

CMP: Rs 1136

Rating: Hold

Target Price: Rs 1247

Stock Info

BSE	500209
NSE	INFOSYSTCH
Bloomberg	INFO IN
Reuters	INFO.BO
Sector	Computers-Software
Face Value (Rs)	5
Equity Capital (Rs Cr)	2122
Mkt Cap (Rs Cr)	471,815
52w H/L (Rs)	1185 / 511
Avg Yearly Vol (in 000')	11104

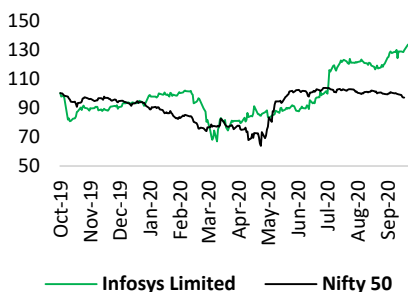
Shareholding Pattern %

(As on June, 2020)

Promoters	13.15
FII	30.47
DII	25.43
Public & Others	30.95

Stock Performance (%)	3m	6m	12m
INFY	18.8	70.1	44.5
Nifty	7.5	27.9	3.6

INFY Vs Nifty



Shrey Gandhi
Shrey.gandhi@arihantcapital.com
022 67114834

Infosys reported better earnings performance during Q2FY21. Consolidated revenue for the quarter stood at Rs 24,570 Cr, which has marginally missed our estimate of Rs 24826 cr, registering a growth of +8.6% YoY/+3.8% QoQ. EBIT for the quarter grew by +27% YoY/+16.1% QoQ to Rs 6228 Cr, above our estimate of Rs 5082 Cr, while EBIT margin expanded by 364bps YoY/268bps QoQ driven by digital and cloud capabilities combined with intense client relevance. PAT for the quarter grew by +20.6% YoY to Rs 4,845 Cr, beating our estimate of Rs 4,475 Cr.

Q2FY21 Segments Highlights

- Revenue from segments like HiTech (+24.4% YoY CC) , Life Sciences (+7.4% YoY CC), and other (+24.8% YOY CC) showed good growth. However revenue from retail (-0.3%YoY CC), Energy, utilities services (-3.7%YoYCC), Manufacturing segment(-8.2%YOY CC) & Communication (-1.8%YoY CC) showed de growth.
- While Europe reported Stable growth (+0.6% YoY, CC), revenue from North America (+1.9% CC YOY) and RoW (+3.7 YoY CC) showed strong growth.
- The strength and resilience of the company was fully visible in Q2FY21 with operating metrics witnessing a healthy increase, broad-based growth, highest ever large deal TCV at \$ 3.15 bn and attrition reducing to single digits.
- Q2FY21 Digital revenues stood at \$1,568 million (47.3% of total revenues), YoY growth of 25.4% in CC.
- Q2FY21 EBIT margin stood at 25.3%, increase of 364 basis points-YoY. Company's relentless efforts on cost optimization and strengthening operational efficiencies helped by certain cost deferrals led to 268 bps sequential improvement in EBIT margin to 25.3% and a 300 bps improvement in H1 margins.

Valuations

Infosys Q2FY21 performance was better than peers as well as expectations and positive guidance from management on the revenue and margin front indicates strong traction in business going ahead. Deal wins (TCV ~USD 3.15bn) and healthy deal pipeline indicates healthy topline growth going ahead. Vanguard deal will start ramping up in Q3FY21 which will aid top to topline growth. At CMP of Rs 1136, Infosys currently trades at P/E of 29 to its FY 20 Earnings. We value Infosys at P/E of 27x to its FY22E EPS of 46, which yields target price of Rs 1247 per share. **We assign Hold rating on the stock.**

Y/E March (Rs. In Cr))	FY19	FY20	FY21E	FY22E
Net Revenue	82,675	90,791	98,145	1,11,100
EBIT	18,880	19,374	20,610	23,109
Net Profit	15,410	16,639	17,658	19,596
EPS	35.4	38.9	41.6	46.2
P/E (x)	32.1	29.2	27.3	24.6
ROE	23.7%	25.2%	24.0%	23.5%

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Q2 FY21 - Quarterly Performance (Consolidated)

Rs Cr (Consolidated)	Q2FY21	Q2FY20	Q1FY21	Q-o-Q	Y-o-Y
Net Revenue	24,570	22,629	23,665	3.8%	8.6%
Cost of Sales	15,771	15,079	15,703	0.4%	4.6%
Gross Profit	8,799	7,550	7,962	10.5%	16.5%
S&M and Admin. Expenses	2,571	2,638	2,597	-1.0%	-2.5%
EBIT	6,228	4,912	5,365	16.1%	26.8%
EBIT margin %	25.3%	21.7%	22.7%	268bps	364bps
Other Income	522	584	427	22.2%	-10.6%
Adjustments	-	-	-	NA	NA
PBT	6,750	5,496	5,792	16.5%	22.8%
Tax Expense	1,892	1,459	1,520	24.5%	29.7%
Effective tax rate %	28.0%	26.5%	26.2%	179bps	148bps
Reported PAT	4,858	4,037	4,272	13.7%	20.3%
MI & Associates	-13	-18	-39	NA	NA
Consolidated PAT	4,845	4,019	4,233	14.5%	20.6%
Adjusted PAT	4,845	4,019	4,233	14.5%	20.6%
Adj PAT Margin %	19.7%	17.8%	17.9%	183bps	196bps
EPS (Rs)	11	9.5	10.0	14.2%	20.5%
Adj EPS (Rs)	11	9.4	10.0	14.2%	20.8%

Q2FY21 Concall Highlights

- Q2 free cash flow stood at \$674 million; year-on-year growth of 69.8%.
- Q2 voluntary attrition for IT services declined to 7.8% from 18.3% in Q2 FY20.
- Declared interim dividend of ₹12 per share.
- FY 21 revenue growth guidance revised upward to 2%-3% in constant currency.
- FY 21 operating margin guidance revised upward to 23%-24%.
- Management launched Infosys Cobalt where all cloud services ,platform & solutions to support client and accelerating cloud journey & reducing risk.
- Cobalt has 200 industry template 1400 cloud components available to client for their cloud first program.
- Total TCV stood at US\$3.15 bn 6 deal wins in financial services, 3 deal wins in retail, 2 deals each in communication & Hi tech and remaining all including others 1 deal .
- Utilization improved by 240 Bps to 83.6% mainly on account of improvement in offshore utilization.
- Company has strong client base & it added 96 clients in Q2FY21.

Key Financials

Profit & Loss Statement (Consolidated)				
Particulars (Rs Cr)	FY19	FY20	FY21E	FY22E
Income	82,675	90,791	98,145	1,11,100
Software development expenses	53,867	60,732	64,776	74,437
Gross Profit	28,808	30,059	33,369	36,663
Sales and development expenses	4,473	4,711	5,692	6,666
General and administrative expenses	5,455	5,974	7,066	6,888
EBIT	18,880	19,374	20,610	23,109
Finance Cost (Lease expense)	-	170	150	161
Other Income	2,882	2,803	3,337	3,111
Provision for investment/ Shares profit / (Loss)	-721			
PBT	21,041	22,007	23,797	26,059
Tax	5,631	5,368	6,140	6,463
PAT	15,410	16,639	17,658	19,596
Adjusted PAT	15,404	16,594	17,658	19,596
Growth (%)	-4.6%	7.7%	6.4%	11.0%
Adjusted EPS	35	39	42	46

Balance Sheet (Consolidated)				
Particulars (Rs Cr)	FY19	FY20	FY21E	FY22E
Shareholder's Funds				
Share Capital	2,170	2,122	2,122	2,122
Reserves & Surplus	62,836	63,722	71,527	81,136
Net Worth	65,006	65,844	73,649	83,258
Total Non Current Liabilities	1,094	6,068	6,234	6,527
Total Current Liabilities	18,638	20,856	21,072	24,007
Total Liabilities	84,738	92,768	1,00,956	1,13,793
Net Block	15,710	19,621	23,193	27,238
Capital Work-in-Progress	1,388	954	954	954
Total Non Current Assets	31,860	38,192	37,681	42,062
Cash and bank balance	19,568	18,649	22,274	31,988
Total Current Assets	52,878	54,576	63,275	71,730
Total Assets	84,738	92,768	1,00,956	1,13,793

Key Ratios (Consolidated)				
Particulars	FY19	FY20	FY21E	FY22E
EPS	35.4	38.9	41.6	46.2
Book Value	150	155	174	196
DPS	22	18	18	18
Payout %	89%	57%	43%	40%
Dividend Yield %	2.9	1.9	1.9	1.9
P/E	32.1	29.2	27.3	24.6
PBT Margin	25.5%	24.2%	24.2%	23.5%
Adjusted PAT Margin	18.6%	18.3%	18.0%	17.6%
Debt/Equity	0.0	0.1	0.1	0.1
Current Ratio	2.8	2.6	3.0	3.0
ROE	23.7%	25.2%	24.0%	23.5%
ROCE	22.3%	20.9%	20.4%	20.3%

Cash Flow Statement (Consolidated)				
Particulars (Rs Cr)	FY19	FY20	FY21E	FY22E
PAT	15,410	16,639	17,658	19,596
Add:- Depreciation & Others	2,011	2,893	3,141	4,111
Change in Working Capital	-453	-2,367	2,850	6,501
Cash generated from operations	21,673	21,553	28,141	35,130
Taxes paid	-6,832	-4,550	-6,140	-6,463
Cash flow from operating activities	14,841	17,003	22,001	28,667
Purchase of FA and Capex	-2,445	-3,307	-3,572	-4,044
Others	1,870	3,068	257	257
Cash flow from investing activities	-575	-239	-3,315	-3,787
Other fin. Activities	-813	-7,478	-7,478	-7,478
Dividend paid, including div. tax	-13,705	-9,515	-7,663	-7,768
Cash flow from financing activities	-14,512	-17,591	-15,141	-15,246
Exchange Fluctuations	-57	-92	80	80
Net Cash Flow	-246	-827	3,545	9,634
Opening Cash balance	19,871	19,568	18,649	22,274
Closing Cash balance	19,568	18,649	22,274	31,988

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880