

BUY
 TP: Rs 2,000 | ▲ 17%

INFOSYS

| Technology & Internet

| 14 October 2021

Operational beat coupled with revenue guidance upgrade

- Stellar Q2 with revenue growth at 5.7% USD QoQ vs. 4.2% estimated and resilient operating margin
- TCV modest at ~US\$ 2.2bn. FY22 revenue growth guidance raised to 16.5-17.5% YoY
- We tweak estimates and revise our TP to Rs 2,000 (vs. Rs 2,020); retain BUY

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Stellar outperformance: INFO posted Q2FY22 revenue growth of 5.7% USD QoQ vs. our estimate of 4.2%. Growth was broad-based across verticals and spearheaded by manufacturing, life-sciences and hi-tech which grew 18.8%, 10.4% and 8.3% USD QoQ respectively. TCV was modest at ~US\$ 2.15bn, down 16% QoQ. INFO bagged 22 large deals in Q2: (1) 5 each from the financial services and energy utilities verticals, (2) 3 each from retail-CPG and manufacturing, (3) 2 each from communication and hi-tech, and (4) 1 each from life-sciences and others.

EBIT margin largely stable: EBIT margin stood at 23.6% with an inconsequential dip of 12bps QoQ as headwinds from salary hikes (110bps impact), increased subcontractor costs (50bps) were offset by tailwinds from better operational efficiency (80bps impact), cross-currency movement (30bps) and lower SG&A (50bps).

Guidance upgraded: INFO upgraded its FY22 revenue growth guidance from 14-16% CC to 16.5-17.5%, signaling a strong demand environment. The guidance factors in furlough-related softness in H2FY22. Demand remains strong, especially in cloud and digital (56% of Q2 revenue) business. EBIT margin guidance was maintained at 22-24% for FY22 amid continued supply pressures. Wage revision for senior management will adversely impact operating margins in the Dec'21 quarter.

Attrition worrisome: A continuing talent crunch saw INFO's attrition surge to a six-quarter high of 20%, up a whopping 620bps QoQ. Management is taking steps to contain attrition through (1) two rounds of compensation hikes, (2) a higher number of promotions, and (3) increased employee engagement through career development initiatives.

Maintain BUY: We adjust EPS estimates marginally and revise our Sep'22 TP from Rs 2,020 to Rs 2,000, based on an unchanged one-year forward target P/E of 32x. BUY.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	INFO IN/Rs 1,709
Market cap	US\$ 96.6bn
Free float	3,319%
3M ADV	US\$ 130.1mn
52wk high/low	Rs 1,788/Rs 1,051
Promoter/FPI/DII	13%/33%/54%

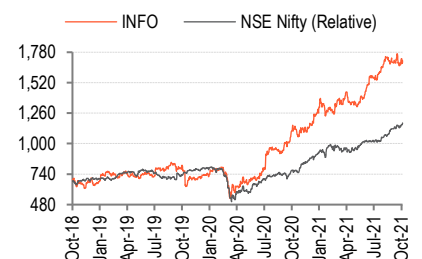
Source: NSE | Price as of 13 Oct 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	10,04,730	11,89,762	13,50,069
EBITDA (Rs mn)	2,79,350	3,15,578	3,54,563
Adj. net profit (Rs mn)	1,93,990	2,26,964	2,50,332
Adj. EPS (Rs)	45.5	53.9	59.5
Consensus EPS (Rs)	45.5	52.8	59.5
Adj. ROAE (%)	27.2	29.6	30.7
Adj. P/E (x)	37.5	31.7	28.7
EV/EBITDA (x)	25.4	22.4	20.1
Adj. EPS growth (%)	16.7	18.5	10.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	H1FY22	H1FY21	YoY (%)
Revenues (US\$ mn)	3,998	3,312	20.7	3,782	5.7	7,780	6,433	20.9
Revenue	296,020	245,700	20.5	278,960	6.1	574,980	482,350	19.2
Operating Expenditure	217,710	174,680	24.6	204,640	6.4	422,350	349,860	20.7
Cost of revenues	189,470	149,160	27.0	176,770	7.2	366,240	298,530	22.7
as % of sales	64.0	60.7	-	63.4	-	63.7	61.9	-
SG&A expenses	28,240	25,520	10.7	27,870	1.3	56,110	51,330	9.3
as % of sales	9.5	10.4	-	10.0	-	9.8	10.6	-
EBITDA	78,310	71,020	10.3	74,320	5.4	152,630	132,490	15.2
Depreciation	8,590	8,550	0.5	8,290	3.6	16,880	16,110	4.8
EBIT	69,720	62,470	11.6	66,030	5.6	135,750	116,380	16.6
Other Income	5,240	5,700	-	6,220	-	11,460	10,450	9.7
PBT	74,480	68,170	9.3	72,250	3.1	146,730	126,830	15.7
Total Tax	20,200	18,920	6.8	19,750	2.3	39,950	34,120	17.1
Adjusted PAT	54,280	49,250	10.2	52,500	3.4	106,780	92,710	15.2
(Profit)/loss from JV's/Ass/MI	70	0	-	20	-	90	0	-
APAT after MI	54,210	49,250	10.1	52,480	3.3	106,690	92,710	15.1
Reported EPS	12.9	11.4	12.5	12.3	4.4	25	21	17.8
Margins (%)			(bps)		(bps)			(bps)
EBIDTA	26.5	28.9	(245)	26.6	(19)	26.5	27.5	(92)
EBIT	23.6	25.4	(187)	23.7	(12)	23.6	24.1	(52)
EBT	25.2	27.7	(258)	25.9	(74)	25.5	26.3	(78)
PAT	18.3	20.0	(173)	18.8	(50)	18.6	19.2	(67)
Effective Tax rate	27.1	27.8	(63.3)	27.3	(21)	27.2	26.9	32

Source: Company, BOBCAPS Research

Fig 2 – Operating metrics

(US\$ terms)	Q2FY22 (% Contr. to Revenue)	Growth	
		QoQ (%)	YoY (%)
TCV of deal wins (US\$ mn)	2,150	(16.3)	(31.7)
Digital Revenues	56.1	10.0	43.2
Revenue by Geography			
North America	61.9	6.1	23.1
Europe	24.8	8.3	23.2
India	2.6	(5.2)	4.6
ROW	10.7	1.0	7.6
Revenue by Industry Group			
BFSI	32.3	3.5	21.8
Retail	14.6	2.9	18.3
Communications	12.4	7.4	18.8
Energy, Utilities, Resources and Services	11.8	3.1	15.8
Manufacturing	10.9	18.8	44.6
Hi Tech	8.5	8.3	12.8
Life Sciences	7.1	10.4	26.0
Others	2.4	(12.5)	(9.5)

(US\$ terms)	Q2FY22 (% Contr. to Revenue)	Growth	
		QoQ (%)	YoY (%)
Client Concentration			
Top 10 Clients	19.4	9.1	25.2
Non Top 10 Clients	80.6	4.9	19.7
(%)			
Onsite-Offshore Effort Split			
Onsite	23.6	24.1	28.0
Offshore	76.4	75.9	72.0
Utilisation measures (IT Services and Consulting)			
Including trainees	84.1	83.3	78.2
Excluding trainees	89.2	88.5	81.2
Attrition	20.1	13.9	7.8

Source: Company, BOBCAPS Research

Valuation methodology

We tweak our FY22-FY24 EPS estimates by -1% to 1% to factor in the Q2FY22 performance, yielding a revised Sep'22 TP of Rs 2,000 (Rs 2,020 earlier). We continue to value the stock at a one-year forward P/E of 32x, which is three standard deviations above the five-year mean and a 12% discount to our target multiple for TCS.

The Q2FY22 revenue beat represents a strong H1 and will fortify INFO's growth leadership amongst large Indian IT services players (we estimate FY22 dollar revenue growth of 17.8% for INFO and 16% for TCS). We are positive on the company 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 expect INFO to emerge as a growth leader in FY22 and believe it will deliver on operating margins within the guided range of 22-24% despite supply pressures and rising attrition. Maintain BUY.

Fig 3 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenues (US\$ mn)	15,977	17,764	19,370	15,786	17,417	18,880	1.2	2.0	2.6
YoY revenue growth (%)	17.8	11.2	9.0	16.4	10.3	8.4	-	-	-
Revenues	1,189,762	1,350,069	1,472,126	1,183,003	1,362,929	1482115	0.6	(0.9)	(0.7)
EBIT	281,664	318,079	347,321	275,964	321,359	349755	2.1	(1.0)	(0.7)
EBIT margins (%)	23.7	23.6	23.6	23.3	23.6	23.6	-	-	-
Net profits	226,964	250,332	275,367	224,812	252,771	276943	1.0	(1.0)	(0.6)
EPS (Rs)	53.9	59.5	65.4	53.4	60.1	65.8	1.0	(1.0)	(0.6)

Source: BOBCAPS Research

Fig 4 – Key assumptions

Parameter	FY21	FY22E	FY23E	FY24E
Revenues (US\$ mn)	13,562	15,977	17,764	19,370
Revenues growth YoY (%)	6.1	17.8	11.2	9.0
EBIT margins (%)	24.6	23.7	23.6	23.6

Source: Company, 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

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Affle (India)	AFFLE IN	0.4	1,154	1,240	BUY
Coforge	COFORGE IN	4.4	5,338	6,930	BUY
eClerx Services	ECLX IN	1.1	2,247	2,880	BUY
HCL Technologies	HCLT IN	45.6	1,265	1,530	BUY
IndiaMart InterMesh	INMART IN	3.8	9,480	8,430	HOLD
Infosys	INFO IN	96.6	1,709	2,000	BUY
Just Dial	JUST IN	0.8	929	1,330	BUY
L&T Infotech	LTI IN	13.9	5,951	6,780	BUY
Mindtree	MTCL IN	9.5	4,364	3,210	SELL
Mphasis	MPHL IN	7.7	3,130	3,530	HOLD
Persistent Systems	PSYS IN	4.2	4,002	3,560	HOLD
Tata Consultancy Services	TCS IN	182.0	3,655	4,630	BUY
Tech Mahindra	TECHM IN	16.2	1,402	1,660	BUY
Wipro	WPRO IN	49.3	673	630	HOLD

Source: BOBCAPS Research, NSE | Price as of 13 Oct 2021

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	9,07,910	10,04,730	11,89,762	13,50,069	14,72,126
EBITDA	2,22,680	2,79,350	3,15,578	3,54,563	3,86,578
Depreciation	28,930	32,680	33,913	36,485	39,257
EBIT	1,93,750	2,46,670	2,81,664	3,18,079	3,47,321
Net interest inc./(exp.)	16,120	16,150	21,822	14,897	19,093
Other inc./(exp.)	28,030	19,960	29,702	24,897	29,893
Exceptional items	0	0	0	0	0
EBT	2,21,780	2,66,630	3,11,366	3,42,975	3,77,215
Income taxes	53,680	72,050	84,272	92,643	1,01,848
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	750	590	130	0	0
Reported net profit	1,67,350	1,93,990	2,26,964	2,50,332	2,75,367
Adjustments	0	0	0	0	0
Adjusted net profit	1,67,350	1,93,990	2,26,964	2,50,332	2,75,367

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	0	0	0	0	0
Other current liabilities	2,63,520	3,08,910	2,50,991	2,84,809	3,10,558
Provisions	5,720	7,130	9,779	11,096	12,100
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	6,37,220	7,46,580	7,44,968	8,44,663	9,54,328
Shareholders' fund	6,58,440	7,67,820	7,66,208	8,65,903	9,75,568
Total liab. and equities	9,27,680	10,83,860	10,26,978	11,61,809	12,98,226
Cash and cash eq.	1,86,490	2,47,140	81,192	1,45,756	2,31,445
Accounts receivables	1,84,870	1,92,940	2,44,472	2,77,411	3,02,492
Inventories	0	0	0	0	0
Other current assets	71,210	75,270	81,491	92,470	1,00,831
Investments	87,920	1,47,990	1,47,990	1,47,990	1,47,990
Net fixed assets	2,50,530	2,65,680	2,65,277	2,65,272	2,62,495
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	1,29,220	1,43,860	1,95,577	2,21,929	2,41,993
Total assets	9,27,680	10,83,860	10,26,978	11,61,809	12,98,226

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	2,55,638	2,27,791	66,436	2,26,784	2,57,978
Capital expenditures	(88,220)	(41,570)	(33,510)	(36,480)	(36,480)
Change in investments	0	(28,798)	0	0	0
Other investing cash flows	28,030	19,960	29,702	24,897	29,893
Cash flow from investing	(60,190)	(50,408)	(3,808)	(11,583)	(6,587)
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	(1,00,703)	(1,16,733)	(1,36,576)	(1,50,637)	(1,65,702)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(1,73,990)	(1,16,733)	(2,28,576)	(1,50,637)	(1,65,702)
Chg in cash & cash eq.	21,458	60,650	(1,65,948)	64,564	85,690
Closing cash & cash eq.	1,86,490	2,47,140	81,192	1,45,756	2,31,445

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	39.0	45.5	53.9	59.5	65.4
Adjusted EPS	39.0	45.5	53.9	59.5	65.4
Dividend per share	19.5	22.8	27.0	29.8	32.7
Book value per share	153.5	180.2	182.0	205.7	231.8

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	7.8	7.1	5.9	5.3	4.9
EV/EBITDA	31.9	25.4	22.4	20.1	18.5
Adjusted P/E	43.8	37.5	31.7	28.7	26.1
P/BV	11.1	9.5	9.4	8.3	7.4

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	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	110.5	107.8	108.6
EBIT margin (EBIT/Revenue)	21.3	24.6	23.7	23.6	23.6
Asset turnover (Rev./Avg TA)	106.3	99.9	112.7	123.4	119.7
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.3	1.3
Adjusted ROAE	26.5	27.2	29.6	30.7	29.9

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	9.8	10.7	18.4	13.5	9.0
EBITDA	6.6	25.4	13.0	12.4	9.0
Adjusted EPS	10.3	16.7	18.5	10.3	10.0
Profitability & Return ratios (%)					
EBITDA margin	24.5	27.8	26.5	26.3	26.3
EBIT margin	21.3	24.6	23.7	23.6	23.6
Adjusted profit margin	18.4	19.3	19.1	18.5	18.7
Adjusted ROAE	26.5	27.2	29.6	30.7	29.9
ROCE	32.1	36.3	34.1	33.0	34.6
Working capital days (days)					
Receivables	65	69	67	71	72
Inventory	0	0	0	0	0
Payables	115	144	117	98	100
Ratios (x)					
Gross asset turnover	4.5	3.9	4.5	5.1	5.6
Current ratio	2.1	2.1	2.3	2.5	2.7
Net interest coverage ratio	12.0	15.3	12.9	21.4	18.2
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%

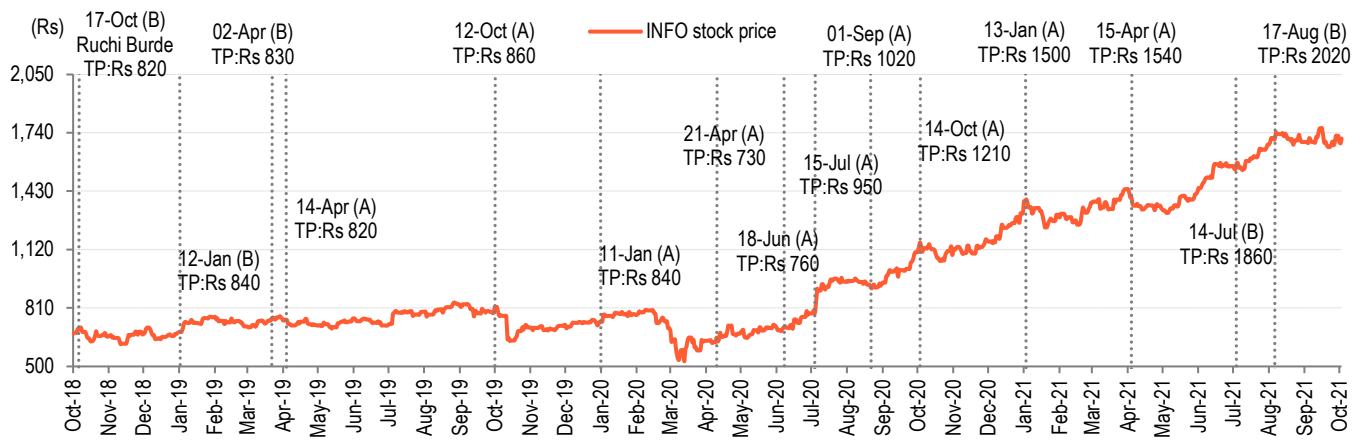
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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



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

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