

Infosys Ltd

Robust operating performance; well placed to manage near term uncertainty

Result Synopsis

Infosys (INFO) reported strong financial performance for the quarter. While, the revenue growth was inline, EBIT margin came in above estimates. It reported constant currency growth of 4.0% QoQ, led by Manufacturing(up 45% YoY in cc terms) and Energy and Utilities(up 24.3% YoY in cc terms). The INR reported growth of 6% QoQ was supported by depreciation of INR by 3.4% QoQ vs USD. There was sequential improvement in EBIT margin(up 149 bps QoQ) led by improving pyramid, better realization and other efficiency measures. There was slight moderation in employee attrition as LTM attrition was down 130 bps QoQ to 27.1%.

The multiyear tech adoption cycle broadly remains intact led by adoption of cloud and data analytics. However, the clients have become cautious regarding the evolving macroeconomic situation and there are signs of slowdown in discretionary spending in sectors such as Hitech, Retail, Logistics etc. and can lead to near term moderation in revenue growth. Employee attrition has started moderating and should support operating margin going ahead. We estimate revenue CAGR of 15.0% over FY22-24E with average EBIT margin of 22.4%. We maintain our BUY rating on the stock with revised target price of Rs 1,725/share at 24.0x on FY24E EPS. We have slightly reduced our target multiple from 25.0x to 24.0x to account for risks from evolving macroeconomic situation. The stock trades at PER of 24.3x/19.8x on FY23E/FY24E EPS.

Result Highlights

- Reported revenue of Rs 365.4bn(up 6% QoQ in INR terms, up 2.5% QoQ in USD terms). The cc growth was 4% QoQ. Digital now accounts for 61.8% of revenue vs 61% in Q1FY23. In terms of verticals, the growth was led by Manufacturing(up 45% YoY in cc terms) and Energy and Utilities(up 24.3% YoY in cc terms).
- EBIT margin increased by 149 bps QoQ to 21.5%, led by improving employee pyramid and other productivity measures. Large deal wins were strong at \$2.7bn vs \$1.7bn in Q1FY23 and \$2.15bn in Q2FY22.
- Gross client addition was 103 vs 106 in Q1FY23. Days sales outstanding increased to 65 days vs 63 in Q1FY23. Offshore effort mix was down 10 bps QoQ to 75.6%. Added 10,032 employees in the quarter to close at 3,45,218 employees. LTM attrition was down 130 bps QoQ to 27.1%. Utilization (excluding trainees) was down 110 bps QoQ to 83.6%
- Revised up its revenue growth guidance to 15%-16% in cc terms for FY23 vs earlier guidance of 14%-16%. Also, has given EBIT margin guidance of 21-22% for FY23. Announced interim dividend of Rs 16.5/ share and share buyback plan of Rs 93bn.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	3,65,380	3,67,753	3,64,701	-0.6%	0.2%
EBITDA	89,020	89,984	85,125	-1.1%	4.6%
EBITDA Margin (%)	24.36%	24.47%	23.34%	(10) bps	102 bps
Adjusted PAT	60,260	64,294	59,163	-6.3%	1.9%

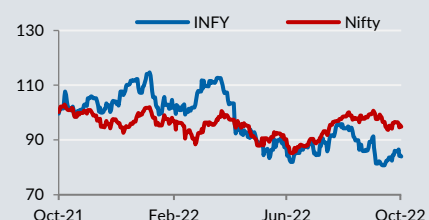
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 1420
Target Price	: Rs 1725
Potential Return	: 21%

Stock data (as on Oct 13, 2022)

Nifty	17,014
52 Week h/l (Rs)	1954 / 1355
Market cap (Rs/USD mn)	5974694 / 72557
Outstanding Shares (mn)	4,208
6m Avg t/o (Rs mn):	10,366
Div yield (%):	2.2
Bloomberg code:	INFO IN
NSE code:	INFY

Stock performance



	1M	3M	1Y
Absolute return	-8.1%	-1.7%	-15.3%

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	1,725	1,848

Δ in earnings estimates

	FY22	FY23E	FY24E
EPS (New)	52.8	58.4	71.9
EPS (Old)	52.8	59.0	73.9
% change	NA	-1.0%	-2.7%

Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Net Revenue	12,16,410	14,36,996	16,08,876
YoY Growth	21.1%	18.1%	12.0%
EBIDTA	3,14,920	3,50,655	4,19,658
YoY Growth	12.9%	11.3%	19.7%
PAT	2,21,460	2,45,022	3,01,575
YoY Growth	14.0%	10.6%	23.1%
ROE	29.0%	30.0%	31.3%
EPS	53	58	72
P/E	26.9	24.3	19.8
BV	181	209	250
P/BV	7.9	6.8	5.7

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Exhibit 2: Quarterly snapshot Console: Operating performance remained strong for the quarter

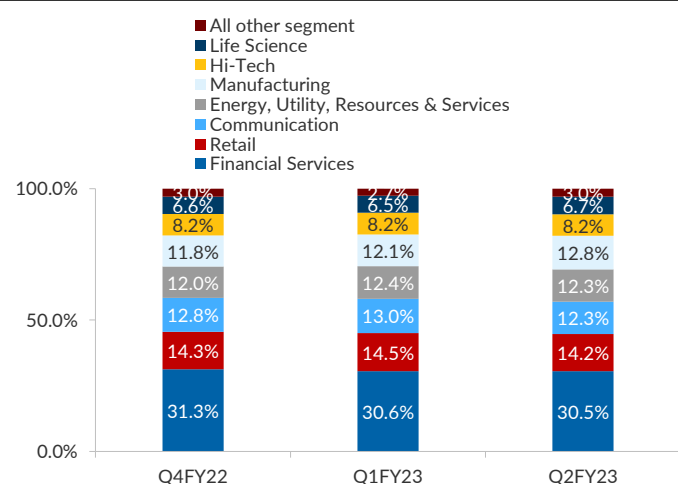
Particulars (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	yoy%	qoq%	H1FY23	H1FY22	yoy %
Sales (\$ mn)	3,998	4,250	4,280	4,444	4,555	13.9	2.5	8,999	7,780	15.7
Sales	2,96,020	3,18,670	3,22,760	3,44,700	3,65,380	23.4	6.0	7,10,080	5,74,980	23.5
EBITDA	78,310	83,830	78,460	78,640	89,020	13.7	13.2	1,67,660	1,52,630	9.8
EBITDA %	26.5	26.3	24.3	22.8	24.4	-209 bps	155 bps	23.6	26.5	-293 bps
Depreciation	8,590	8,990	8,900	9,500	10,290	19.8	8.3	19,790	16,880	17.2
EBIT	69,720	74,840	69,560	69,140	78,730	12.9	13.9	1,47,870	1,35,750	8.9
EBIT Margin %	23.6	23.5	21.6	20.1	21.5	-201 bps	149 bps	20.8	23.6	-279 bps
Other income	5,240	5,120	6,370	6,760	5,840	11.5	-13.6	12,600	11,460	9.9
Interest	480	530	500	560	660	37.5	17.9	1220	970	25.8
PBT	74,480	79,430	75,430	75,340	83,910	12.7	11.4	1,59,250	1,46,240	8.9
Tax	20,200	21,210	18,480	21,720	23,650	17.1	8.9	45,370	39,950	13.6
PAT	54,280	58,220	56,950	53,620	60,260	11.0	12.4	1,13,880	1,06,290	7.1
NPM (%)	18.3	18.3	17.6	15.6	16.5	-184 bps	94 bps	16.0	18.5	-245 bps

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

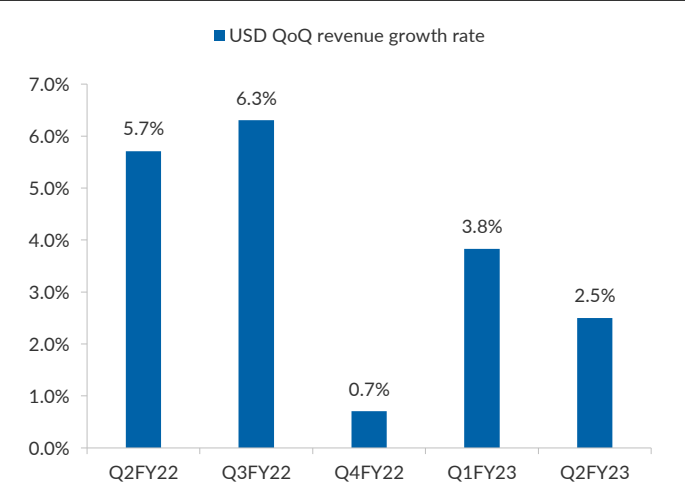
- Large deal pipeline (>\$50mn) at very healthy level, with good mix of IT transformation and Cost optimisation projects.
- Employee attrition(quarterly annualised) has been decreasing for last 3 quarters and expected to continue declining over coming quarters.
- Seeing signs of slowdown in discretionary spending in Hitech, Retail, Telecom and Mortgages due to evolving macroeconomic situation. Has not seen any deal cancellation so far.
- The revenue growth guidance of 15-16% for FY23 takes into account deal booking, deal pipeline, seasonality of Q3 and Q4 and risks from global macro situation.
- It expects to be at lower range of 21-22% EBIT margin band for FY23.
- The sequential improvement in margin in the quarter was led by INR depreciation, lower subcon cost and other optimisation efforts.
- Sees strong focus on cost optimisation programs in its deal pipeline.
- Pricing increase discussions with clients depend on the nature of deals/ COLA Clauses/ client specifics.
- The management expects to get a sense of clients IT spend budgets for 2023 in next few months.

Exhibit 3: Revenue growth was led by Manufacturing, Energy and Utilities verticals



Source: Company, YES Sec

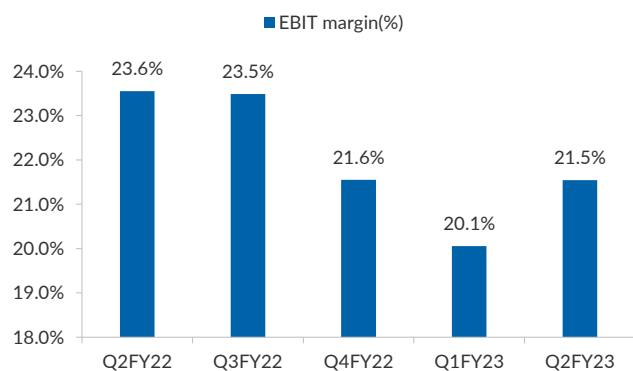
Exhibit 4: Sequential revenue growth was impacted due to cross currency headwinds



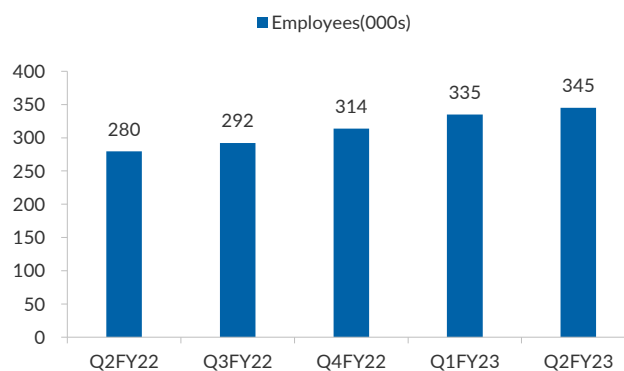
Source: Company, YES Sec

Exhibit 5: Sequential improvement in margin led by several productivity levers

Exhibit 6: Moderation in employee addition is visible



Source: Company, YES Sec



Source: Company, YES Sec

FINANCIALS

Exhibit 7: 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	6,38,350	6,28,360	6,37,220	7,46,580	7,36,380	8,55,528	10,27,032
Shareholders' funds	6,49,230	6,50,060	6,58,440	7,67,820	7,57,360	8,76,508	10,48,012
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	1,41,060	1,86,380	2,08,560	2,38,650	3,36,030	3,50,272	3,90,262
Other current liabilities	1,41,060	1,86,380	2,08,560	2,38,650	3,36,030	3,50,272	3,90,262
Total (Equity and Liabilities)	7,98,900	8,47,380	9,27,680	10,83,860	11,78,850	13,13,606	15,26,534
Non-current assets	2,98,730	3,18,600	3,81,920	4,76,530	5,07,000	5,17,952	5,29,364
Fixed assets (Net block)	1,23,900	1,40,470	1,55,990	1,56,950	1,52,860	1,54,872	1,56,900
Non-current Investments	0	0	0	0	0	0	0
Other non-current assets	1,74,830	1,78,130	2,25,930	3,19,580	3,54,140	3,63,079	3,72,464
Current assets	5,00,170	5,28,780	5,45,760	6,07,330	6,71,850	7,95,655	9,97,170
Cash & current investment	2,62,250	2,61,950	2,33,040	2,70,560	2,41,450	2,99,417	4,43,582
Other current assets	2,37,920	2,66,830	3,12,720	3,36,770	4,30,400	4,96,238	5,53,588
Total (Assets)	7,98,900	8,47,380	9,27,680	10,83,860	11,78,850	13,13,606	15,26,534

Source: Company, YES Sec

Exhibit 8: Income Statement

Y/e March 31 (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	7,05,220	8,26,760	9,07,910	10,04,730	12,16,410	14,36,996	16,08,876
Operating expenses	(5,15,120)	(6,17,870)	(6,85,240)	(7,25,830)	(9,01,490)	(10,86,341)	(11,89,218)
EBITDA	1,90,100	2,08,890	2,22,670	2,78,900	3,14,920	3,50,655	4,19,658
Depreciation	(18,620)	(20,100)	(28,930)	(32,680)	(34,770)	(40,871)	(46,657)
EBIT	1,71,480	1,88,790	1,93,740	2,46,220	2,80,150	3,09,784	3,73,000
Other income	31,930	28,830	28,030	22,010	22,950	25,684	28,960
Finance cost	-	-	(1,690)	(1,950)	(2,000)	(2,520)	(2,523)
Profit before tax	2,02,700	2,10,410	2,20,080	2,66,280	3,01,100	3,32,948	3,99,437
Tax (current + deferred)	(42,420)	(56,310)	(53,680)	(72,050)	(79,640)	(87,926)	(97,862)
Reported Profit / (Loss)	1,60,280	1,54,150	1,66,400	1,94,230	2,21,460	2,45,022	3,01,575
Adjusted net profit	1,60,280	1,54,150	1,66,400	1,94,230	2,21,460	2,45,022	3,01,575

Source: Company, YES Sec

Exhibit 9: Cash Flow Statement

Y/e March 31 (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Profit before tax	2,02,700	2,10,410	2,20,080	2,66,280	3,01,100	3,32,948	3,99,437
Depreciation	18,620	20,100	28,930	32,680	34,770	40,871	46,657
Change in working capital	(25,890)	16,410	(23,710)	6,040	3,750	(51,596)	(17,361)
Total tax paid	(46,500)	(55,900)	(54,440)	(66,520)	(77,970)	(88,047)	(97,984)
Others	(31,930)	(28,830)	(26,340)	(20,060)	(20,950)	(23,164)	(26,436)
Cash flow from operations (a)	1,17,000	1,62,190	1,44,520	2,18,420	2,40,700	2,11,012	3,04,313
Capital expenditure	(17,600)	(36,670)	(44,450)	(33,640)	(30,680)	(42,883)	(48,685)
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)	16,866	19,697
Cash flow from investing (b)	39,720	850	(23,320)	(80,680)	(83,300)	(28,686)	(31,764)
Free cash flow (a+b)	1,56,720	1,63,040	1,21,200	1,37,740	1,57,400	1,82,326	2,72,549
Equity raised/(repaid)	(22,260)	12,920	1,560	3,950	(1,920)	-	-
Dividend (incl. tax)	(74,640)	(1,37,050)	(95,150)	(91,170)	(1,26,520)	(1,25,875)	(1,30,070)
Others	(87,890)	(41,410)	(36,800)	10,130	(1,01,380)	(1,154)	(1,089)
Cash flow from financing (c)	(1,84,790)	(1,65,540)	(1,30,390)	(77,090)	(2,29,820)	(1,27,028)	(1,31,160)
Net change in cash (a+b+c)	(28,070)	(2,500)	(9,190)	60,650	(72,420)	55,298	1,41,389

Source: Company, YES Sec

Exhibit 10: 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	18.1	12.0
EBITDA Growth	2.2	9.9	6.6	25.3	12.9	11.3	19.7
EBIT Growth	1.5	10.1	2.6	27.1	13.8	10.6	20.4
Net Profit Growth	11.7	(3.8)	7.9	16.7	14.0	10.6	23.1
Profitability Ratios(%)							
EBITDA Margin	27.0	25.3	24.5	27.8	25.9	24.4	26.1
EBIT margin	24.3	22.8	21.3	24.5	23.0	21.6	23.2
Net Profit margin	22.7	18.6	18.3	19.3	18.2	17.1	18.7
RoA	21.0	22.9	21.8	24.5	24.8	24.9	26.3
RoE	23.9	23.7	25.4	27.2	29.0	30.0	31.3
RoCE	25.4	28.6	28.1	31.5	33.2	34.3	35.5
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	39.8	41.0	26.9	24.3	19.8
PCE(x)	NA	NA	33.9	35.1	23.3	20.8	17.1
Price/Book(x)	NA	NA	10.0	10.4	7.9	6.8	5.7
EV/EBITDA(x)	NA	NA	28.7	27.6	18.2	16.1	13.1

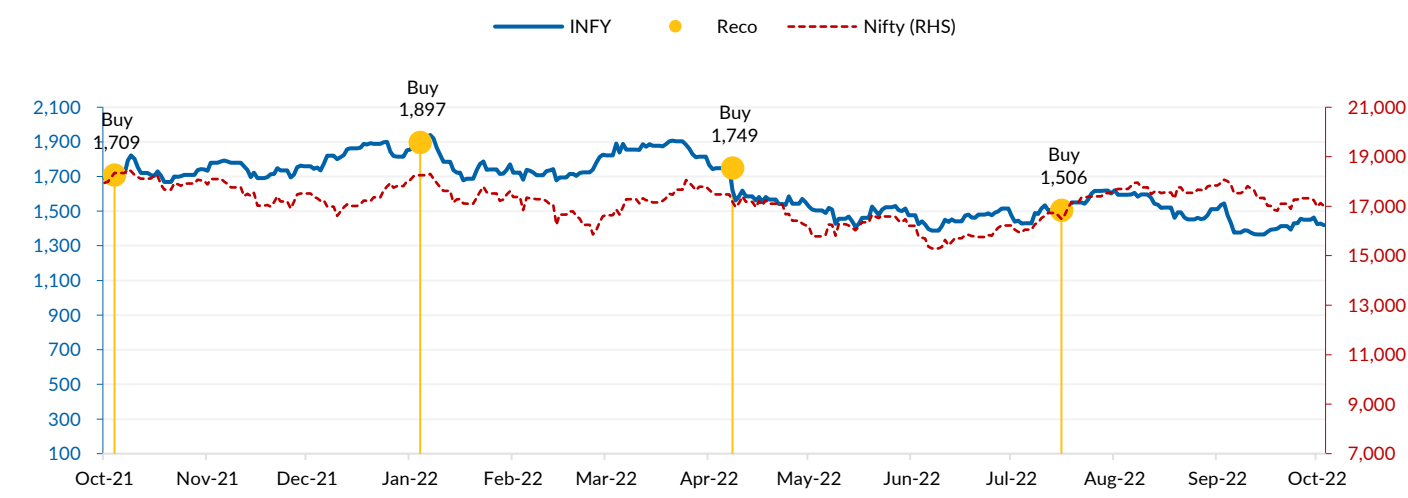
Source: Company, YES Sec

Exhibit 11: Dupont Analysis

Dupont Analysis	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net margin(%)	22.7	18.6	18.3	19.3	18.2	17.1	18.7
Asset turnover (x)	0.9	1.0	1.0	1.0	1.1	1.2	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	30.0	31.3

Source: Company, YES Sec

Recommendation Tracker



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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

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