

Infosys Ltd

Steady operating performance; well placed to manage near term uncertainty

Result Synopsis

Infosys (INFO) reported mixed financial performance for the quarter. While, the revenue growth was above estimate, EBIT margin came in below expectation. It reported constant currency growth of 2.4% QoQ, led by Manufacturing(up 36.8% YoY in cc terms) and Energy and Utilities(up 25.9% YoY in cc terms). The INR reported growth of 4.9% QoQ was supported by depreciation of INR by 2.9% QoQ vs USD. EBIT margin remained flat QoQ at 21.5%. There was some moderation in employee attrition as LTM attrition was down 280 bps QoQ to 24.3%.

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 especially in Europe and there are signs of slowdown in discretionary spending in sectors such as Hitech, Retail, Telecom, 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 16.6% over FY22-24E with average EBIT margin of 22.3%. We maintain our BUY rating on the stock with revised target price of Rs 1,780/share at 24.0x on FY24E EPS. The stock trades at PER of 25.2x/20.0x on FY23E/FY24E EPS.

Result Highlights

- Reported revenue of Rs 383.2bn (up 4.9% QoQ in INR terms, up 2.3% QoQ in USD terms). The cc growth was 2.4% QoQ. Digital now accounts for 62.9% of revenue vs 61.8% in Q2FY23. In terms of verticals, the growth was led by Manufacturing (up 36.8% YoY in cc terms) and Energy and Utilities (up 25.9% YoY in cc terms).
- EBIT margin remained flat (down 4 bps QoQ) to 21.5%, led by increase in Depreciation Expenses (up 9.3% QoQ). Large deal wins were strong at \$3.3bn vs \$2.7bn in Q2FY23 and \$2.53bn in Q3FY22.
- Gross client addition was 134 vs 103 in Q2FY23. Days sales outstanding increased to 68 days vs 65 in Q2FY23. Offshore effort mix was down 10 bps QoQ to 75.5%. Added 1,627 employees in the quarter to close at 3,46,845 employees.
- LTM attrition was down 280 bps QoQ to 24.3%. Utilization (excluding trainees) was down 190 bps QoQ to 81.7%.
- FY23 revenue guidance revised to 16.0%-16.5%. FY23 operating margin guidance retained at 21%-22%.

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	3,83,180	3,79,201	3,79,130	1.0%	1.1%
EBITDA	93,670	93,923	93,860	-0.3%	-0.2%
EBITDA Margin (%)	24.45%	24.77%	24.76%	(32) bps	(31) bps
Adjusted PAT	65,860	65,636	64,670	0.3%	1.8%

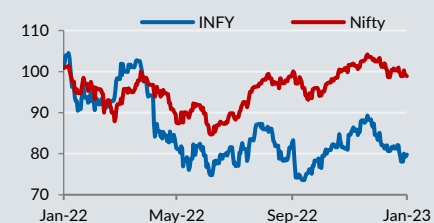
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 1481
Target Price	: Rs 1780
Potential Return	: 20%

Stock data (as on Jan 12, 2023)

Nifty	17,858
52 Week h/l (Rs)	1954 / 1355
Market cap (Rs/USD mn)	6172137 / 76021
Outstanding Shares (mn)	4,195
6m Avg t/o (Rs mn):	9,306
Div yield (%):	2.1
Bloomberg code:	INFO IN
NSE code:	INFY

Stock performance



	1M	3M	1Y
Absolute return	-4.3%	3.6%	-21.1%

Shareholding pattern (As of Sept'22 end)

Promoter	13.1%
FII+DII	59.3%
Others	13.7%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,780	1,725

Δ in earnings estimates

	FY23E	FY24E	FY25E
EPS (New)	58.8	74.2	84.9
EPS (Old)	58.4	71.9	NA
% change	0.7%	3.2%	NA

Financial Summary

(Rs mn)	FY23E	FY24E	FY25E
Net Revenue	14,69,418	16,51,948	18,74,355
YoY Growth	20.8%	12.4%	13.5%
EBIDTA	3,55,094	4,33,504	4,95,131
YoY Growth	12.8%	22.1%	14.2%
PAT	2,46,810	3,11,243	3,56,017
YoY Growth	11.4%	26.1%	14.4%
ROE	30.2%	32.1%	30.4%
EPS	59	74	85
P/E	25.2	20.0	17.5
BV	209	253	305
P/BV	7.1	5.9	4.9

PIYUSH PANDEY

Lead Analyst

piyush.pandey@ysil.in

+91 22 68850521



PARTH GHIYA, Associate

Exhibit 2: Quarterly snapshot Console: Operating performance was mixed for the quarter

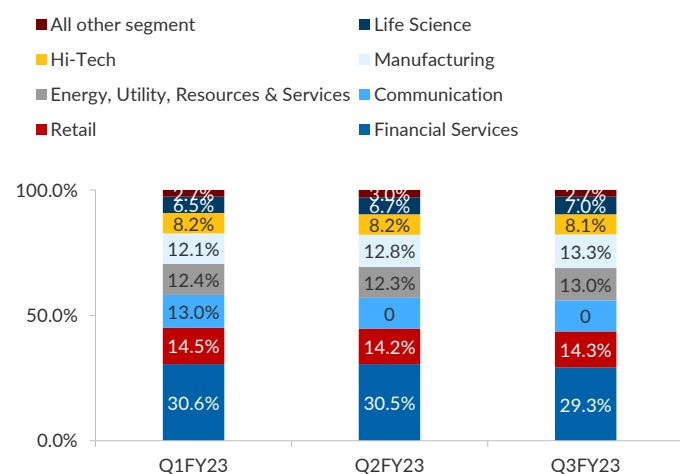
Particulars	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	yoy%	qoq%	9MFY23	9MFY22	yoy %
Sales (\$ mn)	4,250	4,280	4,444	4,555	4,659	10	2.3	13,658	12,030	14
Sales	3,18,670	3,22,760	3,44,700	3,65,380	3,83,180	20	4.9	10,93,260	8,93,650	22
EBITDA	83,830	78,460	78,640	89,020	93,670	12	5.2	2,61,330	2,36,460	11
EBITDA %	26.3	24.3	22.8	24.4	24.4	-186 bps	8 bps	23.9	26.5	-256 bps
Depreciation	8,990	8,900	9,500	10,290	11,250	25	9.3	31,040	25,870	20
EBIT	74,840	69,560	69,140	78,730	82,420	10	4.7	2,30,290	2,10,590	9
EBIT Margin %	23.5	21.6	20.1	21.5	21.5	-198 bps	-4 bps	21.1	23.6	-250 bps
Other income	5,120	6,370	6,760	5,840	7,690	50	31.7	20,290	16,580	22
Interest	530	500	560	660	800	51	21.2	2,020	1,500	35
PBT	79,430	75,430	75,340	83,910	89,310	12	6.4	2,48,560	2,25,670	10
Tax	21,210	18,480	21,720	23,650	23,450	11	-0.8	68,820	61,160	13
PAT	58,220	56,950	53,620	60,260	65,860	13	9.3	1,79,740	1,64,510	9
NPM (%)	18.3	17.6	15.6	16.5	17.2	-108 bps	70 bps	16.4	18.4	-197 bps

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

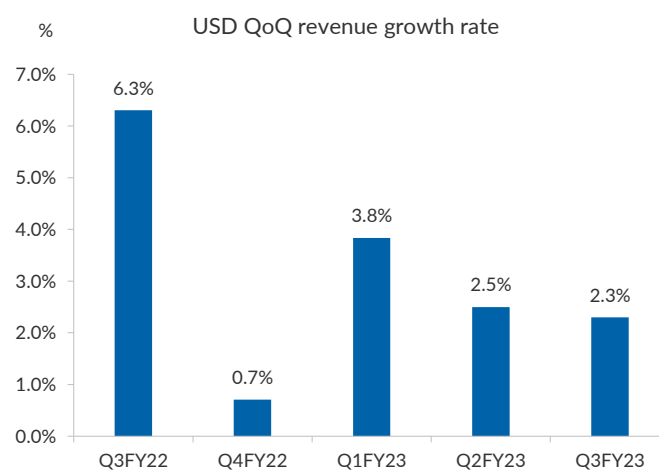
- Tailwinds of cross currency exchange were offset by increased sub-contractor cost and currency hedging cost.
- Retail vertical witnessing tension as the clients are not able to determine product demand due to high inflation, high interest rate and contraction in customer spending.
- Energy Utilities vertical showing signs of pickup and management have medium term visibility.
- TCV for the quarter stood at \$3.3 Bn. Large deals signed during the quarter were 32, out of which 25 deals were from US geography.
- Highest TCV since last 8 quarters and highest number of large deal signs in Infosys history.
- Clients more oriented towards automation and cost efficiency technology upgradation.
- BFSI (mortgage & investment banking), Retail, Hitech and Telco verticals experiencing contraction due to economic slowdown.
- Utilization rate being lowest in last 12 quarters, and this contributed to dip in margins.
- Attrition expected to decrease, expecting a positive impact on margins however can be set off by lower utilization rate.
- FY23 operating margin guidance retained at 21%-22% and expected to be at the lower end.

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



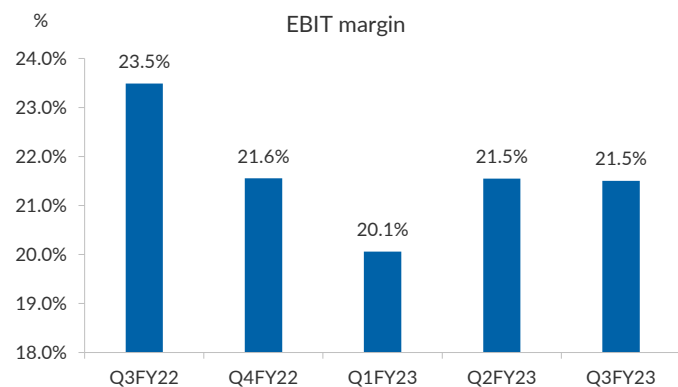
Source: Company, YES Sec

Exhibit 4: Sequential revenue growth remained robust



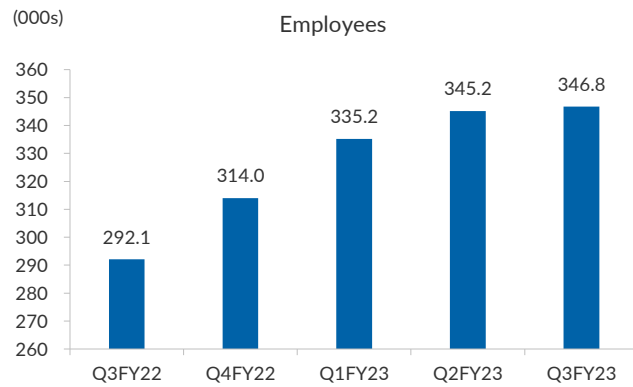
Source: Company, YES Sec

Exhibit 5: EBIT Margin impacted by low Utilization Rate



Source: Company, YES Sec

Exhibit 6: Moderation in employee addition is visible



Source: Company, YES Sec

FINANCIALS

Exhibit 7: Balance Sheet

Y/e March 31 (Rs mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Share capital	21,700	21,220	21,240	20,980	20,980	20,980	20,980
Reserves & surplus	6,28,360	6,37,220	7,46,580	7,36,380	8,57,315	10,38,488	12,60,239
Shareholders' funds	6,50,060	6,58,440	7,67,820	7,57,360	8,78,295	10,59,468	12,81,219
Non-current liabilities	10,940	60,680	77,390	85,460	86,826	88,261	89,766
Other non-current liabilities	10,940	60,680	77,390	85,460	86,826	88,261	89,766
Current liabilities	1,86,380	2,08,560	2,38,650	3,36,030	3,51,340	3,91,680	4,38,104
Other current liabilities	1,86,380	2,08,560	2,38,650	3,36,030	3,51,340	3,91,680	4,38,104
Total (Equity and Liabilities)	8,47,380	9,27,680	10,83,860	11,78,850	13,16,462	15,39,409	18,09,089
Non-current assets	3,18,600	3,81,920	4,76,530	5,07,000	5,17,952	5,29,364	5,41,264
Fixed assets (Net block)	1,40,470	1,55,990	1,56,950	1,52,860	1,54,872	1,56,900	1,58,943
Non-current Investments	-	-	-	-	-	-	-
Other non-current assets	1,78,130	2,25,930	3,19,580	3,54,140	3,63,079	3,72,464	3,82,321
Current assets	5,28,780	5,45,760	6,07,330	6,71,850	7,98,510	10,10,045	12,67,825
Cash & current investment	2,61,950	2,33,040	2,70,560	2,41,450	2,93,154	4,44,226	6,28,879
Other current assets	2,66,830	3,12,720	3,36,770	4,30,400	5,05,356	5,65,819	6,38,945
Total (Assets)	8,47,380	9,27,680	10,83,860	11,78,850	13,16,462	15,39,409	18,09,089

Source: Company, YES Sec

Exhibit 8: Income Statement

Y/e March 31 (Rs mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net sales	8,26,760	9,07,910	10,04,730	12,16,410	14,69,418	16,51,948	18,74,355
Operating expenses	(6,17,870)	(6,85,240)	(7,25,830)	(9,01,490)	(11,14,324)	(12,18,444)	(13,79,224)
EBITDA	2,08,890	2,22,670	2,78,900	3,14,920	3,55,094	4,33,504	4,95,131
Depreciation	(20,100)	(28,930)	(32,680)	(34,770)	(41,949)	(47,906)	(54,356)
EBIT	1,88,790	1,93,740	2,46,220	2,80,150	3,13,146	3,85,597	4,40,775
Other income	28,830	28,030	22,010	22,950	27,061	29,735	33,738
Finance cost	-	(1,690)	(1,950)	(2,000)	(2,812)	(3,090)	(2,968)
Profit before tax	2,10,410	2,20,080	2,66,280	3,01,100	3,37,394	4,12,243	4,71,545
Tax (current + deferred)	(56,310)	(53,680)	(72,050)	(79,640)	(90,584)	(1,00,999)	(1,15,529)
Reported Profit / (Loss)	1,54,150	1,66,400	1,94,230	2,21,460	2,46,810	3,11,243	3,56,017
Adjusted net profit	1,54,150	1,66,400	1,94,230	2,21,460	2,46,810	3,11,243	3,56,017

Source: Company, YES Sec

Exhibit 9: Cash Flow Statement

Y/e March 31 (Rs mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Profit before tax	2,10,410	2,20,080	2,66,280	3,01,100	3,37,394	4,12,243	4,71,545
Depreciation	20,100	28,930	32,680	34,770	41,949	47,906	54,356
Change in working capital	16,410	(23,710)	6,040	3,750	(59,646)	(20,123)	(26,702)
Total tax paid	(55,900)	(54,440)	(66,520)	(77,970)	(90,706)	(1,01,122)	(1,15,652)
Others	(28,830)	(26,340)	(20,060)	(20,950)	(24,249)	(26,645)	(30,771)
Cash flow from operations (a)	1,62,190	1,44,520	2,18,420	2,40,700	2,04,743	3,12,259	3,52,776
Capital expenditure	(36,670)	(44,450)	(33,640)	(30,680)	(43,961)	(49,934)	(56,400)
Change in investments	(2,200)	19,720	23,130	(43,310)	(2,669)	(2,776)	(2,887)
Others	39,720	1,410	(70,170)	(9,310)	18,243	20,473	24,005
Cash flow from investing (b)	850	(23,320)	(80,680)	(83,300)	(28,387)	(32,237)	(35,281)
Free cash flow (a+b)	1,63,040	1,21,200	1,37,740	1,57,400	1,76,355	2,80,022	3,17,495
Equity raised/(repaid)	12,920	1,560	3,950	(1,920)	-	-	-
Dividend (incl. tax)	(1,37,050)	(95,150)	(91,170)	(1,26,520)	(1,25,875)	(1,30,070)	(1,34,266)
Others	(41,410)	(36,800)	10,130	(1,01,380)	(1,446)	(1,655)	(1,463)
Cash flow from financing (c)	(1,65,540)	(1,30,390)	(77,090)	(2,29,820)	(1,27,320)	(1,31,726)	(1,35,729)
Net change in cash (a+b+c)	(2,500)	(9,190)	60,650	(72,420)	49,035	1,48,296	1,81,766

Source: Company, YES Sec

Exhibit 10: Ratio Analysis

Y/e March 31	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Growth(%)							
Revenue Growth	17.2	9.8	10.7	21.1	20.8	12.4	13.5
EBITDA Growth	9.9	6.6	25.3	12.9	12.8	22.1	14.2
EBIT Growth	10.1	2.6	27.1	13.8	11.8	23.1	14.3
Net Profit Growth	(3.8)	7.9	16.7	14.0	11.4	26.1	14.4
Profitability Ratios(%)							
EBITDA Margin	25.3	24.5	27.8	25.9	24.2	26.2	26.4
EBIT margin	22.8	21.3	24.5	23.0	21.3	23.3	23.5
Net Profit margin	18.6	18.3	19.3	18.2	16.8	18.8	19.0
RoA	22.9	21.8	24.5	24.8	25.1	27.0	26.3
RoE	23.7	25.4	27.2	29.0	30.2	32.1	30.4
RoCE	28.6	28.1	31.5	33.2	34.6	36.5	35.0
Liquidity Ratios							
Net debt/Equity (x)	(0.4)	(0.4)	(0.4)	(0.3)	(0.3)	(0.4)	(0.5)
Current ratio (x)	2.8	2.6	2.5	2.0	2.3	2.6	2.9
Quick ratio (x)	2.8	2.6	2.5	2.0	2.3	2.6	2.9
Valuation Ratios							
PER(x)	NA	39.8	41.0	28.1	25.2	20.0	17.5
PCE(x)	NA	33.9	35.1	24.3	21.5	17.3	15.2
Price/Book(x)	NA	10.0	10.4	8.2	7.1	5.9	4.9
EV/EBITDA(x)	NA	28.7	27.6	19.0	16.7	13.3	11.3

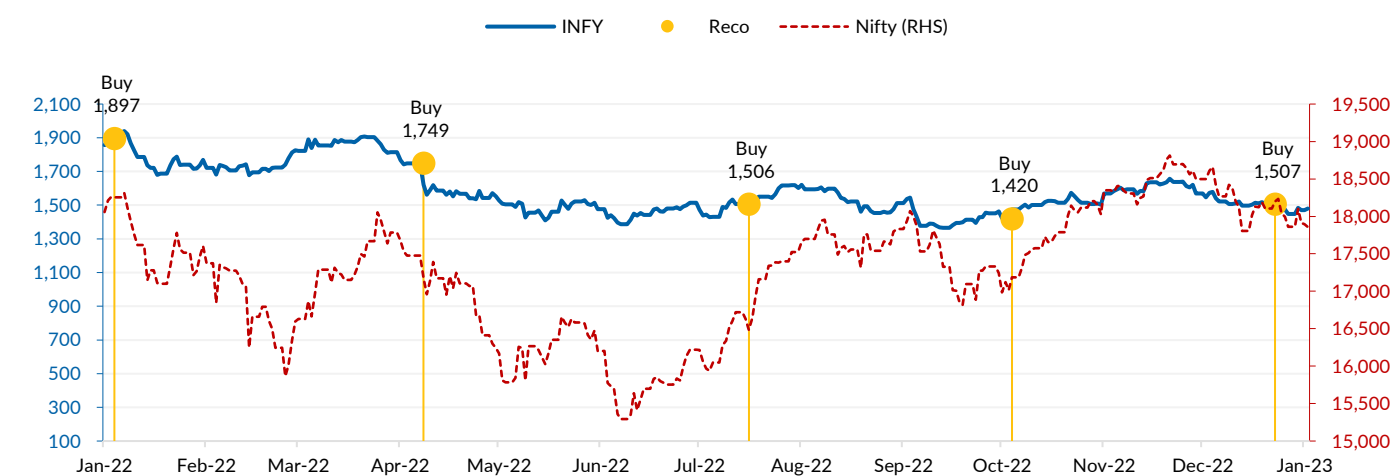
Source: Company, YES Sec

Exhibit 11: Dupont Analysis

Dupont Analysis	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net margin(%)	18.6	18.3	19.3	18.2	16.8	18.8	19.0
Asset turnover (x)	1.0	1.0	1.0	1.1	1.2	1.2	1.1
Leverage factor (x)	1.3	1.4	1.4	1.5	1.5	1.5	1.4
Return on Equity(%)	23.7	25.4	27.2	29.0	30.2	32.1	30.4

Source: Company, YES Sec

Recommendation Tracker



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YES Securities (India) Limited

Registered Address: 2nd Floor, North Side, YES BANK House,
Off Western Express Highway, Santacruz East,
Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 4th Floor, AFL House,
Lok Bharti Complex, Marol Maroshi Road, Andheri East,
Mumbai - 400059, Maharashtra, India.

☎ +91 22 68850521 | ✉ research@ysil.in
Website: www.yesinvest.in

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Email id: compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

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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

ABOUT YES SECURITIES (INDIA) LIMITED

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