

ADD

TP: Rs 1,540 | ▲ 10%

INFOSYS

| IT Services

| 15 April 2021

FY22 guidance in line; first signs of supply pressure

Infosys' (INFO) Q4FY21 revenue growth of 2% CC QoQ was in line with our estimate of 1.9%, with the company also posting robust TCV of US\$ 2.1bn. Management has guided for 12-14% CC growth in FY22, on par with our estimates. FY22 EBIT margin guidance of 22-24% appears to bake in some supply pressure which is already evident in the sharp uptick in Q4 attrition. We raise FY22/FY23 EPS by 4.2%/0.2% and retain our target P/E at 26x. On rollover, we have a new Mar'22 TP of Rs 1,540 (vs. Rs 1,500). Retain ADD.

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Performance in line: INFO grew 2.8% USD/2% CC QoQ in Q4FY21, broadly in keeping with our estimates of 2.5% USD/1.9% CC. Growth was backed by momentum across verticals, especially manufacturing/retail/BFSI which were up 6.1%/3.5%/2.4% QoQ, USD. TCV at US\$ 2.1bn declined 70% QoQ due to the large Daimler deal win in Q3FY21, while rising 28% YoY. EBIT margin at 24.5% (est. 23.8%) fell 94bps QoQ owing to compensation hikes. As expected, attrition shot up to 15.2% (vs. 10% in Q3FY21), indicating supply pressure.

Ticker/Price	INFO IN/Rs 1,397
Market cap	US\$ 79.2bn
Shares o/s	4,258mn
3M ADV	US\$ 146.2mn
52wk high/low	Rs 1,478/Rs 604
Promoter/FPI/DII	13%/35%/52%

Source: NSE

BFSI leads demand uptick: Financial services showed industry-leading growth due to increased demand from areas such as customer experience, mortgage operations, end-to-end digital transformation and call centre technology. Despite continued weakness in a few retail subsegments, management is optimistic that the vertical will bounce back in FY22. In manufacturing, automotive is improving but aerospace could take longer to recover.

STOCK PERFORMANCE



Source: NSE

FY22 guidance matches estimates: New FY22 growth guidance of 12-14% CC is in line with our estimates, based on a strong deal pipeline. With costs returning as the Covid-19 impact recedes and supply pressure rising, management has guided for FY22 operating margin in the range of 22-24%, which also matches our estimates.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	826,760	907,910	1,004,730	1,201,038	1,358,040
EBITDA (Rs mn)	208,890	222,680	279,350	323,051	356,654
Adj. net profit (Rs mn)	154,100	167,350	196,630	233,906	248,365
Adj. EPS (Rs)	35.4	39.0	46.1	55.6	59.0
Adj. EPS growth (%)	(4.0)	10.3	18.2	20.4	6.2
Adj. ROAE (%)	24.5	26.5	27.6	30.4	30.3
Adj. P/E (x)	39.5	35.8	30.3	25.1	23.7
EV/EBITDA (x)	27.5	25.9	20.7	17.7	16.2

Source: Company, BOBCAPS Research

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Other highlights

- INFO announced a Rs 92bn share buyback at a price not exceeding Rs 1,750/sh through the open market route. The board has also recommended dividend of Rs 12/sh, which takes total dividend for FY21 to Rs 27/sh (+54% YoY). This is in keeping with INFO's capital allocation policy of returning 85% of FCF to investors over five years, as announced in Q2FY20.
- A total of 23 large deals were signed in Q4FY21 – 6 each in the BFSI and retail verticals, 3 in life-sciences and 2 each in the communication, manufacturing, energy & utilities, and hi-tech verticals.
- Utilisation was at an all-time high of 87.7% in Q4, up 140bps QoQ and 420bps YoY.

FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Revenues (US\$ mn)	3,613	3,197	13.0	3,516	2.8	13,562	12,781	6.1
Revenue	263,110	232,670	13.1	259,270	1.5	1,004,730	907,910	10.7
Operating Expenditure	190,400	175,910	8.2	185,120	2.9	725,380	685,230	5.9
Cost of revenues	163,330	147,520	10.7	159,510	2.4	621,370	578,380	7.4
as % of sales	62.1	63.4	-	61.5	-	61.8	63.7	-
SG&A expenses	27,070	28,390	(4.6)	25,610	5.7	104,010	106,850	(2.7)
as % of sales	10.3	12.2	-	9.9	-	10.4	11.8	-
EBITDA	72,710	56,760	28.1	74,150	(1.9)	279,350	222,680	25.4
Depreciation	8,310	7,490	10.9	8,260	0.6	32,680	28,930	13.0
EBIT	64,400	49,270	30.7	65,890	(2.3)	246,670	193,750	27.3
Other Income	5,450	6,140	-	6,110	-	20,060	26,330	(23.8)
PBT	69,350	55,410	25.2	71,510	(3.0)	226,610	220,070	3.0
Total Tax	18,570	11,610	59.9	19,360	(4.1)	72,050	53,680	34.2
Adjusted PAT	50,780	43,800	15.9	52,150	(2.6)	194,230	166,390	16.7
(Profit)/loss from JV's/Ass/MI	20	140	-	180	-	720	450	-
APAT after MI	50,760	43,660	16.3	51,970	(2.3)	193,510	165,940	16.6
Reported EPS	11.9	10.2	17.0	12.2	(2.3)	46	39	16.9
Margins (%)			(bps)		(bps)			(bps)
EBITDA	27.6	24.4	324	28.6	(96)	27.8	24.5	328
EBIT	24.5	21.2	330	25.4	(94)	24.6	21.3	321
EBT	26.4	23.8	254	27.6	(122)	22.6	24.2	(168)
PAT	19.1	18.8	28	19.9	(75)	19.3	18.3	98
Effective Tax rate	26.8	21.0	582.4	27.1	(30)	31.8	24.4	740

Source: BOBCAPS Research, Company

FIG 2 – OPERATING METRICS

(in US\$ terms)	Q4FY21	Growth	
	(% Contr. to Revenue)	QoQ (%)	YoY (%)
TCV of deal wins (in US\$ mn)	2,100	(70.5)	27.6
Digital Revenues	51.5	5.6	38.9
Revenue by Geography			
North America	61.6	2.8	13.0
Europe	24.4	4.5	13.0
India	3.0	18.6	30.4
ROW	11.0	(4.2)	9.0
Revenue by Industry Group			
BFSI	33.0	2.4	19.2
Retail	14.8	3.5	7.9
Communications	12.0	(0.6)	4.3
Energy, Utilities, Resources and Services	12.3	1.1	7.8
Manufacturing	9.6	6.1	7.4
Hi Tech	8.1	1.5	15.9
Life Sciences	6.8	(1.6)	20.1
Others	3.4	29.4	32.5
Client Concentration			
Top 10 Clients	18.3	0.0	0.0
Non-Top 10 Clients	81.7	0.0	0.0
	Q4FY21	Q3FY21	Q4FY20
Onsite-Offshore Effort Split			
Onsite	24.3	25.2	27.6
Offshore	75.7	74.8	72.4
Utilisation Measures (IT Services and Consulting)			
Including trainees	82.2	82.3	79.0
Excluding trainees	87.7	86.3	83.5

Source: BOBCAPS Research, Company

Valuation methodology

We raise FY22/FY23 EPS estimates by 4.2%/0.2% to factor in the Q4FY21 performance, robust revenue and margin guidance for FY22 and also the Rs 92bn buyback. Without the buyback, our FY22/FY23 EPS rises by 2.9%/0.4%. Our FY22 forecasts remain broadly intact and are in line with management’s guidance. Rolling valuations forward, we have a revised Mar’22 target price of Rs 1,540 (Rs 1,500 earlier), set at an unchanged one-year forward P/E of 26x.

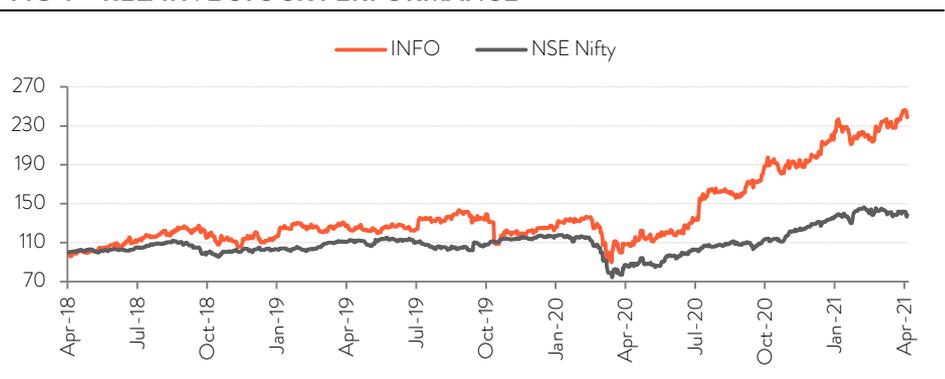
We are positive on INFO based on (1) its healthy revenue and margin performance in Q4, (2) high TCV and strong deal pipeline, and (3) potential market share gains in the emerging areas of BFSI, hi-tech and life sciences. That said, we see mounting supply pressure for the company – a factor that has affected INFO more than its peers in the past. Maintain ADD.

FIG 3 – REVISED ESTIMATES

(Rs mn)	FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)
Revenues (US\$ mn)	15,657	15,697	0.3	17,311	17,354	0.3
YoY revenue growth	15.5	15.7	-	10.6	10.6	-
Revenues	1,198,013	1,201,038	0.3	1,350,223	1,358,040	0.6
EBITDA	322,238	323,051	0.3	354,579	356,654	0.6
EBITDA margins (%)	26.9	26.9	-	26.3	26.3	-
EBIT margins (%)	23.7	23.6	-	23.2	23.1	-
Net profits	227,212	233,906	2.9	250,948	248,365	(1.0)
EPS (Rs)	53.3	55.6	4.2	58.9	59.0	0.2

Source: BOBCAPS Research

FIG 4 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Downside risks to our estimates include:

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

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue	826,760	907,910	1,004,730	1,201,038	1,358,040
EBITDA	208,890	222,680	279,350	323,051	356,654
Depreciation	20,100	28,930	32,680	39,116	42,422
EBIT	188,790	193,750	246,670	283,935	314,232
Net interest income/(expenses)	21,550	16,120	16,150	25,683	15,194
Other income/(expenses)	28,830	28,030	22,010	36,483	25,994
Exceptional items	(7,210)	0	0	0	0
EBT	210,410	221,780	268,680	320,419	340,226
Income taxes	56,310	53,680	72,050	86,513	91,861
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	750	0	0	0
Reported net profit	154,100	167,350	196,630	233,906	248,365
Adjustments	0	0	0	0	0
Adjusted net profit	154,100	167,350	196,630	233,906	248,365

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	0	0	0	0	0
Other current liabilities	168,940	263,520	308,910	253,370	286,491
Provisions	5,230	5,720	7,130	9,872	11,162
Debt funds	0	0	0	0	0
Other liabilities	0	0	0	0	0
Equity capital	21,700	21,220	21,240	21,240	21,240
Reserves & surplus	585,160	637,220	746,580	747,733	846,644
Shareholders' fund	606,860	658,440	767,820	768,973	867,884
Total liabilities and equities	781,030	927,680	1,083,860	1,032,214	1,165,537
Cash and cash eq.	165,060	186,490	247,140	85,766	155,126
Accounts receivables	136,990	184,870	192,940	246,789	279,049
Inventories	0	0	0	0	0
Other current assets	46,550	71,210	75,270	82,263	93,016
Investments	124,990	87,920	147,990	147,990	147,990
Net fixed assets	149,560	250,530	265,680	260,996	256,136
CWIP	0	41,680	47,940	47,940	47,940
Intangible assets	0	0	0	0	0
Deferred tax assets, net	13,000	17,440	10,980	10,980	10,980
Other assets	144,880	129,220	143,860	197,431	223,240
Total assets	781,030	927,680	1,083,860	1,032,214	1,165,537

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Net income + Depreciation	174,200	196,280	229,310	273,022	290,787
Interest expenses	(28,830)	(28,030)	(22,010)	(36,483)	(25,994)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	16,350	38,190	20,030	(167,211)	(34,412)
Other operating cash flows	(98,005)	49,198	0	0	0
Cash flow from operations	63,715	255,638	227,330	69,327	230,381
Capital expenditures	(23,650)	(88,220)	(41,570)	(34,432)	(37,562)
Change in investments	0	0	(28,798)	0	0
Other investing cash flows	28,830	28,030	22,010	36,483	25,994
Cash flow from investing	5,180	(60,190)	(48,358)	2,052	(11,568)
Equities issued/Others	(9,313)	(73,287)	0	(92,000)	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(92,730)	(100,703)	(118,322)	(140,753)	(149,454)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(102,043)	(173,990)	(118,322)	(232,753)	(149,454)
Changes in cash and cash eq.	(33,148)	21,458	60,650	(161,374)	69,360
Closing cash and cash eq.	165,032	186,490	247,140	85,766	155,126

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	35.4	39.0	46.1	55.6	59.0
Adjusted EPS	35.4	39.0	46.1	55.6	59.0
Dividend per share	21.5	19.5	23.1	27.8	29.5
Book value per share	139.3	153.5	180.2	182.7	206.2

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	6.9	6.4	5.7	4.8	4.3
EV/EBITDA	27.5	25.9	20.7	17.7	16.2
Adjusted P/E	39.5	35.8	30.3	25.1	23.7
P/BV	10.0	9.1	7.8	7.6	6.8

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	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	108.9	112.8	108.3
EBIT margin (EBIT/Revenue)	22.8	21.3	24.6	23.6	23.1
Asset turnover (Revenue/Avg TA)	104.7	106.3	99.9	113.5	123.6
Leverage (Avg TA/Avg Equity)	1.3	1.4	1.4	1.4	1.3
Adjusted ROAE	24.5	26.5	27.6	30.4	30.3

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
YoY growth (%)					
Revenue	17.2	9.8	10.7	19.5	13.1
EBITDA	9.9	6.6	25.4	15.6	10.4
Adjusted EPS	(4.0)	10.3	18.2	20.4	6.2
Profitability & Return ratios (%)					
EBITDA margin	25.3	24.5	27.8	26.9	26.3
EBIT margin	22.8	21.3	24.6	23.6	23.1
Adjusted profit margin	18.6	18.4	19.6	19.5	18.3
Adjusted ROAE	24.5	26.5	27.6	30.4	30.3
ROCE	31.0	32.1	36.4	34.4	32.9
Working capital days (days)					
Receivables	59	65	69	67	71
Inventory	0	0	0	0	0
Payables	93	115	144	117	98
Ratios (x)					
Gross asset turnover	5.6	4.5	3.9	4.6	5.3
Current ratio	2.8	2.1	2.1	2.3	2.5
Net interest coverage ratio	8.8	12.0	15.3	11.1	20.7
Adjusted debt/equity	(0.3)	(0.3)	(0.3)	(0.1)	(0.2)

Source: Company, BOBCAPS Research

Disclaimer

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

BUY – Expected return >+15%

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

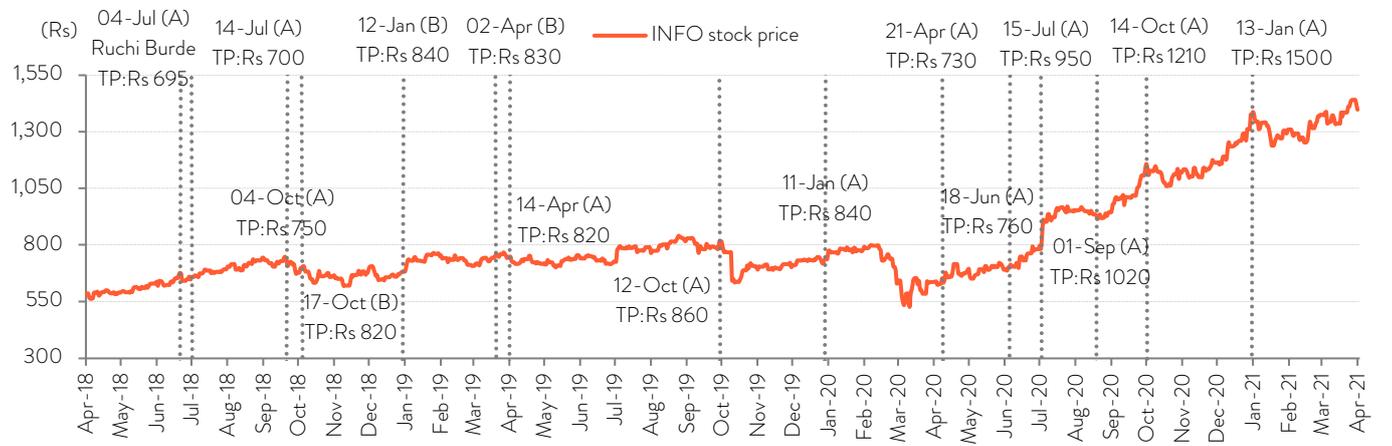
REDUCE – Expected return from -5% to +5%

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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RATINGS AND TARGET PRICE (3-YEAR HISTORY): INFOSYS (INFO IN)



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

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