



## INFOSYS LIMITED

**Date:** 13-April-2020

### OVERVIEW

**Recommendation:**

**Valuation:** Fairly Valued With Great Potential

**Current Market Price:** ₹270,973 crores

**Time Horizon:** 3-4 years

**About the company:**

**Infosys limited** is an Indian multinational corporation that provides business consulting, information technology and outsourcing services. It has its headquarters in Bangalore, Karnataka, India

**Infosys Go-To-Market Business Units Are Organized As :**

- |   |   |
|---|---|
| Financial Services and Insurance            | • Life Sciences and Healthcare                  |
| • Manufacturing                             | • Retail, Consumer Packaged Goods and Logistics |
| • Hi-Tech                                   | • Communications, Telecom OEM and Media         |
| • Energy, Utilities, Resources and Services | • China • Japan • India                         |
| • Infosys Public Services                   | • Other public services enterprises             |



The company provides solutions which are primarily classified as **Digital** and **Core**.

- **Digital**

- Experience
- Insight
- Innovate
- Accelerate
- Assure

- **Core**

- Application management services
- Proprietary application development services
- Independent validation solutions
- Product engineering and management
- Infrastructure management services
- Traditional enterprise application implementation
- Support and integration services

- **Products and Platforms**

- Finacle®
- Edge suite
- Infosys NIA®
- Infosys McCamish
- Panaya®
- Skava®

- **Business Process Management**

- Infosys BPM



## Pros:

- the company's free cashflow stand at 76% of the net profit earned by it in 2019.
- The company has emerged as a market leader in domestic as well as global market for providing finance related IT solutions.
- The company is virtually debt free.
- The company has maintained a strong operating profit margin of 24.5% on an average for the last five years.
- Company has increased its dividend yield for the last two years and currently dividend yield stands at 3.5%
- The company earns majority of the revenue from foreign clients, thus it is well positioned to take advantage of depreciating rupee against dollar.

## Cons:

- Companies profit has fallen on a consolidated basis thus, it can be observed that some of the subsidiaries are not efficiently growing on their bottom line.
- The nearer future could form darker clouds for the company and it can be observed that the quarter to come can observe a dent on the top line as well as the bottom line growth due to the effect of corona pandemic.
- The company's retain earning ratio has fallen from 53.41% to 10.99%. This doesn't sound good from a growth investor's point of view as the company is throwing away 89% of profit as dividend.
- Margins in 2019, have fallen on segment basis as compared to 2018



## ECONOMIC MOAT

**Company History:** founded 07<sup>th</sup> July 1981

**Company Management**

**MD & CEO:** Salil Parekh

**Chairmen:** Nandan Nilekani

### COMPETITIVE MOAT OF INFOSYS:

- Infosys limited as any IT company has the best working culture for its most valuable assets which are the **human capital employed** in the company and recently Infosys featured as the only Indian company in the list of best companies to work for.
- As observed Infosys majority revenue i.e. 32% of total revenue comes from financial and insurance sector and IT industry is of the nature that any previous client of Infosys will have to come to the company itself for its business solutions. Thus, the no of clients for Infosys will compound in number as time passes. And Indian financial sector has been at its initial growth for digitalization which can prove to be beneficial for Infosys and if well grabbed the opportunity, can widen the moat over other IT companies.
- The expenditure structure for the whole IT industry is well positioned in such a way that the only expenditure which can increasing at double digit is those on **employee benefit expenses**. Thus, Infosys has its low cost and high operating margins of more than one-third of sales as a moat against the whole IT industry in india
- Infosys promoters and corporate governance has always stand out from the whole industry and has put forth the company as a model of ethics and transparency. Former chairman Mr. N.R Narayan murthy used to say “When in doubt, please disclose”. Thus, Infosys corporate governance also plays a moat for the company.



## **TAKE ON INFOSYS**

- We believe Mr. market has given long term investor a good opportunity to grab by discounting Infosys share due to corona fear and brought the share around the early 600 levels. Currently Infosys trades at 17x its earning (TTM) and 14 times its free cashflows of FY2024 which offers a value in itself. Observing the current lockdown and work from home situation, the coming a couple of quarter will play a major role as we don't assume potential growth rate but if Infosys ends up with maintain its same number of client base then it will come with a sustainable growth of 4-6% for current year and then a double digit growth could be observed
- Due to the lockdown, various medium level business will urge to understand the potential growth, digitalization and IT solutions could give to their businesses. Hereby Infosys could benefit from India's phase of digitalization. We believe once the corona will come to an end , Infosys could see 4-5% revenue from the depreciating rupee as Infosys earns 97.5% of its revenues from offshore countries.
- Infosys free cashflows stand at 84% of its net profit and its good for a growth investor who are behind high free-cashflows but one thing that concerns is that in 2019 infosys retained only 11% of profits and distributed 89% of profits as dividend to shareholders disturbing the payout ratio of 53%
- We observed that Infosys has a average margin on sales of 22% from all segment of businesses it provides IT solutions but if we were to compare the margins of 2019 with that of 2018 the margins of majority segments have fallen to an extend of 12-15% which the reader can view later at the end of the this report. We believe the reason for the same was due to acquiring more clients and focusing on revenue growth at an aggregate level



## FUTURE OUTLOOK OF INFOSYS

particulars	2020(E)	2021(E)	2022(E)	2023(E)	2024(E)
Revenue	90,690cr	1,01,570cr	1,13,760cr	1,25,140cr	1,37,650cr
Net profit	17,125cr	18,980cr	21,265cr	23,295cr	25,500cr
Free cashflows	<b>14070cr</b>	<b>15470cr</b>	<b>17024cr</b>	<b>18700cr</b>	<b>20,600cr</b>

- Amid giving long term suggestion (usually ten years), we have the value forecasted for the next four years only as we consider IT industry where change is only constant and as warren buffett often prefer to say that ‘change is an enemy of a wonderful business.’
- Currently Infosys is valued at 3.5 times its revenue , taking the same model in the year 2024 we value Infosys at 3.7 times its forecasted revenue which brings its market capital equals to ₹509,000 crores thus valuing the share at ₹1165 per share
- But valuing any company with its top line brings the feeling of the startup culture. So we also valued Infosys as per its net profits
- Thus, we value Infosys at a P/E of 21.2 in 2024 which brings its market capital as follows  $21.2 * 25500 = ₹538,800$  thus valuing the share at ₹1235 per share.
- **Taking a margin of safety of 14.5%, we value Infosys at ₹1050 per share**



## Economy and Industry Analysis

- The IT industry due to corona pandemic will experience either a minimal growth of 2-4% in the financial year to come. But we assume to write for a long term investor who has a time horizon of 5-10 years and in the long run ,we believe the IT industry will experience a V-shape growth wherefrom the Indian IT industry can grow at 15% compounded annually.
- A big group of the IT Giants in India earn majority of their revenues from the global market. Thus the global lockdown due to corona will lead some small IT companies to lose their offshore clients and some will see it as a opportunities as chaos is a ladder but the companies which overcome and meet up the demands by either work from home will benefit a lot and Mr. market has already discounted IT companies to 20-25%
- One of the advantageous facts about the IT industry is that it benefits itself from the depreciating rupee against US dollar where the whole Indian economy see the depreciation as a point of fear and panic for the local business. Rupee currently trades at 75 per dollar from the levels of 65 per dollar. Thus, depreciation of rupee accounts good for IT companies as leader such as Infosys and TCS earns more than 95% from global markets and in dollars. Thus this acts as a good hedging option for the expenses incurred by companies in Indian rupees.
- Talking about the Indian economy, we believe the GDP growth can be muted or even negative for the fiscal year 2020, the fiscal deficit targets for the current quarter has been exceeded. Some industries in the Indian economy will experience a doble digit negative growth especially the cyclical ones such as auto, construction. People in this fiscal year will be cautious even about every penny they spend keeping in mind about the cashflow in the future to come to them and many will be on the urge of losing jobs.



- Assuming that the corona pandemic ends by the third quarter of FY2020, the economy can register a nominal growth of 3-4% and according to us , the sectors which will be in lime light once the pandemic is over are Lending , FMCG as always , and IT industry . we believe after the pandemic is over IT industry could register a double-digit growth in both its top line (revenues) as well as its bottom lines (profits)





## FINANCIAL HIGHLIGHT

### Profit And Loss Account With Forecast

INFOSYS LIMITED								
Rs. crores's	2018A	2019A	2020E	2021E	2022E	2023E	2024E	
<b>Income Statement Rs. crores's</b>								
Revenue	73,833.0	85,557.0	90,690.4	1,01,573.3	1,13,762.1	1,25,138.3	1,37,652.1	
COGS	48,587.0	58,129.0	58,948.8	66,022.6	73,945.3	81,339.9	89,473.9	
Gross Profit	25,246.0	27,428.0	31,741.6	35,550.6	39,816.7	43,798.4	48,178.2	
other expenses	3,113.0	4,376.0	4,901.1	5,489.3	6,148.0	6,885.7	7,712.0	
EBITDA	22,133.0	23,052.0	26,840.5	30,061.4	33,668.8	36,912.7	40,466.2	
Depreciation	1,863.0	2,011.0	4,534.5	5,078.7	5,688.1	6,256.9	6,882.6	
Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
EBT	20,270.0	21,041.0	22,306.0	24,982.7	27,980.7	30,655.8	33,583.6	
Taxes	4,241.0	5,631.0	5,130.4	5,995.9	6,715.4	7,357.4	8,060.1	
Net Income	16,029.0	15,410.0	17,175.6	18,986.9	21,265.3	23,298.4	25,523.6	
<b>Assumptions</b>								
Revenue growth		15.9%	6.0%	12.0%	12.0%	10.0%	10.0%	
COGS % of revenue	65.8%	67.9%	65.0%	65.0%	65.0%	65.0%	65.0%	
other expenses	3,113.0	4,376.0	12.0%	12.0%	12.0%	12.0%	12.0%	
Depreciation % of revenue	2.5%	2.4%	5.0%	5.0%	5.0%	5.0%	5.0%	
Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Tax rate	20.9%	26.8%	23.0%	24.0%	24.0%	24.0%	24.0%	

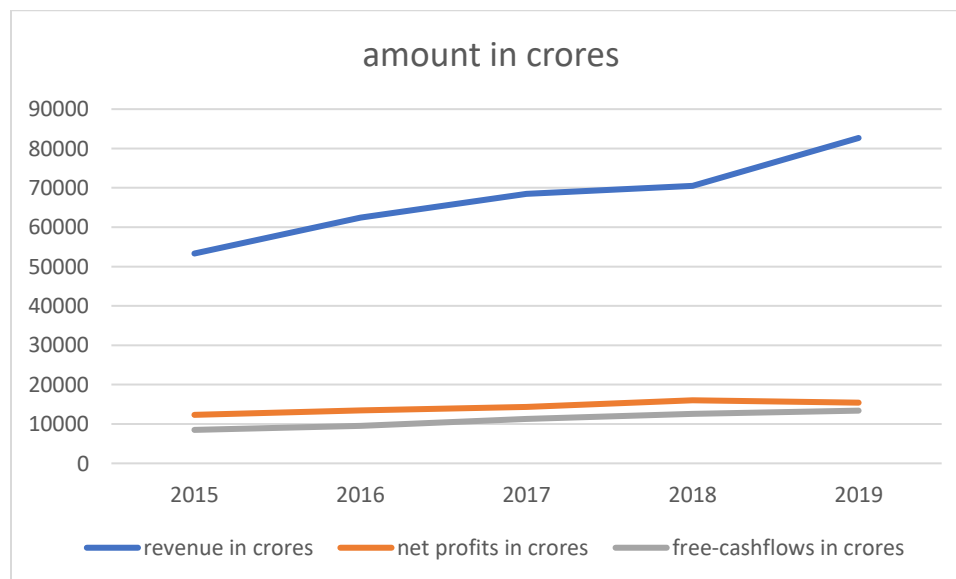
- For the year 2020, the corona pandemic's affect on the company's business has been taken and growth rate of 6% is considered



## Common size statement

Analysis	2018A	2019A	2020E	2021E	2022E	2023E	2024E
<b>Common size income statement</b>							
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
employee benefit expenses	65.8%	67.9%	65.0%	65.0%	65.0%	65.0%	65.0%
Gross Profit	34.2%	32.1%	35.0%	35.0%	35.0%	35.0%	35.0%
other expenses	4.2%	5.1%	5.4%	5.4%	5.4%	5.5%	5.6%
EBITDA	30.0%	26.9%	29.6%	29.6%	29.6%	29.5%	29.4%
Depreciation	2.5%	2.4%	5.0%	5.0%	5.0%	5.0%	5.0%
Interest	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EBT	27.5%	24.6%	24.6%	24.6%	24.6%	24.5%	24.4%
Taxes	5.7%	6.6%	5.7%	5.9%	5.9%	5.9%	5.9%
Net Income	21.7%	18.0%	18.9%	18.7%	18.7%	18.6%	18.5%

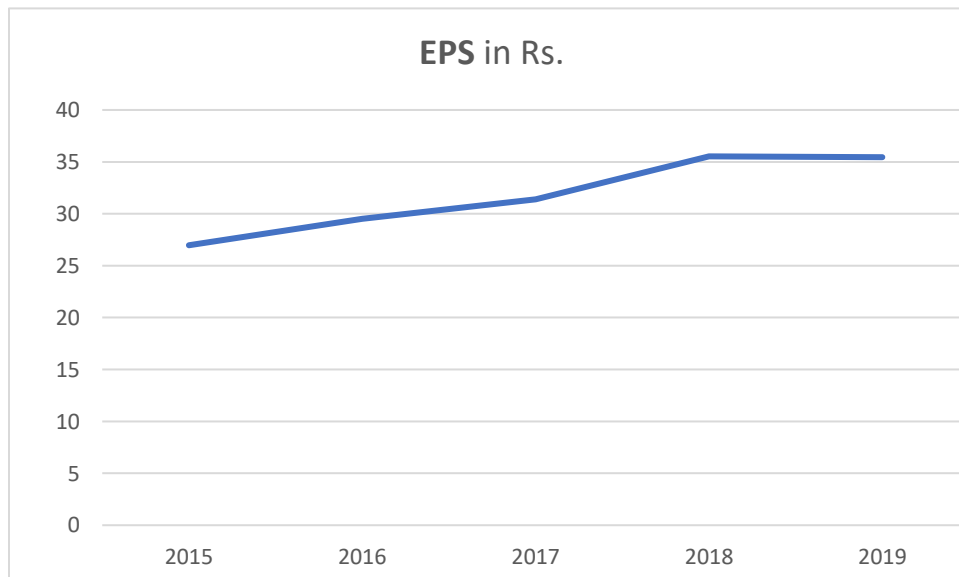
**Graph for relation between revenue and net profit along with free cashflows**



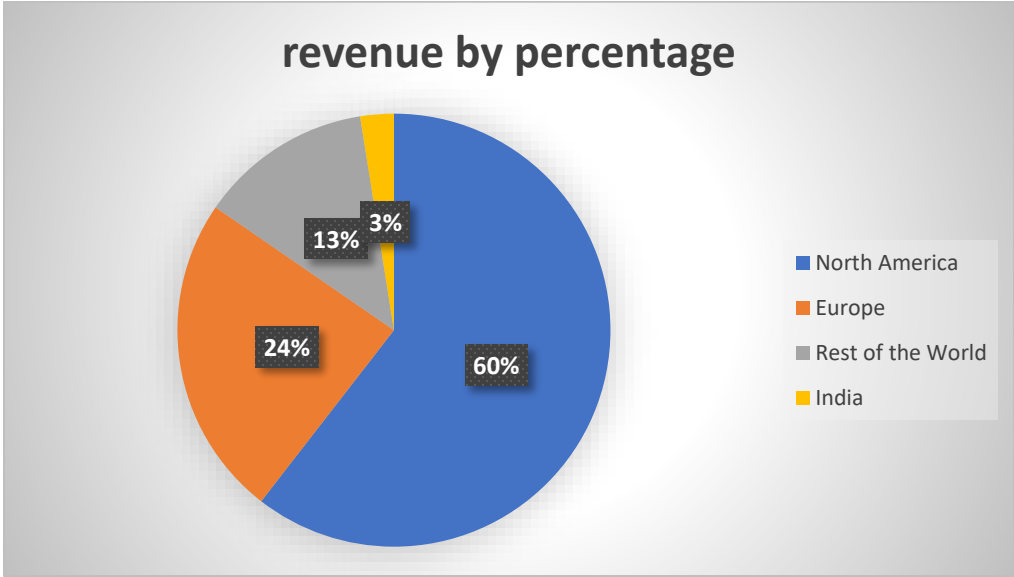
## Infosys Share Return over Time



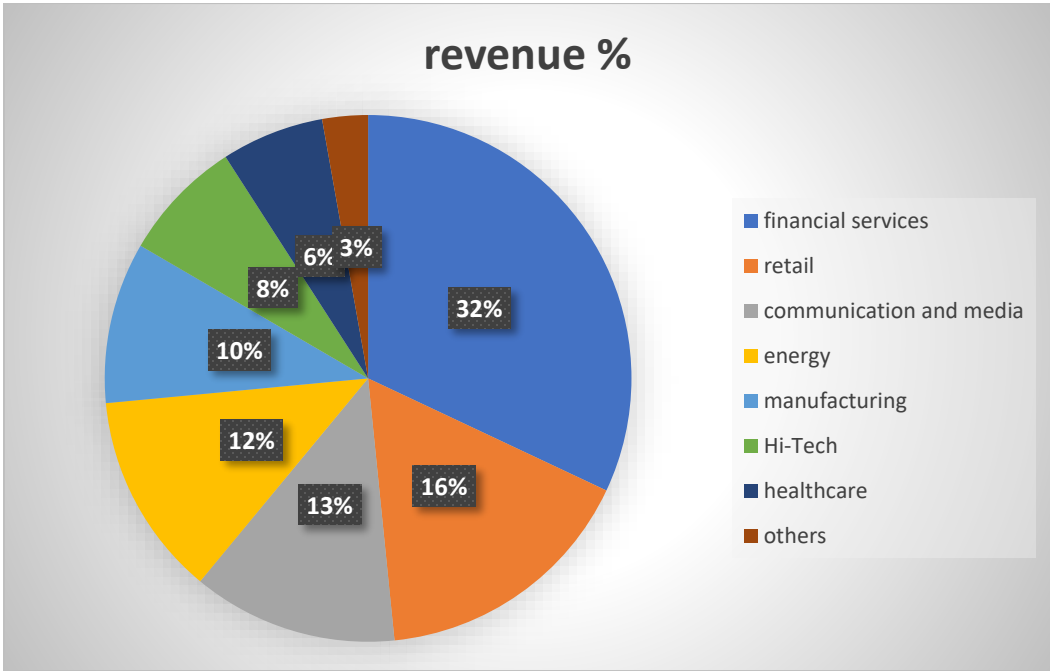
## EARNINGS PER SHARE



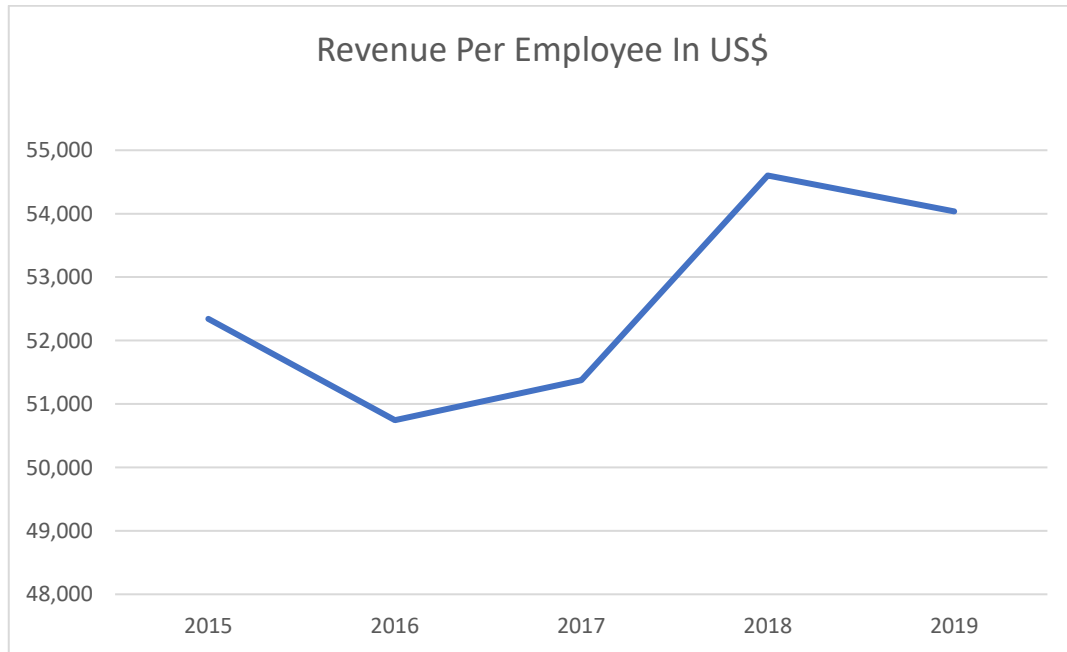
# Revenue by Region



# Revenue by Divisions



## Revenue per employee in US\$



### Dividend Policy:

- The company's dividend payout in 2019 has increased to 89% from 47% in 2018 yet the profit of the company has fallen in the year 2019.
- Thus, the company is concerned with consistency paying dividend and it has mostly paid dividend in each quarter for the year 2019



# COMPETITOR ANALYSIS

## TATA CONSULTANCY SERVICES

tata consultancy services	FOR THE YEAR 2019			FOR THE YEAR 2018			margins YOY
	Revenue (cr)	profits (cr)	margins	Revenue (cr)	profits (cr)	margins	
divisions							
finance and insurance	57938	16106.76	27.80%	48418	13045	26.94%	3.18%
manufacturing	15682	4312.55	27.50%	13361	3698	27.68%	-0.64%
retail	25164	6869.77	27.30%	21055	5580	26.50%	3.01%
communication and media	23925	6651.15	27.80%	21131	5797	27.43%	1.34%
others	23754	5558.44	23.40%	19139	4339	22.67%	3.22%
<b>TOTAL</b>	<b>146463</b>	<b>39498.672</b>	<b>26.97%</b>	<b>123104</b>	<b>32460</b>	<b>26.37%</b>	<b>2.28%</b>

## INFOSYS LIMITED

INFOSYS LIMITED	FOR THE YEAR 2019			FOR THE YEAR 2018			margins YOY
	Revenue (cr)	profits (cr)	margins	revenue (cr)	profits (cr)	margins	
divisions							
finance and insurance	26477	6878	25.0%	23172	6370	27.49%	-9.14%
manufacturing	8152	1853	21.7%	6671	1274	19.10%	13.79%
retail	13556	4034	28.8%	11345	3303	29.11%	-1.22%
communication and media	10426	2517	23.1%	8883	2619	29.48%	-21.51%
energy and utility	10390	2542	23.5%	8297	2411	29.06%	-19.25%
Hi-Tech	6177	1548	24.1%	5131	1446	28.18%	-14.62%
life science	5203	1419	26.3%	4698	1391	29.61%	-11.27%
others	2294	116	4.1%	2325	199	8.56%	-52.60%
<b>TOTAL</b>	<b>82675</b>	<b>20907</b>	<b>25.3%</b>	<b>70522</b>	<b>19013</b>	<b>26.96%</b>	<b>-6.20%</b>



## **CONCLUSION:**

TCS which is the market leader in IT sector has greater revenue and efficient margins but Infosys also have maintained a revenue growth of 15.9% and its margins for 2019 stand at 25.3% before tax expenses and it has been observed that Infosys had been behind revenue growth precisely as it can also be seen that despite margins are at 25.3% but they have been falling as compared to the margins for the year 2018



# VALUATIONS

## Current Situation:

- Share Price: ₹639.40
- Market Cap: ₹272314.34Crore
- Total Shares Outstanding: 435.6 Crore
- Dividend Yield: 3.7%
- Eps: ₹38.38
- Book Value: ₹147.13
- PE Ratio (TTM):17.82
- 1 Year Returns: -15.89%

## Per Share Valuations:

- Dividend Per Share: ₹21.50
- Free-Cashflow Per Share: ₹30.75
- Operating Cashflow Per Share: ₹34.07
- Price/Free-Cashflow Ratio: 20.7 times
- Operating Revenue Per Share: ₹ 189.80
- Operating Profit Per Share: ₹48.30
- Current Investment Per Share: ₹13.95
- Non-Current Investment Per Share: ₹27.69





## Other Valuation Parameters:

- PBIDT Margin: 29.44%
- PBIT Margin: 27.25%
- PBT Margin: 27.25%
- Net Profit Margin: 18.75%
- Return On Equity: 23.71%
- Return On Assets: 18.17%
- Return On Capital Employed: 31.38%
- Retain Earnings Ratio: 10.99%



## Valuation Matrix:

INFOSYS LIMITED								
Rs. crores's		2018A	2019A	2020E	2021E	2022E	2023E	2024E
<b>Income Statement Rs. crores's</b>								
Revenue		73,833.0	85,557.0	90,690.4	1,01,573.3	1,13,762.1	1,25,138.3	1,37,652.1
COGS		48,587.0	58,129.0	58,948.8	66,022.6	73,945.3	81,339.9	89,473.9
Gross Profit		25,246.0	27,428.0	31,741.6	35,550.6	39,816.7	43,798.4	48,178.2
other expenses		3,113.0	4,376.0	4,901.1	5,489.3	6,148.0	6,885.7	7,712.0
EBITDA		22,133.0	23,052.0	26,840.5	30,061.4	33,668.8	36,912.7	40,466.2
Depreciation		1,863.0	2,011.0	4,534.5	5,078.7	5,688.1	6,256.9	6,882.6
Interest		0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBT		20,270.0	21,041.0	22,306.0	24,982.7	27,980.7	30,655.8	33,583.6
Taxes		4,241.0	5,631.0	5,130.4	5,995.9	6,715.4	7,357.4	8,060.1
Net Income		16,029.0	15,410.0	17,175.6	18,986.9	21,265.3	23,298.4	25,523.6
<b>Assumptions</b>								
Revenue growth			15.9%	6.0%	12.0%	12.0%	10.0%	10.0%
COGS % of revenue		65.8%	67.9%	65.0%	65.0%	65.0%	65.0%	65.0%
other expenses		3,113.0	4,376.0	12.0%	12.0%	12.0%	12.0%	12.0%
Depreciation % of revenue		2.5%	2.4%	5.0%	5.0%	5.0%	5.0%	5.0%
Interest		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax rate		20.9%	26.8%	23.0%	24.0%	24.0%	24.0%	24.0%
free cashflows			13400	14070	15477	17024.7	18727	20600

### HOW are we valuing Infosys at current valuation ?

- Infosys currently valued at **1.9 times** its forward revenue of the **FY 2024**
- Infosys currently trades at a forward **P/E ratio of 10.8X (FY2024)**
- Infosys currently trades at 13.5 times its free cashflows of FY2024



## **TARGETS**

**Recommendation:** BUY call with a target of 1050 (₹460,000 crores)

**Valuation:** fairly valued but with growth potential

**Current Market Price:** ₹636.85

**Time Horizon:** 3-4 years



**Disclaimer:** This report is just an analysis of a listed company and I hereby confirm everything mentioned above to be true to my knowledge. Please contact your financial advisor before acting on the recommendation. The author or the website or anyone associated with it are not responsible for any loss incurred.

**Credits:**

**Author: Ayush Anjana**

**Email: [ayushanjana47@gmail.com](mailto:ayushanjana47@gmail.com)**

**Twitter: @ayushanjana47**

**LinkedIn: <https://www.linkedin.com/in/ayush-anjana>**

**Optionables Fintech LLP**

Address: 161, 15<sup>th</sup> Main, 2<sup>nd</sup> Block, BSK 1<sup>st</sup> Stage, Bangalore- 560050.

Phone: +91 74836 88647

Email: [contact@optionables.in](mailto:contact@optionables.in)

Website: [www.optionables.in](http://www.optionables.in)

