Infosys Ltd. (INFY)

Updated July 25th, 2019 by Jonathan Weber

Key Metrics

Current Price:	$11.50	**5 Year CAGR Estimate:**	4.0%	**Volatility Percentile:**	31.9%
Fair Value Price:	$8.80	**5 Year Growth Estimate:**	7.0%	**Momentum Percentile:**	69.1%
% Fair Value:	131%	**5 Year Valuation Multiple Estimate:**	-5.2%	**Growth Percentile:**	67.1%
Dividend Yield:	2.2%	**5 Year Price Target**	$12.3	**Valuation Percentile:**	17.2%
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Total Return Percentile:**	20.2%

Overview & Current Events

Infosys Ltd. Is a global information technology corporation that provides services through a number of 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. The company has a market capitalization of $49 billion.

Infosys reported its first quarter (fiscal 2020) earnings results on July 12. The company announced that it generated revenues of $3.13 billion during the quarter, which was 10.6% more than the revenues that Infosys produced during the previous year's first quarter. Infosys' revenues were slightly lower than what the analyst community forecasted, missing sales estimates by $30 million.

However, Infosys wasn't able to translate solid revenue growth rate into compelling earnings growth. Infosys' operating earnings declined by 4% year over year to $642 million. Earnings-per-share totaled $0.13 during the first quarter, which was 3.2% more than during the first quarter of the previous year.

Infosys guides for revenue growth of 8.5% to 10% in fiscal 2020 at constant currency rates. A strong dollar will likely result in a reported revenue growth rate that is a bit lower. Infosys also expects to generate operating margins of 21% to 23% during fiscal 2020, which is a bit lower than the target rate of 22%-24% from fiscal 2019. It thus is likely that Infosys' earnings growth rate will continue to be lower than its revenue growth rate.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$0.29	$0.33	$0.38	$0.38	$0.39	$0.44	$0.45	$0.47	$0.55	$0.51	***$0.55***	***$0.77***
DPS	$0.06	$0.07	$0.09	$0.08	$0.10	$0.15	$0.18	$0.19	$0.22	$0.22	***$0.25***	***$0.41***
Shares	2280	2280	2290	2290	2270	2300	2290	2290	2170	2160	***2150***	***2080***

Infosys has managed to generate a solid rate of growth over the last decade. The company has compounded its adjusted earnings-per-share at 6.5% per year between 2010 and 2019. Its profits did not decline at any point during the last decade, except for fiscal 2019, when earnings were down slightly, which makes for a quite consistent growth rate. Infosys also remained profitable during the last financial crisis.

Infosys' profit growth was primarily based on rising revenues in the past, and this will likely remain the case going forward. Due to growing demand for the services Infosys offers to its customers, and due to incentives for outsourcing for Infosys' customers, it is likely that Infosys will be able to grow its top line during the coming years. Infosys has had a relatively stable share count during most of the last decade, but the company has started to buy back its shares.

This should be a positive for Infosys' earnings-per-share growth going forward. We assume that Infosys will be able to generate earnings-per-share of $0.55 during fiscal 2020, and that its growth during the coming years will be in line with its growth during the last decade. If this holds true, Infosys would be able to earn close to $0.80 per share during fiscal 2025. We also believe that Infosys will continue to raise its dividend meaningfully going forward.

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	19.9	24.9	19.2	15.3	16.6	17.5	18.8	17.3	14.3	21.0	***20.9***	***16.0***
Avg. Yld.	1.0%	0.8%	1.2%	1.4%	1.5%	1.9%	2.1%	2.3%	2.7%	2.2%	***2.2%***	***3.3%***

Infosys trades at almost 21 times this year's expected earnings right now. This represents a premium over how the company's shares were valued in the past. The overvaluation will represent a headwind for Infosys' total returns going forward, as multiple normalization will slow down Infosys' share price growth by 5% annually over the coming years. In addition, we see the yield rising as growth in the payout should outpace share price appreciation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	20.7%	21.2%	23.7%	21.1%	25.6%	34.1%	40.0%	40.4%	39.1%	43.1%	***45.5%***	***53.2%***

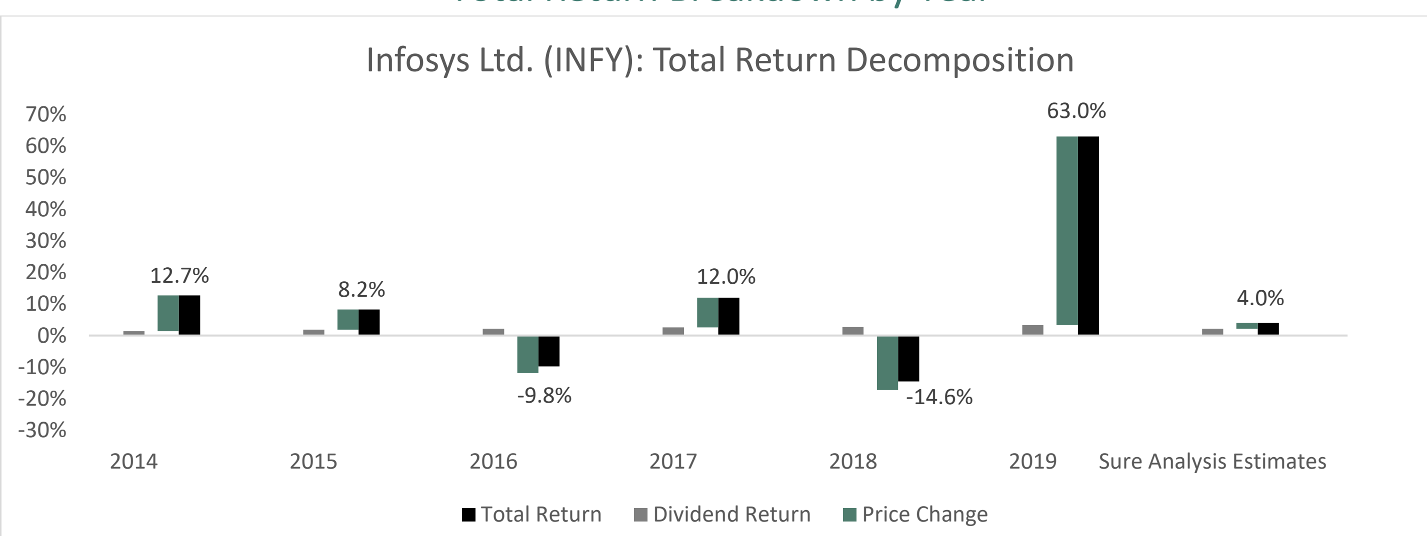
Infosys has raised its dividend payout ratio relatively consistently over the last decade. This is not surprising, as the dividend growth rate was substantially higher than the earnings-per-share growth rate over those ten years. Infosys still does not pay out an overly large portion of its net profits in the form of dividends, though, as the payout ratio is still below 50%. Infosys' dividend looks very safe due to a payout ratio that is very reasonable.

Infosys competes with several peers, but due to the fact that the overall market for the services that Infosys offers continues to grow, competition is not a major problem. Infosys and its peers can all grow profitably without acting aggressively towards each other. Infosys remained profitable during the last financial crisis, and it is quite likely that Infosys will remain profitable during future recessions as well. Infosys thus does not look like a risky stock, as both competitive threats as well as vulnerability to recessions are relatively negligible.

Final Thoughts & Recommendation

Infosys has delivered sizeable growth in the past, primarily thanks to ongoing increases in the company's top line. Thanks to a solid outlook for the whole industry it is likely that Infosys will be able to grow its revenues and profits meaningfully going forward as well. Infosys' dividend yield is slightly higher than that of the broad market right now, but due to the stock trading well above fair value, we rate Infosys a sell around current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	4663	4804	6041	6994	7398	8249	8711	9501	10208	10939
Gross Profit	1964	2055	2544	2876	2761	2957	3337	3551	3762	3938
Gross Margin	42.1%	42.8%	42.1%	41.1%	37.3%	35.8%	38.3%	37.4%	36.9%	36.0%
SG&A Exp.	590	595	680	863	852	978	890	1002	1018	1091
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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
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
Long-Term Debt	0	0	0	0	0	0	0	0	0	0
Shareholder's Equity	3784	5361	6122	6576	7331	7933	8762	9324	10637	9960
D/E Ratio	0	0	0	0	0	0	0	0	0	0

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
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%
Shares Out.	2280	2280	2290	2290	2270	2300	2290	2290	2170	2160
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.