

Retail Equity Research

Infosys Limited

IT Services

BSE CODE: 500209

NSE CODE: INFY

Bloomberg CODE: INFO:IN

SENSEX: 60,093

BUY

12 Months Investment Period Rating as per Large Cap
CMP Rs. 1,525 TARGET Rs. 1,692 RETURN 11%
(Closing: 16-01-23)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↑

Large deal wins to drive growth

Infosys Limited provides IT consulting and software services, including e-business, program management and supply-chain solutions. It also offers application development, product co-development, system implementation and system engineering services.

- Revenue surged 20.2% YoY to Rs. 38,318cr in Q3FY23, led by broad-based growth across all industries and regions. PAT increased 13.4% YoY to Rs. 6,586cr.
- EBITDA margin remained stable QoQ at 24.4%, driven by healthy revenue growth and cost-optimisation benefits.
- The company reported exceptionally strong earnings, driven by growth in its digital offerings and core services, despite a seasonally weak quarter. A strong portfolio, a diverse service line and an aggressive approach would help the company sustain its performance in the future, in our view. Hence, we upgrade our rating to BUY on the stock, with a revised target price of Rs. 1,692 based on 22x FY25E adjusted EPS.

Resilient quarterly performance

In Q3FY23, company's revenue rose 20.2% YoY to Rs. 38,318cr (+4.9% QoQ), despite a seasonally weak quarter. Revenue from digital offerings jumped 29.2% YoY to Rs. 24,103cr, increasing its share of total revenue to 63%. Core services revenue grew 7.5% YoY to Rs. 14,215cr. EBITDA increased 11.7% YoY to Rs. 9,367cr, while margin remained stable at 24.4% sequentially and declined 190bps YoY. The margin benefitted from favourable currency movements and cost optimisation, which offset traditional seasonal weakness and furloughs. PAT increased to Rs. 6,586cr (up 9.4% QoQ and 13.4% YoY), led by higher other income (+31.7% QoQ, +50.3% YoY).

Key concall highlights

- Infosys has retained its margin guidance for FY23 between 21% and 22%. It has increased the revenue guidance from 15-16% to 16-16.5%.
- During the quarter, the company reported a steady decline in the attrition rate. The annualised attrition rate decreased 6%. Consequently, its LTM attrition reduced to 24.3%, compared with 27.1% in Q2FY23.
- Infosys reported a strong total contract value (TCV) of \$3.3bn (the highest in the last eight quarters) with 32 large deals.

Continued robust performance across verticals

All verticals are gaining traction, as reflected in the deals won. Energy, utilities, resources and services grew 32.5% YoY (10.2% QoQ), and manufacturing grew 41.7% YoY (8.8% QoQ), with five deal wins each during the quarter. Communications grew 18.4% YoY (4.6% QoQ), and financial services rose 12.1% YoY (0.8% QoQ), with six deal wins each. Retail increased 18.8% YoY (5.7% QoQ), with seven deal wins. Further, the company won two deals in life sciences and one in high-tech.

Valuation

Despite the prevailing macroeconomic uncertainty in the market, deal wins and the project pipeline for the company remain solid, positioning it well to capture market share with its strong execution. We see strong sustained demand driving revenue growth and contributing to continued earnings growth over the long term. In addition, the valuation is no longer expensive, which makes the risk-reward profile attractive. We upgrade our rating to BUY on the stock, with a rolled forward target price of Rs. 1,692 based on 22x FY25E adjusted EPS.

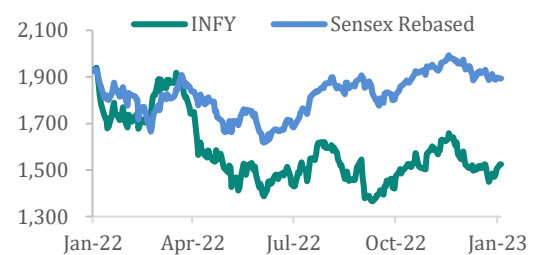
Company Data

Market Cap (cr)	Rs. 641,799
Enterprise Value (cr)	Rs. 624,876
Outstanding Shares (cr)	419.6
Free Float	87.0%
Dividend Yield	2.0%
52-week High	Rs. 1,954
52-week Low	Rs. 1,356
6m Average Volume	469,620
Beta	1.1
Face Value	Rs. 5

Shareholding %	Q4FY22	Q1FY23	Q2FY23
Promoters	13.1	13.1	15.2
FII's	33.2	31.72	36.2
MFs/Insti	16.7	19.19	32.8
Public	27.9	25.7	15.5
Others	9.2	10.3	0.4
Total	100.0	100.0	100.0
Promoters' Pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	3.5%	6.6%	-20.9%
Absolute Sensex	3.8%	11.8%	-1.8%
Relative Return*	-0.3%	-5.2%	-19.1%

*over- or under-performance to benchmark index



Consolidated (cr)	FY23E	FY24E	FY25E
Sales	141,767	162,519	186,700
Growth (%)	16.5	14.6	14.9
EBITDA	34,985	40,259	45,777
EBITDA Margin (%)	24.7	24.8	24.5
Adj. PAT	24,489	28,422	32,442
Growth (%)	10.8	16.1	14.1
Adj. EPS	58.0	67.4	76.9
Growth (%)	10.8	16.1	14.1
P/E	26.3	22.6	19.8
P/B	7.6	6.7	5.9
EV/EBITDA	17.9	15.4	13.3
ROE (%)	28.7	29.4	29.6
D/E	0.0	0.0	0.0

Quarterly Financials (Consolidated)

Profit & Loss Account

Rs. cr	Q3FY23	Q3FY22	YoY Growth (%)	Q2FY23	QoQ Growth (%)	9MFY23	9MFY22	YoY Growth (%)
Revenue	38,318	31,867	20.2	36,538	4.9	109,326	89,365	22.3
EBITDA	9,367	8,383	11.7	8,902	5.2	26,133	23,645	10.5
EBITDA Margins	24.4	26.3	(190bps)	24.4	0bps	23.9	26.5	(260bps)
Depreciation	1,125	899	25.1	1,029	9.3	3,104	2,586	20.0
EBIT	8,242	7,484	10.1	7,873	4.7	23,029	21,059	9.4
Interest	80	52	53.8	66	21.2	202	150	34.7
Other Income	769	512	50.2	584	31.7	2,029	1,658	22.4
Exceptional Items	-	-	-	-	-	-	-	-
PBT	8,931	7,944	12.4	8,391	6.4	24,856	22,567	10.1
Tax	2,345	2,122	10.5	2,365	(0.8)	6,882	6,116	12.5
Share of Profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	-	13	n.m.	5	n.m.	7	26	(73.1)
Reported PAT	6,586	5,809	13.4	6,021	9.4	17,967	16,425	9.4
Adjustments	-	-	-	-	-	-	-	-
Adj. PAT	6,586	5,809	13.4	6,021	9.4	17,967	16,425	9.4
No. of Shares	419.6	422.4	(0.7)	420.0	(0.1)	419.6	422.4	(0.7)
Adj. EPS (Rs.)	15.7	13.8	14.1	14.3	9.5	42.8	38.9	10.1

Change in Estimates

Year/Rs. cr	Old Estimates		New Estimates			Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY25E	FY23E	FY24E
Revenue	140,494	161,450	141,767	162,519	186,700	0.9	0.7
EBITDA	34,614	39,916	34,985	40,259	45,777	1.1	0.9
Margins (%)	24.6	24.7	24.7	24.8	24.5	10bps	10bps
Adj. PAT	24,107	28,116	24,489	28,422	32,442	1.6	1.1
Adj. EPS	57.1	66.6	58.0	67.4	76.9	1.6	1.1

PROFIT & LOSS

Y.E. March (Rs. cr)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	100,472	121,641	141,767	162,519	186,700
% Change	10.7	21.1	16.5	14.6	14.9
EBITDA	27,889	31,491	34,985	40,259	45,777
% Change	25.2	12.9	11.1	15.1	13.7
Depreciation	3,267	3,476	4,004	4,108	4,329
EBIT	24,622	28,015	30,981	36,151	41,447
Interest	195	200	247	238	238
Other Income	2,201	2,295	2,754	2,954	3,154
PBT	26,628	30,110	33,488	38,867	44,363
% Change	21.0	13.1	11.2	16.1	14.1
Tax	7,205	7,964	8,975	10,416	11,889
Tax Rate (%)	27.1	26.4	26.8	26.8	26.8
Reported PAT	19,351	22,110	24,489	28,422	32,442
Adj*	-	-	-	-	-
Adj PAT	19,351	22,110	24,489	28,422	32,442
% Change	16.6	14.3	10.8	16.1	14.1
No. of Shares (cr)	425.1	421.9	421.9	421.9	421.9
Adj EPS (Rs.)	45.5	52.4	58.0	67.4	76.9
% Change	16.5	15.1	10.8	16.1	14.1
DPS (Rs.)	27.0	31.0	34.9	40.5	46.2
CEPS (Rs.)	53.2	60.7	67.5	77.1	87.2

CASH FLOW

Y.E. March (Rs. cr)	FY21A	FY22A	FY23E	FY24E	FY25E
Net Inc. + Depn.	22,618	25,586	28,493	32,530	36,771
Non-cash Adj.	2,686	4,747	(4,534)	(1,662)	(1,714)
Changes in WC	(2,080)	(6,448)	(4,579)	(3,388)	(3,948)
CF. Operation	23,224	23,885	19,379	27,481	31,109
Capital Exp.	(2,107)	(2,161)	(3,544)	(4,225)	(4,667)
Change in Inv.	(5,366)	(1,923)	(683)	(717)	(753)
Other Invest. CF	17	(2,332)	977	1,246	1,370
CF - Investment	(7,456)	(6,416)	(3,250)	(3,696)	(4,050)
Issue of Equity	15	21	-	-	-
Issue/Repay Debt	-	-	-	-	-
Dividends Paid	(9,117)	(12,652)	(14,635)	(16,986)	(19,388)
Other Finance. CF	(684)	(12,011)	-	-	-
CF - Finance	(9,786)	(24,642)	(14,635)	(16,986)	(19,388)
Chg. in Cash	5,982	(7,173)	1,493	6,798	7,670
Closing Cash	24,714	17,472	18,965	25,763	33,434

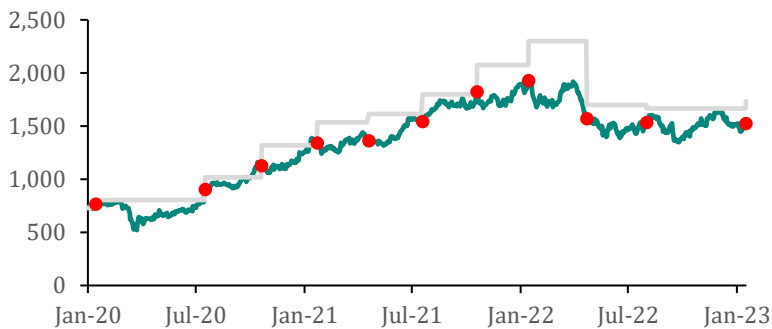
BALANCE SHEET

Y.E. March (Rs. cr)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash	24,714	17,472	18,965	25,763	33,434
Accounts Receivable	19,294	22,698	28,353	32,504	37,340
Inventories	-	-	-	-	-
Other Cur. Assets	16,725	27,015	29,449	30,954	32,707
Investments	11,863	13,651	14,334	15,050	15,803
Gross Fixed Assets	28,305	30,466	34,010	38,236	42,903
Net Fixed Assets	12,560	13,075	12,594	12,690	13,005
CWIP	922	416	437	459	482
Intangible Assets	12,945	12,725	12,787	12,850	12,913
Def. Tax (Net)	1,098	1,212	1,516	1,644	1,646
Other Assets	8,265	9,621	9,926	9,990	10,055
Total Assets	108,386	117,885	128,362	141,903	157,384
Current Liabilities	23,865	33,603	34,134	36,038	38,256
Provisions	-	-	-	-	-
Debt Funds	-	-	-	-	-
Other Liabilities	7,739	8,546	8,615	8,788	8,965
Equity Capital	2,124	2,098	2,098	2,098	2,098
Reserves & Surplus	74,227	73,252	83,105	94,541	107,594
Shareholder's Fund	76,351	75,350	85,203	96,639	109,692
Minority Interest	431	386	411	439	471
Total Liabilities	108,386	117,885	128,362	141,903	157,384
BVPS (Rs.)	180	179	202	229	260

RATIOS

Y.E. March	FY21A	FY22A	FY23E	FY24E	FY25E
Profitab. & Return					
EBITDA Margin (%)	27.8	25.9	24.7	24.8	24.5
EBIT Margin (%)	24.5	23.0	21.9	22.2	22.2
Net Profit Margin. (%)	19.3	18.2	17.3	17.5	17.4
ROE (%)	25.3	29.3	28.7	29.4	29.6
ROCE (%)	32.1	37.0	36.2	37.2	37.6
WC & Liquidity					
Receivables (days)	70.1	68.1	73.0	73.0	73.0
Inventory (days)	-	-	-	-	-
Payables (days)	85.4	77.7	76.7	76.7	76.7
Current Ratio (x)	2.5	2.0	2.2	2.5	2.7
Quick Ratio (x)	1.9	1.4	1.6	1.8	2.0
Turnover & Leverage					
Gross Assets TO (x)	3.7	4.1	4.4	4.5	4.6
Total Assets TO (x)	1.0	1.1	1.2	1.2	1.2
Int. Coverage Ratio (x)	126.3	140.1	125.3	151.9	174.1
Adj. Debt/Equity (x)	-	-	-	-	-
Valuation					
EV/Sales (x)	5.5	6.5	4.4	3.8	3.3
EV/EBITDA (x)	20.0	25.0	17.9	15.4	13.3
P/E (x)	30.0	36.4	26.3	22.6	19.8
P/BV (x)	7.6	10.7	7.6	6.7	5.9

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
22-Jan-21	BUY	1,535
19-Apr-21	BUY	1,614
19-Jul-21	BUY	1,797
19-Oct-21	BUY	2,074
14-Jan-22	BUY	2,299
22-Apr-22	HOLD	1,700
1-Aug-22	HOLD	1,667
17-Jan-23	BUY	1,692

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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