Infosys Ltd. (INFY)

Updated October 17th, 2018 by Nick McCullum

Key Metrics

Current Price:	$9.80	**5 Year CAGR Estimate:**	9.2%	**Volatility Percentile:**	43.0%
Fair Value Price:	$9.60	**5 Year Growth Estimate:**	7.0%	**Momentum Percentile:**	92.0%
% Fair Value:	102%	**5 Year Valuation Multiple Estimate:**	-0.4%	**Growth Percentile:**	62.7%
Dividend Yield:	2.6%	**5 Year Price Target**	$13.44	**Valuation Percentile:**	51.8%
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Total Return Percentile:**	61.1%

Overview & Current Events

Infosys Ltd. Is a global information technology corporation that provides services through a number of wholly-owned subsidiaries including Progeon Ltd., Infosys Technologies (Shanghai) Co. Ltd., Infosys Consulting, and Infosys Technologies (Australia) Pty. Ltd. The company's solutions include consulting, software development, engineering, systems integration, and banking software services. The company is headquartered in Bangalore, India, and employs more than 175,000 people. United States investors can initiate an ownership stake in Infosys through American Depository Receipts that trade on the New York Stock Exchange under the ticker INFY, which has a market capitalization of $43 billion.

In mid-October, Infosys reported (10/16/18) financial results for the second quarter of fiscal 2019 (which ended September 30th, 2018). In the quarter, revenues grew by 7.1% year-on-year in U.S. Dollars while constant-currency revenue grew by 8.1% over the same period a year ago. Much of this revenue growth came in the last three months alone. More specifically, Infosys generated 3.2% sequential revenue growth (when measured in U.S. Dollars) while constant-currency sequential revenue growth was 4.2%. Importantly, Infosys' digital revenue – which represents 31.0% of its total revenue - continues to expand at an impressive rate. Digital revenue grew by 33.5% year-on-year and 13.5% quarter-over-quarter. On the bottom line, the company's earnings-per-share grew by 5.7% in U.S. Dollars.

Infosys' performance through the first half of fiscal 2018 has been similarly strong. The company saw revenues through the first six months grow by 6.9% in USD and 7.1% in constant-currency. The company also reaffirmed its fiscal 2019 financial guidance. Infosys continues to expect revenue to grow between 6% and 8%, while operating margin is expected to be between 22% and 24%. The markets reacted positively to Infosys' second quarter earnings release, as shares rose by nearly 6% following the announcement before retracing most of these gains during the same trading period.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$0.28	$0.29	$0.33	$0.38	$0.38	$0.39	$0.44	$0.45	$0.47	$0.55	***$0.60***	***$0.84***
DPS	$0.05	$0.06	$0.07	$0.09	$0.08	$0.10	$0.15	$0.18	$0.19	$0.22	***$0.25***	***$0.41***
Shares	2291.3	2284.0	2285.3	2285.6	2285.6	2274.3	2296.9	2285.6	2285.7	2173.3	***2170.0***	***2100.0***

Infosys has managed to generate appealing business growth over the last decade. More specifically, the company has compounded its adjusted earnings-per-share at 7.0% per year over the last decade. Infosys is likely to generate similar rates of growth moving forward. We believe the company is likely to print earnings-per-share of around $0.60 in fiscal 2019. Applying a 7% growth rate to our 2019 earnings-per-share estimate allows us to compute a 2024 earnings-per-share estimate of $0.84.

Infosys' dividend payments have grown far more rapidly than the company's per-share earnings over the last ten years. More specifically, the company's dividends have compounded at 16.9% per year during the last decade. We believe the company is likely to pay around $0.25 in dividends in the ongoing fiscal year, with 10% growth each year thereafter for the next five years.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	14.9	19.9	24.9	19.2	15.3	16.6	17.5	18.8	17.3	14.3	***16.3***	***16.0***
Avg. Yld.	1.0%	1.0%	0.8%	1.2%	1.4%	1.5%	1.9%	2.1%	2.3%	2.7%	***2.6%***	***3.1%***

Infosys has traded at an average price-to-earnings ratio of 17.9 over the last decade. We believe that this is a tad rich for a company of Infosys' caliber. Instead, the company's fair value is likely somewhere around 16 times earnings. Infosys is trading at a price-to-earnings ratio of 16.3 today. If the company's price-to-earnings ratio were to expand to 14 over the next 5 years, this would reduce the company's annualized returns by 0.4% during that time period.

Income investors should note that India has no dividend withholding tax, so Infosys' gross dividend yield of 2.6% is equal to its net dividend yield because no capital is withheld at source by the Indian tax authority.

Safety, Quality, Competitive Advantage, & Recession Resiliency

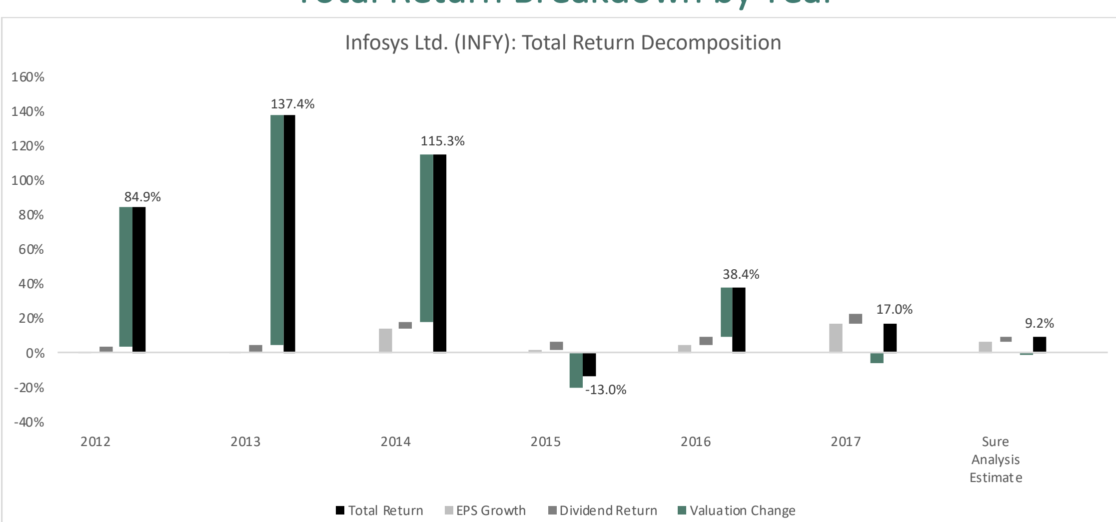
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
GP/A	38.4%	45.0%	33.4%	38.5%	38.2%	32.3%	31.1%	33.5%	33.4%	31.2%	***32.5%***	***32.5%***
Debt/A	13.0%	13.4%	12.8%	12.7%	12.8%	14.1%	16.7%	17.5%	18.1%	17.2%	***18.0%***	***18.0%***
Payout	16.1%	20.7%	20.0%	24.0%	21.1%	24.7%	33.0%	40.0%	40.4%	39.1%	***41.7%***	***48.2%***
Std. Dev.	46.2%	30.1%	23.2%	31.1%	31.9%	38.6%	21.3%	24.4%	20.5%	16.5%	***22.0%***	***22.0%***

Infosys scores well on a number of quantitative measures of business quality. The company generates a tremendous amount of gross profits relative to its asset base, and less than one-fourth of its balance sheet is funded by debt. The only metric by which Infosys does not score well is stock price standard deviation.

Final Thoughts & Recommendation

Little has changed with respect to Infosys since the publication of our last quarterly research report on the company, largely because the last report was published late in the last quarter. Although the company's return profile has improved, it is still inferior to its major domestic peer International Business Machines Corporation. We reiterate our hold rating on Infosys for the time being. Infosys earns a D rating for both Dividend Safety and Retirement Suitability due to its short dividend history and significant (90%+) historical stock price drawdowns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	4663	4804	6041	6994	7398	8249	8711	9501	10208	10939
Gross Profit	1964	2055	2696	2876	2761	2957	3556	3801	4008	4163
Gross Margin	42.1%	42.8%	44.6%	41.1%	37.3%	35.8%	40.8%	40.0%	39.3%	38.1%
SG&A Exp.	590	595	802	863	852	978	1053	1202	1214	1260
D&A Exp.	165	199	189	195	207	226	175	222	254	289
Operating Profit	1374	1460	1779	2013	1909	1979	2329	2368	2541	2670
Operating Margin	29.5%	30.4%	29.4%	28.8%	25.8%	24.0%	26.7%	24.9%	24.9%	24.4%
Net Profit	1281	1313	1499	1716	1725	1751	2013	2052	2140	2486
Net Margin	27.5%	27.3%	24.8%	24.5%	23.3%	21.2%	23.1%	21.6%	21.0%	22.7%
Free Cash Flow	1124	1314	1013	1361	1354	1552	1389	1449	1688	1947
Income Tax	194	356	547	694	617	668	805	799	834	657

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	4369	6148	7010	7537	8539	9522	10615	11378	12854	12255
Cash & Equivalents	2167	2698	3737	4047	4021	4331	4859	4935	3489	3041
Accounts Receivable	724	778	1043	1156	1305	1394	1554	1710	1900	2016
Goodwill & Int. Ass.	142	195	196	229	432	417	597	717	683	377
Total Liabilities	585	787	888	961	1208	1589	1853	2054	2217	2295
Accounts Payable	5	2	10	5	35	29	22	58	57	107
Shareholder's Equity	3784	5361	6122	6576	7331	7933	8762	9324	10637	9960

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	28.9%	25.0%	22.8%	23.6%	21.5%	19.4%	20.0%	18.7%	17.7%	19.8%
Return on Equity	33.3%	28.7%	26.1%	27.0%	24.8%	22.9%	24.1%	22.7%	21.4%	24.1%
ROIC	33.3%	28.7%	26.1%	27.0%	24.8%	22.9%	24.1%	22.7%	21.4%	24.1%
Revenue/Share	1.02	1.05	1.32	1.53	1.62	1.80	1.91	2.08	2.23	2.42
FCF/Share	0.25	0.29	0.22	0.30	0.30	0.34	0.30	0.32	0.37	0.43

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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