one each from life sciences and other verticals. Region-wise, 15 deals were from Americas, 6 were from Europe and 1 from RoW. The share of new deals in 2QFY22 is at 37%.
- ▶ Voluntary LTM attrition in IT services stood at 20.1%, compared to 13.9% in 1QFY22. Management expects the high attrition to ease in the next couple of quarters. Utilization rose to 89.3%. During 2QFY22, INFO added a net work force of ~11.6k employees. It targets to hire 45k (vs. the earlier target of 35k) graduates over FY22.
- ▶ INFO reported 2QFY22 EBIT margin at 23.6% (10bps QoQ), as operating efficiencies (80bps), lower SG&A cost (50bps) and Fx gain (20bps), which largely offset the wage inflation (110bps) and a rise in sub-contractor cost (50bps).
- ▶ The company raised FY22 revenue growth guidance to 16.5-17.5% in CC terms vs. the prior 14-16%. Additionally, it retained the EBIT margin guidance of 22-24%.

Key Risks

- ▶ Aggressive technology spending cuts by the large US banks
- ▶ Increased competitive intensity driven by IT players, SaaS companies and Hyperscalers
- ▶ Stricter immigration laws may delay project ramp-up and completion
- ▶ Lower-than-expected success of continued cost efficiency projects
- ▶ Unfavourable currency movement

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Estimate Change & Revision in Target Price

We raised our revenue estimates by 1.2-3% over FY22E driven by consistent deal wins. Additionally, we expect slight moderation in FY22E EBIT margin driven by higher attrition and accelerated hiring. We raise our FY22E-FY24E EPS estimates by (0.1)-3.9% driven by improved revenue growth profile, updated fx, reduced share count (compared to our March-21 note) and higher other income. We believe the stock deserves a rerating, considering the industry-leading double-digit revenue growth, rising share of digital business (56% of revenue), elevated EBIT margin levels vs. pre-Covid levels and a consistent capital allocation policy. Thus, we retain the BUY recommendation. We have shifted to a 1-year target price from the earlier 2-year. As we enter 2HFY22, instead of rolling forward our valuation, we maintain it based on FY24E earnings and shift to a 1-year target price of Rs2,120.

Revised vs. Old Estimates

Y/E Mar	FY22E			FY23E			FY24E		
(Rs mn)	Old	Revised	Change (%)	Old	Revised	Change (%)	Old	Revised	Change (%)
Revenue (US\$mn)	15,949.0	16,139.4	1.2	17,904.0	18,365.8	2.6	19,781.0	20,366.6	3.0
Revenue	11,80,257	12,01,936	1.8	13,42,789	13,77,437	2.6	15,03,340	15,47,858	3.0
EBIT	2,88,008	2,88,673	0.2	3,26,138	3,34,433	2.5	3,69,828	3,82,846	3.5
EBIT Margin (%)	24.4	24.0	(40)bps	24.3	24.3	0bps	24.6	24.7	10bps
Reported Net Profit	2,34,771	2,33,099	(0.7)	2,68,005	2,72,469	1.7	3,02,999	3,12,228	3.0
Net Profit Margin (%)	19.9	19.4	(50)bps	20.0	19.8	(20)bps	20.2	20.2	0bps
EPS	55.3	55.3	(0.1)	63.2	64.7	2.4	71.4	74.2	3.9

Source: RSec Research

ESG Analysis

While analyzing 20 key criteria (10 points each) under ESG Matrix, we have assigned an overall score of 83% to Infosys. Under **"Environmental Head"**, we have assigned 86% score, as the company has already achieved carbon neutral status. Under **"Social Head"**, we have assigned 81% score, as the company scores high on customer satisfaction, gender diversity and CSR spend. Under **"Governance Head"**, we have assigned 81% score in light of high score due to no political contribution and independent audit committee

For detailed report on our ESG analysis of INFY, please click here ([please refer to page no.59 for detailed ESG analysis](#)).

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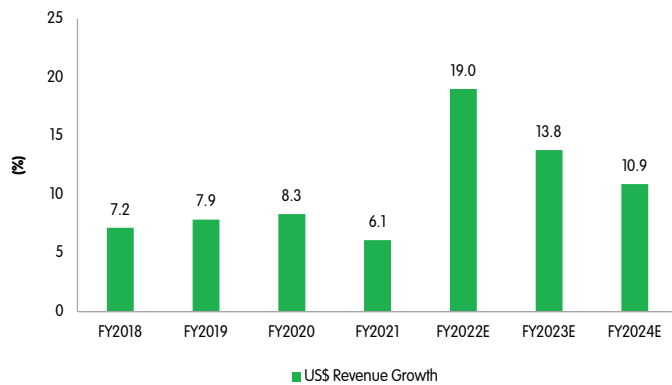
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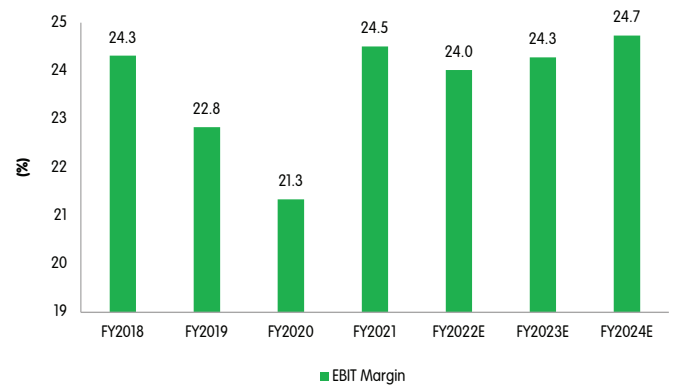


Target Price: Rs2,120

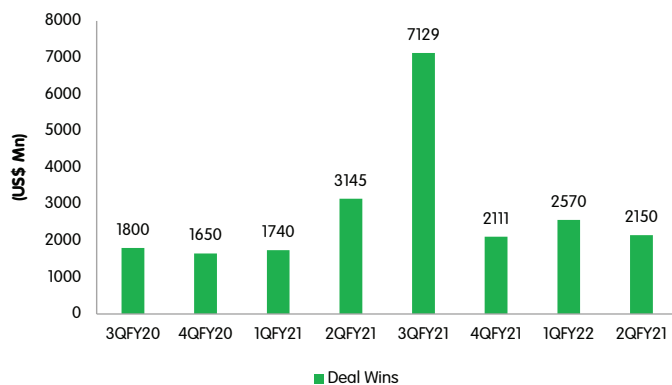
Key Charts

Exhibit 1: US\$ Revenue Growth


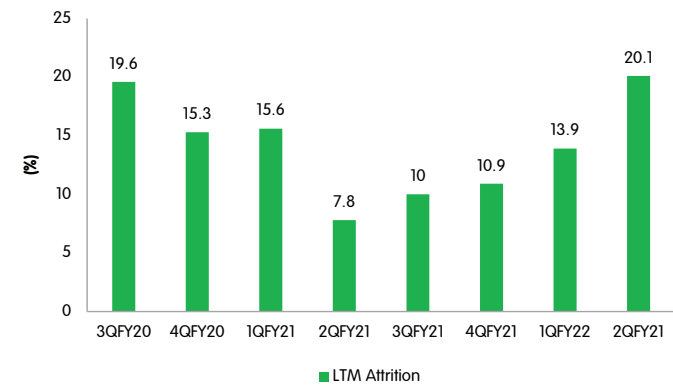
Source: Company, RSec Research

Exhibit 2: EBIT Margin


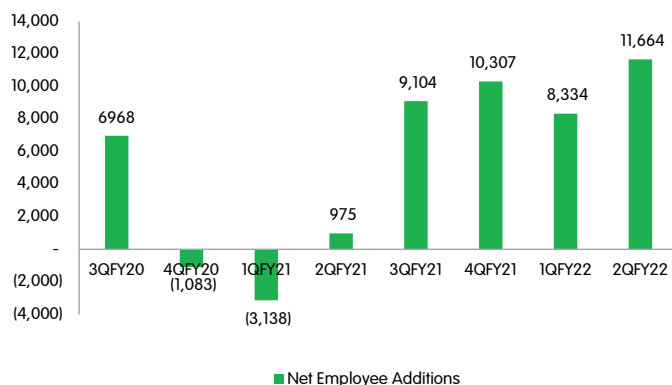
Source: Company, RSec Research

Exhibit 3: Deal Wins


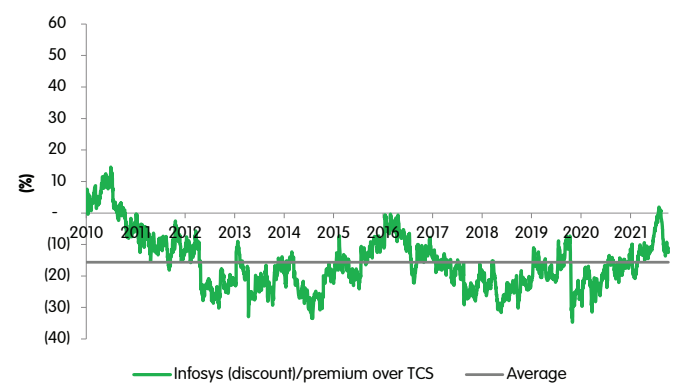
Source: Company, RSec Research

Exhibit 4: LTM Attrition


Source: Company, RSec Research

Exhibit 5: Net Employee addition


Source: Company, RSec Research

Exhibit 6: Infosys (discount)/premium over TCS


Source: Company, RSec Research; Bloomberg

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Profit & Loss Statement

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net Revenues (US\$ mn)	12,781.0	13,562.0	16,139.4	18,365.8	20,366.6
Growth (%)	8.3	6.1	19.0	13.8	10.9
Net Revenues	9,07,910	10,04,730	12,01,936	13,77,437	15,47,858
Growth (%)	9.8	10.7	19.6	14.6	12.4
Employee Costs & Other expenses	5,78,380	6,21,470	7,63,403	8,73,174	9,81,584
SG&A and Other Operating Expenses	47,120	46,270	50,514	54,342	57,977
EBITDA	2,22,680	2,78,900	3,23,085	3,70,029	4,18,522
EBITDA (%)	24.5	27.8	26.9	26.9	27.0
EBITDA Growth (%)	6.6	25.2	15.8	14.5	13.1
D&A	28,940	32,680	34,412	35,596	35,676
EBIT	1,93,740	2,46,220	2,88,673	3,34,433	3,82,846
EBIT (%)	21.3	24.5	24.0	24.3	24.7
EBIT Growth (%)	2.6	27.1	17.2	15.9	14.5
Other Income	26,340	19,960	25,856	29,178	33,777
PBT	2,20,080	2,66,180	3,14,530	3,63,611	4,16,624
Tax (incl deferred)	53,680	72,050	81,181	90,903	1,04,156
Exceptional	-	-	-	-	-
Minorities	450	720	250	240	240
PAT	1,65,950	1,93,410	2,33,099	2,72,469	3,12,228
PAT Growth (%)	7.7	16.5	20.5	16.9	14.6
EPS	39.0	45.4	55.3	64.7	74.2
EPS Growth (%)	10.0	16.6	21.5	17.1	14.6

Balance Sheet

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
SOURCES OF FUNDS					
Share Capital - Equity	21,220	21,240	2,097	2,097	2,097
Reserves & other	6,33,280	7,46,580	7,44,120	8,56,607	9,92,012
Total Shareholders' Funds	6,54,500	7,67,820	7,46,217	8,58,704	9,94,109
Total Current Liabilities	2,08,560	2,29,887	2,75,993	3,16,209	3,55,350
Total Debt	60,680	77,390	78,740	74,740	70,740
Minority Interest	450	720	250	240	240
TOTAL SOURCES OF FUNDS	9,27,680	10,79,757	11,05,861	12,54,802	14,25,588
APPLICATION OF FUNDS					
Fixed Assets	2,47,430	3,02,040	2,84,998	2,85,402	2,89,726
Other Long term assets	1,34,490	1,74,490	1,74,490	1,74,490	1,74,490
Total Non Current Assets	3,81,920	4,76,530	4,59,488	4,59,892	4,64,216
Accounts Receivable	1,84,870	1,89,935	2,27,215	2,60,392	2,92,609
Cash & Bank	2,33,040	2,70,560	2,24,087	3,13,652	4,22,652
Other Current Assets	1,27,850	1,42,732	1,95,070	2,20,866	2,46,111
Total Current Assets	5,45,760	6,03,227	6,46,372	7,94,910	9,61,372
TOTAL APPLICATION OF FUNDS	9,27,680	10,79,757	11,05,861	12,54,802	14,25,588

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Cash Flow Statement

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT	2,20,070	2,66,180	3,14,530	3,63,611	4,16,624
Non-operating & EO items	(9,800)	(720)	(250)	(240)	(240)
Depreciation	28,930	32,680	34,412	35,596	35,676
Working Capital Change	(23,670)	6,040	(43,263)	(18,517)	(18,081)
Income Tax paid	45,500	72,050	81,181	90,903	1,04,156
Cash Flow from Operations (a)	1,70,030	2,32,130	2,24,248	2,89,548	3,29,823
Capex	(33,070)	(87,290)	(17,370)	(36,000)	(40,000)
Other	19,290	(40,000)	-	-	-
Change in Investments	11,390	-	-	-	-
Cash Flow from Investing (b)	(2,390)	(1,27,290)	(17,370)	(36,000)	(40,000)
Debt Issuance/(Repaid)	(5,710)	-	-	-	-
Buyback/Dividend/Others	(1,70,200)	(63,380)	(2,53,351)	(1,63,982)	(1,80,823)
Cash Flow from Financing (c)	(1,75,910)	(63,380)	(2,53,351)	(1,63,982)	(1,80,823)
NET CASH FLOW (a+b+c)	(8,270)	41,460	(46,473)	89,565	1,09,000
Free Cash Flow	1,36,960	1,44,840	2,06,878	2,53,548	2,89,823

Key Ratio

Y/E Mar	FY20	FY21	FY22E	FY23E	FY24E
Profitability (%)					
EBITDA Margin	24.5	27.8	26.9	26.9	27.0
EBIT Margin	21.3	24.5	24.0	24.3	24.7
APAT Margin	18.3	19.2	19.4	19.8	20.2
RoE	25.4	27.1	30.8	34.0	33.7
RoCE	24.1	24.8	27.9	31.0	31.2
RoA	18.7	19.3	21.3	23.1	23.3
Efficiency					
Tax Rate (%)	24.4	27.1	25.8	25.0	25.0
Debtors (days)	74	69	69	69	69
Payables (days)	18	18	18	18	18
FCF/Ni (%)	82.5	74.9	88.8	93.1	92.8
Net Debt/EBITDA (x)	(0.8)	(0.7)	(0.4)	(0.6)	(0.8)
Net Debt/Equity (x)	(0.3)	(0.3)	(0.2)	(0.3)	(0.4)
Per Share Data (Rs)					
EPS	38.9	45.4	55.1	64.6	74.0
DPS	17.5	26.9	34.9	38.0	42.0
BVPS	150.4	180.2	171.5	197.3	228.4
FCF	31.5	33.3	47.5	58.3	66.6
Valuations (x)					
P/E	43.8	37.6	30.9	26.4	23.0
P/BV	11.0	9.5	9.7	8.4	7.2
EV/EBITDA	34.0	27.3	23.2	20.5	18.4
FCF/EV (%)	1.8	1.9	2.8	3.3	3.8
FCF/mkt cap (%)	1.9	2.0	2.9	3.5	4.0
Dividend Yield (%)	1.0	1.6	2.0	2.2	2.5

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Change in Ratings

We have changed our rating system and included **HOLD** recommendation. We have **BUY, HOLD and SELL** recommendation now.

We have also shifted to **1-Year Target Price** from **2-Year Target Price**.

Rating History

Date	Reco	CMP	TP
31-Mar-21	BUY	1,387	1,920

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Rating	Expected absolute returns (%) over 12 months
BUY	≥10%
HOLD	0% to <10%
SELL	<0%

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