

Retail Equity Research Infosys Limited

IT Services

BSE CODE: 500209

NSE CODE: INFY

Bloomberg CODE: INFO:IN

SENSEX: 37,020

BUY

12M Investment period

Rating as per Large Cap

CMP Rs. 904

TARGET Rs. 1,018

RETURN 13% ↑

(Closing: 17-07-20)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↓

Solid quarter backed by all-round growth

Infosys Limited provides IT consulting and software services, including e-business, program management and supply chain solutions. The Group's services include application development, product co-development, and system implementation and system engineering. Infosys targets businesses specializing in the insurance, banking, telecom and manufacturing sectors.

- Revenue surged 8.5% YoY, aided by strong growth in Hi-Tech and Life Sciences verticals. EBIT went up 20.0% YoY, as EBIT margin improved 220 bps to 22.7%. Resultantly, PAT also rose 11.5% YoY.
- Company revised year-end guidance to 0-2% YoY growth in constant currency terms, with operating margin guidance of 21-23%.
- Backed by recent large wins coupled with strong order book, Infosys is expected to sail through the year despite near-term woes amidst pandemic. We remain positive on company's Long-term growth prospects and upgrade our rating to BUY with a revised TP of Rs. 1,018 based on 22x FY22E adj. EPS.

Strong growth in revenue and margins

Q1FY21 consolidated revenue stood at Rs. 23,665cr (+8.5% YoY, +1.5% YoY in constant currency terms) backed by growth across all verticals (excluding retail). Amongst its business segments, Hi-Tech revenue grew 22.9% YoY to Rs. 2,063cr. Also, Life Sciences reported a 17.5% YoY growth to Rs. 1,575cr. Financials Services (31.5% of total revenue) continued to be the largest contributor coming in at Rs. 7,457cr (+8.8% YoY), while Retail revenues declined 1.3% YoY to Rs. 3,391cr. Geographically, India (+24.5% YoY) and Europe (+1.5% YoY) led the growth, while North America (-0.5% YoY) witnessed a slight decline. EBIT margin expanded 220bps to 22.7% due to further reduction in travel costs. PAT came in at Rs. 4,233cr (+11.5% YoY).

Key concall highlights

- During Q1FY21, the company won 15 large deals worth \$1.74bn, of which five deals were in Financial Services, three deals each in Retail, Utilities, Resources and Services, and Hi-Tech, while it signed one deal in the Manufacturing segment.
- Reported free cash flows stood at a record high of \$728mn (+50% YoY), supported by robust collections despite the economic slowdown.
- Voluntary attrition dropped significantly to 11.7% (vs. 20.2% in Q1FY20).

Continued momentum in large deal wins to ensure future growth

Total active clients at the end of June quarter stood at 1,458 (gross addition of 110 new clients), with the company recently announcing strategic partnership with US-based investment management firm Vanguard. The deal will support company's day-to-day operations of Vanguard's defined contribution record keeping business. Deemed as the biggest deal in Infosys history, the partnership will see Vanguard providing a record-keeping platform to help deliver outcomes for close to five million participants and around 1,500 sponsors. Additionally, it will also see 1,300 of Vanguard's roles transitioning to Infosys. Having been signed at the start of the second quarter, the deal has not yet been factored into the financials. The deal however ensures a continued strong growth momentum over the long-term for the company.

Valuation

We estimate PAT to grow at 8.7% FY20-22E CAGR and EBIT profit margin to improve to 22.7% by FY22E. We remain optimistic on company's long term outlook, backed by recent large wins coupled with strong order book. Given current upside potential, we upgrade our rating to BUY with a revised TP of Rs. 1,018 based on 22x FY22E adj. EPS.

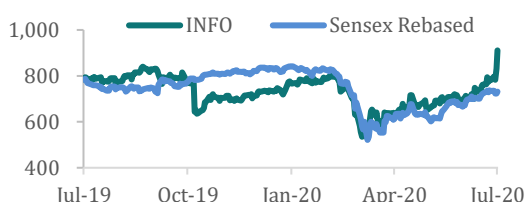
Company Data

Market Cap (cr)	Rs. 383,864
Enterprise Value (cr)	Rs. 359,066
Outstanding Shares (cr)	424.6
Free Float	87.0%
Dividend Yield	1.9%
52 week high	Rs. 952
52 week low	Rs. 511
6m average volume (lacs)	5.5
Beta	0.8
Face value	Rs. 5

Shareholding %	Q2FY20	Q3FY20	Q4FY20
Promoters	13.2	13.2	13.2
FII's	33.5	31.8	31.0
MFs/Insti	23.2	24.4	25.2
Public	27.0	27.3	27.2
Others	3.1	3.3	3.5
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	45.6%	19.3%	16.5%
Absolute Sensex	17.2%	-11.7%	-5.6%
Relative Return*	28.4%	31.1%	22.1%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	90,791	97,595	106,051
Growth (%)	9.8	7.5	8.7
EBITDA	22,267	24,399	27,236
EBITDA Margin (%)	24.5	25.0	25.7
Adj. PAT	16,594	17,580	19,613
Growth (%)	7.7	5.9	11.6
Adj. EPS	39.1	41.4	46.2
Growth (%)	10.5	5.9	11.6
P/E	16.2	21.8	19.6
P/B	4.1	5.1	4.4
EV/EBITDA	11.2	14.7	12.8
ROE (%)	25.4	23.3	22.3
D/E	0.0	0.0	0.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Revenue	23,665	21,803	8.5	23,267	1.7
EBITDA	6,121	5,152	18.8	5,675	7.9
EBITDA margins	25.9	23.6	230bps	24.4	150bps
Depreciation	756	681	11.0	748	1.1
EBIT	5,365	4,471	20.0	4,927	8.9
Interest	48	40	20.0	45	6.7
Other Income	475	736	(35.5)	614	(22.6)
Exceptional Items	-	-	-	-	-
PBT	5,792	5,167	12.1	5,496	5.4
Tax	1,520	1,365	11.4	1,161	30.9
Share of profit from Associate	-	-	-	-	-
Minority Interest	39	4	875.0	14	178.6
Reported PAT	4,233	3,798	11.5	4,321	(2.0)
Adjustments	-	-	-	-	-
Adj. PAT	4,233	3,798	11.5	4,321	(2.0)
No. of shares	424.6	430.8	(1.4)	435.3	(2.5)
Adj. EPS (Rs.)	10.0	8.8	13.1	9.9	0.4

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs. cr	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	99,566	-	97,595	106,051	(2.0)	-
EBITDA	25,704	-	24,399	27,236	(5.1)	-
Margins (%)	25.8	-	25.0	25.7	(80bps)	-
Adj. PAT	17,935	-	17,580	19,613	(2.0)	-
Adj. EPS (Rs.)	42.2	-	41.4	46.2	(1.9)	-

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	70,522	82,675	90,791	97,595	106,051
% change	3.0	17.2	9.8	7.5	8.7
EBITDA	19,011	20,891	22,267	24,399	27,236
% change	2.2	9.9	6.6	9.6	11.6
Depreciation	1,863	2,011	2,893	3,024	3,206
EBIT	17,148	18,880	19,374	21,375	24,029
Interest	-	-	170	163	163
Other Income	3,122	2,161	2,803	2,102	2,144
PBT	20,270	21,041	22,007	23,314	26,011
% change	1.6	3.8	4.6	5.9	11.6
Tax	4,241	5,631	5,368	5,687	6,345
Tax Rate (%)	20.9	26.8	24.4	24.4	24.4
Reported PAT	16,029	15,404	16,594	17,580	19,613
Adj*	-	-	-	-	-
Adj PAT	16,029	15,404	16,594	17,580	19,613
% change	11.7	(3.9)	7.7	5.9	11.6
No. of shares (cr)	451.5	435.3	424.6	424.6	424.6
Adj EPS (Rs.)	35.5	35.4	39.1	41.4	46.2
% change	13.1	(0.3)	10.5	5.9	11.6
DPS (Rs.)	43.5	21.5	17.5	17.5	17.5
CEPS (Rs.)	39.6	40.0	45.9	48.5	53.7

BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	19,818	19,568	18,649	25,212	34,824
Accounts Receivable	13,142	14,827	18,487	19,970	21,806
Inventories	-	-	-	-	-
Other Cur. Assets	17,057	18,483	17,440	17,867	18,397
Investments	5,756	4,634	4,137	6,206	6,516
Gross Fixed Assets	20,179	22,891	26,198	29,753	33,616
Net Fixed Assets	10,116	11,479	12,435	12,918	13,524
CWIP	1,606	1,388	954	1,002	1,052
Intangible Assets	2,458	4,231	11,354	11,407	11,460
Def. Tax (Net)	1,282	1,372	1,744	1,399	1,561
Other Assets	8,655	8,756	7,568	7,622	7,676
Total Assets	79,890	84,738	92,768	103,602	116,817
Current Liabilities	14,105	18,638	20,856	21,599	22,470
Provisions	-	-	-	-	-
Debt Funds	-	-	-	-	-
Other Liabilities	861	1,094	6,068	5,953	6,052
Equity Capital	1,088	2,170	2,122	2,122	2,122
Reserves & Surplus	63,835	62,778	63,328	73,486	85,678
Shareholder's Fund	64,923	64,948	65,450	75,608	87,800
Minority Interest	1	58	394	442	495
Total Liabilities	79,890	84,738	92,768	103,602	116,817
BVPS (Rs.)	144	149	154	178	207

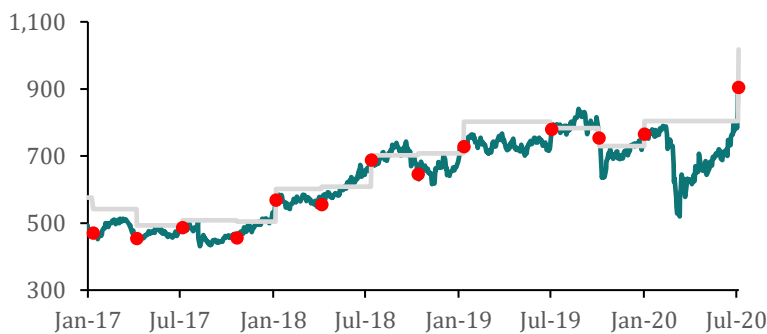
CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	17,892	17,415	19,487	20,604	22,820
Non-cash adj.	(3,479)	(609)	1,750	(1,768)	(1,414)
Changes in W.C	(1,195)	(1,965)	(4,234)	(1,266)	(1,430)
C.F. Operation	13,218	14,841	17,003	17,570	19,976
Capital exp.	(1,998)	(2,445)	(3,307)	(3,555)	(3,863)
Change in inv.	4,714	1,330	2,702	(2,069)	(310)
Other invest.CF	1,736	540	366	2,038	1,230
C.F - Investment	4,452	(575)	(239)	(3,585)	(2,943)
Issue of equity	(13,041)	(807)	(7,472)	-	-
Issue/repay debt	-	-	-	-	-
Dividends paid	(7,464)	(13,705)	(9,515)	(7,421)	(7,421)
Other finance.CF	-	-	(604)	-	-
C.F - Finance	(20,505)	(14,512)	(17,591)	(7,421)	(7,421)
Chg. in cash	(2,835)	(246)	(827)	6,563	9,612
Closing cash	19,818	19,568	18,649	25,212	34,824

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	27.0	25.3	24.5	25.0	25.7
EBIT margin (%)	24.3	22.8	21.3	21.9	22.7
Net profit mgn.(%)	22.7	18.6	18.3	18.0	18.5
ROE (%)	24.7	23.7	25.4	23.3	22.3
ROCE (%)	26.4	29.0	29.4	28.1	27.2
W.C & Liquidity					
Receivables (days)	68.0	65.5	74.3	74.7	75.1
Inventory (days)	-	-	-	-	-
Payables (days)	41.1	70.4	110.5	110.9	111.3
Current ratio (x)	3.5	2.8	2.6	2.9	3.3
Quick ratio (x)	2.8	2.2	2.0	2.3	2.7
Turnover & Leverage					
Gross asset T.O (x)	3.7	3.8	3.7	3.5	3.3
Total asset T.O (x)	0.9	1.0	1.0	1.0	1.0
Int. coverage ratio (x)	-	-	114.0	131.5	147.8
Adj. debt/equity (x)	-	-	-	-	-
Valuation					
EV/Sales (x)	3.5	3.7	2.8	3.7	3.3
EV/EBITDA (x)	12.8	14.6	11.2	14.7	12.8
P/E (x)	16.4	21.0	16.2	21.8	19.6
P/BV (x)	4.1	5.0	4.1	5.1	4.4

Recommendation Summary



Dates	Rating	Target
18-Apr-18	HOLD	608
25-Jul-18	HOLD	702
25-Oct-18	HOLD	708
23-Jan-19	HOLD	802
15-Jul-19	HOLD	783
16-Oct-19	REDUCE	729
14-Jan-20	HOLD	804
20-Jul-20	BUY	1,018

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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