



## RESILIENT BUSINESS, HEALTHY ORDER BOOK

Infosys Ltd (INFY) revenue stood at Rs. 24,570 crs up 4% QoQ and 8.6% YoY. Operating profit showed a growth of 20.7% YoY at Rs. 6,228cr; operating margin grew by 370 bps at 25.4% than previous quarter aided by strong execution, higher utilization and lower travel cost. Net profit for Q2 FY21 stood at Rs.4, 845 cr reported a growth of 20.5% YoY. INFY management revised its guidance upwards to 2%-3% (0%-2% previous) revenue growth in CC terms for FY21 and operating margin will be in the range of 23%-24% (21%-23% previous). The management commentary is positive in the verticals like BFSI, Hi tech Media, Life Sciences and Communications. While Retail vertical will recover slowly across geographies in near term. However digital business continues to show robust performance with \$1,568 mn (44% to the top line) showed a strong growth of 27% YoY and 3.5% QoQ in cc terms. Deal wins for the quarter remained strong at \$3.17bn from \$1.47bn previous quarter.

We believe Infosys has a better services mix and multiple long term contracts spread across verticals. With depreciation in INR, lower travel cost and strong execution EBITDA margins likely to expand in near term. **We recommend BUY and assign 24x P/E multiple to its FY23E earnings of Rs. 56.4 per share which gives a TP of Rs. 1,314 per share, an upside of 16%.**

### Healthy broad based performance

On vertical front, FSI vertical grew by 3.7% YoY, Retail vertical grew marginally by 0.7% YoY, Communication vertical declined by 1.8% YoY, Life Sciences grew by 7.4% YoY, Manufacturing verticals reported de-growth of 8.2% YoY, Hi tech vertical showed a strong growth of 24.4% YoY. Majority of the verticals sees strong recovery and likely to report growth backed by strong deal pipeline in forthcoming quarters.

On geographical front, North America (62% of revenue) declined by 1.9% YoY, Europe (24% of revenue) grew by 0.6% QoQ, India business grew by 20.8% YoY in CC terms. For Q2FY21 Free cash grew 69.8% at Rs. 4,989 cr..

### Our Take:

We believe Infy has a resilient business structure from a long term perspective and multiple long term contracts with world's leading brands. With depreciation in INR, lower travel cost, lower on site expenses EBITDA margins likely to expand in near term. We recommend **BUY** and assign 24x P/E multiple to its FY23E earnings of Rs. 56.4 per share which gives a **TP of Rs. 1,314 per share, an upside of 16%.**

### Key Financials (Consolidated)

(Rs. Cr)	2020	2021E	2022E	2023E
Net Sales	90,791	98,750	110,580	124,403
EBIDTA	22,540	25,306	28,504	32,033
Net Profit	16,594	19,561	21,850	24,351
EPS (Rs)	38.9	44.2	49.9	56.4
PER (x)	29.0	25.7	22.0	20.6
EV/EBIDTA (x)	12.8	16.8	15.6	15.2
P/BV (x)	5.4	6.7	5.7	5.1
ROE (%)	25.4	28.2	28.3	28.3

Source: Company, Axis Research

(CMP as of Oct 14, 2020)

CMP (Rs)	1,137
Upside /(Downside (%))	16%
High/Low (Rs)	1,185/511
Market cap (Cr)	Rs 4,70,494
Avg. daily vol. (6m) Shrs.	18,39,129
No. of shares (Cr)	425.6

### Shareholding (%)

	Mar-20	Dec-19	Sep-19
Promoter	13.15	13.15	13.15
FIs	33.51	31.76	31.01
MFs / UTI	12.92	13.36	13.66
Banks / FIs	0.11	0.13	0.13
Others	40.31	41.6	42.05

### Financial & Valuations

Y/E Mar (Rs. Cr)	2021E	2022E	2023E
Net Sales	98,750	110,580	124,403
EBITDA	25,306	28,504	32,033
Net Profit	19,561	21,850	24,351
EPS (Rs)	44.2	49.9	56.4
PER (x)	25.7	22.0	20.6
EV/EBITDA (x)	16.8	15.6	15.2
P/BV (x)	6.7	5.7	5.1
RoE (%)	28.2	28.3	28.3

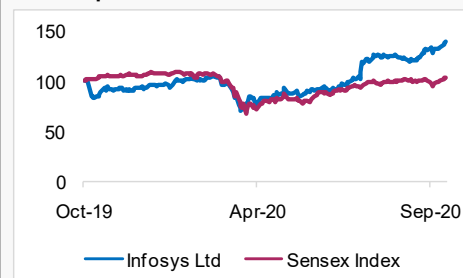
### Change in Estimates (%)

Y/E Mar	FY21E	FY22E	FY23E
Sales	2%	4%	5%
EBITDA	3%	4%	5%
PAT	3%	6%	7%

### Axis vs Consensus

EPS Estimates	2021E	2022E	2023E
Axis	44.2	49.9	56.4
Consensus	45	50	57
<b>Mean Consensus TP (12M)</b>			<b>1,350</b>

### Relative performance



Source: Capitaline, Axis Securities

**Omkar Tanksale**  
Research Analyst

Call: (022) 4267 1759, 9819327371  
email: Omkar.tanksale@axissecurities.in

## Key Concall Highlights

- Financial Ramp-up of large deals is on track and Vanguard deal signed in Q2 has had minimal contribution to Q2 revenue; full ramp-up will aid Q3 revenue. Financial Services witnessed continued improvement in areas where banks are investing significantly post COVID-19 like mortgage servicing, call centre technology and operations, lending services to cater to government relief programs and pick-up of large digital transformation programs. Company has signed 6 large deals in the segment in Q2 including the Vanguard deal.
- The Infosys is witnessing back some momentum in retail with increased volumes in Q2 and ramp-up of earlier deal wins. However, it remains cautious on segment given continued demand
- and liquidity issues and possibly increased furloughs in coming months.
- Infosys added 96 new clients during the quarter. Utilization including trainees increased by 240 bps to 80.6%, and excluding trainee utilization by 240 bps to 83.6%. Net employee addition at 975 and attrition eased by 390 bps to 7.8%. Infosys will pay 100% variable pay for Q2FY21 and wage hike in Q4FY21.
- Infosys management also announced interim dividend of Rs12/ share.

### Active clients

	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21
Active clients	1336	1364	1384	1411	1458	1487
Added during the quarter	112	28	84	84	110	96

Source: Company, Axis Research

### Client Parameters

	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21
\$1 mn clients	680	693	705	718	729	745
\$10 Mn clients	228	228	232	234	236	245
\$50 Mn clients	59	61	61	61	60	60
\$100 mn clients	27	27	28	28	135	30

Source: Company, Axis Research

### Human Resources

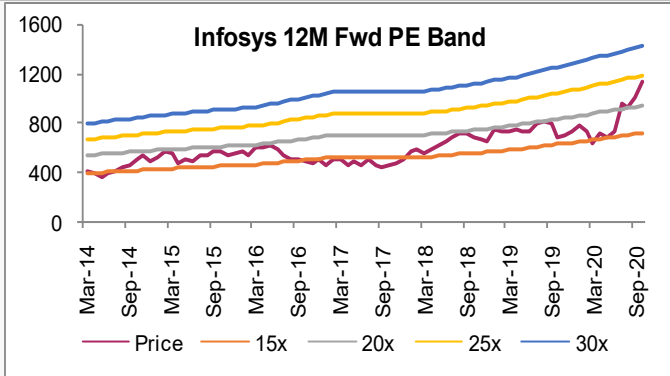
	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21
<b>Total Headcount</b>	228029	236486	243454	242371	239233	240208
Net Addition	906	7457	6968	-1083	-3138	975
Attrition (%)	23%	22%	20%	21%	11.70%	7.80%

Source: Company, Axis Research

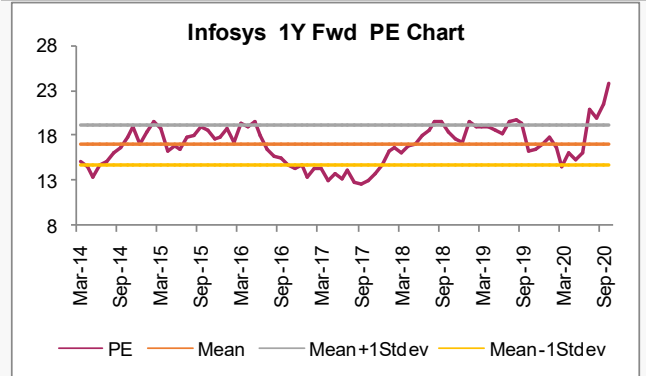
## Valuation and Outlook

Although there are near term challenges to growth owing to COVID-19, we believe in Infosys track record of delivering profitable growth in tough environment thereby reaffirming our confidence in management's ability to deliver in longer term. **We maintain BUY rating and target price of Rs. 1,314/share.**

Infosys 12M Fwd PE Band



Infosys 1Y Fwd PE Chart



Source: Company, Axis Securities

**Result Update**
**(Rs Cr)**

Y/E March	Q2 FY21	Q1 FY21	Q2 FY20	% Change (YoY)	% Change (QoQ)
<b>Total Revenue</b>	24,570	23,665	22,629	9%	4%
Total Cost of Sales	15,771	15,703	15,079		
<b>Gross Profit</b>	8,799	7,962	7,550	17%	11%
Margin(%)	36%	34%	33%	245	217
Employee Cost	136	1,146	1,162		
Other Costs	1,435	1,451	1,476		
Total Operating Expenses	1,571	2,597	2,638		
<b>Operating Income</b>	<b>7,228</b>	<b>5,365</b>	<b>4,912</b>	47%	35%
Margin(%)	29%	23%	22%	771	675
Total Other Income/(Expense)	522	427	584		
<b>Income Before Income Taxes</b>	<b>67,750</b>	<b>5,792</b>	<b>5,496</b>		
Total Taxes	1,892	1,520	1,459		
ETR (%)	3%	26%	27%	-2,375	-2,345
<b>Net Profit After Taxes</b>	<b>4,858</b>	<b>4,272</b>	<b>4,037</b>	20%	14%
Non Controlling Interest	13	39	14		
<b>Net Income After Extraordinary Items</b>	<b>4,845</b>	<b>4,233</b>	<b>4,019</b>	21%	14%
Margin(%)	20%	20%	21%	-123	-
<b>EPS</b>	<b>11.40</b>	<b>9.97</b>	<b>9.44</b>	21%	14%

Source: Company, Axis Securities

**Financials (Consolidated)**
**Profit & Loss**

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
<b>Net sales</b>	<b>90,791</b>	<b>98,750</b>	<b>110,580</b>	<b>124,403</b>
Growth, %	10%	9%	12%	13%
Other income	2,803	3,300	3,300	3,420
Total income	<b>93,594</b>	<b>102,050</b>	<b>113,880</b>	<b>127,823</b>
Employee expenses	58,013	63,711	72,489	80,862
Other Operating expenses	-19,031	10,486	12,827	14,928
EBITDA (Core)	<b>22,540</b>	<b>25,306</b>	<b>28,504</b>	<b>32,033</b>
<b>Growth, %</b>	<b>8%</b>	<b>12%</b>	<b>13%</b>	<b>12%</b>
Margin, %	25%	26%	26%	26%
Depreciation	2,869	3,094	3,355	3,620
EBIT	<b>19,671</b>	<b>25,512</b>	<b>28,449</b>	<b>31,833</b>
<b>Growth, %</b>	<b>4%</b>	<b>30%</b>	<b>12%</b>	<b>12%</b>
Margin, %	22%	26%	26%	26%
Interest paid	0	0.8	0.8	1.1
Pre-tax profit	<b>22,007</b>	<b>25,511</b>	<b>28,448</b>	<b>31,831</b>
<b>Tax provided</b>	<b>5,368</b>	<b>5,950</b>	<b>7,570</b>	<b>7,480</b>
Profit after tax	16,594	19,561	20,878	24,351
<b>Net Profit</b>	<b>16,594</b>	<b>19,561</b>	<b>21,850</b>	<b>24,351</b>
<b>Growth, %</b>	<b>5%</b>	<b>18%</b>	<b>12%</b>	<b>11%</b>
Net Profit (adjusted)	16,594	19,561	21,850	24,351

Source: Company, Axis Securities

**Balance Sheet**

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Cash & bank	27,626	32,439	37,782	39,671
Debtors	16,333	18,203	20,412	21,433
Other current assets	13,066	14,171	15,477	16,251
<b>Total current assets</b>	<b>29,399</b>	<b>32,374</b>	<b>35,889</b>	<b>37,683</b>
Goodwill and Intangible Assets	430	439	449	472
Net fixed assets	14,614	15,015	15,696	16,481
CWIP	1,388	1,388	1,388	1,457
Other Non current assets	9,021	9,052	9,088	9,542
<b>Total Non Current Assets</b>	<b>29,464</b>	<b>29,982</b>	<b>30,802</b>	<b>32,342</b>
<b>Total assets</b>	<b>58,863</b>	<b>62,356</b>	<b>66,691</b>	<b>70,026</b>
Creditors	1,823	2,032	2,278	2,392
Provisions	18,549	20,493	22,790	23,930
<b>Total current liabilities</b>	<b>20,372</b>	<b>22,525</b>	<b>25,068</b>	<b>26,321</b>
Other liabilities	422	422	422	443
Paid-up capital	2,121	2,121	2,121	2,227
Reserves & surplus	60,374	66,537	73,672	77,356
Shareholders' equity	62,495	68,658	75,793	79,583
<b>Total equity &amp; liabilities</b>	<b>58,863</b>	<b>62,356</b>	<b>66,691</b>	<b>70,026</b>

Source: Company, Axis Securities

**Cash Flow**

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Pre-tax profit	22,210	25,345	28,039	31,831
Depreciation	2,869	3,094	3,355	3,620
Chg in working capital	-1,357	-1,377	-1,088	-1,115
Total tax paid	-5,717	-6,843	-7,570	-7,759
<b>Cash flow from operating activities</b>	<b>16,162</b>	<b>17,978</b>	<b>20,671</b>	<b>21,188</b>
Capital expenditure	-2,443	-3,495	-4,036	-4,137
<b>Cash flow from investing activities</b>	<b>-433</b>	<b>-1,085</b>	<b>-1,804</b>	<b>-1,849</b>
Free cash flow	13,286	13,398	14,831	15,202
Dividend (incl. tax)	-18,848	-12,313	-13,298	-13,630
<b>Cash flow from financing activities</b>	<b>-19,014</b>	<b>-12,481</b>	<b>-13,466</b>	<b>-13,803</b>
Net chg in cash	-3,285	4,412	5,401	5,536

Source: Company, Axis Securities

**Ratio Analysis**

(%)

Y/E March	FY20	FY21E	FY22E	FY23E
<b>Per Share data</b>				
EPS (INR)	38.91	44.2	49.9	56.4
Growth, %	5%	14%	13%	13%
Book NAV/share (INR)	149.6	157.7	174.1	196.733
FDEPS (INR)	39	42	46	46
CEPS (INR)	43.7	49.9	54.6	61.698
CFPS (INR)	36.5	43.8	42.8	48.364
DPS (INR)	23	25	27	30.51
<b>Return ratios</b>				
Return on assets (%)	40.3	41.3	43	48.59
Return on equity (%)	25.4	28.2	28.3	28.3
Return on capital employed (%)	24.8	26.7	26.9	26.9
<b>Turnover ratios</b>				
Asset turnover (x)	2.6	2.6	2.8	3.1
Sales/Total assets (x)	1.2	1.2	1.3	1.45
Receivables Days	73	73	73	54
Cash conversion cycle	36	35	35	36
<b>Liquidity ratios</b>				
Current ratio (x)	2.4	2.6	2.8	2.8
Interest cover (x)	0	112	132	132
Net debt/Equity (%)	-0.2	-0.2	-0.2	-0.2
<b>Valuation</b>				
PER (x)	29.0	25.7	22.0	20.6
Price/Book (x)	5.4	6.7	5.7	5.1
EV/Net sales (x)	3.4	3.1	2.9	2.9
EV/EBITDA (x)	12.8	16.8	15.6	15.2
Dividend Yield	2.1	2.6	2.1	2.4

Source: Company, Axis Securities

**About the analyst**

Omkar Tanksale

Research Analyst

omkar.tanksale@axissecurities.in

Call: (022) 4267 1737

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