



## 3R MATRIX

|                      | +          | =         | -          |
|----------------------|------------|-----------|------------|
| Right Sector (RS)    | ✓          | ✗         | ✗          |
| Right Quality (RQ)   | ✓          | ✗         | ✗          |
| Right Valuation (RV) | ✓          | ✓         | ✗          |
|                      | + Positive | = Neutral | - Negative |

## What has changed in 3R MATRIX

|    | Old |   | New |
|----|-----|---|-----|
| RS | ✓   | ↔ | ✓   |
| RQ | ✓   | ↔ | ✓   |
| RV | ✗   | ↔ | ✗   |

## ESG Disclosure Score

NEW

## ESG RISK RATING

Updated Feb 08, 2022

15.39

## Low Risk

| NEGL | LOW   | MED   | HIGH  | SEVERE |
|------|-------|-------|-------|--------|
| 0-10 | 10-20 | 20-30 | 30-40 | 40+    |

Source: Morningstar

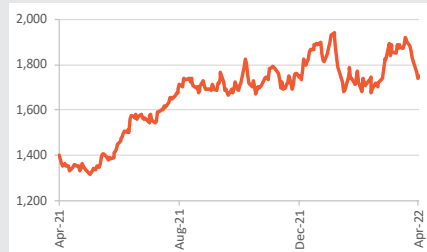
## Company details

|                               |                   |
|-------------------------------|-------------------|
| Market cap:                   | Rs. 7,35,611 cr   |
| 52-week high/low:             | Rs. 1,953 / 1,311 |
| NSE volume:<br>(No of shares) | 63.7 lakh         |
| BSE code:                     | 500209            |
| NSE code:                     | INFY              |
| Free float:<br>(No of shares) | 365.4 cr          |

## Shareholding (%)

|           |      |
|-----------|------|
| Promoters | 13.1 |
| FII       | 33.9 |
| DII       | 17.2 |
| Others    | 35.8 |

## Price chart



## Price performance

| (%)                | 1m    | 3m   | 6m  | 12m  |
|--------------------|-------|------|-----|------|
| Absolute           | -7.5  | -6.9 | 3.8 | 25.0 |
| Relative to Sensex | -10.8 | -2.3 | 7.0 | 4.9  |

Sharekhan Research, Bloomberg

## Infosys Ltd

## Weak Q4, strong growth outlook intact

## IT &amp; ITES

## Sharekhan code: INFY

Reco/View: Buy



CMP: Rs. 1,749

Price Target: Rs. 2,150



Upgrade



Maintain



Downgrade

## Summary

- Q4FY22 headline numbers missed our estimates. However, demand trends stay strong as Infosys' hiring of freshers is robust, client metrics are improving, deal wins stay steady along with a strong deal pipeline, market share gains and traction for digital offerings.
- Infosys guided for better-than-expected revenue growth of 13-15% in constant currency terms, implying a revenue CQGR of 2.7-3.4% for the quarters of FY2023E. However, margin guidance remained 100bps below our expectations at 21-23%.
- Infosys is well-equipped to deliver industry-leading organic growth among large peers in the medium term, given its strong digital capabilities to participate in clients' digital transformation journeys and execute core modernisation works.
- We maintain a Buy on Infosys with a revised PT of Rs. 2,150, given strong revenue growth potential, upfront investments in capabilities and broad-based demand.

Headline Q4FY22 numbers came in weak for Infosys owing to seasonality. However, demand trends stay strong as Infosys' hiring of freshers is robust, client metrics are improving, deal wins stay steady along with a strong deal pipeline and rapid spends on cloud and digital transformation programs. The company disappointed with a muted constant currency (CC) revenue growth of 1.2% q-o-q, after clocking excellent revenue growth for the last three quarters. Reported US Dollar revenues grew by 0.7% q-o-q to \$4,280 million, below our expectations. EBIT margin contracted by 193 bps q-o-q to 21.6%, much lower than our estimates, owing to lower working calendar days, client contractual provisions, lower utilisation and higher visa expenses. Infosys guided for better than expected revenue growth in the range of 13-15% in constant currency, implies revenue CQGR of 2.7-3.4% for the quarters of FY2023E. However, margin guidance remained 100bps below our expectations at 21-23%. Further, attrition continues to rise and will put supply-side pressure in the near-term.

## Key positives

- Guided for better than expected revenue growth of 13%-15% in CC.
- All verticals reported double-digit CC growth y-o-y
- Client metrics impressed with the number of \$100 mn clients increasing by 1 to 38

## Key negatives

- Attrition inched up to 27.7% from 25.5% in Q3FY2022
- Deal wins below expectations at \$2.3bn in Q4, down 11% q-o-q
- EBIT margin at 21.6% (down 193 bps q-o-q), lower than our expectations
- Margin guidance revised downward by 100bps to 21-23%

## Management Commentary

- The demand environment remains robust, despite global macro headwinds
- Large deal pipeline is better than last year
- The company wants to enhance the leadership in digital capabilities by scaling Cloud capabilities and expanding digital work, to stay relevance with the large enterprises
- Quarterly annualized attrition declined 5% on a q-o-q basis

**Revision in estimates** – We have lowered our FY2023E/FY2024E EPS estimates by 1.5-2% factoring in Q4FY2022 results and below than expected margin guidance for FY2023. We introduced FY2025E numbers in this note.

## Our Call

**Valuation – Maintain Buy with a revised PT of Rs. 2,150:** We believe Infosys is well-equipped to deliver industry-leading organic growth among the large peers in the medium term, given strong digital capabilities to participate in clients' digital transformation journey and execute core modernization works. We expect Infosys to report USD revenue and earnings growth of 14.2% and 13.7%, respectively, over FY2022-FY2024E. At CMP, the stock trades at 29x/26x its FY2023E/FY2024E earnings, which is justified, given strong growth potential, robust deal pipeline, and market share gains. We like Infosys because of its strong digital competencies, healthy capital allocation policy and prudent investments in capabilities that will be required in future. Hence, we believe any correction in the stock price would offer good investment opportunity from a long-term perspective. Hence, we maintain a Buy rating on the stock with a revised price target (PT) of Rs. 2,150.

## Key Risks

Rupee appreciation and/or adverse cross-currency movements, slackening pace in deal closures, and/or constraints in local talent supply in the US would affect earnings.

## Valuation (Consolidated)

Rs cr

| Particulars        | FY22       | FY23E      | FY24E      | FY25E      |
|--------------------|------------|------------|------------|------------|
| Revenue            | 1,21,641.0 | 1,43,465.0 | 1,63,755.2 | 1,83,020.8 |
| OPM (%)            | 25.9       | 25.1       | 25.3       | 25.6       |
| Adjusted PAT       | 22,111.0   | 25,067.0   | 28,606.1   | 32,349.2   |
| % YoY growth       | 14.3       | 13.4       | 14.1       | 13.1       |
| Adjusted EPS (Rs.) | 52.6       | 59.8       | 68.2       | 77.2       |
| P/E (x)            | 33.2       | 29.2       | 25.6       | 22.7       |
| P/B (x)            | 5.3        | 4.9        | 4.5        | 4.1        |
| EV/EBITDA (x)      | 22.7       | 19.9       | 17.2       | 15.1       |
| RoNW (%)           | 29.2       | 30.9       | 31.9       | 33.2       |
| RoCE (%)           | 33.6       | 37.5       | 39.9       | 41.6       |

Source: Company; Sharekhan estimates

## Disappointing Q4

Infosys' headline numbers missed our estimates in a seasonally weak quarter. The company reported weak 1.2% constant currency (CC) sequential revenue growth after reporting excellent revenue growth in the last three quarters, owing to high base, lower pass-through revenues and weak seasonality. The company reported a sequential growth slowdown in Q4 for the second consecutive year as January-March quarter is Infosys' weakest. Digital revenue growth moderated to 1.8% q-o-q (on USD terms) in Q4FY2022, but it grew strongly by 38.8% y-o-y (on CC terms) and contributed 59.2% of overall revenue. Reported US Dollar revenues grew by 0.7% q-o-q (and up 18.5% y-o-y) to \$4,280 million, below our expectations. During Q4FY2022, communication (up 3.1% q-o-q), energy and utilities (up 3.3% q-o-q), manufacturing (up 5.2% q-o-q) and hi-tech (up 1.9% q-o-q) reported better growth compared to company's overall growth rate, while lifesciences remained major drag (down 11.4% q-o-q). EBIT margins contracted by 193 bps q-o-q to 21.6%, much lower than our estimates. Sequential headwinds for the quarter were - (1) 160 bps from lower working and client contractual provision, (2) 60 bps from lower utilisation and (3) 100 bps from higher visa expenses. This was offset by 110 bps from benefit by salary expenses due to lower working days and other. Net profit of Rs. 5,686 crore (down 2.1% q-o-q, but up 12% y-o-y) was below our estimates, owing to miss in EBIT margin, partially offset by higher other income and lower tax provision.

## Key result highlights

- ♦ **FY2022 revenue grew at fastest in past 11 years:** After reporting strong revenue growth of 5% y-o-y on CC terms and EBIT margin expansion of 320 bps y-o-y in the pandemic year of FY2021, the company reported yet another industry-leading revenue growth of 19.7% (on CC basis)/20.3% (on USD terms) in FY2022, led by broad-based growth across verticals (double-digit growth), geographies (US and Europe grew by over 20%) and service lines. FY2022 revenue growth in FY2022 remained the fastest in the past 11 years, led by differentiated cloud services and strong deal intakes. Further, digital revenues grew by 41.2% y-o-y in CC terms and accounted for 59.2% in Q4FY2022 (versus 51.5% in Q4FY2021). Within the digital business, Cloud work grew at a faster rate during FY2022. However, deal TCVs moderated to \$9.5 billion in FY2022, down 33%. Net new deal TCVs was down 59% y-o-y to \$3.8 billion as net new component of large deal TCVs remained at 40%. Client metrics impressed with the number of \$100 mn and \$50 million clients increasing by 6 and 5, respectively. FY2022 EBIT margin declined 150 bps y-o-y to 23% due to higher costs to backfill attrition and increase compensation. Attrition picked up pace during the year due to higher demand environment and talent crunch in digital space. Net profit increased by 14.3% to Rs. 22,111 crore. FCF increased by 2.8% to \$3.1 billion, implies FCF/net income of 103%. During FY2022, the company continued to gain market share, built leadership in Cloud and digital and actively participated in clients' transformation initiatives.
- ♦ **Demand stays robust:** The demand environment remains robust, led by higher spending on digital and cloud transformation initiatives. Despite macroeconomic challenges including Russia-Ukraine conflicts, the company expects strong demand to continue given higher spends in transformation programs undertaken by its client, and robust deal pipeline. Infosys has no direct exposure to any Russian companies and no centres in Ukraine. Further, the company added around 22k net employees during Q4FY2022, which indicates strong demand environment and possibilities strong deal inflows in the coming quarters. Management indicated that its Cloud Cobalt capability has been gaining strong tractions among its clients. The company sees strong demand given the accelerated pace of digital disruption across industries, which provides immense opportunity to the company in participating in their transformation journey.
- ♦ **Demand outlook across key verticals:** The company's investments in cloud, digital, sales and deal advisory team, have allowed it to capitalize on opportunities in the ongoing strong demand environment. Its investments in building strong sub-vertical and platform capabilities in regional banking, retirement services, mortgages, asset management, and payments help the company to win many large bids and digital-transformation programs in the BFSI space. Financial services grew by 14.1% CC y-o-y terms in Q4FY2022 with 8 large deals wins during the quarter and 27 large deals wins for FY2022. A large deal

pipeline in the financial services vertical remains healthy across the region. Retail vertical grew by 16.5% CC in Q4FY2022 and won 16 large deals in the year. The clients' focus on digital and cost take out program as it sees integrated outsourcing deals and transformation programs in the area of e-Commerce, revenue growth management, omni-channel marketing, product life cycle management and digital supply chain. Communication vertical grew by 29.2% CC. The company sees customer experience, IT and network simplifications, automated zero touch operations, time to market and integrated data for digital enterprise are the key themes for this segment. Energy, utilities, resources and services segment grew by 17.8% CC y-o-y with 4 new deals in Q4FY2022 and 18 total deals in FY2022. The company sees continued increased emphasis on digital transformation (including customer experience, operational efficiencies and associated legacy transformation). Manufacturing grew by 50% cc y-o-y with 6 large deals in Q4FY2022 and 13 deals overall in FY2022. The company provides services across engineering, IOT, supply chain, cloud ERP and digital transformation area. The Hi-tech vertical's growth accelerated to 20.9% in CC terms, which continues to see an increase in deals based on edge computing, digital marketing and commerce. Lifesciences vertical grew by 16.2% CC and clients are driving digital transformation of clinical trials to reduce cycle clients.

- ♦ **Margin walkthrough:** EBIT margin declined 193 bps q-o-q, owing to lower utilization, lower working calendar days, specific client contractual provision. These headwinds were partially offset by benefit in terms of salary expenses due to lower working days and other.
- ♦ **FY2023E revenue guidance remained above expectations:** Infosys guided revenue growth in the range of 13-15% in constant currency, implies revenue CQGR of 2.7-3.4% for four quarters of FY2023E. The revenue growth guidance is better than our expectation and also higher than its revenue growth guidance of 12-14% for FY2022 at the beginning of the year. The management indicated that growth would be driven by a strong demand environment, healthy deal wins, strong deal pipeline, and higher spending on cloud migration and cloud-related technologies. However, margin guidance remained 100bps below our expectations at 21-23%. We believe that rising digital revenue, structural pricing improvement, and higher fresher hiring would help Infosys to partially offset margin headwinds such as supply-side challenges, wage revision and investments (including talents, capabilities, etc). The company wants to enhance the leadership in digital capabilities by scaling Cloud capabilities and expanding digital work, to stay relevance with the large enterprises.
- ♦ **Strong growth across verticals:** The company reported double-digit growth y-o-y across verticals, but the same decelerated q-o-q. Manufacturing, communication, hi-tech, energy and utilities, Financial services, retail and lifesciences helped the company to report strong revenue growth.
- ♦ **Digital engine continues strong growth momentum:** CC revenue of the digital business grew by 38.8% y-o-y as against 42.6% y-o-y growth in Q3FY2022. Digital revenue contributed 59.2% to total revenue versus 58.5% in Q3FY2022. Increased demand in data and analytics, cloud, cybersecurity, cost efficiency, and IoT would continue to drive growth in the digital space. Cloud work grew at faster rate within the digital business, which indicates that the company's Cobalt capability has been resonating well with the clients. Core business remained steady during the quarter and grew 1.4% y-o-y on CC terms versus 0.6% in Q3FY2022.
- ♦ **Client metrics remain impressive:** Infosys added 110 new clients (versus 111 clients in Q3FY2022). The number of \$100 million clients increased by one on a q-o-q basis to 38, while \$50 million clients remained flat a q-o-q basis to 64. The number of clients in the \$10 million bracket increased by 1 q-o-q to 275. Revenue from the top five clients declined by 1.0% q-o-q. Revenue from the top 10 and top 25 declined by 3.3% and 0.7% on a q-o-q basis, respectively.
- ♦ **Healthy deal wins, but below our expectations:** Infosys signed 22 large deals in Q4FY2022, with TCVs of \$2,257 million (versus \$2,525 million/\$2,111 million in Q3FY2022/Q4FY2021). The book-to-bill ratio remained at 0.5x in Q4FY2022 versus 0.6x in Q3FY2022. The share of new deals was 48% of total deal TCVs in Q4FY2021, higher as compared to 43% in Q3FY2022.

- ♦ **Attrition rate inched up meaningfully:** Attrition rate rose to 27.7% in Q4FY2022 versus 25.5% in Q3FY2022. Increased attrition rate was due to higher demand for talent across the industry and supply-side challenges. Management highlighted that quarterly annualized attrition declined 5% on q-o-q basis, though it may remain elevated for next couple of quarters. However, management remains confident to support its clients in their digital transformation journey despite ongoing supply-side concerns. Further, attrition rate is expected to come down in FY2023E.
- ♦ **Strong net headcount additions:** Headcount rose by 21,948 to 3,14,015 employees (record quarterly high in Infosys' history). Infosys hired 85,000 freshers in FY2022. Higher fresher intake is expected to cool off supply-side challenges from Q3FY2023 onwards. The strong fresher hiring will support its clients in the digital transformation program going ahead.
- ♦ **Higher sub-contractor expenses:** Sub-contracting costs increased by 10 bps q-o-q to 11.1% during Q4FY2022 owing to strong demand and higher utilisation. This would come down in coming quarters as the company would replace sub-contractors with its own employees. This could become one of margin levers in FY2023.
- ♦ **Higher utilisation and offshore mix:** Utilisation declined q-o-q to 87% in Q4FY2022 from 88.5% in Q3FY2022. It looks unsustainable in the coming quarters. However, we believe that the company's utilisation rate will be settled in the range of 82-84% in the long-term. The onsite effort mix improved by 20 bps q-o-q 24.0%.
- ♦ **Strong balance sheet and cash flows:** Infosys had cash balance of \$4.9 billion with no debt versus \$4.3 billion in Q3FY2022. FCF stood at \$761 million versus \$719 million in Q3FY2022. FCF conversion remained strong at 101% of net profit.
- ♦ **Dividends:** The company declared the final dividend of Rs. 16 per share, taking total dividend per share of Rs. 31. including Q2FY2022 buyback, the company has returned 73% of FCF to investors.

#### Results

| Particulars                   | Rs cr    |          |          |         |         |
|-------------------------------|----------|----------|----------|---------|---------|
|                               | Q4FY22   | Q4FY21   | Q3FY22   | Y-o-Y % | Q-o-Q % |
| Revenue (\$ mn)               | 4,280.0  | 3,613.0  | 4,250.0  | 18.5    | 0.7     |
| Net sales                     | 32,276.0 | 26,311.0 | 31,867.0 | 22.7    | 1.3     |
| Direct costs                  | 21,382.0 | 16,333.0 | 20,516.0 | 30.9    | 4.2     |
| Gross profit                  | 10,894.0 | 9,978.0  | 11,351.0 | 9.2     | -4.0    |
| SG&A                          | 3,048.0  | 2,707.0  | 2,968.0  | 12.6    | 2.7     |
| EBITDA                        | 7,846.0  | 7,271.0  | 8,383.0  | 7.9     | -6.4    |
| Depreciation and amortisation | 890.0    | 831.0    | 899.0    | 7.1     | -1.0    |
| EBIT                          | 6,956.0  | 6,440.0  | 7,484.0  | 8.0     | -7.1    |
| Other income                  | 587.0    | 495.0    | 459.0    | 18.6    | 27.9    |
| PBT                           | 7,543.0  | 6,935.0  | 7,943.0  | 8.8     | -5.0    |
| Tax provision                 | 1,848.0  | 1,857.0  | 2,121.0  | -0.5    | -12.9   |
| Reported net profit           | 5,686.0  | 5,078.0  | 5,809.0  | 12.0    | -2.1    |
| EPS (Rs.)                     | 13.6     | 12.0     | 13.9     | 13.4    | -2.1    |
| Margin (%)                    |          |          |          | bps     | bps     |
| EBITDA                        | 24.3     | 27.6     | 26.3     | -333    | -200    |
| EBIT                          | 21.6     | 24.5     | 23.5     | -292    | -193    |
| NPM                           | 17.6     | 19.3     | 18.2     | -168    | -61     |
| Tax rate (%)                  | 24.5     | 26.8     | 26.7     | -228    | -220    |

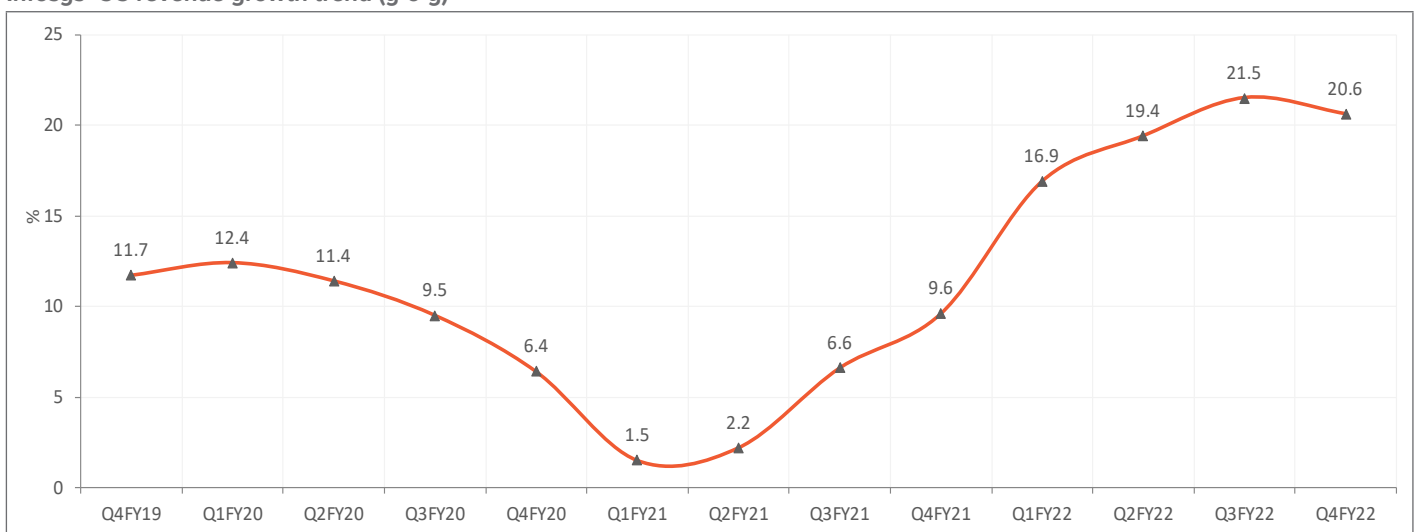
Source: Company; Sharekhan Research

Revenue mix: Geographies, industry verticals, and other operating metrics

| Particulars                               | Revenue | Contribution | \$ Growth (%) |       | CC growth (%) |
|-------------------------------------------|---------|--------------|---------------|-------|---------------|
|                                           | (\$ mn) | (%)          | Q-o-Q         | Y-o-Y | Y-o-Y         |
| Revenue (\$ mn)                           | 4,280   | 100          | 0.7           | 18.5  | 20.6          |
| <b>Geographic mix</b>                     |         |              |               |       |               |
| North America                             | 2,628   | 61.4         | 0.1           | 18.1  | 18.5          |
| Europe                                    | 1,079   | 25.2         | 1.9           | 22.3  | 28.3          |
| India                                     | 137     | 3.2          | 7.4           | 26.4  | 29.4          |
| Rest of world                             | 437     | 10.2         | -0.3          | 9.8   | 13.9          |
| <b>Industry verticals</b>                 |         |              |               |       |               |
| Financial services                        | 1,340   | 31.3         | 0.1           | 12.4  | 14.1          |
| Retail                                    | 612     | 14.3         | -0.7          | 14.5  | 16.5          |
| Communication                             | 548     | 12.8         | 3.1           | 26.4  | 29.2          |
| Energy, utilities, resources and services | 514     | 12.0         | 3.3           | 15.6  | 17.8          |
| Manufacturing                             | 505     | 11.8         | 5.2           | 45.6  | 50.6          |
| Hi tech                                   | 351     | 8.2          | 1.9           | 19.9  | 20.9          |
| Life sciences                             | 282     | 6.6          | -11.4         | 15.0  | 16.2          |
| Others                                    | 128     | 3.0          | 4.2           | 4.5   | 7.3           |
| <b>Service line</b>                       |         |              |               |       |               |
| Digital                                   | 2,532   | 59.2         | 1.8           | 36.2  | 38.8          |
| Core                                      | 1,748   | 40.8         | -0.9          | -0.3  | 1.4           |
| <b>Clients Contribution</b>               |         |              |               |       |               |
| Top client                                | 505     | 11.8         | -1.0          | 28.2  | -             |
| Top 10 clients                            | 830     | 19.4         | -3.3          | 25.6  | -             |
| Top 25 clients                            | 1,515   | 35.4         | -0.7          | 22.6  | -             |
| <b>Revenue per employee</b>               |         |              |               |       |               |
| Revenue per FTE (\$ K)                    | 57.7    | -            | -0.3          | 4.5   | -             |
| <b>Deal wins (\$ mn)</b>                  |         |              |               |       |               |
| TCV                                       | 2,257   | -            | -10.6         | 6.9   | -             |

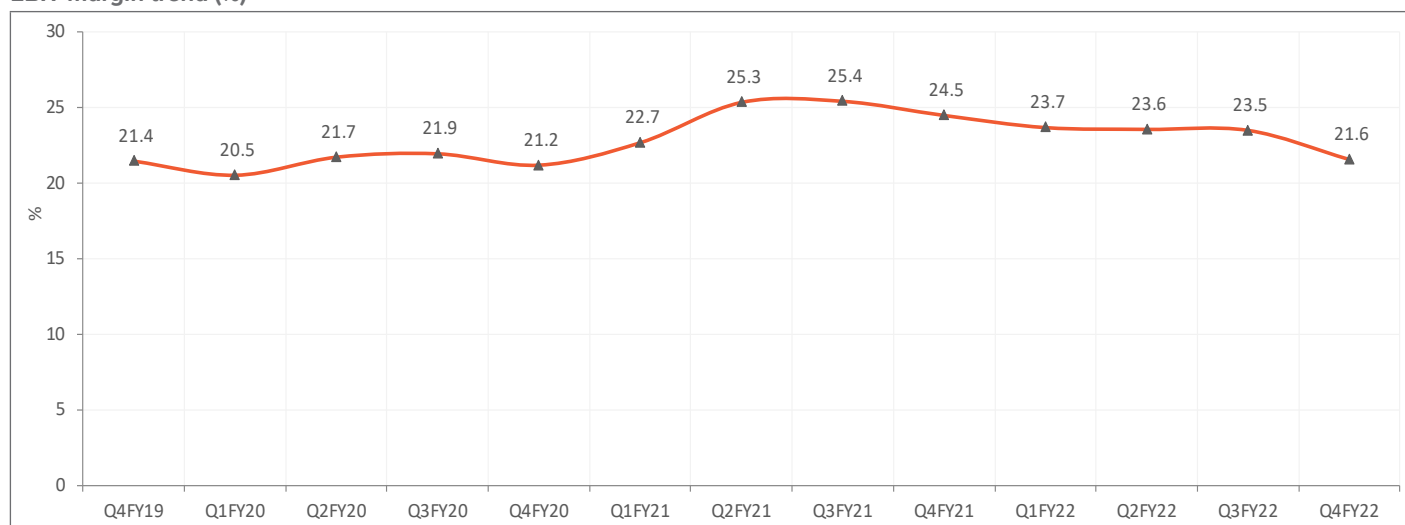
Source: Company; Sharekhan Research

Infosys' CC revenue growth trend (y-o-y)



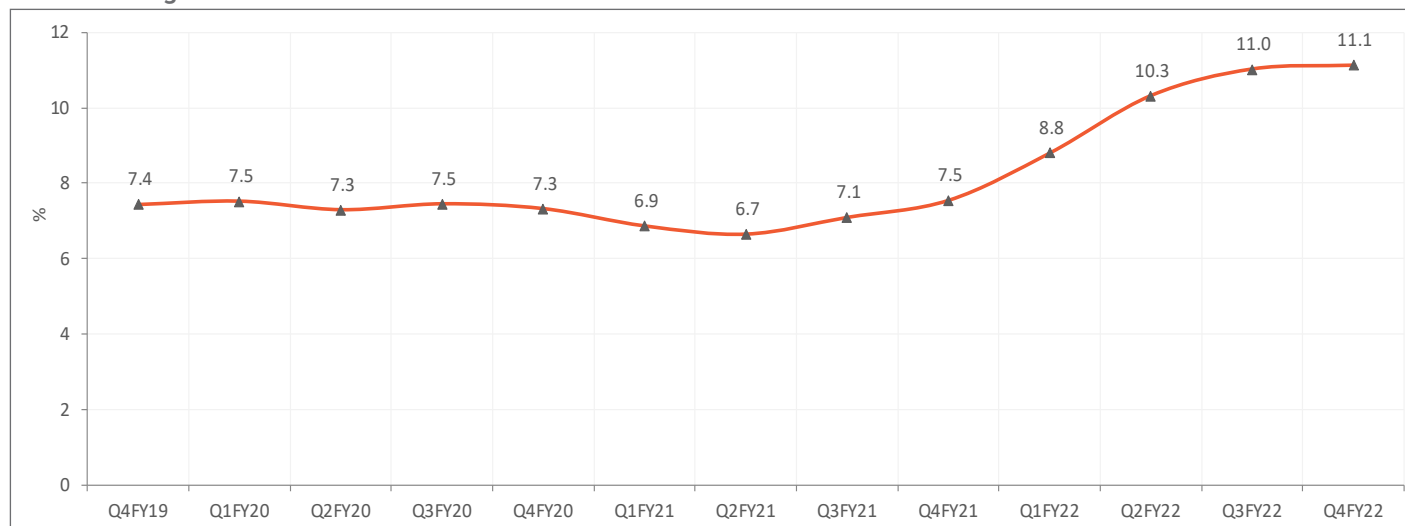
Source: Company; Sharekhan Research

### EBIT margin trend (%)



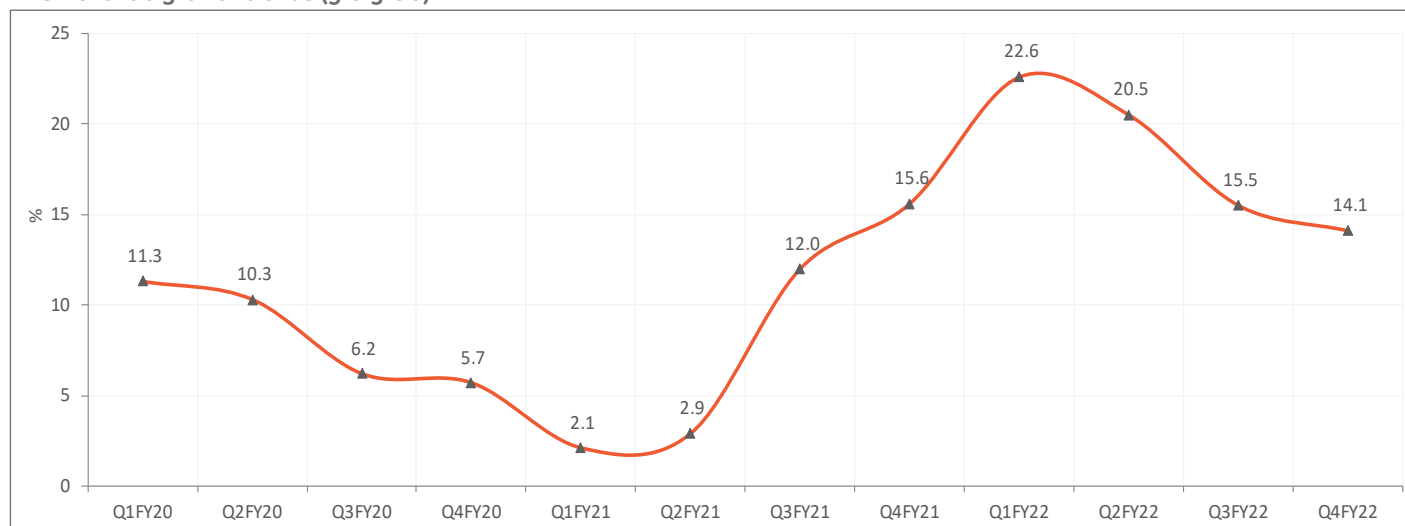
Source: Company; Sharekhan Research

### Subcontracting costs as % of revenue



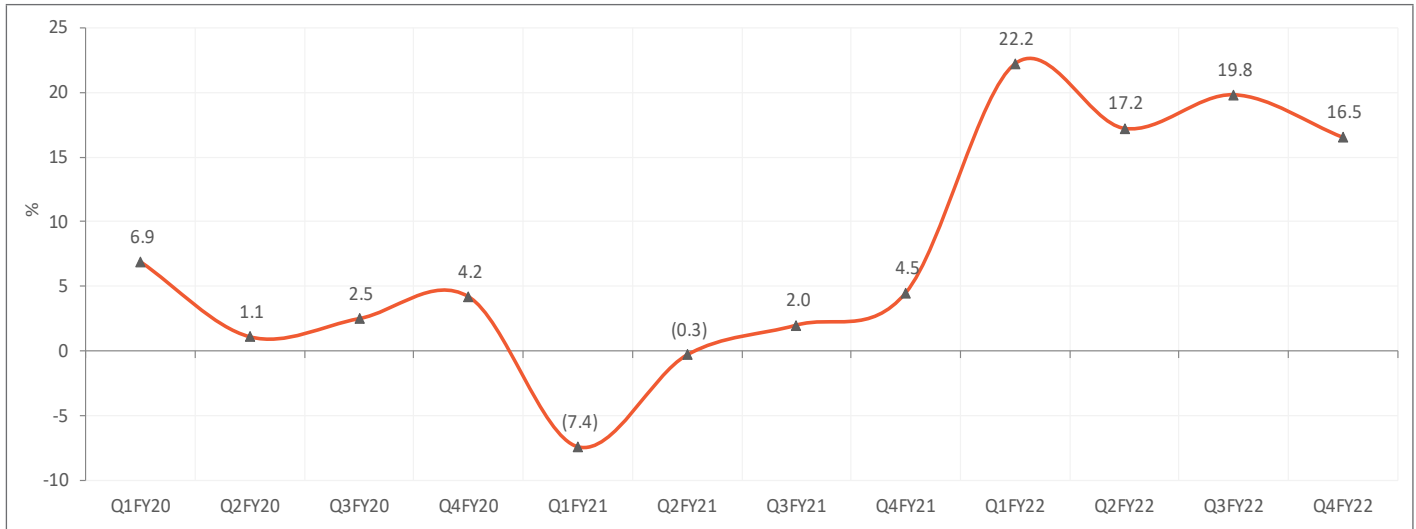
Source: Company; Sharekhan Research

### BFSI revenue growth trends (y-o-y CC)



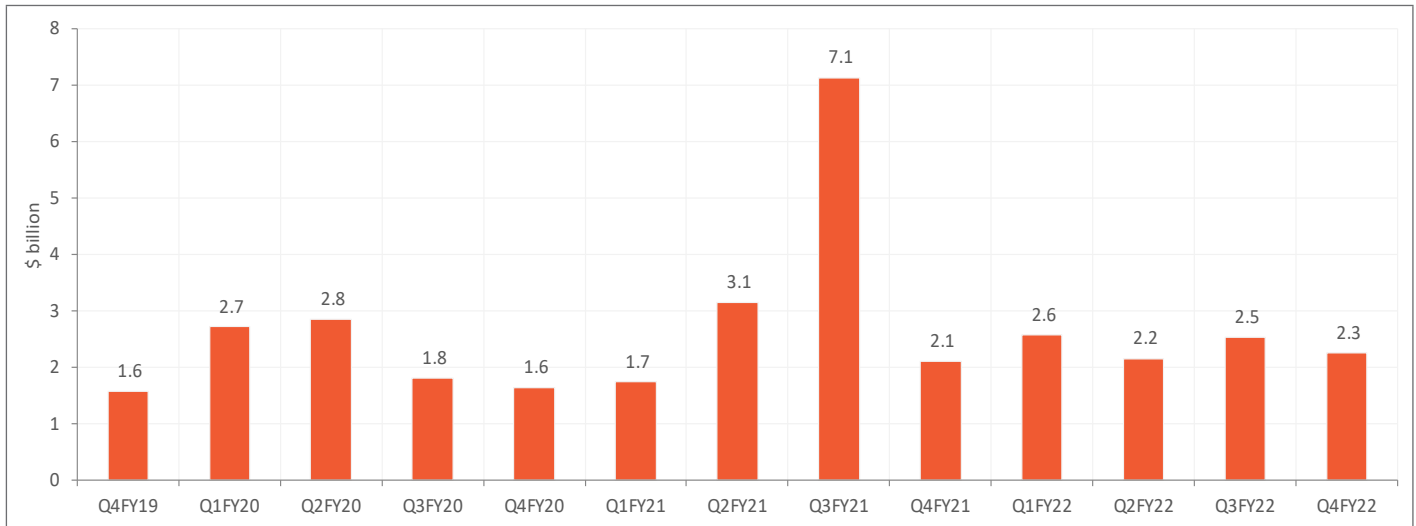
Source: Company; Sharekhan Research

### Retail revenue growth trend (y-o-y CC)



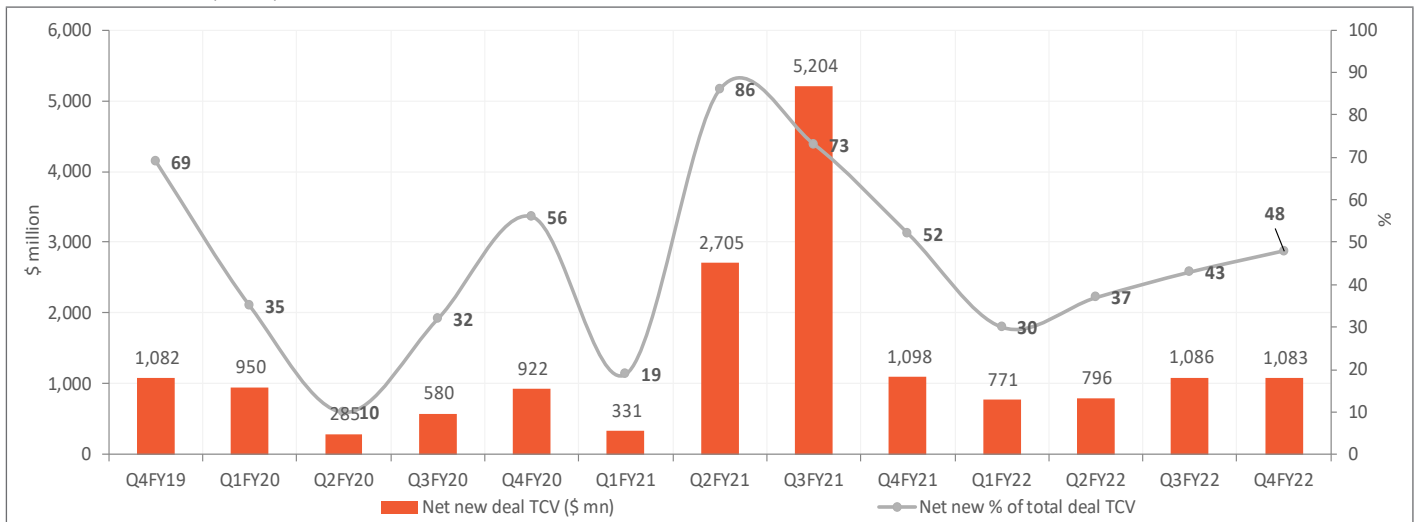
Source: Company; Sharekhan Research

### TCV of deal wins (\$ bn)



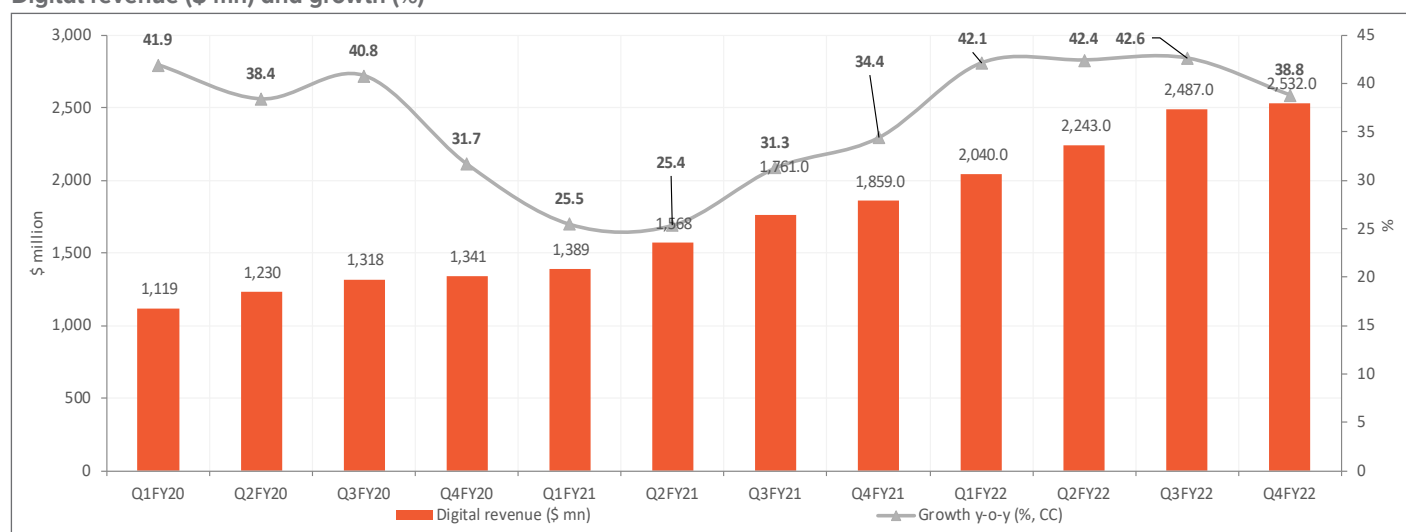
Source: Company; Sharekhan Research

### Net new deal TCV (\$ mn) and % of total deal TCV



Source: Company; Sharekhan Research

### Digital revenue (\$ mn) and growth (%)



Source: Company; Sharekhan Research



## Outlook and Valuation

### ■ Sector view – Technology spending to accelerate going forward

We believe the need for business continuity, operational resilience, and the switch to digital transactions have led to strong demand for IT services post the pandemic. Industry analysts such as Gartner estimate that IT services spending would grow by 8-8.5% in the next four years as compared to the average of 4.3% achieved over 2011-20. Consulting (+11%) and application implementation and managed services (+9%) are expected to grow faster than BPO (+7%) and infra implementation and managed services (+4%) in CY2022E. Forecasts indicate higher demand for Cloud infrastructure services, a potential increase in specialised software, potential investments in transformation projects by clients, and increased online adoption across verticals.

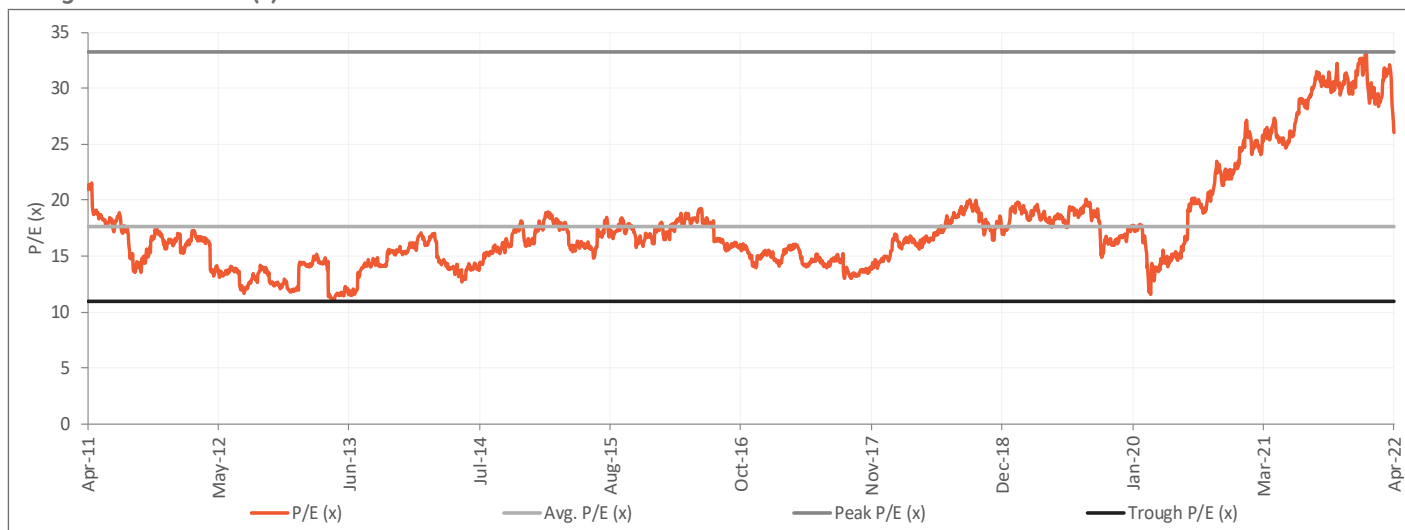
### ■ Company outlook – Well positioned to capture opportunities

Infosys services a large number of Fortune 500/Global 500 clients who have strong balance sheets and are able to hold on better amid the economic downturn. Further, Infosys has aggressively invested in digital technologies in the past couple of years to capture a large portion of upcoming digital spends. Given strong relationships with clients and robust execution capabilities, Infosys is well positioned to capitalise on opportunities from clients' transformation journeys.

### ■ Valuation – Maintain Buy with a PT of Rs. 2,150

We believe Infosys is well-equipped to deliver industry-leading organic growth among the large peers in the medium term, given strong digital capabilities to participate in clients' digital transformation journey and execute core modernization works. We expect Infosys to report USD revenue and earnings growth of 14.2% and 13.7%, respectively, over FY2022-FY2024E. At CMP, the stock trades at 29x/26x its FY2023E/FY2024E earnings, which is justified, given strong growth potential, robust deal pipeline, and market share gains. We like Infosys because of its strong digital competencies, healthy capital allocation policy and prudent investments in capabilities that will be required in future. Hence, we believe any correction in the stock price would offer good investment opportunity from a long-term perspective. Hence, we maintain a Buy rating on the stock with a revised price target (PT) of Rs. 2,150.

#### One-year forward P/E (x) band



Source: Company; Sharekhan Research

#### Peer valuation

| Particulars | CMP<br>(Rs /<br>Share) | O/S<br>Shares<br>(Cr) | MCAP<br>(Rs Cr) | P/E (x) |       | EV/EBIDTA (x) |       | P/BV (x) |       | RoE (%) |       |
|-------------|------------------------|-----------------------|-----------------|---------|-------|---------------|-------|----------|-------|---------|-------|
|             |                        |                       |                 | FY23E   | FY24E | FY23E         | FY24E | FY23E    | FY24E | FY23E   | FY24E |
| HCL Tech    | 1,125                  | 271                   | 3,05,314        | 19.7    | 17.5  | 13.2          | 11.8  | 4.5      | 4.3   | 23.0    | 24.3  |
| TCS         | 3,661                  | 366                   | 13,39,688       | 30.7    | 27.0  | 21.2          | 18.5  | 13.6     | 11.8  | 46.3    | 46.7  |
| Infosys     | 1,749                  | 421                   | 7,35,611        | 29.2    | 25.6  | 19.9          | 17.2  | 4.9      | 4.5   | 30.9    | 31.9  |

Source: Company; Sharekhan Research

## About company

Founded in 1981, Infosys is the second largest (\$16,311 million in FY2022) IT services company in India in terms of export revenue with headcount of 2.7 lakh employees. BFSI accounts for the largest chunk of revenue (~31% of total revenue), followed by retail, energy and utilities, and communication. Region wise, North America and Europe continue to be the mainstay. Digital revenue continued to have a strong growth momentum in the past few quarters and now contributes 59.2% to total revenue.

## Investment theme

Infosys has accelerated deal wins momentum through engagement with deal advisors, consulting firms, and private equity players. Effectively, the strong large deal trajectory provides better revenue growth visibility. Further, revitalisation of sales and investment in digital competencies have certainly helped the company to drive its digital business. Sharp focus on execution and augmentation of digital capabilities through investments can bring Infosys back on its high-growth trajectory. Given strong deal wins, strengthening relationships with large clients, and continued digital momentum, we believe Infosys is well positioned to catch up with leaders on revenue growth in the coming years.

## Key Risks

1) Regulatory visa norms could have an impact on employee expenses; 2) any instability in leadership; additional exits at senior management level; 3) Rupee appreciation and/or adverse cross-currency movements; and 4) increasing attrition rate.

## Additional Data

### Key management personnel

|                    |                                       |
|--------------------|---------------------------------------|
| Nandan M. Nilekani | Co-founder and Non-Executive Chairman |
| Salil Parekh       | Chief Executive Officer               |
| Nilanjan Roy       | Chief Financial Officer               |
| Ravi Kumar S       | President, Deputy COO                 |
| Mohit Joshi        | President, Head – BFSI and HCLS       |

Source: Company Website

### Top 10 shareholders

| Sr. No. | Holder Name                       | Holding (%) |
|---------|-----------------------------------|-------------|
| 1       | Deutsche Bank Trust Co Americas   | 17.20       |
| 2       | Life Insurance Corp of India      | 5.67        |
| 3       | BlackRock Inc.                    | 4.61        |
| 4       | SBI Funds Management Pvt. Ltd.    | 3.28        |
| 5       | The Vanguard Group Inc.           | 2.69        |
| 6       | Republic of Singapore             | 1.81        |
| 7       | ICICI Prudential Asset Management | 1.52        |
| 8       | UTI Asset Management Co Limited   | 1.26        |
| 9       | Norges Bank                       | 1.11        |
| 10      | Government Pension Fund – Global  | 1.10        |

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

## Understanding the Sharekhan 3R Matrix

| Right Sector    |                                                                                                                                                                                                                                                                                                                            |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Positive        | Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies                                                                                                                                               |
| Neutral         | Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies                                                                                                                                                                                                    |
| Negative        | Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability. |
| Right Quality   |                                                                                                                                                                                                                                                                                                                            |
| Positive        | Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.                                                                                                                                       |
| Neutral         | Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable                                        |
| Negative        | Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet                                                                 |
| Right Valuation |                                                                                                                                                                                                                                                                                                                            |
| Positive        | Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.                        |
| Neutral         | Trading at par to historical valuations and having limited scope of expansion in valuation multiples.                                                                                                                                                                                                                      |
| Negative        | Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.                                                                       |

Source: Sharekhan Research

# Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

**Disclaimer:** This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that neither he or his relatives or Sharekhan associates has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either, SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: [compliance@sharekhan.com](mailto:compliance@sharekhan.com);

For any queries or grievances kindly email [igc@sharekhan.com](mailto:igc@sharekhan.com) or contact: [myaccount@sharekhan.com](mailto:myaccount@sharekhan.com)

**Registered Office:** Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on [www.sharekhan.com](http://www.sharekhan.com); Investment in securities market are subject to market risks, read all the related documents carefully before investing.