

# **HOLD ON TO YOUR FAST-GROWING BLUE CHIPS**

## **HOPEFULLY, THEY WILL CREATE HUGE WEALTH FOR YOU**

### **An analysis of Infosys' journey, from IPO to now**

#### **No recommendation. Just for analysis**

- 1) The favourite whipping boy of equity advisors are the IT stocks of yesteryear like Infosys & Wipro.

They are always brought up in discussions to justify churning of stocks. They conveniently forget to tell you the mouth-watering wealth these stocks generated when they were growing fast. Sad to say but advisors will not make any money if their advice is to just hold blue chips for years.

- 2) While I was lucky enough to be allotted 300 shares of Infosys in the IPO in February 1993, I had sold them by late 1997. I just did not have Dr Emmett's time machine<sup>1</sup> to travel ahead in time & read this analysis.

#### **Some interesting findings on Infosys' journey:**

- If you held on to your Infosys shares since their listing in June 1993<sup>2</sup> till now, you would have made a CAGR return of 42.1%<sup>3</sup>. Your money would have multiplied 9544 times.

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<sup>1</sup> Of 'Back to the Future' fame, movie released in 1985

<sup>2</sup> Infosys IPO in February 1993 at Rs 95 per share. Listing in June 1993

<sup>3</sup> Return is from capital gains plus dividends. If dividends are excluded, return is slightly lower at 41.3%. No reinvestment return assumed for dividends received. Otherwise, the return will be slightly higher.

- If you were extra smart and you sold out at the peak PE ratio of 322x on 8<sup>th</sup> March 2000<sup>4</sup>, you would have made a CAGR of 203%. Your money would have multiplied 2326 times in just 7 years.
- Interestingly, even if you bought the stock at the mind boggling PE of 322x on 8<sup>th</sup> March 2000 and held on to your shares till now, you would have still made a CAGR of 7.5%.

This seems a respectable return considering that:

- The stock was bought at an astronomical PE & it underwent a huge PE compression from 322x to 22x as on date
- the stock did not regain the 8<sup>th</sup> March 2000 price for the next 6 ½ years (needed loads of patience)
- the 7.5% is a compounded return unlike the simple interest you receive in a bank fixed deposit.
- From the peak PE of March 8th, 2000, the stock fell 85% over the next 18 months<sup>5</sup>. The market provided ample opportunity to buy the stock at a lower price & improve your return over the 7.5% CAGR.
- The dividend pay-out ratio<sup>6</sup> increased from 15% in FY1994 to 69% in FY2019. This makes sense as large doses of free cash

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<sup>4</sup> Source: Page 175 and 196 of FY2000 balance sheet and Moneycontrol.com

<sup>5</sup> Source: Moneycontrol.com (price as on September 24<sup>th</sup>, 2001)

<sup>6</sup> Dividend pay-out ratio excludes special dividends paid during the year

flows were reinvested in the initial years, in a business which was growing fast & at high RoE/RoCE.

- Once growth slowed down, high pay outs provided a reasonable dividend yield (2.8% at present) and a downside cushion to the stock price.

### Lesson

- a) Your fast-growing blue chips should create huge wealth during their high growth period.
- b) Even when growth slows down, blue chips will continue to create above average wealth.
- c) During the mature stage, overall returns will also be generated from high dividend pay-outs and buybacks<sup>7</sup>

### Trivia

- One IPO share has become 1024 shares after seven 1:1 bonus issues, one 3:1 bonus issue & a split in face value: Rs 10 to Rs 5.
- The market capitalization of the company has gone from Rs 32 crore (IPO valuation of Feb 1993) to Rs 3,28,184 crore today.
- The dividend paid out has increased from Rs 1.17 crore in FY1994 to Rs 11,200 crore in FY2019 at a CAGR of 44%.
- On your one IPO share of Rs 95, you would have received total dividends of Rs 1,23,283 over the 26 years.

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<sup>7</sup> Infosys has undertaken two buybacks (Rs 13,000 crore in December 2017 & Rs 8260 crore in March 2019, extinguishing 4.92% and 2.36% of paid up equity capital of that year respectively). Hopefully, many more to come.

| <b>INFOSYS</b>  |              |              |                        |                            |                               |
|-----------------|--------------|--------------|------------------------|----------------------------|-------------------------------|
|                 | <b>Bonus</b> | <b>Split</b> | <b>1 share becomes</b> | <b>Dividend per share*</b> | <b>Dividend paid Rs crore</b> |
| <b>1993-94</b>  |              |              | 1                      | 3.5                        | 1.17                          |
| <b>1994-95</b>  | 1:1          |              | 2                      | 4.5                        | 2.31                          |
| <b>1995-96</b>  |              |              |                        | 5                          | 3.63                          |
| <b>1996-97</b>  |              |              |                        | 5.5                        | 3.99                          |
| <b>1997-98</b>  | 1:1          |              | 4                      | 6                          | 7.02                          |
| <b>1998-99</b>  | 1:1          |              | 8                      | 7.5                        | 12.11                         |
| <b>'99-2000</b> |              | 2:1**        | 16                     | 4.5                        | 30                            |
| <b>2000-01</b>  |              |              |                        | 10                         | 66                            |
| <b>2001-02</b>  |              |              |                        | 20                         | 132                           |
| <b>2002-03</b>  |              |              |                        | 27                         | 179                           |
| <b>2003-04</b>  |              |              |                        | 129.5                      | 862                           |
| <b>2004-05</b>  | 3:1          |              | 64                     | 11.5                       | 310                           |
| <b>2005-06</b>  |              |              |                        | 45                         | 1242                          |
| <b>2006-07</b>  | 1:1          |              | 128                    | 11.5                       | 649                           |
| <b>2007-08</b>  |              |              |                        | 33.25                      | 1902                          |
| <b>2008-09</b>  |              |              |                        | 23.5                       | 1345                          |
| <b>2009-10</b>  |              |              |                        | 25                         | 1434                          |
| <b>2010-11</b>  |              |              |                        | 60                         | 3445                          |
| <b>2011-12</b>  |              |              |                        | 47                         | 2699                          |
| <b>2012-13</b>  |              |              |                        | 42                         | 2412                          |
| <b>2013-14</b>  |              |              |                        | 63                         | 3618                          |
| <b>2014-15</b>  | 1:1          |              | 256                    | 59.5                       | 5111                          |
| <b>2015-16</b>  | 1:1          |              | 512                    | 24.25                      | 5570                          |
| <b>2016-17</b>  |              |              |                        | 25.75                      | 5915                          |
| <b>2017-18</b>  |              |              |                        | 43.5                       | 11357                         |
| <b>2018-19</b>  | 1:1          |              | 1024                   | 21.5                       | 11200                         |

**\* dividend declared per share in that year; bonus/split not counted**

**\*\* split from Rs 10 face value to Rs 5 face value**

**\*\*\* the fluctuating dividend per share due to special dividends declared**

