

Infosys

Refer to important disclosures at the end of this report

Disappointing quarter

CMP	Target Price
Rs 1,389 as of (April 13, 2023)	Rs 1,620 (▼) 12 months
Rating	Upside
BUY (■)	16.6 %

Change in Estimates

EPS Chg FY24E/FY25E (%)	(6.3)/(4.3)
Target Price change (%)	(4.7)
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY24E	FY25E
Emkay	63.3	73.8
Consensus	67.7	76.5
Mean Consensus TP (12M)	Rs 1,687	

Stock Details

Bloomberg Code	INFO IN
Face Value (Rs)	5
Shares outstanding (mn)	4,149
52 Week H/L	1,759 / 1,355
M Cap (Rs bn/USD bn)	5,763 / 70.41
Daily Avg Volume (nos.)	6,337,333
Daily Avg Turnover (USD mn)	115.2

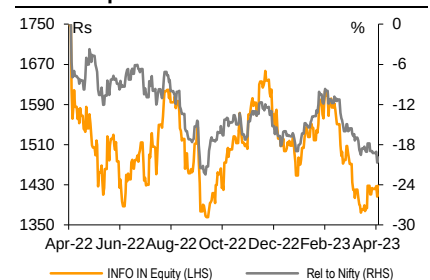
Shareholding Pattern Dec '22

Promoters	13.2%
FIIIs	31.6%
DIIIs	28.6%
Public and Others	26.6%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	(8)	(2)	(21)
Rel. to Nifty	(7)	(7)	(7)	(22)

Relative price trend



Source: Bloomberg

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Dipesh Mehta

dipeshkumar.mehta@emkayglobal.com
+91 22 6612 1253

Ayush Bansal

ayush.bansal@emkayglobal.com
+91 22 6612 1344

Ruchita Agarwal

ruchita.agarwal@emkayglobal.com
+91 22 6624 2450

Infosys reported disappointing operating performance in Q4. Unplanned ramp down of projects, delay in decision-making and some one-off revenue impacts, including a few client-specific project cancellations, hit revenue growth in Q4, leading to the revenue-guidance miss. Mgmt highlighted weakness in parts of BFSI (mortgage, asset management, and investment banking), telecom, retail, and hi-tech which subdued growth. Among geographies, USA is more impacted than Europe. Infosys has guided for 4-7% YoY CC revenue growth for FY24, implying 1.7-2.9% CQGR over the next four quarters. After missing revenue growth guidance for FY23, Infosys is likely to guide conservatively for FY24, given increased caution in spending by clients and prevailing macro uncertainties; but the asking rate at the upper-end appears to be demanding and may require support of some mega-deal closures during FY24. Mgmt has guided for 20-22% EBITM for FY24 which is 100bps lower than the guided margin range at beginning-FY23. Despite near-term challenges posed by the tough macro environment, we believe Infosys is well positioned to capture the growth opportunities across digital transformation, cost efficiency and consolidation-led deals over the medium term. We cut our EPS by 4.4-6.3% for FY24E/25E, factoring-in the disappointing Q4. We maintain BUY on the stock, with revised TP of Rs1,620/share (earlier, Rs1,700) at 22x Mar-25E EPS.

Result summary: Revenue declined by 2.3% QoQ to USD4.55bn (-3.2% QoQ/+8.8% YoY CC), below our expectations of USD4.71bn. EBITM declined by 50bps QoQ to 21.0%, coming in 70bps below our expectation, on account of lower utilization (-70bps), a one-time revenue impact (-90bps) – partially offset by cost optimization (+50bps), and reduction in provisions for post-sales client support (+60bps). Adj. profit stood at Rs61.3bn, below our expectations due to the miss in operating performance. Growth was led by Retail (2.5% CC QoQ) and Others (15.1%), while Communication (-11.2%), Hitech (-7.1%), BFSI (-3.7%), Life sciences (-3.6%), EURS (-3.5%), and Manufacturing (-1.2%) posted a weak performance. Based on Infosys' deal intake, deal pipeline including a few mega deals, and current assessment of the evolving macro situation, Management has guided for 4-7% YoY CC revenue growth in FY24. **What we liked:** Strong FY24 revenue growth guidance, moderation in attrition (LTM attrition down 340bps QoQ to 20.9%/quarterly annualized attrition down by >400bps QoQ), steady deal intake, healthy cash generation (73.5% OCF/EBITDA in Q4). **What we did not like:** Operating performance miss in Q4, lower-than-expected margin guidance.

Earnings call KTAs: 1) Company highlighted that it is witnessing increased client interest for efficiency, cost and consolidation opportunities, resulting in a strong large-deal pipeline. 2) Management indicated that Company's exposure to regional banks is <2% of revenue. Macro uncertainties, softness in mortgage, asset management and investment banking are weighing on BFSI demand. A strong deal pipeline gives growth visibility for FY24. 3) Discretionary spend in Retail continues to be under pressure, while Manufacturing is showing resilience on the back of large-deal ramp-ups and benefits in vendor consolidation. 4) Company indicated that currently, North America presents a more challenging operating environment than Europe. 5) Owing to softness in demand, utilization in Q4 stood at 80% (excluding trainees), which the company expects to gradually improve. 6) The headcount declined by 3,611 employees in Q4. Management indicated calibrated hiring in FY24 meeting growth & margin aspirations. 7) Infosys signed 17 large deals with a combined TCV of USD2.1bn (21% net new) in Q4, split across geographies (10 in North America and 7 in Europe) and verticals (5 in Manufacturing, 4 in BFSI, 3 in Communication, 2 each in Life sciences and Hitech, and 1 in EURS). 8) Company guided for the mid-point of FY24 EBITM to be closer to the FY23 EBITM, to retain flexibility. Higher utilization, flattening pyramid, subcon optimization, improving realization, and automation-led efficiencies remain the key margin levers. 9) Company declared final dividend of Rs17.5 per share.

Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	1,004,730	1,216,410	1,467,670	1,567,880	1,772,896
EBITDA	278,900	314,920	351,310	384,077	443,859
EBITDA Margin (%)	27.8	25.9	23.9	24.5	25.0
APAT	193,510	221,110	240,950	262,377	306,230
EPS (Rs)	45.4	52.6	58.1	63.3	73.8
EPS (% chg)	16.2	15.8	10.5	8.9	16.7
ROE (%)	27.1	29.0	31.8	32.3	32.9
P/E (x)	30.6	26.4	23.9	22.0	18.8
EV/EBITDA (x)	19.8	17.4	15.5	14.0	11.8
P/BV (x)	7.7	7.7	7.6	6.7	5.8

Source: Company, Emkay Research

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Exhibit 1: Quarterly snapshot

(Rs mn)	Q4 FY23	Q3 FY23	QoQ chg	Q4 FY22	YoY chg
Net sales (USDD mn)	4,554	4,659	-2.3%	4,280	6.4%
Net sales	374,410	383,180	-2.3%	322,760	16.0%
Operating expenses	284,430	289,510		244,300	
EBITDA	89,980	93,670	-3.9%	78,460	14.7%
Margins (%)	24.0	24.4	(40)	24.3	(30)
Depreciation	11210	11250		8900	
EBIT	78,770	82,420	-4.4%	69,560	13.2%
Margins (%)	21.0	21.5	(50)	21.6	(50)
Interest received					
Other income (net)	5,890	6,890		5,870	
Pre-tax profit	84,660	89,310	-5.2%	75,430	
Tax provided	23,320	23,450		18,480	
Profit after tax	61,340	65,860		56,950	
Emkay Net profit	61,280	65,860	-7.0%	56,860	7.8%
EPS (Rs)	14.8	15.7	-5.6%	13.5	9.3%

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates

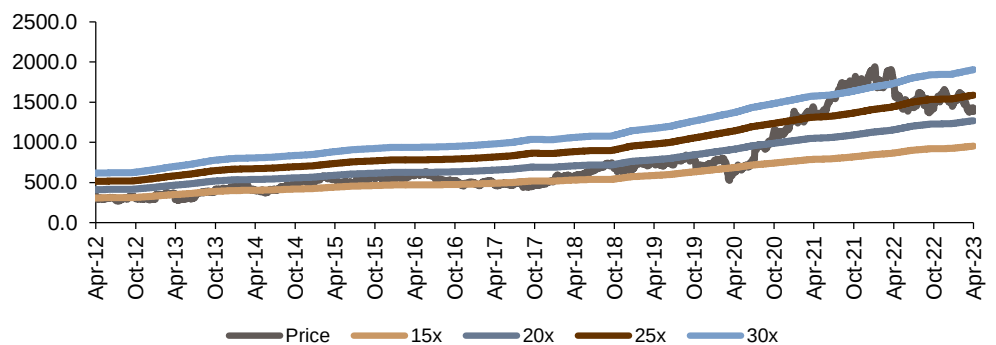
(Rs mn)	Estimate		Variation		Comment
	Actual	Emkay Consensus	Emkay Consensus		
Revenues (USD mn)	4,554	4,706		-3.2% -3.4%	Revenue was below our expectations and missed guidance
Sales	374,410	386,799	387,819	-3.2% -3.5%	
EBIT	78,770	84,220	83,769	-6.5% -6.0%	
EBIT margin	21.0%	21.8%	21.6%	-70 bps -60 bps	Margin missed estimates by 70bps due to the revenue miss
PAT	61,280	65,305	65,154	-6.2% -5.9%	Net profit missed estimates due to operating performance miss

Source: Company, Bloomberg, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY24E			FY25E		
	Old	New	Change	Old	New	Change
Revenues(USD mn)	19,806	19,362	-2.2%	21,978	21,490	-2.2%
YoY revenue growth	7.9%	6.3%		11.0%	11.0%	
Revenues	1,604,306	1,567,880	-2.3%	1,802,211	1,772,896	-1.6%
EBIT	361,341	337,595	-6.6%	410,784	392,197	-4.5%
EBIT margins (%)	22.5	21.5		22.8	22.1	
Net profits	279,923	262,377	-6.3%	320,394	306,230	-4.4%
EPS (Rs)	67.5	63.3	-6.3%	77.3	73.8	-4.4%

Source: Company, Emkay Research

Exhibit 4: Infosys – One-year forward P/E

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	1,004,730	1,216,410	1,467,670	1,567,880	1,772,896
Expenditure	725,830	901,490	1,116,360	1,183,803	1,329,038
EBITDA	278,900	314,920	351,310	384,077	443,859
Depreciation	32,680	34,770	42,250	46,482	51,661
EBIT	246,220	280,150	309,060	337,595	392,197
Other Income	20,060	20,950	24,160	19,925	24,986
Interest expenses	0	0	0	0	0
PBT	266,280	301,100	333,220	357,520	417,184
Tax	72,050	79,640	92,140	94,743	110,554
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	720	350	130	400	400
Reported Net Income	193,510	221,110	240,950	262,377	306,230
Adjusted PAT	193,510	221,110	240,950	262,377	306,230

Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity share capital	21,240	20,980	20,690	20,690	20,690
Reserves & surplus	746,580	736,380	737,260	844,110	974,075
Net worth	767,820	757,360	757,950	864,800	994,765
Minority Interest	0	0	0	0	0
Loan Funds	0	0	0	0	0
Net deferred tax liability	(2,230)	(560)	(250)	(250)	(250)
Total Liabilities	765,590	756,800	757,700	864,550	994,515
Net block	255,050	258,000	292,250	286,828	279,227
Investment	142,050	203,240	194,780	192,420	192,420
Current Assets	665,150	700,450	754,210	888,924	1,072,061
Cash & bank balance	247,140	174,720	121,730	211,258	320,067
Other Current Assets	0	0	0	0	0
Current liabilities & Provision	307,290	409,930	488,010	508,623	554,193
Net current assets	357,860	290,520	266,200	380,301	517,868
Misc. exp	0	0	0	0	0
Total Assets	765,590	756,800	757,700	864,550	994,515

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	246,220	280,150	309,060	337,595	392,197
Other Non-Cash items	71,930	81,370	99,860	94,743	110,554
Chg in working cap	6,330	(11,830)	(65,030)	(24,573)	(28,759)
Operating Cashflow	241,270	249,640	230,220	284,286	329,133
Capital expenditure	(34,860)	(22,140)	(35,490)	(41,590)	(44,060)
Free Cash Flow	206,410	227,500	194,730	242,696	285,073
Investments	(48,730)	(52,810)	17,850	2,360	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(83,590)	(74,950)	(17,640)	(39,230)	(44,060)
Equity Capital Raised	150	(109,960)	(118,110)	0	0
Loans Taken / (Repaid)	(6,640)	(9,150)	(12,310)	0	0
Dividend paid (incl tax)	(91,370)	(127,310)	(136,530)	(155,528)	(176,265)
Other Financing Cash Flow	830	(690)	1,380	0	0
Financing Cashflow	(97,030)	(247,110)	(265,570)	(155,528)	(176,265)
Net chg in cash	60,650	(72,420)	(52,990)	89,528	108,809
Opening cash position	186,490	247,140	174,720	121,730	211,258
Closing cash position	247,140	174,720	121,730	211,258	320,067

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23	FY24E	FY25E
EBITDA Margin	27.8	25.9	23.9	24.5	25.0
EBIT Margin	24.5	23.0	21.1	21.5	22.1
Effective Tax Rate	27.1	26.4	27.7	26.5	26.5
Net Margin	19.3	18.2	16.4	16.8	17.3
ROCE	37.6	39.6	44.0	44.1	44.9
ROE	27.1	29.0	31.8	32.3	32.9
RoIC	49.2	55.7	55.2	55.6	61.8

Per Share Data (Rs)	FY21	FY22	FY23	FY24E	FY25E
EPS	45.4	52.6	58.1	63.3	73.8
CEPS	53.1	60.8	68.3	74.5	86.3
BVPS	180.2	180.1	182.8	208.5	239.9
DPS	27.0	31.0	34.0	37.5	42.5

Valuations (x)	FY21	FY22	FY23	FY24E	FY25E
PER	30.6	26.4	23.9	22.0	18.8
P/CEPS	26.2	22.8	20.3	18.7	16.1
P/BV	7.7	7.7	7.6	6.7	5.8
EV / Sales	5.5	4.5	3.7	3.4	3.0
EV / EBITDA	19.8	17.4	15.5	14.0	11.8
Dividend Yield (%)	1.9	2.2	2.4	2.7	3.1

Gearing Ratio (x)	FY21	FY22	FY23	FY24E	FY25E
Net Debt/ Equity	(0.5)	(0.5)	(0.4)	(0.5)	(0.5)
Net Debt/EBIDTA	(1.4)	(1.2)	(0.9)	(1.1)	(1.2)
Working Cap Cycle (days)	40.2	34.7	35.9	39.4	40.7

Growth (%)	FY21	FY22	FY23	FY24E	FY25E
Revenue	10.7	21.1	20.7	6.8	13.1
EBITDA	25.2	12.9	11.6	9.3	15.6
EBIT	27.1	13.8	10.3	9.2	16.2
PAT	16.6	14.3	9.0	8.9	16.7

Quarterly (Rs mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Revenue	322,760	344,700	365,380	383,180	374,410
EBITDA	78,460	78,640	89,020	93,670	89,980
EBITDA Margin (%)	24.3	22.8	24.4	24.4	24.0
PAT	56,860	53,600	60,210	65,860	61,280
EPS (Rs)	13.5	12.7	14.3	15.7	14.8

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	13.1	13.1	13.1	13.1	13.2
FIIIs	33.2	33.3	31.7	31.3	31.6
DIIIs	16.3	17.1	18.9	28.0	28.6
Public and Others	37.4	36.5	36.3	27.6	26.6

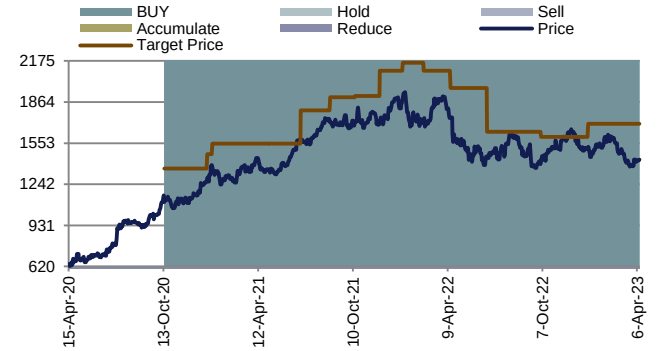
Source: Capitaline

RECOMMENDATION HISTORY - Details

Date	CMP (Rs/sh)	TP (Rs/sh)	Period	Rating	Analyst
1-Apr-23	1,428	1,700	12m	Buy	Dipeshkumar Mehta
13-Jan-23	1,504	1,700	12m	Buy	Dipeshkumar Mehta
2-Jan-23	1,524	1,700	12m	Buy	Dipeshkumar Mehta
14-Oct-22	1,474	1,600	12m	Buy	Dipeshkumar Mehta
4-Oct-22	1,429	1,600	12m	Buy	Dipeshkumar Mehta
25-Jul-22	1,504	1,640	12m	Buy	Dipeshkumar Mehta
23-Jun-22	1,452	1,640	12m	Buy	Dipeshkumar Mehta
1-Jun-22	1,479	1,970	12m	Buy	Dipeshkumar Mehta
14-Apr-22	1,749	1,970	12m	Buy	Dipeshkumar Mehta
1-Apr-22	1,904	2,100	12m	Buy	Dipeshkumar Mehta
22-Feb-22	1,734	2,100	12m	Buy	Dipeshkumar Mehta
13-Jan-22	1,897	2,160	12m	Buy	Dipeshkumar Mehta
1-Jan-22	1,888	2,100	12m	Buy	Dipeshkumar Mehta
30-Nov-21	1,713	2,100	12m	Buy	Dipeshkumar Mehta
14-Oct-21	1,716	1,910	12m	Buy	Dipeshkumar Mehta
2-Oct-21	1,665	1,900	12m	Buy	Dipeshkumar Mehta
27-Aug-21	1,709	1,900	12m	Buy	Dipeshkumar Mehta
15-Jul-21	1,581	1,800	12m	Buy	Dipeshkumar Mehta
2-Jul-21	1,568	1,800	12m	Buy	Dipeshkumar Mehta
14-Apr-21	1,397	1,550	12m	Buy	Dipeshkumar Mehta
5-Apr-21	1,410	1,550	12m	Buy	Dipeshkumar Mehta
18-Mar-21	1,337	1,550	12m	Buy	Dipeshkumar Mehta
14-Jan-21	1,371	1,550	12m	Buy	Dipeshkumar Mehta
4-Jan-21	1,288	1,470	12m	Buy	Dipeshkumar Mehta
18-Dec-20	1,190	1,360	12m	Buy	Dipeshkumar Mehta
12-Nov-20	1,118	1,360	12m	Buy	Dipeshkumar Mehta
14-Oct-20	1,137	1,360	12m	Buy	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY – Trend (Rs/sh)



Source: Bloomberg, Company, Emkay Research

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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