

IT

October 13, 2022

CMP	1420
Sensex	57235

Stock Statistics

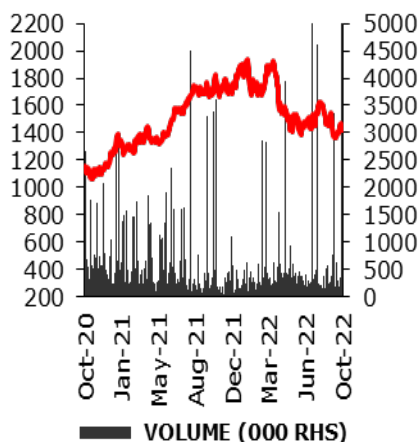
Reuters code	INFY.BO
Bloomberg code	INFO IN

Equity Cap (INR cr)	2099
Face Value (INR)	5
INR / USD	82.4
Market cap (INR cr)	5,97,406
Market cap (USD bn)	72.5
52 Wk High/Low (INR)	1954/1356

Shareholding Pattern (%) – Jun'22

Promoter	13.1
Foreign Institutional Investor	32.7
MF / FI / UTI / Banks	18.9
Public & Others	34.3
Bodies & Corporate	1.0

2 yr Price and Volume Chart



Analyst

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Infosys

Q2FY23 Result Update

Positive commentary and robust TCV win augurs well

Infosys has reported 4% qoq Top-line growth in CC terms and 2.5% qoq to US\$4555mn in reported terms. Digital revenues contributed 62% to Top-line and grew 3.9% qoq, while core revenues grew 0.2% qoq. In INR terms revenues grew 6% qoq to Rs36,538cr. Top-line growth for H1FY23 was 20% yoy in CC terms.

Cloud revenues stood at US\$1bn in Q2FY23, contributing 22% to Top-line led by Infosys strong Cobalt capabilities

Infosys witnessed US\$2.7bn TCV of 27 large deal wins in Q2FY23 (v/s US\$1.7bn win in Q1FY23) **and 54% of these were net new wins** (v/s 50% in Q1). 5 Large deals were in Financial Services (in areas of Cloud migration and platforms), 4 each in Retail, Communication, Energy Utility Resources and Services and Hi-Tech segments, 3 in Manufacturing, 2 in Life Sciences and 1 in Others vertical. Region-wise, 18 were in Americas, 6 in Europe, 1 in India and 2 in Rest of the World.

EBIT margin was up 149bps qoq to 21.5% in Q2. 70bps qoq benefit comprising of rupee depreciation partially offset by cross-currency, 90bps qoq benefit from cost optimization including large deal optimizations, RPP increase etc. partially offset by lower utilization and 40bps qoq benefit from reduction in sub-con spend, which was offset by headwinds of 40bps qoq from compensation related increases.

Margin improvement was despite of strong freshers hiring in past quarters, which impacted Utilization as it was down 104bps qoq to 83.6% in Q2. **Infosys has put lot of freshers in training program and also has maintained bench, which will get productive in few quarters from now and then Utilization will start improving.**

Other Income was down 13.6% qoq to Rs584cr both on account of lower treasury Income, as well Forex Gain, which stood at Rs47cr (v/s Rs127cr in Q1). Thus, led by excellent operational performance Infosys has reported 12.3% qoq spike in PAT to Rs6021cr.

Key Financials (Consolidated – IND AS)

Y/E March (Rs cr)	FY2021	FY2022	FY2023E	FY2024E
Net Sales	1,00,472	1,21,641	1,48,234	1,62,294
% chg	10.7	21.1	21.9	9.5
Net Profit	19,351	22,110	24,422	27,286
% chg	16.6	14.3	10.5	11.7
EBIT Margin (%)	24.5	23.0	21.4	21.8
FDEPS (Rs)	45.5	52.4	58.2	65.0
P/E (x)	22.3	31.6	24.4	21.9
P/BV (x)	5.6	9.2	7.2	7.2
RoE (%)	25.2	29.2	29.3	32.8
RoCE (%)	24.1	25.1	24.5	25.5
EV/Sales (x)	4.0	5.5	3.8	3.5
EV/EBITDA (x)	14.5	21.4	15.8	14.3
Net Debt/Equity	(0.3)	(0.2)	(0.1)	(0.0)

Source: Company & Anvil Research

Quarterly Financial Statement

Q2FY23 Consolidated Financial Performance in IND AS								
Y/E March (Rs cr)	Q2FY23	Q1FY23	% chg qoq	Q2FY22	% chg yoy	H2FY23	H1FY22	% chg
Net Revenues	36,538	34,470	6.0	29,602	23.4	71,008	57,498	23.5
Cost of Sales	25,644	24,666	4.0	20,190	27.0	50,310	39,163	28.5
- Employee Benefit Expenses	19,438	18,337	6.0	15,743	23.5	37,775	30,973	22.0
- Sub-contractor's cost	3,694	3,909	(5.5)	3,054	21.0	7,603	5,508	38.0
- Cost of Software Packages	2,512	2,420	3.8	1,393	80.3	4,932	2,682	83.9
Gross Profit	10,894	9,804	11.1	9,412	15.7	20,698	18,335	12.9
SG&A Expenses	1,992	1,940	2.7	1,581	26.0	3,932	3,072	28.0
- Travel Expenses	363	376	(3.5)	163	122.7	739	296	149.7
- Communication Expenses	189	170	11.2	146	29.5	359	293	22.5
- Consultancy & Professional Charges	439	456	(3.7)	449	(2.2)	895	845	5.9
- Other Expenses	1,001	938	6.7	823	21.6	1,939	1,638	18.4
EBITDA	8,902	7,864	13.2	7,831	13.7	16,766	15,263	9.8
Other Income	584	676	(13.6)	524	11.5	1,260	1,146	9.9
Finance Cost	66	56	17.9	48	-	122	97	25.8
Depreciation	1,029	950	8.3	859	19.8	1,979	1,688	17.2
						-	-	
PBT	8,391	7,534	11.4	7,448	12.7	15,925	14,624	8.9
Share in associate's Profit/(Loss)	-	-	-	-	-	-	-	-
Minority Interest	5	2	150.0	7	(28.6)	7	13	-
Write-down of Investment in Associate			-		-			-
Tax	2,365	2,172	8.9	2,020	17.1	4,537	3,995	13.6
						-	-	
Net Income	6,021	5,360	12.3	5,421	11.1	11,381	10,616	7.2
Diluted EPS (Rs)	14.3	12.8	12.4	12.9	11.6	27.1	25.1	8.1
Gross Profit Margin (%)	29.8	28.4	1.4	31.8	(2.0)	29.1	31.9	(2.7)
EBITDA Margin (%)	24.4	22.8	1.5	26.5	(2.1)	23.6	26.5	(2.9)
EBIT Margin (%)	21.5	20.1	1.5	23.6	(2.0)	20.8	23.6	(2.8)
Net Profit Margin (%)	16.5	15.5	0.9	18.3	(1.8)	16.0	18.5	(2.4)
Tax rate (%)	28.2	28.8	(0.6)	27.1	1.1	28.5	27.3	1.2

Source: Company and Anvil Research

Key Operational Matrix

Revenue Mix (In US \$mn)	Q2FY23	Q1FY23	Q2FY22	Chg qoq	Chg yoy
Services	4268	4162	3756	2.5%	13.6%
Products & Platforms	287	282	242	1.8%	18.8%
Total	4555	4444	3,998	2.5%	13.9%

Source: Company and Anvil Research

Change in RPP	Q2FY23	Q1FY23	Q2FY22	Chg qoq	Chg yoy
Revenue Productivity Per Employee (In USD)	55,500	56,900	57,300	-2.5%	-3.1%

Source: Company and Anvil Research

Revenues by offerings (In US \$mn)	Q2FY23	Q1FY23	Q2FY22	Chg qoq	Chg yoy
Digital	2817	2710	2243	3.9%	25.6%
Core	1738	1734	1755	0.2%	-1.0%
Total	4555	4444	3,998	2.5%	13.9%

Source: Company and Anvil Research; Note: Digital Revenues contributed 62% in Q2FY23 v/s 61% in Q1FY23 and 56% in Q2FY22

Geographical split (In US \$mn)	Q2FY23	Q1FY23	Q2FY22	% Chg qoq	% Chg yoy
North America	2,847	2,746	2,475	3.7	15.0
Europe	1,125	1,111	992	1.3	13.5
India	132	116	104	14.3	27.1
Rest of the world	451	471	428	(4.3)	5.4
Net Revenues	4,555	4,444	3,998	2.5	13.9

Source: Company and Anvil Research

Amongst geographies growth was led by India, which grew 14.3% qoq, followed by 3.7% qoq growth in N. America and 1.3% qoq growth in Europe. However, ROW was down 4.3% qoq in reported USD terms.

New Vertical Split	Q2FY23	Q1FY23	Q2FY22	% Chg	
	US \$mn	US \$mn	US \$mn	qoq	yoy
Financial Services	1,389	1,360	1,291	2.2	7.6
Retail	647	644	584	0.4	10.8
Communication	560	578	496	(3.0)	13.0
Energy, Utilities, Resources & Services	560	551	472	1.7	18.8
Manufacturing	583	538	436	8.4	33.8
Hi Tech	374	364	340	2.5	9.9
Life sciences	305	289	284	5.7	7.5
Others	137	120	96	13.9	42.4
Net Revenues (In US\$mn)	4,555	4,444	3,998	2.5	13.9
Net Revenues (In INR cr)	36,538	34,470	29,602	6.0	23.4

Source: Company and Anvil Research

Amongst verticals in USD terms, growth was broad-based and led by 8.4% qoq growth in Manufacturing (led by migration to Cloud) and 5.7% qoq in Life-sciences verticals. Except for Communication, which de-grew 3% qoq all other verticals have grown qoq.

Growth in Top clients	Q2FY23	Q1FY23	Q2FY22	% Chg qoq	% Chg yoy
Number of Active Clients	1779	1778	1714		
Gross client additions	103	106	117		
Revenues (\$mn)	4,555	4,444	3,998	2.5	13.9
Top 5 client (\$ mn)	574	578	456	(0.7)	25.9
% of revenues	12.6%	13.0%	11.4%		
Top 10 clients (\$ mn)	920	924	776	(0.5)	18.6
% of revenues	20.2%	20.8%	19.4%		
Top 25 clients (\$ mn)	1,608	1,613	1,415	(0.3)	13.6
% of revenues	35.3%	36.3%	35.4%		

Source: Company and Anvil Research

Outlook

- The company is also well prepared and vigilant on evolving macro environment. **In large deals pipeline there is good focus on cost program. Digital deals are growing 30% and cost programs under pipeline are also growing. Both Digital and Core are growing strong. Cobalt and Core in Automation is driving strong.**
- **Project cancellations not seen in Q2FY23. However, some slowness seen in discretionary spends mainly in Hitech, Telcom, Mortgage and parts of Retail vertical spends.**
- **Pricing improvement is client specific depending on types of deals, Cola clauses, Pricing varies across clients.**
- **New deal wins represent the trends both on Digital and core side of automations in terms of what clients are facing at macros levels, plus there are also automation cost deals for clients.**
- **Over \$50mn is the avg. size of large deal win for Infosys, which need not come every quarter.**
- **Sometime there is very large Digital program of Clients, sometimes there is large digital cost efficiency program and sometimes clients take up only large cost efficiency program.**
- **Infosys has good size of business coming in from Capital Markets, plus Retail Banking and Asset Mgmt under BFSI.**
- **Net additions slowed down to 10,032 employees in Q2 taking total headcount to 3,45,218. Infosys hired 40000 freshers in H1FY23 and expects easily to go above 50000 freshers hiring for FY23. Freshers will not be put on projects from day 1 as its long-term investment for the company who will undergo proper training process. Thus, gradually Utilization will start improving towards 85% levels from current level of 83.6%.**
- **LTM voluntary Attrition was down 130bps qoq in Q2 to 27.1% (which is quite positive as this the first quarter Attrition has started easing down after 5 consecutive quarters of increase). Attrition figure will further go down.**
- **Cash & Investments were up 20.6% qoq to Rs26,647cr as on Q2FY23, while Debt is NIL.**
- **The Board has announced an interim dividend of Rs16.50 per share in Q2FY23, an increase of 10% yoy and an open market share buyback of Rs9,300cr**

➤ **FY23 Guidance:**

Taking cognizance of stronger growth and TCV booking as well as strong pipeline of deals in Q1 and Q2FY23, Infosys has revised upwards its FY23 Top-line growth guidance to 15%-16% in constant currency (v/s earlier guided 14-15% CC growth)

EBIT margin guidance is revised to in narrow range of 21-22% for FY23 (v/s earlier guided range of 21-23%) taking cognizance of seasonal weakness in revenues during Q3 and Q4FY23 as well as considering macro-economic concerns. However, SG&A leverage and lower sub-con costs and attrition in coming quarters will ease some margin impact.

Thus, we expect Infosys to register CAGR of 15.5% in Top-line over FY2022-24E led by volumes, currency benefit as well as little Pricing benefit. PAT is expected to grow by 11.1% CAGR led by margin pressure in managing supply side constraints amidst inflationary global macro-economic environment. Thus, in INR terms we expect Infosys would register Top-line growth of 21.9% yoy (Growth of 13.1% yoy in USD terms), PAT increase of 10.5% yoy and EPS of Rs58.2 in FY23E. For FY24E, in INR terms we expect Infosys would register Top-line growth of 9.5% yoy (Growth of 9.1% yoy in USD terms), PAT increase of 11.7% yoy and EPS of Rs65.

Assumptions for Revenue projection	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Volume growth	5.5%	7.6%	8.2%	5.3%	22.2%	17.4%	10.1%
Pricing growth	1.5%	0.9%	0.0%	1.0%	-1.7%	-3.3%	-0.9%
USD/INR impact	-4.0%	8.6%	1.4%	4.4%	0.5%	7.7%	0.4%
Revenues growth (in INR)	3.0%	17.1%	9.6%	10.8%	21.1%	21.9%	9.5%
Revenues growth (in USD)	7.2%	7.9%	8.3%	6.1%	20.3%	13.1%	9.1%

Source: Company and Anvil Research

P&L (Rs cr)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	70,522	82,675	90,791	1,00,472	1,21,641	1,48,234	1,62,294
Other income	3,311	2,882	2,803	2,201	2,295	2,600	2,830
Total income	73,833	85,557	93,594	1,02,673	1,23,936	1,50,834	1,65,124
Cost of revenue	45,060	53,901	60,304	66,848	78,522	99,212	1,08,419
Operating Expenses (SG&A)	6,451	7,883	8,220	5,735	11,628	13,236	14,261
Total Operating Costs	51,511	61,784	68,524	72,583	90,150	1,12,448	1,22,680
EBITDA	19011	20891	22267	27889	31491	35786	39614
Finance Cost	-	-	170	195	200	252	260
PBDT	22322	23773	24900	29895	33586	38134	42184
Depreciation	1,863	2,011	2,893	3,267	3,476	4,083	4,260
Reduction in value of Disposable Panaya assets	(118)	(270)	-	-	-	-	-
Excess of carrying amount over recoverables in Panaya & Skava assets	-	(451)	-	-	-	-	-
PBT	20341	21041	22007	26628	30110	34051	37924
Provision for tax	4,241	5,631	5,368	7,205	7,964	9,612	10,619
PAT	16100	15410	16639	19423	22146	24439	27306
Minority interest/extraordinary	-	6.0	45.0	72.0	36.0	17.0	20.0
Write-down of Invest/ Share in P&L of Associate	(71)	-	-	-	-	-	-
Adjusted PAT	16029	15404	16594	19351	22110	24422	27286

Source: Company and Anvil Research; IND AS Format

Balance Sheet (Rs cr)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity capital	1,088	2,170	2,122	2,124	2,098	2,098	2,098
Reserve & Surplus	63,836	62,836	63,722	74,658	73,638	81,190	81,035
Net worth	64,924	65,006	65,844	76,782	75,736	83,288	83,133
Total Debt	-	-	-	-	-	-	-
Deferred tax liability & Others	861	1,094	6,068	7,739	8,546	10,546	12,046
Capital Employed	65,785	66,100	71,912	84,521	84,282	93,834	95,179
Goodwill & other intangibles	2,211	3,540	5,286	6,079	6,195	7,195	7,695
Gross block	20,179	22,891	25,641	27,651	29,376	30,376	31,576
Accumulated depreciation	10,063	11,412	13,206	15,091	16,301	17,461	18,631
Net block	10,116	11,479	12,435	12,560	13,075	12,915	12,945
Capital WIP & non-current assets	1,606	1,388	954	922	416	386	366
Total fixed assets	11,722	12,867	13,389	13,482	13,491	13,301	13,311
Other Non-current Assets	8,902	9,447	13,636	15,131	16,151	19,051	21,051
Long-Term Investments	5,756	4,634	4,137	11,863	13,651	11,151	9,651
Short-term Investments	6,407	6,627	4,655	2,342	6,673	20,673	25,673
Deferred Tax asset,net	1,282	1,372	1,744	1,098	1,212	1,562	1,762
Sundry debtors	13,142	14,827	18,487	19,294	22,698	27,588	29,754
Cash & bank	19,818	19,568	18,649	24,714	17,472	8,974	3,344
Current Loan & Advances	10,650	11,856	12,785	14,383	20,342	27,342	34,342
Inventories	-	-	-	-	-	-	-
Sundry creditors	420	440	440	440	440	440	440
Other liabilities	13,193	17,622	19,844	22,712	32,188	41,188	49,188
Provision	492	576	572	713	975	1,375	1,775
Net current assets	29,505	27,613	29,065	34,526	26,909	20,901	16,036
Capital Deployed	65,785	66,100	71,912	84,521	84,282	93,834	95,179

Source: Company and Anvil Research; IND AS Format

Key Ratios	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Absolute Growth (%)							
Revenue	3.0	17.2	9.8	10.7	21.1	21.9	9.5
EBITDA	2.2	9.9	6.6	25.2	12.9	13.6	10.7
PAT	11.7	(3.9)	7.7	16.6	14.3	10.5	11.7
Profitability Ratios (%)							
EBIT margins	24.3	22.8	21.2	24.3	22.9	21.2	21.6
PAT margins	22.7	18.6	18.3	19.3	18.2	16.5	16.8
ROCE	22.1	23.3	22.1	24.1	25.1	24.5	25.5
ROIC	31.0	32.2	30.5	33.4	34.0	29.3	30.3
ROA	20.3	18.8	18.1	18.1	18.9	18.0	18.8
ROE	24.7	23.7	25.2	25.2	29.2	29.3	32.8
Valuation Ratio (x)							
P/E (on FDEPS)	28.1	19.0	19.1	22.3	31.6	24.4	21.9
P/CEPS	12.1	16.8	16.4	19.1	27.3	20.9	18.9
P/BV	3.3	4.5	4.8	5.6	9.2	7.2	7.2
Dividend yield (%)	5.3	4.7	3.0	2.1	1.8	2.4	2.5
EV/Sales	2.7	3.2	3.3	4.0	5.5	3.8	3.5
EV/EBITDA	10.0	12.7	13.3	14.5	21.4	15.8	14.3
EV / Total Assets	2.9	3.8	3.9	5.0	7.6	5.3	4.9
Per Share Data (Rs)							
EPS (Basic)	35.5	35.4	39.0	45.6	52.5	58.2	65.0
EPS (fully diluted)	35.5	35.4	38.9	45.5	52.4	58.2	65.0
Cash EPS	82.3	40.1	45.3	53.3	60.6	67.9	75.2
DPS	43.5	26.3	18.3	21.6	30.0	34.6	35.7
Book Value per share	298.4	149.8	155.1	180.7	180.5	198.5	198.1
DUPONT Analysis							
EBIT margin (a)	29.0	26.3	24.4	26.7	24.9	23.1	23.5
Tax retention ratio (b)	0.8	0.7	0.8	0.7	0.7	0.7	0.7
Assets Turnover ©	0.9	1.0	1.0	0.9	1.0	1.1	1.1
ROA (a*b*c)	20.3	18.8	18.1	18.1	18.9	18.0	18.8
Adj. Net Profit/Total Assets (a1)	24.6	21.8	22.1	23.8	25.1	22.9	23.5
Total Assets/Net-worth (b1)	1.0	1.1	1.1	1.1	1.2	1.3	1.4
ROE (a1*b1)	24.7	23.7	25.2	25.2	29.2	29.3	32.8
Liquidity ratios (x)							
Asset Turnover (Gross Block)	3.5	3.6	3.5	3.6	4.1	4.9	5.1
Debtors days	68.0	65.5	74.3	70.1	68.1	67.9	66.9
Creditors days	3.0	2.6	2.3	2.2	1.8	1.4	1.3
Working capital cycle (ex-cash) (days)	50.1	35.5	41.9	35.6	28.3	29.4	28.5
Leverage ratios (x)							
Gross Debt to Equity	-	-	-	-	-	-	-
Net Debt to Equity	(0.3)	(0.3)	(0.3)	(0.3)	(0.2)	(0.1)	(0.0)
Net Debt to EBITDA	(1.0)	(0.9)	(0.8)	(0.9)	(0.6)	(0.3)	(0.1)

Source: Company and Anvil Research

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