

Infosys Limited



Infosys Limited.

Upgraded revenue guidance for FY23; but supply side continue to impact the margins in the near term

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 1,749	INR 2,094	19.7%	INR 7,356,113	BUY	Internet Software & Services

Synopsis:

Infosys Limited (INFO) Q4FY22 performance was much lower than with streets' estimate. Dollar Revenue witnessed a meagre growth of 0.7% QoQ and in CC term grew by 20.6% YoY to USD 4,280mn (KRChoksey est. USD 4,384mn), impacted partially by client contractual situation (deferral impact) and seasonality. Rupee revenue grew by 1.3% QoQ to INR 3,22,760Mn (KRChoksey est. INR 3,29,715Mn). Reported operating margin contracted by ~200bps, to 21.5% QoQ. Revenue acceleration, improving business mix, employee pyramid, right pricing in digital projects, automation and other operating efficiencies would support margins going ahead. Reported Net profit de-grew by ~2.2% QoQ to INR 56,950mn (KRChoksey est. INR 58,999mn) with margin of 17.6% (materially down by 62bps on QoQ basis). Infosys has signed USD 2.3bn worth deals in 4Q (+10% YoY, -9% QoQ), USD9.6bn in FY22 vs USD 14.2bn in FY21. Company's revenue guidance for FY23 stood at 13-15% cc (than 12-14% consensus) & operating margin guidance stood at 21%-23%. Our target price of INR 2,094 is based on 29x Mar-24E EPS with EPS CAGR of ~17.3% over FY22-24E.

MARKET DATA

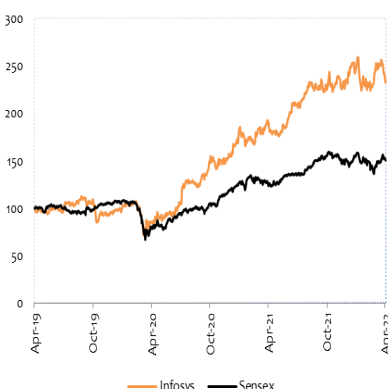
Shares outs (Mn)	4251
Mkt Cap (INR Mn)	73,56,113
52 Wk H/L (INR)	1953.7/1311.8
Volume Avg (3m K)	7409.8
Face Value (INR)	5
Bloomberg Code	INFO:IN

KEY FINANCIALS

(INR Mn)	Q4FY22A	Q3FY22A	Q4FY21A	QoQ	YoY	KRChoksey Est.	Variance (%)
USD Revenue	4,280	4,250	3,613	0.7%	18.5%	4,384	-2.4%
Revenue	3,22,760	3,18,670	2,63,110	1.3%	22.7%	3,29,715	-2.1%
EBIT	69,560	74,840	64,400	-7.1%	8.0%	76,568	-9.2%
PAT	56,950	58,220	50,760	-2.2%	12.2%	58,999	-3.5%
OPM (%)	21.5%	23.5%	24.5%	-196bps	-292bps	23.2%	-167bps
NPM(%)	17.6%	18.3%	19.3%	-62bps	-165bps	17.9%	-25bps

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Robust revenue performance; FY23 revenue guidance raised to 13-15%

Infosys' reported revenue of USD 4,280mn showed growth of 0.7% QoQ and 20.6% YoY in CC terms, which is the highest in 11 years in cc, with an arithmetic effect of weak exit quarter base, and adjusted for higher pass-through revenues (USD 247mn in 4QFY22 vs USD 208mn/USD 103mn in 3Q22/4Q21. USD 723mn in FY22 vs USD 405mn in FY21), resulting the guidance barely meets expectations. Digital business contributed 59.2% of the total revenue, up 38.8% YoY. Growth was broad-based, with most verticals reporting healthy QoQ growth in 4Q, especially Manufacturing (up 50.6% QoQ cc) on the back of ramp up in Daimler Deal/Europe, Hi-Tech (+20.9% QoQ cc), and Communications (+29.2% QoQ cc) drove growth. Revenue growth was healthy across both North America (+18.5% QoQ) and Europe (+28.3% QoQ). India business saw a sharp revival with 29.5% QoQ growth on a low base.

Steady deal wins supported by stable pricing environment

Robust deal wins/ pipeline to continue in FY23 on the back of capabilities expansion in the domain of digital/Automation and cyber security where management sees strong traction. Infosys has signed USD 2.3bn (48% of net new) worth deals in 4Q (+10% YoY, -9% QoQ), USD9.6bn (40% of Net new) in FY22 vs USD 14.2bn in FY21. Management is expecting some improvement in pricing from the current level going ahead on the back of a significant increase in amount being spent by BFSI clients. USD 100mn+ client accounts increased by 6, 5 additions were made to the USD 50mn+ client bucket and 23 additions to the USD 10mn+ client bucket which reflects the strong pedigree in clients mining.

EBIT margin to sustain in the range of 21-23 %

Operating margin contracted by ~200bps QoQ to 21.5% due to accommodate higher investments in order to scale the cloud offering (one-off investment, rather than recurring), higher wages, return of travel & facility cost, higher third party costs, higher sub-contracting costs, higher visa cost, lower utilization rate, lower calendar working days and talents hiring costs. We have noticed that plateaued sub-contracting cost, higher automation, hiring 3rd party vendors, fresher/lateral hiring to reduce attrition will complement the margin going ahead.

MARKET INFO

SENSEX	58,339
NIFTY	18,258

SHARE HOLDING PATTERN (%)

Particulars	Dec-21	Sep-21	Jun-21
Promoters	13.1	13.1	13
FIIIs	33.2	33.2	33.4
DIIIs	16.3	16.3	22
Others	37.4	37.4	31.6
Total	100	100	100

12.9%

Revenue CAGR between FY22 and FY24E

17.3%

PAT CAGR between FY22 and FY22E

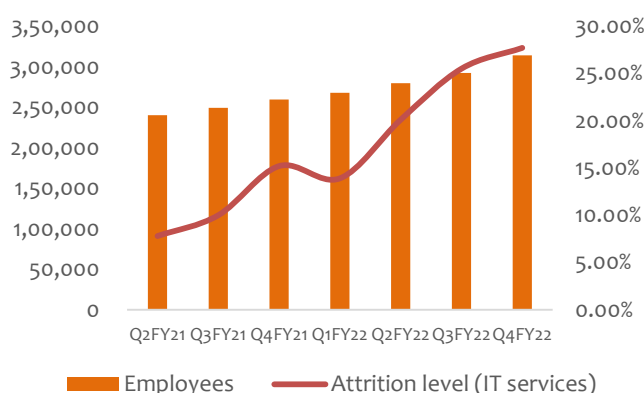
Infosys Limited.

Key Concall Highlights: (1) Demand environment is strong and have a large deal pipeline of large deals, 2) As company is having major investments/business centers in Romania & Poland, so they have no direct impact of macro-events in EU along with changing demand environment. In addition to that, company is experiencing faster growth, focusing on additional hiring/ expanding facilities 3) Attrition/supply-side issues starts to ease out due to strong hiring industry wide, by both fresher/ lateral hires 4) Management is planning to run a program to absorb the 3rd party employee to reduce the sub-contracting cost going ahead 5) margin guidance reflect investments to build capabilities and gain market share, these investments are not likely to be recurring, 6) per employee realization is flat sequentially, pricing in new deals and COLA (cost of living) related uptick will be lower the realization.

Valuation and view

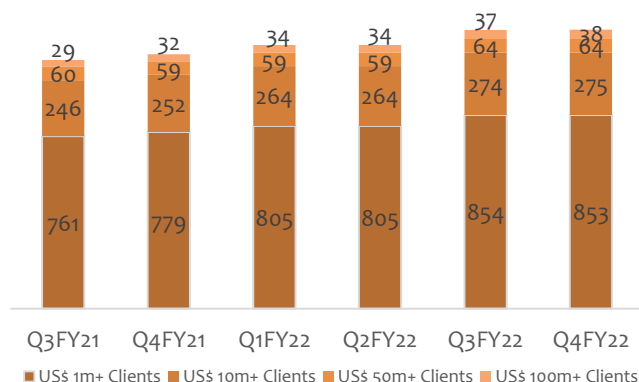
Infosys is currently trading at a valuation with a P/E multiple of 30.5x/24.2x on FY23E/FY24E earnings. Overall Indian technology companies are fully priced-in & remains volatile/range bound due to limited downside risk which is cushioned by sustainable strong growth and the valuation has already peaked out which also limits upside potential. Factoring upgrade in revenue guidance (lower exit quarter base effect), additional traction in BFSI segment, cyber security and confident commentary, we are assigning a P/E multiple of 29x to the FY24 estimated EPS of INR 72.2 to arrive at a target price of INR 2,094 per share, an upside of 19.7% over the CMP. We upgrade our rating to “BUY” from “ACCUMULATE” rating to the stock.

Total Employee Base & Attrition



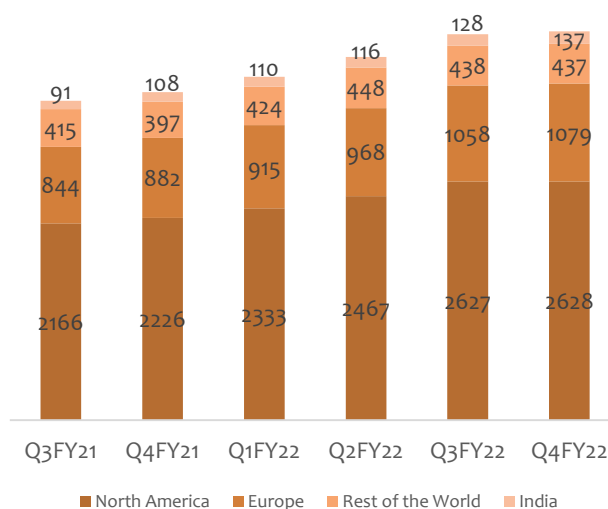
Source: Company, KRChoksey Research

Client Contribution



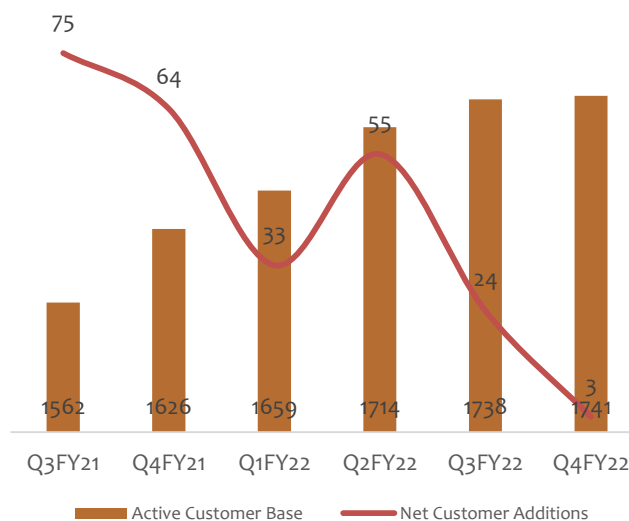
Source: Company, KRChoksey Research

Revenue by Geography (USD Mn)



Source: Company, KRChoksey Research

Active Customer Base



Source: Company, KRChoksey Research

Infosys Limited.

KEY FINANCIALS

Exhibit 1: Balance Sheet

Particulars (INR Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E
Property, Plant and Equipment	1,14,790	1,24,350	1,25,600	1,20,073	1,13,767	1,08,708
Right-of-use Asset	0	41680	47940	47940	47940	47940
CWIP	13,880	9,540	9,220	9,220	9,220	9,220
Goodwill	35,400	52,860	60,790	60,790	60,790	60,790
Intangible Assets	6,910	19,000	20,720	20,720	20,720	20,720
Deferred Tax Assets	13,720	17,440	10,980	10,980	10,980	10,980
Income Tax Assets	63200	53840	58110	58110	58110	58110
Other non current assets	24,360	21,840	24,540	24,540	24,540	24,540
Investments	46,340	41,370	1,18,630	1,18,630	1,18,630	1,18,630
Total non current assets	3,18,600	3,81,920	4,76,530	4,71,003	4,64,697	4,59,638
Cash & equivalent	195680	186490	247140	214546	228081	253837
Available for sale financial assets	66,270	46,550	23,420	23,420	23,420	23,420
Sundry debtors	1,48,270	1,84,870	1,92,940	2,58,661	3,04,790	3,52,876
Unbilled revenue	53,740	71,210	75,270	1,13,164	1,33,810	1,53,055
Derivative financial instruments	3,360	620	1,880	1,880	1,880	1,880
Prepayments and other current assets	61,460	56,020	66,680	66,680	66,680	66,680
Total current assets	5,28,780	5,45,760	6,07,330	6,78,352	7,58,662	8,51,748
Total Assets	8,47,380	9,27,680	10,83,860	11,49,354	12,23,358	13,11,386
Equity Share Capital	21,700	21,220	21,240	21,240	21,240	21,240
Other Equity	6,27,780	6,33,280	7,42,270	7,77,538	8,16,587	8,65,694
Equity Attributable to Owners of the Company	6,49,480	6,54,500	7,63,510	7,98,778	8,37,827	8,86,934
Non controlling Interest	580	3,940	4,310	4,310	4,310	4,310
Total Equity	6,50,060	6,58,440	7,67,820	8,03,088	8,42,137	8,91,244
Deferred Income Tax Liabilities	6,720	9,680	8,750	8,750	8,750	8,750
Employee Benefit Obligations	1,470	8,070	15,140	15,140	15,140	15,140
Lease Liabilities	0	40,140	45,870	45,870	45,870	45,870
Other Liabilities	2,750	2,790	7,630	7,630	7,630	7,630
Total non current liabilities	10,940	60,680	77,390	77,390	77,390	77,390
Trade Payables	16,550	28,520	26,450	23,905	25,199	30,845
Derivative Financial Instruments	150	4,910	560	560	560	560
Client Deposits	260	180	0	0	0	0
Unearned Revenue	28,090	29,900	40,500	47,571	54,688	62,553
Lease Liabilities	0	6,190	7,380	7,380	7,380	7,380
Other Liabilities	1,03,710	99,920	1,14,970	1,38,210	1,61,875	1,78,331
Income Tax Liabilities	15,670	14,900	21,460	22,675	24,302	31,871
Employee Benefit Obligations	16,190	18,320	20,200	20,200	20,200	20,200
Post-Sales Client Support and Warranties	5,760	5,720	7,130	8,375	9,628	11,012
Total Current Liabilities	1,86,380	2,08,560	2,38,650	2,68,876	3,03,832	3,42,752
Total liabilities	8,47,380	9,27,680	10,83,860	11,49,354	12,23,358	13,11,386

Source: Company, KRChoksey Research

Infosys Limited.

KEY FINANCIALS

Exhibit 2: Profit & Loss Statement

Particulars (INR Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E
Revenue	8,26,750	9,07,910	10,04,720	1,216,410	13,56,689	15,51,805
Employee Cost	4,53,160	5,08,870	5,55,410	6,09,060	7,74,042	8,42,339
SG&A and Other Cost	1,63,690	1,76,370	1,70,420	2,92,430	2,47,911	2,83,500
EBITDA	2,09,900	2,22,670	2,78,890	3,14,920	3,34,736	4,25,966
Depreciation	21,100	28,930	32,670	34,770	36,832	39,974
EBIT	1,88,800	1,93,740	2,46,220	2,80,150	2,97,904	3,85,992
Other income, net	28,820	28,030	22,010	24,763	29,792	31,849
Finance costs	0	1,700	1,950	2,000	1,331	3,195
Provision for Investments	4,510	0	0	0	0	0
Pre-tax Income	2,13,110	2,20,070	2,66,280	3,02,913	3,26,365	4,14,646
Income tax expense	56,310	53,680	72,050	79,640	81,591	1,07,003
Net profit Before EI & MI	1,56,800	1,66,390	1,94,230	2,23,273	2,44,774	3,07,643
Extraordinary Item	-2,700	0	0	0	0	0
Minority Interest, MI	-60	-450	-720	-130	-720	-720
Net profit Before MI	1,54,040	1,65,940	1,93,510	2,23,143	2,44,054	3,06,923
Diluted EPS (INR)	35.38	38.91	45.52	52.50	57.41	72.20
Shares in Million	4,353	4,265	4,251	4,251	4,251	4,251

Source: Company, KRChoksey Research

Exhibit 3: Free Cash Flow Analysis

Particulars (INR Mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Cash Generated From Operations	2,32,950	2,48,370	2,44,560	3,27,400	2,58,194	3,30,657	4,25,490
Net Cash Flow from/(used in) Investing Activities	-15,930	-17,120	-29,180	-1,10,860	-29,504	-30,526	-34,916
Net Cash Flow from Financing Activities	-2,42,360	-1,90,670	-2,24,090	-2,41,960	-2,61,285	-2,86,597	-3,64,819
Others	-2,730	-43,080	-480	86,070	0	0	0
Net Inc/Dec in cash equivalents	-25,340	40,580	-8,710	-25,420	-32,594	13,535	25,756
Opening Balance	2,26,250	1,98,180	1,95,680	1,86,490	2,47,140	2,14,546	2,28,081
Closing Balance Cash & Cash Equivalents	1,98,180	1,95,680	1,86,490	2,47,140	2,14,546	2,28,081	2,53,837

Exhibit 4: Ratio Analysis

Key Ratio	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
EBIT Margin (%)	27.0%	25.4%	24.5%	27.8%	25.9%	24.7%	27.4%
Tax rate (%)	20.7%	26.4%	24.4%	27.1%	26.3%	25.0%	25.8%
Net Profit Margin (%)	22.7%	18.6%	18.3%	19.3%	18.3%	18.0%	19.8%
RoE (%)	23.9%	23.7%	25.5%	27.3%	28.6%	29.8%	35.6%
RoCE (%)	20.3%	21.4%	22.5%	25.3%	26.4%	27.3%	33.2%
Current Ratio	3.5	2.8	2.6	2.5	2.5	2.5	2.5
EPS (INR per share)	36.8	35.4	38.9	45.5	52.5	57.4	72.2

Source: Company, KRChoksey Research

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Infosys Limited				Rating Legend (Expected over a 12-month period)	
				Our Rating	Upside
Date	CMP (INR)	TP(INR)	Recommendation	Buy	More than 15%
16-Apr-22	1749	2094	BUY	Accumulate	5% – 15%
13-Jan-22	1897	2094	ACCUMULATE	Hold	0 – 5%
				Reduce	-5% – 0
13-Oct-21	1708	2094	BUY	Sell	Less than – 5%

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KR Choksey Shares and Securities Pvt. Ltd

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.