

Infosys

BUY

Another all-round beat

Summary

Infosys' (INFO) Q2FY22 result was better than our forecast on all front. Q2FY22 revenue grew by 6.3%/19.4% QoQ/YoY in CC. EBIT margin declined 10bps QoQ to 23.6%. EPS of Rs12.9, 5.2%/+12.7%, QoQ/YoY was also better than forecast. Q2FY22 saw large-medium term deal with TCV of US\$2.15 bn (net-new being ~37%). For FY22, INFO has revised its revenue growth guidance to 16.5 to 17.5 YoY in CC (vs. 14% to 16% earlier) which was ahead of our expectation. EBIT margin guidance remained unchanged 22% to 24% despite a higher growth. We factor the beat in Q2FY22, broad based revenue growth, multi-year digital growth, robust TCV win, FY22 guidance revision and increase FY22/23E revenue (in US\$) by 0.7%/3.1% and EPS by 4.8%/9.2% for FY22/23E. We now forecast revenue growth of 17.8%/17.4% and EPS of Rs53.9/64.7 for FY22/23E. Hence we recommend BUY with new TP of Rs1,980 (vs. Rs1,595 earlier) based on 31x FY23E.

Key Highlights and Investment Rationale

■ Growth accelerated in Q2 with resilient operating margin

Q2FY22 revenue grew by 6.3%/19.4% QoQ/YoY in CC and 5.7%/20.7% QoQ/YoY in US\$ terms. The company witnessed broad based growth across all sectors, service lines, and geographies, with the digital solutions (56.1% of revenue) growing by +42.4% YoY in CC terms. US\$100 mn clients were +1 QoQ to 35. Q2FY22 saw EBIT margin declining by 10bps QoQ to 23.6%. It was impacted by higher subcontracting cost (-50bps) and wage hike (-110bps), partly offset by cross currency (+30bps) and other operational efficiency (+80bps) and SG&A (+30 bps).

■ Digital and client mining driving growth

INFO investment in cloud and sales is paying off. The company is seeing healthy traction in cloud, cybersecurity and experience. This coupled with healthy client mining, winning large deals, healthy pipeline, multi-year tech growth (56% revenues is from digital tech) and increase in hiring (from 35000 fresher to 45000) all indicate strong revenue growth in coming quarters. This prompts us to be positive on the stock from a long term perspective.

TP	Rs1,980	
CMP	Rs1,709	
Potential upside / downside	+16%	
Previous Rating	HOLD	

V/s Consensus

EPS (Rs)	FY22E	FY23E
IDBI Capital	53.9	64.7
Consensus	52.4	60.5
% difference	2.9	7.0

Shareholding Pattern (%)

Promoters	13.0
FII	33.4
DII	21.7
Public	32.0

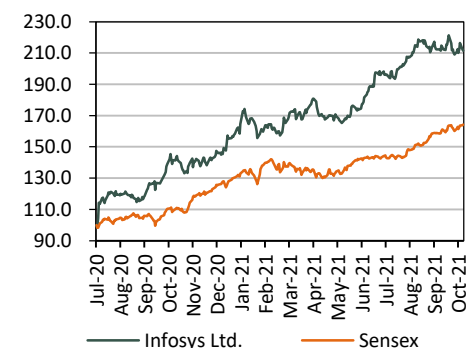
Price Performance (%)

	-1m	-3m	-12m
Absolute	1.0	10.6	47.6
Rel to Sensex	(3.3)	(4.5)	(1.9)

Key Stock Data

Bloomberg / Reuters	INFO IN / INFY.BO
Sector	IT Services
Shares o/s (mn)	4,205
Market cap. (Rs mn)	7,186,087
Market cap. (US\$ mn)	95,339
3-m daily average value (Rs mn)	6,840.4
52-week high / low	Rs1,788 / 1,051
Sensex / Nifty	60,737 / 18,162

Relative to Sensex (%)



Financial snapshot

Year	FY19	FY20	FY21	FY22E	FY23E
Revenue	826,760	907,910	1,004,730	1,183,844	1,389,680
EBITDA	208,900	222,680	278,890	318,036	378,851
EBITDA (%)	25.3	24.5	27.8	26.9	27.3
Adj. PAT	161,260	165,950	193,510	225,743	270,767
EPS (Rs)	37.2	39.1	45.6	53.9	64.7
EPS Growth (%)	9.9	5.3	16.5	18.2	19.9
PE (x)	45.5	43.2	37.1	31.4	26.2
Dividend Yield (%)	1.0	1.0	1.6	2.1	3.3
EV/EBITDA (x)	33.7	31.0	24.4	21.2	17.7
RoE (%)	24.8	25.5	27.3	29.9	35.3
RoCE (%)	29.4	28.9	32.5	35.0	41.6

Source: IDBI Capital Research;

Exhibit 1: Financial snapshot

(Rs mn)

Q2FY22 revenue growth of 6.3%/19.4%
QoQ in CC was a beat to our forecast.

EBIT margin declined by 10bps QoQ to
23.6%.

Year-end: March	Q2FY22	Q1FY22	QoQ (%)	Q2FY21	YoY (%)
Revenues (US\$ mn)	3,998	3,782	5.7	3,312	20.7
Revenues	2,96,020	2,78,960	6.1	2,45,700	20.5
COGS	1,89,470	1,76,770	7.2	1,49,160	27.0
Gross profit	1,06,550	1,02,190	4.3	96,540	10.4
SG&A	28,240	27,870	1.3	25,710	9.8
EBITDA	78,310	74,320	5.4	70,830	10.6
Depreciation & amortization	8,590	8,290	3.6	8,550	0.5
EBIT	69,720	66,030	5.6	62,280	11.9
Other income	4,760	5,730	(16.9)	5,220	(8.8)
PBT	74,480	71,760	3.8	67,500	10.3
Tax	20,200	19,750	2.3	18,920	6.8
Minority interest	70	60	16.7	130	46.2
Adjusted net profit	54,210	51,950	4.4	48,450	11.9
Exceptional item	0	0	n.m.	0	n.m.
Reported net profit	54,210	51,950	4.4	48,450	11.9
Diluted EPS (Rs)	12.9	12.2	5.2	11.4	12.7
As % of net revenue					
Gross profit	36.0	36.6		39.3	
SG&A	9.5	10.0		10.5	
EBITDA	26.5	26.6		28.8	
EBIT	23.6	23.7		25.3	
Reported net profit	18.3	18.6		19.7	
Tax rate	27.1	27.5		28.0	

Source: Company; IDBI Capital Research

Exhibit 2: Earnings Revision

Year-end: March	FY22F			FY23F		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (US\$ mn)	16,008	15,899	0.7	18,529	17,967	3.1
Revenue (Rs bn)	1184	1175	0.8	1390	1330	4.5
EBIT margin (%)	23.9	23.0	90 bps	24.6	23.7	90 bps
EPS (Rs)	53.9	51.4	4.8	64.7	59.2	9.2

Source: Company; IDBI Capital Research

Exhibit 3: Actual vs. estimates

Year to March	Q2FY22	Q2FY22E	Variance (%)
Revenue (US\$ mn)	3,998	3,943	1.4%
Revenue (Rs mn)	296,020	290,962	1.7%
EBIT (R smn)	69,720	65,670	6.2%
EBIT margin (%)	23.6%	22.6%	98bps
Recurring PAT (Rs mn)	54,210	53,232	1.8%
Recurring PAT margin (%)	18.3%	18.3%	0bps
EPS (Rs)	12.9	12.5	2.7%

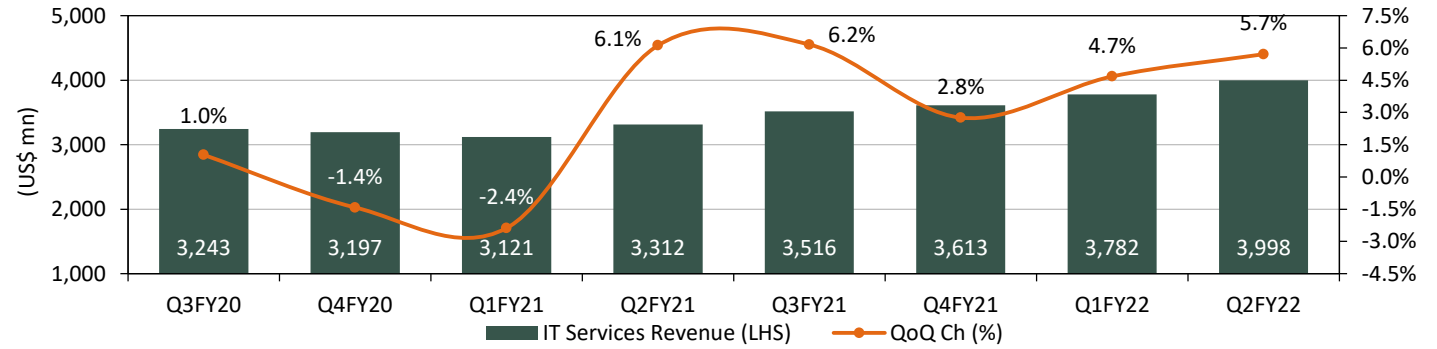
Source: Company; IDBI Capital Research

Exhibit 4: Large clients trend

Year-end: March	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
US\$1 mn+	705	718	729	745	761	779	805	841
US\$10 mn+	232	234	236	242	246	252	264	270
US\$50 mn+	61	61	60	60	60	59	59	62
US\$100 mn+	28	28	25	30	29	32	34	35

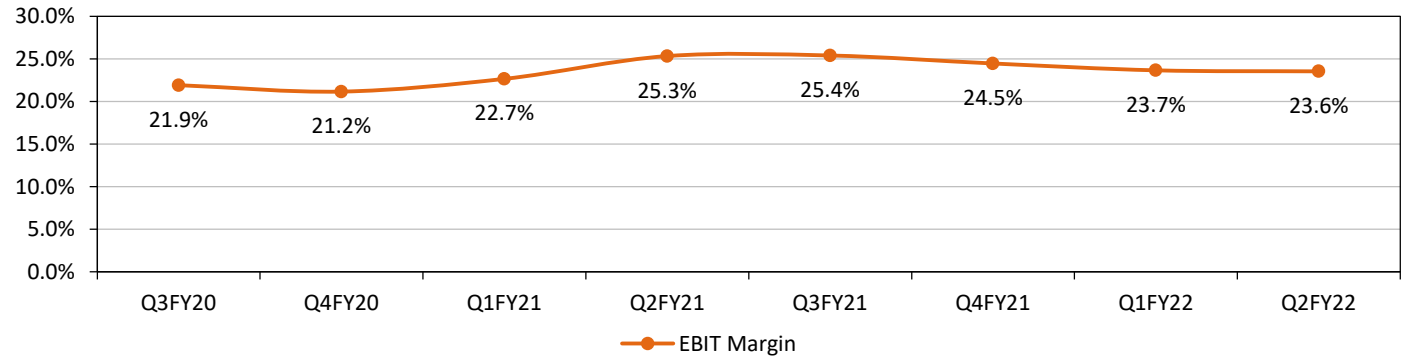
Source: Company; IDBI Capital Research

Exhibit 5: Q2FY22 revenue growth was beat to our forecast



Source: Company; IDBI Capital Research

Exhibit 6: Q2FY22 EBIT margin was better than our estimate



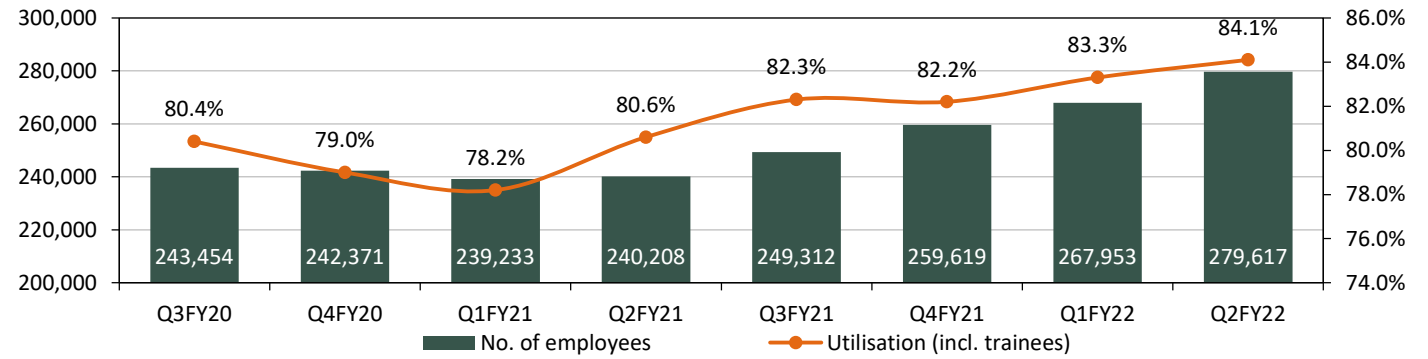
Source: Company; IDBI Capital Research

Exhibit 7: Revenue growth across various segments (%)

Parameters	% of revenue	YoY growth (in CC)
Total revenue		19.4
Digital revenue	56.1%	42.1
Geography		
US	61.9%	32.1%
Europe	24.8%	19.6%
India	2.6%	4.7%
ROW	10.7%	4.2%
Verticals		
Financial Services	32.3%	20.5%
Retail	14.6%	17.2%
Communications	12.4%	16.6%
Energy, Utilities, Resources and Services	11.8%	14.6%
Manufacturing	10.9%	42.5%
Hi Tech	8.5%	12.2%
Life Sciences	7.1%	26.1%
Others	2.4%	-9.6%

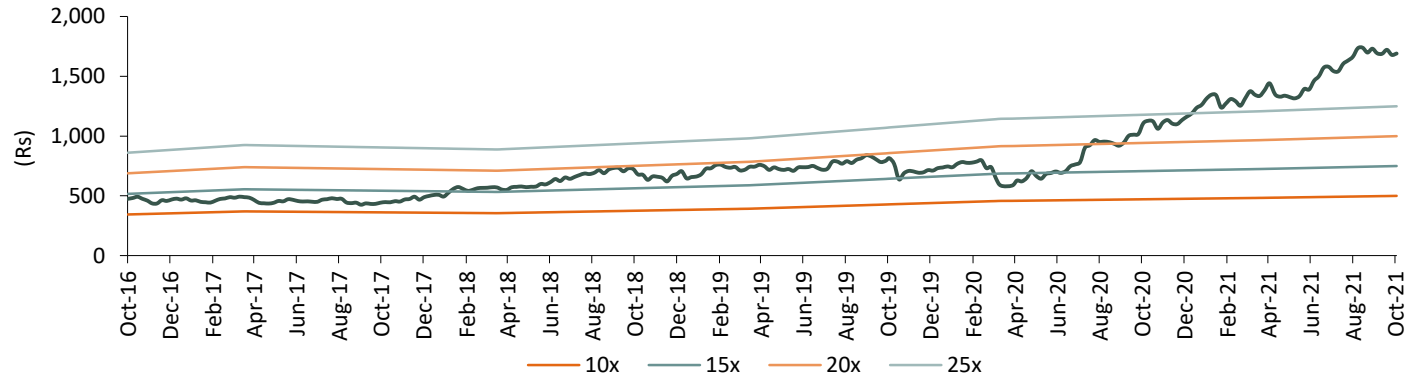
Source: Company; IDBI Capital Research

Exhibit 8: Utilisation including trainees remained steady



Source: Company; IDBI Capital Research

Exhibit 9: One-year forward PER trend



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net sales	9,07,910	10,04,730	11,83,844	13,89,680
<i>Growth (%)</i>	9.8	10.7	17.8	17.4
Operating expenses	(6,85,230)	(7,25,840)	(8,65,808)	(10,10,829)
EBITDA	2,22,680	2,78,890	3,18,036	3,78,851
<i>Growth (%)</i>	6.6	25.2	14.0	19.1
Depreciation	(28,940)	(32,670)	(34,598)	(36,942)
EBIT	1,93,740	2,46,220	2,83,437	3,41,909
Interest paid	(1,690)	(1,950)	(1,770)	(1,600)
Other income	28,030	22,010	26,658	26,566
Pre-tax profit	2,20,080	2,66,280	3,08,325	3,66,874
Tax	(53,680)	(72,050)	(82,092)	(95,387)
<i>Effective tax rate (%)</i>	24.4	27.1	26.6	26.0
Net profit	1,66,400	1,94,230	2,26,233	2,71,487
Adjusted net profit	1,65,950	1,93,510	2,25,743	2,70,767
<i>Growth (%)</i>	2.9	16.6	16.7	19.9
<i>Shares o/s (mn nos)</i>	4,241	4,244	4,188	4,188

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Pre-tax profit	2,20,080	2,66,280	3,08,325	3,66,874
Depreciation	21,790	32,670	34,742	36,942
Tax paid	(54,440)	(66,520)	(82,092)	(95,387)
Chg in working capital	(23,260)	16,760	(17,816)	(17,482)
Other operating activities	27,758	25,169	(9,267)	(14,547)
Cash flow from operations (a)	1,91,928	2,74,359	2,33,893	2,76,400
Capital expenditure	(56,560)	(44,660)	(22,000)	(22,000)
Chg in investments	-	-	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	(56,560)	(44,660)	(22,000)	(22,000)
Equity raised/(repaid)	(83,094)	14	(92,000)	-
Debt raised/(repaid)	-	-	-	-
Dividend (incl. tax)	(89,063)	(1,14,583)	(1,50,768)	(2,30,340)
Chg in minorities	2,910	(350)	(490)	(720)
Other financing activities	-	-	-	-
Cash flow from financing (c)	(1,69,248)	(1,14,919)	(2,43,258)	(2,31,060)
Net chg in cash (a+b+c)	(33,880)	1,14,780	(1,23,365)	23,340

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net fixed assets	205,750	217,740	204,998	190,056
Investments	-	-	-	-
Other non-curr assets	117,360	129,180	142,061	166,762
Current assets	587,130	725,960	753,149	835,700
Inventories	-	-	-	-
Sundry Debtors	184,870	192,940	227,039	266,514
Cash and Bank	274,410	389,190	354,210	367,397
Loans and advances	127,850	143,830	171,901	201,789
Total assets	910,240	1,072,880	1,100,209	1,192,518
Shareholders' funds	654,500	763,510	746,485	786,912
Share capital	21,206	21,219	20,940	20,940
Reserves & surplus	633,295	742,291	725,545	765,972
Total Debt	-	-	-	-
Secured loans	-	-	-	-
Unsecured loans	-	-	-	-
Other liabilities	38,570	51,020	51,020	51,020
CurrLiab & prov	213,230	254,040	298,393	350,276
Current liabilities	192,610	225,450	264,338	310,298
Provisions	20,620	28,590	34,056	39,977
Total liabilities	251,800	305,060	349,413	401,296
Total equity & liabilities	910,240	1,072,880	1,100,209	1,192,518
Book Value (Rs)	154	180	178	188

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY20	FY21	FY22E	FY23E
Adj. EPS (Rs)	39.1	45.6	53.9	64.7
Adj. EPS growth (%)	5.3	16.5	18.2	19.9
EBITDA margin (%)	24.5	27.8	26.9	27.3
Pre-tax margin (%)	24.2	26.5	26.0	26.4
ROE (%)	25.5	27.3	29.9	35.3
ROCE (%)	28.9	32.5	35.0	41.6
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.0	1.0	1.1	1.2
Leverage factor (x)	1.3	1.4	1.4	1.5
Net margin (%)	18.3	19.3	19.1	19.5
Net Debt/Equity (x)	(0.4)	(0.5)	(0.5)	(0.5)
Working Capital & Liquidity ratio				
Receivable days	74	70	70	70
Payable days	15	13	13	13

Valuation

Year-end: March	FY20	FY21	FY22E	FY23E
P/E (x)	43.2	37.1	31.4	26.2
Price / Book value (x)	11.0	9.4	9.5	9.0
PCE (x)	36.8	31.7	27.2	23.0
EV / Net sales (x)	7.6	6.8	5.7	4.8
EV / EBITDA (x)	31.0	24.4	21.2	17.7
Dividend Yield (%)	1.0	1.6	2.1	3.3



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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