

Infosys Limited



Infosys Limited.

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 1,420	INR 1,805	27%	INR 59,74,063	BUY	Internet Software & Services

Strong deal momentum; Seasonality to impact growth in H2

Synopsis:

Infosys Limited (INFO) Q2FY23 performance was slightly lower than our estimate. Dollar Revenue grew by 2.5%/13.9% in QoQ/YoY to USD 4,555mn (KRChoksey est. USD 4,578mn), driven by Manufacturing, financial services and Life science. Rupee revenue grew by +6% QoQ to INR 3,65,380Mn (KRChoksey est. INR 3,65,370Mn). 61.8% of revenue came from Digital business, growing at +31% YoY CC (although sequential deceleration), including Q2 cloud revenue at USD +1bn. Reported operating margin expanded by ~150bps to 21.5% QoQ, supported by +70bps from FX, +130bps on contract profitability and efficiencies (lower sub-con) and -40bps from senior workforce wage increase. Reported Net profit grew by ~12.3% QoQ to INR 60,210mn (KRChoksey est. INR 59,280mn) with margin of 16.5%. Though management hasn't clarified about FY24 but we believe that there will be some selective discretionary spending cut leads to lower volume & some price compression. Company's revenue guidance for FY23 stood at 15-16% cc (than 14-16% consensus) & operating margin guidance stood at 21%-22% (Earlier margin guidance 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

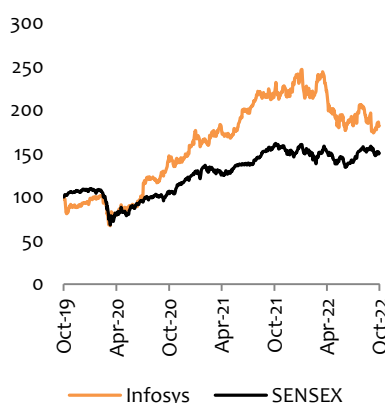
Shares outs (Mn)	4,193
Mkt Cap (INR Mn)	59,74,063
52 Wk H/L (INR)	1953.7/1355.5
Volume Avg (3m K)	6751.6
Face Value (INR)	5
Bloomberg Code	INFO IN

KEY FINANCIALS

(INR Mn)	Q2FY23A	Q1FY23A	Q2FY22A	QoQ	YoY	KRChoksey Est.	Variance (%)
USD Revenue	4,555	4,444	3,998	2.5%	13.9%	4,578	-0.5%
Revenue	3,65,380	3,44,700	2,96,020	6.0%	23.4%	3,65,370	0.0%
EBIT	78,730	69,410	69,720	13.4%	12.9%	73,680	6.9%
PAT	60,210	53,600	54,280	12.3%	10.9%	59,280	1.6%
OPM (%)	21.5%	20.1%	23.6%	141 bps	-201 bps	20.2%	138 bps
NPM(%)	16.5%	15.5%	18.3%	93 bps	-186 bps	16.2%	25 bps

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Robust revenue performance; FY23 revenue guidance raised to 15-16%

Infosys reported a +4% CC QoQ revenue growth and was up +18.8% YoY CC at USD 4,555mn, marginally beats our estimates. Growth was led by digital revenue growing at +3.8% QoQ while core services remained flat sequentially (+0.4% QoQ). Management is witnessing acceleration in core services, led by increased demand for cost efficiency programs and automation. We see weakness in Retail, Hi-Tech, Financials (Mortgages), and Telecom as it has started seeing some deal related slowdowns in these segments. The manufacturing vertical grew 8.4% QoQ in USD terms, with strong numbers in Europe as well as the US. Other verticals grew quite well, especially in financial services and life sciences, while retail and communications have underperformed. Despite this, management updated its revenue growth guidance for FY23 to 15-16% YoY in CC terms (from 14-16% earlier). It also highlighted its ability to secure Digital and cost savings-related work.

Macro indicators poses a slowdown/weak TCV

TCV of large deals signed in 2QFY23 grew at 28% YoY, and was aided by a strong pickup in cost optimization-related work. Net new deal wins are 54% of the total deal wins and the remaining was renewals. A 28% growth may seem impressive but has to be seen against the lower base (weak signings) in the first quarter. Net new large deal signings stood at USD 1.4bn in Q2FY23. Hiring is moderated in Q2 with +10K employees but total hiring crossed over 43K employees in the first half of FY23, resulting in drop in utilization rate by 100bps to multi-quarter low of 76.6% in second quarter.

Margin expansion was backed by manufacturing vertical and currency ;

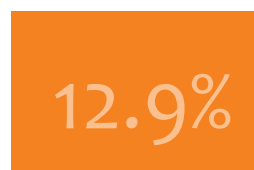
EBIT margin grew 150bp QoQ at 21.5% in 2QFY23, above our estimate of 20.2%, supported by +70bps from FX, +130bps on contract profitability and efficiencies (lower sub-con) and -40bps from senior workforce wage increase. The management narrowed its margin guidance to 21-22% from 21-23% earlier. We view the lower end as achievable.

MARKET INFO

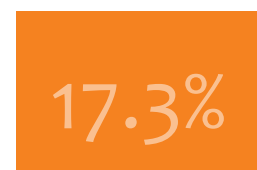
SENSEX	57,235.3
NIFTY	17,014.4

SHARE HOLDING PATTERN (%)

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



Revenue CAGR between FY22 and FY24E



PAT CAGR between FY22 and FY22E

Infosys Limited.

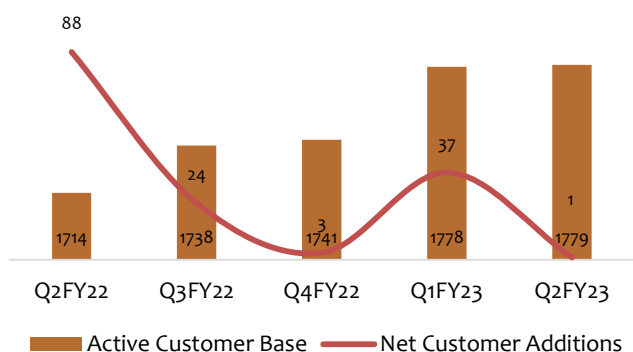
Key Concall Highlights:

(i) INFO reported a strong TCV of USD 2.7bn (the highest in the last 7 qtr), of which 54% were net new. The deal pipeline remains healthy and larger than preceding quarters, with a higher focus on cost programs (ii) Apart from some parts of Financial Services and Retail, it is also seeing some impact in Hi-Tech and Telecom in the form of reduced spends towards discretionary programs (iii) Though the third and fourth quarter is seasonally weak and are impacting margin, INFO expects it to be compensated by the easing of supply-side issues (iv) Won 27 large deals that were broad-based across verticals with 5 in financial services, 4 each in retail, manufacturing, EURS and hi-tech, 3 in manufacturing, 2 in life sciences and 1 in others (v) Financial services growth was led by large deal wins and new logos. Clients are accelerating cloud journey. Retail clients are focusing on legacy modernization, and supply chain transformation. Management sees sluggishness among fashion, apparel and general merchandise retailers. Macro concerns are causing pressure in traditional services in Telecom. New deals flows in Manufacturing space is steady with spending on security, cloud migration, smart factories and smart products. Hi-tech clients are cautious on discretionary spends. In some cases, management expects some delays in deal closures.

Valuation and view

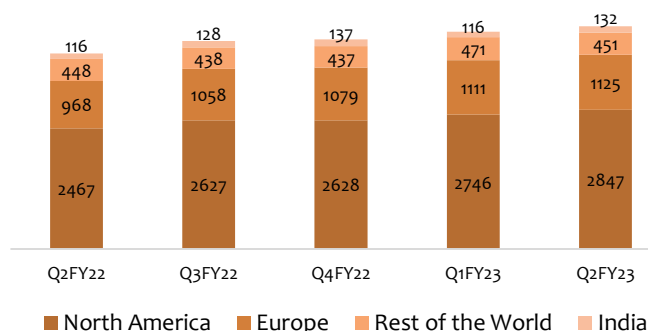
Infosys is currently trading at a valuation with a P/E multiple of 24.7x/19.6x on FY23E/FY24E earnings. Despite more verticals are turning cautious and point towards an expected slowdown in 2HFY23, Infosys' strength in managing the twin journeys of digital transformation and cost takeout will drive growth leadership and 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, an upside of ~27% over the CMP. We maintain our rating to "BUY" rating to the stock.

Active Customer Base



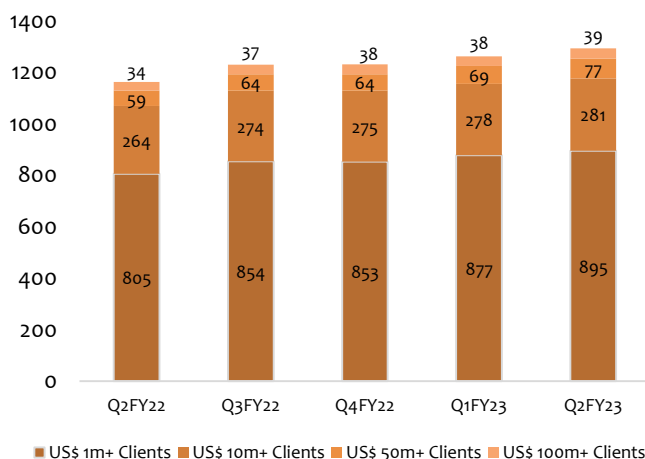
Source: Company, KRChoksey Research

Revenue by Geography (USD Mn)



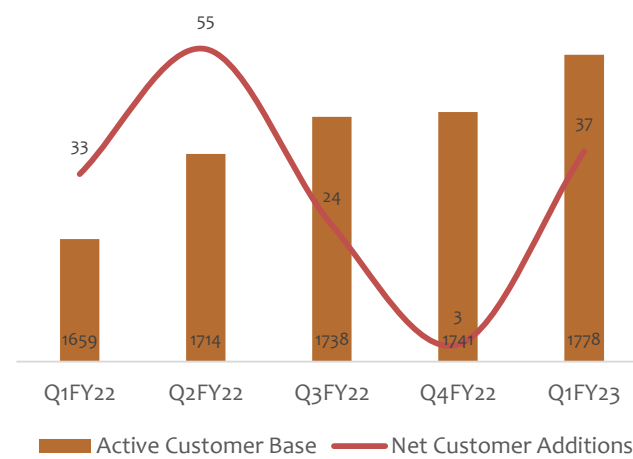
Source: Company, KRChoksey Research

Client Contribution



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

Infosys Limited.

Infosys Limited				Rating Legend (Expected over a 12-month period)	
				Our Rating	Upside
Date	CMP (INR)	TP(INR)	Recommendation	Buy	More than 15%
14-Oct-22	1420	1805	BUY	Accumulate	5% – 15%
25-Jul-22	1502	1805	BUY	Hold	0 – 5%
				Reduce	-5% – 0
14-Apr-22	1749	2094	BUY	Sell	Less than – 5%

ANALYST CERTIFICATION:

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