

July 25, 2022

RESULT REPORT Q1 FY23 | Sector: Information Technology

Infosys

Mixed financial performance for the quarter

Our view and valuation

Overall, it reported mixed financial performance for the quarter as revenue was inline with estimates; but the EBIT margin was below estimates, on supply side pressure and higher Sales and Marketing costs. The outlook remains strong led by robust demand environment and that is also reflected in increased revenue growth guidance of 14-16% in cc terms for FY23. Deal pipeline remains strong and that provides strong revenue visibility. It continues to invest in scaling up its cloud offerings and automation tools to capitalize on the demand environment. Certain cost related to travel and admin are expected to come back but with improving employee pyramid and moderation in employee attrition, it is expected to report sequential improvement in margin over next 3 quarters. Hybrid model of work should help to optimize admin costs. We estimate revenue CAGR of 15.3% over FY22-24E with average EBIT margin of 22.7%

We maintain BUY rating on the stock with revised target price of Rs 1,848 at 25x on FY24E EPS. We have cut down our target valuation PE multiple from 27.5x to 25.0x to account for higher cost of capital(WACC) in this environment of high macroeconomic uncertainty. Trades at PER 20.4x on FY24E EPS.

Result Highlights

- Reported revenue of Rs 344.7bn(up 6.8% QoQ in INR terms, up 3.8% QoQ in USD terms). The sequential growth was broadbased across verticals, with strong uptick seen in Manufacturing(up 46% YoY), Communication(up 24.7% YoY)
- Digital now contributes 61% to revenue compared to 59.2% in Q4FY22
- EBIT margin declined by 150 bps QoQ to 20.1%, led by higher direct cost that grew 9.5% QoQ.
- Large deal TCv was slightly muted at \$1.7bn(vs \$2.3bn in Q4FY22 and \$2.6bn in Q1FY22). The volume of mid/ small sized deals have increased in last few quarters.
- Offshore effort mix declined by 30 bps QoQ to 75.7%. Added 106 clients during the quarter compared to 110 in Q4FY22
- Added ~21k employees(6.5% QoQ) in the quarter to reach headcount of 3,35,186. LTM Attrition increased by 70 bps QoQ to 28.4%.
- Excluding trainees, utilization was down 230 bps QoQ to 84.7%.
- DSO reduced by 4 days QoQ to 63 days in the quarter.
- Cash and investments was down to \$4.4bn compared to \$4.9bn as of Q4FY22.
- Increased FY23 revenue growth guidance to 14-16% compared to 13-15% earlier guidance; Maintained EBIT margin guidance at 21% to 23%

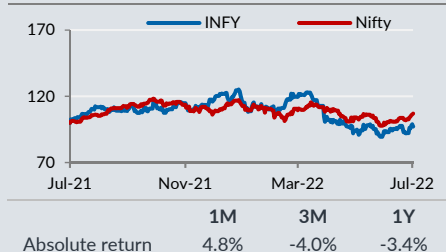
(Rs mn)	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	344,700	341,473	340,085	0.9%	1.4%
EBITDA	78,640	80,780	79,941	-2.6%	-1.6%
EBITDA Margin (%)	22.81%	23.66%	23.51%	(84) bps	(69) bps
Adjusted PAT	53,620	57,432	56,645	-6.6%	-5.3%

Reco	: BUY
CMP	: Rs 1,506
Target Price	: Rs 1,848
Potential Return	: +22.7%

Stock data (as on July 22, 2022)

Nifty	16,719
52 Week h/l (Rs)	1954 / 1367
Market cap (Rs/USD mn)	6337939 / 79369
Outstanding Shares (mn)	4,208
6m Avg t/o (Rs mn):	11,788
Div yield (%):	2.1
Bloomberg code:	INFO IN
NSE code:	INFY

Stock performance



Shareholding pattern (As of Jun'22 end)

Promoter	13.1%
FII+DII	50.6%
Others	36.0%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,848	2,018

Δ in earnings estimates

	FY22	FY23E	FY24E
EPS (New)	52.8	59.0	73.9
EPS (Old)	52.8	61.4	73.4
% change	NA	-3.9%	0.7%

Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Revenue (Rs mn)	1,216,410	1,426,039	1,616,215
YoY Growth	21.1%	17.2%	13.3%
EBIDTA	314,920	349,105	430,517
YoY Growth	12.9%	10.9%	23.3%
PAT	221,460	247,332	310,017
YoY Growth	14.0%	11.7%	25.3%
ROE	29.0%	30.2%	32.0%
EPS	53	59	74
P/E	28.5	25.5	20.4
BV	181	210	253
P/BV	8.3	7.2	6.0

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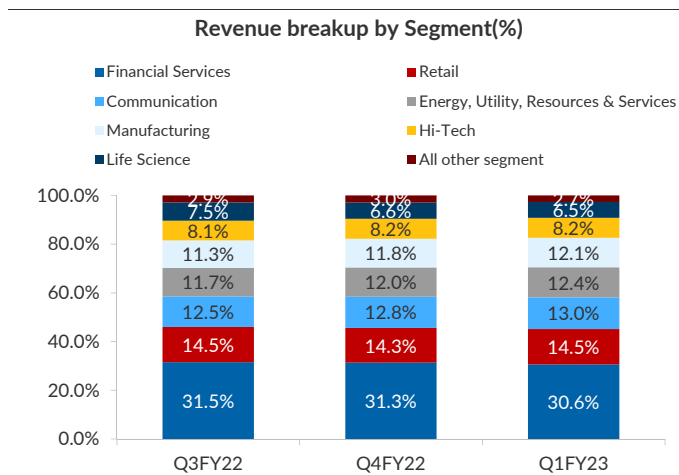
Exhibit 1: Quarterly snapshot:

Particulars (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	yoy%	qoq%	FY22	FY21	yoy %
Sales (\$ mn)	3,782	3,998	4,250	4,280	4,444	17.5	3.8	16,310	13,562	20.3
Sales	278,960	296,020	318,670	322,760	344,700	23.6	6.8	1,216,410	1,004,730	21.1
EBITDA	74,320	78,310	83,830	78,460	78,640	5.8	0.2	314,920	278,900	12.9
EBITDA %	26.6	26.5	26.3	24.3	22.8	-383 bps	-150 bps	25.9	27.8	-187 bps
Depreciation	8,290	8,590	8,990	8,900	9,500	14.6	6.7	34,770	32,680	6.4
EBIT	66,030	69,720	74,840	69,560	69,140	4.7	(0.6)	280,150	246,220	13.8
EBIT Margin %	23.7	23.6	23.5	21.6	20.1	-361 bps	-149 bps	23.0	24.5	-148 bps
Other income	6,220	5,240	5,120	6,370	6,760	8.7	6.1	22,950	22,010	4.3
Interest	(490)	(480)	(530)	(500)	(560)	14.3	12.0	(2000)	(1950)	2.6
PBT	71,760	74,480	79,430	75,430	75,340	5.0	(0.1)	301,100	266,280	13.1
Tax	19,750	20,200	21,210	18,480	21,720	10.0	17.5	79,640	72,050	10.5
PAT	52,010	54,280	58,220	56,950	53,620	3.1	(5.8)	221,460	194,230	14.0
NPM (%)	18.6	18.3	18.3	17.6	15.6	-309 bps	-209 bps	18.2	19.3	-113 bps

KEY CON-CALL HIGHLIGHTS

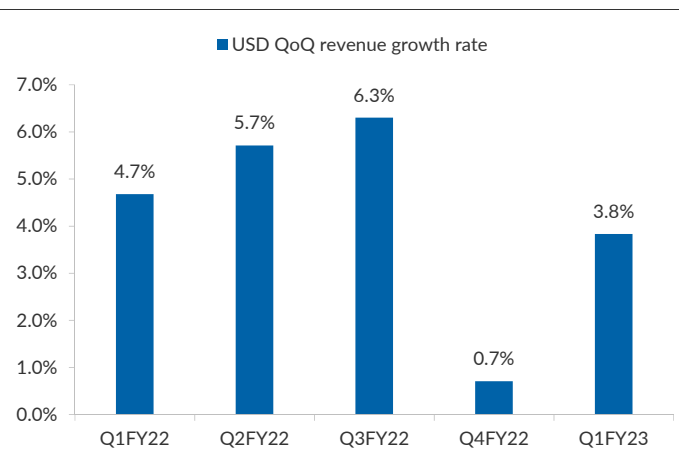
- It continues to be watchful of evolving macroeconomic situation. It has seen some signs of softness in areas like Mortgages and Retail, where there has been some slowdown in decision making process.
- The management expects margin to broadly improve sequentially over next 3 quarters going ahead and that should lead to achieving lower range of 21-23% EBIT margin band.
- It aims to use all operating margin levers such as improving employee pyramid, better utilization and price increase to support margin for FY23.
- It has completed wage hike for lower and mid level employees with effect from April'22. Only salary hike for certain senior level staff would take place from July'22.
- It expects expenses related to travel to normalize going ahead.
- With hiring plans well on track, the subcon cost as % of revenue should moderate going ahead.
- It has been in active discussion with clients for price increase.
- Attrition has started moderating, as quarterly attrition for Q1FY23 has been below the LTM attrition.
- There has been increase in the number of clients across revenue buckets led by strong client mining efforts.
- The pipeline remains strong across deal sizes and the demand environment gives them the confidence to increase Revenue growth guidance for FY23

Exhibit 2: Q1FY23 performance was broadbased across verticals



Source: Company, YES Sec

Exhibit 3: Sequential revenue growth was inline with estimates for Q1FY23



Source: Company, YES Sec

FINANCIALS

Exhibit 4: Balance Sheet

Y/e March 31 (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Share capital	10,880	21,700	21,220	21,240	20,980	20,980	20,980
Reserves & surplus	638,350	628,360	637,220	746,580	736,380	857,916	1,037,943
Shareholders' funds	649,230	650,060	658,440	767,820	757,360	878,896	1,058,923
Non-current liabilities	8,610	10,940	60,680	77,390	85,460	86,826	88,261
Other non-current liabilities	8,610	10,940	60,680	77,390	85,460	86,826	88,261
Current liabilities	141,060	186,380	208,560	238,650	336,030	349,911	390,503
Other current liabilities	141,060	186,380	208,560	238,650	336,030	349,911	390,503
Total (Equity and Liabilities)	798,900	847,380	927,680	1,083,860	1,178,850	1,315,634	1,537,687
Non-current assets	298,730	318,600	381,920	476,530	507,000	517,952	529,364
Fixed assets (Net block)	123,900	140,470	155,990	156,950	152,860	154,872	156,900
Non-current Investments	0	0	0	0	0	0	0
Other non-current assets	174,830	178,130	225,930	319,580	354,140	363,079	372,464
Current assets	500,170	528,780	545,760	607,330	671,850	797,682	1,008,323
Cash & current investment	262,250	261,950	233,040	270,560	241,450	304,526	452,651
Other current assets	237,920	266,830	312,720	336,770	430,400	493,156	555,672
Total (Assets)	798,900	847,380	927,680	1,083,860	1,178,850	1,315,634	1,537,687

Exhibit 5: Income Statement

Y/e March 31 (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	705,220	826,760	907,910	1,004,730	1,216,410	1,426,039	1,616,215
Operating expenses	(515,120)	(617,870)	(685,240)	(725,830)	(901,490)	(1,076,933)	(1,185,698)
EBITDA	190,100	208,890	222,670	278,900	314,920	349,105	430,517
Depreciation	(18,620)	(20,100)	(28,930)	(32,680)	(34,770)	(41,210)	(46,870)
EBIT	171,480	188,790	193,740	246,220	280,150	307,895	383,647
Other income	31,930	28,830	28,030	22,010	22,950	26,224	29,092
Finance cost	0	0	(1,690)	(1,950)	(2,000)	(2,207)	(2,120)
Profit before tax	202,700	210,410	220,080	266,280	301,100	331,913	410,619
Tax (current + deferred)	(42,420)	(56,310)	(53,680)	(72,050)	(79,640)	(84,580)	(100,602)
Reported Profit / (Loss)	160,280	154,150	166,400	194,230	221,460	247,332	310,017
Adjusted net profit	160,280	154,150	166,400	194,230	221,460	247,332	310,017

Exhibit 6: Cash Flow Statement

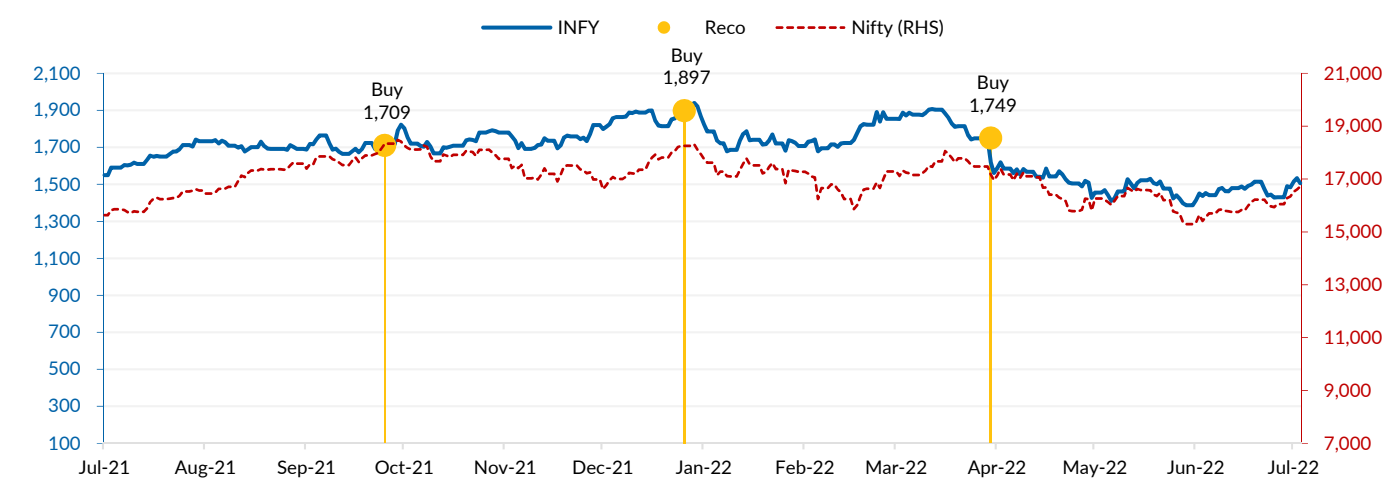
Y/e March 31 (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Profit before tax	202,700	210,410	220,080	266,280	301,100	331,913	410,619
Depreciation	18,620	20,100	28,930	32,680	34,770	41,210	46,870
Change in working capital	(25,890)	16,410	(23,710)	6,040	3,750	(48,875)	(21,923)
Total tax paid	(46,500)	(55,900)	(54,440)	(66,520)	(77,970)	(84,702)	(100,724)
Others	(31,930)	(28,830)	(26,340)	(20,060)	(20,950)	(24,017)	(26,972)
Cash flow from operations (a)	117,000	162,190	144,520	218,420	240,700	215,529	307,869
Capital expenditure	(17,600)	(36,670)	(44,450)	(33,640)	(30,680)	(43,222)	(48,898)
Change in investments	36,340	(2,200)	19,720	23,130	(43,310)	(2,669)	(2,776)
Others	20,980	39,720	1,410	(70,170)	(9,310)	17,406	19,829
Cash flow from investing (b)	39,720	850	(23,320)	(80,680)	(83,300)	(28,485)	(31,844)
Free cash flow (a+b)	156,720	163,040	121,200	137,740	157,400	187,043	276,025
Equity raised/(repaid)	(22,260)	12,920	1,560	3,950	(1,920)	0	0
Dividend (incl. tax)	(74,640)	(137,050)	(95,150)	(91,170)	(126,520)	(125,796)	(129,990)
Others	(87,890)	(41,410)	(36,800)	10,130	(101,380)	(840)	(686)
Cash flow from financing (c)	(184,790)	(165,540)	(130,390)	(77,090)	(229,820)	(126,637)	(130,675)
Net change in cash (a+b+c)	(28,070)	(2,500)	(9,190)	60,650	(72,420)	60,406	145,350

Exhibit 7: Ratio Analysis

Y/e March 31	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Growth (%)							
Revenue Growth	3.0	17.2	9.8	10.7	21.1	17.2	13.3
EBITDA Growth	2.2	9.9	6.6	25.3	12.9	10.9	23.3
EBIT Growth	1.5	10.1	2.6	27.1	13.8	9.9	24.6
Net Profit Growth	11.7	(3.8)	7.9	16.7	14.0	11.7	25.3
Profitability Ratios (%)							
EBITDA Margin	27.0	25.3	24.5	27.8	25.9	24.5	26.6
EBIT margin	24.3	22.8	21.3	24.5	23.0	21.6	23.7
Net Profit margin	22.7	18.6	18.3	19.3	18.2	17.3	19.2
RoA	21.0	22.9	21.8	24.5	24.8	24.7	26.9
RoE	23.9	23.7	25.4	27.2	29.0	30.2	32.0
RoCE	25.4	28.6	28.1	31.5	33.2	34.0	36.3
Liquidity Ratios							
Net debt/Equity (x)	(0.4)	(0.4)	(0.4)	(0.4)	(0.3)	(0.3)	(0.4)
Current ratio (x)	3.5	2.8	2.6	2.5	2.0	2.3	2.6
Quick ratio (x)	3.5	2.8	2.6	2.5	2.0	2.3	2.6
Valuation Ratios							
PER(x)	NA	NA	NA	NA	28.5	25.5	20.4
PCE(x)	NA	NA	NA	NA	24.6	21.9	17.7
Price/Book(x)	NA	NA	NA	NA	8.3	7.2	6.0
EV/EBITDA(x)	NA	NA	NA	NA	19.3	17.2	13.6

Dupont Analysis	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net margin (%)	22.7	18.6	18.3	19.3	18.2	17.3	19.2
Asset turnover (x)	0.9	1.0	1.0	1.0	1.1	1.1	1.1
Leverage factor (x)	1.2	1.3	1.4	1.4	1.5	1.5	1.5
Return on Equity (%)	23.9	23.7	25.4	27.2	29.0	30.2	32.0

Recommendation Tracker



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