

CMP: INR 1,332

Rating: Reduce

Target Price: INR 1,222

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)	6,01,301
52w H/L (INR)	1673 / 1185
Avg Yearly Vol (in 000')	6,640

Shareholding Pattern %

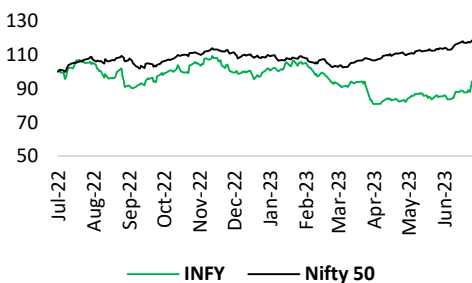
(As on June, 2023)

Promoters	15.14
FII	35.09
DII	33.59
Public & Others	16.1

Stock Performance (%)

	1m	3m	12m
INFY	11.04	17.93	-5.88
Nifty	5.95	13.34	20.32

INFY Vs Nifty



Overall Nos in line with our estimate but revenue guidance witnessed a surprise cut for FY24, the company revised revenue growth guidance to 1%-3.5% in constant currency vs 4%-7% earlier due to lower-than-expected volumes due to ramp downs in discretionary spending coupled with lower mega deal volumes arising from delayed signings and longer ramp-up time due to regulatory approvals and transitions. Maintained Operating margin of 20%-22% led by cost optimization. Reported revenue of INR 37,933 Cr (+1.3% QoQ/+10% YoY) against our estimate of INR 37,527 Cr. Consolidated PAT stood at INR 5,939 Cr, up by 10.8% YoY/-3.1% QoQ against our estimate of INR 6,106 Cr. Vertical and geo performance: Financial (down 1.4% USD QoQ), retail (-0.7%), communication (+0.5%), ENU (+1.4%) and manufacturing (+5.9%). Americas (+1.1%) and Europe (+0.6%). EBIT margin was down bps 24QoQ/+74bps YoY at 20.8% against our estimates of 21.03%. The company continued the recent trend, attrition declined by 360bps QoQ. Headcount declined by 2.0% QoQ; Utilization ex trainee improved by 110 bps QoQ to 81.1%.

Delays in Deal Signings and Start Dates led to cut in revenue guidance: Mega deals experienced delays in decision-making, impacting closures and start dates. However, the company's win rate remained unaffected, showing strong performance in Q1FY24. Positive traction was observed, with a focus on enhanced cost efficiency and win rate optimization.

Traction in mega deal despite macroeconomic concerns: The company's pipeline looks promising as it exits the year, with strong large deals and a continued presence of mega deals and 80 generative AI projects. Clients have responded positively to their AI and generative AI platform. Internal development features open-source generative AI tools for various applications. In Q1FY24, Large deal TCW was at \$2.3 bn, with net new of 56.1%.

Valuations

Infosys posted lackluster results for the quarter, with lower revenue and margins. Certain sectors were affected by extended decision cycles and budget reductions. However, the company's infrastructure, cloud, and OEM services have promising deal pipelines, indicating a positive growth outlook. Despite the setback of the guidance cut, the long-term demand for IT services remains strong, and once the macro environment stabilizes, there is potential for a significant bounce-back for IT services companies like Infosys. The medium-term outlook is concerning due to microeconomic concerns, extended decision cycles, and changes in management. **We value Infosys at a PE of 17x its FY26E EPS of INR ~72 with the target price of INR 1,222 per share (earlier TP in INR 1,453 per share). We are downgrading our rating to Reduce from "Neutral earlier."**

Exhibit 1: Financial Snapshot

Y/E March (INR. In Cr)	FY23	FY24E	FY25E	FY26E
Revenues (US\$ mn)	18,212	18,746	19,441	20,293
Net Revenue	146,767	153,320	163,577	176,964
EBIT	26,680	29,437	32,225	35,393
EBIT Margin(%)	18.2%	19.2%	19.7%	20.0%
Net Profit	24,095	25,333	27,157	29,782
EPS (INR)	58.2	61.2	65.6	71.9
P/E (x)	24.5	21.8	20.3	18.5
ROE	31.8%	27.3%	24.3%	22.4%

Source: Arihant Research, Company Filings,

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Exhibit 2: Q1FY24 - Quarterly Performance (Consolidated)

INR Cr (Consolidated)	Q1FY24	Q4FY23	Q1FY23	Q-o-Q	Y-o-Y
Revenue (CC Terms) (Mn USD)	4,617	4,554	4,444	1.4%	3.9%
Net Revenue	37,933	37,441	34,470	1.3%	10.0%
Cost of Sales	26,382	26,011	24,369	1.4%	8.3%
Gross Profit	11,551	11,430	10,101	1.1%	14.4%
S&M and Admin. Expenses	3,660	3,553	3,187	3.0%	14.8%
EBIT	7,891	7,877	6,914	0.2%	14.1%
EBIT margin %	20.8%	21.0%	20.1%	-24bps	74bps
Other Income	471	589	620	-20.0%	-24.0%
PBT	8,362	8,466	7,534	-1.2%	11.0%
Tax Expense	2,417	2,332	2,172	3.6%	11.3%
Effective tax rate %	28.9%	27.5%	28.8%	136bps	8bps
Reported PAT	5,945	6,134	5,362	-3.1%	10.9%
MI & Associates	-6	-6	-2		
Consolidated PAT	5,939	6,128	5,360	-3.1%	10.8%
Adj PAT Margin %	15.7%	16.4%	15.5%	-4.3%	0.7%
EPS (INR)	14.4	14.8	12.8	-2.7%	12.4%

Source: Arianth Research, Company Filings

Q1FY24 Concall Highlights

- **Delayed decision-making**, Affects recent deal wins, but a strong pipeline will drive future growth. Retail clients prioritize cost efficiency, AI-driven digital transformation for better customer and employee experiences, predictive analytics, and real-time insights.

- **Deal wins**: The company's pipeline looks promising as it exits the year, with strong large deals and a continued presence of mega deals.

- **Margin**: In Q1 was 20.8%, 20bps lower QoQ. This was primarily due to a 70bps of benefit from cost optimization, including utilization, automation, which was offset by a balanced 90 bps impact from employee-related costs, including higher variable pay promotions.

The company has launched a comprehensive margin expansion program focusing on pyramid efficiency, automation, generative AI, cost reduction, and portfolio value communication. The company has an ambition to improve operating margin in the future periods.

- **Generative AI platform**: AI is gaining traction with clients, boasting 80 ongoing projects in various applications and the training of 40k employees, with confidence in its potential for transformative productivity improvements.

- **BFS**: In the Financial Services sector, certain clients are expected to slow down or halt their involvement in transformation programs and discretionary projects, affecting mortgages, asset management, investment banking, and payments in the Telecom industry.

- **Hi-tech Industry** : There may also be impacts in the high-tech industry and parts of retail, despite recent wins of two mega deals and a robust pipeline of large and mega deals, with revenue from these deals expected later in the FY.

- **Client metrics**: Remained strong with a number of 50 mn clients increasing to \$79 mn and \$200 mn clients at 15. Reflecting a strong ability to top clients by providing them multiple pay a multiple relevant services.

- **Utilization** excluding trainees improved to 81.1%, which has further headroom for growth.

- **Geography**: Good traction in multiple geography in Europe, Germany, UK. Macro environment factored in Europe.

- **Large deal**: Signed 16 large deals in Q1. PCV was \$2.3 bn with 56% net new. 3 deals each were in Financial Services, Utilities, Resources & Services, and communication 4 in Retail 2 in manufacturing, one in the life sciences vertical. Region-wise split by 11 in America 4 in Europe and one in ROW.

- Large banking clients prioritize vendor consolidation, cost takeout, and self-funding transformation programs, while financial institutions explore outsourcing non-core business with employee transitions.

Exhibit 3: Surprise cut for FY24, the company revised revenue growth guidance to 1%-3.5% in constant currency vs 4%-7%

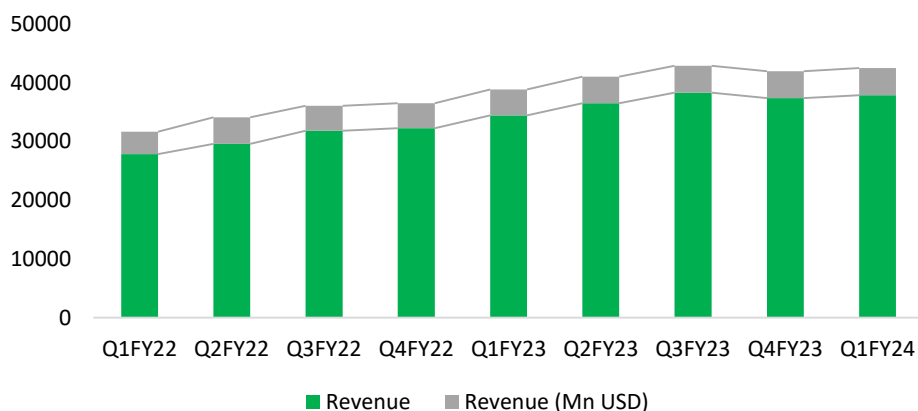


Exhibit :5 Maintained Operating margin of 20%-22% led by cost optimization

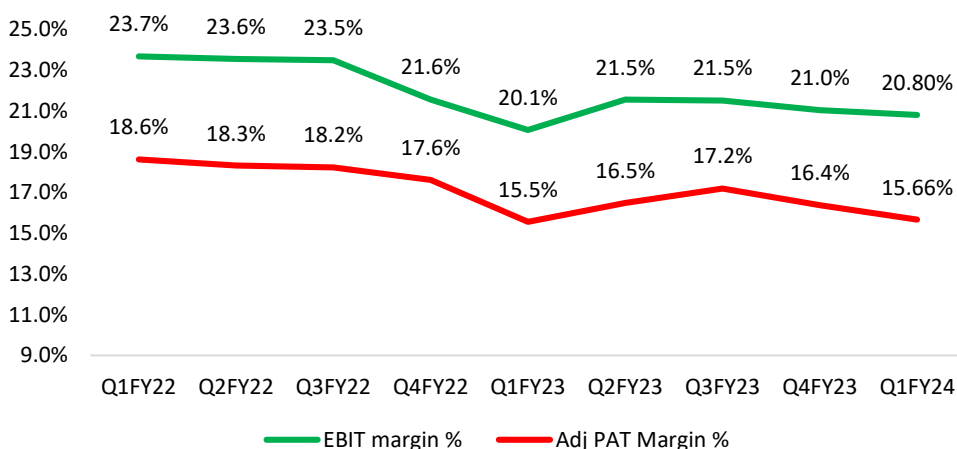


Exhibit 6: Business Mix; Steady performance across the segment

Onsite-Offshore Effort Split	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Onsite	24.3%	24.4%	24.5%	24.6%	24.7%
Offshore	75.7%	75.6%	75.5%	75.4%	75.3%
Utilization measures					
Including trainees	77.6%	76.6%	77.1%	76.9%	78.9%
Excluding trainees	84.7%	83.6%	81.6%	80.0%	81.1%
Revenues by client geography					
North America	61.8%	62.5%	62.0%	61.0%	60.8%
Europe	25.0%	24.7%	25.8%	27.0%	26.8%
ROW	10.6%	9.9%	9.8%	9.4%	9.7%
India	2.6%	2.9%	2.4%	2.6%	2.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Revenues by Business segments					
Financial Services	30.60%	30.50%	29.30%	28.90%	28.10%
Retail	14.50%	14.20%	14.30%	14.80%	14.50%
Communication	13.00%	12.30%	12.30%	11.80%	11.70%
Energy, Utilities, Resources and Servcies	12.40%	12.30%	13.00%	12.90%	12.90%
Manufacturing	12.10%	12.80%	13.30%	13.50%	14.10%
Hi Tech	8.20%	8.20%	8.10%	8.00%	8.10%
Life Sciences	6.50%	6.70%	7.00%	7.20%	7.20%
Others	2.70%	3.00%	2.70%	2.90%	3.40%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Arianth Research, Company Filings

Key Financials

Profit & Loss Statement (Consolidated)

Particulars (INR Cr)	FY23	FY24E	FY25E	FY26E
Revenues (US\$ mn)	18,212	18,746	19,441	20,293
Growth (%)	11.7%	2.9%	3.7%	4.4%
Income	146,767	153,320	163,577	176,964
Growth (%)	20.7%	4.5%	6.7%	8.2%
Software development expenses	102,353	105,790	110,905	119,451
Gross Profit	44,414	47,529	52,672	57,513
Sales and development expenses	6,249	7,359	9,487	10,264
General and administrative expenses	7,260	7,206	7,688	8,317
EBITDA	30,905	32,964	35,496	38,932
EBITDA Margin (%)	21.06%	21.50%	21.70%	22.00%
EBIT	26,680	29,437	32,225	35,393
EBIT Margin (%)	18.2%	19.2%	19.7%	20.0%
Finance Cost (Lease expense)	284	210	215	216
Other Income	2,701	2,300	2,290	2,477
Provision for investment/ Shares profit / (Loss)				
PBT	33,322	35,053	37,571	41,194
Tax	9,214	9,640	10,332	11,328
PAT	24,108	25,414	27,239	29,865
Adjusted PAT	24,095	25,333	27,157	29,782
Growth (%)	9.0%	5.1%	7.2%	9.7%
Adjusted EPS	58	61	66	72

Balance Sheet (Consolidated)

Particulars (INR Cr)	FY23	FY24E	FY25E	FY26E
Shareholder's Funds				
Share Capital	2,069	2,071	2,071	2,071
Reserves & Surplus	73,726	90,853	109,696	131,056
Net Worth	75,795	92,924	111,767	133,127
Total Non Current Liabilities	10,835	9,496	9,659	9,872
Total Current Liabilities	39,186	42,117	41,354	45,120
Total Liabilities	125,816	144,536	162,780	188,119
Net Block	22,343	27,924	33,878	40,320
Capital Work-in-Progress	288	288	288	288
Total Non Current Assets	54,935	60,039	65,467	71,408
Cash and bank balance	12,173	24,595	35,906	50,638
Total Current Assets	70,881	84,498	97,313	116,711
Total Assets	125,816	144,536	162,780	188,119

Source: Arianth Research, Company Filings

Key Financials

Cash Flow Statement (Consolidated)

Particulars (INR Cr)	FY23	FY24E	FY25E	FY26E
PAT	24,108	25,414	27,239	29,865
Add:- Depreciation & Others	4,225	3,526	3,272	3,539
Change in Working Capital	-6,344	4,909	3,459	5,862
Cash generated from operations	31,261	35,510	35,544	40,739
Taxes paid	-8,794	-9,640	-10,332	-11,328
Cash flow from operating activities	22,467	25,870	25,212	29,411
Purchase of FA and Capex	-2,579	-5,581	-5,954	-6,441
Others	1,370.00	1.75	- 35.12	- 35.12
Cash flow from investing activities	-1,209	-5,579	-5,989	-6,477
Other fin. Activities	0	0	0	0
Dividend paid, including div. tax	-13,631	-7,978	-8,083	-8,188
Cash flow from financing activities	-26,695	-8,007	-8,049	-8,341
Exchange Fluctuations	138	138	138	138
Net Cash Flow	-5,437	12,284	11,174	14,593
Opening Cash balance	17,472	12,173	24,595	35,906
Closing Cash balance	12,173	24,595	35,906	50,638

Key Ratios (Consolidated)

Particulars	FY23	FY24E	FY25E	FY26E
EPS (INR)	58.2	61.2	65.6	71.9
Book Value	183.2	224.4	269.9	321.4
DPS	17.5	17.5	17.5	17.5
Payout %	57%	31%	30%	27%
Dividend Yield %	1.2	1.3	1.3	1.3
P/E	24.5	21.8	20.3	18.5
EBITDA Margin (%)	21.1%	21.5%	21.7%	22.0%
EBIT Margin	18.2%	19.2%	19.7%	20.0%
PBT Margin	22.7%	22.9%	23.0%	23.3%
Adjusted PAT Margin	16.4%	16.5%	16.6%	16.8%
Debt/Equity	0.1	0.1	0.1	0.1
Current Ratio	1.8	2.0	2.4	2.6
ROE	31.8%	27.3%	24.3%	22.4%
ROCE	24.6%	22.8%	21.8%	20.7%

Source: Arianth 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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