Infosys Ltd. (INFY)

Updated November 18th, 2023 by Jonathan Weber

Key Metrics

Current Price:	$18	**5 Year CAGR Estimate:**	3.2%	**Market Cap:**	$75B
Fair Value Price:	$14	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	12/28/23[1]
% Fair Value:	132%	**5 Year Valuation Multiple Estimate:**	-5.3%	**Dividend Payment Date:**	01/21/24[2]
Dividend Yield:	2.4%	**5 Year Price Target**	$18	**Years Of Dividend Growth:**	8
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Rating:**	Hold

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. 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 2024) earnings results on October 19. The company announced that it generated revenues of $4.7 billion during the quarter, which was 4% more than the revenues that Infosys generated during the previous year's quarter. Infosys' revenues were higher than what the analyst community forecasted, beating estimates by $110 million. Infosys did benefit from exchange rate movements during the period to a small degree, unlike in the previous quarter, when currency rate movements had no meaningful impact.

Infosys generated earnings-per-share of $0.18 during the second quarter, which was in line with the consensus estimate. Management updated its guidance for the current year, fiscal 2024. The company is forecasting revenue growth of 1%-3% at constant currency rates this year. Infosys' revenue increase that is expected for the current year should result in a small earnings-per-share increase as well, according to current estimates.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$0.39	$0.44	$0.45	$0.47	$0.55	$0.51	$0.55	$0.61	$0.70	$0.71	***$0.72***	***$0.96***
DPS	$0.15	$0.18	$0.18	$0.19	$0.22	$0.23	$0.26	$0.29	$0.40	$0.43	***$0.43***	***$0.63***
Shares[3]	4540	4600	4580	4580	4340	4350	4250	4250	4250	4190	***4150***	***4000***

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 $0.73 during fiscal 2024, and that its growth during the coming years will be roughly in line with its historic growth rate.

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[1] Estimated date
[2] Estimated date
[3] In Millions

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	16.6	17.5	18.8	17.3	14.3	21.0	18.7	31.1	35.4	23.9	***25.0***	***19.0***
Avg. Yld.	1.5%	1.9%	2.1%	2.3%	2.7%	2.2%	2.5%	1.5%	1.6%	2.5%	***2.4%***	***3.5%***

Infosys trades at around 25 times this year's expected earnings right now. The valuation has declined compared to the peak levels seen during the pandemic, but Infosys still trades ahead of our fair value estimate. We believe that shares are overvalued, and that multiple compression will be a meaningful headwind going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	38.5%	40.9%	40.0%	40.4%	39.1%	43.1%	47.3%	47.5%	57.1%	60.6%	***59.7%***	***65.6%***

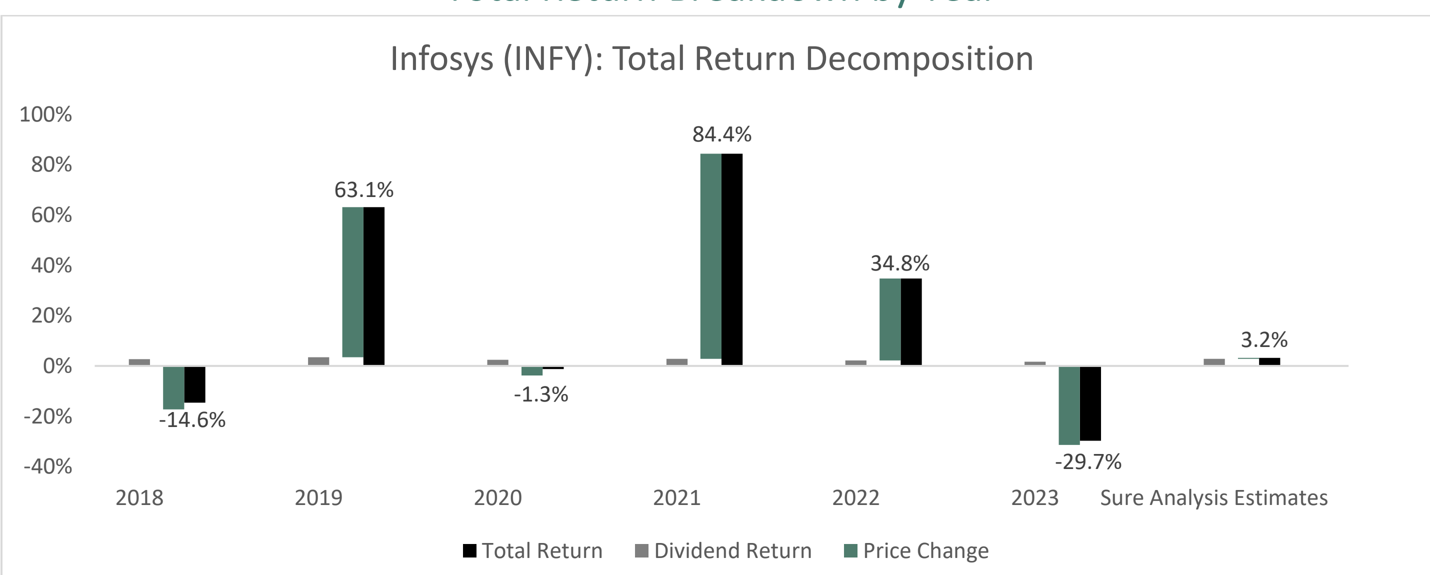
Infosys has raised its dividend payout ratio relatively consistently over the last decade. This is not surprising, as the dividend growth rate was substantially higher than the earnings-per-share growth rate over those ten years. Infosys still does not pay out an overly large portion of its net profits in the form of dividends, though, as the payout ratio is around 60%. 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 experienced 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 also be able to grow its revenues and profits meaningfully going forward. Infosys' dividend yield is higher than that of the broad market right now. But with Infosys trading ahead of fair value, we rate the stock a hold.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	7,398	8,249	8,711	9,501	10,208	10,939	11,799	12,780	13,561	16,311
Gross Profit	2,761	2,957	3,337	3,551	3,762	3,938	4,112	4,228	4,733	5,315
Gross Margin	37.3%	35.8%	38.3%	37.4%	36.9%	36.0%	34.9%	33.1%	34.9%	32.6%
SG&A Exp.	852	978	890	1,035	1,242	1,279	1,416	1,302	1,223	1,391
D&A Exp.	207	226	175	222	254	289	287	407	441	466
Operating Profit	1,909	1,979	2,329	2,368	2,520	2,659	2,696	2,748	3,350	3,779
Operating Margin	25.8%	24.0%	26.7%	24.9%	24.7%	24.3%	22.8%	21.5%	24.7%	23.2%
Net Profit	1,725	1,751	2,013	2,052	2,140	2,486	2,199	2,331	2,613	2,963
Net Margin	23.3%	21.2%	23.1%	21.6%	21.0%	22.7%	18.6%	18.2%	19.3%	18.2%
Free Cash Flow	1,354	1,552	1,389	1,449	1,688	1,947	1,913	2,146	2,973	3,055
Income Tax	617	668	805	799	834	657	803	757	973	1,068

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	8,539	9,522	10,615	11,378	12,854	12,255	12,252	12,260	14,825	15,555
Cash & Equivalents	4,021	4,331	4,859	4,935	3,489	3,041	2,829	2,465	3,380	2,305
Accounts Receivable	1,305	1,394	1,554	1,710	1,900	2,016	2,144	2,443	2,639	2,995
Goodwill & Int. Ass.	432	417	597	717	683	377	612	950	1,115	1,042
Total Liabilities	1,208	1,589	1,853	2,054	2,217	2,295	2,852	3,559	4,323	5,561
Accounts Payable	35	29	22	58	91	127	255	387	364	547
Long-Term Debt	-	-	-	-	-	-	-	-	-	-
Shareholder's Equity	7,331	7,933	8,762	9,324	10,637	9,960	9,391	8,646	10,442	9,941
LTD/E Ratio	-	-	-	-	-	-	-	-	-	-

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	21.5%	19.4%	20.0%	18.7%	17.7%	19.8%	17.9%	19.0%	19.3%	19.5%
Return on Equity	24.8%	22.9%	24.1%	22.7%	21.4%	24.1%	22.7%	25.8%	27.4%	29.1%
ROIC	24.8%	22.9%	24.1%	22.7%	21.4%	24.1%	22.7%	25.8%	27.2%	28.9%
Shares Out.	4580	4540	4600	4580	4580	4340	4350	4250	4250	4250
Revenue/Share	1.62	1.80	1.91	2.08	2.23	2.42	2.71	3.00	3.19	3.87
FCF/Share	0.30	0.34	0.30	0.32	0.37	0.43	0.44	0.50	0.70	0.72

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