

BUY

TP: Rs 1,860 | ▲ 18%

INFOSYS

| IT Services

| 14 July 2021

Strong start to FY22 fortifies growth leadership; upgrade to BUY

- INFO's Q1FY22 revenue growth of 4.8% CC QoQ outperformed our estimate of 3.8% CC and street expectations of 3.8% USD
- Decade-high first quarter QoQ growth indicates secular strong demand. FY22 margin guidance of 22-24% looks robust given supply pressures
- We revise FY22/FY23 EPS -4%/+3%, raise target P/E to 29.6x (at par with TCS) and roll to a Jun'22 TP of Rs 1,860 (vs. Rs 1,540). Upgrade to BUY

Ruchi Burde | Seema Nayak
researchreport@bobcaps.in

Revenue growth surprises: INFO grew 4.7% USD/4.8% CC QoQ in Q1FY22, ahead of our estimates of 4% USD/3.8% CC and marking the best Q1 uptick in the last decade. Growth was broad-based across verticals, geographies and services. Hi-tech and communications led with 7.3%/6.4% QoQ USD growth. Covid-affected verticals of manufacturing/retail/ENU saw robust recovery, rising 5.8%/6.1%/3%. Manufacturing continued to pick up with Q1 being the third quarter of 5%+ QoQ USD growth.

Geography-wise, North America was in the lead, growing 4.8% QoQ. Digital business increased 9.6% QoQ. EBIT margin at 23.7% (est. 22.5%) fell 80bps QoQ owing to compensation hikes. Subcontracting expenses shot up to 8.8% of revenue (from 7.5% in Q4FY21) as demand increased. Travel expenses were stable QoQ.

Healthy deal wins: Deal win TCV at US\$ 2.6bn increased 24% QoQ and 49% YoY. INFO bagged 22 large contracts in Q1: (1) 9 in BFSI, (2) 4 each in retail and energy & utilities, (3) 2 in manufacturing, and (4) 1 each in hi-tech, communication and life sciences. Geography-wise, 14 large deals came from North America, 5 from Europe, 2 from RoW and 1 from India. Net new deals made up 30% of TCV vs. 67% in FY21.

Guidance raised: Backed by the head start in Q1FY22, INFO raised FY22 revenue growth guidance from 12-14% to 14-16%, signaling a broad-based demand pick-up and its ability to gain market share. EBIT margin guidance stays at 22-24%.

Supply pressure remains a concern: Management expects attrition to stay elevated for the next couple of quarters due to the shortage of digital talent. INFO will also be giving another round of wage hikes in Q2FY22 (post one cycle in Q4FY21). Amid the sharp rise in demand for digital talent, the company aims to hire 35,000 freshers globally in FY22 (vs. 25,000 earlier). It added ~8,300 employees (net) in Q1. As expected, attrition shot up to 13.9% (vs. 10.9% in Q4FY21), indicating supply pressure.

Upgrade to BUY: The Q1FY22 revenue beat represents a strong start to the year and will fortify INFO's growth leadership amongst large Indian IT services players. We upgrade our rating from ADD to BUY with a revised Jun'22 TP of Rs 1,860.

Key changes

Target	Rating
▲	▲

Ticker/Price	INFO IN/Rs 1,577
Market cap	US\$ 90.0bn
Free float	3,319%
3M ADV	US\$ 122.0mn
52wk high/low	Rs 1,591/Rs 795
Promoter/FPI/DII	13%/33%/54%

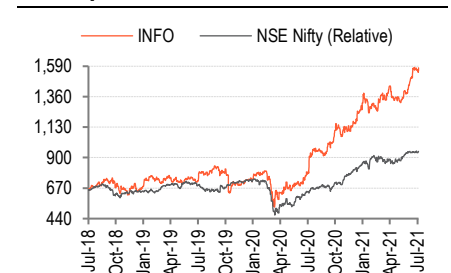
Source: NSE | Price as of 14 Jul 2021

Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	1,004,730	1,199,373	1,387,005
EBITDA (Rs mn)	279,350	313,806	364,265
Adj. net profit (Rs mn)	193,990	227,918	257,274
Adj. EPS (Rs)	45.5	54.1	61.1
Consensus EPS (Rs)	45.5	52.8	59.5
Adj. ROAE (%)	27.2	29.7	31.5
Adj. P/E (x)	34.6	29.1	25.8
EV/EBITDA (x)	23.4	20.7	18.0
Adj. EPS growth (%)	16.7	19.0	12.9

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Earnings call highlights

- INFO's Q1FY22 EBIT margin declined 80bps QoQ due to (1) a 50bps impact from increased subcontracting cost, and (2) a 70-80bps impact from employee hiring and retention. This was partially offset by tailwinds of (1) 10bps from cross-currency movement and (2) 40bps from improved utilisation.
- The company started a share buyback program through the open market route from Jun'21 and has repurchased 9.8mn shares worth Rs 15.4bn or 16.8% of the total authorised value of Rs 92bn at an average price of ~Rs 1,569/sh (compared to the maximum buyback price of Rs 1,750/sh).
- Cloud computing remains one of the broader demand themes, along with customer experience and legacy transformation.
- There has been steady improvement in demand from the government sector.
- DSO improved by 1 day QoQ to 70.

Fig 1 – Quarterly performance

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
Revenues (US\$ mn)	3,782	3,121	21.2	3,613	4.7	13,828	12,781	8.2
Revenue	278,960	236,650	17.9	263,110	6.0	1,024,420	907,910	12.8
Operating Expenditure	204,640	175,180	16.8	190,400	7.5	744,900	685,230	8.7
Cost of revenues	176,770	149,370	18.3	163,330	8.2	638,630	578,380	10.4
as % of sales	63.4	63.1	-	62.1	-	62.3	63.7	-
SG&A expenses	27,870	25,810	8.0	27,070	3.0	106,270	106,850	(0.5)
as % of sales	10.0	10.9	-	10.3	-	10.4	11.8	-
EBITDA	74,320	61,470	20.9	72,710	2.2	279,520	222,680	25.5
Depreciation	8,290	7,560	9.7	8,310	(0.2)	32,710	28,930	13.1
EBIT	66,030	53,910	22.5	64,400	2.5	246,810	193,750	27.4
Other Income	6,220	4,750	-	5,450	-	20,060	26,330	(23.8)
PBT	72,250	58,660	23.2	69,850	3.4	226,750	220,070	3.0
Total Tax	19,750	15,200	29.9	18,570	6.4	72,440	53,680	34.9
Adjusted PAT	52,500	43,460	20.8	51,280	2.4	194,230	166,390	16.7
(Profit)/loss from JV's/Ass/MI	20	0	-	180	-	720	450	-
APAT after MI	52,480	43,460	20.8	51,100	2.7	193,510	165,940	16.6
Reported EPS	12.3	10.0	23.8	11.9	3.6	46	39	17.3
Margins (%)			(bps)		(bps)			(bps)
EBITDA	26.6	26.0	67	27.6	(99)	27.3	24.5	276
EBIT	23.7	22.8	89	24.5	(81)	24.1	21.3	275
EBT	25.9	24.8	111	26.5	(65)	22.1	24.2	(210)
PAT	18.8	18.4	45	19.4	(61)	18.9	18.3	61
Effective Tax rate	27.3	25.9	142.4	26.6	75	31.9	24.4	755

Source: Company, BOBCAPS Research

Fig 2 – Operating metrics

(US\$ terms)	Q1FY22	Growth	
	(% Contr. to Revenue)	QoQ (%)	YoY (%)
TCV of deal wins (US\$ mn)	2,600	23.8	49.4
Digital Revenues	53.9	9.6	46.8
Revenue by Geography			
North America	61.7	4.8	21.6
Europe	24.2	3.8	22.2
India	2.9	1.2	21.2
ROW	11.2	6.6	17.0
Revenue by Industry Group			
BFSI	33.0	4.7	26.9
Retail	15.0	6.1	27.1
Communications	12.2	6.4	10.3
Energy, Utilities, Resources and Services	12.1	3.0	14.6
Manufacturing	9.7	5.8	23.7
Hi Tech	8.3	7.3	15.6
Life Sciences	6.8	4.7	23.0
Others	2.9	(10.7)	13.4
Client Concentration			
Top 10 Clients	18.8	7.5	18.0
Non-Top 10 Clients	81.2	4.0	21.9
	Q1FY22	Q4FY21	Q1FY21
Onsite-Offshore Effort Split			
Onsite	24.1	24.3	28.0
Offshore	75.9	75.7	72.0
Utilisation (IT Services and Consulting)			
Including trainees	83.3	82.2	78.2
Excluding trainees	88.5	87.7	81.2

Source: Company, BOBCAPS Research

Valuation methodology

We adjust our FY22/FY23 EPS estimates by -3.6%/+2.6% to factor in the Q1FY22 performance and the robust revenue and margin guidance for FY22. Rolling valuations forward, we have a revised Jun'22 TP of Rs 1,860 (Rs 1,540 earlier), set at a higher one-year forward P/E of 29.6x (26x earlier) which is at par with our target multiple for TCS. The Q1FY22 revenue beat represents a strong start to the year and will fortify INFO's growth leadership amongst large Indian IT services players (we estimate FY22 dollar revenue growth of 18% for INFO and 17% for TCS). Upgrade from ADD to BUY.

We are positive on INFO based on (1) its healthy revenue and margin performance in the last two quarters, (2) high TCV and strong deal pipeline, and (3) potential market share gains in the emerging areas of BFSI, hi-tech and life sciences as well as good recovery in Covid-affected verticals. We believe the company will emerge as a growth leader in FY22 and will be able to keep its operating margin within the guided range of 22-24% despite supply pressures.

Fig 3 – Revised estimates

(Rs mn)	FY22E			FY23E			FY24E
	Old	New	Change (%)	Old	New	Change (%)	New
Revenues (US\$ mn)	15,932	15,998	0.4	17,517	17,724	1.2	19,214
YoY revenue growth (%)	17.5	18.0	-	10.0	10.8	-	8.4
Revenues	1,213,145	1,199,373	(1.1)	1,370,786	1,387,005	1.2	1,508,297
EBIT	287,242	280,219	(2.4)	317,582	327,681	3.2	356,629
EBIT margins (%)	23.7	23.4	-	23.2	23.6	-	23.6
Net profits	236,319	227,918	(3.6)	250,737	257,274	2.6	281,854
EPS (Rs)	56.1	54.1	(3.6)	59.6	61.1	2.6	67.0

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- slower deal conversion to revenue, and
- supply pressure causing EBIT margin to fall below the guided range.

Sector recommendation snapshot

Stock	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
HCL Technologies	HCLT IN	36	989	1,190	BUY
Info Edge	INFOE IN	9	5,207	2,880	SELL
Infosys	INFO IN	90	1,577	1,860	BUY
L&T Infotech	LTI IN	10	4,215	4,710	BUY
Mindtree	MTCL IN	6	2,703	2,270	SELL
Mphasis	MPHL IN	6	2,376	1,580	SELL
Persistent Systems	PSYS IN	3	2,787	1,340	SELL
Tata Consultancy Services	TCS IN	162	3,215	3,890	BUY
Tech Mahindra	TECHM IN	13	1,079	1,190	BUY
Wipro	WPRO IN	43	562	470	ADD

Source: BOBCAPS Research, NSE | Price as of 14 Jul 2021

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21P	FY22E	FY23E	FY24E
Total revenue	907,910	1,004,730	1,199,373	1,387,005	1,508,297
EBITDA	222,680	279,350	313,806	364,265	396,077
Depreciation	28,930	32,680	33,587	36,584	39,448
EBIT	193,750	246,670	280,219	327,681	356,629
Net interest inc./(exp.)	16,120	16,150	24,253	14,749	18,672
Other inc./(exp.)	28,030	19,960	32,593	24,749	29,472
Exceptional items	0	0	0	0	0
EBT	221,780	266,630	312,812	352,430	386,101
Income taxes	53,680	72,050	84,834	95,156	104,247
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	750	590	60	0	0
Reported net profit	167,350	193,990	227,918	257,274	281,854
Adjustments	0	0	0	0	0
Adjusted net profit	167,350	193,990	227,918	257,274	281,854

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21P	FY22E	FY23E	FY24E
Accounts payables	0	0	0	0	0
Other current liabilities	263,520	308,910	253,019	292,601	318,189
Provisions	5,720	7,130	9,858	11,400	12,397
Debt funds	0	0	0	0	0
Other liabilities	0	0	0	0	0
Equity capital	21,220	21,240	21,240	21,240	21,240
Reserves & surplus	637,220	746,580	745,348	847,807	960,056
Shareholders' fund	658,440	767,820	766,588	869,047	981,296
Total liab. and equities	927,680	1,083,860	1,029,465	1,173,049	1,311,881
Cash and cash eq.	186,490	247,140	78,913	139,269	226,701
Accounts receivables	184,870	192,940	246,447	285,001	309,924
Inventories	0	0	0	0	0
Other current assets	71,210	75,270	82,149	95,000	103,308
Investments	87,920	147,990	147,990	147,990	147,990
Net fixed assets	250,530	265,680	265,829	266,807	265,040
CWIP	41,680	47,940	47,940	47,940	47,940
Intangible assets	0	0	0	0	0
Deferred tax assets, net	17,440	10,980	10,980	10,980	10,980
Other assets	129,220	143,860	197,157	228,001	247,939
Total assets	927,680	1,083,860	1,029,465	1,173,049	1,311,881

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21P	FY22E	FY23E	FY24E
Cash flow from operations	255,638	227,791	62,066	227,984	265,245
Capital expenditures	(88,220)	(41,570)	(33,736)	(37,562)	(37,680)
Change in investments	0	(28,798)	0	0	0
Other investing cash flows	28,030	19,960	32,593	24,749	29,472
Cash flow from investing	(60,190)	(50,408)	(1,144)	(12,813)	(8,208)
Equities issued/Others	(73,287)	0	(92,000)	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(100,703)	(116,733)	(137,149)	(154,814)	(169,605)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(173,990)	(116,733)	(229,149)	(154,814)	(169,605)
Chg in cash & cash eq.	21,458	60,650	(168,227)	60,357	87,431
Closing cash & cash eq.	186,490	247,140	78,913	139,269	226,701

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21P	FY22E	FY23E	FY24E
Reported EPS	39.0	45.5	54.1	61.1	67.0
Adjusted EPS	39.0	45.5	54.1	61.1	67.0
Dividend per share	19.5	22.8	27.1	30.6	33.5
Book value per share	153.5	180.2	182.1	206.5	233.1

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21P	FY22E	FY23E	FY24E
EV/Sales	7.2	6.5	5.4	4.7	4.4
EV/EBITDA	29.3	23.4	20.7	18.0	16.7
Adjusted P/E	40.4	34.6	29.1	25.8	23.5
P/BV	10.3	8.8	8.7	7.6	6.8

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21P	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	75.5	72.8	72.9	73.0	73.0
Interest burden (PBT/EBIT)	114.5	108.1	111.6	107.6	108.3
EBIT margin (EBIT/Revenue)	21.3	24.6	23.4	23.6	23.6
Asset turnover (Rev./Avg TA)	106.3	99.9	113.5	125.9	121.4
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.3	1.3
Adjusted ROAE	26.5	27.2	29.7	31.5	30.5

Ratio Analysis

Y/E 31 Mar	FY20A	FY21P	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	9.8	10.7	19.4	15.6	8.7
EBITDA	6.6	25.4	12.3	16.1	8.7
Adjusted EPS	10.3	16.7	19.0	12.9	9.6
Profitability & Return ratios (%)					
EBITDA margin	24.5	27.8	26.2	26.3	26.3
EBIT margin	21.3	24.6	23.4	23.6	23.6
Adjusted profit margin	18.4	19.3	19.0	18.5	18.7
Adjusted ROAE	26.5	27.2	29.7	31.5	30.5
ROCE	32.1	36.3	33.8	33.8	35.1
Working capital days (days)					
Receivables	65	69	67	70	72
Inventory	0	0	0	0	0
Payables	115	144	116	97	100
Ratios (x)					
Gross asset turnover	4.5	3.9	4.5	5.2	5.7
Current ratio	2.1	2.1	2.3	2.5	2.7
Net interest coverage ratio	12.0	15.3	11.6	22.2	19.1
Adjusted debt/equity	(0.3)	(0.3)	(0.1)	(0.2)	(0.2)

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

Disclaimer

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

BUY – Expected return >+15%

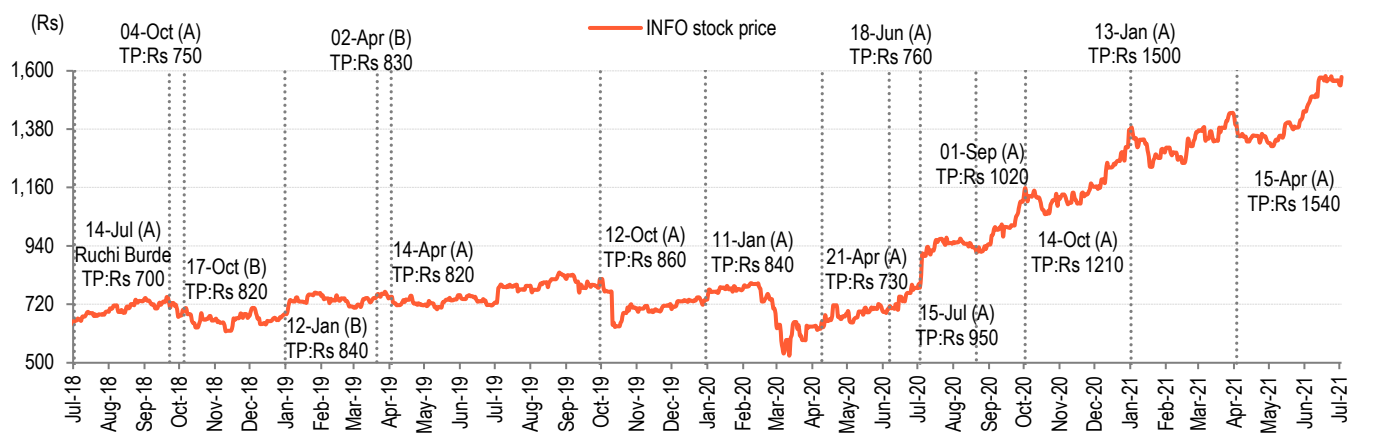
HOLD – Expected return from -6% to +15%

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

Rating distribution

As of 30 June 2021, out of 95 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 44 have BUY ratings, 7 have HOLD ratings, 17 are rated ADD*, 4 are rated REDUCE* and 23 are rated SELL. None of these companies have been investment banking clients in the last 12 months. (*Our ADD and REDUCE ratings are in the process of being migrated to the new recommendation structure.)

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation

or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.