

Rating Rationale

November 23, 2021 | Mumbai

Infosys Limited

Ratings Reaffirmed

Rating Action

Long Term Debt	CRISIL AAA/Stable (Reaffirmed)
Commercial Paper	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AAA/Stable/CRISIL A1+' ratings on the long-term debt programme and commercial paper programme of Infosys Limited (Infosys).

Infosys is expected to register double digit growth in fiscal 2022, led by strong deal wins supported by growth across verticals and increase in requirement for digital services. OPBDIT (operating profit before depreciation, interest, and tax) margin is likely to be stable in the range of 26-27%, supported by higher share of digital offerings, cost optimisation measures, and sustained employee utilization levels. While employee costs are likely to increase due to rollout of wage hikes/promotions deferred earlier and increase in attrition from last year's low level, higher revenue per employee and automation will mitigate the impact. In the first half of fiscal 2022, the company posted revenue growth of 19.2%, while OPBDIT margin moderated to 26.5%, compared with 27.4% in the first half of fiscal 2020.

During fiscal 2021, revenue increased by 10.7% (5% in constant currency) over the previous year, owing to healthy demand for IT services across verticals such as communications (12.6% of revenue), energy, utilities, resources & services (12.5% of revenue), retail (14.7% of revenue) financial services (32.4% of revenue). OPBDIT margin improved by 160 bps to 27.6%, due deferment of expenses, reduction in discretionary spend, prudent onsite-offshore mix and control on subcontractor cost, and higher share of the digital business.

Over the medium term, revenue and margin will be supported by focus on critical areas for clients such as process digitisation, migration to cloud-based technologies, workplace transformation, business model transformation and enhanced cybersecurity controls.

The ratings continue to reflect Infosys' leading position in the Indian information technology (IT) services space, its large scale of operations and healthy operating efficiency, strong financial risk profile with a debt-free balance sheet and robust liquid surplus of Rs 32,801 crore as on September 30, 2021. These strengths are partially offset by exposure to intense competition in the global IT industry.

Analytical Approach

For arriving at its ratings, CRISIL Ratings has combined the business and financial risk profiles of Infosys and its majority-owned subsidiaries (refer annexure 2 for list of consolidated entities). CRISIL Ratings has also amortised the goodwill arising out of acquisitions amounting to Rs.758 crore, Rs 1,490 crore, Rs 413 crore and Rs 35 crore for fiscals 2021, 2020, 2019 and 2018, respectively, over a period of five years.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- Leading player in the Indian IT services space, with established position across verticals and service lines**

Infosys is the second largest listed Indian IT services company in terms of revenue. It has a diversified range of offerings across service segments and industry verticals. The share of revenue from digital services has grown steadily to 56% in the first half of fiscal 2022, (from 48.5% during fiscal 2021), driven by higher demand for transformation to cloud and other digital products and services, amid the pandemic. In terms of verticals, Infosys derived about 32% of its revenue from the banking, financial services, and insurance (BFSI) segment during fiscal 2021 which grew by 8% during the year. The company also has presence in other verticals, such as retail (14.7% of revenue in fiscal 2021), communication (12.6 %), energy, utilities, resources & services (12.5%), and manufacturing (9.4%).

- Large scale of operations and healthy operating efficiency**

Infosys's business risk profile is supported by its leading market position, large scale of operations with a skilled resource base of 279,617 employees (as on September 30, 2021), proven project execution skills, and strong offshore delivery capability. The company has won highest ever large deals to the tune of \$14.1 billion primarily on account of large contracts won with Daimler AG and Vanguard during fiscal 2021; this is further expected to fuel revenue growth. During the first half of fiscal 2022, Revenue grew by 19.2% supported by total contract value of large deals (greater than USD 50 million) of USD 4.7 billion. OPBDIT margin moderated by 100 bps to 26.5% compared to the corresponding period of the previous

fiscal, due to wage hike announced in July 2021, partial reversal of cost benefits achieved in prior period due to COVID and transition impact of recently won large deals. Operating margin is therefore likely to moderate and remain in the range of 26-27% for fiscal 2022. The company's profitability remains among the best in the industry, supported by its superior revenue mix, cost optimisation measures, and delivery effectiveness.

- **Strong financial risk profile and robust liquidity**

Infosys has a strong financial risk profile, driven by its healthy annual cash generating ability and debt-free balance sheet (for over a decade). Net cash accrual stood at Rs 13,570 crore for fiscal 2021, after a dividend payout of Rs 9,120 crore.

Financial flexibility is strong, supported by robust liquidity in the form of cash and cash equivalents of Rs 32,801 crore as on September 30, 2021. Despite the policy to return 85% of free cash flows to shareholders cumulatively over five years from fiscal 2020, liquidity will remain robust, supported by sufficient funds to finance working capital and capital expenditure (capex) requirement over the medium term. Infosys is also expected to invest in niche acquisitions to strengthen its domain expertise in the medium term. These will be largely funded from its cash surplus and healthy accrual.

Weakness:

- **Exposure to intense competition in the global IT industry**

The moderation in discretionary spending by large clients has impacted revenue growth in the IT industry during fiscal 2021, especially in traditional outsourcing services. Furthermore, being a leading player in the IT outsourcing space, Infosys competes with not just Indian IT majors such as Tata Consultancy Services Ltd (TCS), HCL Technologies Ltd ('CCR AAA/Stable') and Wipro Ltd, but also global IT giants such as Atos SE, Capgemini SE and Accenture Plc. The slowdown in IT spend by global clients and the consequent decline in contract value in the industry has intensified competition among players. Infosys derives around 56% of revenue from digital services and remaining from traditional IT services. While the company remains exposed to challenging business conditions, its strategy of focusing on building capability in the higher margin digital and consulting segments and increasing automation to improve core technologies will mitigate the impact on profitability over the medium term.

Liquidity: Superior

Liquidity remains superior driven by cash surplus of Rs 32,801 crore as on September 30, 2021. The company has moderate capex plans and no long-term debt. CRISIL Ratings believes Infosys will maintain strong liquidity over the medium term, as the existing funds and expected cash accrual will be more than sufficient to finance working capital, capex, investment in various subsidiaries, as well as the capital return to investors.

Outlook: Stable

CRISIL Ratings believes Infosys will maintain its strong position in the Indian IT services sector and its robust financial risk profile and liquidity over the medium term.

Rating Sensitivity factors

Downward factors:

- Sustained slowdown in revenue growth or decline in OPBDIT margin below 20%, due to regulatory changes in operating regions, or reduction in client spending, weakening the business risk profile
- Consistent reduction in cash surplus to below Rs 15,000 crore due to large acquisitions or capital return to investors, affecting financial flexibility.

About the Company

Infosys is a large Indian IT services company, offering a range of digital and traditional IT services. Digital services include revenue from emerging segments such as artificial intelligence-based analytics and big data, engineering digital products and Internet of Things (IoT), application program interface, and micro services, modernisation of legacy technology systems, migration to cloud applications, and implementation of advanced cyber security systems. Traditional IT services include application development and management services, product engineering and management, infrastructure management services, enterprise application implementation, support and integration services. It caters to industry verticals such as financial services, retail, communication, manufacturing, hi-tech, life sciences, and energy, utilities, resources & services.

As on September 30, 2021, Infosys had 1,714 active clients and presence in 50 countries. The promoters held 12.95% stake in the company as on September 30, 2021.

For the six months ended September 30, 2021, the company reported a profit after tax (PAT) of Rs 10,629 crore (Rs 9,131 crore in the corresponding period of fiscal 2020) and net revenue of Rs 57,498 crore (Rs 48,324 crore).

Key Financial Indicators

As on / for the period ended March 31	Unit	2021	2020
Revenue	Rs Crores	100,688	90,986
PAT	Rs Crores	19,423	16,639
PAT margin	%	19.3	18.3
Adjusted debt/adjusted networth	Times	0.00	0.00
Interest coverage	Times	NM	34.74

NM – not meaningful

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels

for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Date of Redemption	Coupon Rate (%)	Issue size	Complexity Levels	Rating Assigned with Outlook
NA*	Long Term Debt Programme	NA	NA	NA	0.00	Simple	CRISIL AAA/Stable
NA*	Commercial Paper programme	NA	7-365 days	NA	0.00	Simple	CRISIL A1+

*No borrowings issued against this programme

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Infosys Ltd	Full	Holding
Infosys BPM Limited	Full	Co-Subsidiary
EdgeVerve Systems Limited	Full	Co-Subsidiary
Infosys McCamish Systems LLC	Full	Co-Subsidiary
Infosys Public Services, Inc	Full	Co-Subsidiary
Infy Consulting Company Limited	Full	Co-Subsidiary
Infosys Technologies (China) Co. Limited	Full	Co-Subsidiary
Stater Nederland B.V.	Full	Co-Subsidiary
Infosys Poland Sp. z o.o.	Full	Co-Subsidiary
Infosys Consulting GmbH	Full	Co-Subsidiary
Infosys Compaz Pte Ltd	Full	Co-Subsidiary
Infosys Technologies (Shanghai) Co. Limited	Full	Co-Subsidiary
Infosys Consulting AG	Full	Co-Subsidiary
Infosys Technologies S. de R. L. de C. V	Full	Co-Subsidiary
HIPUS Co., Ltd	Full	Co-Subsidiary
Panaya Ltd.	Full	Co-Subsidiary
Fluidio Oy	Full	Co-Subsidiary
Infosys (Czech Republic) Limited s.r.o	Full	Co-Subsidiary
WongDoody, Inc.	Full	Co-Subsidiary
Infosys Consulting Ltda.	Full	Co-Subsidiary
Infosys Management Consulting Pty. Limited	Full	Co-Subsidiary
Stater Belgium N.V. / S.A.	Full	Co-Subsidiary
Brilliant Basics Limited	Full	Co-Subsidiary
Infosys Consulting S.R.L.	Full	Co-Subsidiary
Portland Group Pty. Limited	Full	Co-Subsidiary
WDW Communications, Inc.	Full	Co-Subsidiary
Infosys Middle East FZ LLC	Full	Co-Subsidiary
Fluidio Sweden AB (Extero)	Full	Co-Subsidiary
Infosys Consulting Pte Ltd.	Full	Co-Subsidiary
HypoCasso B.V	Full	Co-Subsidiary
Panaya Inc	Full	Co-Subsidiary
Infosys Technologies (Sweden) AB	Full	Co-Subsidiary
Infy Consulting B.V	Full	Co-Subsidiary
Infosys Consulting (Shanghai) Co Ltd	Full	Co-Subsidiary
Skava Systems Private Limited	Full	Co-Subsidiary
Infosys Consulting (Belgium) NV	Full	Co-Subsidiary
Fluidio Denmark A/S	Full	Co-Subsidiary
Fluidio Norway A/S	Full	Co-Subsidiary
Outbox Systems Inc. dba Simplus (US)	Full	Co-Subsidiary
Infosys Consulting SAS	Full	Co-Subsidiary
Infosys BPO Americas LLC	Full	Co-Subsidiary
Infosys Consulting S.R.L.	Full	Co-Subsidiary
Infosys Chile SpA	Full	Co-Subsidiary
Panaya GmbH	Full	Co-Subsidiary
Stater N.V.	Full	Co-Subsidiary
Fluidio Slovakia s.r.o	Full	Co-Subsidiary
Infosys Austria GmbH	Full	Co-Subsidiary
Simplus Australia Pty Ltd	Full	Co-Subsidiary
Infosys Consulting s.r.o	Full	Co-Subsidiary
Simplus Philippines, Inc	Full	Co-Subsidiary
Simplus U.K., Ltd.	Full	Co-Subsidiary
WongDoody Holding Company Inc.	Full	Co-Subsidiary
Brilliant Basics Holdings Limited	Full	Co-Subsidiary
Infosys Americas Inc	Full	Co-Subsidiary
Infosys Luxembourg S.à.r.l	Full	Co-Subsidiary
Infosys Nova Holdings LLC	Full	Co-Subsidiary

Infosys Consulting Holding AG	Full	Co-Subsidiary
Infosys Arabia Limited	Full	Co-Subsidiary
Stater XXL B.V	Full	Co-Subsidiary
Stater Participations B.V	Full	Co-Subsidiary
Infosys South Africa (Pty) Ltd	Full	Co-Subsidiary
Square Peg Digital Pty Ltd	Full	Co-Subsidiary
Simplus Ireland, Ltd	Full	Co-Subsidiary
Simplus North America Inc.	Full	Co-Subsidiary
Infosys Limited Bulgaria EOOD	Full	Co-Subsidiary
Kaleidoscope Animations, Inc	Full	Co-Subsidiary
Kaleidoscope Prototyping LLC	Full	Co-Subsidiary
GuideVision s.r.o.	Full	Co-Subsidiary
GuideVision Deutschland GmbH	Full	Co-Subsidiary
GuideVision Suomi Oy	Full	Co-Subsidiary
GuideVision Magyarország Kft	Full	Co-Subsidiary
GuideVision Polska SP.Z.O.O	Full	Co-Subsidiary
GuideVision UK Ltd	Full	Co-Subsidiary
Beringer Commerce Inc	Full	Co-Subsidiary
Beringer Capital Digital Group Inc	Full	Co-Subsidiary
Mediotype LLC	Full	Co-Subsidiary
Beringer Commerce Holdings LLC	Full	Co-Subsidiary
SureSource LLC	Full	Co-Subsidiary
Blue Acorn LLC	Full	Co-Subsidiary
Simply Commerce LLC	Full	Co-Subsidiary
iCiDIGITAL LLC	Full	Co-Subsidiary
Infosys BPM UK Limited	Full	Co-Subsidiary
Infosys Turkey Bilgi Teknolojikeri Limited Sirketi	Full	Co-Subsidiary
Infosys Germany Holding GmbH	Full	Co-Subsidiary

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2021 (History)		2020		2019		2018		Start of 2018
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	0.0	CRISIL A1+	05-01-21	CRISIL A1+	21-01-20	CRISIL A1+	25-10-19	CRISIL A1+	29-06-18	CRISIL A1+	CRISIL A1+
			--		--		--	17-01-19	CRISIL A1+		--	--
Long Term Debt	LT	0.0	CRISIL AAA/Stable	05-01-21	CRISIL AAA/Stable	21-01-20	CRISIL AAA/Stable	25-10-19	CRISIL AAA/Watch Developing	29-06-18	CRISIL AAA/Stable	CRISIL AAA/Stable
			--		--		--	17-01-19	CRISIL AAA/Stable		--	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[Rating criteria for manufacturing and service sector companies](#)

[Rating Criteria for Software Industry](#)

[CRISILs Criteria for rating short term debt](#)

[CRISILs Criteria for Consolidation](#)

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