

IT Sector April 14, 2023

CMP	1389
Sensex	60431

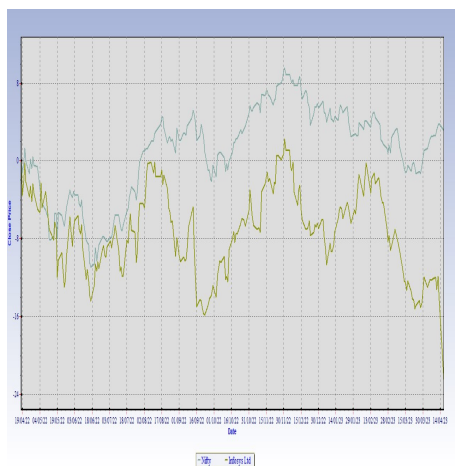
Stock Statistics

Reuters code	INFY.BO
Bloomberg code	INFO IN

Equity Cap (INR cr)	2069
Face Value (INR)	5
INR / USD	82.1
Market cap (INR cr)	5,76,069
Market cap (USD bn)	70.2
52 Wk High/Low (INR)	1672/1219

Shareholding Pattern (%) – Dec'22

Promoter	13.2
Foreign Institutional Investor	32.6
MF / FI / UTI / Banks	28.5
Public & Others	24.8
Bodies & Corporate	0.9



Infosys Stock Update

Q4FY23 Results

Performance impacted by US, as clients continued to cut costs

- Infosys has delivered Top-line de-growth of 3.2% qoq in CC terms and 2.3% qoq to in reported terms to US\$4554mn. Digital revenues contributed 63% to Top-line but de-grew 2.3% qoq, while core revenues also de-grew 2.3% qoq in reported terms. In INR terms revenues de-grew 2.3% qoq to Rs37,441cr.
- Delay in decision making mainly in Financial Services has led to de-growth in Q4FY23 other than in Retail, Telecom and Hi-tech verticals. The client ramp down evolved over the entire Q4; it wasn't sudden client decision taken for ramp down.
- There was volume decline across verticals, so majority of them haven't grown in Q4FY23 on qoq basis. Situation on the ground is very fluid as clients are cutting costs and every-thing is measured on ROI basis such that if IT vendor can't improve their ROI's they are cancelling projects. Project cancellations seen across few clients, some of that might come back in coming quarters. Hence the company has guided for 4-7% CC terms yoy growth in current deteriorating demand environment, which will be mostly back ended.
- Infosys won US\$2.1bn TCV of 17 large deals in Q4FY23 (v/s 32 in Q3). The TCV was however down 36% qoq but for FY23 the TCV was up 2.6% yoy to US\$9.8bn.
- EBIT margin was down 47bps qoq to 21% in Q4FY23 as Utilization excl. trainees was down 170bps qoq to 80%, which had 70bps negative impact plus 90bps margin impact was from project cancellations. These were offset by 50bps cost optimization benefit, 50bps provision reversal and other efficiencies. Mgmt. expects Utilization to improve as Freshers start getting deployed in quarters going ahead.
- Other Income was also down 13% qoq in Q4 to Rs671cr as Forex Gain stood at Rs51cr (v/s Rs189cr in Q3FY23). Thus, led by weaker Top-line, margins and lower other income, Infosys has reported 7% qoq decline in PAT to Rs6128cr.
- Even at Headcount level there was net reduction of 3611 employees in Q4 taking total headcount to 3,43,234. LTM voluntary Attrition was down 340bps qoq in Q4 to 20.9%.
- Cash & Investments were down 6.1% qoq to Rs19,082cr as on Q4FY23, while Debt is NIL.
- For FY23, the Board has recommended a final dividend of ₹17.50 per share. Together with the interim dividend of ₹16.50 per share already paid, the total dividend per share for FY23 will amount to ₹34.00 which is a 9.7% increase over FY22. With this, the company has announced total dividend of approx. ₹14,200 crore for FY23.
- The company has completed the open market share buyback on February 13, at an average price of approx. ₹1,539 per share (compared to maximum Buyback Price of ₹1,850 per share). Including the recently concluded buyback and final dividend for FY23, the company has returned approx. 86% of Free Cash Flow to shareholders under the current capital allocation policy.

Quarterly Financial Statement

Q4FY23 Consolidated Financial Performance in IND AS								
Y/E March (Rs cr)	Q4FY23	Q3FY23	% chg qoq	Q4FY22	% chg yoy	FY23	FY22	% chg
Net Revenues	37,441	38,318	(2.3)	32,276	16.0	1,46,767	1,21,641	20.7
Cost of Sales	26,313	26,700	(1.4)	22,514	16.9	1,03,323	83,403	23.9
- Employee Benefit Expenses	20,311	20,272	0.2	16,658	21.9	78,359	63,986	22.5
- Sub-contractor's cost	3,116	3,343	(6.8)	3,588	(13.2)	14,062	12,606	11.6
- Cost of Software Packages	2,886	3,085	(6.5)	2,268	27.2	10,902	6,811	60.1
Gross Profit	11,128	11,618	(4.2)	9,762	14.0	43,444	38,238	13.6
SG&A Expenses	2,130	2,251	(5.4)	1,916	11.2	8,314	6,747	23.2
- Travel Expenses	426	360	18.3	309	37.9	1,525	827	84.4
- Communication Expenses	171	183	(6.6)	170	0.6	713	611	16.7
- Consultancy & Professional Charges	387	401	(3.5)	521	(25.7)	1,684	1,885	(10.7)
- Other Expenses	1,146	1,307	(12.3)	916	25.1	4,392	3,424	28.3
EBITDA	8,998	9,367	(3.9)	7,846	14.7	35,130	31,491	11.6
Other Income	671	769	(12.7)	637	5.3	2,701	2,295	17.7
Finance Cost	82	80	2.5	50	-	284	200	42.0
Depreciation	1,121	1,125	(0.4)	890	26.0	4,225	3,476	21.5
						-	-	
PBT	8,466	8,931	(5.2)	7,543	12.2	33,322	30,110	10.7
Share in associate's Profit/(Loss)	-	-	-	-	-	-	-	-
Minority Interest	6	-	#DIV/0!	9	(33.3)	13	36	-
Write-down of Investment in Associate								
Tax	2,332	2,345	(0.6)	1,848	26.2	9,214	7,964	15.7
						-	-	
						-	-	
Net Income	6,128	6,586	(7.0)	5,686	7.8	24,095	22,110	9.0
Diluted EPS (Rs)	14.8	15.7	(5.9)	13.5	9.1	57.5	52.4	9.8
Gross Profit Margin (%)	29.7	30.3	(0.6)	30.2	(0.5)	29.6	31.4	(1.8)
EBITDA Margin (%)	24.0	24.4	(0.4)	24.3	(0.3)	23.9	25.9	(2.0)
EBIT Margin (%)	21.0	21.5	(0.5)	21.6	(0.5)	21.1	23.0	(2.0)
Net Profit Margin (%)	16.4	17.2	(0.8)	17.6	(1.2)	16.4	18.2	(1.8)
Tax rate (%)	27.5	26.3	1.3	24.5	3.0	27.7	26.4	1.2

Source: Company and Anvil Research

Key Operational Matrix

Revenue Mix (In US \$mn)	Q4FY23	Q3FY23	Q4FY22	Chg qoq	Chg yoy
Services	4281	4361	3993	-1.8%	7.2%
Products & Platforms	273	298	287	-8.3%	-4.9%
Total	4554	4659	4,280	-2.3%	6.4%

Source: Company and Anvil Research

Change in RPP	Q4FY23	Q3FY23	Q4FY22	Chg qoq	Chg yoy
Revenue Productivity Per Employee (In USD)	53,400	54,200	57,700	-1.5%	-7.5%

Source: Company and Anvil Research

Revenues by offerings (In US \$mn)	Q4FY23	Q3FY23	Q4FY22	Chg qoq	Chg yoy
Digital	2864	2930	2532	-2.3%	13.1%
Core	1690	1729	1748	-2.3%	-3.3%
Total	4554	4659	4,280	-2.3%	6.4%

Source: Company and Anvil Research

Geographical split (In US \$mn)	Q4FY23	Q3FY23	Q4FY22	Q4FY23	Q3FY23	Q4FY22	% Chg qoq	% Chg yoy
North America	61.0%	62.0%	61.4%	2,778	2,889	2,628	(3.8)	5.7
Europe	27.0%	25.8%	25.2%	1,230	1,202	1,079	2.3	14.0
India	2.6%	2.4%	3.2%	118	112	137	5.9	(13.5)
Rest of the world	9.4%	9.8%	10.2%	428	457	437	(6.2)	(1.9)
Net Revenues	100.0%	100.0%	100.0%	4,554	4,659	4,280	(2.3)	6.4

Source: Company and Anvil Research

New Vertical Split	Q4FY23		Q3FY23		Q4FY22		% Chg	
	US \$mn	% of total	US \$mn	% of total	US \$mn	% of total	qoq	yoy
Financial Services	1,316	28.9%	1,365	29.3%	1,340	31.3%	(3.6)	(1.8)
Retail	674	14.8%	666	14.3%	612	14.3%	1.2	10.1
Communication	537	11.8%	573	12.3%	548	12.8%	(6.2)	(1.9)
Energy, Utilities, Resources & Services	587	12.9%	606	13.0%	514	12.0%	(3.0)	14.4
Manufacturing	615	13.5%	620	13.3%	505	11.8%	(0.8)	21.7
Hi Tech	364	8.0%	377	8.1%	351	8.2%	(3.5)	3.8
Life sciences	328	7.2%	326	7.0%	282	6.6%	0.5	16.1
Others	132	2.9%	126	2.7%	128	3.0%	5.0	2.9
Net Revenues (In US\$mn)	4,554	100.0%	4,659	100.0%	4,280	100.0%	(2.3)	6.4
Net Revenues (In INR cr)	37,441		38,318		32,276		(2.3)	16.0

Source: Company and Anvil Research

Growth in Top clients	Q4FY23	Q3FY23	Q4FY22	% Chg qoq	% Chg yoy
Number of Active Clients	1872	1850	1741		
Gross client additions	115	134	110		
Revenues (\$mn)	4,554	4,659	4,280	(2.3)	6.4
Top 5 client (\$ mn)	592	610	505	(3.0)	17.2
% of revenues	13.0%	13.1%	11.8%		
Top 10 clients (\$ mn)	915	955	830	(4.2)	10.2
% of revenues	20.1%	20.5%	19.4%		
Top 25 clients (\$ mn)	1,580	1,645	1,515	(3.9)	4.3
% of revenues	34.7%	35.3%	35.4%		

Source: Company and Anvil Research

Outlook

- As Q4FY23 progressed Infosys saw few clients ramp downs in Telecom, Retail, Hitech, Mortgages, Investment Banking and Asset Mgmt areas which were unplanned. Plus, there was one time impact majority of this decline was volume led and balance was led by one-time impact from 1 project cancellation by a client.
- **There is some pressure on discretionary spending. Large deal wins comprise more of vendor consolidation spends with increased focus on cost take out programs. ER&D and 5G spends were seen in Manufacturing mainly from Europe.**
- Cloud & Mobility remains big spend area for clients.
- Normalization of Travel cost, improved Utilization, reduction in sub-contractor costs will act as margin levers in coming quarters for FY24.
- **Digital transformation (comprising of Cloud spends) and Cost efficiency deals under vendor consolidation are two growth drivers for Infosys of which as of now latter deals are coming more whereas digital transformation deals are slower.**
- Within Infosys there are very strong set of leaders across various areas, so Infosys going ahead will step up in terms of rolling out new leaderships in coming weeks and will have proper leadership structure with strong responsibilities.
- **FY24E Guidance:**

Slowing in client decision making is seen, so large deals in pipeline are staying for long without witnessing any closures. These are over \$50mn size deals with many even mega deals, which if go as expected in ramp ups will help Infosys attained higher end of guidance.

Thus, taking cognizance of current weaker macro environment as well as large deal TCV wins in FY23 and strong pipeline, Infosys has guided for 4%-7% Top-line growth in constant currency for FY24. However, since the deal pipeline comprise of few mega deals also, so whenever macros improve in coming quarters then Infosys Top-line guidance can be easily achieved on higher end of the guided range.

TCS had \$9.8bn large deals TCV wins with 40% net new wins in FY23 and strong client relationships which has helped to build guidance of 4-7% keeping in consideration the macro uncertainties. Moreover, the company has put internal plan and roadmap to drive growth and margins in coming quarters. As off now it will not be sharing these targets but will wait till it execute on these targets. Hence, **EBIT margin guidance is in range of 20-22% for FY24 (v/s exit rate of 21.1% in FY23) with intend to improve margins further in long-run.**

Infosys has not made any decision for FY24 wage hikes as yet, but will do so over the year.

Valuations

Thus, on account of macro-economic uncertainties we expect Infosys would register Top-line growth of 6.5% yoy in INR terms (Growth of 5% yoy in USD terms), PAT increase of 2.9% yoy and EPS of Rs59.7 in FY24E. For FY25E however we expect recovery in macro-economic variants globally resulting in strong demand recovery leading to Top-line growth of 10.1% yoy (Growth of 11.4% yoy in USD terms), PAT increase of 17.7% yoy and EPS of Rs70.3. Thus, the stock currently trades at 23.3x FY24E EPS and at 19.8x FY25E EPS.

P&L (Rs cr)	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	90,791	1,00,472	1,21,641	1,46,767	1,56,313	1,72,130
Other income	2,803	2,201	2,295	2,701	2,655	2,890
Total income	93,594	1,02,673	1,23,936	1,49,468	1,58,968	1,75,019
Cost of revenue	60,304	66,848	83,403	1,03,323	1,04,695	1,13,024
Operating Expenses (SG&A)	8,220	5,735	6,747	8,314	15,086	16,738
Total Operating Costs	68,524	72,583	90,150	1,11,637	1,19,781	1,29,763
EBITDA	22267	27889	31491	35130	36531	42367
Finance Cost	170	195	200	284	320	320
PBDT	24900	29895	33586	37547	38866	44937
Depreciation	2,893	3,267	3,476	4,225	4,480	4,611
PBT	22007	26628	30110	33322	34386	40326
Provision for tax	5,368	7,205	7,964	9,214	9,580	11,144
PAT	16639	19423	22146	24108	24805	29182
Minority interest/extraordinary	45.0	72.0	36.0	13.0	20.0	20.0
Adjusted PAT	16594	19351	22110	24095	24785	29162

Source: Company and Anvil Research; IND AS Format

Balance Sheet (Rs cr)	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity capital	2,122	2,124	2,098	2,069	2,069	2,069
Reserve & Surplus	63,722	74,658	73,638	73,726	82,663	85,137
Net worth	65,844	76,782	75,736	75,795	84,732	87,206
Total Debt	-	-	-	-	-	-
Deferred tax liability & Others	6,068	7,739	8,546	10,835	12,335	13,835
Capital Employed	71,912	84,521	84,282	86,630	97,067	1,01,041
Goodwill & other intangibles	5,286	6,079	6,195	7,248	7,648	8,448
Gross block	25,641	27,651	29,376	30,089	30,589	31,589
Accumulated depreciation	13,206	15,091	16,301	16,743	17,175	17,617
Net block	12,435	12,560	13,075	13,346	13,414	13,972
Capital WIP & non-current assets	954	922	416	288	188	288
Total fixed assets	13,389	13,482	13,491	13,634	13,602	14,260
Other Non-current Assets	13,636	15,131	16,151	20,239	23,239	26,239
Long-Term Investments	4,137	11,863	13,651	12,569	10,569	8,069
Short-term Investments	4,655	2,342	6,673	6,909	7,109	7,609
Deferred Tax asset, net	1,744	1,098	1,212	1,245	1,245	1,245
Sundry debtors	18,487	19,294	22,698	25,424	30,394	31,079
Cash & bank	18,649	24,714	17,472	12,173	14,472	15,803
Current Loan & Advances	12,785	14,383	20,342	26,375	33,375	39,375
Inventories	-	-	-	-	-	-
Sundry creditors	440	440	440	440	440	440
Other liabilities	19,844	22,712	32,188	37,439	42,439	48,439
Provision	572	713	975	1,307	1,707	2,207
Net current assets	29,065	34,526	26,909	24,786	33,655	35,171
Capital Deployed	71,912	84,521	84,282	86,630	97,067	1,01,041

Source: Company and Anvil Research; IND AS Format

Key Ratios	FY20	FY21	FY22	FY23	FY24E	FY25E
Absolute Growth (%)						
Revenue	9.8	10.7	21.1	20.7	6.5	10.1
EBITDA	6.6	25.2	12.9	11.6	4.0	16.0
PAT	7.7	16.6	14.3	9.0	2.9	17.7
Profitability Ratios (%)						
EBIT margins	21.2	24.3	22.9	20.9	20.3	21.7
PAT margins	18.3	19.3	18.2	16.4	15.9	16.9
ROCE	22.1	24.1	25.1	26.1	23.9	26.3
ROIC	30.5	33.4	34.0	33.3	30.8	35.6
ROA	18.1	18.1	18.9	19.3	17.7	19.3
ROE	25.2	25.2	29.2	31.8	29.3	33.4
Valuation Ratio (x)						
P/E (on FDEPS)	19.1	22.3	31.6	24.1	23.3	19.8
P/CEPS	16.4	19.1	27.3	20.5	19.7	17.0
P/BV	4.8	5.6	9.2	7.6	6.8	6.6
Dividend yield (%)	3.0	2.1	1.8	2.3	2.8	2.7
EV/Sales	3.3	4.0	5.5	3.8	3.5	3.2
EV/EBITDA	13.3	14.5	21.4	16.0	15.2	13.0
EV / Total Assets	3.9	5.0	7.6	6.0	5.1	4.7
Per Share Data (Rs)						
EPS (Basic)	39.0	45.6	52.5	57.6	59.8	70.4
EPS (fully diluted)	38.9	45.5	52.4	57.5	59.7	70.3
Cash EPS	45.3	53.3	60.6	67.7	70.6	81.5
DPS	18.3	21.6	30.0	32.6	39.0	37.4
Book Value per share	155.1	180.7	180.5	183.2	204.8	210.7
DUPONT Analysis						
EBIT margin (a)	24.4	26.7	24.9	22.9	22.2	23.6
Tax retention ratio (b)	0.8	0.7	0.7	0.7	0.7	0.7
Assets Turnover ©	1.0	0.9	1.0	1.2	1.1	1.1
ROA (a*b*c)	18.1	18.1	18.9	19.3	17.7	19.3
Adj. Net Profit/Total Assets (a1)	22.1	23.8	25.1	25.9	23.0	24.8
Total Assets/Net-worth (b1)	1.1	1.1	1.2	1.2	1.3	1.4
ROE (a1*b1)	25.2	25.2	29.2	31.8	29.3	33.4
Liquidity ratios (x)						
Asset Turnover (Gross Block)	3.5	3.6	4.1	4.9	5.1	5.4
Debtors days	74.3	70.1	68.1	63.2	71.0	65.9
Creditors days	2.3	2.2	1.8	1.4	1.3	1.2
Working capital cycle (ex-cash) (days)	41.9	35.6	28.3	31.4	44.8	41.1
Leverage ratios (x)						
Gross Debt to Equity	-	-	-	-	-	-
Net Debt to Equity	(0.3)	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)
Net Debt to EBITDA	(0.8)	(0.9)	(0.6)	(0.3)	(0.4)	(0.4)

Source: Company and Anvil Research

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