

Infosys Limited



Infosys Limited.

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 1,504	INR 1,805	20%	INR 63,26,850	BUY	Internet Software & Services

Strong deal momentum; improved revenue visibility.
Synopsis:

Infosys Limited (INFO) Q3FY23 performance was slightly lower than our estimate. Dollar Revenue grew by 2.4%/13.7% in QoQ/YoY to USD 4,659mn (KRChoksey est. USD 4,703mn), driven by double digit growth in all business segments, excepts BFSI, Lifesciences and others. Rupee revenue grew by +4.9% QoQ to INR 3,83,180Mn (KRChoksey est. INR 3,83,180Mn) in line with our estimate. 62.9% of revenue came from Digital business, growing at +21.7% YoY CC (although lowest since the company started providing this data). Reported operating margin was flattish QoQ at 21.5%, improvement in margin by +40bps from FX, +70bps on contract optimization (lower sub-contractors cost), were offset by -40bps on higher SG&A costs and ~80bps on headwind from furloughs and third party items for service delivery. Reported Net profit grew by ~9.4% QoQ and 13.4% YoY to INR 65,860mn (KRChoksey est. INR 65,117mn) with margin of 17.2% (KRChoksey est. 17%). The management of the company has changed revenue guidance to 16-16.5% for FY23 cc (earlier guidance of 15-16%) on the back of robust deal signing in Q3FY23; whereas maintained its operating margin guidance of 21-22%. Our target price of INR 1,805 is based on 25x Mar-24E EPS with EPS CAGR of ~17.2% over FY22-24E.

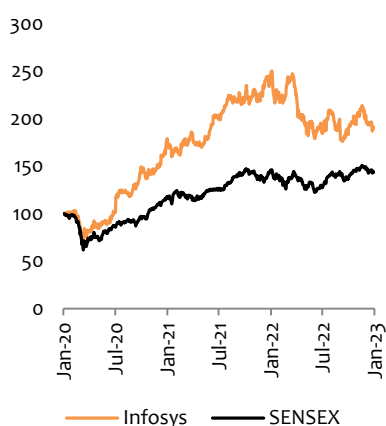
MARKET DATA

Shares outs (Mn)	4,193
Mkt Cap (INR Mn)	63,26,850
52 Wk H/L (INR)	1953.7/1355.5
Volume Avg (3m K)	5740.3
Face Value (INR)	5
Bloomberg Code	INFO IN

KEY FINANCIALS

(INR Mn)	Q3FY23A	Q2FY23A	Q3FY22A	QoQ	YoY	KRChoksey Est.	Variance (%)
USD Revenue	4,659	4,555	4,250	2.3%	9.6%	4,702	-0.9%
Revenue	3,83,180	3,65,380	3,18,670	4.9%	20.2%	3,83,180	0.0%
EBIT	82,420	78,730	74,840	4.7%	10.1%	81,098	1.6%
PAT	58,090	60,210	58,220	-3.5%	-0.2%	65,117	-10.8%
OPM (%)	21.5%	21.5%	23.5%	-4	-198	21.2%	35
NPM(%)	15.2%	16.5%	18.3%	-132	-311	17.0%	-183

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE

Robust revenue performance; FY23 revenue guidance raised to 16-16.5%

Infosys reported a +2.4% CC QoQ revenue growth and was up +13.7% YoY CC at USD 4,659mn, marginally below our estimates. Growth was led by digital revenue growing at +4.0% QoQ while core services remained flat sequentially. Strong growth in Q3FY23, led by double digit growth in all the business segments excepts BFSI, Lifesciences and others. Management is witnessing strong demand in core services, led by increased demand for cost efficiency programs and automation. We see weakness in Retail, Hi-Tech, Financials (Mortgages), IB and Telecom due to deal related slowdowns in these segments. The manufacture segment has shown resilient performance with YoY growth of 36.8% on the back of strong demand for cost optimization, which was followed by Energy & Utilities (25.9%); Communications (12.7%), Retail (12.7%), Hi-tech (10.4%) and Lifesciences (5.0%). BFSI, a biggest revenue segment grew by only 5.5% due to slowdown in sub segments such as Mortgage and IB. The management has revised its guidance upward to 16-16.5% (earlier 15-16%) on account of strong deal pipelines

Strong deal pipelines

INFO reported a strong TCV of USD 3.3 bn (the highest in the last 8 quarter) with 32 large deals (36% were net new). This is the highest large deals number in the history of the company. INFO has won 25 deals in America region, 5 in Europe and 2 in Row, whereas, vertical wise, the company won 7 large deals in retail, 6 in financial services and communications, 5 each in EURS and manufacturing, 2 in lifesciences and 1 in high-tech. The company seeing major deals pipeline from cost optimization program across sectors with deal acceleration in cloud adoption in BFSI and digitalization transformation in retail segment.

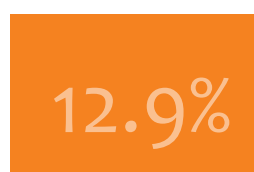
Margin remain flattish Reported operating margin was flattish QoQ at 21.5%, improvement in margin by +40bps from FX, +70bps on contract optimization (lower sub-contractors cost), were offset by -40bps on higher SG&A costs and ~80bps on headwind from furloughs and third party items for service delivery. We expect that margin at lower end is achievable. We expect some improvement in EBITDA margin on the back of improvement in utilization level and lower sub contractual cost with reduction in attrition rate.

MARKET INFO

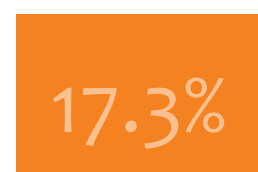
SENSEX	60,261.1
NIFTY	17,953.8

SHARE HOLDING PATTERN (%)

Particulars	Sep-22	Jun-22	Mar-22
Promoters	15.6	13.1	13.1
FIIIs	36.2	31.7	33.3
DIIIs	32.13	18.9	17.1
Others	16.07	36.3	36.5
Total	100	100	100



Revenue CAGR between FY22 and FY24E



PAT CAGR between FY22 and FY22E

Infosys Limited.

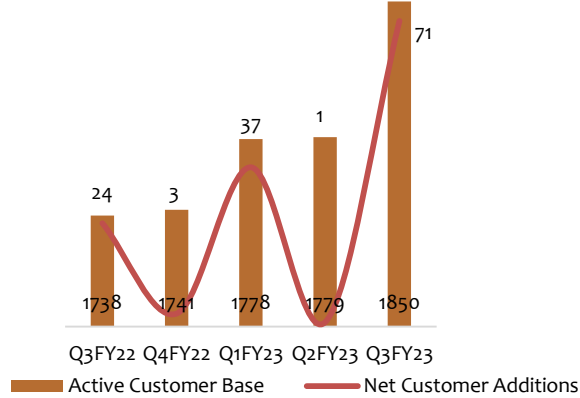
Key Concall Highlights:

(1) INFO reported a strong TCV of USD 3.3 bn (the highest in the last 8 quarter), of which 36% were net new. The deal pipeline remains healthy and larger than preceding quarters, with a higher focus on cost optimization programs (ii) Weaknesses in global macro environment are clearly visible as EU is more vulnerable to mild recession compared to US and UK (iii) Retail, Telecom, Hi Tech, Mortgage and IB business segments are effected most due to reduced discretionary spending; whereas manufacturing segment reported strong set numbers on account of strong deals in area such as IoT, Engineering, Cloud ERP and Digital Transformation (iv) Retail segment are witnessing new opportunities from D2C area. (v) Strong deal pipelines from both transformational deals as well as cost optimization deals, however large deals are more skewed towards cost optimization deals as industries are focused on bringing cost efficiency. (v) Sector are witnessing vendor consolidation, where clients are looking to consolidate vendors from 6-7 vendors to 1-3 vendors. Vi) attrition rate has been declining from last four quarters and it is further down by 6% in 3QFY23, bringing quarterly attrition below the 20% mark. The management of the company expects further reduction in the attrition rate in the upcoming quarters.

Valuation and view

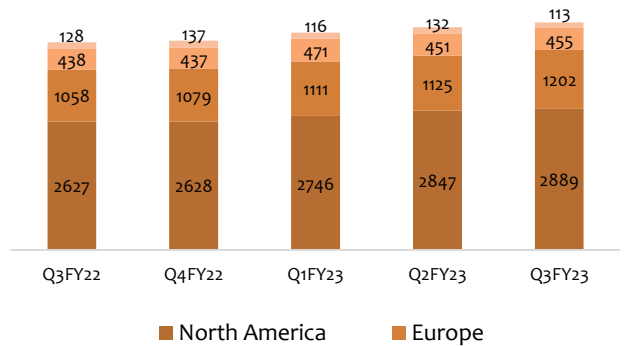
Infosys is currently trading at a valuation with a P/E multiple of 26.2x/20.8x on FY23E/FY24E earnings. Despite seasonally weak quarter the company has reported strong set of numbers and revised its guidance on the upside. Revised guidance and strong deal pipeline in face of global challenges, propelled confidence on revenue visibility. Moreover, 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 ~20% over the CMP. We maintain our rating to "BUY" rating to the stock.

Active Customer Base



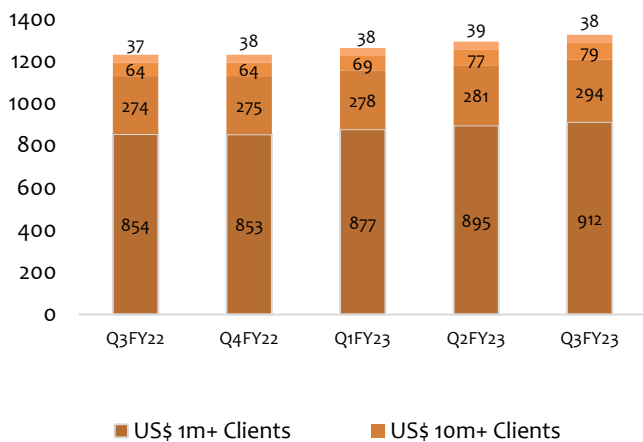
Source: Company, KRChoksey Research

Revenue by Geography (USD Mn)



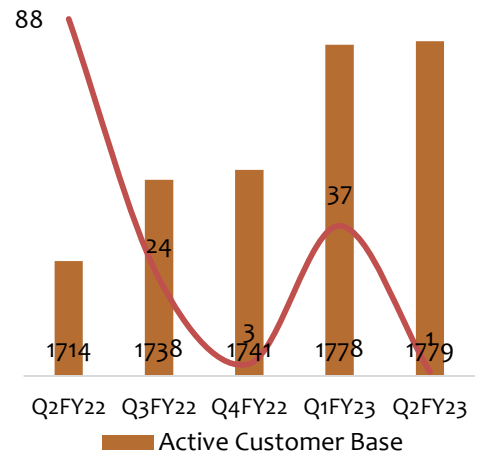
Source: Company, KRChoksey Research

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%
13-Jan-22	1504	1805	BUY	Accumulate	5% – 15%
14-Oct-22	1420	1805	BUY	Hold	0 – 5%
25-Jul-22	1502	1805	BUY	Reduce	-5% – 0
				Sell	Less than – 5%

ANALYST CERTIFICATION:

I, Abhishek Agarwal (CA, CFA L3 cleared), Research Analyst author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & Conditions and other disclosures:

KRChoksey Shares and Securities Pvt. Ltd (hereinafter referred to as KRCSPL) is a registered member of National Stock Exchange of India Limited and Bombay Stock Exchange Limited. KRCSPL is a registered Research Entity vide SEBI Registration No. INH00001295 under SEBI (Research Analyst) Regulations, 2014.

We submit that no material disciplinary action has been taken on KRCSPL and its associates (Group Companies) by any Regulatory Authority impacting Equity Research Analysis activities.

KRCSPL prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analyst covers. The information and opinions in this report have been prepared by KRCSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KRCSPL. While we would endeavor to update the information herein on a reasonable basis, KRCSPL is not under any obligation to update the information. Also, there may be regulatory, compliance or other reasons that may prevent KRCSPL from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or KRCSPL policies, in circumstances where KRCSPL might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KRCSPL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. KRCSPL accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Our employees in sales and marketing team, dealers and other professionals may provide oral or written market commentary or trading strategies that reflect opinions that are contrary to the opinions expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

Associates (Group Companies) of KRCSPL might have received any commission/compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of brokerage services or specific transaction or for products and services other than brokerage services.

KRCSPL or its Associates (Group Companies) have not managed or co-managed public offering of securities for the subject company in the past twelve months.

KRCSPL encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. KRCSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither KRCSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that, Abhishek Agarwal (CA, CFA L3 cleared), Research Analyst of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific brokerage service transactions.

KRCSPL or its associates (Group Companies) collectively or its research analyst do not hold any financial interest/beneficial ownership of more than 1% (at the end of the month immediately preceding the date of publication of the research report) in the company covered by Analyst, and has not been engaged in market making activity of the company covered by research analyst.

It is confirmed that, Abhishek Agarwal (CA, CFA L3 cleared), Research Analyst do not serve as an officer, director or employee of the companies mentioned in the report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other Jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KRCSPL and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform them of and to observe such restriction.

Please send your feedback to research.insti@krchoksey.com

Visit us at www.krchoksey.com

KR Choksey Shares and Securities Pvt. Ltd

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.

ANALYST

Abhishek Agarwal research5@krchoksey.com, +91-22-6696 5540

KRChoksey Research

is also available on Bloomberg KRCS<GO>
Thomson Reuters, Factset and Capital IQ

Phone: +91-22-6696 5555, Fax: +91-22-6691 9576

www.krchoksey.com