

CMP: INR 1,389

Rating: Neutral

Target Price: INR 1,453

Stock Info

BSE	500209
NSE	INFY
Bloomberg	INFO IN
Reuters	INFO.BO
Sector	Computers-Software
Face Value (INR)	5
Equity Capital (INR Cr)	2,098
Mkt Cap (INR Cr)	574,000
52w H/L (INR)	1757 / 1355
Avg Yearly Vol (in 000')	6,640

Shareholding Pattern %

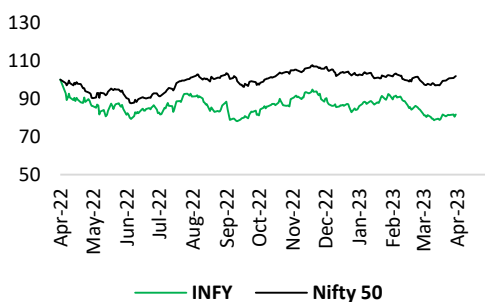
(As on June, 2022)

Promoters	15.11
FII	36.29
DII	32.50
Public & Others	16.1

Stock Performance (%)

	1m	3m	12m
INFY	-2.58	-6.16	-14.6
Nifty	4.6	3.74	3.81

INFY Vs Nifty



Infosys (INFY) lower revenue guidance for FY24: The company has given a revenue growth guidance of 4%-7% (expectation 5%-8%). This implies a CQGR of 1.7%-2.9%. Operating margin guidance of 20%-22% for FY24 (below expectation).

EBIT Margin contraction during the quarter: EBIT margin was down bps 47QoQ/-51bps YoY at 21% against our estimates of 21.5%. The company continued the recent trend, attrition declined further in Q4. In the future, the company anticipates that margin improvement will be driven by automation, pricing, and utilization rate dropped to 80% potential for improvement in this area.

Top-line de-growth largely driven by weakness in North America: Constant currency (CC) revenue growth is up 8.8% YoY & decline of 3.2% QoQ. Dollar-term Revenue growth +6.4% YoY/-1.6% QoQ to \$4,554 mn against our estimate of \$4,658 mn. Reported revenue of INR 37,441 Cr (down 2.3% QoQ/+16% YoY) against our estimate of INR 38,963 Cr. The de-growth was led by weak revenue by business segment- In Financial services (-1.7% YoY), Communication (-2.1% YoY). While positive growth in the Energy, Utilities, Resources & Services (+14.3% YoY), Retail (+10% YoY), Life Sciences (14.9% YoY) and Hi-tech (+3.5% YoY).

Steady TCV in Q4FY23 but pipeline remains healthy: The company's large TCV deal wins stood at \$2.1 bn, compared with \$3.3 bn in Q3FY23. The deal wins in Q4 were the below expectation. There was some one time impact in the March quarter, they see some stabilization in March. US banking issue impacted decisions across the board due to ITs' generally high exposure to BFSIs. The company is working closely with clients; their connect with the company will help them massively.

Valuations

In Q4FY23, revenue drop was due to ramping down of projects by clients in sectors such as Telecom, Retail, Hitech, etc. Also there was one off project cancellation in certain cases. It is our opinion that the IT Services sector will not be unaffected by the deteriorating global economic conditions, including increasing inflation, economic deceleration, and anticipated reduction in spending during FY24E. As a result, the rate of revenue growth is expected to slow down to single digits in FY24E. Additionally, there will be restricted margin enhancement and reduced ability to set higher prices, resulting in a decrease in the valuation multiples, which would approach historical averages. **We value Infosys at a PE of 20x to its FY25E EPS of INR 72.7 and reduced the target price to INR 1,453 per share (earlier TP in Q2FY23: INR 1,619 per share). We are downgrading our stock rating from "Accumulate" to "Neutral."**

Y/E March (INR. In Cr)	FY22	FY23	FY24E	FY25E
Revenues (US\$ mn)	16,310	18,212	18,919	19,931
Net Revenue	121,641	146,767	162,726	178,782
EBIT	24,539	26,680	31,732	35,756
EBIT Margin(%)	20.2%	18.2%	19.5%	20.0%
Net Profit	22,110	24,095	27,255	30,092
EPS (INR)	52.7	58.2	65.8	72.7
P/E (x)	26.4	23.9	21.1	19.1
ROE	29.2%	31.8%	28.7%	25.8%

Source: Arihant Research, Company Filings,

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Q4FY23 - Quarterly Performance (Consolidated)

INR Cr (Consolidated)	Q4FY23	Q3FY23	Q4FY22	Q-o-Q	Y-o-Y
Revenue (CC Terms) (Mn USD)	4,554	4,628	4,280	-1.6%	6.4%
Net Revenue	37,441	38,318	32,276	-2.3%	16.0%
Cost of Sales	26,011	26,561	22,272	-2.1%	16.8%
Gross Profit	11,430	11,757	10,004	-2.8%	14.3%
S&M and Admin. Expenses	3,553	3,515	3,048	1.1%	16.6%
EBIT	7,877	8,242	6,956	-4.4%	13.2%
EBIT margin %	21.0%	21.5%	21.6%	-47bps	-51bps
Other Income	589	689	587	-14.5%	0.3%
PBT	8,466	8,931	7,543	-5.2%	12.2%
Tax Expense	2,332	2,345	1,848	-0.6%	26.2%
Effective tax rate %	27.5%	26.3%	24.5%	129bps	305bps
Reported PAT	6,134	6,586	5,695	-6.9%	7.7%
MI & Associates	-6	-	-9		
Consolidated PAT	6,128	6,586	5,686	-7.0%	7.8%
Adj PAT Margin %	16.4%	17.2%	17.6%	-4.8%	-7.1%
EPS (INR)	14.8	15.7	13.6	-5.9%	8.9%

Source: Arianth Research, Company Filings

Q4FY23 Concall Highlights

- **Guidance:** The company expects their revenue to increase by 4% to 7% in constant currency terms for FY24. They have a strong pipeline of large deals and are focusing on cost takeout programs to drive growth. They have set an operating margin guidance of 20% to 22% for FY24, which factors in their growth assumptions. They have identified various ways to improve efficiency such as improving utilization, reducing subcons, and improving pyramid. In addition, they plan to accelerate growth and potentially increase pricing to achieve higher margins over time.
- The business experienced a 26% increase in Europe and a 12% increase in the US as a result of a significant deal valued at \$9.8 billion that brought in 40% new net clients for the year.
- They are currently collaborating with clients on active projects using AI platforms to tackle specific business areas, and they have trained open-source AI platforms on their internal software development library. This anticipates generative AI to create more work opportunities for clients and improve productivity. However, they witnessed market environment changes in Q4.
- **Infosys experienced unplanned project ramped downs in some clients**, leading to delays in decision-making and a decrease in volume. Additionally, they faced one-time revenue impacts in financial services, mortgages, asset management, investment banking, telecom, high-tech, and retail, although they noticed some stabilization in March. As a result, there was a year-on-year growth of 8.8% in constant currency for Q4, but a QoQ decline of 3.2%.
- **The company has expanded its internal efficiency and cost program to focus on various areas such as the pyramid**, onsite ratio, automation, travel, subcontractor, office consolidation, and pricing. They are optimistic that this program will lead to a path towards higher margins in the medium term.
- **It seems that the company experienced slower growth in Q4 due to client ramped downs** and delayed decision-making, resulting in some one-off revenue impacts. However, they were able to close FY '23 with a strong growth rate of 15.4% in constant currency, which helped them gain market share. The operating margins for both Q4 and FY '23 were at 21%, in line with their guidance.
- The number of clients has increased significantly, with the count of 50 mn clients rising to 75 mn, 100 million clients increasing to 40 mn, and 200 million clients increasing to 15 mn. The long-term voluntary attrition rate has decreased to 20.9%, indicating a strong performance in client metrics.
- **The utilization rate dropped to 80%**. However, they anticipate that the utilization rate will increase slowly in the next few quarters as the pressure starts to be applied. During Q4, Infosys signed a total of 17 significant deals. The total contract value (TCV) of these deals was \$22.1 billion, and 21% of them were net new. Out of these deals, five were related to manufacturing, four to social services, three to customer relationship management (CRM), two to life sciences, and two to high tech. The deals were associated with ten in the Americas and seven in Europe, Middle East, and Africa (EMEA) region-wise.
- The company is placing a greater emphasis on digital spending, particularly in areas such as ER&D, 5G, and industrial IOT. However, rising energy prices and interest rates, as well as ongoing supply chain disruptions, are affecting spending on certain aspects of the business, particularly the communication segment. In addition, there are increasing pressures on OPEX, leading to a slowdown in cost-cutting efforts and delays in decision-making.
- The company's new strategy of developing integrated energy solutions and focusing on energy will give them a competitive edge. Even though there were delays in the Krishna spend project, they continue to make progress with cost reduction and vendor consolidation initiatives.

Exhibit 1: Business Mix; Steady performance across the segment

Employee Metrics	Q4FY22	Q1FY23	Q2FY23E	Q3FY23	Q4FY23
Employees, period end					
Total Employees (Consolidated)	3,14,015	3,35,186	345,218	346,845	343,234
S/W professionals	2,97,859	3,18,447	328,146	329,296	324,816
Sales & Support	16,156	16,739	17,072	17,549	18,418
Women employees (%)	39.6%	28.4%	27.1%	24.3%	20.9%
Revenue per Employee - Consolidated (In US \$ K)	58	57	0	0	0
Voluntary Attrition % (Annualized - IT Services)	27.7%	28.4%	5550.0%	5420.0%	5340.0%
Effort (IT Services and Consulting)	Q4FY22	Q1FY23	Q2FY23E	Q3FY23	Q4FY23
Onsite-Offshore Effort Split					
Onsite	24.0%	24.3%	24.4%	24.5%	24.6%
Offshore	76.0%	75.7%	75.6%	75.5%	75.4%
Utilization measures					
Including trainees	80.0%	77.6%	76.6%	77.1%	76.9%
Excluding trainees	87.0%	84.7%	83.6%	81.6%	80.0%
Revenues by client geography					
North America	61.4%	61.8%	62.5%	62.0%	61.0%
Europe	25.2%	25.0%	24.7%	25.8%	27.0%
ROW	10.2%	10.6%	9.9%	9.8%	9.4%
India	3.2%	2.6%	2.9%	2.4%	2.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Revenues by Business segments					
Financial Services	31.30%	30.60%	30.50%	29.30%	28.90%
Retail	14.30%	14.50%	14.20%	14.30%	14.80%
Communication	12.80%	13.00%	12.30%	12.30%	11.80%
Energy, Utilities, Resources and Services	12.00%	12.40%	12.30%	13.00%	12.90%
Manufacturing	11.80%	12.10%	12.80%	13.30%	13.50%
Hi Tech	8.20%	8.20%	8.20%	8.10%	8.00%
Life Sciences	6.60%	6.50%	6.70%	7.00%	7.20%
Others	3.00%	2.70%	3.00%	2.70%	2.90%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Client Data	Q4FY22	Q1FY23	Q2FY23E	Q3FY23	Q4FY23
Number of Clients					
Active	1741	1778	1779	1850	1872
Added during the period (gross)	110	106	103	134	115
Number of mn dollar clients*					
\$1 mn	853	877	895	912	922
\$10 mn	275	278	281	294	298
\$50 mn	64	69	77	79	75
\$100 mn	38	38	39	38	41
Client contribution to revenues					
Top 5 clients	11.80%	13.00%	12.60%	13.10%	13.00%
Top 10 clients	19.40%	20.80%	20.20%	20.50%	20.10%
Top 25 clients	35.40%	36.30%	35.30%	35.30%	34.70%
Days Sales Outstanding	67	63	65	68	62
Revenues (US\$ mn)	4,280	4,444	4,555	4,628	4,554

Source: Arianth Research, Company Filings

Key Financials

Profit & Loss Statement (Consolidated)				
Particulars (INR Cr)	FY22	FY23	FY24E	FY25E
Revenues (US\$ mn)	16,310	18,212	18,919	19,931
Growth (%)	20.3%	11.7%	3.9%	5.3%
Income	121,641.0	146,767	162,726	178,782
Growth (%)	21.1%	20.7%	10.9%	9.9%
Software development expenses	81,998.0	102,353	111,793	120,678
Gross Profit	39,643	44,414	50,933	58,104
Sales and development expenses	5,156.0	6,249	7,811	10,369
General and administrative expenses	6,472.0	7,260	7,648	8,403
EBITDA	28,015	30,905	35,474	39,332
EBITDA Margin (%)	23.03%	21.06%	21.80%	22.00%
EBIT	24,539	26,680	31,732	35,756
EBIT Margin (%)	20.2%	18.2%	19.5%	20.0%
Finance Cost (Lease expense)	200.0	284	210	215
Other Income	2,295.0	2,701	2,441	2,503
Provision for investment/ Shares profit / (Loss)				
PBT	30,110	33,322	37,705	41,620
Tax	7,964	9,214	10,369	11,445
PAT	22,146	24,108	27,336	30,174
Adjusted PAT	22,110	24,095	27,255	30,092
Growth (%)	14.3%	9.0%	13.1%	10.4%
Adjusted EPS	53	58	66	73

Balance Sheet (Consolidated)				
Particulars (INR Cr)	FY22	FY23	FY24E	FY25E
Shareholder's Funds				
Share Capital	2,098	2,069	2,071	2,071
Reserves & Surplus	73,638	73,726	92,775	114,554
Net Worth	75,736	75,795	94,846	116,625
Total Non Current Liabilities	8,546	10,835	9,645	9,901
Total Current Liabilities	33,603	39,186	43,574	43,108
Total Liabilities	117,885	125,816	148,066	169,634
Net Block	20,977	22,343	28,266	34,774
Capital Work-in-Progress	416	288	288	288
Total Non Current Assets	50,700	54,935	59,894	65,809
Cash and bank balance	17,472	12,173	26,411	39,403
Total Current Assets	67,185	70,881	88,172	103,825
Total Assets	117,885	125,816	148,066	169,634

Source: Arian Research, Company Filings

Key Financials

Cash Flow Statement (Consolidated)				
Particulars (INR Cr)	FY22	FY23	FY24E	FY25E
PAT	22,146	24,108	27,336	30,174
Add:- Depreciation & Others	3,476	4,225	3,743	3,576
Change in Working Capital	-1,424	-6,344	5,736	3,739
Cash generated from operations	31,497	31,261	38,391	38,947
Taxes paid	-7,612	-8,794	-10,369	-11,445
Cash flow from operating activities	23,885	22,467	28,022	27,502
Purchase of FA and Capex	-2,161	-2,579	-5,923	-6,508
Others	-4,255	1,370.00	1.75	- 35.12
Cash flow from investing activities	-6,416	-1,209	-5,921	-6,543
Other fin. Activities	0	0	0	0
Dividend paid, including div. tax	-12,652	-13,631	-7,978	-8,083
Cash flow from financing activities	-24,642	-26,695	-8,000	-8,105
Exchange Fluctuations	-69	138	138	138
Net Cash Flow	-7,173	-5,437	14,100	12,854
Opening Cash balance	24,714	17,472	12,173	26,411
Closing Cash balance	17,472	12,173	26,411	39,403

Key Ratios (Consolidated)				
Particulars	FY22	FY23	FY24E	FY25E
EPS (INR)	52.7	58.2	65.8	72.7
Book Value	180.5	183.2	229.0	281.6
DPS	17.5	17.5	17.5	17.5
Payout %	57%	57%	29%	27%
Dividend Yield %	1.3	1.3	1.3	1.3
P/E	26.4	23.9	21.1	19.1
EBITDA Margin (%)	23.0%	21.1%	21.8%	22.0%
EBIT Margin	20.2%	18.2%	19.5%	20.0%
PBT Margin	24.8%	22.7%	23.2%	23.3%
Adjusted PAT Margin	18.2%	16.4%	16.7%	16.8%
Debt/Equity	0.1	0.1	0.1	0.1
Current Ratio	2.0	1.8	2.0	2.4
ROE	29.2%	31.8%	28.7%	25.8%
ROCE	23.8%	24.6%	24.0%	23.2%

Source: Arian Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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