

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR1,481 TP: INR1,760 (+19%) Buy

Strong bookings to insulate near-term revenue growth

Attractive valuation, reiterate BUY

Bloomberg	INFO IN
Equity Shares (m)	4,572
M.Cap.(INRb)/(USDb)	6197.7 / 76
52-Week Range (INR)	1954 / 1356
1, 6, 12 Rel. Per (%)	-1/-8/-19
12M Avg Val (INR M)	11149

Financials & Valuations (INR b)

Y/E Mar	2023E	2024E	2025E
Sales	1,489	1,662	1,841
EBIT Margin (%)	21.2	21.5	22.0
PAT	248	285	323
EPS (INR)	59.0	67.9	76.9
EPS Gr. (%)	12.6	14.9	13.3
BV/Sh. (INR)	173	178	178

Ratios

RoE (%)	33.5	38.7	43.3
RoCE (%)	27.4	31.0	34.2
Payout (%)	95.0	80.0	85.0

Valuations

P/E (x)	25.1	21.8	19.3
P/BV (x)	8.5	8.3	8.3
EV/EBITDA (x)	17.0	15.1	13.4
Div Yield (%)	3.8	3.7	4.4

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	13.1	13.1	13.1
DII	28.0	18.9	15.7
FII	45.1	32.0	33.8
Others	13.7	36.0	37.4

FII Includes depository receipts

- INFO reported strong 3QFY23 revenue of USD4.66b, up 2.4% QoQ in CC terms, ahead of our estimate of 1.5% QoQ CC. It posted a strong large deal TCV of USD3.3b (up 22% QoQ, net new at 36%), the largest ever since 3QFY21. Management sees strong traction in the large deal pipeline, despite an adverse demand environment.

- The weakness is clearly visible in parts of Retail, Hi-Tech, Financials (Mortgages and IB), and Telecom. Despite the weakness, INFO raised its FY23 revenue growth guidance to 16.0-16.5% YoY in CC terms from 15-16% earlier, implying a limited impact from macro headwinds next quarter.

- EBIT margin was flat QoQ at 21.5% in 3QFY23, in line with our estimate. Easing supply, a 6% drop in quarterly annualized attrition, utilization buffer, and fresher deployment should help INFO to deliver 21.2% margin in FY23, in line with the lower end of its EBIT margin guidance of 21-22%.

- We are positively surprised by a TCV of USD3.3b, the second highest in its history and up 20% QoQ despite pressure on end-demand. Strong vendor consolidation deals and cost optimization projects continue to help INFO to gain market share. LTM large deal TCV of ~USD10b and guidance upgrade should more than adequately cushion the near-term headwind from weak macro and assuage growth concerns.

- Strong traction in vendor consolidation and cost takeout deals should help INFO to deliver an ~11% revenue CAGR over FY22-25, despite macro headwinds in H1FY24. We factor in a margin of 21.2%/21.5%/22.0% in FY23E/FY24E/FY25E, leading to a 13.5% PAT CAGR over FY22-25E.

- We have kept our FY23/FY24 EPS estimates broadly flat but tweaked our FY25 EPS estimate to account for better growth after the strong 3QFY23 result. We view INFO as a beneficiary of acceleration in IT spends, given its capabilities around Cloud and Digital transformation. We value the stock at 26x FY24E EPS and reiterate our **Buy** rating.

Strong Topline and TCV growth; FY23 guidance upped

- In CC terms, revenue grew by 13.7% YoY, INR EBIT rose 10%, and INR PAT increased by 13% in 3QFY23.

- Revenue stood at USD4.66b, up 2.4% QoQ in CC terms, above our expectation of 1.5% CC. Reported USD grew by 2.3% QoQ.

- For 9MFY23, INFO delivered USD Revenue/ INR EBIT/ INR PAT growth of 13.5%/ 9.4%/ 9.4% YoY respectively.

- EBIT margin at 21.5% was flat QoQ and in line with our expectation.

- Management has upgraded its FY23 revenue growth guidance by 75bp at mid-point to 16.0-16.5% in CC from 15-16% YoY earlier. EBIT margin guidance has been retained at the 21-22% range.

- INFO saw a large deal TCV of USD3.3b, up 22% QoQ, the largest ever after 3QFY21.

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

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- INFO reported a good FCF/PAT conversion ratio of 72% in 3QFY23. Cash and investments stood at USD3.9b.
- Net profit grew by 9.4% QoQ to INR65.9b (in line).

Key highlights from the management commentary

- INFO reported a strong TCV of USD3.3b (the highest in the last eight quarters), with the highest-ever 32 large deals, of which 36% were net new. The deal pipeline remains strong with a higher focus on cost-saving programs.
- Signs of weakness in macro are clearly visible. Europe is more affected than the US. Mortgage, IB, Telecom, Hi-Tech and Retail are the most affected, with uncertainty on spends.
- There are strong opportunities in vendor consolidation, which comes up in a lot of discussions where clients are looking to consolidate vendors to 1-3 from current 6-7 vendors.
- Quarterly annualized attrition was down by over 6% in 3QFY23, taking quarterly attrition below the 20% mark. LTM attrition is expected to further drop going forward.

Valuation and view

- INFO posted a strong set of earnings in 3QFY23 despite seasonality. Its strong FY23 growth guidance and strong deal pipeline provide further demand visibility.
- We expect INFO to deliver margin at the lower side of its guided band, with strong growth and reduced dependence on sub-contractors as attrition falls.
- We expect INFO to be a key beneficiary of acceleration in IT spends. Based on our revised estimates, the stock is currently trading at 22x FY24E EPS. We value the stock at 26x FY24E EPS, implying a TP of INR1,760.

Quarterly performance (IFRS)

Y/E March	FY22				FY23E				FY22	FY23E	FY23E	Var. (%/bp)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Revenue (USD m)	3,782	3,998	4,250	4,280	4,444	4,555	4,659	4,795	16,310	18,453	4,614	1.0
QoQ (%)	4.7	5.7	6.3	0.7	3.8	2.5	2.3	2.9	20.3	13.1	1.3	98bp
Revenue (INR m)	279	296	319	323	345	365	383	396	1,216	1,489	379	1.0
YoY (%)	17.9	20.5	22.9	22.7	23.6	23.4	20.2	22.6	21.1	22.4	19.0	122bp
GPM (%)	33.7	33.1	32.8	31.0	29.3	30.5	30.7	31.1	32.6	30.4	30.7	-1bp
SGA (%)	10.0	9.5	9.3	9.4	9.2	8.9	9.2	9.4	9.6	9.2	9.1	4bp
EBITDA	74	78	84	79	78	89	93	97	315	356	92	0.8
EBITDA Margin (%)	26.6	26.4	26.3	24.4	22.8	24.2	24.2	24.4	25.9	23.9	24.3	-5bp
EBIT	66	70	75	70	69	79	82	86	280	316	82	0.8
EBIT Margin (%)	23.7	23.6	23.5	21.6	20.1	21.5	21.5	21.7	23.0	21.2	21.6	-5bp
Other income	6	5	5	6	6	5	7	6	21	25	6	21.1
ETR (%)	27.5	27.1	26.7	24.5	28.8	28.2	26.3	26.0	26.4	27.2	26.0	26bp
PAT	52	54	58	57	54	60	66	68	221	248	65	2.0
QoQ (%)	2.3	4.4	7.2	-2.1	-5.7	12.3	9.4	3.5			7.3	210bp
YoY (%)	22.3	11.9	11.8	12.0	3.2	11.1	13.4	19.9	14.2	12.1	11.2	218bp
EPS (INR)	12.2	12.9	13.8	13.5	12.8	14.3	15.7	16.3	52.2	58.9	15.4	2.1

Key performance indicators

Y/E March	FY22				FY23				FY22	FY23E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Revenue (QoQ CC %)	4.8	6.3	7.0	1.2	5.5	4.0	2.4		19.7	
Margins										
Gross Margin	33.7	33.1	32.8	31.0	29.3	30.5	30.7	31.1	32.6	30.4
EBIT Margin	23.7	23.6	23.5	21.6	20.1	21.5	21.5	21.7	23.0	21.2
Net Margin	18.6	18.3	18.2	17.6	15.5	16.5	17.2	17.2	18.2	16.6
Operating metrics										
Headcount	268	280	292	314	335	345	347		314	
Voluntary attrition (%)	13.9	20.1	25.5	27.7	28.4	27.1	24.3		28	
Deal win TCV (USD b)	2.6	2.2	2.5	2.3	1.7	2.7	3.3		9.6	
Key verticals (YoY CC %)										
BFSI	22.6	20.5	15.5	14.1	12.1	11.5	5.5		17.8	
Retail	22.2	17.2	19.8	16.5	17.8	15.4	12.7		18.3	
Key geographies (YoY CC %)										
North America	21.1	23.1	21.4	18.5	18.4	15.6	10.5		21.0	
Europe	12.2	19.6	27.2	28.3	33.2	28.5	25.3		22.0	

Highlights from the management commentary**Performance in 3QFY23 and demand outlook**

- In CC terms, INFO reported a revenue growth of 2.4% QoQ and 13.7% YoY in 3QFY23.
- INFO reported a strong TCV of USD3.3b (the highest in the last eight quarters), with the highest-ever 32 large deals, of which 36% were net new. The deal pipeline remains strong with a higher focus on cost-saving programs.
- Signs of weakness in macro are clearly visible. Europe is more affected than the US. Mortgage, IB, Telecom, Hi-Tech and Retail are the most affected, with uncertainty on spends.
- Though retail is certainly impacted, there are new opportunities in the D2C space. The deal pipeline remains strong in ENU. Manufacturing is seeing strong deals in areas such as IoT, cloud ERP and digital transformation.
- Large deals have a strong focus on cost optimization. Cost efficiency mandates are gaining strong traction across industries.
- There are strong opportunities in vendor consolidation, which comes up in a lot of discussions where clients are looking to consolidate vendors to 1-3 from current 6-7 vendors.
- During a vendor consolidation exercise, INFO is in a better position to drive more efficiency with greater control over the project. Overtime, these projects become stable and highly profitable for INFO.
- Clients are utilizing the savings from automation to drive the transformation work.
- Management has increased its revenue guidance to 16-16.5% in CC terms (from 15-16%) in FY23, despite macro headwinds.

Margin performance

- Margin was flat QoQ at 21.5% in 3QFY23. Tailwinds from forex (40bp) and lower costs (70bp) were offset by higher SG&A costs (30bp) and higher furloughs, seasonal weakness, and higher third party costs (80bp).
- Pricing remained stable in 3QFY23.

- Going forward, margin levers include higher utilization, fresher deployment, lower sub-contractor expenses and stable pricing (vs discounts earlier). Lower attrition is expected to have a positive impact on the margin.
- Management expects margin to be at the lower end of its 21-22% guidance range.

Other highlights

- Utilization was lower due to seasonality and employee additions.
- Quarterly annualized attrition was down by over 6% in 3QFY23, taking quarterly attrition below the 20% mark. LTM attrition is expected to further drop going forward.

Exhibit 1: Broad based growth across verticals

Verticals	Contribution to revenue (%)	Growth YoY (CC)
Financial Services	29.3	5.5
Retail	14.3	12.7
Communications	12.3	12.7
Energy, Utilities, and Resources	13.0	25.9
Manufacturing	13.3	36.8
Hi-Tech	8.1	10.4
Life Sciences	7.0	5.0
Others	2.7	8.1

Source: Company, MOFSL

Exhibit 2: Strong growth across geographies except India

Geographies	Contribution to revenue (%)	Growth YoY (CC)
North America	62.0	10.5
Europe	25.8	25.3
India	2.4	-5.4
RoW	9.8	11.9

Source: Company, MOFSL

Valuation and view

- INFO posted a strong set of earnings in 3QFY23 despite seasonality. Its strong FY23 growth guidance and strong deal pipeline provide further demand visibility.
- We expect INFO to deliver margin at the lower side of its guided band, with strong growth and reduced dependence on sub-contractors as attrition falls.
- We expect INFO to be a key beneficiary of acceleration in IT spends. Based on our revised estimates, the stock is currently trading at 22x FY24E EPS. We value the stock at 26x FY24E EPS, implying a TP of INR1,760.

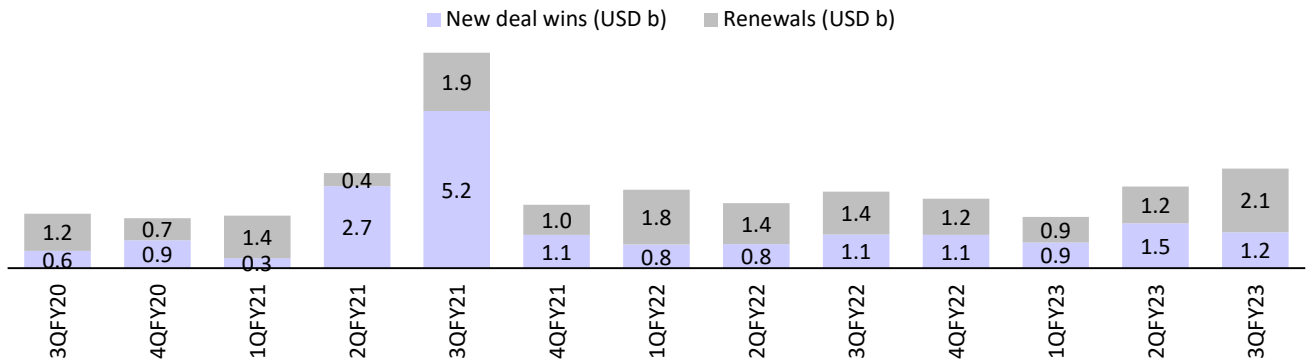
Exhibit 3: Revisions to our estimates

	Revised estimate			Earlier estimate			Change		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
USD:INR	80.6	82.5	82.5	80.7	82.8	82.8	-0.1%	-0.4%	-0.4%
Revenue (USD m)	18,453	20,147	22,310	18,329	19,969	21,665	0.7%	0.9%	3.0%
Growth (%)	13.1	9.2	10.7	12.4	8.9	8.5	80bps	20bps	220bps
EBIT margin (%)	21.2	21.5	22.0	21.3	21.5	22.0	-10bps	0bps	0bps
PAT (INR b)	248	285	323	246	283.5	315.4	0.6%	0.5%	2.4%
EPS (INR)	58.9	67.9	76.9	58.5	67.5	75.1	0.6%	0.5%	2.5%

Source: MOFSL

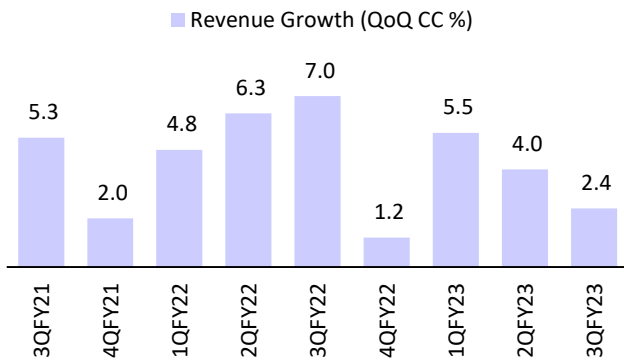
Story in charts

Exhibit 4: Net new deal wins constitute 36% of total large deals in 3QFY23



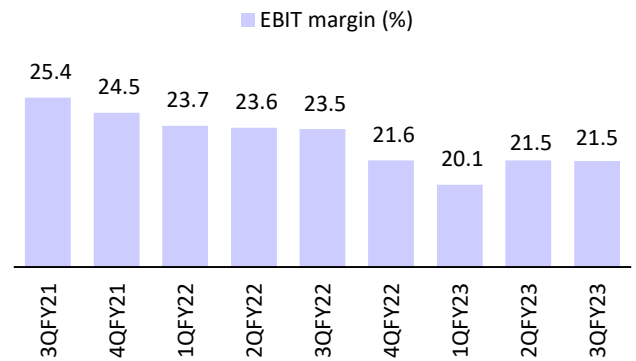
Source: Company, MOFSL

Exhibit 5: Strong 2.4% QoQ CC growth despite seasonality



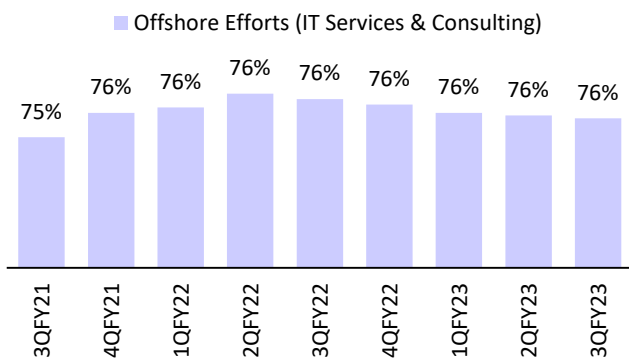
Source: Company, MOFSL

Exhibit 6: EBIT margin (%) largely flat QoQ



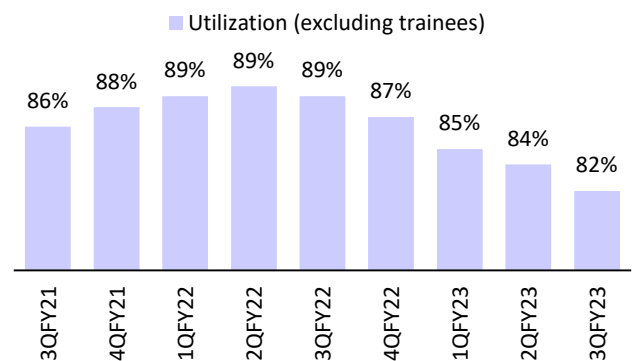
Source: Company, MOFSL

Exhibit 7: Offshoring ratio largely stable



Source: Company, MOFSL

Exhibit 8: Utilization moderates to 82% in 3QFY23



Source: Company, MOFSL

Exhibit 9: Operating metrics

	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Effort (IT Services and Consulting)									
On-site	25%	24%	24%	24%	24%	24%	24%	24%	25%
Offshore	75%	76%	76%	76%	76%	76%	76%	76%	76%
Utilization (IT Services and Consulting)									
Including trainees	82%	82%	83%	84%	83%	80%	78%	77%	77%
Excluding trainees	86%	88%	89%	89%	89%	87%	85%	84%	82%
Employee metrics									
Total employees (consolidated, in k)	249	260	268	280	292	314	335	345	347
S/W professional (k)	235	245	253	265	277	298	318	328	329
Support and sales (k)	14	15	14	15	15	16	17	17	18
Revenue by client geography									
North America	62%	62%	62%	62%	62%	61%	62%	63%	62%
Europe	24%	24%	24%	25%	25%	25%	25%	25%	26%
India	3%	3%	3%	3%	3%	3%	3%	3%	2%
RoW	12%	11%	11%	11%	10%	10%	11%	10%	10%
Revenue by business segments									
Financial Services	33%	33%	33%	32%	32%	31%	31%	31%	29%
Retail	15%	15%	15%	15%	15%	14%	15%	14%	14%
Communications	12%	12%	12%	12%	13%	13%	13%	12%	12%
Energy, Utilities, Resources, and Services	13%	12%	12%	12%	12%	12%	12%	12%	13%
Manufacturing	9%	10%	10%	11%	11%	12%	12%	13%	13%
Hi-Tech	8%	8%	8%	9%	8%	8%	8%	8%	8%
Life Sciences	7%	7%	7%	7%	8%	7%	7%	7%	7%
Others	3%	3%	3%	2%	3%	3%	3%	3%	3%
Revenue by offerings									
Digital	50%	51%	54%	56%	59%	59%	61%	61%	63%
Core	50%	49%	46%	44%	42%	41%	39%	39%	37%
Geography (YoY CC)									
North America	9%	12%	21%	23%	21%	19%	18%	16%	11%
Europe	1%	5%	12%	20%	27%	28%	33%	29%	25%
India	4%	31%	21%	4%	40%	30%	6%	36%	-5%
RoW	6%	-1%	5%	5%	7%	14%	18%	12%	12%
Business segments (YoY CC)									
Financial Services	12%	16%	23%	21%	16%	14%	12%	12%	6%
Retail	2%	5%	22%	17%	20%	17%	18%	15%	13%
Communications	1%	-1%	5%	17%	22%	29%	30%	18%	13%
Energy, Utilities, Resources, and Services	5%	5%	11%	15%	14%	18%	25%	24%	26%
Manufacturing	-4%	3%	19%	43%	48%	51%	55%	45%	37%
Hi-Tech	17%	16%	15%	12%	19%	21%	16%	10%	10%
Life Sciences	11%	18%	21%	26%	29%	16%	16%	10%	5%
Others	3%	26%	10%	-10%	36%	7%	15%	57%	8%
DSO	73	71	70	66	71	67	63	65	68
Large deal TCV (USD m)	7,130	2,100	2,600	2,152	2,530	2,300	1,700	2,700	3,300
Clients (as a percentage of revenue)									
Top 10 clients	18.5%	18.3%	18.8%	19.4%	20.2%	19.4%	20.8%	20.2%	20.5%
Top 25 clients	34.6%	34.2%	34.4%	35.4%	35.9%	35.4%	36.3%	35.3%	35.3%
Number of active clients	1,562	1,626	1,659	1,714	1,738	1,741	1,778	1,779	1,850
New clients added in the period	139	130	113	117	111	110	106	103	134

Source: Company, MOFSL

Financials and valuations

Income Statement						(INR b)		
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Sales	705	827	908	1,005	1,216	1,489	1,662	1,841
Change (%)	3.0	17.2	9.8	10.7	21.1	22.4	11.6	10.7
Software Develop. Exp.	451	539	607	654	820	1,036	1,149	1,258
SGA expenses	82	99	107	104	116	137	156	179
EBITDA	190	209	223	279	315	365	412	465
As a percentage of Net Sales	27.0	25.3	24.5	27.8	25.9	24.5	24.8	25.3
Depreciation	19	20	29	33	35	49	55	61
Interest	0	0	0	0	0	0	0	0
Other Income	32	29	26	20	21	25	29	33
PBT	204	218	220	266	301	341	386	437
Tax	57	56	54	72	80	93	100	114
Rate (%)	27.8	25.9	24.4	27.0	26.4	27.2	26.0	26.0
Minority Interest	0	0	0	1	0	0	0	0
Adjusted PAT	147	161	166	194	221	248	285	323
Extraordinary Items	-13	7	0	0	0	0	0	0
Reported PAT	160	154	166	194	221	248	285	323
Change (%)	11.7	-3.9	7.7	16.7	14.2	12.1	14.9	13.4

Balance Sheet						(INR b)		
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Share Capital	19	22	21	21	21	21	21	21
Reserves	631	628	633	742	733	706	725	727
Net Worth	649	649	655	764	754	727	745	748
Capital Employed	658	661	719	845	843	835	866	881
Gross Block	278	328	428	479	511	557	609	666
Less: Depreciation	132	152	181	213	248	297	352	413
Net Block	146	176	247	266	263	260	257	253
Investments and Other Assets	153	143	134	211	244	264	275	285
Curr. Assets	500	529	546	607	672	714	775	820
Debtors	174	202	240	268	343	367	410	454
Cash and Bank Balance	198	196	186	247	175	191	199	189
Investments	64	66	47	23	67	67	67	67
Other Current Assets	64	65	73	69	88	89	100	110
Current Liab. and Prov.	141	186	209	239	336	403	441	478
Net Current Assets	359	342	337	369	336	311	334	342
Application of Funds	658	661	719	845	843	835	866	881

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)								
EPS	35.5	35.4	38.9	45.6	52.4	59.0	67.9	76.9
Cash EPS	39.6	40.0	45.7	53.3	60.7	70.8	80.9	91.4
Book Value	144.0	149.4	153.7	180.0	179.0	173.4	177.9	178.2
DPS	21.8	21.5	17.5	27.0	31.0	56.0	54.3	65.4
Payout (%)	75.5	109.2	45.4	106.7	59.0	95.0	80.0	85.0
Valuation (x)								
P/E ratio	41.7	41.8	38.1	32.5	28.2	25.1	21.8	19.3
Cash P/E ratio	37.4	37.0	32.4	27.8	24.4	20.9	18.3	16.2
EV/EBITDA ratio	35.1	30.8	28.3	22.5	19.8	17.0	15.1	13.4
EV/Sales ratio	9.5	7.8	6.9	6.3	5.1	4.2	3.7	3.4
Price/Book Value ratio	10.3	9.9	9.6	8.2	8.3	8.5	8.3	8.3
Dividend Yield (%)	1.5	1.5	1.2	1.8	2.1	3.8	3.7	4.4
Profitability Ratios (%)								
RoE	22.0	24.8	25.5	27.3	29.2	33.5	38.7	43.3
RoCE	18.3	21.2	21.2	23.0	24.4	27.4	31.0	34.2
Turnover Ratios								
Debtors (Days)	90	89	96	97	103	90	90	90
Fixed Asset Turnover (x)	4.8	4.7	3.7	3.8	4.6	5.7	6.5	7.3

Cash Flow Statement

(INR b)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
CF from Operations	147	164	205	235	261	288	330	373
Cash for Working Capital	-1	-6	-19	6	-12	40	-14	-15
Net Operating CF	146	158	186	241	250	328	316	357
Net Purchase of FA	-20	-24	-34	-21	-22	-37	-42	-46
Free Cash Flow	126	134	152	220	228	291	274	311
Net Purchase of Invest.	51	9	16	-63	-53	0	0	0
Net Cash from Invest.	31	-16	-18	-84	-75	-37	-42	-46
Proceeds from Equity	0	0	0	0	0	0	0	0
Others	0	0	-6	-7	-8	0	0	0
Dividend Payments	-205	-145	-95	-91	-127	-275	-266	-321
Buyback of shares	0	0	-75	0	-111	0	0	0
Cash Flow from Fin.	-205	-145	-176	-98	-246	-275	-266	-321
Net Cash Flow	-28	-2	-8	60	-72	16	8	-10
Effect of forex on cash flow	0	0	-1	1	-1	0	0	0
Opening Cash Bal.	226	198	196	186	247	175	191	199
Add: Net Cash	-28	-2	-9	61	-72	16	8	-10
Closing Cash Bal.	198	196	186	247	175	191	199	189

NOTES

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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