

CMP: INR 1,466

Rating: Reduce

Target Price: INR 1,351

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)	6,07,844
52w H/L (INR)	1673 / 1216
Avg Yearly Vol (in 000')	6,414

Shareholding Pattern %

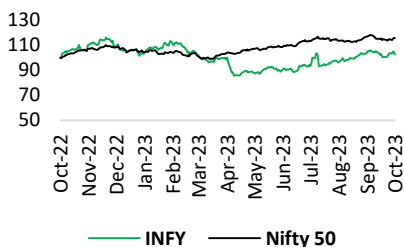
(As on June, 2023)

Promoters	15.14
FII	35.09
DII	33.59
Public & Others	16.1

Stock Performance (%)

	1m	3m	12m
INFY	-2.37	9.9	2.5
Nifty	5.9	13.3	20.3

INFY Vs Nifty



Infosys (INFY) Overall numbers are above our estimate but revenue guidance witnessed a cut for FY24, the company trims FY24 revenue growth guidance to 1%-2.5% From 1%-3.5% in constant currency 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. Constant currency (CC) revenue growth is up 2.5% YoY/2.3% QoQ. Dollar-term Revenue growth +3.6% YoY/2.2% QoQ to \$4,718 mn against our estimate of \$4,655 mn. Reported revenue of INR 38,994 Cr (+2.8% QoQ/+6.7% YoY) against our estimate of INR 38,492 Cr. Vertical and geo performance: Financial (down 7.3% CC YoY in cc), retail (9.2%), communication (-4.3% YoY in cc), ENU (+5.1% YoY in cc) and manufacturing (+12% YoY in cc). Americas (+1% in cc) and Europe (+5.4% YoY in cc). EBIT margin was up 42bps QoQ/down by 33bps YoY at 21.2% against our estimates of 20.95%. The company continued the recent trend, attrition declined by 270bps QoQ. Headcount declined by 2.2% QoQ; Utilization ex trainee improved by 70 bps QoQ to 81.8%. DSO days increased by 4 days QoQ. Consolidated PAT stood at INR 6,212 Cr, up by 3.2% YoY/4.6% QoQ against our estimate of INR 6,183 Cr. Large deal TCV for the quarter was at \$7.7 bn spread across all verticals and geographies.

Cautiously Optimistic: Cloud's Impact on Medium-Term Outlook: Q2 growth faced challenges with reduced spending from key clients, offset by gains from cost optimization and vendor consolidation. Despite near-term uncertainties like communication sector issues, inflation risks, and interest rates, the company maintains cautious optimism for the medium-term due to the cloud's growing importance for real-time insights. Delays in decision-making persist, but strong large deal signings and partnerships with Liberty Global support future growth. Clients are conservatively managing discretionary spending, and the energy sector remains cautious with a focus on cost reduction and ROI.

Valuations

Infosys delivered strong quarterly results. However, decreased spending from key clients and uncertainties in sectors like communication, alongside concerns regarding inflation and interest rates, led to a revision in Infosys's revenue guidance for FY24E, adjusting it from 1-3.5% to 1%-2.5%. Additionally, clients are adopting a cautious stance on discretionary spending, and the energy sector remains vigilant. As a result, growth estimates for FY24E and FY25E have been reduced by 1.2% and 1.6%, respectively. In USD terms, anticipated growth of 2.4% is expected for FY26E, with a projected margin of 21.3%/21.5%/21.6% for FY24E/FY25E/FY26E. **We value Infosys at a PE of 20x its FY26E EPS of INR 67.6 with the target price of INR 1,351 per share (earlier TP in INR 1,222 per share). We maintain our Reduce rating on the stock.**

Exhibit 1: Financial (Consolidated)

Y/E March (INR. In Cr)	FY23	FY24E	FY25E	FY26E
Revenues (US\$ mn)	18,181	18,493	18,873	19,318
Net Revenue	146,767	152,413	160,419	169,268
EBIT	30,905	32,464	34,490	36,562
EBIT Margin (%)	21.1%	21.3%	21.5%	21.6%
Net Profit	24,095	24,950	26,396	27,986
EPS (INR)	58.2	60.2	63.7	67.6
P/E (x)	23.9	23.1	21.8	21.7
ROE	31.8%	27.0%	23.9%	21.5%

Source: Arihant Research, Company Filings

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Exhibit 2: Q2FY24 - Quarterly Performance (Consolidated)

INR Cr (Consolidated)	Q2FY24	Q1FY24	Q2FY23	Q-o-Q	Y-o-Y
Revenue (Mn USD)	4,718	4,617	4,555	2.2%	3.6%
Net Revenue	38,994	37,933	36,538	2.8%	6.7%
Cost of Sales	27,031	26,382	25,412	2.5%	6.4%
Gross Profit	11,963	11,551	11,126	3.6%	7.5%
S&M and Admin. Expenses	3,689	3,660	3,253	0.8%	13.4%
EBIT	8,274	7,891	7,873	4.9%	5.1%
EBIT margin %	21.2%	20.8%	21.5%	42bps	-33bps
Other Income	494	471	518	4.9%	-4.6%
PBT	8,768	8,362	8,391	4.9%	4.5%
Tax Expense	2,553	2,417	2,365	5.6%	7.9%
Effective tax rate %	29.1%	28.9%	28.2%	21bps	93bps
Reported PAT	6,215	5,945	6,026	4.5%	3.1%
MI & Associates	-3	-6	-5		
Consolidated PAT	6,212	5,939	6,021	4.6%	3.2%
Adj PAT Margin %	15.9%	15.7%	16.5%	1.8%	-3.3%
EPS (INR)	15.0	14.4	14.3	4.5%	4.7%

Source: Arianth Research, Company Filings

Q2FY24 Concall Highlights

The BFSI sector experienced pressure in the last quarter as clients remained cautious about their investments, leading to significant impacts on Asset Management, Payment Cards, and Mortgage Business. Similarly, the Hitech and Communication sectors also faced pressure, mainly because of reduced discretionary spending.

The conversion cycle for deals has extended due to client decision-making delays, and volume growth has been hindered by reduced discretionary spending.

- In Q2FY24, four major deals were signed, but their execution ramp-up is expected to begin either by the end of FY24 or in FY25.
- **Margin:** There was an improvement in margins, attributed to a 50 basis point increase due to enhanced utilization, a 30 basis point boost from one-time revenues, and a 10 basis point benefit from currency tailwinds. However, these gains were offset by a 40 basis point decrease caused by higher operating costs.
- **Wage hike:** The company is rolling out FY24 compensation hikes for employees effective November 1st. It's worth noting that margins may be affected in Q3FY24 due to upcoming wage hikes starting in November.
- **Utilization:** The company's focus on improving operating efficiencies has resulted in an improvement of utilization excluding trainees from 81.1% to 81.8%, which they believe has room for further optimization. LTM attrition for Q2 reduced further to 14.6% while quarterly annualized attrition was flattish sequentially.
- Furthermore, 17 Large Deals were signed during the quarter, with 6 in the Retail sector, 5 in Manufacturing, 4 in Telecom, 2 in Life Science, and 4 in BFSI.
- **Deal wins:** Q2 was the large-deal TCv of \$7.7 bn, of which a sizable 48% was net new. Consequently, H1 large-deal TCv is at \$10 billion, which has already exceeded the total large-deal signing for FY23. The company has launched Project Maximus, which is a margin improvement plan across five pillars and over 20 tracks. This program has been well-received across the organization, and they have been able to identify several new opportunities across the pillars. The company has also seen some early benefits in some areas like utilization and optimization of overheads.
- Approximately 57,000 employees have undergone Gen AI training, and Infosys's Gen AI product, Topaz, is being utilized by over 90 proprietary parties with a focus on the Narrow Transformer Approach.

Exhibit 3: FY24, topline guidance cut imply tough in Q3

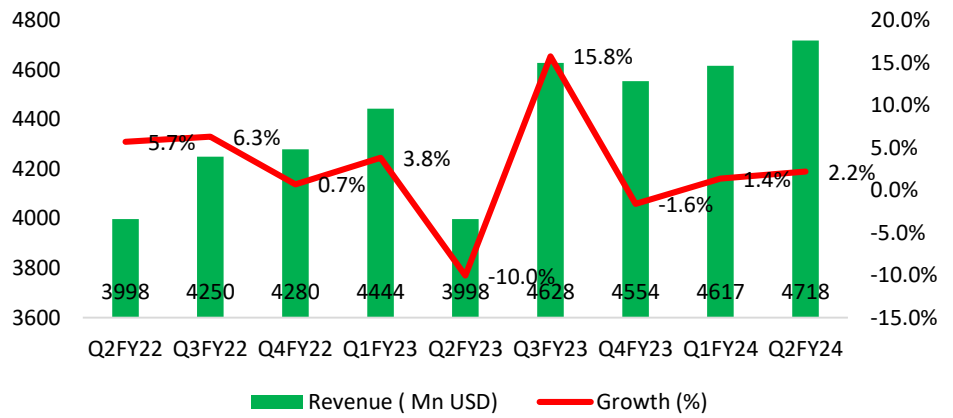


Exhibit 4: Top line beat during Q2FY24

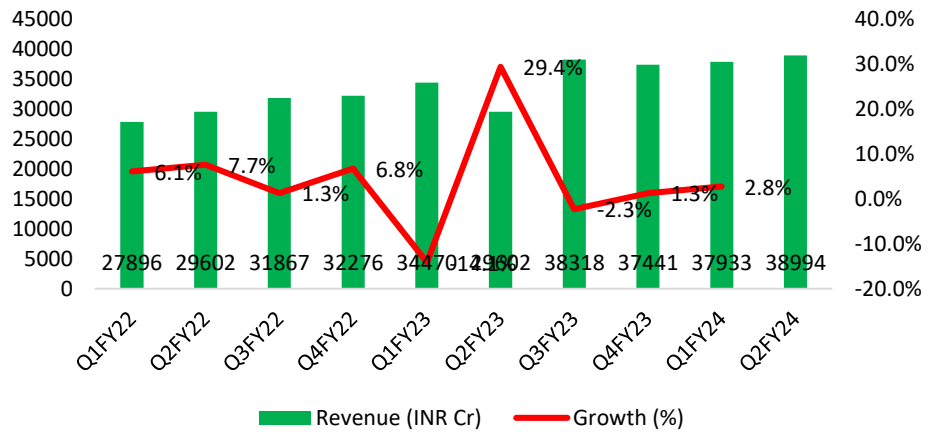
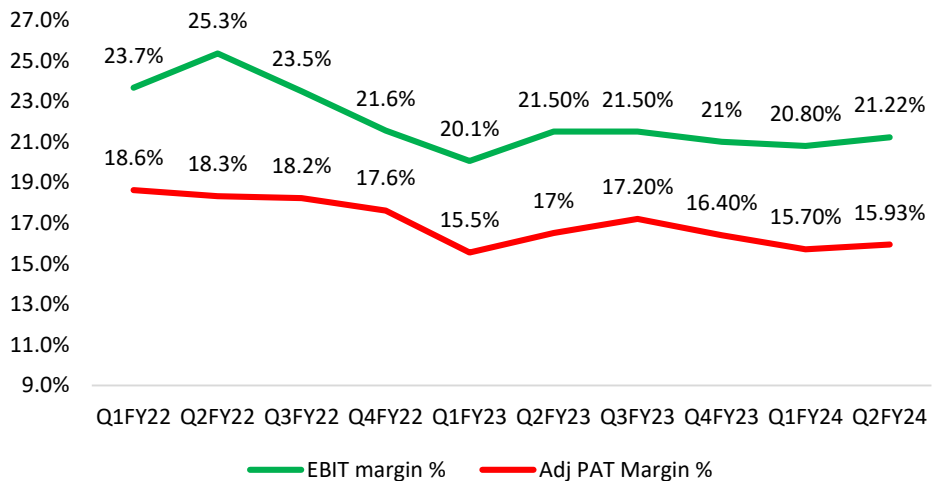


Exhibit :5 Maintained Operating margin of 20%-22% led by cost optimization



Source: Arianth Research, Company Filings

Exhibit 6: Better performance across the segment

Employee Metrics	Q1FY23	Q2FY23E	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Employees, period end						
Total Employees (Consolidated)	3,35,186	345,218	346,845	343,234	336,294	328,764
S/W professionals	3,18,447	328,146	329,296	324,816	317,611	310,375
Sales & Support	16,739	17,072	17,549	18,418	18,683	18,389
Women employees (%)	28.4%	27.1%	24.3%	20.9%	39.5%	39.40%
Revenue per Employee - Consolidated (In US \$ K)	57	0	0	0	-	
Voluntary Attrition % (Annualized - IT Services)	28.4%	5550.0%	5420.0%	5340.0%	17.3%	14.60%
Effort (IT Services and Consulting)	Q1FY23	Q2FY23E	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Onsite-Offshore Effort Split						
Onsite	24.3%	24.4%	24.5%	24.6%	24.7%	24.6%
Offshore	75.7%	75.6%	75.5%	75.4%	75.3%	75.4%
Utilization measures						
Including trainees	77.6%	76.6%	77.1%	76.9%	78.9%	80.4%
Excluding trainees	84.7%	83.6%	81.6%	80.0%	81.1%	81.8%
Revenues by client geography	Q1FY23	Q2FY23E	Q3FY23	Q4FY23	Q1FY24	Q2FY24
North America	61.8%	62.5%	62.0%	61.0%	60.8%	61.1%
Europe	25.0%	24.7%	25.8%	27.0%	26.8%	26.5%
ROW	10.6%	9.9%	9.8%	9.4%	9.7%	9.6%
India	2.6%	2.9%	2.4%	2.6%	2.7%	2.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Revenues by Business segments	Q1FY23	Q2FY23E	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Financial Services	30.60%	30.50%	29.30%	28.90%	28.10%	27.50%
Retail	14.50%	14.20%	14.30%	14.80%	14.50%	15.20%
Communication	13.00%	12.30%	12.30%	11.80%	11.70%	11.40%
Energy, Utilities, Resources and Services	12.40%	12.30%	13.00%	12.90%	12.90%	12.70%
Manufacturing	12.10%	12.80%	13.30%	13.50%	14.10%	14.30%
Hi Tech	8.20%	8.20%	8.10%	8.00%	8.10%	7.80%
Life Sciences	6.50%	6.70%	7.00%	7.20%	7.20%	7.80%
Others	2.70%	3.00%	2.70%	2.90%	3.40%	3.30%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Client Data	Q1FY23	Q2FY23E	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Number of Clients						
Active	1778	1779	1850	1872	1883	1884
Added during the period (gross)	106	103	134	115	99	100
Number of mn dollar clients*						
\$1 mn	877	895	912	922	940	951
\$10 mn	278	281	294	298	312	312
\$50 mn	69	77	79	75	79	80
\$100 mn	38	39	38	41	38	39
Client contribution to revenues						
Top 5 clients	13.00%	12.60%	13.10%	13.00%	13.40%	13.30%
Top 10 clients	20.80%	20.20%	20.50%	20.10%	20.40%	19.90%
Top 25 clients	36.30%	35.30%	35.30%	34.70%	34.60%	34.10%
Days Sales Outstanding	63	65	68	62	63	67
Revenues (US\$ mn)	4,444	4,555	4,628	4,554	4,617	4,718
Avg USD-INR rate	75.15	82.00	82.00	82.00	84.00	82.50

Source: Arianth Research, Company Filings

Key Financials

Profit & Loss Statement (Consolidated)

Particulars (INR Cr)	FY23	FY24E	FY25E	FY26E
Revenues (US\$ mn)	18,181	18,493	18,873	19,318
Growth (%)	11.5%	1.7%	2.1%	2.4%
Income	146,767	152,413	160,419	169,268
Growth (%)	20.7%	3.8%	5.3%	5.5%
Software development expenses	102,353	104,708	108,283	114,256
Gross Profit	44,414	47,705	52,136	55,012
Sales and development expenses	6,249	7,316	9,304	9,818
General and administrative expenses	7,260	7,925	8,342	8,633
EBIT	30,905	32,464	34,490	36,562
EBIT Margin (%)	21.06%	21.30%	21.50%	21.60%
Finance Cost (Lease expense)	284	210	215	216
Other Income	2,701	2,271	2,246	2,370
Provision for investment/ Shares profit / (Loss)				
PBT	33,322	34,525	36,521	38,716
Tax	9,214	9,494	10,043	10,647
PAT	24,108	25,031	26,478	28,069
Adjusted PAT	24,095	24,950	26,396	27,986
Growth (%)	9.0%	3.5%	5.8%	6.0%
Adjusted EPS	58.2	60.2	63.7	67.6

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	90,470	108,551	128,115
Net Worth	75,795	92,540	110,622	130,186
Total Non Current Liabilities	10,835	9,481	9,609	9,749
Total Current Liabilities	39,186	41,977	40,923	44,066
Total Liabilities	125,816	143,999	161,154	184,001
Net Block	22,343	27,891	33,730	39,891
Capital Work-in-Progress	288	288	288	288
Total Non Current Assets	54,935	60,059	65,467	71,245
Cash and bank balance	12,173	24,261	34,925	48,382
Total Current Assets	70,881	83,940	95,687	112,757
Total Assets	125,816	143,999	161,154	184,001

Source: Arianth Research, Company Filings

Key Financials

Cash Flow Statement (Consolidated)

Particulars (INR Cr)	FY23	FY24E	FY25E	FY26E
PAT	24,108	25,031	26,478	28,069
Add:- Depreciation & Others	4,225	3,506	3,208	3,385
Change in Working Capital	-6,344	4,786	3,262	5,386
Cash generated from operations	31,261	34,990	34,549	38,370
Taxes paid	-8,794	-9,494	-10,043	-10,647
Cash flow from operating activities	22,467	25,496	24,506	27,723
Purchase of FA and Capex	-2,579	-5,548	-5,839	-6,161
Others	1,370.00	1.75	- 35.12	- 33.12
Cash flow from investing activities	-1,209	-5,546	-5,874	-6,194
Other fin. Activities	-	-	-	-
Dividend paid, including div. tax	-13,631	-7,978	-8,083	-8,188
Cash flow from financing activities	-26,695	-8,000	-8,105	-8,210
Exchange Fluctuations	138	138	138	138
Net Cash Flow	-5,437	11,950	10,526	13,319
Opening Cash balance	17,472	12,173	24,261	34,925
Closing Cash balance	12,173	24,261	34,925	48,382

Key Ratios (Consolidated)

Particulars	FY23	FY24E	FY25E	FY26E
EPS (INR)	58.2	60.2	63.7	67.6
Book Value	183.2	223.4	267.1	314.3
DPS	17.5	17.5	17.5	17.5
Payout %	57%	32%	31%	29%
Dividend Yield %	1.3	1.3	1.3	1.2
P/E	23.9	23.1	21.8	21.7
EBITDA Margin (%)	21.1%	21.3%	21.5%	21.6%
EBIT Margin	18.2%	19.0%	19.5%	19.6%
PBT Margin	22.7%	22.7%	22.8%	22.9%
Adjusted PAT Margin	16.4%	16.4%	16.5%	16.5%
Debt/Equity	0.1	0.1	0.1	0.1
Current Ratio	1.8	2.0	2.3	2.6
ROE	31.8%	27.0%	23.9%	21.5%
ROCE	24.6%	22.5%	21.4%	19.9%

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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