

**Better than expected guidance for FY23; Growth remained broad-based and Healthy deal momentum**

**CMP: INR 1,749**

**Rating: Neutral**

**Target Price: INR 1,659**

**Stock Info**

|                          |                    |
|--------------------------|--------------------|
| BSE                      | 500209             |
| NSE                      | INFY               |
| Bloomberg                | INFO IN            |
| Reuters                  | INFO.BO            |
| Sector                   | Computers-Software |
| Face Value (INR)         | 5                  |
| Equity Capital (INR Cr)  | 2124               |
| Mkt Cap (INR Cr)         | 729,027            |
| 52w H/L (INR)            | 1954 / 1311        |
| Avg Yearly Vol (in 000') | 5,828              |

**Shareholding Pattern %**

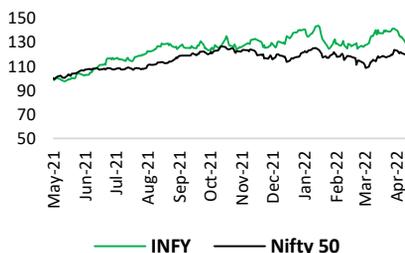
(As on December, 2021)

|                 |       |
|-----------------|-------|
| Promoters       | 13.12 |
| FII             | 33.46 |
| DII             | 16.02 |
| Public & Others | 37.40 |

**Stock Performance (%)**

|       | 1m   | 3m   | 12m  |
|-------|------|------|------|
| INFY  | -4.8 | -8.6 | 24.0 |
| Nifty | 5.6  | -3.8 | 21.0 |

**INFY Vs Nifty**



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**Infosys (INFY) has reported weak Q4FY22 numbers, below our estimate on all fronts; Raised revenue guidance but decline in margin guidance band for FY23.**

- Constant Currency Revenue growth +18.5% YoY/0.7% QoQ to \$4,280 mn against our estimate \$4,352 mn.
- Infosys has reported consolidated revenue of INR 32,276 Cr, +22.7% YoY/1.3% QoQ in Q4FY22 against our estimate of INR 32,658 cr supported by continued momentum in large deal wins with TCV of \$9.5 billion.
- Consolidated EBIT stood at INR 6,956 Cr, up by 8% YoY/-7.1% QoQ against our estimate of INR 7,527 Cr.
- On the margins front, EBIT margin contracted by 292 bps YoY/ 193bps QoQ to 21.6% against our estimate of 23.0%.
- Consolidated PAT stood at INR 5,695 Cr, up by 12.2% YoY/2.2% QoQ against our estimate of INR 6,082 Cr.
- Added 85,000 freshers in FY 22, will add over 50,000 freshers in FY23. Attrition zooms to 27.7% in Q4.
- Raised revenue growth guidance to 13-15% in cc terms. (Expected 11-14%). and operating margin guidance of 21%-23% for FY23.
- TCV of large deal wins was \$2.3 billion in Q4.
- The company net added 85,000 employees in FY22. It plans to hire upwards of 50,000 employees in FY23

**Valuations**

At a CMP of INR 1,749, currently, Infosys is trading at a PE of 25.3x to its FY24E EPS of INR 69.1. The company has upgraded the guidance for revenue growth from 13-15% for FY23 in cc terms. Higher than the initial FY22 revenue guidance of 12-14% YoY CC revenue guidance supported by the strong deal and healthy demand. However, the EBIT margin guidance range reduced to 21-23% for FY 23 against 22-24% in FY22 led to supply-side challenges. The company's fresher hiring will continue to remain elevated for FY23, indicating a better tech demand cycle, which is positive for the company medium term.

Considering expensive valuations and margin pressure, we value Infosys at a P/E of 24x to its FY24E EPS of INR 69.1, which yields a Target Price of INR 1,659 per share. We downgrade our rating to Neutral from Accumulate earlier on the stock.

| Y/E March (INR. In Cr)    | FY20          | FY21          | FY22          | FY23E         | FY24E         |
|---------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Revenues (US\$ mn)</b> | <b>12,780</b> | <b>13,561</b> | <b>16,310</b> | <b>18,388</b> | <b>20,787</b> |
| Net Revenue               | 90,791        | 1,00,472      | 1,21,641      | 1,37,343      | 1,55,422      |
| EBIT                      | 16,481        | 21,355        | 24,539        | 28,293        | 32,483        |
| EBIT Margin(%)            | 18.2%         | 21.3%         | 20.2%         | 20.6%         | 20.9%         |
| Net Profit                | 16,594        | 19,351        | 22,110        | 25,301        | 29,002        |
| EPS (INR)                 | 38.9          | 45.6          | 52.7          | 60.3          | 69.1          |
| P/E (x)                   | 40.5          | 39.8          | 33.2          | 29.0          | 25.3          |
| ROE                       | 25.2%         | 25.2%         | 29.2%         | 27.7%         | 26.2%         |

Source: Arihant Research, Company Filings,

## Q4FY22 - Quarterly Performance (Consolidated)

| INR Cr (Consolidated)       | Q4FY22        | Q3FY22        | Q4FY21        | Q-o-Q          | Y-o-Y          |
|-----------------------------|---------------|---------------|---------------|----------------|----------------|
| Revenue (CC Terms) (Mn USD) | 4,280         | 4,250         | 3,613         | 0.7%           | 18.5%          |
| <b>Net Revenue</b>          | <b>32,276</b> | <b>31,867</b> | <b>26,311</b> | <b>1.3%</b>    | <b>22.7%</b>   |
| Cost of Sales               | 22,272        | 21,415        | 17,164        | 4.0%           | 29.8%          |
| <b>Gross Profit</b>         | <b>10,004</b> | <b>10,452</b> | <b>9,147</b>  | <b>-4.3%</b>   | <b>9.4%</b>    |
| S&M and Admin. Expenses     | 3,048         | 2,968         | 2,707         | 2.7%           | 12.6%          |
| <b>EBITDA</b>               | <b>6,956</b>  | <b>7,484</b>  | <b>6,440</b>  | <b>-7.1%</b>   | <b>8.0%</b>    |
| <b>EBITDA margin %</b>      | <b>21.6%</b>  | <b>23.5%</b>  | <b>24.5%</b>  | <b>-193bps</b> | <b>-292bps</b> |
| Other Income                | 587           | 459           | 495           | 27.9%          | 18.6%          |
| <b>PBT</b>                  | <b>7,543</b>  | <b>7,943</b>  | <b>6,935</b>  | <b>-5.0%</b>   | <b>8.8%</b>    |
| Tax Expense                 | 1,848         | 2,121         | 1,857         | -12.9%         | -0.5%          |
| Effective tax rate %        | 24.5%         | 26.7%         | 26.8%         | -220bps        | -228bps        |
| <b>Reported PAT</b>         | <b>5,695</b>  | <b>5,822</b>  | <b>5,078</b>  | <b>-2.2%</b>   | <b>12.2%</b>   |
| MI & Associates             | -9            | -13           | -2            | -30.8%         | 350.0%         |
| Consolidated PAT            | 5,686         | 5,809         | 5,076         | -2.1%          | 12.0%          |
| <i>Adj PAT Margin %</i>     | <i>17.6%</i>  | <i>18.2%</i>  | <i>19.3%</i>  | <i>-3.4%</i>   | <i>-8.7%</i>   |
| <b>EPS (INR)</b>            | <b>13.6</b>   | <b>13.9</b>   | <b>12.0</b>   | <b>-2.2%</b>   | <b>13.4%</b>   |

Source: Arianth Research, Company Filings

## Q4FY22 Concall Highlights

- Lowered sequential revenue growth was due to adverse impact from 3rd Covid wave and certain contractual client obligation which it hopes to recover in coming quarters
- Raised revenue growth guidance to 13-15% cc for FY23 supported by large deal and robust pipeline.
- Margin: Certain cost savings related to Pandemic will come back and that has been considered in 21-23% EBIT margin guidance band for FY23.
- Wage hike: In Q1FY23 will see wage hike across offshore- onshore centers and that will impact sequential margin for Q1FY23.
- Hiring: The company's fresher hiring will continue to remain elevated for FY23 also.
- In Geography US and Europe grew over 20%, North America cross \$10 mn revenue while financial crossed \$5 mn revenue milestones.
- Life Science is a small vertical for Infosys and some volatility is associated with it.
- The company digital revenue accounts for 59.2% and grew by 41.2% for the year. The digital revenue crossed \$10 mn run rate and within the digital the company cloud work growing faster and seeing significant traction on a digital front.
- Attrition: The company attrition remains high but annualized quarterly attrition came down by 5 pp QoQ.
- Russia-Ukraine conflict: The company has very limited impact on operations from Russia - Ukraine war. Transitioning a 100 employee center out of Russia. No impact on demand from current Russia Ukraine war. The company has delivery center's in Romania and Poland and are actively recruiting for them.
- The company focus remains on scaling up its cloud offerings and its automation tools.
- Subcontracting cost has started stabilizing at around 11% of revenue.

## Key Financials

| Profit & Loss Statement (Consolidated)           |        |          |            |          |          |
|--|--------|----------|------------|----------|----------|
| Particulars (INR Cr)                             | FY20   | FY21     | FY22       | FY23E    | FY24E    |
| Revenues (US\$ mn)                               | 12,780 | 13,561   | 16,310.0   | 18,388   | 20,787   |
| Growth (%)                                       | 8%     | 6%       | 20.3%      | 12.7%    | 13.0%    |
| Income   | 90,791 | 1,00,472 | 1,21,641.0 | 1,37,343 | 1,55,422 |
| Growth (%)                                       | 9.8%   | 10.7%    | 21.1%      | 12.9%    | 13.2%    |
| Software development expenses                    | 60,732 | 65,413   | 81,998.0   | 92,569   | 1,04,288 |
| Gross Profit                                     | 30,059 | 35,059   | 39,643.0   | 44,774   | 51,134   |
| Sales and development expenses                   | 4,711  | 4,627    | 5,156.0    | 6,455    | 7,460    |
| General and administrative expenses              | 5,974  | 5,810    | 6,472.0    | 6,592    | 7,305    |
| EBITDA   | 19,374 | 24,622   | 28,015.0   | 31,726   | 36,369   |
| EBITDA Margin (%)                                | 21.3%  | 24.5%    | 23.03%     | 23.10%   | 23.40%   |
| EBIT   | 16,481 | 21,355   | 24,539.0   | 28,293   | 32,483   |
| EBIT Margin (%)                                  | 18%    | 21%      | 20.2%      | 20.6%    | 20.9%    |
| Finance Cost (Lease expense)                     | 170    | 195      | 200.0      | 175      | 176      |
| Other Income                                     | 2,803  | 2,201    | 2,295.0    | 2,747    | 3,108    |
| Provision for investment/ Shares profit / (Loss) |        |          |            |          |          |
| PBT  | 22,007 | 26,628   | 30,110     | 34,298   | 39,301   |
| Tax  | 5,368  | 7,205    | 7,964      | 8,918    | 10,218   |
| PAT  | 16,639 | 19,423   | 22,146     | 25,381   | 29,083   |
| Adjusted PAT                                     | 16,594 | 19,351   | 22,110.0   | 25,301   | 29,002   |
| Growth (%)                                       | 7.7%   | 16.6%    | 14.3%      | 14.4%    | 14.6%    |
| Adjusted EPS                                     | 39     | 46       | 53         | 60       | 69       |

| Balance Sheet (Consolidated)  |        |          |          |          |          |
|-------------------------------|--------|----------|----------|----------|----------|
| Particulars (INR Cr)          | FY20   | FY21     | FY22     | FY23E    | FY24E    |
| Shareholder's Funds           |        |          |          |          |          |
| Share Capital                 | 2,122  | 2,124    | 2,098    | 2,098    | 2,098    |
| Reserves & Surplus            | 63,722 | 74,658   | 73,638   | 89,266   | 1,08,466 |
| Net Worth                     | 65,844 | 76,782   | 75,736   | 91,364   | 1,10,564 |
| Total Non Current Liabilities | 6,068  | 7,739    | 8,546    | 6,950    | 7,259    |
| Total Current Liabilities     | 20,856 | 23,865   | 33,603   | 36,012   | 37,884   |
| Total Liabilities             | 92,768 | 1,08,386 | 1,17,885 | 1,34,326 | 1,55,707 |
| Net Block                     |        |          |          |          |          |
| Net Block                     | 19,621 | 20,711   | 20,977   | 25,976   | 31,634   |
| Capital Work-in-Progress      | 954    | 922      | 416      | 416      | 416      |
| Total Non Current Assets      | 38,192 | 47,653   | 50,700   | 54,586   | 59,556   |
| Cash and bank balance         | 18,649 | 24,714   | 17,472   | 33,079   | 43,915   |
| Total Current Assets          | 54,576 | 60,733   | 67,185   | 79,740   | 96,151   |
| Total Assets                  | 92,768 | 1,08,386 | 1,17,885 | 1,34,326 | 1,55,707 |

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

## Key Financials

## Cash Flow Statement (Consolidated)

| Particulars (INR Cr)                       | FY20           | FY21          | FY22           | FY23E         | FY24E         |
|--|----------------|---------------|----------------|---------------|---------------|
| <b>PAT</b>                                 | <b>16,639</b>  | <b>19,423</b> | <b>22,146</b>  | <b>25,381</b> | <b>29,083</b> |
| Add:- Depreciation & Others                | 2,893          | 3,267         | 3,476          | 3,434         | 3,886         |
| Change in Working Capital                  | -2,367         | 768           | -1,424         | 8,897         | 2,230         |
| Cash generated from operations             | 21,553         | 29,613        | 31,497         | 39,343        | 36,662        |
| Taxes paid                                 | -4,550         | -6,389        | -7,612         | -8,918        | -10,218       |
| <b>Cash flow from operating activities</b> | <b>17,003</b>  | <b>23,224</b> | <b>23,885</b>  | <b>30,426</b> | <b>26,443</b> |
| Purchase of FA and Capex                   | -3,307         | -2,107        | -2,161         | -4,999        | -5,657        |
| Others                                     | 3,068          | -5,349        | -4,255         | 0             | 0             |
| <b>Cash flow from investing activities</b> | <b>-239</b>    | <b>-7,456</b> | <b>-6,416</b>  | <b>-4,999</b> | <b>-5,657</b> |
| Other fin. Activities                      | -7,478         | 0             | 0              | 0             | 0             |
| Dividend paid, including div. tax          | -9,515         | -9,117        | -12,652        | -9,673        | -9,802        |
| <b>Cash flow from financing activities</b> | <b>-17,591</b> | <b>-9,786</b> | <b>-24,642</b> | <b>-9,750</b> | <b>-9,881</b> |
| Exchange Fluctuations                      | -92            | 83            | -69            | -69           | -69           |
| <b>Net Cash Flow</b>                       | <b>-827</b>    | <b>5,982</b>  | <b>-7,173</b>  | <b>15,676</b> | <b>10,905</b> |
| Opening Cash balance                       | 19,568         | 18,649        | 24,714         | 17,472        | 33,079        |
| <b>Closing Cash balance</b>                | <b>18,649</b>  | <b>24,714</b> | <b>17,472</b>  | <b>33,079</b> | <b>43,915</b> |

## Key Ratios (Consolidated)

| Particulars         | FY20  | FY21  | FY22  | FY23E | FY24E |
|---------------------|-------|-------|-------|-------|-------|
| EPS (INR)           | 38.9  | 45.6  | 52.7  | 60.3  | 69.1  |
| Book Value          | 155.1 | 180.7 | 180.5 | 217.7 | 263.5 |
| DPS                 | 17.5  | 21.5  | 21.5  | 21.5  | 21.5  |
| Payout %            | 57%   | 47%   | 57%   | 38%   | 34%   |
| Dividend Yield %    | 1.1   | 1.2   | 1.2   | 1.2   | 1.2   |
| P/E                 | 40.5  | 39.8  | 33.2  | 29.0  | 25.3  |
| EBITDA Margin (%)   | 21.3% | 24.5% | 23.0% | 23.1% | 23.4% |
| EBIT Margin         | 18.2% | 21.3% | 20.2% | 20.6% | 20.9% |
| PBT Margin          | 24.2% | 26.5% | 24.8% | 25.0% | 25.3% |
| Adjusted PAT Margin | 18.3% | 19.3% | 18.2% | 18.4% | 18.7% |
| Debt/Equity         | 0.1   | 0.1   | 0.1   | 0.1   | 0.1   |
| Current Ratio       | 2.6   | 2.5   | 2.0   | 2.2   | 2.5   |
| ROE                 | 25.2% | 25.2% | 29.2% | 27.7% | 26.2% |
| ROCE                | 20.9% | 22.7% | 23.8% | 23.6% | 23.4% |

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

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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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