

January 14, 2022

Strong revenue, margin resilience is key...

About the stock: Infosys Ltd (Infy) is one of the leading IT players catering to BFSI, retail, communication, manufacturing & hi tech verticals.

- The company generates >58% of revenues from digital technologies
- Dividend payout (>80%), margins (>20%) and RoCE (>31%) key positives

Q3FY22 Results: Infosys reported robust Q3FY22 results in revenue terms.

- Digital revenues rose 41.2% YoY. It now contributes 58.5% of revenues
- Margins were resilient at 23.5% despite supply side challenges
- Revised revenue guidance upwards from 16.5-17.5% earlier to 19.5-20.0% for FY22E and maintained margin guidance at 22-24% for FY22E

What should investors do? Infy's share price has grown by ~4.4x over the past five years (from ~₹ 424 in January 2017 to ~₹ 1,897 levels in January 2022).

- We continue to remain positive and retain our BUY rating on the stock

Target Price and Valuation: We value Infosys at ₹ 2,300 i.e. 32x P/E on FY24E EPS

Key triggers for future price performance:

- Differentiated digital and cloud capabilities to drive growth
- Growth remained broad-based and deal momentum robust, with digital transformation rapidly scaling across verticals and regions
- Infosys to register industry leading revenue growth (14.9% CAGR in FY21-24E)
- Healthy cash generation, robust dividend distribution & buyback

Alternate Stock Idea: Apart from Infosys, in our IT coverage we also like TCS.

- Strong organic growth, consistent financials, industry leading margins and healthy capital allocation policy prompt us to be positive on the stock
- BUY with a target price of ₹ 4,530



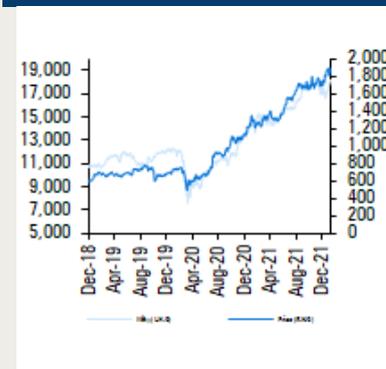
Particulars

Particular	Amount
Market CAP (₹ Crore)	806,433.4
Total Debt	-
CC&E (₹ Crore)	27,056.0
EV (₹ Crore)	779,377.4
52 week H/L	1914/ 1230
Equity capital	2,124.0
Face value	₹ 5

Shareholding pattern

	Mar-21	Jun-21	Sep-21	Dec-21
Promoters	13.0	13.0	13.1	13.0
FII	32.7	33.4	33.5	33.2
DII	23.1	22.0	15.7	16.3
Public	31.3	31.7	37.8	37.6

Price Chart



Recent Event & Key risks

- Revised guidance upwards to 19.5% -20% for FY22
- **Key Risk:** (i) Muted digital demand prospects, (ii) more than estimated rise in wage and travel costs

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Key Financial Summary

₹ Crore	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 years CAGR (FY21-24E)
Net Sales	82,676	90,791	100,472	10.0%	121,082	138,450	152,412	14.9%
EBITDA	20,890	22,268	27,890	10.3%	33,240	37,454	41,994	14.6%
EBITDA Margins (%)	25.3	24.5	27.8		27.5	27.1	27.6	
Net Profit	15,411	16,595	19,351	7.5%	23,743	26,864	30,405	16.3%
EPS (₹)	35.4	38.9	45.6		56.0	63.3	71.7	
P/E	53.6	48.8	41.7		34.0	30.0	26.5	
RoNW (%)	23.7	25.2	25.2		28.2	29.8	31.4	
RoCE (%)	32.9	30.8	31.7		34.5	36.4	38.4	

Source: Company, ICICI Direct Research

Result and conference call highlights

- Constant currency (cc) revenues increased 7% QoQ while US\$ revenues increased 6.3% QoQ to \$4,250 million. Reported EBIT margins declined ~10 bps QoQ to 23.5% amid supply side pressures
- Revenue growth was across geographies & verticals. In terms of geographies, revenue growth was led by Europe, which grew 27.2% YoY, followed by North America, which grew 21.4% YoY in CC terms. In terms of verticals, growth was led by BFSI, retail, communication, which grew 15.5%, 19.8% and 22.2% YoY, respectively, in CC terms
- Digital revenues increased 41.2% YoY and now accounts for 58.5% of overall revenues. In terms of large deal pipeline, it was up 17.7% QoQ to US\$2.53 billion
- Going forward, Infosys has further revised revenue growth guidance to 19.5-20% from earlier 16.5-17.5%, which represents strong growth potential despite a robust FY21 performance. The company expects healthy traction in large deals, traction in digital technologies (in cloud & experience) to be key drivers of growth. Infosys has also increased fresher hiring from 45000 to 55000 to address attrition and demand
- Reported EBIT margins declined ~10 bps QoQ to 23.5%. There was (-80 bps) wage hike impact and (-40 bps) impact due to lower utilisation. It was mitigated by cost optimisation (+60 bps), savings in SG& A (+40 bps) and currency tailwind of (+20 bps)
- Attrition remains a pain point as it has run up sharply in the last few quarters. The company did mention that attrition on an LTM basis have gone up but attrition for the quarter has actually come down QoQ. Sub-contracting costs are also rising as percentage of sales. It was at 11% of sales for the quarter vs. 10.3% of sales for the last quarter
- The company mentioned that they have been in active discussions with clients in terms of price increase amid cost pressure due to supply side challenges. Infy indicated that clients recognised the same and are now receptive to the discussion
- The company won large 25 deals during the quarter with TCV of US\$2.53 billion (bn) vs. US\$2.15 bn in Q2. Out of these, six were in retail, five each in BFSI, Communication and Energy, two in manufacturing and one each in High-tech and Life Sciences. Total 16 deal wins were from America, seven from Europe and two from the RoW
- Digital now accounts for ~58% of revenues
- There was addition of 12,450 employees taking employee strength to 292,067. The company continued to strengthen employee value proposition including health and wellbeing of the employees

Peer comparison

Exhibit 1: Peer Comparison

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
HCL Tech (HCLTEC)	1,333	1,475	BUY	361,799	45.8	50.6	60.9	29.1	26.3	21.9	23.5	24.1	27.6	20.8	20.5	23.2
Infosys (INFTEC)	1,897	2,300	BUY	806,433	45.5	55.9	63.2	41.7	34.0	30.0	31.7	34.5	36.4	25.2	28.2	29.8
TCS (TCS)	3,897	4,530	BUY	1,441,890	87.6	104.0	120.9	44.5	37.5	32.2	45.9	49.0	51.7	37.5	41.4	43.4

Source: Company, ICICI Direct Research

Infosys has been outperforming TCS in terms of revenues over the past two years and has also narrowed the margin gap. We expect the company to outperform TCS in revenue terms and, hence, expect the multiple discount to narrow.

Exhibit 2: Variance Analysis

	Q3FY22	Q3FY22E	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
Revenue	31,867	30,993	25,927	22.9	29,602	7.7	The company reported dollar revenue growth of 7.7% QoQ with broad based growth
Employee expenses	20,516	19,867	15,951	28.6	18,947	8.3	
Gross Profit	11,351	11,127	9,976	13.8	10,655	6.5	
Gross margin (%)	35.6	35.9	38.5	-286 bps	36.0	-37 bps	
Selling & marketing cost	1,325	1,293	1,145	15.7	1,235	7.3	
G&A expenses	1,643	1,664	1,416	16.0	1,589	3.4	
EBITDA	8,383	8,170	7,415	13.1	7,831	7.0	
EBITDA Margin (%)	26.3	26.4	28.6	-229 bps	26.5	-15 bps	
Depreciation	899	820	826	8.8	859	4.7	
EBIT	7,484	7,350	6,589	13.6	6,972	7.3	
EBIT Margin (%)	23.5	23.7	25.4	-193 bps	23.6	-7 bps	EBIT margin declined 7 bps QoQ. There was wage hike impact (-80 bps) and impact due to dip in utilisation (-40 bps). It was mitigated by cost optimisation (+60 bps), savings in SG&A (+40 bps), +20 bps currency tailwind
Other income	459	520	611	-24.9	524	-12.4	
PBT	7,943	7,870	7,200	10.3	7,496	6.0	
Tax paid	2,121	2,133	1,936	9.6	2,020	5.0	
Reported PAT	5,809	5,737	5,197	11.8	5,421	7.2	PAT was above our estimates on account of a strong operating performance

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(\$ Crore)	FY22E			FY23E			FY24E	Comments
	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	118,734	121,082	2.0	137,538	138,450	0.7	152,412	We expect dollar revenues to grow at 14.4% CAGR over FY21-24E
EBIT	28,734	29,302	2.0	33,559	32,951	-1.8	37,036	
EBIT Margin (%)	24.2	24.2	0 bps	24.4	23.8	-60 bps	24.3	We trim down margins for FY23E factoring in supply side challenges. We expect margins to stabilise at 24.3% in FY24E
PAT	23,313	23,743	1.8	27,325.5	26,864	-1.7	30,405	
EPS (\$)	54.9	56.0	1.8	64.4	63.3	-1.7	71.7	

Source: Company, ICICI Direct Research

Key Metrics

Exhibit 4: Geography-wise break-up

	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Revenue by geography (%)					
North America	61.6	61.6	61.7	61.9	61.8
Europe	24.0	24.4	24.2	24.8	24.9
India	2.6	3.0	2.9	2.6	3.0
ROW	11.8	11.0	11.2	10.7	10.3
Growth QoQ in \$ terms (%)					
North America	7.7	2.8	4.8	6.1	6.1
Europe	4.8	4.5	3.8	8.3	6.7
India	-8.0	18.6	1.2	-5.2	22.7
ROW	4.4	-4.2	6.6	1.0	2.3

Source: Company, ICICI Direct Research

Revenues growth was led by North America and Europe

Exhibit 5: Vertical-wise break-up

	%contribution to revenues Q3FY22	%contribution to revenues Q2FY22	Growth QoQ (%)
Revenue by verticals (%)			
Financial Services	31.5	32.3	3.7
Insurance			
Retail	14.5	14.6	5.6
Communication	12.5	12.4	7.2
E&U	11.7	11.8	5.4
Manufacturing	11.3	10.9	10.2
Hi Tech	8.1	8.5	1.3
Life Sciences	7.5	7.1	12.3
Others	2.9	2.4	12.4

Source: Company, ICICI Direct Research

The company has seen growth Retail, Communication, Life sciences

Exhibit 6: Client & human resource matrix

	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Client metrics					
5 Million \$ clients	761	779	805	841	854
25 Million \$ clients	246	252	264	270	274
50 Million \$ clients	60	59	59	62	64
100 Million \$ clients	29	32	34	35	37
Headcount, Utilization & Attrition					
Total Employees	249312	259619	267953	279617	292067
Utilization (Excluding trainees)	86.3	87.7	88.5	89.2	88.5
LTM Attrition	10.0	10.9	13.9	20.1	25.5

Source: Company, ICICI Direct Research

The company has seen increase in attrition, up ~540 bps in the quarter. The employee addition of 12,450 continues to be healthy. It added two clients in US\$100 million category

Financial summary

Exhibit 7: Profit and loss statement					₹ crore
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Total operating Income	100,472	121,082	138,450	152,412	
Growth (%)	10.7	20.5	14.3	10.1	
COGS (employee expenses)	62,145	75,007	86,458	94,415	
Admin expenses	5,810	7,265	8,307	9,145	
S&M expenses	4,627	5,570	6,230	6,859	
Total Operating Expenditure	72,582	87,842	100,996	110,419	
EBITDA	27,890	33,240	37,454	41,994	
Growth (%)	25.2	19.2	12.7	12.1	
Depreciation	3,268	3,938	4,503	4,957	
Other Income	2,201	2,395	2,685	3,155	
PBT	26,628	31,502	35,442	39,996	
Total Tax	7,205	7,686	8,506	9,519	
PAT	19,351	23,743	26,864	30,405	
Growth (%)	16.6	22.7	13.1	13.2	
EPS (₹)	45.6	56.0	63.3	71.7	
Growth (%)	17.2	22.7	13.1	13.2	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement					₹ crore
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Profit after Tax	19,351	23,743	26,864	30,405	
Add: Depreciation	3,267	3,938	4,503	4,957	
(Inc)/dec in Current Assets	(2,504)	(7,727)	(5,358)	(4,697)	
Inc/(dec) in CL and Provisions	3,137	3,883	3,272	2,631	
Taxes paid	(6,389)	(7,686)	(8,506)	(9,519)	
CF from operating activities	24,127	21,443	26,595	30,141	
(Inc)/dec in Investments	1,235	2,395	2,685	3,155	
(Inc)/dec in Fixed Assets	(2,107)	(2,200)	(2,200)	(2,200)	
CF from investing activities	(8,359)	195	485	955	
Dividend paid & dividend tax	(9,117)	(16,356)	(20,736)	(23,750)	
Others	29	-	-	-	
CF from financing activities	(9,786)	(16,356)	(20,736)	(23,750)	
Net Cash flow	5,982	5,281	6,345	7,346	
Exchange difference	83	-	-	-	
Opening Cash	18,649	24,714	29,995	36,340	
Closing Cash	24,714	29,995	36,340	43,686	

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet					₹crore
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Equity Capital	2,124	2,124	2,124	2,124	
Reserve and Surplus	74,658	82,045	88,173	94,827	
Total Shareholders funds	76,782	84,169	90,297	96,951	
Employee benefit obligations	97	97	97	97	
Debt	-	-	-	1	
Deferred Tax Liability	875	875	875	875	
Other non current liabilities	6,767	6,767	6,767	6,767	
Total Liabilities	84,521	91,908	98,036	104,690	
Assets					
Property, plant and equipment	18,417	16,679	14,375	11,618	
Goodwill	6,079	6,079	6,079	6,079	
Intangibles	2,072	2,072	2,072	2,072	
Available for sale assets	11,863	11,863	11,863	11,863	
Other assets	9,222	9,222	9,222	9,222	
Cash	24,714	29,995	36,340	43,686	
Current Investments	2,342	2,342	2,342	2,342	
Trade receivables	19,294	23,252	26,587	29,268	
Unbilled revenue	7,527	9,929	10,799	11,888	
Prepayment & O.fin.assets	6,668	8,036	9,188	10,115	
Other current assets	188	188	188	188	
Total Current Assets	60,733	73,742	85,445	97,487	
Trade payables	2,645	3,188	3,645	4,012	
Unearned revenue	4,050	4,881	5,581	6,144	
OCL & provisions	17,170	19,680	21,795	23,495	
Total Current Liabilities	23,865	27,748	31,020	33,651	
Net Current Assets	36,868	45,993	54,424	63,836	
Application of Funds	84,521	91,908	98,036	104,690	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	45.5	55.9	63.2	71.5
Cash EPS	53.2	65.1	73.8	83.2
BV	181	198	212	228
DPS	27.0	38.5	48.8	55.9
Cash Per Share	58	71	85	103
Operating Ratios (%)				
EBIT Margin	24.5	24.2	23.8	24.3
PBT Margin	26.5	26.0	25.6	26.2
PAT Margin	19.3	19.6	19.4	19.9
Debtor days	70	70	70	70
Unbilled revenue	27	26	27	27
Creditor days	10	10	10	10
Return Ratios (%)				
RoE	25.2	28.2	29.8	31.4
RoCE	31.7	34.5	36.4	38.4
RoIC	42.8	49.2	55.5	63.1
Valuation Ratios (x)				
P/E	41.7	34.0	30.0	26.5
EV / EBITDA	27.9	23.3	20.5	18.1
EV / Net Sales	7.8	6.4	5.5	5.0
Market Cap / Sales	8.0	6.7	5.8	5.3
Price to Book Value	10.5	9.6	8.9	8.3
Solvency Ratios				
Debt/EBITDA	-	-	-	0.0
Debt / Equity	-	-	-	0.0
Current Ratio	2.3	2.3	2.2	2.2
Quick Ratio	2.3	2.3	2.2	2.2

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct coverage universe (IT)

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
HCL Tech (HCLTEC)	1,333	1,475	BUY	361,799	45.8	50.6	60.9	29.1	26.3	21.9	23.5	24.1	27.6	20.8	20.5	23.2
Infosys (INFTEC)	1,897	2,300	BUY	806,433	45.5	55.9	63.2	41.7	34.0	30.0	31.7	34.5	36.4	25.2	28.2	29.8
TCS (TCS)	3,897	4,530	BUY	1,441,890	87.6	104.0	120.9	44.5	37.5	32.2	45.9	49.0	51.7	37.5	41.4	43.4
Tech M (TECMAH)	1,719	2,150	BUY	166,107	50.2	64.7	76.8	34.2	26.6	22.4	19.8	22.8	24.4	17.8	20.4	21.4
Wipro (WIPRO)	640	815	BUY	350,528	19.1	21.8	25.6	33.6	29.4	25.0	21.3	22.5	26.2	19.5	21.6	25.4
LTI (LTINFNC)	7,100	7,650	BUY	124,646	111.0	137.3	169.9	64.0	51.7	41.8	31.9	33.0	34.0	26.5	27.6	28.5
Mindtree (MINCON)	4,558	4,915	HOLD	75,069	67.4	89.8	109.2	67.6	50.7	41.7	32.5	36.0	36.3	25.7	28.2	28.2
Coforge (NIITEC)	5,726	5,870	BUY	35,595	73.3	115.2	146.7	78.1	49.7	39.0	23.3	28.6	30.9	18.5	25.0	27.1
TeamLease (TEASER)	4,249	4,220	HOLD	7,291	46.5	66.7	101.0	91.4	63.7	42.1	14.2	16.3	19.9	11.6	15.7	18.7
Infoedge (INFEDG)	5,589	6,270	BUY	72,413	20.9	37.1	51.0	267.3	150.7	109.7	7.7	13.1	16.7	6.0	9.9	12.6

Source: Company, ICICI Direct Research

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Sell: < -15%



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