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Mar 23, 2020

Infosys Ltd.(INFY)

$6.94 (As of 03/20/20)

Price Target (6-12 Months): **$7.30**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 05/03/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: B | Growth: C | Momentum: C	**3-Hold** VGM:B

Summary

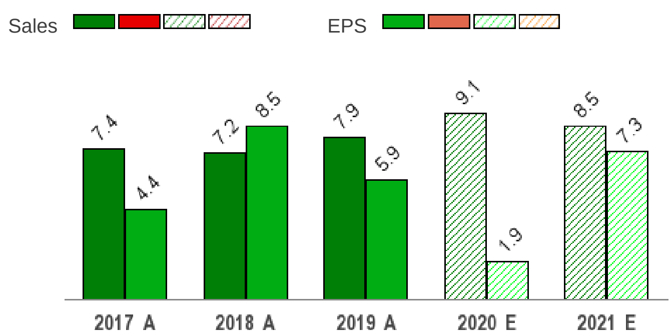
Infosys is benefiting from large deal wins and fast growing digital services. The company's focus on Agile Digital and AI-driven Core services is a tailwind. Strong demand for its services in cloud, IoT, cyber security, data and analytics is a key driver. Higher investments by clients in digital transformation, artificial intelligence and automation are an upside. However, Infosys is suffering from an unfavorable political climate in the United States and the increasing anti-outsourcing sentiment in certain countries. Higher subcontractor costs, and the company's compensation revision with a higher variable pay and incentives are weighing on margins. Further, the company's business is highly prone to the currency volatility between the Indian rupee and the U.S. The stock has underperformed the industry in the past year.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$12.08 - $6.86
20 Day Average Volume (sh)	18,230,568
Market Cap	$29.4 B
YTD Price Change	-32.8%
Beta	0.50
Dividend / Div Yld	$0.21 / 3.0%
Industry	Computers - IT Services
Zacks Industry Rank	Top 38% (97 out of 254)
Last EPS Surprise	7.1%
Last Sales Surprise	-0.1%
EPS F1 Est- 4 week change	-0.4%
Expected Report Date	04/10/2020
Earnings ESP	0.0%
P/E TTM	12.9
P/E F1	12.6
PEG F1	1.3
P/S TTM	2.3

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	3,359 E	3,449 E	3,493 E	3,546 E	13,975 E
2020	3,131 A	3,210 A	3,243 A	3,301 E	12,876 E
2019	2,831 A	2,921 A	2,987 A	3,060 A	11,799 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.14 E	$0.15 E	$0.15 E	$0.16 E	$0.59 E
2020	$0.13 A	$0.13 A	$0.15 A	$0.14 E	$0.55 E
2019	$0.14 A	$0.13 A	$0.14 A	$0.13 A	$0.54 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/20/2020. The reports text is as of 03/23/2020.

Overview

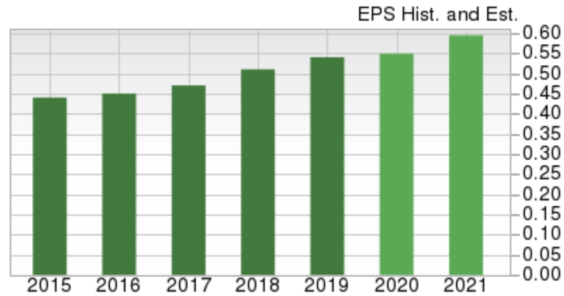
Headquartered in India, Infosys Technologies enables its clients to leverage its performance by utilizing its proprietary Global Delivery Model ('GDM').

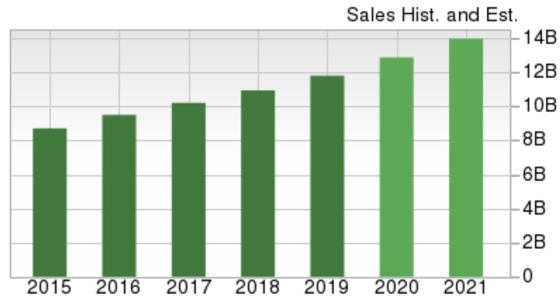
Revenues were almost $11.80 billion in fiscal 2019.

Infosys operates across the following business segments — Financial Services (32% of total revenues), Retail (16.4%), Communication (12.6%), Energy, Utilities, resources & Services (12.6%), Manufacturing (9.9%), Hi Tech (7.5%), Life Sciences (6.3%) and Others (2.7%). Others include operating segments of businesses in India, Japan, China, Infosys Public Services and other enterprises in Public Services.

Infosys markets its services to large enterprises in North America, Europe and the Asia Pacific region. Some of the services offered by the company are:

Business Process Management (BPM) Services and IT Consulting – Infosys, through its subsidiary Progeon, Ltd., offers its customers the chance to outsource several process-intensive functions related to Customer Relationship Management, Finance and Accounting, and Administration and Sales Order Processing. Also, Infosys' consultants offer technical advice in developing and recommending appropriate IT architecture, hardware and software to deliver IT solutions designed to meet specific business needs of its clients.





Consulting, Package Implementation & Others – Infosys is able to create new customized software solutions for its clients, and can increase the functionality of existing software solutions. Also, the company helps its clients to reduce maintenance costs. Infosys also deploys a small group of on-site consultants for its clients, to help streamline and coordinate its support functions.

Products, Platforms and Others– Infosys helps its customers to convert existing IT Systems to newer technologies and platforms developed by third-party vendors. Also, the company specializes in enterprise resource planning packages developed by vendors such as SAP or Oracle, Business Intelligence packages from vendors such as Business Objects and Cognos, and enterprise application integration packages from vendors.

Reasons To Buy:

Infosys is growing from renewal of traditional services and rolling out of others in areas such as Cloud Ecosystem, Big Data and Analytics.

- Infosys is witnessing solid traction in its digital business that now comprises more than 31% of the top line. The high margin digital business is expected to offset the additional investments that the company is undertaking.

- Infosys has been diligently following the “Renew New” program, which lays the blueprint of its long-term growth. This strategy, which includes restructuring of customer-centric functions, streamlining of sales function, unification of delivery systems and redesigning of other fee and oral processes, is proving to be highly beneficial allowing the company to offset major challenges. Under the “Renew” initiative, Infosys helped clients renew traditional IT services and infrastructure.

- Of late, innovation has become the keyword of Infosys’ business strategy, fostered by pursuing two avenues, namely, empowering every employee with Zero Distance Program and improving next-generation services with AiKiDo offerings (the acronym for Artificial Intelligence, Knowledge-based IT and Design thinking). Infosys has also taken initiatives like ‘design thinking’ to enhance the training and knowledge base of its employees. Innovative actions like ‘Zero Bench’ program that was devised by the company to eliminate the notion of “bench” in the IT service industry is also proving to be a major asset, bolstering the company’s internal strength. Infosys continues to invest heavily in AI capabilities, including Mana. During 2017, it acquired a highly accomplished team of machine learning experts on Skytree, one of the early startups focused on machine learning. This apart, the company created a $500 million innovation fund in 2015 with an aim to invest in innovative entrepreneurial ventures in domains related to the company’s core business.

- Infosys has been strengthening its core competencies by pursuing strategic collaborations and acquisitions. The company’s alliance strategy is targeted at teaming up with leading technology providers, which allows it to cash in on the emerging technologies in a mutually beneficial and cost-competitive manner. Over the last few quarters, Infosys has collaborated with many bigwigs to fortify its portfolio and market share. In order to boost digital, cloud, legacy modernization and automation business, Infosys cemented strategic tie-ups with Google, Adobe, Microsoft, Amazon Web Services and salesforce.com. To drive engineering services, the company has partnered with General Electric to deliver solutions in the field of automation, digital trends and the Internet of Things.

- Infosys’ sound financial health adds to its strength. As of Dec 31, 2019, Infosys had cash and cash equivalents of $2,342 million.

Reasons To Sell:

- Infosys' focus on on-shore business model, with more local hiring, is likely to hurt the company's profitability. Infosys has been struggling to adapt itself to the changing political climate in the United States. Infosys fears that an increase in anti-outsourcing sentiments in certain countries, including the United States and the United Kingdom, is likely to lead to the enactment of restrictive legislations. This in turn could limit companies in those countries from outsourcing work and restrict ability to staff client projects in a timely manner.

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- The company's business is highly prone to currency volatility between the Indian Rupee and the U.S. dollar as majority of its revenues are derived from the U.S. markets. The ongoing commotion related to the Brexit referendum is likely to create uncertainties in the near term, discouraging clients to take up new investments in financial services. The company witnessed pronounced currency volatility especially in the backdrop of Brexit and may continue to do so going forward. In addition, Infosys is expanding capacity in on-site development centers to mitigate any potential risks from visa regulation in the U.S. Steep currency fluctuations, high compensation costs as well as higher variable pays are likely to inflate these costs as well.

- Spending on technology products and services is subject to fluctuations, depending on many factors, including the economic environment in markets where clients operate. Rapid proliferation of customizable internet-based software has been hampering Infosys' traditional outsourcing business. Management believes that economic conditions in many of its markets remain quite challenging which can weigh on the company's profitability, going ahead. For instance, in many European countries, large government deficits, coupled with downgrading of government debt and credit ratings, have compounded the possibility of continued weakness that may affect Infosys adversely.

- Infosys operates in a highly competitive and rapidly changing market. The company foresees intensified competition from established IT peers as well as new competitors. In particular, the company expects increased competition from firms that are strengthening their offshore presence in India or other low-cost locations, as well as from firms in market segments that Infosys has recently entered. This apart, the company suffers weakness particularly in its sales and other delivery operations, which poses a direct threat to its profitability in the near term. Apart from this, many long-term client contracts of Infosys contain benchmarking provisions, which if used, could result in lower revenues and profitability under the contract, going forward. In addition, the company remains wary about the actions of activist shareholders, which it believes can adversely affect its ability to execute strategic priorities.

Last Earnings Report

Infosys Q3 Results Benefit From Large Deals

Quarter Ending	12/2019
Report Date	Jan 10, 2020
Sales Surprise	-0.13%
EPS Surprise	7.14%
Quarterly EPS	0.15
Annual EPS (TTM)	0.54

Infosys' third-quarter fiscal 2020 adjusted earnings of 15 cents per share surpassed the Zacks Consensus Estimate by a penny as well the year-ago figure of 12 cents.

Although revenues of $3.243 billion increased 8.6% year over year, the same missed the Zacks Consensus Estimate of $3.250 billion. However, in terms of constant currency (CC), the metric was up 9.5%.

Rise in large deal wins and fast-growing digital services remain key catalysts. Strong demand for its services in cloud, IoT, cyber security, SaaS, user experience, data and analytics is a major driver. Double-digit growth across most of its seven business segments and robust growth in Europe and the United States were tailwinds.

Quarterly Details

Digital Revenues (40.6% of total) surged 39.9% year over year (40.8% at cc) to $1.318 billion while Core Revenues (59.4%) declined 5.9% (down 5% at cc) to $1.925 billion.

Geographically, North America and Europe revenues rose 10.1% and 12%, respectively, at cc. Rest of the World and India climbed 0.2% and 18.4% each.

Segment wise, Communication achieved maximum growth of 20.6%. Life Sciences, Hi Tech and Manufacturing rose 17.7%, 12.2% and 11.8%, respectively. Energy, Utilities, Resources & Services, Finances and Retail recorded growth of 8.9%, 6.2% and 2.5%, respectively.

In the quarter under review, the company added 84 clients. It also signed 14 crucial pacts with a total contract value (TCV) worth $1.8 billion. Seven of these were in Financial Services, two each in Communication and Manufacturing vertical while a single each in Retail, Energy, Utilities, Resources and Services and other segment. Geographically, eight were from America, five from Europe and one from Rest of the World.

Although headwinds in the financial services segment are still a concern, growing traction in the commercial and corporate bank, consumer, cost and payments, wealth management and custody plus mortgage portfolios of its business is an upside.

The company reported that its clients worth more than $100 million now add up to 28 compared with 23 a year ago.

The acquisition of Eishtec contributed $3 million to the quarter.

Margin

Gross profit rose 5.1% year over year to $1.08 billion. Gross margin shrank nearly 110 basis points (bps) on a year-over-year basis to 33.4%.

The company's operating income grew 5.4% year over year to $711 million. Operating margin shriveled 70 bps to 21.9%.

Liquidity

As of Dec 31, 2019, Infosys had cash and cash equivalents of $2,342 million compared with $2,324 million sequentially.

Outlook

In fiscal 2020, revenues are expected to grow in the 10-10.5% at cc, indicating a rise from 9-10% predicted earlier.

Operating margin is still anticipated between 21% and 23%.

Beyond 2020, cost/pricing pressure and wage inflation are likely to be major overhangs on margins.

Recent News

On Feb 18, 2020, Infosys announced a long-term partnership with GE Appliance to help modernize the latter's IT infrastructure.

In Feb 11, 2020, Infosys announced that it is set to acquire Simplus, one of the fastest growing Salesforce Platinum Partners in the USA and Australia. Simplus deals in cloud consulting, implementation, data integration, change management and training services for Salesforce Quote-to-Cash applications. This acquisition strengthens Infosys' position as an end-to-end Salesforce enterprise cloud solutions and services provider.

On Jan 13, 2020, Infosys is selected by GEFCO, an automotive transport and logistics provider, as an IT partner to boost the latter's digital transformation efforts over the next five years. Infosys will help transforming GEFCO's next-generation business application management services. The company will also leverage its Live Enterprise Suite to aid the group to evolve into a Digital Native organization.

On Oct 7, 2019, Infosys was selected by Volvo Cars to accelerate digital transformation services for its Enterprise Digital Commercial Operations Applications and Products.

On Oct 1, 2019, Infosys unveiled its strategic program Innov8 to boost its digital transformation of enterprises using SAP SE digital solutions.

Valuation

Shares of Infosys decreased 37.1% in the past six months and 35.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and Computer & Technology sector declined 25.8% and 14.1%, respectively, in the last six months. Over the past year, the Zacks sub-industry and the sector have fallen 25.7% and 12.1%, respectively.

The S&P 500 Index has declined 21.7% in the past six months and 18.3% in the past year.

The stock is currently trading at 11.63X forward 12-month earnings, which compares to 16.25X for the Zacks sub-industry, 16.55X for the Zacks sector and 13.75X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.73X and as low as 11.63X with a 5-year median of 17.4X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $7.25 price target reflects 12.2X forward 12-month earnings.

The table below shows summary valuation data for INFY

Valuation Multiples - INFY

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.63	16.25	16.55	13.75
	5-Year High	21.73	32.37	22.01	19.34
	5-Year Low	11.63	15.46	16.55	13.75
	5-Year Median	17.40	21.85	19.30	17.42
P/S F12M	Current	2.11	3.44	2.69	2.50
	5-Year High	4.52	10.11	3.58	3.43
	5-Year Low	2.11	3.44	2.30	2.50
	5-Year Median	3.44	7.29	3.02	3.00
EV/SalesTTM	Current	2.10	3.58	3.17	2.31
	5-Year High	4.41	8.12	4.45	3.46
	5-Year Low	2.10	3.58	2.54	2.14
	5-Year Median	3.45	5.84	3.53	2.82

As of 03/20/2020

Industry Analysis **Zacks Industry Rank:** Top 38% (97 out of 254)

Top Peers

SAP SE **(SAP)**	Outperform
Accenture PLC **(ACN)**	Neutral
Cognizant Technology Solutions Corporation **(CTSH)**	Neutral
DXC Technology Company. **(DXC)**	Neutral
Genpact Limited **(G)**	Neutral
International Business Machines Corporation **(IBM)**	Neutral
Perficient, Inc. **(PRFT)**	Neutral
Wipro Limited **(WIT)**	Neutral

Industry Comparison Industry: Computers - It Services

Industry Peers

	INFY Neutral	X Industry	S&P 500	ACN Neutral	CTSH Neutral	IBM Neutral
VGM Score	B	-	-	B	A	C
Market Cap	29.42 B	1.69 B	15.82 B	95.31 B	24.19 B	84.75 B
# of Analysts	10	5	13	11	12	7
Dividend Yield	2.97%	0.00%	2.79%	2.13%	2.00%	6.79%
Value Score	B	-	-	C	B	B
Cash/Price	0.08	0.08	0.06	0.05	0.12	0.09
EV/EBITDA	8.07	8.75	9.77	12.86	7.18	7.39
PEG Ratio	1.33	1.24	1.42	1.89	0.99	1.30
Price/Book (P/B)	3.43	3.28	2.07	5.99	2.19	4.03
Price/Cash Flow (P/CF)	11.55	9.44	8.39	16.82	8.76	4.83
P/E (F1)	12.62	13.45	12.42	19.49	10.85	7.14
Price/Sales (P/S)	2.33	1.06	1.68	2.13	1.44	1.10
Earnings Yield	7.93%	4.36%	7.97%	5.13%	9.21%	14.01%
Debt/Equity	0.00	0.19	0.70	0.17	0.13	2.58
Cash Flow ($/share)	0.60	1.13	7.01	8.91	5.04	19.75
Growth Score	C	-	-	A	B	D
Hist. EPS Growth (3-5 yrs)	5.04%	17.31%	10.85%	11.25%	11.62%	-3.50%
Proj. EPS Growth (F1/F0)	1.67%	6.59%	4.90%	4.54%	1.82%	4.27%
Curr. Cash Flow Growth	1.56%	15.51%	6.03%	8.06%	-2.96%	2.09%
Hist. Cash Flow Growth (3-5 yrs)	5.73%	15.90%	8.55%	9.75%	10.46%	-3.76%
Current Ratio	2.54	1.38	1.23	1.38	2.55	1.02
Debt/Capital	0.00%	24.77%	42.57%	14.34%	11.59%	72.05%
Net Margin	18.36%	2.36%	11.57%	11.13%	10.98%	12.23%
Return on Equity	26.68%	10.99%	16.74%	32.87%	20.60%	62.27%
Sales/Assets	1.04	0.81	0.54	1.43	1.05	0.53
Proj. Sales Growth (F1/F0)	9.13%	8.09%	3.13%	5.87%	3.13%	1.66%
Momentum Score	C	-	-	F	B	D
Daily Price Chg	-2.66%	-1.70%	-4.39%	-5.40%	-5.14%	-4.93%
1 Week Price Chg	-14.31%	-15.15%	-11.01%	-6.85%	-9.65%	-15.49%
4 Week Price Chg	-38.91%	-37.33%	-36.57%	-29.90%	-36.60%	-36.92%
12 Week Price Chg	-31.76%	-33.14%	-34.28%	-29.29%	-29.01%	-29.29%
52 Week Price Chg	-37.25%	-37.25%	-27.95%	-10.88%	-38.92%	-32.56%
20 Day Average Volume	18,230,568	615,004	3,981,936	4,398,236	5,810,325	8,486,620
(F1) EPS Est 1 week change	-0.36%	0.00%	-0.01%	-1.46%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.36%	-0.11%	-0.85%	-1.72%	-0.25%	-0.03%
(F1) EPS Est 12 week change	0.99%	0.00%	-1.70%	-1.70%	-1.69%	1.17%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.88%	-1.09%	-0.46%	0.12%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Value Score	B
Growth Score	C
Momentum Score	C
VGM Score	B

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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