Infosys Ltd. (INFY)

Updated October 16th, 2020 by Jonathan Weber

Key Metrics

Current Price:	$16	**5 Year CAGR Estimate:**	-1.2%	**Market Cap:**	$64B
Fair Value Price:	$10	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	10/23/20
% Fair Value:	162%	**5 Year Valuation Multiple Estimate:**	-9.2%	**Dividend Payment Date:**	11/01/20
Dividend Yield:	1.8%	**5 Year Price Target**	$13	**Years Of Dividend Growth:**	5
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	11.5%

Overview & Current Events

Infosys Ltd. Is a global information technology corporation that provides services to its customers through a number of subsidiaries, including Progeon, Infosys Technologies, Infosys Consulting, and others. The company's business solutions include consulting, software development, engineering, systems integration, and it also offers banking software services. The company is headquartered in Bangalore, India, and employs more than 175,000 people globally. 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.

Infosys reported its second quarter (fiscal 2021) earnings results on October 14. The company announced that it generated revenues of $3.3 billion during the quarter, which was 3% more than the revenues that Infosys generated during the previous year's quarter. Infosys' revenues were slightly higher than what the analyst community forecasted, beating sales estimates by $30 million. Infosys was able to grow its digital revenues by an attractive 25%, but that was partially offset by a weaker revenue performance in its core business. Thanks to strong cost controls, Infosys was able to grow its operating margin by several hundred basis points, to 25.4% during the second quarter.

Infosys generated earnings-per-share of $0.15 during the second quarter, which was ahead of analyst expectations. Management stated in the past that they expect revenue growth of 0% to 2% for the current fiscal year (2021), while margins will be higher than during 2020, as we have already seen in H1. It thus looks like the coronavirus pandemic is not impacting Infosys by a lot, as the company should remain on its growth track.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$0.33	$0.38	$0.38	$0.39	$0.44	$0.45	$0.47	$0.55	$0.51	$0.55	***$0.58***	***$0.78***
DPS	$0.07	$0.09	$0.09	$0.15	$0.18	$0.18	$0.19	$0.22	$0.23	$0.26	***$0.29***	***$0.43***
Shares[1]	4560	4580	4580	4540	4600	4580	4580	4340	4350	4250	***4200***	***4100***

Infosys has managed to generate a solid rate of growth over the last decade. The company has compounded its adjusted earnings-per-share at 7% per year between 2010 and 2020. 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 consistent growth track record. 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 very 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. Due to the combination of some business growth and rising margins, combined with the positive impact of share repurchases, earnings-per-share should rise meaningfully in the long run. We assume that Infosys will be able to generate earnings-per-share of $0.58 during fiscal 2021, and that its growth during the coming years will be roughly in line with its historic growth rate.

[1] In Millions

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	24.9	19.2	15.3	16.6	17.5	18.8	17.3	14.3	21.0	18.7	***27.6***	***17.0***
Avg. Yld.	0.8%	1.2%	1.4%	1.5%	1.9%	2.1%	2.3%	2.7%	2.2%	2.5%	***1.8%***	***3.2%***

Infosys trades at more than 27 times this year's expected earnings right now. This represents a huge premium over how the company's shares were valued in the past. The overvaluation will present a headwind for Infosys' total returns going forward, as multiple normalization should slow down Infosys' share price growth 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	21.2%	23.7%	23.7%	38.5%	40.9%	40.0%	40.4%	39.1%	43.1%	47.3%	***50.0%***	***54.9%***

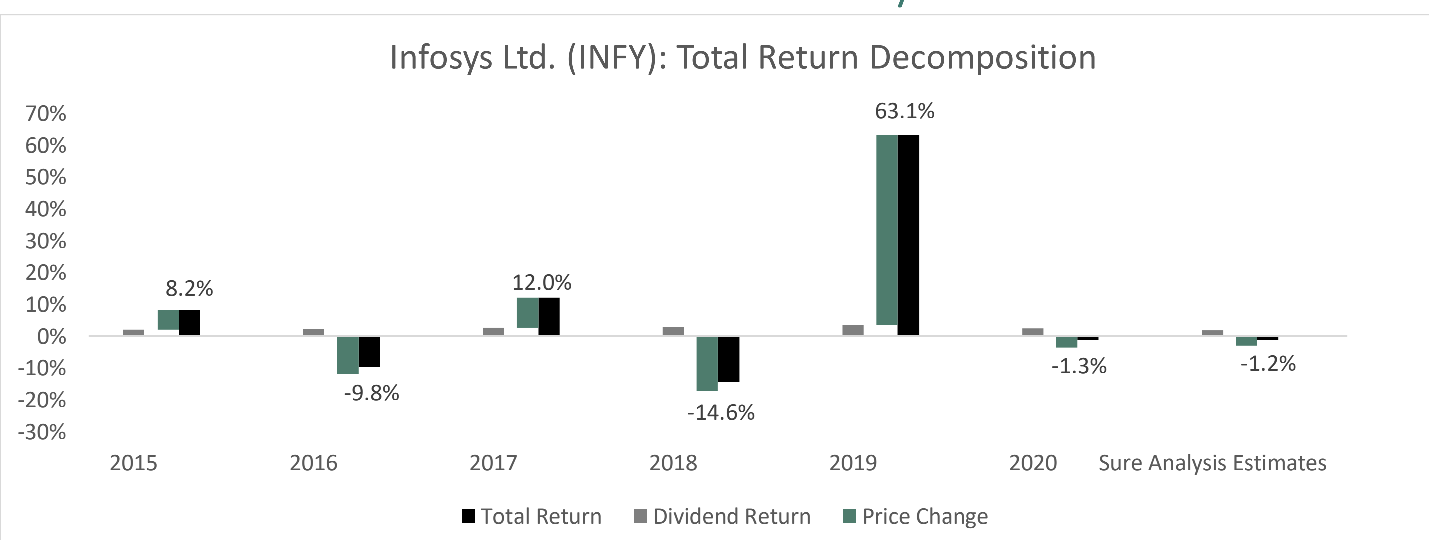
Infosys has raised its dividend payout ratio relatively consistently over the last decade. This is not surprising, as the dividend growth rate was substantially higher than the earnings-per-share growth rate over those ten years. Infosys still does not pay out an overly large portion of its net profits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

Infosys competes with a range of 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 overly 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 fundamentally 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	6041	6994	7398	8249	8711	9501	10208	10939	11799	12780
Gross Profit	2544	2876	2761	2957	3337	3551	3762	3938	4112	4228
Gross Margin	42.1%	41.1%	37.3%	35.8%	38.3%	37.4%	36.9%	36.0%	34.9%	33.1%
SG&A Exp.	686	863	852	978	890	1035	1242	1116	1220	1504
D&A Exp.	189	195	207	226	175	222	254	289	287	
Operating Profit	1779	2013	1909	1979	2329	2368	2520	2670	2731	2724
Operating Margin	29.4%	28.8%	25.8%	24.0%	26.7%	24.9%	24.7%	24.4%	23.1%	21.3%
Net Profit	1499	1716	1725	1751	2013	2052	2140	2486	2199	2331
Net Margin	24.8%	24.5%	23.3%	21.2%	23.1%	21.6%	21.0%	22.7%	18.6%	18.2%
Free Cash Flow	1013	1361	1354	1552	1389	1449	1688	1947	1913	
Income Tax	547	694	617	668	805	799	834	657	803	757

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	7010	7537	8539	9522	10615	11378	12854	12255	12252	12260
Cash & Equivalents	3737	4047	4021	4331	4859	4935	3489	3041	2829	2465
Accounts Receivable	1043	1156	1305	1394	1554	1710	1900	2016	2144	2443
Goodwill & Int. Ass.	196	218	421	406	587	707	674	367	603	950
Total Liabilities	888	961	1208	1589	1853	2054	2217	2295	2852	3559
Accounts Payable	10	5	35	29	22	58	91	127	255	377
Long-Term Debt	-	-	-	-	-	-	-	-	-	-
Shareholder's Equity	6122	6576	7331	7933	8762	9324	10637	9960	9391	8646
D/E Ratio	-	-	-	-	-	-	-	-	-	-

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	22.8%	23.6%	21.5%	19.4%	20.0%	18.7%	17.7%	19.8%	17.9%	19.0%
Return on Equity	26.1%	27.0%	24.8%	22.9%	24.1%	22.7%	21.4%	24.1%	22.7%	25.8%
ROIC	26.1%	27.0%	24.8%	22.9%	24.1%	22.7%	21.4%	24.1%	22.7%	25.8%
Shares Out.	4560	4580	4580	4540	4600	4580	4580	4340	4350	4250
Revenue/Share	1.32	1.53	1.62	1.80	1.91	2.08	2.23	2.42	2.71	3.00
FCF/Share	0.22	0.30	0.30	0.34	0.30	0.32	0.37	0.43	0.44	

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