

Infosys Ltd

Operating performance well below expectation led by near term challenges

Result Synopsis

Infosys (INFO) reported weak financial performance for the quarter. Both, the sequential revenue growth and EBIT margin was below expectation. It reported decrease in revenue by 3.2% QoQ in cc terms led by unplanned project ramp downs in Retail, Hitech, BFSI and Telecom verticals. Revenue declined by 2.3% QoQ in USD terms (down 2.3% QoQ in INR terms). EBIT margin declined by 47 bps QoQ at 21.0% led by lower utilization and one-off revenue impact in the quarter. There was some moderation in employee attrition as LTM attrition was down 340 bps QoQ to 20.9%.

The multiyear tech adoption cycle broadly remains intact led by adoption of cloud and data analytics. However, the clients remain cautious regarding the evolving macroeconomic situation in the US and Europe and there has been slowdown in discretionary tech spending in sectors such as Hitech, Retail, Telecom, etc. and it is expected to 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 11.9% over FY23-25E with average EBIT margin of 22.1%. We rollover to FY25E estimates and maintain our BUY rating on the stock with revised target price of Rs 1,676/share at 22.0x on FY25E EPS. The stock trades at PER of 21.1x/18.1x on FY24E/FY25E EPS.

Result Highlights

- Reported revenue of Rs 374.4bn (down 2.3% QoQ in INR terms, down 2.3% QoQ in USD terms) led by project ramp downs in Telecom, Retail, Hitech and BFSI verticals. The revenue decreased by 3.2% QoQ in cc terms. Digital now accounts for 62.9% of revenue vs 62.9% in Q3FY23. In terms of verticals, the YoY growth was led by Manufacturing (up 26.5% YoY in cc terms) and Energy and Utilities (up 17.1% YoY in cc terms).
- EBIT margin dipped by 47 bps QoQ to 21.0%, led by increase in Selling and Marketing Expenses (up 3.0% QoQ) during the quarter.
- Reported Large deal wins of \$2.1bn vs \$3.3bn in Q3FY23.
- Gross client addition was 115 vs 134 in Q3FY23. Days sales outstanding decreased to 62 days vs 68 in Q3FY23.
- Offshore effort mix was down 10 bps QoQ to 75.4%. Added (3,611) employees in the quarter to close at 3,43,234 employees. LTM attrition was down 340 bps QoQ to 20.9%. Utilization (excluding trainees) was down 170 bps QoQ to 80.0%.
- Declared a final dividend of Rs 17.5/- per share. Guided for 4-7% revenue growth in CC terms for FY24, with EBIT margin band of 20-22%.

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	3,74,410	3,91,027	3,88,900	-4.2%	-3.7%
EBITDA	89,980	98,643	95,750	-8.8%	-6.0%
EBITDA Margin (%)	24.03%	25.23%	24.62%	-119 bps	-59 bps
Adjusted PAT	61,340	69,745	66,320	-12.1%	-7.5%

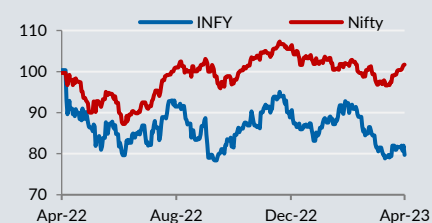
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 1,389
Target Price	: Rs 1,676
Potential Return	: + 20.6%

Stock data (as on April 13, 2023)

Nifty	17,828
52 Week h/l (Rs)	1814 / 1355
Market cap (Rs/USD mn)	5907437 / 72373
Outstanding Shares (mn)	4,136
6m Avg t/o (Rs mn):	8,754
Div yield (%):	2.2
Bloomberg code:	INFO IN
NSE code:	INFY

Stock performance



	1M	3M	1Y
Absolute return	-3.2%	-7.6%	-20.6%

Shareholding pattern (As of Dec'22 end)

Promoter	13.2%
FII+DII	60.2%
Others	13.5%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,676	1,725

Δ in earnings estimates

	FY23	FY24E	FY25E
EPS (New)	57.5	65.7	76.2
EPS (Old)	59.0	73.8	84.9
% change	-2.6%	-11.0%	-10.2%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Net Revenue	14,67,670	16,24,425	18,38,408
YoY Growth	20.7%	10.7%	13.2%
EBITDA	3,51,310	4,01,402	4,64,575
YoY Growth	11.6%	14.3%	15.7%
PAT	2,41,080	2,75,570	3,19,727
YoY Growth	8.9%	14.3%	16.0%
ROE	31.8%	33.2%	32.1%
EPS	57	66	76
P/E	24.1	21.1	18.1
BV	181	215	260
P/BV	7.7	6.4	5.3

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Exhibit 2: Quarterly snapshot Console: Operating performance was weak during the quarter

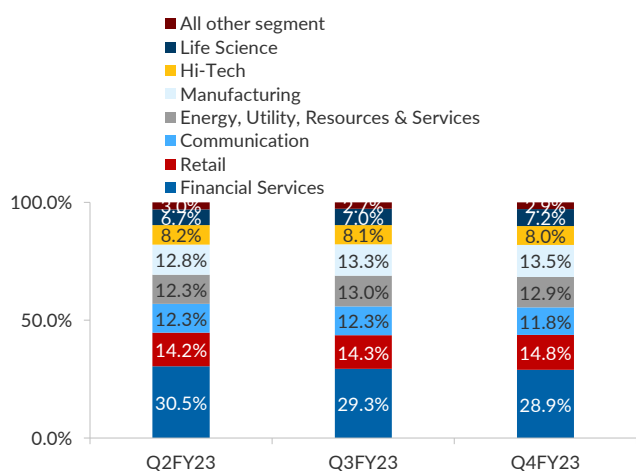
Particulars	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	yoy%	qoq%	FY23	FY22	yoy %
Sales (\$ Mn)	4,280	4,444	4,555	4,659	4,554	6.4	-2.3	18,212	16,310	12
Sales (Rs Mn)	3,22,760	3,44,700	3,65,380	3,83,180	3,74,410	16.0	-2.3	14,67,670	12,16,410	21
EBITDA	78,460	78,640	89,020	93,670	89,980	14.7	-3.9	3,51,310	3,14,920	12
EBITDA %	24.3	22.8	24.4	24.4	24.0	-28 bps	-41 bps	23.9	25.9	-195 bps
Depreciation	8,900	9,500	10,290	11,250	11,210	26.0	-0.4	42,250	34,770	22
EBIT	69,560	69,140	78,730	82,420	78,770	13.2	-4.4	3,09,060	2,80,150	10
EBIT Margin %	21.6	20.1	21.5	21.5	21.0	-51 bps	-47 bps	21.1	23.0	-197 bps
Other income	6,370	6,760	5,840	7,690	6,710	5.3	-12.7	27,000	22,950	18
Interest	500	560	660	800	820	64.0	2.5	2,840	2,000	42
PBT	75,430	75,340	83,910	89,310	84,660	12.2	-5.2	3,33,220	3,01,100	11
Tax	18,480	21,720	23,650	23,450	23,320	26.2	-0.6	92,140	79,640	16
PAT	56,950	53,620	60,260	65,860	61,340	7.7	-6.9	2,41,080	2,21,460	9
NPM (%)	17.6	15.6	16.5	17.2	16.4	-126 bps	-80 bps	16.4	18.2	-178 bps

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

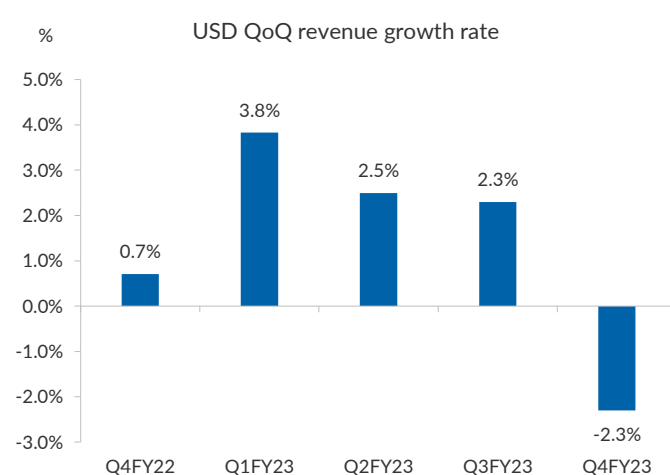
- Revenue drop was due to ramping down of projects by clients in sectors such as Telecom, Retail, Hitech, etc. Also, there was one off project cancellation in certain cases.
- Current deal pipeline and the ongoing macroeconomic uncertainties are being considered in revenue guidance of 4-7% in CC terms for FY24.
- There has been uptick in cost optimisation and automation related deals during Q4FY23.
- The sequential dip in margin was due to lower utilization and one- off revenue impact despite lower subcon cost.
- It has launched efficiency improvement program for better margin in medium term by improving employee pyramid, increasing utilization and lowering subcon cost.
- The decision-making time on the part of clients continue to be on higher end especially with regard to large deals
- The US is more adversely impacted than the European markets in terms of demand environment.
- Despite attrition at leadership level, it feels confident about the talent pool at senior level.
- Total dividend for FY23 was Rs 35/- per share. 86% of FCF has been returned to shareholders during the last 4 years.

Exhibit 3: Retail, Hitech and Telecom are the adversely impacted verticals



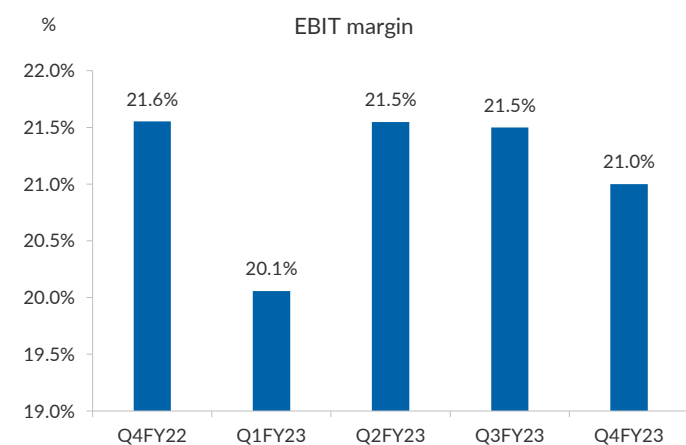
Source: Company, YES Sec

Exhibit 4: Sequential revenue growth was impacted due ramping down of projects in certain verticals



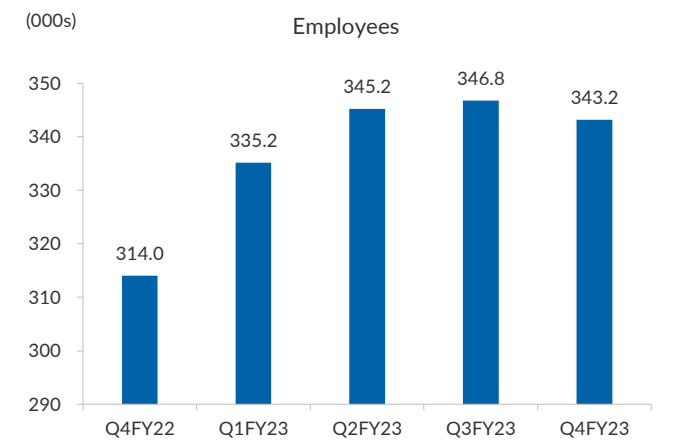
Source: Company, YES Sec

Exhibit 5: EBIT Margin impacted by low Utilization Rate



Source: Company, YES Sec

Exhibit 6: Sequential dip in total headcount



Source: Company, YES Sec

FINANCIALS

Exhibit 7: Balance Sheet

Y/e March 31 (Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Share capital	21,700	21,220	21,240	20,980	20,690	20,690	20,690
Reserves & surplus	6,28,360	6,37,220	7,46,580	7,36,380	7,37,260	8,82,759	10,68,220
Shareholders' funds	6,50,060	6,58,440	7,67,820	7,57,360	7,57,950	9,03,449	10,88,910
Non-current liabilities	10,940	60,680	77,390	85,460	1,08,350	1,09,604	1,10,920
Other non-current liabilities	10,940	60,680	77,390	85,460	1,08,350	1,09,604	1,10,920
Current liabilities	1,86,380	2,08,560	2,38,650	3,36,030	3,91,860	4,08,752	4,55,717
Other current liabilities	1,86,380	2,08,560	2,38,650	3,36,030	3,91,860	4,08,752	4,55,717
Total (Equity and Liabilities)	8,47,380	9,27,680	10,83,860	11,78,850	12,58,160	14,21,805	16,55,547
Non-current assets	3,18,600	3,81,920	4,76,530	5,07,000	5,49,350	5,61,169	5,73,532
Fixed assets (Net block)	1,40,470	1,55,990	1,56,950	1,52,860	1,55,420	1,57,445	1,59,485
Non-current Investments	-	-	-	-	-	-	-
Other non-current assets	1,78,130	2,25,930	3,19,580	3,54,140	3,93,930	4,03,724	4,14,047
Current assets	5,28,780	5,45,760	6,07,330	6,71,850	7,08,810	8,60,636	10,82,015
Cash & current investment	2,61,950	2,33,040	2,70,560	2,41,450	1,90,820	2,82,963	4,32,723
Other current assets	2,66,830	3,12,720	3,36,770	4,30,400	5,17,990	5,77,673	6,49,292
Total (Assets)	8,47,380	9,27,680	10,83,860	11,78,850	12,58,160	14,21,805	16,55,547

Source: Company, YES Sec

Exhibit 8: Income Statement

Y/e March 31 (Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	8,26,760	9,07,910	10,04,730	12,16,410	14,67,670	16,24,425	18,38,408
Operating expenses	(6,17,870)	(6,85,240)	(7,25,830)	(9,01,490)	(11,16,360)	(12,23,023)	(13,73,833)
EBITDA	2,08,890	2,22,670	2,78,900	3,14,920	3,51,310	4,01,402	4,64,575
Depreciation	(20,100)	(28,930)	(32,680)	(34,770)	(42,250)	(47,108)	(53,314)
EBIT	1,88,790	1,93,740	2,46,220	2,80,150	3,09,060	3,54,294	4,11,261
Other income	28,830	28,030	22,010	22,950	27,000	29,240	33,091
Finance cost	-	(1,690)	(1,950)	(2,000)	(2,840)	(3,199)	(3,073)
Profit before tax	2,10,410	2,20,080	2,66,280	3,01,100	3,33,220	3,80,335	4,41,279
Tax (current + deferred)	(56,310)	(53,680)	(72,050)	(79,640)	(92,140)	(1,04,765)	(1,21,553)
Reported Profit / (Loss)	1,54,150	1,66,400	1,94,230	2,21,460	2,41,080	2,75,570	3,19,727
Adjusted net profit	1,54,150	1,66,400	1,94,230	2,21,460	2,41,080	2,75,570	3,19,727

Source: Company, YES Sec

Exhibit 9: Cash Flow Statement

Y/e March 31 (Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	2,10,410	2,20,080	2,66,280	3,01,100	3,33,220	3,80,335	4,41,279
Depreciation	20,100	28,930	32,680	34,770	42,250	47,108	53,314
Change in working capital	16,410	(23,710)	6,040	3,750	(31,760)	(42,791)	(24,654)
Total tax paid	(55,900)	(54,440)	(66,520)	(77,970)	(91,830)	(1,04,889)	(1,21,678)
Others	(28,830)	(26,340)	(20,060)	(20,950)	(24,160)	(26,041)	(30,019)
Cash flow from operations (a)	1,62,190	1,44,520	2,18,420	2,40,700	2,27,720	2,53,721	3,18,242
Capital expenditure	(36,670)	(44,450)	(33,640)	(30,680)	(44,810)	(49,133)	(55,354)
Change in investments	(2,200)	19,720	23,130	(43,310)	(2,360)	(2,764)	(2,874)
Others	39,720	1,410	(70,170)	(9,310)	(1,930)	19,570	22,894
Cash flow from investing (b)	850	(23,320)	(80,680)	(83,300)	(49,100)	(32,327)	(35,334)
Free cash flow (a+b)	1,63,040	1,21,200	1,37,740	1,57,400	1,78,620	2,21,395	2,82,908
Equity raised/(repaid)	12,920	1,560	3,950	(1,920)	2,090	-	-
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)	(1,07,825)	(1,945)	(1,756)
Cash flow from financing (c)	(1,65,540)	(1,30,390)	(77,090)	(2,29,820)	(2,31,610)	(1,32,015)	(1,36,023)
Net change in cash (a+b+c)	(2,500)	(9,190)	60,650	(72,420)	(52,990)	89,380	1,46,886

Source: Company, YES Sec

Exhibit 10: Ratio Analysis

Y/e March 31	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Growth(%)							
Revenue Growth	17.2	9.8	10.7	21.1	20.7	10.7	13.2
EBITDA Growth	9.9	6.6	25.3	12.9	11.6	14.3	15.7
EBIT Growth	10.1	2.6	27.1	13.8	10.3	14.6	16.1
Net Profit Growth	(3.8)	7.9	16.7	14.0	8.9	14.3	16.0
Profitability Ratios(%)							
EBITDA Margin	25.3	24.5	27.8	25.9	23.9	24.7	25.3
EBIT margin	22.8	21.3	24.5	23.0	21.1	21.8	22.4
Net Profit margin	18.6	18.3	19.3	18.2	16.4	17.0	17.4
RoA	22.9	21.8	24.5	24.8	25.4	26.4	26.7
RoE	23.7	25.4	27.2	29.0	31.8	33.2	32.1
RoCE	28.6	28.1	31.5	33.2	36.2	37.7	37.2
Liquidity Ratios							
Net debt/Equity (x)	(0.4)	(0.4)	(0.4)	(0.3)	(0.3)	(0.3)	(0.4)
Current ratio (x)	2.8	2.6	2.5	2.0	1.8	2.1	2.4
Quick ratio (x)	2.8	2.6	2.5	2.0	1.8	2.1	2.4
Valuation Ratios							
PER(x)	NA	39.8	41.0	28.1	24.1	21.1	18.1
PCE(x)	NA	33.9	35.1	24.3	20.5	18.0	15.6
Price/Book(x)	NA	10.0	10.4	8.2	7.7	6.4	5.3
EV/EBITDA(x)	NA	28.7	27.6	19.0	16.0	13.8	11.6

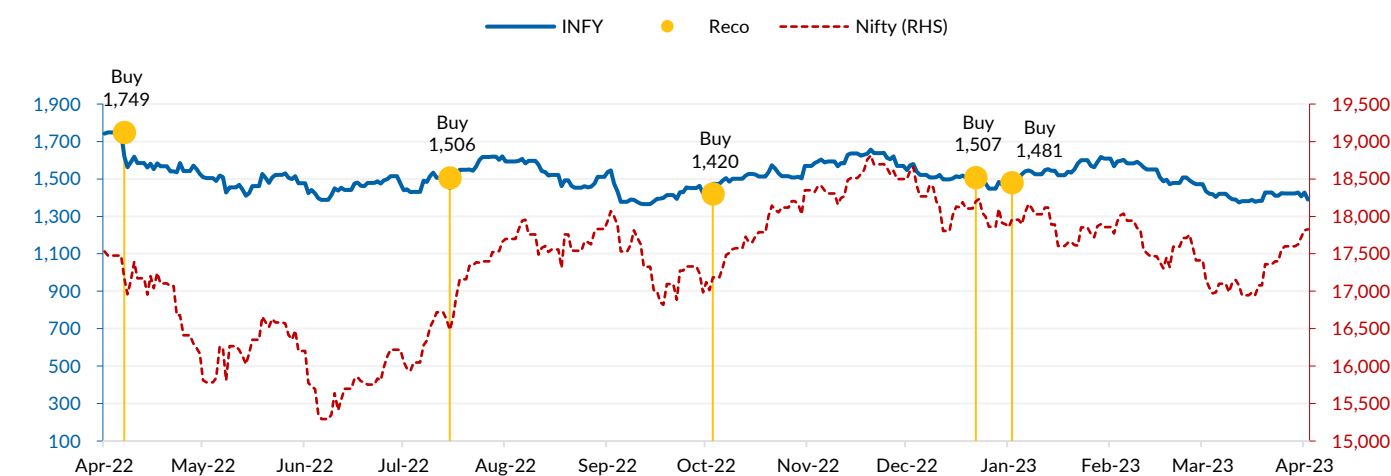
Source: Company, YES Sec

Exhibit 11: Dupont Analysis

Dupont Analysis	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net margin(%)	18.6	18.3	19.3	18.2	16.4	17.0	17.4
Asset turnover (x)	1.0	1.0	1.0	1.1	1.2	1.2	1.2
Leverage factor (x)	1.3	1.4	1.4	1.5	1.6	1.6	1.5
Return on Equity(%)	23.7	25.4	27.2	29.0	31.8	33.2	32.1

Source: Company, YES Sec

Recommendation Tracker



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RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

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

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