

CMP: INR 1,420

Rating: Accumulate

Target Price: INR 1,619

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)	6,34,993
52w H/L (INR)	1954 / 1367
Avg Yearly Vol (in 000')	6,640

Shareholding Pattern %

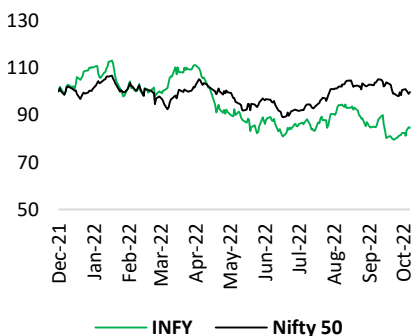
(As on June, 2022)

Promoters	13.11
FII	31.72
DII	18.87
Public & Others	36.30

Stock Performance (%)

	1m	3m	12m
INFY	4.6	-3.4	-5.1
Nifty	6.1	-1.6	5.1

INFY Vs Nifty



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Infosys (INFY) Lower end Revenue Guidance for FY23: Increased to 15-16% in CC terms and margin guidance maintained banner narrowed at 21-22%.The company indicated indicated strong demand environment and confirmed of Infosys gaining market share.

EBIT Margin movement positive improvement: EBIT margin was up bps 149QoQ/-201bpsYoY at 21.5% against our estimates of 21.4% helped by operational rigor. While supply side challenges are gradually abating as reflected in the reducing attrition rates, they continue to exert pressure on cost structure.

Top-line growth largely driven by Manufacturing segment: Constant currency (CC) revenue growth up 18.8% YoY & 4% QoQ. Dollar term Revenue growth +13.9% YoY/2.5% QoQ to \$4,555 mn against our estimate \$4,658 mn due to driven by deal ramp-ups. Reported revenue of INR 36,538 (up 6% QoQ/23.4% YoY) against our estimate of INR 37,299 Cr.The growth was broad-based led by strong revenue by business segment- In Manufacturing (45% YoY), Energy, Utilities, Resources & Services (+24.3% YoY), Communication (+18.4% YoY), Retail (15.4% YoY) and Financial services (11.5% YoY). Year on year growth was in double digits across all business segments in constant currency terms.

Robust TCV IN Q2FY23,pipeline remains healthy: Deal wins in Q2 for Infosys picked up from Q1. The company's large TCV deal wins stood at \$2.7 bn, compared with \$1.7 billion in Q1. The deal wins in Q2 were the highest in the last 7 quarters. Along with profitability, Infosys also saw attrition levels coming down in the quarter. The attrition rate dipped to 27.1% from 28.4% in Q1.

Valuations

The company has narrowed upwards the guidance for revenue growth to 15%-16% from 14%-16% for FY23 in cc terms led by decent growth in across the segment and a healthy deal pipeline. While, narrowed down its EBIT margin guidance range to 21-22% from 21-23% earlier. Concerns around the economic outlook persist, demand pipeline is strong as clients remain confident in the company's ability to deliver the value they seek, both on the growth and efficiency of their businesses, though management commentary remains optimistic. The company large deal pipeline (>\$50mn) at very healthy level, with good mix of IT transformation and Cost optimization projects, and management is confident in its ability to differentiate with automation programs and capability to handle clients' digital transformation and cost take-outs agenda. We value Infosys at a PE of 21x to its FY25E EPS of INR 77 and reduced the target price to INR 1,619 per share (earlier TP: INR 1,728 per share). We maintain our Accumulate rating on the stock.

Y/E March (INR. In Cr)	FY22	FY23E	FY24E	FY25E
Revenues (US\$ mn)	16,310	18,880	20,418	21,580
Net Revenue	1,21,641	1,40,129	1,58,595	1,74,702
EBIT	24,539	29,427	33,622	37,386
EBIT Margin(%)	20.2%	21.0%	21.2%	21.4%
Net Profit	22,110	25,855	28,972	31,933
EPS (INR)	52.7	61.7	70.0	77.1
P/E (x)	27.0	23.0	20.3	18.4
ROE	29.2%	28.3%	26.3%	24.2%

Source: Arihant Research, Company Filings,

Q2FY23 - Quarterly Performance (Consolidated)

INR Cr (Consolidated)	Q2FY23	Q1FY23	Q2FY22	Q-o-Q	Y-o-Y
Revenue (CC Terms) (Mn USD)	4,555	4,444	3,998	2.5%	13.9%
Net Revenue	36,538	34,470	29,602	6.0%	23.4%
Cost of Sales	25,412	24,369	19,806	4.3%	28.3%
Gross Profit	11,126	10,101	9,796	10.1%	13.6%
S&M and Admin. Expenses	3,253	3,187	2,824	2.1%	15.2%
EBIT	7,873	6,914	6,972	13.9%	12.9%
EBIT margin %	21.5%	20.1%	23.6%	149bps	-201bps
Other Income	518	620	476	-16.5%	8.8%
PBT	8,391	7,534	7,448	11.4%	12.7%
Tax Expense	2,365	2,172	2,020	8.9%	17.1%
Effective tax rate %	28.2%	28.8%	27.1%	-64bps	106bps
Reported PAT	6,026	5,362	5,428	12.4%	11.0%
MI & Associates	-5	-2	-7	150.0%	-28.6%
Consolidated PAT	6,021	5,360	5,421	12.3%	11.1%
Adj PAT Margin %	16.5%	15.5%	18.3%	6.0%	-10.0%
EPS (INR)	14.4	12.8	12.9	12.3%	11.7%

Source: Arianth Research, Company Filings

Q2FY23 Concall Highlights

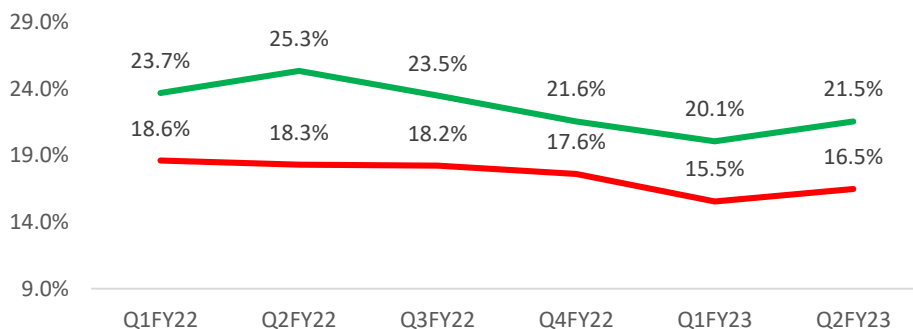
- **Buyback:** The company also said it will be buying back shares worth INR 9,300 crore, in order to reward its shareholders. The company has set the maximum buyback price at INR 1,850, a premium of 30% over the last closing price.
- **The company large deal pipeline (>\$50mn)** at very healthy level, with good mix of IT transformation and Cost optimisation projects.
- **Guidance:** The revenue growth guidance of 15-16% for FY23 takes into account deal booking, deal pipeline, seasonality of Q3 and Q4, and risks from global macro situation.
- **Margin:** The management expects the margin to be in lower range of 21-22% for FY23. The sequential improvement in margin in the quarter was led by INR depreciation, lower subcon cost and other optimisation efforts
- **Employee attrition(quarterly annualized)** has been decreasing for last 3 quarters and expected to continue declining over the coming quarters.
- **Geography:** The pipeline remains strong, though clients in the banking, financial, hi-tech and telecom segments are turning cautious on discretionary spending. Both Europe and the US, where recession concerns are growing, did well for Infosys in Q2.
- **Client:** 103 new clients added in Q2FY23; client count 1,779. Added 4 new clients in \$100 mn+ client category, YoY.
- **Utilization** including trainees at 76.6%; utilization excluding trainees at 83.6%.
- **Deal:** Strong large deal wins and steady all-around growth in Q2 reflect the deep relevance and differentiation of digital and cloud solutions for clients as they navigate their business transformation.
- **Client:** Concerns around the economic outlook persist, demand pipeline is strong as clients remain confident in the company's ability to deliver the value they seek, both on the growth and efficiency of their businesses.
- **The company's assessment of the situation in the US and Europe,** is that Infosys is watchful given the current environment.
- **Macro Environment:** The company is well prepared for evolving macro environment situations.
- **Cost optimization:** Sees strong focus on cost optimization programs in its deal pipeline. Pricing increase discussions with clients depend on the nature of deals/ COLA Clauses/clients specifics.
- **The company will get a sense of clients' IT spend budgets for 2023** in next few months.

Exhibit 1: Business Mix; Manufacturing & Life Sciences Led growth

Employee Metrics	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23E
Employees, period end						
Total Employees (Consolidated)	2,67,953	2,79,617	2,92,067	3,14,015	3,35,186	3,45,218
S/W professionals	2,53,493	2,64,918	2,76,942	2,97,859	3,18,447	3,28,146
Sales & Support	14,460	14,699	15,125	16,156	16,739	17,072
Women employees (%)	38.8%	38.8%	25.5%	39.6%	28.4%	27.10%
Revenue per Employee - Consolidated (In US \$ K)	57	57	58	58	57	39.30%
Voluntary Attrition % (Annualized - IT Services)	13.9%	20.1%	25.5%	27.7%	28.4%	55.5%
Effort (IT Services and Consulting)						
Onsite-Offshore Effort Split						
Onsite	24.1%	23.6%	23.8%	24.0%	24.3%	24.4%
Offshore	75.9%	76.4%	76.2%	76.0%	75.7%	75.6%
Utilization measures						
Including trainees	83.3%	84.1%	82.7%	80.0%	77.6%	76.6%
Excluding trainees	88.5%	89.2%	88.5%	87.0%	84.7%	83.6%
Revenues by client geography						
North America	61.7%	61.9%	61.8%	61.4%	61.8%	62.5%
Europe	24.2%	24.8%	24.9%	25.2%	25.0%	24.7%
ROW	11.2%	2.6%	10.3%	10.2%	10.6%	9.9%
India	2.9%	10.7%	3.0%	3.2%	2.6%	2.9%
Total	100.0%	100.0%	100.0%	100.0%	100%	100%
Revenues by Business segments						
Financial Services	33.0%	32.30%	31.50%	31.30%	30.60%	30.50%
Retail	15.0%	14.60%	14.50%	14.30%	14.50%	14.20%
Communication	12.2%	12.40%	12.50%	12.80%	13.00%	12.30%
Energy, Utilities, Resources and Services	12.1%	11.80%	11.70%	12.00%	12.40%	12.30%
Manufacturing	9.7%	10.90%	11.30%	11.80%	12.10%	12.80%
Hi Tech	8.3%	8.50%	8.10%	8.20%	8.20%	8.20%
Life Sciences	6.8%	7.10%	7.50%	6.60%	6.50%	6.70%
Others	2.9%	2.40%	2.90%	3.00%	2.70%	3.00%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Client Data						
Number of Clients						
Active	1659	1714	1738	1741	1778	1779
Added during the period (gross)	113	117	111	110	106	103
Number of mn dollar clients*						
\$1 mn	805	841	854	853	877	895
\$10 mn	264	270	274	275	278	281
\$50 mn	59	62	64	64	69	77
\$100 mn	34	35	37	38	38	39
Client contribution to revenues						
Top 5 clients	11.30%	11.40%	12.00%	11.80%	13.00%	12.60%
Top 10 clients	18.80%	19.40%	20.20%	19.40%	20.80%	20.20%
Top 25 clients	34.40%	35.40%	35.90%	35.40%	36.30%	35.30%
Days Sales Outstanding	70	66	71	67	63	65

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Exhibit 2: The sequential improvement in margin in the quarter was led by INR depreciation, lower subcon cost and other optimisation efforts



Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

— EBIT margin % — Adj PAT Margin %

Key Financials

Profit & Loss Statement (Consolidated)				
Particulars (INR Cr)	FY22	FY23E	FY24E	FY25E
Revenues (US\$ mn)	16,310	18,880	20,418	21,580
Growth (%)	20.3%	15.8%	8.1%	5.7%
Income	1,21,641.0	1,40,129	1,58,595	1,74,702
Growth (%)	21.1%	15.2%	13.2%	10.2%
Software development expenses	81,998.0	93,466	1,05,624	1,16,177
Gross Profit	39,643	46,663	52,971	58,525
Sales and development expenses	5,156.0	6,586	7,613	8,386
General and administrative expenses	6,472.0	6,726	7,454	8,211
EBITDA	28,015	33,351	37,904	41,928
EBITDA Margin (%)	23.03%	23.80%	23.90%	24.00%
EBIT	24,539	29,427	33,622	37,386
EBIT Margin (%)	20.2%	21.0%	21.2%	21.4%
Finance Cost (Lease expense)	200.0	205	210	215
Other Income	2,295.0	2,382	2,379	2,446
Provision for investment/ Shares profit / (Loss)				
PBT	30,110	35,528	40,073	44,159
Tax	7,964	9,593	11,020	12,144
PAT	22,146	25,935	29,053	32,015
Adjusted PAT	22,110	25,855	28,972	31,933
Growth (%)	14.3%	16.9%	12.1%	10.2%
Adjusted EPS	53	62	70	77

Balance Sheet (Consolidated)				
Particulars (INR Cr)	FY22	FY23E	FY24E	FY25E
Shareholder's Funds				
Share Capital	2,098	2,096	2,071	2,071
Reserves & Surplus	73,638	89,371	1,08,085	1,29,626
Net Worth	75,736	91,467	1,10,156	1,31,697
Total Non Current Liabilities	8,546	7,040	7,362	7,642
Total Current Liabilities	33,603	36,452	38,202	40,721
Total Liabilities	1,17,885	1,34,959	1,55,720	1,80,060
Net Block	20,977	26,078	31,851	38,210
Capital Work-in-Progress	416	416	416	416
Total Non Current Assets	50,700	54,593	59,741	65,853
Cash and bank balance	17,472	33,512	41,956	59,431
Total Current Assets	67,185	80,366	95,979	1,14,207
Total Assets	1,17,885	1,34,959	1,55,720	1,80,060

Source: Arian Research, Company Filings, Ace Equity, Bloomberg

Key Financials

Cash Flow Statement (Consolidated)				
Particulars (INR Cr)	FY22	FY23E	FY24E	FY25E
PAT	22,146	25,935	29,053	32,015
Add:- Depreciation & Others	3,476	3,924	4,282	4,542
Change in Working Capital	-1,424	9,061	388	8,121
Cash generated from operations	31,497	40,553	35,195	46,039
Taxes paid	-7,612	-9,593	-11,020	-12,144
Cash flow from operating activities	23,885	30,960	24,175	33,895
Purchase of FA and Capex	-2,161	-5,101	-5,773	-6,359
Others	-4,255	-	-	-
Cash flow from investing activities	-6,416	-5,101	-5,773	-6,359
Other fin. Activities	0	0	0	0
Dividend paid, including div. tax	-12,652	-9,673	-9,802	-9,931
Cash flow from financing activities	-24,642	-9,751	-9,889	-9,992
Exchange Fluctuations	-69	-69	-69	-69
Net Cash Flow	-7,173	16,109	8,513	17,544
Opening Cash balance	24,714	17,472	33,512	41,956
Closing Cash balance	17,472	33,512	41,956	59,431

Key Ratios (Consolidated)				
Particulars	FY22	FY23E	FY24E	FY25E
EPS (INR)	52.7	61.7	70.0	77.1
Book Value	180.5	218.2	266.0	318.0
DPS	21.5	21.5	21.5	21.5
Payout %	57%	37%	34%	31%
Dividend Yield %	1.5	1.5	1.5	1.5
P/E	27.0	23.0	20.3	18.4
EBITDA Margin (%)	23.0%	23.8%	23.9%	24.0%
EBIT Margin	20.2%	21.0%	21.2%	21.4%
PBT Margin	24.8%	25.4%	25.3%	25.3%
Adjusted PAT Margin	18.2%	18.5%	18.3%	18.3%
Debt/Equity	0.1	0.1	0.1	0.1
Current Ratio	2.0	2.2	2.5	2.8
ROE	29.2%	28.3%	26.3%	24.2%
ROCE	23.8%	24.7%	24.3%	23.3%

Source: Arian Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Absolute Return**Research Analyst
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