

Pick of the week



Infosys (INFO)

Recommendation

Buy

Time Period

12 Months

Current Price

₹1100

Target Price

₹1400

Potential Upside

27.3%

Investment Argument

- In Q2FY21 net profit of Rs4840 cr was 10.5% higher than our estimate and grew 20.6% yoy. Operating Cash Flow generation was strong at 121% of net profit. We now expect earnings to grow by 12.2% in FY21E, 12.0% in FY22E and 13.2% in FY23E.
- Covid has accelerated digital transformation of clients enabled by cloud adoption and will drive demand in the next 3-5 years. Infosys has positioned itself as the primary orchestrator of the cloud journey for clients.
- The management is confident of stable margins with opportunity to expand in the medium term. We forecast 23.2% and 23% EBIT margin for FY22 and FY23, respectively.
- Infosys' new deal wins hit a new high of US\$ 270 cr. Net new deals at US\$ 270 cr was 2.2x of the previous high achieved in Sep-18. The value of new deals won in the quarter is equal to net new deals of the previous five quarters.
- Post Q2FY21 results we have raised FY21-23 EPS estimates by 8-9%. We expect Infosys to lead the industry on growth. We value the stock at 25x Dec'22E EPS to arrive at Fair Value of Rs.1400.