

BUY

TP: Rs 1,760 | ▲ 17%

INFOSYS

Technology & Internet

28 February 2023

Private 5G-as-a-Service to see multiyear tailwinds

- Private 5G expected to be a key enabler for the digital transformation of enterprises
- Use of MEC reduces network lag and enables ultra-reliable connectivity – ideal for high-bandwidth IIoT applications
- INFO well placed to leverage its global 5G expertise to deliver agile, secure and cost-effective private 5G as-a-Service

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Private 5G a boon for high-bandwidth enterprises: The rollout of private 5G-as-a-Service incorporates multi-access edge computing (MEC), which reduces network lag by minimising the time required for data processing. This enables highly reliable network operations for high-bandwidth enterprise use-cases such as remote-guided vehicles, drone-based real-time analytics, high-definition media & video analytics, metaverse solutions, and a variety of Internet of Things (IoT)/ Industrial IoT (IIoT) applications.

Global private 5G market to grow at ~50% over 2022-30E: According to NTT/ Grand View Research, the global private 5G network market was valued at US\$ 1.5bn in 2022 and is likely to expand at a 49% CAGR over 2022-30, fuelled by the growing need for ultra-reliable low-latency connectivity for IIoT applications, including collaborative robots, industrial cameras, and industrial sensors. As per industry estimates, the market for private 5G services in India is likely to be in the region of US\$ 570mn by 2026. Various reports suggest that the software expense will increase materially as compared to hardware and services over the next decade.

INFO ideally positioned to tap demand: INFO's collaboration with its partner ecosystem offers reduced time-to-market and a lower total cost of ownership for private 5G rollout to clients. Enterprises see private 5G as an enabler for their digital transformation, wherein INFO offers vertically aligned pre-integrated business solutions that target faster value realisation for customers. We believe the company is well placed to leverage its global 5G expertise to deliver reliable, secure, and cost-effective private 5G-as-a-Service, using an agile delivery approach.

Maintain BUY: The stock is trading at 20.7x/17.6x FY24E/FY25E EPS. Despite INFO's cautious outlook on a few verticals, we believe its strength in managing the twin journeys of digital transformation (Cobalt) and cost takeout will drive growth leadership. We retain BUY and continue to value the stock at 20.5x FY25E EPS, translating to an unchanged TP of Rs 1,760.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	INFO IN/Rs 1,509
Market cap	US\$ 76.7bn
Free float	3,319%
3M ADV	US\$ 109.9mn
52wk high/low	Rs 1,923/Rs 1,355
Promoter/FPI/DII	15%/36%/49%

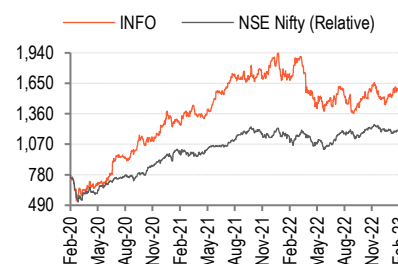
Source: NSE | Price as of 27 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	12,16,410	14,93,753	17,29,592
EBITDA (Rs mn)	3,14,820	3,57,354	4,39,059
Adj. net profit (Rs mn)	2,21,210	2,47,056	3,07,276
Adj. EPS (Rs)	52.8	58.7	73.0
Consensus EPS (Rs)	52.8	59.5	66.3
Adj. ROAE (%)	29.0	30.6	33.5
Adj. P/E (x)	28.6	25.7	20.7
EV/EBITDA (x)	19.5	17.2	14.0
Adj. EPS growth (%)	15.9	11.3	24.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	10,04,730	12,16,410	14,93,753	17,29,592	19,71,116
EBITDA	2,79,350	3,14,820	3,57,354	4,39,059	5,02,757
Depreciation	32,680	34,770	39,015	45,520	38,178
EBIT	2,46,670	2,80,050	3,18,339	3,93,539	4,64,578
Net interest inc./(exp.)	16,150	16,570	17,227	19,079	20,271
Other inc./(exp.)	19,960	21,050	20,547	21,699	23,511
Exceptional items	0	0	0	0	0
EBT	2,66,630	3,01,100	3,38,886	4,15,238	4,88,090
Income taxes	72,050	79,640	91,830	1,07,962	1,26,903
Extraordinary items	0	0	0	0	1
Min. int./Inc. from assoc.	590	250	0	0	0
Reported net profit	1,93,990	2,21,210	2,47,056	3,07,276	3,61,186
Adjustments	0	0	0	0	1
Adjusted net profit	1,93,990	2,21,210	2,47,056	3,07,276	3,61,187

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	0	0	0	0	1
Other current liabilities	3,08,910	4,11,740	4,29,710	4,50,168	4,86,028
Provisions	7,130	9,750	10,231	11,847	13,501
Debt funds	0	0	0	0	1
Other liabilities	0	0	0	0	0
Equity capital	21,240	20,980	20,980	20,980	20,980
Reserves & surplus	7,46,580	7,36,370	8,34,760	9,57,133	11,00,975
Shareholders' fund	7,67,820	7,57,350	8,55,740	9,78,113	11,21,955
Total liab. and equities	10,83,860	11,78,840	12,95,681	14,40,127	16,21,486
Cash and cash eq.	2,47,140	1,74,720	2,64,334	3,86,644	5,44,225
Accounts receivables	1,92,940	2,26,980	2,37,363	2,46,408	2,48,415
Inventories	0	0	0	0	0
Other current assets	75,270	1,15,680	1,18,682	1,23,204	1,24,207
Investments	1,47,990	2,12,640	2,12,640	2,12,640	2,12,640
Net fixed assets	2,65,680	2,63,040	2,74,025	2,78,505	2,90,327
CWIP	47,940	48,230	48,230	48,230	48,230
Intangible assets	0	0	0	0	1
Deferred tax assets, net	10,980	12,660	12,660	12,660	12,660
Other assets	1,43,860	1,73,120	1,75,976	1,80,067	1,89,011
Total assets	10,83,860	11,78,840	12,95,681	14,40,127	16,21,485

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	2,27,791	1,00,360	2,67,733	3,35,514	4,01,415
Capital expenditures	(41,570)	(21,610)	(50,000)	(50,000)	(50,000)
Change in investments	(28,798)	(42,580)	0	0	0
Other investing cash flows	19,960	18,980	20,547	21,699	23,511
Cash flow from investing	(50,408)	(45,210)	(29,453)	(28,301)	(26,489)
Equities issued/Others	0	210	0	0	0
Debt raised/repaid	0	0	0	0	1
Interest expenses	0	(1,260)	0	0	0
Dividends paid	(1,16,733)	(1,26,520)	(1,48,666)	(1,84,903)	(2,17,344)
Other financing cash flows	0	0	0	0	1
Cash flow from financing	(1,16,733)	(1,27,570)	(1,48,666)	(1,84,903)	(2,17,342)
Chg in cash & cash eq.	60,650	(72,420)	89,614	1,22,310	1,57,584
Closing cash & cash eq.	2,47,140	1,74,720	2,64,334	3,86,644	5,44,225

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	45.5	52.8	58.7	73.0	85.8
Adjusted EPS	45.5	52.8	58.7	73.0	85.8
Dividend per share	22.8	26.3	29.4	36.5	42.9
Book value per share	180.2	179.9	203.3	232.4	266.5

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	6.1	5.0	4.1	3.5	3.1
EV/EBITDA	22.1	19.5	17.2	14.0	12.0
Adjusted P/E	33.2	28.6	25.7	20.7	17.6
P/BV	8.4	8.4	7.4	6.5	5.7

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	72.8	73.5	72.9	74.0	74.0
Interest burden (PBT/EBIT)	108.1	107.5	106.5	105.5	105.1
EBIT margin (EBIT/Revenue)	24.6	23.0	21.3	22.8	23.6
Asset turnover (Rev./Avg TA)	99.9	107.5	120.7	126.4	128.8
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.5	1.5	1.5
Adjusted ROAE	27.2	29.0	30.6	33.5	34.4

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	10.7	21.1	22.8	15.8	14.0
EBITDA	25.4	12.7	13.5	22.9	14.5
Adjusted EPS	16.7	15.9	11.3	24.4	17.5

Profitability & Return ratios (%)

EBITDA margin	27.8	25.9	23.9	25.4	25.5
EBIT margin	24.6	23.0	21.3	22.8	23.6
Adjusted profit margin	19.3	18.2	16.5	17.8	18.3
Adjusted ROAE	27.2	29.0	30.6	33.5	34.4
ROCE	36.3	37.3	39.5	40.6	41.2

Working capital days (days)

Receivables	69	63	57	51	46
Inventory	0	0	0	0	0
Payables	144	146	135	124	116

Ratios (x)

Gross asset turnover	3.9	4.6	5.6	6.3	6.9
Current ratio	2.1	1.6	1.8	2.0	2.2
Net interest coverage ratio	15.3	16.9	18.5	20.6	22.9
Adjusted debt/equity	(0.3)	(0.2)	(0.3)	(0.4)	(0.5)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

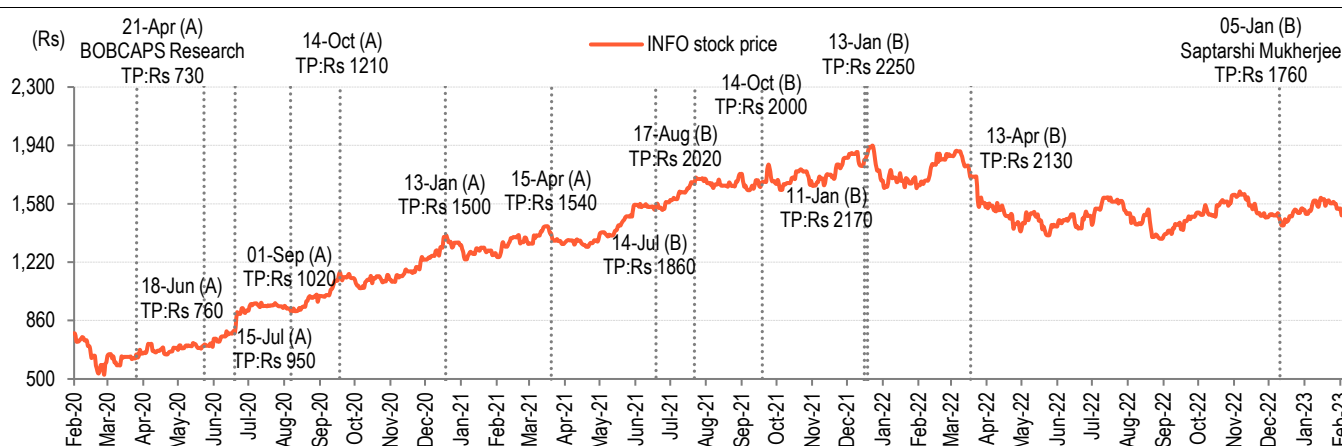
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): INFOSYS (INFO IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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