AXIS SECURITIES

Pick of the Week

5th March. 2022

Infosys Ltd

IT services

Buy

Target Price

1895

CMP (Rs)	Target (Rs)	Potential Upside (%)
1723	1895	10%

MARKET DATA

No. of Shares	420.3 Cr
Market Cap	7,24,907 Cr
52-week High / Low	1,954/1,306
BSE Code	500209
NSE Code	INFY

Why Infosys.

- ✓ Attractive Valuations
- ✓ Macro-economic Tailwinds
- ✓ Encouraging Growth Opportunities
- ✓ Company-specific Triggers
- ✓ Sector-specific Attributes

About the Company

Infosys is India's second largest IT services exporter and has strong global presence. It provides industry wide solutions including next gen services like Cloud computing, digital transformations, IoT, Machine learning etc. Infosys also has expertise in providing solutions in verticals like banking and financial services, Retail, Manufacturing etc.

Investment Rationale

A. Digital transformation business is intact for Infosys : IT service provider's engagement with its partner network has expanded beyond certifications into setup of co-innovation centers, building industry solutions, ISV partnerships and joint sourcing of deals. These partnerships play a significant role in implementation, rollouts & upgrades, validation and support services. Recent deal trend continues to be robust for Infosys and is reflective of traction in BFSI, Retail & CPG, Manufacturing and BFSI verticals. Infosys will continue to invest in COBALT (Its digital product), Digital Talent and S&M which is imperative to drive growth. We believe that COVID outbreak will create huge opportunity across geographies for Infosys to post strong organic growth over different verticals.

B. Strong sustainable margin gain : Infosys management has taken cost optimization efforts which help them to gain long term sustainable operating margins. There are some tailwinds like better service mix, reducing the marketing spend, lowering travel cost, employee restructuring and improving utilization. We believe gaining the efficiency over business will help them to get more profitability and higher return ratios.

C. Healthy deal pipeline improves the visibility: Infosys deal pipeline remained industry leading in Q3 FY22 at $2.53 bn. Infosys won many large transformation deals despite uncertainty and across verticals like BFSI, Communication, manufacturing, Automobile. This healthy deal pipeline will help to improve revenue visibility for FY22E and FY23E

Outlook & Valuation: Infosys Ltd (Infy) reported Q3FY22 revenue of Rs 31,867 Cr, up 7.7% QoQ and 7% QoQ (in CC terms). The company's operating profit stood at Rs 7,484 Cr, reporting a growth of 7.3% on a QoQ basis. However, its operating margins de-grew by 10bps QoQ to 23.5%, largely led by the unfavourable impact of higher subcontracting costs. Its net profit for Q3FY22 stood at Rs 5,809 Cr, registering a growth of 7.1% QoQ. Infy management has revised revenue growth guidance for FY22 to 19.5%-20% (from 16.5%-17.5% earlier) in CC terms in light of a strong deal pipeline and robust demand.

Recommendation: We recommend a Buy the stock for a target price of Rs 1895 implying an upside of 10% from CMP

Financial Summary

Y/E March	Net Sales (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	EV/EBIDTA (x)	P/BV (x)	RoE (%)
FY21	1,00,472	27,889	19,417	45.5	37.3	9.5	9.5	27%
FY22E	1,19,120	33,722	24,190	52.8	29.9	9.4	9.4	31%
FY23E	1,39,219	38,285	26,540	62.3	30.7	9.2	9.2	30%
FY24E	1,60,687	44,992	29,597	73.5	24.5	9.1	9.1	38%

Source: Axis Securities; CMP as on 4th March, 2022

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