

IT Sector July 20, 2023

CMP	1449
Sensex	67,572

Stock Statistics

Reuters code	INFY.BO
Bloomberg code	INFO IN
Equity Cap (INR cr)	2070
Face Value (INR)	5
INR / USD	82.0
Market cap (INR cr)	6,01,300
Market cap (USD bn)	73.3
52 Wk High/Low (INR)	1672/1215

Shareholding Pattern (%) – Mar'23

Promoter	13.3
Foreign Institutional Investor	31.7
MF / FI / UTI / Banks	29.7
Public & Others	24.4
Bodies & Corporate	0.9

Key Financials (Consolidated - IND AS)				
Y/E March (Rs cr)	FY2022	FY2023	FY2024E	FY2025E
Net Sales	1,21,641	1,46,767	1,52,189	1,63,578
% chg	21.1	20.7	3.7	7.5
Net Profit	22,110	24,095	24,520	26,508
% chg	14.3	9.0	1.8	8.1
EBIT Margin (%)	23.0	21.1	21.1	21.3
FDEPS (Rs)	52.4	57.5	59.2	64.0
P/E (x)	31.6	25.2	24.5	22.6
P/BV (x)	9.2	7.9	7.1	7.1
RoE (%)	29.2	31.8	29.0	31.5
RoCE (%)	25.1	26.1	24.2	25.0
EV/Sales (x)	5.5	4.0	3.7	3.5
EV/EBITDA (x)	21.4	16.7	15.4	14.3
Net Debt/Equity	(0.2)	(0.2)	(0.3)	(0.3)

Infosys Stock Update

Q1FY24 Results

Q1 better off; But FY24 guidance lowered drastically to 1-3.5%

- Infosys has delivered Top-line growth of 1% qoq in CC terms and 1.4% qoq in reported terms to US\$4617mn, which was better than expected. In INR terms revenues grew 1.3% qoq to Rs37,933cr.
- Growth was broad-based across verticals except for Financial Services and Retail verticals.
- Infosys witnessed US\$2.3bn TCW of 16 large deal wins in Q1FY24 (v/s \$2.1bn in Q4). Deals from BFSI comprise 50% of overall large deal TCW won in Q1.
- EBIT margin was down 20bps qoq to 20.8% in Q1FY24 as Utilization excl. trainees was up 110bps qoq to 81.1% which had 70bps qoq margin benefit, plus there were automation benefits, which however were offset by higher promotion costs and variable pays.
- Other Income was down 16.4% qoq to Rs561cr. Thus, despite of stable operational performance Infosys reported 3% qoq decline in PAT to Rs5945cr led by lower Other Income and 140bps qoq rise in ETR to 28.9%.
- Even at Headcount level there was net reduction of 6940 employees (on back of 3611 reductions in Q4) taking total headcount to 3,36,294. 2% of reduction in Q1 was backfilled by adding freshers. LTM voluntary Attrition was down 360bps qoq in Q1 to 17.3%.
- Cash & Investments were up 31.6% qoq to Rs25,108cr as on Q1FY24, while Debt is NIL.

➤ FY24 Guidance -

Due to slow down in discretionary spends, delay in volume pickups and signings of mega deals plus slower regulatory approvals and slower transitions have prompted Infosys to lower down its Topline growth guidance from earlier 4-7% qoq in CC terms to 1-3.5% in CC terms for FY24.

Though the company has won 2 mega deals recently, but revenue from these deals is expected to come only from latter part of FY24. Hence guidance has been lowered. However, these mega deals plus strong pipeline augurs well for FY25 wherein most of these mega deals ramp ups will start happening.

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 been maintained 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.**

In Q1 Infosys differed Salary hikes, it has not yet timed the hikes but will do so after considering everything. Utilization will act as key margin lever for FY24 as there is still room left there for expansion.

Quarterly Financial Statement

Q1FY24 Consolidated Financial Performance in IND AS								
Y/E March (Rs cr)	Q1FY24	Q4FY23	% chg qoq	Q1FY23	% chg yoy	FY23	FY22	% chg
Net Revenues	37,933	37,441	1.3	34,470	10.0	1,46,767	1,21,641	20.7
Cost of Sales	26,625	26,313	1.2	24,666	7.9	1,03,323	83,403	23.9
- Employee Benefit Expenses	20,781	20,311	2.3	18,337	13.3	78,359	63,986	22.5
- Sub-contractor's cost	3,124	3,116	0.3	3,909	(20.1)	14,062	12,606	11.6
- Cost of Software Packages	2,720	2,886	(5.8)	2,420	12.4	10,902	6,811	60.1
Gross Profit	11,308	11,128	1.6	9,804	15.3	43,444	38,238	13.6
SG&A Expenses	2,244	2,130	5.4	1,940	15.7	8,314	6,747	23.2
- Travel Expenses	462	426	8.5	376	22.9	1,525	827	84.4
- Communication Expenses	182	171	6.4	170	7.1	713	611	16.7
- Consultancy & Professional Charges	346	387	(10.6)	456	(24.1)	1,684	1,885	(10.7)
- Other Expenses	1,254	1,146	9.4	938	33.7	4,392	3,424	28.3
EBITDA	9,064	8,998	0.7	7,864	15.3	35,130	31,491	11.6
Other Income	561	671	(16.4)	676	(17.0)	2,701	2,295	17.7
Finance Cost	90	82	9.8	56	-	284	200	42.0
Depreciation	1,173	1,121	4.6	950	23.5	4,225	3,476	21.5
						-	-	
PBT	8,362	8,466	(1.2)	7,534	11.0	33,322	30,110	10.7
Share in associate's Profit/(Loss)	-	-	-	-	-	-	-	-
Minority Interest	-	6	(100.0)	2	(100.0)	13	36	-
Write-down of Investment in Associate								
Tax	2,417	2,332	3.6	2,172	11.3	9,214	7,964	15.7
						-	-	
						-	-	
Net Income	5,945	6,128	(3.0)	5,360	10.9	24,095	22,110	9.0
Diluted EPS (Rs)	14.4	14.8	(2.8)	12.8	12.5	57.5	52.4	9.8
Gross Profit Margin (%)	29.8	29.7	0.1	28.4	1.4	29.6	31.4	(1.8)
EBITDA Margin (%)	23.9	24.0	(0.1)	22.8	1.1	23.9	25.9	(2.0)
EBIT Margin (%)	20.8	21.0	(0.2)	20.1	0.7	21.1	23.0	(2.0)
Net Profit Margin (%)	15.7	16.4	(0.7)	15.5	0.1	16.4	18.2	(1.8)
Tax rate (%)	28.9	27.5	1.4	28.8	0.1	27.7	26.4	1.2

Source: Company and Anvil Research

Key Operational Matrix

Revenue Mix (In US \$mn)	Q1FY24	Q4FY23	Q1FY23	Chg qoq	Chg yoy
Services	4349	4281	4162	1.6%	4.5%
Products & Platforms	268	273	282	-2.0%	-5.1%
Total	4617	4554	4,444	1.4%	3.9%

Source: Company and Anvil Research

Geographical split (In US \$mn)	Q1FY24	Q4FY23	Q1FY23	Q1FY24	Q4FY23	Q1FY23	% Chg qoq	% Chg yoy
North America	60.8%	61.0%	61.8%	2,807	2,778	2,746	1.1	2.2
Europe	26.8%	27.0%	25.0%	1,237	1,230	1,111	0.6	11.4
India	2.7%	2.6%	2.6%	125	118	116	5.3	7.9
Rest of the world	9.7%	9.4%	10.6%	448	428	471	4.6	(4.9)
Net Revenues	100.0%	100.0%	100.0%	4,617	4,554	4,444	1.4	3.9

Source: Company and Anvil Research

New Vertical Split	Q1FY24		Q4FY23		Q1FY23		% Chg	
	US \$mn	% of total	US \$mn	% of total	US \$mn	% of total	qoq	yoy
Financial Services	1,297	28.1%	1,316	28.9%	1,360	30.6%	(1.4)	(4.6)
Retail	669	14.5%	674	14.8%	644	14.5%	(0.7)	3.9
Communication	540	11.7%	537	11.8%	578	13.0%	0.5	(6.5)
Energy, Utilities, Resources & Services	596	12.9%	587	12.9%	551	12.4%	1.4	8.1
Manufacturing	651	14.1%	615	13.5%	538	12.1%	5.9	21.1
Hi Tech	374	8.1%	364	8.0%	364	8.2%	2.7	2.6
Life sciences	332	7.2%	328	7.2%	289	6.5%	1.4	15.1
Others	157	3.4%	132	2.9%	120	2.7%	18.9	30.8
Net Revenues (In US\$mn)	4,617	100.0%	4,554	100.0%	4,444	100.0%	1.4	3.9
Net Revenues (In INR cr)	37,933		37,441		34,470		1.3	10.0

Source: Company and Anvil Research

Growth in Top clients	Q1FY24	Q4FY23	Q1FY23	% Chg qoq	% Chg yoy
Number of Active Clients	1883	1872	1778		
Gross client additions	99	115	106		
Revenues (\$mn)	4,617	4,554	4,444	1.4	3.9
Top 5 client (\$ mn)	619	592	578	4.5	7.1
% of revenues	13.4%	13.0%	13.0%		
Top 10 clients (\$ mn)	942	915	924	2.9	1.9
% of revenues	20.4%	20.1%	20.8%		
Top 25 clients (\$ mn)	1,597	1,580	1,613	1.1	(1.0)
% of revenues	34.6%	34.7%	36.3%		

Source: Company and Anvil Research

Outlook

- The company's AI offerings under Topaz including Gen AI platform work on large language models, texts, which is going well. It is working with open source and Gen AI platforms. Infosys has trained 40000 employees on AI. Infosys is strong in Cloud with Cobalt offerings and now on Gen AI and AI led Topaz offerings.
- Gen AI and other Critical portfolios are deriving value across the portfolio.
- Some clients are slowing discretionary work in Asset Mgmt. and Payments within BFSI as well as in Telecom Industry.
- Cards & Payments, Asset Mgmt, Self-funding transformation programs seen in BFSI, however delayed decision making is impacting BFSI growth. In BFSI there are different patterns, some of the clients seeing good results but some are seeing difficult economic situations. Clients are choosing not to spend as of now but the pattern might change if macro environment changes.
- In Infrastructure, large deal pipeline remains healthy, however Communication vertical spends are seeing impact of client budget cuts.
- Cost optimization and vendor consolidation deals interest clients with Gen AI element for further improving their productivity.

- E&U vertical going forward is positive but as of now decision making is slow.
- Engineering, IOT, Cloud etc. seeing strong traction and smart transitioning to products.
- Focus is much more on client efficiencies and consolidation led discussion are on digital transformation.
- **The company had good traction in multiple geographies in Europe like in Nordics (strategic win), in Germany and in UK. So far so good in Europe but going forward macros is affecting overall Europe in BFSI subsegments, Telecom and Retail and Mgmt. guided of watching how Europe plays out in future.**
- **The large mega wins were amidst sever competition and more of cost optimization deals. US\$2bn AI led large deal won recently after Q1FY24 closure is focused on work on AI led automation, development and modernization of services. This will come up for ramp up in later part of FY24 but exactly when it's not clear.**

Valuations

Thus, on account of macro-economic uncertainties we expect Infosys would register Top-line growth of 3.7% yoy in INR terms (Growth of 2.2% yoy in USD terms), PAT increase of 1.8% yoy and EPS of Rs59.2 in FY24E. For FY25E however we expect recovery in macro-economic variants globally resulting in strong demand recovery leading to Top-line growth of 7.5% yoy (Growth of 8.8% yoy in USD terms), PAT increase of 8.1% yoy and EPS of Rs64. Thus, the stock trades at 24.5x FY24E EPS and at 22.6x 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	1,52,189	1,63,578
Other income	2,803	2,201	2,295	2,701	2,377	2,418
Total income	93,594	1,02,673	1,23,936	1,49,468	1,54,566	1,65,995
Cost of revenue	60,304	66,848	83,403	1,03,323	1,00,644	1,08,539
Operating Expenses (SG&A)	8,220	5,735	6,747	8,314	14,706	15,530
Total Operating Costs	68,524	72,583	90,150	1,11,637	1,15,349	1,24,070
EBITDA	22267	27889	31491	35130	36839	39508
Finance Cost	170	195	200	284	360	400
PBDT	24900	29895	33586	37547	38856	41526
Depreciation	2,893	3,267	3,476	4,225	4,696	4,709
PBT	22007	26628	30110	33322	34161	36817
Provision for tax	5,368	7,205	7,964	9,214	9,641	10,309
PAT	16639	19423	22146	24108	24520	26508
Minority interest/extraordinary	45.0	72.0	36.0	13.0	-	-
Adjusted PAT	16594	19351	22110	24095	24520	26508

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	2,070	2,070
Reserve & Surplus	63,722	74,658	73,638	73,726	82,386	82,207
Net worth	65,844	76,782	75,736	75,795	84,456	84,277
Total Debt	-	-	-	-	-	-
Deferred tax liability & Others	6,068	7,739	8,546	10,835	8,335	9,835
Capital Employed	71,912	84,521	84,282	86,630	92,791	94,112
Goodwill & other intangibles	5,286	6,079	6,195	7,248	7,198	7,698
Gross block	25,641	27,651	29,376	30,089	30,089	30,889
Accumulated depreciation	13,206	15,091	16,301	16,743	17,175	17,617
Net block	12,435	12,560	13,075	13,346	12,914	13,272
Capital WIP & non-current assets	954	922	416	288	488	588
Total fixed assets	13,389	13,482	13,491	13,634	13,402	13,860
Other Non-current Assets	13,636	15,131	16,151	20,239	20,539	23,539
Long-Term Investments	4,137	11,863	13,651	12,569	11,069	10,569
Short-term Investments	4,655	2,342	6,673	6,909	4,409	4,409
Deferred Tax asset,net	1,744	1,098	1,212	1,245	845	845
Sundry debtors	18,487	19,294	22,698	25,424	28,747	30,898
Cash & bank	18,649	24,714	17,472	12,173	28,093	28,504
Current Loan & Advances	12,785	14,383	20,342	26,375	25,675	26,675
Inventories	-	-	-	-	-	-
Sundry creditors	440	440	440	440	440	440
Other liabilities	19,844	22,712	32,188	37,439	44,739	49,739
Provision	572	713	975	1,307	2,007	2,707
Net current assets	29,065	34,526	26,909	24,786	35,329	33,192
Capital Deployed	71,912	84,521	84,282	86,630	92,791	94,112

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	3.7	7.5
EBITDA	6.6	25.2	12.9	11.6	4.9	7.2
PAT	7.7	16.6	14.3	9.0	1.8	8.1
Profitability Ratios (%)						
EBIT margins	21.2	24.3	22.9	20.9	20.9	21.0
PAT margins	18.3	19.3	18.2	16.4	16.1	16.2
ROCE	22.1	24.1	25.1	26.1	24.2	25.0
ROIC	30.5	33.4	34.0	33.3	40.1	43.3
ROA	18.1	18.1	18.9	19.3	17.7	18.2
ROE	25.2	25.2	29.2	31.8	29.0	31.5
Valuation Ratio (x)						
P/E (on FDEPS)	19.1	22.3	31.6	25.2	24.5	22.6
P/CEPS	16.4	19.1	27.3	21.4	20.5	19.2
P/BV	4.8	5.6	9.2	7.9	7.1	7.1
Dividend yield (%)	3.0	2.1	1.8	2.3	2.7	2.6
EV/Sales	3.3	4.0	5.5	4.0	3.7	3.5
EV/EBITDA	13.3	14.5	21.4	16.7	15.4	14.3
EV / Total Assets	3.9	5.0	7.6	6.3	5.2	5.0
Per Share Data (Rs)						
EPS (Basic)	39.0	45.6	52.5	57.6	59.3	64.1
EPS (fully diluted)	38.9	45.5	52.4	57.5	59.2	64.0
Cash EPS	45.3	53.3	60.6	67.7	70.6	75.5
DPS	18.3	21.6	30.0	32.6	39.0	37.5
Book Value per share	155.1	180.7	180.5	183.2	204.0	203.6
DUPONT Analysis						
EBIT margin (a)	24.4	26.7	24.9	22.9	22.7	22.8
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	18.2
Adj. Net Profit/Total Assets (a1)	22.1	23.8	25.1	25.9	22.6	23.5
Total Assets/Net-worth (b1)	1.1	1.1	1.2	1.2	1.3	1.3
ROE (a1*b1)	25.2	25.2	29.2	31.8	29.0	31.5
Liquidity ratios (x)						
Asset Turnover (Gross Block)	3.5	3.6	4.1	4.9	5.1	5.3
Debtors days	74.3	70.1	68.1	63.2	68.9	68.9
Creditors days	2.3	2.2	1.8	1.4	1.4	1.3
Working capital cycle (ex-cash) (day)	41.9	35.6	28.3	31.4	17.4	10.5
Leverage ratios (x)						
Gross Debt to Equity	-	-	-	-	-	-
Net Debt to Equity	(0.3)	(0.3)	(0.2)	(0.2)	(0.3)	(0.3)
Net Debt to EBITDA	(0.8)	(0.9)	(0.6)	(0.3)	(0.8)	(0.7)

Source: Company and Anvil Research

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