

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR1,420

TP: INR1,630 (+15%)

Buy

Strong pickup in margin and deal wins to drive earnings growth

Seasonality to impact growth in 2HFY23

Bloomberg	INFO IN
Equity Shares (m)	4,572
M.Cap.(INRb)/(USDb)	5974.1 / 72.5
52-Week Range (INR)	1954 / 1356
1, 6, 12 Rel. Per (%)	-3/-17/-11
12M Avg Val (INR M)	11488

Financials & Valuations (INR b)

Y/E Mar	2022	2023E	2024E
Sales	1,216	1,466	1,616
EBIT Margin (%)	23.0	21.1	21.3
PAT	221	242	274
EPS (INR)	52.4	57.6	65.3
EPS Gr. (%)	15.0	9.8	13.5
BV/Sh. (INR)	179	173	178

Ratios

RoE (%)	29.2	32.7	37.3
RoCE (%)	24.4	26.7	29.6
Payout (%)	59.0	95.0	80.0

Valuations

P/E (x)	27.1	24.7	21.7
P/BV (x)	7.9	8.2	8.0
EV/EBITDA (x)	19.0	16.6	15.0
Div Yield (%)	2.2	3.8	3.7

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	13.1	13.1	13.0
DII	18.9	17.1	22.0
FII	32.0	33.6	33.8
Others	36.0	36.2	31.3

FII Includes depository receipts

- INFO reported an in line 2QFY23 revenue of USD4.55b, up 4% QoQ in CC terms. It announced a large deal TCV of USD2.7b (up 59% QoQ, net new at 54%), which was its highest in the last seven quarters and was aided by a strong pickup in cost optimization-related work. The management sees traction in the large deal pipeline, despite an adverse demand environment.
- The management said it is seeing weakness in parts of Retail, Hi-Tech, Financials (Mortgages), and Telecom as it has started seeing some deal-related slowdowns in these segments. Despite this, it 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.
- EBIT margin grew 150bp QoQ at 21.5% in 2QFY23, above our estimate of 20.2%, on cost optimization, depreciation in the INR v/s the USD, and lower sub-contractor expenses. The management narrowed its margin guidance to 21-22% from 21-23% earlier. We view the lower end as achievable.
- We were positively surprised by INFO's margin performance, as that was the key concern among investors, given the supply-related headwinds. While INFO has done exceptionally well in lowering sub-contractor cost, we see scope for further improvement in FY24.
- While the management highlighting of some verticals as slow moving is a cause for concern, the large deal TCV in 2QFY23 should provide some buffer from any impact on revenue. INFO's 2HFY23 guidance implies weak growth over the next two quarters, which was within our expected range and should not alter the business opportunity. We factor in 9.6% revenue CAGR over FY22-24, despite cross-currency headwinds. We factor in a margin of 21.1%/21.3% in FY23/FY24, leading to 11% PAT CAGR over FY22-24.
- We have kept our FY23/FY24 EPS estimate broadly flat after the 2QFY23 result and view INFO as a beneficiary of an acceleration in IT spends, given its capabilities around Cloud and Digital transformation. We value the stock at 25x FY24E EPS and reiterate our **Buy** rating.

Large margin beat in 2QFY23; guidance narrows; announces buyback

- In CC terms, revenue grew 18.8% YoY, INR EBIT rose 13%, and INR PAT increased by 11% in 2QFY23.
- Revenue stood at USD4.56b, up 4% QoQ in CC terms, marginally below our estimate of 4.3%. Reported USD grew 2.5% QoQ.
- USD revenue/INR EBIT/INR PAT grew 15.7%/8.9%/7.2% in 1HFY23.
- There was a huge EBIT margin beat at 21.5% (est. 20.2%), up 150bp QoQ.
- The management narrowed its FY23 revenue growth guidance to 15-16% (from 14-16% YoY earlier) in CC terms. The margin guidance narrowed to 21-22% from the lower end of its earlier range of 21-23%.
- INFO saw a large deal TCV of USD2.7b, up 59% QoQ and 26% YoY, which was the largest in the last seven quarters.

Mukul Garg - Research analyst (Mukul.Garg@MotilalOswal.com)

Raj Prakash Bhanushali - Research analyst (Raj.Bhanushali@MotilalOswal.com)

Investors are advised to refer through important disclosures made at the last page of the Research Report.

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- INFO reported a good FCF/PAT conversion ratio of 79% in 2QFY23. Cash and investments stood at USD4.78b.
- Net profit grew 12% QoQ to INR60.3b (in line).
- It announced an interim dividend of INR16.50/share and an open market share buyback of INR9.3b at a max buyback price of INR1,850/share.

Key highlights from the management commentary

- INFO reported a strong TCV of USD2.7b (the highest in the last seven quarters), of which 54% were net new. The deal pipeline remains healthy and larger than preceding quarters, with a higher focus on cost programs.
- It is seeing clients turning cautious. Besides 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.
- 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.

Valuation and view

- INFO posted a strong set of earnings in 2QFY23. Demand and the order book remain robust. Its strong FY23 growth guidance and high headcount addition provides further demand visibility.
- We expect INFO to deliver margin at the lower side of its guidance band, with strong growth and reduced dependence on sub-contractors as attrition falls.
- We expect INFO to be a key beneficiary of an acceleration in IT spends. Based on our revised estimates, the stock is currently trading at 22x FY24E EPS. We value the stock at 25x FY24E EPS, implying a TP of INR1,630.

Quarterly performance (IFRS)

Y/E March	FY22				FY23E				FY22	FY23E	FY23E	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%/bp)
Revenue (USD m)	3,782	3,998	4,250	4,280	4,444	4,555	4,547	4,617	16,310	18,163	4,580	-0.5
QoQ (%)	4.7	5.7	6.3	0.7	3.8	2.5	-0.2	1.5	20.3	11.4	3.1	-57bp
Revenue (INR m)	279	296	319	323	345	365	375	381	1,216	1,466	365	0.1
YoY (%)	17.9	20.5	22.9	22.7	23.6	23.4	17.7	18.0	21.1	20.5	23.3	12bp
GPM (%)	33.7	33.1	32.8	31.0	29.3	30.5	30.3	30.8	32.6	30.2	29.8	69bp
SGA (%)	10.0	9.5	9.3	9.4	9.2	8.9	9.1	9.2	9.6	9.1	9.6	-67bp
EBITDA	74	78	84	79	78	89	89	92	315	349	84	6.0
EBITDA Margin (%)	26.6	26.4	26.3	24.4	22.8	24.2	23.9	24.3	25.9	23.8	22.9	136bp
EBIT	66	70	75	70	69	79	79	82	280	309	74	6.8
EBIT Margin (%)	23.7	23.6	23.5	21.6	20.1	21.5	21.2	21.6	23.0	21.1	20.2	136bp
Other income	6	5	5	6	6	5	6	6	21	23	7	-21.2
ETR (%)	27.5	27.1	26.7	24.5	28.8	28.2	26.0	26.0	26.4	27.2	26.0	218bp
PAT	52	54	58	57	54	60	63	65	221	242	59	1.6
QoQ (%)	2.3	4.4	7.2	-2.1	-5.7	12.3	4.3	3.9			10.6	175bp
YoY (%)	22.3	11.9	11.8	12.0	3.2	11.1	8.1	14.7	14.2	9.3	9.3	173bp
EPS (INR)	12.2	12.9	13.8	13.5	12.8	14.3	14.9	15.5	52.2	57.4	14.1	1.6

Key performance indicators

Y/E March	FY22				FY23E				FY22	FY23E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue (QoQ CC %)	4.8	6.3	7.0	1.2	5.5	4.0			19.7	
Margins										
Gross Margin	33.7	33.1	32.8	31.0	29.3	30.5	30.3	30.8	32.6	30.2
EBIT Margin	23.7	23.6	23.5	21.6	20.1	21.5	21.2	21.6	23.0	21.1
Net Margin	18.6	18.3	18.2	17.6	15.5	16.5	16.7	17.1	18.2	16.5
Operating metrics										
Headcount	268	280	292	314	335	345			314	
Voluntary attrition (%)	13.9	20.1	25.5	27.7	28.4	27.1			28	
Deal win TCV (USD b)	2.6	2.2	2.5	2.3	1.7	2.7			9.6	
Key verticals (YoY CC %)										
BFSI	22.6	20.5	15.5	14.1	12.1	11.5			17.8	
Retail	22.2	17.2	19.8	16.5	17.8	15.4			18.3	
Key geographies (YoY CC %)										
North America	21.1	23.1	21.4	18.5	18.4	15.6			21.0	
Europe	12.2	19.6	27.2	28.3	33.2	28.5			22.0	



Highlights from the management commentary

Performance in 2QFY23 and demand outlook

- In CC terms, INFO reported a growth of 4% QoQ and 18.8% YoY in 2QFY23.
- The company witnessed broad-based growth across all sectors and core geographies, with the Digital business growing at 30%. Revenue from the Cloud business exceeded USD1b in 2QFY23.
- INFO reported a strong TCV of USD2.7b (the highest in the last seven quarters), of which 54% were net new. The deal pipeline remains healthy and larger than preceding quarters, with a higher focus on cost programs.
- It bagged five large deals in Financial Services; four in Retail, Energy, Utility, and Hi-Tech, and three deals in Life Sciences. It also saw some delays in deal closure in the Hi-Tech vertical.
- Deal wins show strength in Digital and Automation. It has both Digital and Automation sides ready as the macro situation evolves, which differentiates it from its peers. The management has placed greater emphasis on cost driven deals.
- INFO is seeing acceleration in its growth trajectory due to its industry-leading Automation capabilities and the client-level shift towards cost reduction programs.
- It is seeing clients turning cautious. Besides 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.
- The management narrowed its revenue guidance upwards to 15-16% in CC terms in FY23, despite macro headwinds.
- It expects furloughs in 3QFY23 to be in line with past trends.

Margin performance

- Margin expanded by 150bp QoQ to 21.5% in 2QFY23, aided by a: 1) 70bp benefit from a depreciation in the INR v/s the USD, but the same was partly offset by cross-currency headwinds; 2) 90bp gain from cost optimization; and 3) a 40bp benefit from lower sub-contractor expenses partly offset by a 40bp impact from compensation hikes.
- The management continues to optimize cost. Pyramid rationalization and rationalizing sub-contractor expenses remains in focus.
- It is continuing to see price conversations, although it is a long haul.

- Its margin profile is not based on the type of work, but on its clientele and the scale of projects.
- 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.
- It expects margin to be at the lower end of its 21-22% guidance range.

Other highlights

- INFO hired 40k employees in 1H and expects to hire over 50k in FY23.
- It announced a buyback of INR93b at a max price of INR1,850/share.
- Attrition has reduced in the last three quarters sequentially and was down 2.5% QoQ in 2QFY23. The management expects it to fall further in coming quarters.

Exhibit 1: Broad based growth across verticals

Verticals	Contribution to revenue (%)	Growth YoY (CC)
Financial Services	30.5	11.5
Retail	14.2	15.4
Communications	12.3	18.4
Energy, Utilities, and Resources	12.3	24.3
Manufacturing	12.8	45.0
Hi-Tech	8.2	9.9
Life Sciences	6.7	10.3
Others	3.0	56.6

Source: Company, MOFSL

Exhibit 2: Strong growth in Europe and India

Geographies	Contribution to revenue (%)	Growth YoY (CC)
North America	62.5	15.6
Europe	24.7	28.5
India	2.9	36.4
RoW	9.9	11.9

Source: Company, MOFSL

Valuation and view

- INFO posted a strong set of earnings in 2QFY23. Demand and the order book remain robust. Its strong FY23 growth guidance and high headcount addition provides further demand visibility.
- We expect INFO to deliver margin at the lower side of its guidance band, with strong growth and reduced dependence on sub-contractors as attrition falls.
- We expect INFO to be a key beneficiary of an acceleration in IT spends. Based on our revised estimates, the stock is currently trading at 22x FY24E EPS. We value the stock at 25x FY24E EPS, implying a TP of INR1,630.

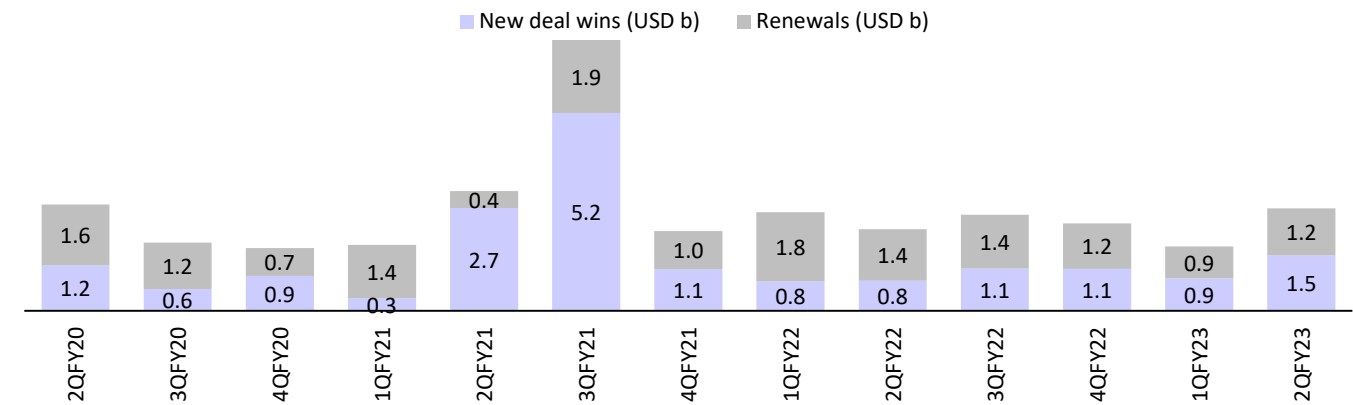
Exhibit 3: Revisions to our estimates

	Revised estimate		Earlier estimate		Change	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
USD:INR	80.7	82.5	80.2	81.8	0.6%	0.9%
Revenue (USD m)	18,163	19,589	18,229	19,634	-0.4%	-0.2%
Growth (%)	11.4	7.9	11.8	7.7	-40bp	10bp
EBIT margin (%)	21.1	21.3	20.6	21.5	50bp	-20bp
PAT (INR b)	242	274	240	276.1	0.6%	-0.6%
EPS (INR)	57.4	65.3	57.1	65.7	0.6%	-0.6%

Source: MOFSL

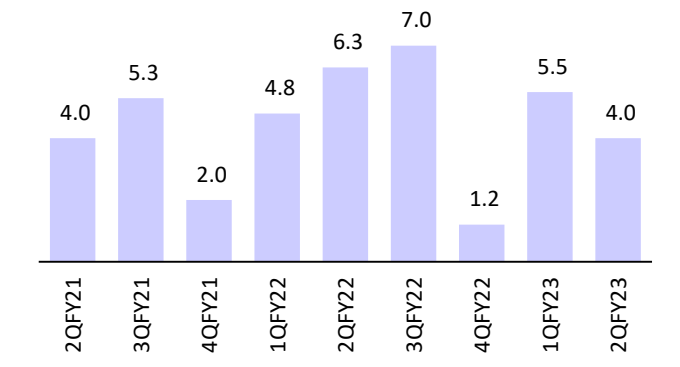
Story in charts

Exhibit 4: Net new deal wins constitute 54% of total large deals in 2QFY23



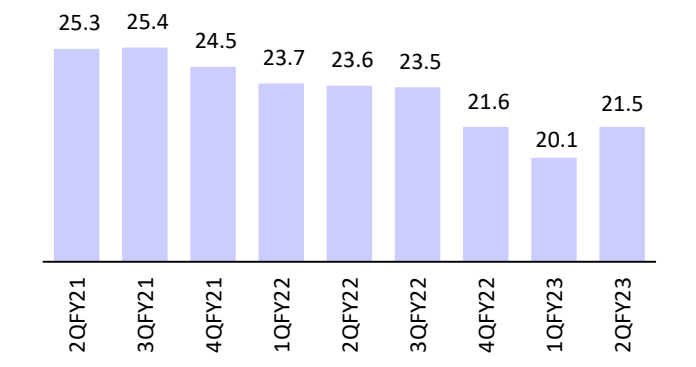
Source: Company, MOFSL

Exhibit 5: Revenue grew by 4% QoQ in CC terms in 2QFY23



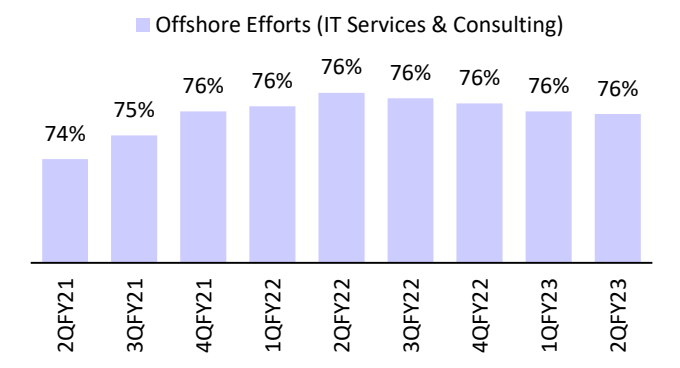
Source: Company, MOFSL

Exhibit 6: EBIT margin (%) sees a strong recovery in 2QFY23



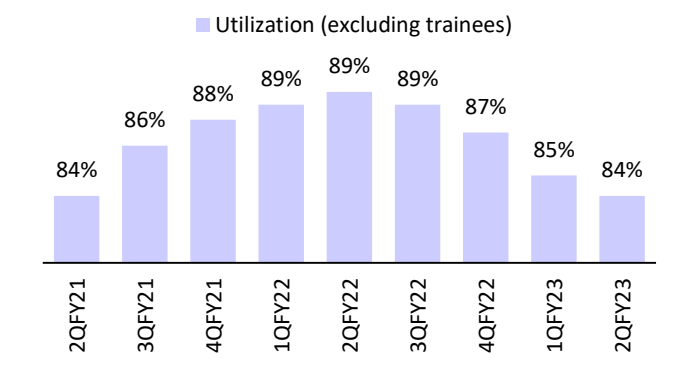
Source: Company, MOFSL

Exhibit 7: Offshoring ratio largely stable



Source: Company, MOFSL

Exhibit 8: Utilization moderates to 84% in 2QFY23



Source: Company, MOFSL

Exhibit 9: Operating metrics

	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23
Effort (IT Services and Consulting)									
On-site	26%	25%	24%	24%	24%	24%	24%	24%	24%
Offshore	74%	75%	76%	76%	76%	76%	76%	76%	76%
Utilization (IT Services and Consulting)									
Including trainees	81%	82%	82%	83%	84%	83%	80%	78%	77%
Excluding trainees	84%	86%	88%	89%	89%	89%	87%	85%	84%
Employee metrics									
Total employees (consolidated, in k)	240	249	260	268	280	292	314	335	345
S/W professional (k)	226	235	245	253	265	277	298	318	328
Support and sales (k)	14	14	15	14	15	15	16	17	17
Revenue by client geography									
North America	61%	62%	62%	62%	62%	62%	61%	62%	63%
Europe	24%	24%	24%	24%	25%	25%	25%	25%	25%
India	3%	3%	3%	3%	3%	3%	3%	3%	3%
RoW	12%	12%	11%	11%	11%	10%	10%	11%	10%
Revenue by business segments									
Financial Services	32%	33%	33%	33%	32%	32%	31%	31%	31%
Retail	15%	15%	15%	15%	15%	15%	14%	15%	14%
Communications	13%	12%	12%	12%	12%	13%	13%	13%	12%
Energy, Utilities, Resources, and Services	12%	13%	12%	12%	12%	12%	12%	12%	12%
Manufacturing	9%	9%	10%	10%	11%	11%	12%	12%	13%
Hi-Tech	9%	8%	8%	8%	9%	8%	8%	8%	8%
Life Sciences	7%	7%	7%	7%	7%	8%	7%	7%	7%
Others	3%	3%	3%	3%	2%	3%	3%	3%	3%
Revenue by offerings									
Digital	47%	50%	51%	54%	56%	59%	59%	61%	61%
Core	53%	50%	49%	46%	44%	42%	41%	39%	39%
Geography (YoY CC)									
North America	2%	9%	12%	21%	23%	21%	19%	18%	16%
Europe	1%	1%	5%	12%	20%	27%	28%	33%	29%
India	20%	4%	31%	21%	4%	40%	30%	6%	36%
RoW	4%	6%	-1%	5%	5%	7%	14%	18%	12%
Business segments (YoY CC)									
Financial Services	3%	12%	16%	23%	21%	16%	14%	12%	12%
Retail	0%	2%	5%	22%	17%	20%	17%	18%	15%
Communications	-2%	1%	-1%	5%	17%	22%	29%	30%	18%
Energy, Utilities, Resources, and Services	-4%	5%	5%	11%	15%	14%	18%	25%	24%
Manufacturing	-8%	-4%	3%	19%	43%	48%	51%	55%	45%
Hi-Tech	24%	17%	16%	15%	12%	19%	21%	16%	10%
Life Sciences	7%	11%	18%	21%	26%	29%	16%	16%	10%
Others	25%	3%	26%	10%	-10%	36%	7%	15%	57%
DSO	69	73	71	70	66	71	67	63	65
Large deal TCV (USD m)	3,150	7,130	2,100	2,600	2,152	2,530	2,300	1,700	2,700
Clients (as a percentage of revenue)									
Top 10 clients	18.7%	18.5%	18.3%	18.8%	19.4%	20.2%	19.4%	20.8%	20.2%
Top 25 clients	34.2%	34.6%	34.2%	34.4%	35.4%	35.9%	35.4%	36.3%	35.3%
Number of active clients	1,487	1,562	1,626	1,659	1,714	1,738	1,741	1,778	1,779
New clients added in the period	96	139	130	113	117	111	110	106	103

Source: Company, MOFSL

Financials and valuations

Income Statement							(INR b)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Sales	685	705	827	908	1,005	1,216	1,466	1,616
Change (%)	9.7	3.0	17.2	9.8	10.7	21.1	20.5	10.2
Software Develop. Exp.	433	451	539	607	654	820	1,023	1,123
SGA expenses	83	82	99	107	104	116	134	149
EBITDA	186	190	209	223	279	315	358	397
As a percentage of Net Sales	27.2	27.0	25.3	24.5	27.8	25.9	24.4	24.6
Depreciation	17	19	20	29	33	35	48	53
Interest	0	0	0	0	0	0	0	0
Other Income	31	32	29	26	20	21	23	28
PBT	200	204	218	220	266	301	333	371
Tax	56	57	56	54	72	80	90	97
Rate (%)	28.1	27.8	25.9	24.4	27.0	26.4	27.2	26.0
Minority Interest	0	0	0	0	1	0	0	0
Adjusted PAT	144	147	161	166	194	221	242	274
Extraordinary Items	0	-13	7	0	0	0	0	0
Reported PAT	144	160	154	166	194	221	242	274
Change (%)	6.4	11.7	-3.9	7.7	16.7	14.2	9.3	13.5

Balance Sheet							(INR b)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY23E
Share Capital	24	19	22	21	21	21	21	21
Reserves	666	631	628	633	742	733	706	724
Net Worth	690	649	649	655	764	754	727	745
Capital Employed	693	658	661	719	845	843	844	874
Gross Block	274	278	328	428	479	511	551	594
Less: Depreciation	113	132	152	181	213	248	296	350
Net Block	161	146	176	247	266	263	254	244
Investments and Other Assets	135	153	143	134	211	244	264	273
Curr. Assets	537	500	529	546	607	672	657	712
Debtors	160	174	202	240	268	343	367	404
Cash and Bank Balance	226	198	196	186	247	175	136	145
Investments	100	64	66	47	23	67	67	67
Other Current Assets	51	64	65	73	69	88	88	97
Current Liab. and Prov.	140	141	186	209	239	336	331	356
Net Current Assets	397	359	342	337	369	336	326	356
Application of Funds	693	658	661	719	845	843	844	874

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS	31.4	35.5	35.4	38.9	45.6	52.4	57.6	65.3
Cash EPS	35.1	39.6	40.0	45.7	53.3	60.7	69.1	78.0
Book Value	150.9	144.0	149.4	153.7	180.0	179.0	173.4	177.7
DPS	12.9	21.8	21.5	17.5	27.0	31.0	54.6	52.3
Payout (%)	41.0	75.5	109.2	45.4	106.7	59.0	95.0	80.0
Valuation (x)								
P/E ratio	45.2	40.0	40.1	36.5	31.2	27.1	24.7	21.7
Cash P/E ratio	40.4	35.8	35.5	31.1	26.7	23.4	20.6	18.2
EV/EBITDA ratio	34.9	33.7	29.6	27.2	21.6	19.0	16.6	15.0
EV/Sales ratio	9.5	9.1	7.5	6.7	6.0	4.9	4.1	3.7
Price/Book Value ratio	9.4	9.9	9.5	9.2	7.9	7.9	8.2	8.0
Dividend Yield (%)	0.9	1.5	1.5	1.2	1.9	2.2	3.8	3.7
Profitability Ratios (%)								
RoE	22.0	22.0	24.8	25.5	27.3	29.2	32.7	37.3
RoCE	18.5	18.3	21.2	21.2	23.0	24.4	26.7	29.6
Turnover Ratios								
Debtors (Days)	85	90	89	96	97	103	91	91
Fixed Asset Turnover (x)	4.2	4.8	4.7	3.7	3.8	4.6	5.8	6.6

Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
(INR b)								
CF from Operations	160	147	164	205	235	261	281	318
Cash for Working Capital	-19	-1	-6	-19	6	-12	-22	-19
Net Operating CF	141	146	158	186	241	250	260	299
Net Purchase of FA	-28	-20	-24	-34	-21	-22	-31	-34
Free Cash Flow	113	126	134	152	220	228	229	265
Net Purchase of Invest.	-143	51	9	16	-63	-53	0	0
Net Cash from Invest.	-171	31	-16	-18	-84	-75	-31	-34
Proceeds from Equity	0	0	0	0	0	0	0	0
Others	0	0	0	-6	-7	-8	0	0
Dividend Payments	-69	-205	-145	-95	-91	-127	-268	-257
Buyback of shares	0	0	0	-75	0	-111	0	0
Cash Flow from Fin.	-69	-205	-145	-176	-98	-246	-268	-257
Net Cash Flow	-100	-28	-2	-8	60	-72	-39	9
Effect of forex on cash flow	-1	0	0	-1	1	-1	0	0
Opening Cash Bal.	327	226	198	196	186	247	175	136
Add: Net Cash	-101	-28	-2	-9	61	-72	-39	9
Closing Cash Bal.	226	198	196	186	247	175	136	145

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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