

**ADD**

TP: Rs 1,500 | ▲ 8%

**INFOSYS**

| IT Services

| 13 January 2021

## Guidance upgraded on strong growth

**Infosys' (INFO) Q3FY21 dollar revenue growth of 6.2% QoQ beat our estimate of 3.5%, with the company also posting its highest-ever TCV of US\$ 7.1bn. Management upped FY21 guidance to 4.5-5% CC vs. 2-3% earlier, which indicates a lukewarm Q4FY21. We raise FY21/FY22/FY23 EPS by 3%/5%/8% and increase our target P/E from 23x to 26x (5% discount to TCS), baking in the enhanced performance, pipeline and updated guidance. On rollover, we have a new Dec'22 TP of Rs 1,500 (vs. Rs 1,210). Retain ADD.**

Ruchi Burde | Seema Nayak

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**Best Q3 since FY13:** INFO posted QoQ growth of 6.2% USD/5.3% CC, much ahead of our estimates of 3.5% USD/3.2% CC. Growth was backed by momentum across verticals, especially in life sciences/BFSI/manufacturing which were up 10.8%/9.8%/8.5% QoQ, USD. Digital revenue share breached the 50% mark. TCV stood at an all-time high of US\$ 7.13bn (incl. the largest deal win in Indian IT), up 126% QoQ and 293% YoY. Based on the strong Q3 performance, increased cloud demand and market share gains, INFO has upgraded its FY21 growth guidance from 2-3% CC to 4.5-5%. The Q4 pipeline remains healthy, especially in the telecom vertical.

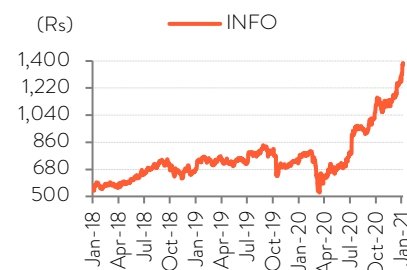
**Margin guidance raised:** EBIT margin at 25.4% was up 350bps YoY and flat QoQ, in line with our estimate of 25.6%. Salary hikes are to be rolled out from Q4FY21. Based on a low onsite mix, structurally reduced costs due to automation gains, pyramid optimisation, and low subcontractor and travel costs (97% of employees continue to work from home), management has upgraded margin guidance for FY21 to 24-24.5% from 23-24% guided in Q2FY21.

**Q4 to be lukewarm:** New FY21 growth guidance of 4.5-5% CC indicates a ~2.5% QoQ topline increase in Q4FY21. Impending salary hikes including 100% variable pay will also impact the margin, likely capping it below 24%.

Ticker/Price	INFO IN/Rs 1,387
Market cap	US\$ 82.4bn
Shares o/s	4,349mn
3M ADV	US\$ 171.5mn
52wk high/low	Rs 1,393/Rs 509
Promoter/FPI/DII	13%/35%/52%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	826,760	907,910	1,011,913	1,198,013	1,350,223
EBITDA (Rs mn)	208,890	222,680	279,641	322,238	354,579
Adj. net profit (Rs mn)	154,100	167,350	197,826	227,212	250,948
Adj. EPS (Rs)	35.4	39.0	46.4	53.3	58.9
Adj. EPS growth (%)	(4.0)	10.3	19.0	14.9	10.4
Adj. ROAE (%)	24.5	26.5	28.3	29.0	28.6
Adj. P/E (x)	39.2	35.5	29.9	26.0	23.6
EV/EBITDA (x)	27.9	26.3	20.9	18.2	16.5

Source: Company, BOBCAPS Research

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**FIG 1 – QUARTERLY PERFORMANCE**

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
<b>Revenues (US\$ mn)</b>	<b>3,516</b>	<b>3,243</b>	<b>8.4</b>	<b>3,312</b>	<b>6.2</b>
<b>Revenue</b>	<b>259,270</b>	<b>230,920</b>	<b>12.3</b>	<b>245,700</b>	<b>5.5</b>
Operating Expenditure	185,120	172,910	7.1	174,870	5.9
Cost of revenues	159,510	146,360	9.0	149,160	6.9
as % of sales	61.5	63.4	-	60.7	-
SG&A expenses	25,610	26,550	(3.5)	25,710	(0.4)
as % of sales	9.9	11.5	-	10.5	-
<b>EBITDA</b>	<b>74,150</b>	<b>58,010</b>	<b>27.8</b>	<b>70,830</b>	<b>4.7</b>
Depreciation	8,260	7,360	12.2	8,550	(3.4)
<b>EBIT</b>	<b>65,890</b>	<b>50,650</b>	<b>30.1</b>	<b>62,280</b>	<b>5.8</b>
Other Income	6,110	8,270	-	5,700	-
PBT	71,510	58,920	21.4	67,500	5.9
Total Tax	19,360	13,830	40.0	18,920	2.3
Adjusted PAT	52,150	45,090	15.7	48,580	7.3
(Profit)/loss from JV's/Ass/MI	130	0	-	130	-
APAT after MI	52,020	45,090	15.4	48,450	7.4
Extraordinary items	-	-	-	-	-
<b>Reported PAT</b>	<b>52,020</b>	<b>45,090</b>	<b>15.4</b>	<b>48,450</b>	<b>7.4</b>
Reported EPS	12.2	10.5	16.1	11.4	6.6
<b>Margins (%)</b>			<b>(bps)</b>		<b>(bps)</b>
EBITDA	28.6	25.1	348	28.8	(23)
EBIT	25.4	21.9	348	25.3	7
EBT	27.6	25.5	207	27.5	11
PAT	20.1	19.5	54	19.7	34
Effective Tax rate	27.1	23.5	360.1	28.0	(96)

Source: BOBCAPS Research

**FIG 2 – OPERATING METRICS**

(in US\$ terms)	Q3FY21 (% Contr. to Revenue)	QoQ (%)	YoY (%)
TCV of deal wins (US\$ mn)	7,130	126.3	293.3
Digital Revenues	50.1	12.4	33.8
<b>Revenue by Geography</b>			
North America	61.6	7.7	8.9
Europe	24.0	4.8	6.6
India	2.6	(8.0)	0.7
ROW	11.8	4.4	11.2
<b>Revenue by Industry Groups</b>			
BFSI	33.1	9.8	13.9
Retail	14.7	4.7	4.2
Communications	12.4	4.5	3.4
Energy, Utilities, Resources and Services	12.5	7.9	5.9
Manufacturing	9.3	8.5	(2.1)
Hi Tech	8.2	(4.3)	17.0
Life Sciences	7.1	10.8	14.9
Others	2.7	(10.4)	4.5

(in US\$ terms)	Q3FY21 (% Contr. to Revenue)	QoQ (%)	YoY (%)
<b>Client concentration</b>			
Top 10 Clients	18.5	5.0	6.1
Non-Top 10 Clients	81.5	6.4	9.0
	Q3FY21	Q2FY21	Q3FY20
<b>Onsite-Offshore Effort Split</b>			
Onsite	25.2	26.1	27.7
Offshore	74.8	73.9	72.3
<b>Utilisation (IT Services and Consulting)</b>			
Including trainees	82.3	80.6	80.4
Excluding trainees	86.3	83.6	84.4

Source: BOBCAPS Research

### Valuation methodology

We increase FY21/FY22/FY23 EPS estimates by 3%/5%/8% to factor in the above-estimated Q3FY21 performance and robust revenue and margin guidance for FY21. We have raised FY22 growth estimates as some of the large deals won in Q3FY21 will begin transitioning in Q2FY22. Rolling valuations over, we have a revised Dec'22 target price of Rs 1,500 (Rs 1,210 earlier), set at an upgraded one-year forward P/E of 26x (vs. 23x earlier) – a 5% discount to our target multiple for TCS.

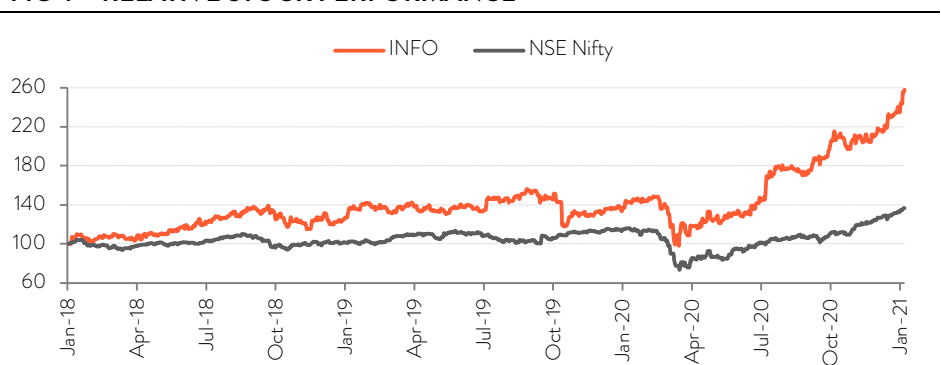
We have raised our target multiple based on (1) INFO's above-estimated Q3FY21 revenue and margins, (2) high TCV and stronger deal pipeline, and (3) possible market share gains in the emerging areas of BFSI, hi-tech and life sciences. That said, the guided 24-24.5% margin band does not appear sustainable beyond FY21, in our view. Maintain ADD.

**FIG 3 – REVISED ESTIMATES**

(Rs mn)	FY21E			FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues (US\$ mn)	13,274	13,553	2.1	14,629	15,657	7.0	16,007	17,311	8.1
YoY revenue growth	3.9	6.0	-	10.2	15.5	-	9.4	10.6	-
Revenues	1,000,614	1,011,913	1.1	1,141,036	1,198,013	5.0	1,248,535	1,350,223	8.1
EBITDA	272,750	279,641	2.5	306,794	322,238	5.0	327,875	354,579	8.1
EBITDA margins (%)	27.3	27.6	-	26.9	26.9	-	26.3	26.3	-
EBIT margins (%)	23.9	24.4	-	23.5	23.7	-	22.9	23.2	-
Net profits	192,696	197,826	2.7	215,908	227,212	5.2	231,657	250,948	8.3
EPS (Rs)	45.2	46.4	2.7	50.7	53.3	5.2	54.4	58.9	8.3

Source: BOBCAPS Research

**FIG 4 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

Downside risks to our estimates include:

- slower deal conversions to revenue,
- high deal transition costs, and
- below-expected operating margins for new engagements/renewals.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Total revenue</b>	<b>826,760</b>	<b>907,910</b>	<b>1,011,913</b>	<b>1,198,013</b>	<b>1,350,223</b>
EBITDA	208,890	222,680	279,641	322,238	354,579
Depreciation	20,100	28,930	33,134	38,086	41,381
EBIT	188,790	193,750	246,507	284,152	313,198
Net interest income/(expenses)	21,550	16,120	16,439	16,298	19,766
Other income/(expenses)	28,830	28,030	23,719	27,098	30,566
Exceptional items	(7,210)	0	0	0	0
EBT	210,410	221,780	270,226	311,249	343,764
Income taxes	56,310	53,680	72,400	84,037	92,816
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	750	0	0	0
<b>Reported net profit</b>	<b>154,100</b>	<b>167,350</b>	<b>197,826</b>	<b>227,212</b>	<b>250,948</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>154,100</b>	<b>167,350</b>	<b>197,826</b>	<b>227,212</b>	<b>250,948</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	0	0	0	0	0
Other current liabilities	168,940	263,520	213,472	252,731	284,842
Provisions	5,230	5,720	8,317	9,847	11,098
Debt funds	0	0	0	0	0
Other liabilities	0	0	0	0	0
Equity capital	21,700	21,220	21,220	21,220	21,220
Reserves & surplus	585,160	637,220	716,004	806,491	906,431
Shareholders' fund	606,860	658,440	737,224	827,711	927,651
<b>Total liabilities and equities</b>	<b>781,030</b>	<b>927,680</b>	<b>959,013</b>	<b>1,090,289</b>	<b>1,223,590</b>
Cash and cash eq.	165,060	186,490	162,814	216,166	286,686
Accounts receivables	136,990	184,870	207,927	246,167	277,443
Inventories	0	0	0	0	0
Other current assets	46,550	71,210	69,309	82,056	92,481
Investments	124,990	87,920	87,920	87,920	87,920
Net fixed assets	149,560	250,530	247,262	243,607	239,666
CWIP	0	41,680	41,680	41,680	41,680
Intangible assets	0	0	0	0	0
Deferred tax assets, net	13,000	17,440	17,440	17,440	17,440
Other assets	144,880	129,220	166,342	196,934	221,954
<b>Total assets</b>	<b>781,030</b>	<b>927,680</b>	<b>959,013</b>	<b>1,090,290</b>	<b>1,223,591</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	174,200	196,280	230,960	265,298	292,328
Interest expenses	(28,830)	(28,030)	(23,719)	(27,098)	(30,566)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	16,350	38,190	(105,729)	(40,789)	(33,361)
Other operating cash flows	(98,005)	49,198	0	0	0
<b>Cash flow from operations</b>	<b>63,715</b>	<b>255,638</b>	<b>101,512</b>	<b>197,411</b>	<b>228,402</b>
Capital expenditures	(23,650)	(88,220)	(29,866)	(34,432)	(37,440)
Change in investments	0	0	0	0	0
Other investing cash flows	28,830	28,030	23,719	27,098	30,566
<b>Cash flow from investing</b>	<b>5,180</b>	<b>(60,190)</b>	<b>(6,146)</b>	<b>(7,334)</b>	<b>(6,874)</b>
Equities issued/Others	(9,313)	(73,287)	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(92,730)	(100,703)	(119,042)	(136,725)	(151,008)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(102,043)</b>	<b>(173,990)</b>	<b>(119,042)</b>	<b>(136,725)</b>	<b>(151,008)</b>
<b>Changes in cash and cash eq.</b>	<b>(33,148)</b>	<b>21,458</b>	<b>(23,676)</b>	<b>53,352</b>	<b>70,520</b>
<b>Closing cash and cash eq.</b>	<b>165,032</b>	<b>186,490</b>	<b>162,814</b>	<b>216,166</b>	<b>286,686</b>

**Per Share**

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	35.4	39.0	46.4	53.3	58.9
Adjusted EPS	35.4	39.0	46.4	53.3	58.9
Dividend per share	21.5	19.5	23.2	26.7	29.5
Book value per share	139.3	153.5	173.0	194.2	217.7

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	7.0	6.4	5.8	4.9	4.3
EV/EBITDA	27.9	26.3	20.9	18.2	16.5
Adjusted P/E	39.2	35.5	29.9	26.0	23.6
P/BV	10.0	9.0	8.0	7.1	6.4

**DuPont Analysis**

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	73.2	75.5	73.2	73.0	73.0
Interest burden (PBT/EBIT)	111.5	114.5	109.6	109.5	109.8
EBIT margin (EBIT/Revenue)	22.8	21.3	24.4	23.7	23.2
Asset turnover (Revenue/Avg TA)	104.7	106.3	107.3	116.9	116.7
Leverage (Avg TA/Avg Equity)	1.3	1.4	1.4	1.3	1.3
Adjusted ROAE	24.5	26.5	28.3	29.0	28.6

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

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	17.2	9.8	11.5	18.4	12.7
EBITDA	9.9	6.6	25.6	15.2	10.0
Adjusted EPS	(4.0)	10.3	19.0	14.9	10.4
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	25.3	24.5	27.6	26.9	26.3
EBIT margin	22.8	21.3	24.4	23.7	23.2
Adjusted profit margin	18.6	18.4	19.5	19.0	18.6
Adjusted ROAE	24.5	26.5	28.3	29.0	28.6
ROCE	31.0	32.1	34.5	35.0	36.5
<b>Working capital days (days)</b>					
Receivables	59	65	71	69	71
Inventory	0	0	0	0	0
Payables	93	115	119	97	99
<b>Ratios (x)</b>					
Gross asset turnover	5.6	4.5	4.1	4.9	5.6
Current ratio	2.8	2.1	2.7	2.8	3.0
Net interest coverage ratio	8.8	12.0	15.0	17.4	15.8
Adjusted debt/equity	(0.3)	(0.3)	(0.2)	(0.3)	(0.3)

Source: Company, BOBCAPS Research



## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

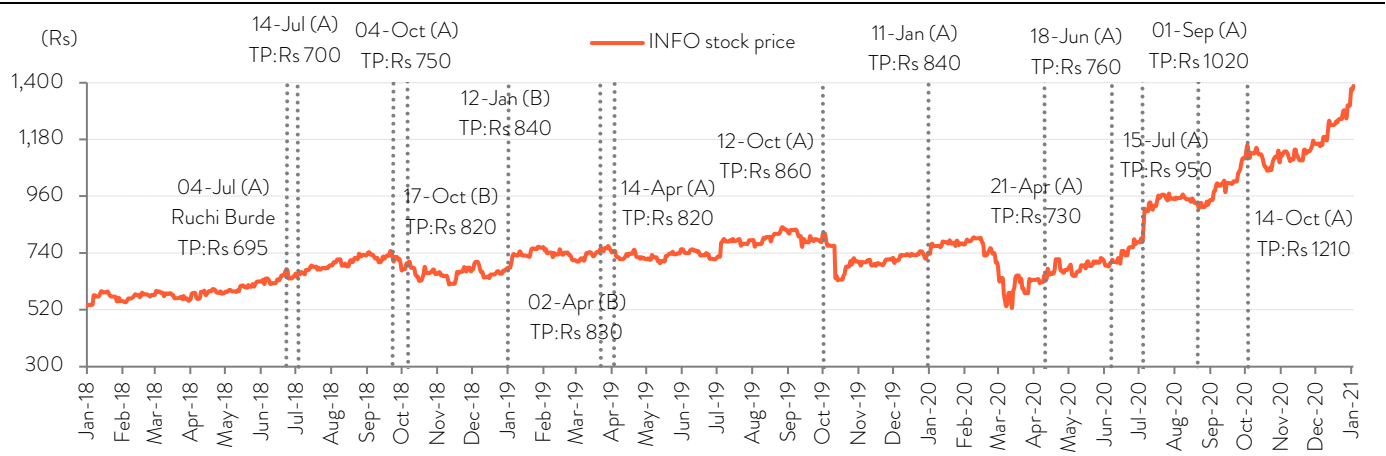
**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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

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