

Infosys' Q1FY22 performance was a mixed bag with revenue beating our estimates and revenue growth guidance for FY22 increased whereas profitability was below our estimates

- **\$ Revenue came in at \$3,782 Mn, +4.7% qoq / +18.3% yoy and +0.5% above estimates**
- **INR revenue came in at INR 2,78,960 Mn, +6% qoq / +17.9% yoy and 0.5% above our estimates**
- **Digital Revenues grew 9.7% qoq / 46.9% yoy**
- **EBIT was reported at INR 66,030 Mn, +2.5% qoq / +23.1% yoy and -2.4% vs our estimates**
- **EBIT margins stood at 23.7%, vs 24.5% / 22.7% in Q4FY21 / Q1FY21 respectively and 70 bps below our estimates**
- **PAT came in at INR 51,950 Mn, +2.3% qoq / +24.1% yoy and -3.2% below our estimates**
- **EPS at INR 12.24 in Q1FY22 vs 12 / 9.8 in Q4FY21 / Q1FY22 respectively**

Segmental Trends

Growth across the verticals was led by

- **BFSI (33% of topline)** which grew by 27% YoY followed by **Retail (15% of topline)** growing at 26.6% YoY, **Lifesciences (6.8% of Revenue)** growing at 23.4% YoY and **Manufacturing (9.7% of topline)** growing at 23.1% YoY on reported basis.
- **Hi-Tech (8.3% of topline)** grew by 15.1% YoY followed by **Energy & Utilities (12.1% of topline)** growing at 14.5% YoY and **Communications (12.2% of topline)** that grew at 10.6% YoY on reported basis. **Others (2.9% of topline)** also grew by 16.3% YoY on reported basis.

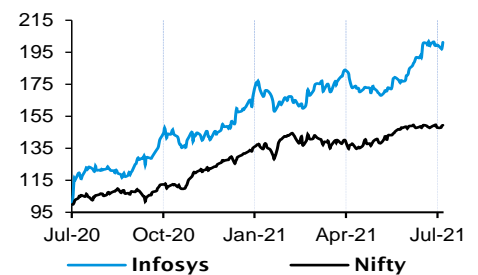
Rating	TP (Rs)	Up/Dn (%)
HOLD	1591	1

Market data

Current price	Rs	1577
Market Cap (Rs.Bn)	(Rs Bn)	6719
Market Cap (US\$ Mn)	(US\$ Mn)	90224
Face Value	Rs	5
52 Weeks High/Low	Rs	1591/781
Average Daily Volume	('000)	4628
BSE Code		500209
Bloomberg		INFY:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Mar-21	Dec-20
Promoters	12.95	12.95
Public	86.69	86.69
Others	0.36	0.36
Total	100	100

Source: BSE

Financial Summary

Y/E Mar (Rs mn)	FY 19	FY 20	FY 21	FY 22E	FY 23E
Net sales	8,26,760	9,07,910	10,05,531	11,54,062	13,06,831
EBIT	1,88,790	1,93,740	2,47,021	2,73,777	3,09,523
Adjusted net profit	1,61,310	1,66,400	1,94,551	2,16,789	2,51,512
Free cash flow	1,47,130	1,43,925	1,62,996	1,45,007	2,04,964
EPS (Rs)	37.1	38.3	44.8	49.9	57.9
growth (%)	0%	3%	17%	11%	16%
P/E (x)	42.5	41.2	35.2	31.6	27.3
P/B (x)	10.6	10.5	9.4	8.4	7.5
EV/EBITDA (x)	35.3	34.5	27.0	24.3	21.3
ROCE (%)	22.2	22.8	24.1	24.2	25.0
RoE (%)	22.5	23.8	25.9	25.8	26.6
Dividend yield (%)	1.6	1.1	1.4	1.6	1.8

Source: Dalal & Broacha Research

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Geographical Trends

- Growth was primarily led by **India (2.9% of Revenue)** growing at 23.1% YoY on reported basis, followed by **Europe (24.2% of Revenue)** having a healthy growth of 21.9% YoY on reported basis. **North America (61.7% of Revenue)** had a robust growth of 21.6% YoY on reported basis. **Rest of the World (11.2% of Revenue)** grew by 16.9% YoY on reported basis.

Conference Call Key Highlights

Operational Highlights

- Landmark year with a robust growth of 16.9% YoY & 4.8% QoQ in cc terms which has been the fastest growth witnessed in the industry over the decade.
- **Digital Business (53.9% of Overall Revenue)** grew by 42% YoY.
- **DSO improved by 1 day to 70 on the back of robust collections.**
- Free Cash Flow remained robust at \$863 Mn growing by 18.5% YoY. FCF Conversion stood at 122% of net profit.
- Cash & Investment stood at \$5.07 Bn after returning approximately \$1 Bn of final dividend and buyback.
- Onboarded 10,000 college graduates in Q1FY22.
- Utilization improved to an all-time high of 88.5%. Onsite efforts mix reduced to 24.1%
- Sub-con costs increased by 120 bps due to stronger growth than expectations, higher attrition and demand for niche skills.

Operating Margin was 23.7% improving by 100 bps YoY and declined by 80 bps QoQ basis. Improvement was due to 10 bps benefits from currency movements, 40 bps due to increase in utilization which was offset by 50 bps due to sub-con and third-party costs and additional 80 bps due to costs related to employee hiring and promotions.

Net Head Count increased by 8300 people. Attrition for the quarter inched up to 13.9% for Q1 vs 10.9% in Q4FY21 and 15.6% in Q1FY21.

Vertical Performance Highlights

- **BFSI:** Growth performance in the financial services continued with steady increase in the growth momentum aided by signings during the quarter. Growth is led by sub-segments like Banking, Mortgages, Wealth Services. Demand for cloud adoption has increased substantially and the firm is making efforts to employ cloud migration, cloud management and other cloud related activities.
- **Retail:** Performance of the retail segment improved with new deal signings as well as ramp up of previous deal wins. There have been aggressive investments by clients to uplift their digital capabilities. Investment in analytics across supply chain, freight promotion improvement, etc.
- **Communication:** Improvement in performance was led by new deal signings and ramp up of previous deal wins. The need for better connectivity has led to deployment of 5G services.
- **Energy & Utilities:** Grew string double-digit along with deal wins during the quarter. Overall improvement in outlook across sub-sectors and geographic outlay.
- **Manufacturing:** Strong growth in manufacturing led by deal wins in the past quarters. Increased spending in areas of

Growth was broad-based with all the industries posting double-digit growth including financial services and retail growing more than 20% YoY.

Digital such as Industrial IoT, cloud adoption, etc. will make the manufacturing value chain to be smarter and faster.

- **Healthcare:** Strong double-digit growth led by new offerings such as supply nourishing solutions for complex, digital health platforms for patient engagement helps in accelerating digital options to pharma industry.

Deal Wins & Pipeline

- Large deal signings stood at \$2.6 Bn in Q1FY22 vs \$2.1 Bn / \$1.8 Bn in Q4FY21 / Q1FY21 respectively
- **Vertical Deal Wins:** BFSI – 9 Deals, Retail – 4, Lifesciences – 1 Deal, Communication – 1 Deal, Hi-Tech – 1 Deal, Manufacturing – 3 Deals, Energy & Utilities – 4 Deals each vertical.
- **Geographical Deal Wins:** America – 14 Deals, Europe – 5 Deals, India – 1 Deal & Rest of World – 2 Deals.
- **Expect Daimler deal to start ramping up going ahead.**

Share Buyback

- Initiated share buyback on May 25. Maximum buyback size of INR 9,200 Crores. Till 30th, completed INR 690 Crores that is 7.5% of the buyback by the end of Q1FY22.

Outlook & Guidance

- With a view of strong start to financial year with strong deal signing and robust pipeline, Management increased its FY22e revenue growth guidance from 12-14% cc to 14-16% cc growth.
- EBIT Margin guidance remains unchanged at 22-24% for FY22e.
- Attrition will be high in the near term due to strong demand.
- FY21 college graduate hiring target has been increased to 35,000 globally.

Won 22 Large deals in Q1FY22 totaling to \$2.6 Bn. Share of new deals was 30%.

Bought back 4.4 million shares at an average price of INR 1572. Till date completed INR 1542 Crores of share buyback and bought back 9.8 million shares at an average price of INR 1569.

Expecting discretionary costs to start normalizing in the upcoming quarter including travel facilities, etc. Compensation hikes will also be rolled out in Q2 to the majority of the employees.

Quarterly Performance Analysis

Exhibit 1

YE March (Rs. Mn)	Q1 FY22	Q4 FY21	Q-o-Q change %	Q1 FY21	Y-o-Y change %	Q4 FY21 Est.	Deviation %
Net Sales (US\$ Mn)	3,782	3,613	4.7%	3,197	18.3%	3,763	0.5%
Net Sales (INR Mn)	2,78,960	2,63,110	6.0%	2,36,650	17.9%	2,77,562	0.5%
Less:							
Employees Remuneration & Benefits	1,85,060	1,71,640	7.8%	1,57,030	17.9%	1,79,358	3.2%
Administrative & Other Expenses	27,870	27,070	3.0%	25,970	7.3%	30,532	(8.7%)
Total Operating Expenditure	2,12,930	1,98,710	7.2%	1,83,000	16.4%	2,09,890	1.4%
EBIT	66,030	64,400	2.5%	53,650	23.1%	67,672	(2.4%)
Less: Depreciation	8,290	8,310	(0.2%)	7,560	9.7%	8,766	
Add: Other income	5,730	4,950	15.8%	4,270	34.2%	6,245	(8.2%)
Finance Costs	0	0		480		425	
Profit Before Tax	71,760	69,350	3.5%	57,440	24.9%	73,492	(2.4%)
Adjusted Profits	71,760	69,350	3.5%	57,440	24.9%	73,492	(2.4%)
Less: Total Tax	19,750	18,570	6.4%	15,200	29.9%	19,843	
Minority Interest	60	20		390		0	
PAT	51,950	50,760	2.3%	41,850	24.1%	53,649	(3.2%)
Adjusted PAT	51,950	50,760	2.3%	41,850	24.1%	53,649	(3.2%)
Reported Diluted EPS (Rs.)	12.2	12.0	2.3%	9.8	24.4%	12.6	(3.2%)
Adjusted Diluted EPS (Rs.)	12.2	12.0	2.3%	9.8	24.4%	12.6	(3.2%)
No of Shared Diluted (mn)	4,249	4,246		4,259		4,249	
Margin Analysis %			Change in bps	Change in bps	Change in bps	Change in bps	Deviation in bps
EBIT Margin	23.7%	24.5%	(81)	22.7%	100	24.4%	(71)
EBIDTA Margin	26.6%	27.6%	(99)	25.9%	78	27.5%	(90)
NPM	18.6%	19.3%	(67)	17.7%	94	19.3%	(71)
Adjusted NPM	18.6%	19.3%	(67)	17.7%	94	19.3%	(71)
Effective Tax Rate %	27.5%	26.8%	75	26.5%	106	27.0%	52
Cost Analysis %			Change in bps	Change in bps	Change in bps	Change in bps	Deviation in bps
Employee Cost/Net Sales	66.3%	65.2%	110	66.4%	(2)	64.6%	172
SG&A/Net sales	10.0%	10.3%	(30)	11.0%	(98)	11.0%	(101)

Source: Dalal & Broacha Research, Company

Valuation & Outlook

Infosys is currently trading at 31.6x / 27.3x FY22e/FY23e EPS respectively. The company delivered strong revenue growth which was above our expectations whereas margins were below our estimates mainly due to containing the attrition. Revenue growth guidance has been increased from 12-14% to 14-16% - which was largely expected by the street. Margin guidance has been retained at 22-24% owing to the fact that a wage hike will occur in Q2FY22 and certain post-COVID costs are expected to return from Q3FY22 onwards. Infosys has rallied over 16% over the last 3 months whereas TCS has rallied only 4% over the same period. Therefore, the valuation gap between Infosys and TCS has narrowed to low single digits. We expect that this gap will continue to remain albeit at low single digits. Taking the above factors into consideration, we believe that Infosys is at fair value at current levels. **We maintain our HOLD rating on the stock with a revised target price of INR 1,591 (earlier 1,458).**

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