

11 November 2020

Infosys Ltd.–BUY

CMP : Rs.1,114.5
Target Price : Rs.1,328.0
Upside : 20%+
Stop Loss : Rs.968.0 (Closing basis)

Investment Thesis

Recently, the stock price of Infosys Ltd. (Infosys) corrected by ~7% from 52-week high of Rs.1,186.00 despite the company reported above expected numbers and given strong revenue growth guidance for FY21E. Despite a challenging quarter due to Covid-19 pandemic, Infosys has reported above expected numbers and given revenue growth guidance in the range of 2-3% in constant currency for FY21E and operating margin to be in the range of 23-24%. We believe, clients' spending may be nominal in near term due to broader global economic uncertainty. In the near term, this may result in lower demand for its services and solutions, especially in area of discretionary technology-related spending. In the longer term, we expect favourable opportunity as enterprises accelerate their digital transformation initiatives and long-term potential in BFSI. Investments made in digital transformation, analytics, cloud, AI and cyber security is going to help it to serve emerging demands of clients in these areas going ahead. Infosys is also looking for acquisitions, especially in digital areas like cloud and data science in new geographies.

Infosys is a global leading consulting and next generation service provider, which has a diversified range of offerings across service segments and industry verticals. It has steadily increased the share of revenue from digital services, (44.5% in Q1FY21 compared with 36.0% in Q1FY20) which comprise offerings based on artificial intelligence, big data, Internet of Things (IoT), cloud applications and advanced cyber security systems, driven by better client acceptance of its digital products and services. Infosys' core services comprise traditional offerings and primarily include application development and management services, product engineering and management, infrastructure management services, support and integration services.

Financials

- During the past 5 years, revenue of Infosys grew at a CAGR of 11.2% while PAT grew at a CAGR of 6.0% in the same period.

Consol. (Rs.Mn.)	FY18	FY19	FY20	FY21E	FY22E
Revenue	705,220	826,750	907,910	1,044,097	1,200,711
EBITDA	188,930	201,700	217,560	250,194	287,723
% growth	3.6	6.8	7.9	15.0	15.0
PAT	160,290	154,040	165,940	184,654	212,722
EPS (INR)	36.8	35.5	39.1	43.5	50.1
P/E (x)	30.1	31.2	28.3	25.5	22.1
RoE (%)	24.3%	23.8%	25.5%	25.8%	27.1%

- Infosys reported revenue growth of 4.0% QoQ and 8.6% YoY in constant currency basis to Rs.2,45,700mn in Q2FY21 led by growth seen across most segments on the back of strong execution.

Stock Data

Market Cap (Rs. Mn)	47,02,604
Market Cap (\$ Mn)	63,292.2
Shares O/S (in Mn)	4,244.0
Avg. Volume (3 month)	1,09,54,000
52-Week Range (Rs.)	1,186.00/ 509.25

Shareholding Pattern

Promoters	12.96%
FIIIs	31.28%
Institutions	45.70%
Others (incl. body corporate)	10.06%

Performance (%)	1M	6M	1Yr
Absolute	-3.6%	59.8%	54.9%
BSE IT	-5.1%	54.4%	40.12%

Key Ratios

Div Yield	1.6%
TTM PE	26.4x
ROE	25.7%
TTM EPS (Rs.)	41.9/-

- Amongst Infosys' business segments, Hi-Tech segment acted as a growth driver, registered growth of 8.8% QoQ to Rs.22,440mn while Life Sciences grew 6.2% QoQ to Rs.16,720mn and Financials Services went up 5.6% QoQ to Rs.78,710mn.
- On the back of continued strong deal wins and its solid performance across verticals, Infosys has revised its revenue guidance for FY21E to 2-3% on constant currency basis and also raised its operating profits margins guidance to 23-24%.

Key Business Highlights

- Infosys is a global leader in consulting, technology, outsourcing and next-generation services. It provides services like application management, business applications, cloud, digital, engineering, infrastructure management, BPOs, enterprise mobility, among others.
- Infosys caters to various industry segments that primarily include financial services and insurance, manufacturing, energy & utilities, communication & services, retail, consumer packaged goods & logistics and life sciences & healthcare.
- Infosys has a diversified geographical presence with 100 development centers spread across US, India, APAC and Europe to serve clients in more than 50 countries. It also has a strong workforce of more than 2,39,000 employees.

Valuation

- Infosys deal pipeline is healthier than before, though cost-cutting and cash conservation measures by clients have led to delayed conversions. Infosys announced large deal wins worth US\$1.74bn in Q1FY21 (excluding the deal from Vanguard) against US\$1.65bn in Q4FY20. In August 2020, Infosys has signed a five-year deal with cloud customer experience and contact centre solutions provider, Genesys. As a part of the partnership, Infosys will bring to market Genesys' contact centre solutions. Infosys and German firm LANXESS also entered into a long-term partnership for digital and workplace transformation in July 2020. LANXESS manufactures chemical intermediates, additives, specialty chemicals in Germany. Infosys will support LANXESS in its IT infrastructure digitisation strategy and enable its global workforce spread across 33 countries using a secure and fully managed modern workplace.
- Infosys has recently launched AI-driven 'Cognitive Email Workbench' solution which will give enterprises the ability to augment query management and scale their helpdesk operations. Infosys leveraged its partnership with Blue Prism, a robotic process automation provider and a strategic partner to develop the solution that promises to significantly enhance productivity and customer satisfaction. Apart from this, Infosys has invested in digital technologies in past couple of years to capture the large portion of upcoming digital spends.
- With global leading consulting and next generation IT service provider, given revenue growth guidance in the range of 2-3% for FY21E, Investments made in digital transformation, analytics, cloud, AI and cyber security, deal pipeline is healthier than before and recently launched AI-driven 'Cognitive Email Workbench' solution, we value Infosys at 26.5x FY22E EPS of Rs.50.10 to arrive at target price of Rs.1,328.00, an upside of ~20%.

Risk & Concern

- Any slowdown in US will have negative impact on the business of all IT companies as Indian IT companies derives ~60% of revenue from US.
- While pursuing large deals going ahead, Infosys may fail to maintain margins at current levels.
- Appreciation of rupee against the USD, EUR and GBP may adversely impact margin of Infosys.

Graphs & Charts

Figure 1: Net Sales Trend

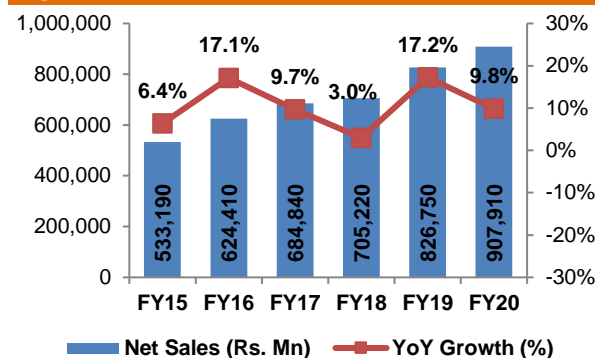


Figure 2: EBITDA & EBITDA Margin Trend

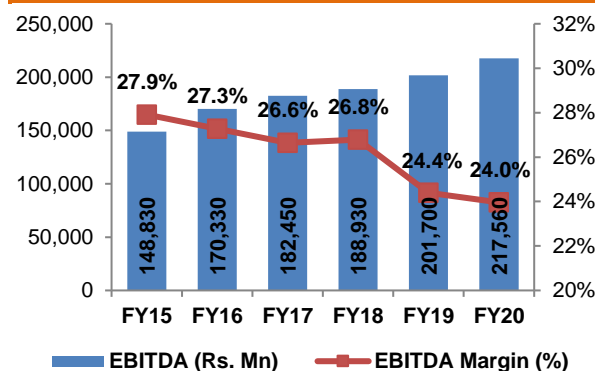


Figure 3: PAT Trend

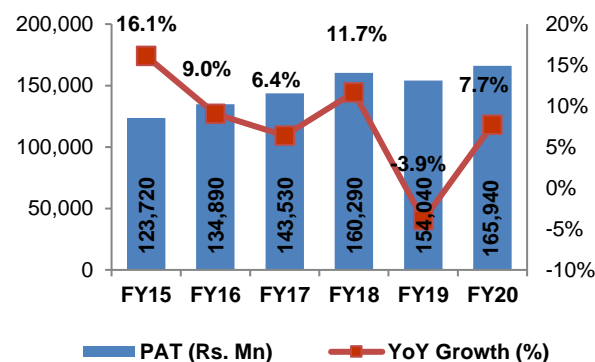
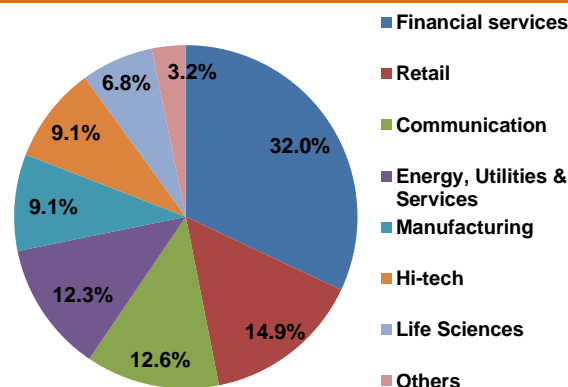


Figure 4: Industry-wise Revenue (Q2FY21)



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