

BUY

TP: Rs 2,130 | ▲ 22%

INFOSYS

| Technology & Internet

| 13 April 2022

Subpar quarter; FY23 guidance robust

- Q4 revenue growth muted at 0.7% QoQ USD, below our (4.1%) and street estimates. TCV robust at US\$ 2.3bn
- EBIT margin down 200bps QoQ to 21.5%, below our estimate of 22.8% due to lower efficiency and higher visa costs
- FY23/24 EPS cut 6.5%/4%; on rollover, our TP reduces to Rs 2,130 (vs. Rs 2,250). Maintain BUY on strong guidance and robust demand climate

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Slow growth: INFO reported underwhelming growth of 0.7% QoQ USD in Q4FY22, well below our estimate of 4.1% due to fewer working days. BFSI saw soft growth at 0.1% QoQ USD while life sciences posted a sharp drop of 11.4%. Management is confident of strong BFSI demand in FY23. Digital business formed 59% of quarterly revenues. EBIT margin contracted 200bps QoQ to 21.5%, underperforming our estimate of 22.8% due to lower efficiency and high visa costs.

Demand environment robust: TCV at US\$ 2.3bn was robust (-9.1% QoQ USD). The overall demand climate remains strong, as indicated by strong hiring. Cybersecurity has emerged as a high-demand area due to increased threat perception. INFO aims to expand its cloud and digital work and strengthen its employee value proposition.

Attrition at all-time high: INFO added 22,000 net employees in Q4 amid record attrition of 27.7%. Utilisation remained high at 87.5%. The company will be rolling out another round of salary hikes (onsite and offshore), promotions and bonuses.

Guidance robust: INFO has guided for robust 13-15% CC growth in FY23 based on the strong demand environment and robust deal pipeline. Management does not expect any slowdown in Eastern Europe. Operating margin guidance stood at 21-23% for FY23. Despite slightly lower TCV (-9.1% QoQ in Q4FY22), management is confident on its FY23 guidance, which factors in the upcoming Q1 wage hike as well as higher travel and facility costs. INFO is planning investments in the areas of cloud and automation. It intends to hire >50,000 campus recruits in FY23.

Other takeaways: The board has recommended an interim dividend of Rs 16/sh. INFO has decided to transfer the small delivery centre (with ~100 employees) in Russia to other global centres.

Retain BUY: Factoring in the muted Q4 numbers, we cut our FY23/FY24 EPS estimates by 7%/4%. On rollover to Jun'24 valuations, we have a revised TP of Rs 2,130 (vs. Rs 2,250 earlier) based on an unchanged 33.5x P/E. Maintain BUY on strong growth and margin guidance.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	INFO IN/Rs 1,749
Market cap	US\$
Free float	3,319%
3M ADV	US\$ 162.5mn
52wk high/low	Rs 1,954/Rs 1,311
Promoter/FPI/DII	13%/33%/54%

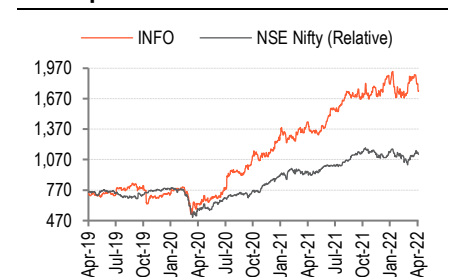
Source: NSE | Price as of 13 Apr 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	1,004,730	1,216,410	1,393,561
EBITDA (Rs mn)	279,350	314,820	341,856
Adj. net profit (Rs mn)	193,990	223,210	246,986
Adj. EPS (Rs)	45.5	53.0	58.7
Consensus EPS (Rs)	45.5	52.8	59.5
Adj. ROAE (%)	27.2	29.3	30.6
Adj. P/E (x)	38.4	33.0	29.8
EV/EBITDA (x)	26.0	23.0	21.2
Adj. EPS growth (%)	16.7	16.5	10.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Revenues (US\$ mn)	4,280	3,613	18.5	4,250	0.7	16,310	13,562	20.3
Revenue	322,760	263,110	22.7	318,670	1.3	1,216,410	1,004,730	21.1
Operating Expenditure	244,400	190,400	28.4	234,840	4.1	901,590	725,380	24.3
Cost of revenues	213,920	163,330	31.0	205,160	4.3	785,320	621,370	26.4
as % of sales	66.3	62.1	-	64.4	-	258	247	-
SG&A expenses	30,480	27,070	12.6	29,680	2.7	116,270	104,010	11.8
as % of sales	9.4	10.3	-	9.3	-	38	41	-
EBITDA	78,360	72,710	7.8	83,830	(6.5)	314,820	279,350	12.7
Depreciation	8,900	8,310	7.1	8,990	(1.0)	34,770	32,680	6.4
EBIT	69,460	64,400	7.9	74,840	(7.2)	280,050	246,670	13.5
Other Income	6,470	4,950	-	5,120	-	22,080	20,540	7.5
PBT	75,430	69,350	8.8	79,430	(5.0)	301,100	267,210	12.7
Total Tax	18,480	18,570	(0.5)	21,210	(12.9)	79,640	72,050	10.5
Adjusted PAT	56,950	50,780	12.2	58,220	(2.2)	221,460	195,160	13.5
(Profit)/loss from JV's/Ass/MI	(10)	0	-	130	-	120	0	-
APAT after MI	56,960	50,780	12.2	58,090	(1.9)	221,340	195,160	13.4
Reported EPS	13.5	11.9	13.6	13.8	(1.9)	52.6	45.5	15.5
Margins (%)			(bps)		(bps)			(bps)
EBIDTA	24.3	27.6	(336)	26.3	(203)	25.9	27.8	(192)
EBIT	21.5	24.5	(296)	23.5	(196)	23.0	24.6	(153)
EBT	23.4	26.4	(299)	24.9	(156)	24.8	26.6	(184)
PAT	17.6	19.3	(165)	18.2	(58)	18.2	19.4	(123)
Effective Tax rate	24.5	26.8	(227.8)	26.7	(220)	26.4	27.0	(51)

Source: Company, BOBCAPS Research

Fig 2 – Operating metrics

(US\$ terms)	Q4FY22 (% Contr. to Revenue)	Growth	
		QoQ (%)	YoY (%)
TCV of Deal Wins (US\$ mn)	2300	(9.1)	9.0
Digital Revenues	59.2	1.9	36.2
Revenue by Geography			
North America	61.4	0.1	18.1
Europe	25.2	1.9	22.3
India	3.2	7.4	26.4
ROW	10.2	(0.3)	9.8
Revenue by Vertical			
BFSI	31.3	0.1	12.4
Retail	14.3	(0.7)	14.5
Communications	12.8	3.1	26.4
Energy, Utilities, Resources and Services	12.0	3.3	15.6
Manufacturing	11.8	5.2	45.6
Hi Tech	8.2	1.9	19.9
Life Sciences	6.6	(11.4)	15.0
Others	3.0	4.2	4.5

(US\$ terms)	Q4FY22 (% Contr. to Revenue)	Growth	
		QoQ (%)	YoY (%)
Client Concentration			
Top 10 Clients	19.4	(3.3)	25.6
Non-Top 10 Clients	80.6	1.7	16.9
	Q4FY22	Q3FY22	Q4FY21
Onsite-Offshore Effort Split			
Onsite	24.0	23.8	24.3
Offshore	76.0	76.2	75.7
Utilisation measures (IT Services and Consulting)			
Including trainees	80.0	82.7	82.2
Excluding trainees	87.0	88.5	87.7
Attrition	27.7	25.5	10.9

Source: Company, BOBCAPS Research

Valuation methodology

We have cut FY23/24 EPS estimates by 6.5%/4.3%, factoring in Q4FY22's muted numbers. We roll over to FY24 valuations with an unchanged target PE of 33.5x. We revise our TP downwards to Rs2,130 (from Rs 2,250 earlier). We maintain BUY on robust growth and margin guidance and strong demand environment.

Factoring in the muted Q4FY22 numbers, we cut our FY23/FY24 EPS estimates by 6.5%/4%. On rollover to Jun'24 valuations, we have a revised TP of Rs 2,130 (vs. Rs 2,250 earlier) based on an unchanged 33.5x P/E. Maintain BUY on strong growth and margin guidance amid a robust demand environment.

Fig 3 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenues (US\$ mn)	16,310	18,401	20,065	16,454	18,853	20,373	(0.9)	(2.4)	(1.5)
Revenue growth (%)	20.3	12.8	9.0	21.3	14.6	8.1	-	-	-
Revenues	1,216,410	1,393,561	1,524,909	1,227,238	1,427,735	1,548,329	(0.9)	(2.4)	(1.5)
EBIT	280,050	308,271	340,302	286,804	336,673	363,414	(2.4)	(8.4)	(6.4)
EBIT margins (%)	23.0	22.1	22.3	23.4	23.6	23.5	-	-	-
Net profits	223,210	246,986	273,797	228,044	264,036	286,103	(2.1)	(6.5)	(4.3)
EPS (Rs)	53.0	58.7	65.0	54.2	62.7	68.0	(2.1)	(6.5)	(4.3)

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- demand slowdown in Eastern Europe, and
- rising attrition impacting margins.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Coforge	COFORGE IN	3.4	4,161	7,080	BUY
eClerx Services	ECLX IN	1.2	2,404	3,790	BUY
HCL Technologies	HCLT IN	40.1	1,125	1,610	BUY
Infosys	INFO IN	97.7	1,749	2,130	BUY
L&T Infotech	LTI IN	13.9	6,039	8,490	BUY
Mindtree	MTCL IN	8.9	4,099	5,610	BUY
Mphasis	MPHL IN	7.5	3,051	3,470	HOLD
Persistent Systems	PSYS IN	4.5	4,330	4,580	HOLD
Tata Consultancy Services	TCS IN	180.4	3,662	4,660	BUY
Tech Mahindra	TECHM IN	16.2	1,410	1,940	BUY
Wipro	WPRO IN	40.6	559	850	BUY

Source: BOBCAPS Research, NSE | Price as of 13 Apr 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	907,910	1,004,730	1,216,410	1,393,561	1,524,909
EBITDA	222,680	279,350	314,820	341,856	373,887
Depreciation	28,930	32,680	34,770	33,585	33,585
EBIT	193,750	246,670	280,050	308,271	340,302
Net interest inc./(exp.)	16,120	16,150	16,570	15,494	18,893
Other inc./(exp.)	28,030	19,960	23,050	25,494	29,693
Exceptional items	0	0	0	0	0
EBT	221,780	266,630	303,100	333,765	369,995
Income taxes	53,680	72,050	79,640	86,779	96,199
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	750	590	250	0	0
Reported net profit	167,350	193,990	223,210	246,986	273,797
Adjustments	0	0	0	0	0
Adjusted net profit	167,350	193,990	223,210	246,986	273,797

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	0	0	0	0	0
Other current liabilities	263,520	308,910	411,740	458,157	501,340
Provisions	5,720	7,130	9,750	11,454	12,534
Debt funds	0	0	0	0	0
Other liabilities	0	0	0	0	0
Equity capital	21,220	21,240	20,980	20,980	20,980
Reserves & surplus	637,220	746,580	736,370	834,732	943,772
Shareholders' fund	658,440	767,820	757,350	855,712	964,752
Total liab. and equities	927,680	1,083,860	1,178,840	1,325,323	1,478,625
Cash and cash eq.	186,490	247,140	174,720	259,692	389,002
Accounts receivables	184,870	192,940	226,980	286,348	313,338
Inventories	0	0	0	0	0
Other current assets	71,210	75,270	115,680	95,449	104,446
Investments	87,920	147,990	212,640	212,640	212,640
Net fixed assets	250,530	265,680	263,040	229,455	195,870
CWIP	41,680	47,940	48,230	48,230	48,230
Intangible assets	0	0	0	0	0
Deferred tax assets, net	17,440	10,980	12,660	12,660	12,660
Other assets	129,220	143,860	173,120	229,079	250,670
Total assets	927,680	1,083,860	1,178,840	1,325,323	1,478,625

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	255,638	227,791	100,360	208,102	264,374
Capital expenditures	(88,220)	(41,570)	(21,610)	0	0
Change in investments	0	(28,798)	(42,580)	0	0
Other investing cash flows	28,030	19,960	18,980	25,494	29,693
Cash flow from investing	(60,190)	(50,408)	(45,210)	25,494	29,693
Equities issued/Others	(73,287)	0	210	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	0	0	(1,260)	0	0
Dividends paid	(100,703)	(116,733)	(126,520)	(148,624)	(164,757)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(173,990)	(116,733)	(127,570)	(148,624)	(164,757)
Chg in cash & cash eq.	21,458	60,650	(72,420)	84,972	129,310
Closing cash & cash eq.	186,490	247,140	174,720	259,692	389,002

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	39.0	45.5	53.0	58.7	65.0
Adjusted EPS	39.0	45.5	53.0	58.7	65.0
Dividend per share	19.5	22.8	26.5	29.4	32.6
Book value per share	153.5	180.2	179.9	203.3	229.2

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	8.0	7.2	5.9	5.2	4.7
EV/EBITDA	32.6	26.0	23.0	21.2	19.3
Adjusted P/E	44.8	38.4	33.0	29.8	26.9
P/BV	11.4	9.7	9.7	8.6	7.6

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	75.5	72.8	73.6	74.0	74.0
Interest burden (PBT/EBIT)	114.5	108.1	108.2	108.3	108.7
EBIT margin (EBIT/Revenue)	21.3	24.6	23.0	22.1	22.3
Asset turnover (Rev./Avg TA)	106.3	99.9	107.5	111.3	108.8
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.5	1.6	1.5
Adjusted ROAE	26.5	27.2	29.3	30.6	30.1

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	9.8	10.7	21.1	14.6	9.4
EBITDA	6.6	25.4	12.7	8.6	9.4
Adjusted EPS	10.3	16.7	16.5	10.7	10.9
Profitability & Return ratios (%)					
EBITDA margin	24.5	27.8	25.9	24.5	24.5
EBIT margin	21.3	24.6	23.0	22.1	22.3
Adjusted profit margin	18.4	19.3	18.3	17.7	18.0
Adjusted ROAE	26.5	27.2	29.3	30.6	30.1
ROCE	32.1	36.3	37.4	38.7	43.0

Working capital days (days)

	FY20A	FY21A	FY22E	FY23E	FY24E
Receivables	65	69	63	67	72
Inventory	0	0	0	0	0
Payables	115	144	146	151	152

Ratios (x)

	FY20A	FY21A	FY22E	FY23E	FY24E
Gross asset turnover	4.5	3.9	4.6	5.7	7.2
Current ratio	2.1	2.1	1.6	1.9	2.1
Net interest coverage ratio	12.0	15.3	16.9	19.9	18.0
Adjusted debt/equity	(0.3)	(0.3)	(0.2)	(0.3)	(0.4)

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

Disclaimer

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

BUY – Expected return >+15%

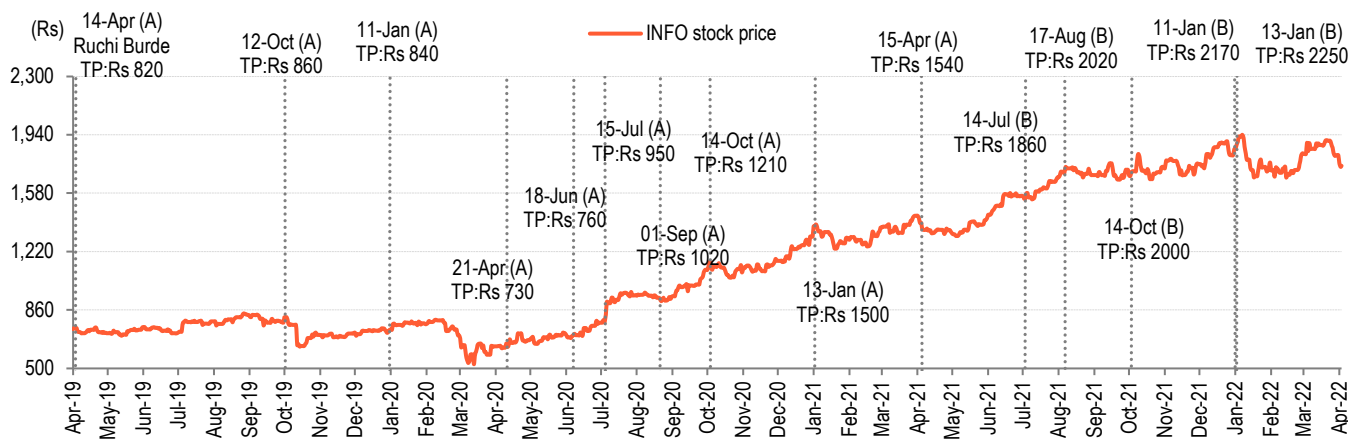
HOLD – Expected return from -6% to +15%

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

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