

IT Sector October 13, 2023

CMP	1432
Sensex	66,283

Stock Statistics

Reuters code	INFY.BO
Bloomberg code	INFO IN

Equity Cap (INR cr)	2070
Face Value (INR)	5
INR / USD	83.3
Market cap (INR cr)	5,94,252
Market cap (USD bn)	71.4
52 Wk High/Low (INR)	1672/1215

Shareholding Pattern (%) – Jun'23

Promoter	13.3
Foreign Institutional Investor	30.8
MF / FI / UTI / Banks	31.0
Public & Others	24.0
Bodies & Corporate	0.9

Infosys Stock Update

Q2FY24 Results

Q2 better off; But FY24 upper end of guidance lowered to 1-2.5%

- **Infosys has delivered Top-line growth of 2.3% qoq in CC terms and 2.2% qoq in reported terms to US\$4718mn. In INR terms revenues grew 2.8% qoq to Rs38,994cr. Amongst verticals growth was led by Retail, Manufacturing and Life-sciences verticals.**
- **Infosys witnessed US\$7.7bn TCV of 21 large deal wins in Q2FY24 led by strong clients' relationships (v/s \$2.3bn in Q1) one of the highest TCV wins in a quarter.** 12 from America, 8 in Europe and 1 in ROW. 48% of this TCV was net new wins and it includes 2 mega deals in Q2 but excludes US\$1.5bn recent mega deal win.
- **EBIT margin was up 40bps qoq to 21.2% in Q2FY24.** 50bps qoq improvement came in from project Maximus (which is longer term margin improvement program Infosys has undertaken for next 18mths), **which included improved Utilization and 30bps qoq improvement from one-time revenues.**
- **Other Income was up 13% qoq to Rs632cr, but Finance cost was also up 53% qoq. Thus, after last two quarters of disappointing Top-line growth and profitability Infosys managed to reported better performance in Q2FY24 with PAT increasing by 4.5% qoq to Rs6212cr.**
- **At Headcount level net reduction continued for 3rd consecutive quarter of 7530 employees' reductions in Q2 qoq (on back of 6940 reductions in Q1) taking total headcount to 3,28,764. LTM voluntary Attrition also continued to lower down further by 270bps qoq in Q2 to 14.6%.**
- **Cash & Investments were down 7% qoq to Rs23,292cr as on Q2FY24, while Debt is NIL.**
- **FY24 Guidance –**

Digital transformation and discretionary spends are still slower, whereas the mega deal wins will start ramp up from Q4 or Q1FY25. Impact on revenues led by slowing of discretionary or transformation programs was already there, but some mega deals ramp up started in Q2 hence there was recovery in Q2.

Mgmt. expects Q3 & Q4 slowdown to be much softer than past years plus slow ramp ups of large and mega wins in near term. Mega deals have rebadging, needs more regulatory approval time, longer transition period. Hence though Infosys has won 4 Mega wins in H1FY24, these deals will take couple of quarters to contribute to revenue which the Mgmt. guided would mainly happen in FY25.

Mgmt. has hence revised the upper end of Topline growth guidance to 1-2.5% CC terms from earlier 1-3.5% for FY24.

The company has put internal plan and roadmap to drive growth and margins. 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. It will give salary hikes effective 1st Nov23.

Quarterly Financial Statement

Q2FY24 Consolidated Financial Performance in IND AS								
Y/E March (Rs cr)	Q2FY24	Q1FY24	% chg qoq	Q2FY23	% chg yoy	H1FY24	H1FY23	% chg
Net Revenues	38,994	37,933	2.8	36,538	6.7	76,927	71,008	8.3
Cost of Sales	27,257	26,625	2.4	25,644	6.3	53,882	50,310	7.1
- Employee Benefit Expenses	20,796	20,781	0.1	19,438	7.0	41,577	37,775	10.1
- Sub-contractor's cost	3,074	3,124	(1.6)	3,694	(16.8)	6,198	7,603	(18.5)
- Cost of Software Packages	3,387	2,720	24.5	2,512	34.8	6,107	4,932	23.8
Gross Profit	11,737	11,308	3.8	10,894	7.7	23,045	20,698	11.3
SG&A Expenses	2,297	2,244	2.4	1,992	15.3	4,541	3,932	15.5
- Travel Expenses	439	462	(5.0)	363	20.9	901	739	21.9
- Communication Expenses	179	182	(1.6)	189	(5.3)	361	359	0.6
- Consultancy & Professional Charges	387	346	11.8	439	(11.8)	733	895	(18.1)
- Other Expenses	1,292	1,254	3.0	1,001	29.1	2,546	1,939	31.3
EBITDA	9,440	9,064	4.1	8,902	6.0	18,504	16,766	10.4
Other Income	632	561	12.7	584	8.2	1,193	1,260	(5.3)
Finance Cost	138	90	53.3	66	-	228	122	86.9
Depreciation	1,166	1,173	(0.6)	1,029	13.3	2,339	1,979	18.2
						-	-	
PBT	8,768	8,362	4.9	8,391	4.5	17,130	15,925	7.6
Share in associate's Profit/(Loss)	-	-	-	-	-	-	-	-
Minority Interest	3	-	-	5	(40.0)	3	7	-
Tax	2,553	2,417	5.6	2,365	7.9	4,970	4,537	9.5
						-	-	
Net Income	6,212	5,945	4.5	6,021	3.2	12,157	11,381	6.8
Diluted EPS (Rs)	15.0	14.4	4.5	14.3	4.5	29.3	27.1	8.3
Gross Profit Margin (%)	30.1	29.8	0.3	29.8	0.3	30.0	29.1	0.8
EBITDA Margin (%)	24.2	23.9	0.3	24.4	(0.2)	24.1	23.6	0.4
EBIT Margin (%)	21.2	20.8	0.4	21.5	(0.3)	21.0	20.8	0.2
Net Profit Margin (%)	15.9	15.7	0.3	16.5	(0.5)	15.8	16.0	(0.2)
Tax rate (%)	29.1	28.9	0.2	28.2	0.9	29.0	28.5	0.5

Source: Company and Anvil Research

Key Operational Matrix

Revenue Mix (In US \$mn)	Q2FY24	Q1FY24	Q2FY23	Chg qoq	Chg yoy
Services	4443	4349	4267	2.1%	4.1%
Products & Platforms	275	268	288	2.8%	-4.5%
Total	4718	4617	4,555	2.2%	3.6%

Source: Company and Anvil Research

Geographical split (In US \$mn)	Q2FY24	Q1FY24	Q2FY23	Q2FY24	Q1FY24	Q2FY23	% Chg qoq	% Chg yoy
North America	61.1%	60.8%	62.5%	2,883	2,807	2,847	2.7	1.3
Europe	26.5%	26.8%	24.7%	1,250	1,237	1,125	1.0	11.1
India	2.8%	2.7%	2.9%	132	125	132	6.0	0.0
Rest of the world	9.6%	9.7%	9.9%	453	448	451	1.1	0.4
Net Revenues	100.0%	100.0%	100.0%	4,718	4,617	4,555	2.2	3.6

Source: Company and Anvil Research

New Vertical Split	Q2FY24		Q1FY24		Q2FY23		% Chg	
	US \$mn	% of total	US \$mn	% of total	US \$mn	% of total	qoq	yoy
Financial Services	1,297	27.5%	1,297	28.1%	1,389	30.5%	0.0	(6.6)
Retail	717	15.2%	669	14.5%	647	14.2%	7.1	10.9
Communication	538	11.4%	540	11.7%	560	12.3%	(0.4)	(4.0)
Energy, Utilities, Resources & Services	599	12.7%	596	12.9%	560	12.3%	0.6	6.9
Manufacturing	675	14.3%	651	14.1%	583	12.8%	3.6	15.7
Hi Tech	368	7.8%	374	8.1%	374	8.2%	(1.6)	(1.5)
Life sciences	368	7.8%	332	7.2%	305	6.7%	10.7	20.6
Others	156	3.3%	157	3.4%	137	3.0%	(0.8)	13.9
Net Revenues (In US\$mn)	4,718	100.0%	4,617	100.0%	4,555	100.0%	2.2	3.6
Net Revenues (In INR cr)	38,994		37,933		36,538		2.8	6.7

Source: Company and Anvil Research

Growth in Top clients	Q2FY24	Q1FY24	Q2FY23	% Chg qoq	% Chg yoy
Number of Active Clients	1884	1883	1779		
Gross client additions	100	99	103		
Revenues (\$mn)	4,718	4,617	4,555	2.2	3.6
Top 5 client (\$ mn)	627	619	574	1.4	9.3
% of revenues	13.3%	13.4%	12.6%		
Top 10 clients (\$ mn)	939	942	920	(0.3)	2.0
% of revenues	19.9%	20.4%	20.2%		
Top 25 clients (\$ mn)	1,609	1,597	1,608	0.7	0.1
% of revenues	34.1%	34.6%	35.3%		

Source: Company and Anvil Research

Outlook

- Decision making is slow and Gen AI is helping to create more value. Currently Infosys is working on 90 Gen AI projects thereby helping clients navigate their models with help of Gen AI.
- Growing adoption of our Gen AI offerings under Topaz, is helping the company to deliver consistent value and expand market share.
- Investment Banking, Cards and Payment showed good traction under BFSI in Q2, but the Mgmt. will stay cautiously optimistic.
- Near term uncertainties, delay in decision making continues but strong TCV wins and pipeline will help to take care of growth in near to medium term.
- Clients are more focused on Cost take deals. Utilities vertical seeing pressure from N America, while Manufacturing is witnessing growth.
- Supply Chain, Smart Factory, Cloud spends are witnessing good growth.
- Retail vertical clients are focused on budget consolidation and costs efficiencies to release new budgets.

- There are lot of constraints on Clients related to transformation programs and will get to know in next few quarters whether macros are improving or not w.r.t to expected Client Budgets for CY24. As of now there seems no major concern from CY24 budget point of view.
- Infosys is working on proprietary large language models from its partners. It will not be developing these models as these are mainly open AI and already existing large models in market. Hence Infosys will start to see Data sets which are more Enterprise focused and allows clients to take advantage of large Data sets activity.
- Largely Pricing has been stable over quarters but some clients are asking for discounts. Deal to deal competition however is very hard. Large programs are combination of driving better Cost efficiencies and Automation for clients.
- **To increase operational efficiencies the company will stay focused on further optimization of headcount going ahead too.**

Valuations

Thus, on account of macro-economic uncertainties we expect Infosys would register Top-line growth of 5% yoy in INR terms (Growth of 2.4% yoy in USD terms), PAT to be flat yoy and EPS of Rs58.1 in FY24E. For FY25E however we expect recovery in macro-economic variants globally resulting in strong demand recovery leading to Top-line growth of 7.6% yoy (Growth of 8.1% yoy in USD terms), PAT increase of 10.6% yoy and EPS of Rs64.3 Thus, the stock trades at 24.6x FY24E EPS and at 22.3x 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	1,54,133	1,65,879
Other income	2,803	2,201	2,295	2,701	2,526	2,715
Total income	93,594	1,02,673	1,23,936	1,49,468	1,56,659	1,68,594
Cost of revenue	60,304	66,848	83,403	1,03,323	1,03,127	1,10,130
Operating Expenses (SG&A)	8,220	5,735	6,747	8,314	14,684	15,956
Total Operating Costs	68,524	72,583	90,150	1,11,637	1,17,811	1,26,086
EBITDA	22267	27889	31491	35130	36322	39793
Finance Cost	170	195	200	284	508	600
PBDT	24900	29895	33586	37547	38340	41908
Depreciation	2,893	3,267	3,476	4,225	4,640	4,676
PBT	22007	26628	30110	33322	33700	37232
Provision for tax	5,368	7,205	7,964	9,214	9,610	10,601
PAT	16639	19423	22146	24108	24091	26631
Minority interest/extraordinary	45.0	72.0	36.0	13.0	8.0	-
Adjusted PAT	16594	19351	22110	24095	24083	26631

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	81,953	81,894
Net worth	65,844	76,782	75,736	75,795	84,023	83,964
Total Debt	-	-	-	-	-	-
Deferred tax liability & Others	6,068	7,739	8,546	10,835	9,135	9,135
Capital Employed	71,912	84,521	84,282	86,630	93,158	93,099
Goodwill & other intangibles	5,286	6,079	6,195	7,248	7,228	7,278
Gross block	25,641	27,651	29,376	30,089	29,089	29,589
Accumulated depreciation	13,206	15,091	16,301	16,743	16,985	17,237
Net block	12,435	12,560	13,075	13,346	12,104	12,352
Capital WIP & non-current assets	954	922	416	288	688	788
Total fixed assets	13,389	13,482	13,491	13,634	12,792	13,140
Other Non-current Assets	13,636	15,131	16,151	20,239	20,539	21,039
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	8,409	8,409
Deferred Tax asset, net	1,744	1,098	1,212	1,245	445	445
Sundry debtors	18,487	19,294	22,698	25,424	30,399	33,176
Cash & bank	18,649	24,714	17,472	12,173	15,788	16,154
Current Loan & Advances	12,785	14,383	20,342	26,375	24,675	25,675
Inventories	-	-	-	-	-	-
Sundry creditors	440	440	440	440	440	440
Other liabilities	19,844	22,712	32,188	37,439	35,939	39,939
Provision	572	713	975	1,307	1,807	2,407
Net current assets	29,065	34,526	26,909	24,786	32,676	32,219
Capital Deployed	71,912	84,521	84,282	86,630	93,158	93,099

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	5.0	7.6
EBITDA	6.6	25.2	12.9	11.6	3.4	9.6
PAT	7.7	16.6	14.3	9.0	(0.1)	10.6
Profitability Ratios (%)						
EBIT margins	21.2	24.3	22.9	20.9	20.2	20.8
PAT margins	18.3	19.3	18.2	16.4	15.6	16.1
ROCE	22.1	24.1	25.1	26.1	25.5	27.3
ROIC	30.5	33.4	34.0	33.3	32.3	36.1
ROA	18.1	18.1	18.9	19.3	18.6	19.9
ROE	25.2	25.2	29.2	31.8	28.7	31.7
Valuation Ratio (x)						
P/E (on FDEPS)	19.1	22.3	31.6	26.4	24.6	22.3
P/CEPS	16.4	19.1	27.3	22.4	20.6	18.9
P/BV	4.8	5.6	9.2	8.3	7.1	7.1
Dividend yield (%)	3.0	2.1	1.8	2.1	2.7	2.6
EV/Sales	3.3	4.0	5.5	4.2	3.7	3.4
EV/EBITDA	13.3	14.5	21.4	17.5	15.7	14.3
EV / Total Assets	3.9	5.0	7.6	6.6	5.7	5.4
Per Share Data (Rs)						
EPS (Basic)	39.0	45.6	52.5	57.6	58.2	64.3
EPS (fully diluted)	38.9	45.5	52.4	57.5	58.1	64.3
Cash EPS	45.3	53.3	60.6	67.7	69.4	75.6
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	203.0	202.8
DUPONT Analysis						
EBIT margin (a)	24.4	26.7	24.9	22.9	22.2	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	1.2	1.2
ROA (a*b*c)	18.1	18.1	18.9	19.3	18.6	19.9
Adj. Net Profit/Total Assets (a1)	22.1	23.8	25.1	25.9	24.1	25.5
Total Assets/Net-worth (b1)	1.1	1.1	1.2	1.2	1.2	1.2
ROE (a1*b1)	25.2	25.2	29.2	31.8	28.7	31.7
Liquidity ratios (x)						
Asset Turnover (Gross Block)	3.5	3.6	4.1	4.9	5.3	5.6
Debtors days	74.3	70.1	68.1	63.2	72.0	73.0
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	40.0	35.3
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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