Infosys Ltd. (INFY)

Updated February 8th, 2022 by Jonathan Weber

Key Metrics

Current Price:	$23	**5 Year CAGR Estimate:**	-2.4%	**Market Cap:**	$97B
Fair Value Price:	$13	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	02/23/22
% Fair Value:	173%	**5 Year Valuation Multiple Estimate:**	-10.4%	**Dividend Payment Date:**	03/01/22
Dividend Yield:	1.7%	**5 Year Price Target**	$18	**Years Of Dividend Growth:**	6
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	37.9%

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 290,000 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 third quarter (fiscal 2022) earnings results on January 12. The company announced that it generated revenues of $4.3 billion during the quarter, which was 21% 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 estimates by $110 million. Infosys didn't benefit from exchange rate movements, unlike in previous quarters, as organic revenue had been up by 21% during the quarter, in-line with reported revenue growth. Infosys had to report a decline in its operating margin, however, due to higher labor expenses.

Infosys generated earnings-per-share of $0.18 during the third quarter, which was slightly ahead of analyst expectations. Management updated its guidance for the current year, now forecasting revenue growth of 19.5%-20.0% at constant currency rates in fiscal 2022. Infosys' strong revenue guidance will not lead to an outsized earnings-per-share increase in 2022, however, as earnings-per-share are forecasted to grow by a little more than 10%.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$0.38	$0.38	$0.39	$0.44	$0.45	$0.47	$0.55	$0.51	$0.55	$0.61	***$0.70***	***$0.94***
DPS	$0.09	$0.09	$0.15	$0.18	$0.18	$0.19	$0.22	$0.23	$0.26	$0.29	***$0.40***	***$0.59***
Shares[1]	4580	4580	4540	4600	4580	4580	4340	4350	4250	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 $0.70 during fiscal 2022, 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	19.2	15.3	16.6	17.5	18.8	17.3	14.3	21.0	18.7	31.1	***32.9***	***19.0***
Avg. Yld.	1.2%	1.4%	1.5%	1.9%	2.1%	2.3%	2.7%	2.2%	2.5%	1.5%	***1.7%***	***3.3%***

Infosys trades at around 33 times this year's expected earnings right now. This represents a huge premium compared to how the company's shares were valued in the past. The overvaluation will present a major headwind for Infosys' total returns going forward, we believe, 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	23.7%	23.7%	38.5%	40.9%	40.0%	40.4%	39.1%	43.1%	47.3%	47.5%	***57.1%***	***62.7%***

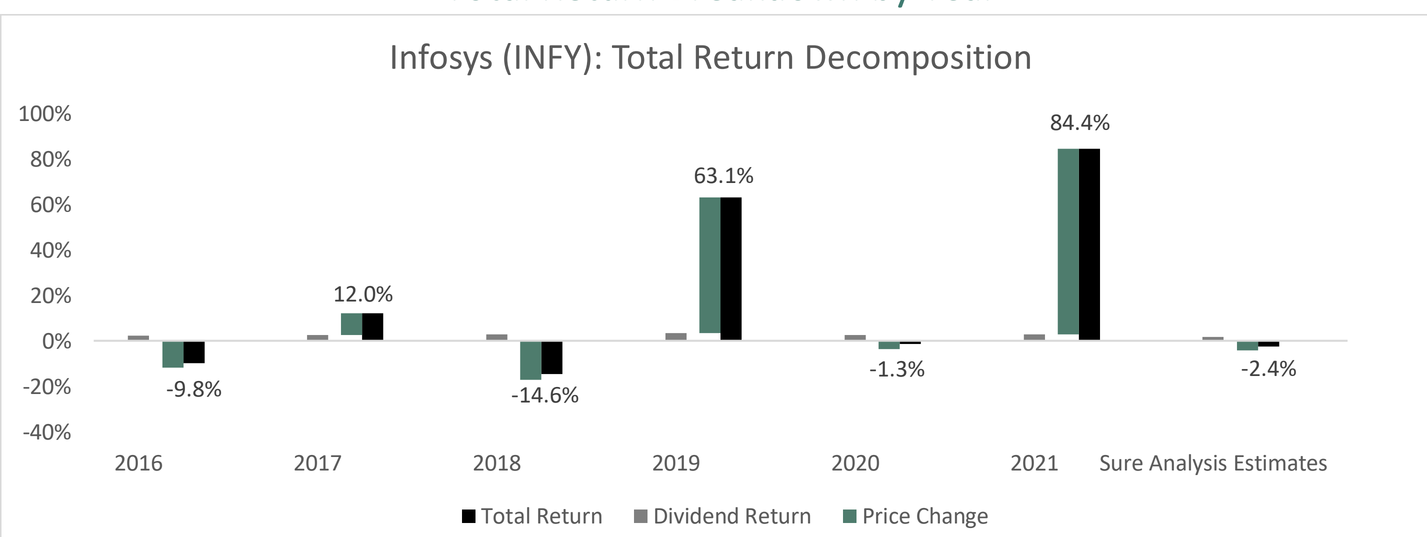
Infosys has raised its dividend payout ratio relatively consistently over the last decade. This is not surprising, as the dividend growth rate was substantially higher than the earnings-per-share growth rate over those ten years. Infosys still does not pay out an overly large portion of its net profits in the form of dividends, though, as the payout ratio is just above 50%. Infosys' dividend looks safe due to a payout ratio that is 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 higher than that of the broad market right now, but due to the stock trading way above fair value, we still rate Infosys a sell at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	6994	7398	8249	8711	9501	10208	10939	11799	12780	13561
Gross Profit	2876	2761	2957	3337	3551	3762	3938	4112	4228	4733
Gross Margin	41.1%	37.3%	35.8%	38.3%	37.4%	36.9%	36.0%	34.9%	33.1%	34.9%
SG&A Exp.	863	852	978	890	1035	1242	1279	1220	1302	1223
D&A Exp.	195	207	226	175	222	254	289	287	407	441
Operating Profit	2013	1909	1979	2329	2368	2520	2659	2731	2748	3350
Operating Margin	28.8%	25.8%	24.0%	26.7%	24.9%	24.7%	24.3%	23.1%	21.5%	24.7%
Net Profit	1716	1725	1751	2013	2052	2140	2486	2199	2331	2613
Net Margin	24.5%	23.3%	21.2%	23.1%	21.6%	21.0%	22.7%	18.6%	18.2%	19.3%
Free Cash Flow	1361	1354	1552	1389	1449	1688	1947	1913	2146	2973
Income Tax	694	617	668	805	799	834	657	803	757	973

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	7537	8539	9522	10615	11378	12854	12255	12252	12260	14825
Cash & Equivalents	4047	4021	4331	4859	4935	3489	3041	2829	2465	3380
Accounts Receivable	1156	1305	1394	1554	1710	1900	2016	2144	2443	2639
Goodwill & Int. Ass.	229	432	417	597	717	683	377	612	950	1115
Total Liabilities	961	1208	1589	1853	2054	2217	2295	2852	3559	4323
Accounts Payable	5	35	29	22	58	91	127	255	387	362
Long-Term Debt	-	-	-	-	-	-	-	-	-	-
Shareholder's Equity	6576	7331	7933	8762	9324	10637	9960	9391	8646	10442
LTD/E Ratio	-	-	-	-	-	-	-	-	-	-

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	23.6%	21.5%	19.4%	20.0%	18.7%	17.7%	19.8%	17.9%	19.0%	19.3%
Return on Equity	27.0%	24.8%	22.9%	24.1%	22.7%	21.4%	24.1%	22.7%	25.8%	27.4%
ROIC	27.0%	24.8%	22.9%	24.1%	22.7%	21.4%	24.1%	22.7%	25.8%	27.2%
Shares Out.	4580	4580	4540	4600	4580	4580	4340	4350	4250	4250
Revenue/Share	1.53	1.62	1.80	1.91	2.08	2.23	2.42	2.71	3.00	3.19
FCF/Share	0.30	0.30	0.34	0.30	0.32	0.37	0.43	0.44	0.50	0.70

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