KRChoksey | Institutional

Infosys Limited

Result Update

26th July, 2022

Infosys Limited.

Improved revenue guidance for FY23 but pressure on margin to continue

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 1,502	**INR 1,805**	**20.1%**	**INR 6,319,843**	**BUY**	**Internet Software & Services**

Synopsys:

Infosys Limited (INFO) Q1FY23 performance was higher than with our estimate. Dollar Revenue witnessed a material growth of 3.8%/20.6% in QoQ/YoY to USD 4,444mn (KRChoksey est. USD 4,401mn), driven by driven by ENU, Manufacturing, Comm. and Retail. Rupee revenue grew by 6.8% QoQ to INR 3,44,7000Mn (KRChoksey est. INR 3,39,734Mn). Reported operating margin contracted by ~150bps to 20.1% QoQ, impacted adversely by annual wage increments (160 bps), further increase in subcontracting expenses (+30 bps), lower utilization (-40 bps), continued investments in hiring and marginal increase in onsite mix. Reported Net profit de-grew by ~5.7% QoQ to INR 53,600mn (KRChoksey est. INR 57,414mn) with margin of 15.5% (materially down by ~200bps on QoQ basis, due to margin miss as well as higher ETR of 28.8%). Large deal wins declined by 25%/34% QoQ/YoY to USD 1.7bn (USD 8.6bn; down 43% TTM). Company's revenue guidance for FY23 stood at 14-16% cc (than 13-15% consensus) & operating margin guidance stood at 21%-23%. Our target price of INR 1,805 is based on 25x Mar-24E EPS with EPS CAGR of ~17.2% over FY22-24E.

MARKET DATA

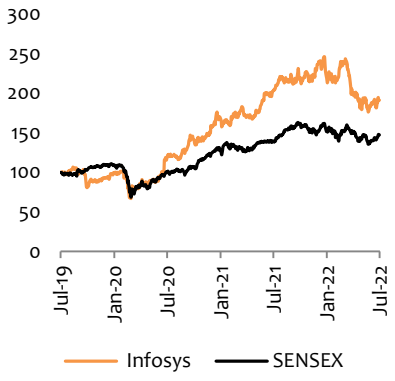
Shares outs (Mn)	4251
Mkt Cap (INR Mn)	73,56,113
52 Wk H/L (INR)	1953.7/1367.2
Volume Avg (3m K)	7270.7
Face Value (INR)	5
Bloomberg Code	INFO IN

KEY FINANCIALS

(INR Mn)	Q1FY23A	Q4FY22A	Q1FY22A	QoQ	YoY	KRChoksey Est.	Variance (%)
USD Revenue	4,444	4,280	3,782	3.8%	17.5%	4,401	1.0%
Revenue	3,44,700	3,22,760	2,78,960	6.8%	23.6%	3,39,734	1.5%
EBIT	69,140	69,560	66,030	-0.6%	4.7%	71,861	-3.8%
PAT	53,600	56,860	51,820	-5.7%	3.4%	57,414	-6.6%
OPM (%)	20.1%	21.6%	23.7%	-149 bps	-361 bps	21.2%	-109 bps
NPM(%)	15.5%	17.6%	18.6%	-207 bps	-303 bps	16.9%	-135 bps

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	55,809.4
NIFTY	16,667.1

Robust revenue performance; FY23 revenue guidance raised to 14-16%

Infosys reported a +5.5% CC QoQ revenue growth, beats the street's estimates, which speaks about the volumes/wallet share gains by Infosys. Infosys raised it's FY23 revenue guidance to 14-16% (V/s 13-15% earlier) driven by 1Q beat which implies a 1.5-2.6% CQGR through the course of FY23. Revenue growth was driven by ENU, Manufacturing, Comm. and Retail (retail bounced back strongly after weak Q4). Company has successfully added 5 clients of USD 50Mn buckets, totaling to 69. Top 5 and top 10 grew at 14.4%/11.3% respectively in Q1FY23. Growth was strong across key markets like North America (+5%QoQ) and Europe (+7.4% QoQ). Among the verticals, growth picked up sequentially across all the major verticals barring Others segment. Revenues from manufacturing vertical in Europe increased by 88% to USD 300mn in Q1FY23 and contributed +20% to incremental revenue growth on YoY basis. Daimler deal seems like a loss making entity as of now as the manufacturing vertical itself accounted for 160 bps (out of 360 bps YoY decline) in EBIT margin.

Macro indicators poses a slowdown/weak TCV

Large deal wins however declined by 25% QoQ/34% YoY to USD 1.7bn. Deal wins on trailing twelve month basis at USD 8.6bn is down 43% over TTM ended June 2021. New deal TCV was USD 800mn. Number of large deals also reduced to 19 over the last nine months.

Daimler drags down the margin; may hover in the lower end of 21-23 % range

Infosys continued with growth leadership/market share gains (Infosys was leader in growth among its peers during FY20-22 and is likely to sustain that into FY23). EBIT margin of 20.1%, down ~150bps QoQ, due to higher employee cost (240bps, including wage hike impact of 160bps and 21k net additions), 230bp drop in utilization (40bp margin impact) and sub-con expenses (+5.9%/51.4% QoQ/YoY; impact of 20bps). Sub-con charges, utilization, pyramids and wage revisions will become tailwinds once the talent situation eases. We believe that Daimler margin will improve in the subsequent quarters.

SHARE HOLDING PATTERN (%)

Particulars	Jun-22	Mar-21	Dec-21
Promoters	13.1	13.1	13.1
FIIs	31.7	33.3	33.2
DIIs	18.9	17.1	16.3
Others	36.3	36.5	37.4
Total	100	100	100

12.9%

Revenue CAGR between FY22 and FY24E

17.3%

PAT CAGR between FY22 and FY22E

ANALYST
Saptarshi Mukherjee, research4@krchoksey.com, +91-22-6696 5555

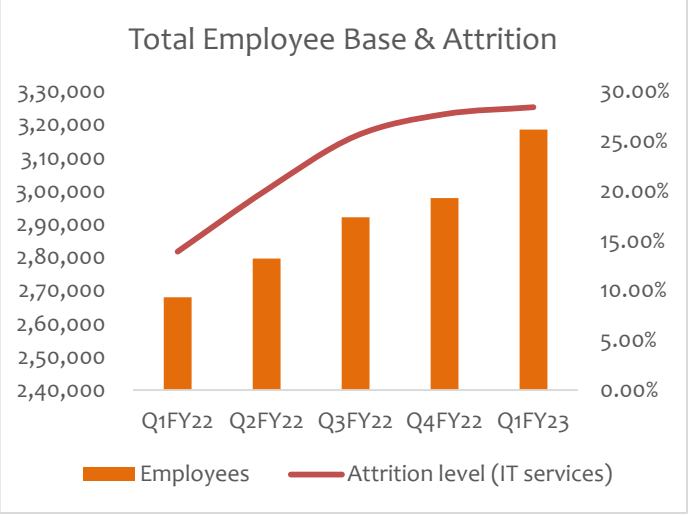
Infosys Limited.

Key Concall Highlights:

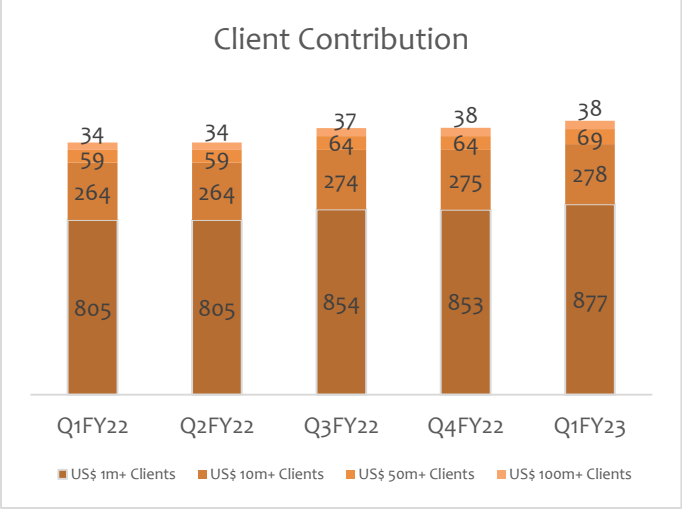
(1) Infosys has upgraded their revenue guidance from 13-15% to 14-16% on constant currency for FY23 (2) In-spite of elongated supply pressures and return of travel cost, company kept the margin guidance unchanged at 21-23% and expects to hover at the lower end of the band (3) Some headwinds are seen on the mortgage business due to macros but management believes that enough opportunities in other verticals will compensate the weakness in mortgage (4) Deals wins are broad based in Q1FY23 and management continues to see a very strong large deals pipeline in the form of both new clients and expansion of work within existing clients (5) Attrition increased further to 28.4% in 1QFY23(up ~70bps QoQ) but annualized attrition has been coming off through the past 2 quarters (as per management).

Valuation and view

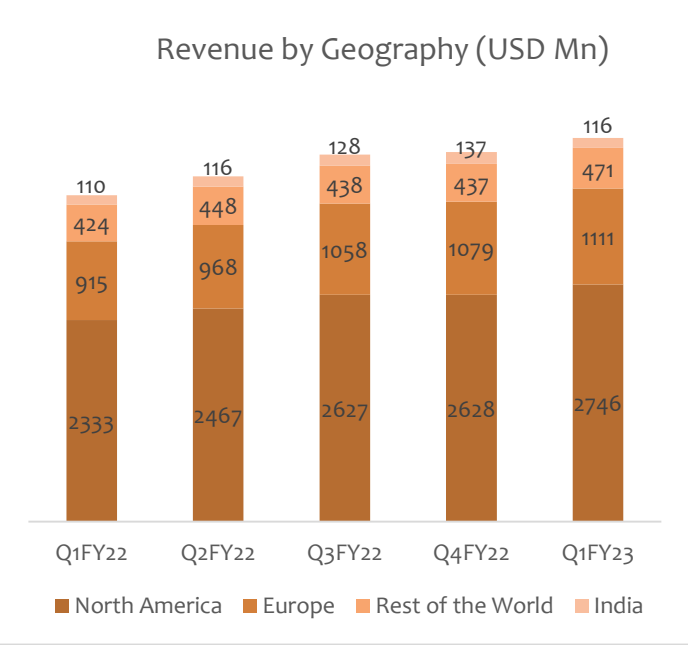
Infosys is currently trading at a valuation with a P/E multiple of 26.1x/20.1x on FY23E/FY24E earnings. Overall Indian technology companies remain volatile/range bound due to limited downside risk and is cushioned by sustainable strong growth. Factoring the upgrade in revenue guidance, weak TCV due to slowdown and decline in manufacturing vertical (due to the Daimler margin impact), we are assigning a P/E multiple of 25x to the FY24 estimated EPS of INR 72.2 to arrive at a target price of INR 1,805 per share(Earlier target price of INR 2,094), an upside of 20.1% over the CMP. We maintain our rating to "BUY" rating to the stock.



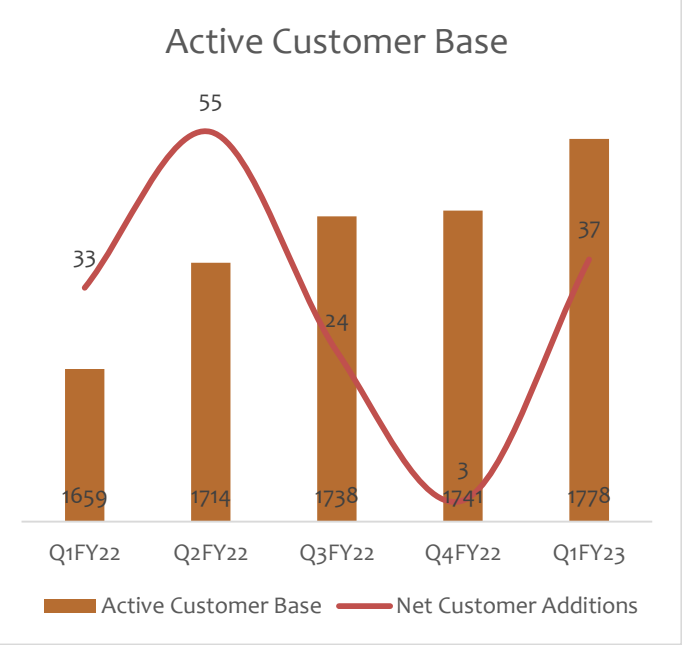
Source: Company, KRChoksey Research



Source: Company, KRChoksey Research



Source: Company, KRChoksey Research



Source: Company, KRChoksey Research

ANALYST
Saptarshi Mukherjee, research4@krchoksey.com, +91-22-6696 5555

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

Infosys Limited.

Infosys Limited			
Date	CMP (INR)	TP(INR)	Recommendation
25-Jul-22	1502	1805	BUY
14-Apr-22	1749	2094	BUY
13-Jan-22	1897	2094	ACCUMULATE

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

ANALYST CERTIFICATION:

I, Saptarshi Mukherjee (MBA, PGDSM and MSc Investment & Finance), Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & Conditions and other disclosures:

KRChoksey Shares and Securities Pvt. Ltd (hereinafter referred to as KRCSSPL) is a registered member of National Stock Exchange of India Limited and Bombay Stock Exchange Limited. KRCSSPL is a registered Research Entity vides SEBI Registration No. INH000001295 under SEBI (Research Analyst) Regulations, 2014.

We submit that no material disciplinary action has been taken on KRCSSPL and its associates (Group Companies) by any Regulatory Authority impacting Equity Research Analysis activities.

KRCSSPL prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analyst covers.

The information and opinions in this report have been prepared by KRCSSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KRCSSPL. While we would endeavor to update the information herein on a reasonable basis, KRCSSPL is not under any obligation to update the information. Also, there may be regulatory, compliance or other reasons that may prevent KRCSSPL from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or KRCSSPL policies, in circumstances where KRCSSPL might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KRCSSPL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. KRCSSPL accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Our employees in sales and marketing team, dealers and other professionals may provide oral or written market commentary or trading strategies that reflect opinions that are contrary to the opinions expressed herein, .In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

Associates (Group Companies) of KRCSSPL might have received any commission/compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of brokerage services or specific transaction or for products and services other than brokerage services.

KRCSSPL or its Associates (Group Companies) have not managed or co-managed public offering of securities for the subject company in the past twelve months.

KRCSSPL encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. KRCSSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither KRCSSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that Saptarshi Mukherjee (MBA, PGDSM and MSc Investment & Finance), Research Analyst of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific brokerage service transactions.

KRCSSPL or its associates (Group Companies) collectively or its research analyst do not hold any financial interest/beneficial ownership of more than 1% (at the end of the month immediately preceding the date of publication of the research report) in the company covered by Analyst, and has not been engaged in market making activity of the company covered by research analyst.

It is confirmed that, Saptarshi Mukherjee (MBA, PGDSM and MSc Investment & Finance), Research Analyst do not serve as an officer, director or employee of the companies mentioned in the 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 KRCSSPL 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 them of and to observe such restriction.

Please send your feedback to research.insti@krchoksey.com
Visit us at www.krchoksey.com
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.

SAPTARSHI MUKHERJEE

Digitally signed by SAPTARSHI MUKHERJEE
Date: 2022.07.26 08:27:20 +05'30'