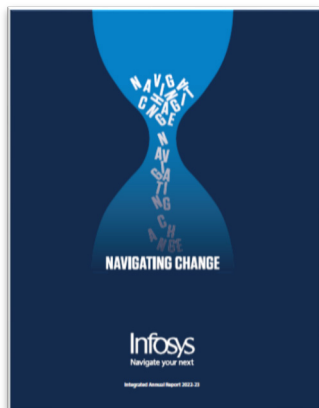


BSE SENSEX  
63,143

S&P CNX  
18,726

**CMP: INR1,289 TP: INR1,520 (+18%)**

**Buy**



Motilal Oswal values your support in the Asiamoney Brokers Poll 2023 for India Research, Sales, Corporate Access and Trading team. We [request your ballot](#).



#### Stock Info

Bloomberg	INFO IN
Equity Shares (m)	4572
M.Cap.(INRb)/(USDb)	5349.2 / 64.8
52-Week Range (INR)	1672 / 1215
1, 6, 12 Rel. Per (%)	-1/-21/-29
12M Avg Val (INR M)	9665
Free float (%)	86.7

#### Financials Snapshot (INR b)

Y/E Mar	2023	2024E	2025E
Sales	1,468	1,572	1,758
EBIT Margin (%)	21.1	21.1	21.7
PAT	241	263	302
EPS (INR)	57.6	63.5	71.8
EPS Gr. (%)	9.8	10.3	13.2
BV/Sh. (INR)	180	183	181

#### Ratios

RoE (%)	32.0	34.9	39.9
RoCE (%)	26.2	28.1	31.9
Payout (%)	96.7	85.0	85.0

#### Valuations

P/E (x)	22.4	20.3	17.9
P/BV (x)	7.1	7.1	7.1
EV/EBITDA (x)	15.1	13.9	12.3
Div Yield (%)	2.6	4.2	4.8

## FY23 AR Analysis – evolving nature of investments

- Analysis of the FY23 annual report of Infosys suggests that despite the adverse macros, enterprises continue to re-evaluate their cost structure and strengthen their business resilience. Additionally, they are adopting technological investments to foster agility.
- Enterprises are shifting their attention toward improving the personalized experience for their customers and delivering distinct value propositions by introducing new products and services.
- Key spending areas include Cloud, Generative AI, Cyber Security, IoT, and Immersive Technologies.
- In this economic downturn, the company continues to maintain close proximity to its clients with its near-shore delivery capabilities and localization strategy.

## Digital revenue demonstrates resilience

- In FY23, INFO reported CC revenue growth of 15.4% YoY, led by Manufacturing & Energy segments (up 38.8% YoY and 22.8% YoY).
- The digital revenue (~62% of revenue) growth stood at 25.6% YoY CC, which has moderated over peak FY22 growth of 41.2%.
- After experiencing a decline in core (non-digital) revenue due to a shift in spending toward digital channels, the company has reported positive growth of 1.9% YoY CC for the first time since 2020.

## Near-term headwinds drag FY23 performance

- The margin pressure continued throughout FY23, reaching 21.1% (down 200 bp YoY). This was primarily due to factors such as an increase in headcount, higher compensation costs, and an increase in expenses related to third-party items (software & hardware).
- On a segmental basis, major margin dilution has come from the Retail segment at 30.2% (down 440 bp YoY), although the vertical grew 15.2% YoY CC.
- However, the cost of subcontracting remained under control (9.6% of revenue v/s 10.4% in FY22). This was partly due to the deployment of freshers, as an alternate source of talent, into projects.
- The company has given out an EBIT margin guidance of 20-22% for FY24.

## Robust cash conversion with improved return profile

- Cash conversion remained strong; while pre-tax OCF/EBITDA came in at 90.2%, FCF/PAT stood at 84.8%.
- The company generated ROE and ROCE of 32% and 26% in FY23 v/s 29% and 24% in FY22.
- INFO has maintained a robust payout ratio and has given out 114% of FCF against its payout policy of at least 85% of FCF.

Mukul Garg - Research analyst (Mukul.Garg@MotilalOswal.com)

Research analyst: Pritesh Thakkar (Pritesh.Thakkar@MotilalOswal.com) / Raj Prakash Bhanushali (Raj.Bhanushali@MotilalOswal.com)

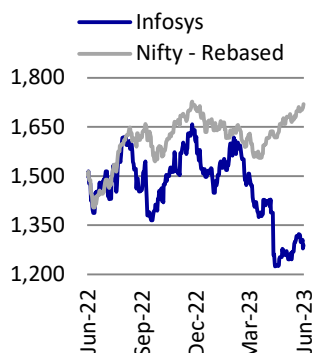
Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**Shareholding pattern (%)**

As On	Mar-23	Dec-22	Mar-22
Promoter	13.3	13.2	13.1
DII	29.7	28.6	17.1
FII	43.3	44.8	33.6
Others	13.7	13.5	36.2

FII Includes depository receipts

**Stock performance (one-year)****Operating Metrics**

- The company made a net addition of 29k+ employees, while the gross hiring of freshers stood at 50k in FY23. Additionally, the company recruited more than 10k employees locally to boost its localization strategy.
- In FY23, ~190k employees have been trained in digital skills.
- The voluntary attrition rate has declined significantly to 20.9% (down 680 bp YoY), however, the utilization rate (incl. trainees) has reduced to 77.1% (down 540 bp YoY)
- The company has won 95 large deals with a TCV of USD 9.8b.

**ESG Metrics**

- The company has continued to maintain a robust carbon-neutral strategy. About 57.9% of the electricity powering its India operations is sourced from renewable sources.
- 100% of the wastewater is recycled within its campuses.
- Infosys has adopted the use of renewable energy throughout its campuses by installing solar PV panels on rooftops and ground mount systems.
- Its carbon offsets program is implemented across five states, and is expected to benefit more than 240k rural families, and create over 2,800 rural jobs.
- It has established around 400 deep injection wells across India campuses, providing a combined recharge capacity of around 20m liters per day. It has also built 39 lakes across campuses, with a rainwater storage capacity of 426m liters.
- The company reported Global CSR spends of INR 5,170m with 3.8m beneficiaries of CSR projects in India.

**Valuation and view**

- INFO's discretionary business has been adversely impacted by the macroeconomic slowdown over the last few months.
- The delayed decision-making and higher deal scrutiny will have a direct impact on the deal conversion. We expect FY24 revenue growth to be around 5.2% YoY in CC terms, which falls under the lower end of the guidance range.
- Despite near-term weakness, we expect INFO to be a key beneficiary of acceleration in IT spends in the medium/long term. The stock is currently trading at 18x FY25E EPS. We value the stock at 21x FY25E EPS, implying a TP of INR 1,520.

## Weak macros mounting pressure on topline growth

Despite the macro uncertainties and economic slowdown, Infosys reported robust revenue growth of 15.4% YoY CC. However, the USD revenue growth was skewed toward H1 with 15.7% YoY growth v/s 8.0% YoY in H2, owing to weakening demand environment. The robust revenue growth was led by Manufacturing and Energy segments, up 38.8% and 22.8% YoY. The BFS segment (~30% of revenues) reported a muted growth of 7.3% YoY CC, followed by Hi-Tech at 8.8% YoY CC. The demand softness is expected to continue in FY24, which is very much reflected in the weak revenue guidance to the tune of 4-7% YoY CC. Again, the overall deal TCV stood at USD 9.8m, up 2.7% YoY in FY23. Considering the macro headwinds, the deal TCV looks relatively attractive at this moment, but conversion remains a challenge. The project ramp down and deal cancellations are mounting further pressure on its topline growth.



**“Such times of intense uncertainty, great short-term pressure, and crunched resources require that companies must become better, more efficient in their ability to be resilient in the present while also securing their future growth.”**

**- Nandan Nilekani  
Chairman**

The digital service (62% of revenues) has grown at 25.6% YoY CC, exceeding the consolidated level growth. The digital service growth is insulated and quite resilient to the current environment. The enterprises have continued to direct their expenditures toward improving the personalized experience for their customers and delivering distinct value propositions through by introducing new products and services. Further, there has been a shift in the nature of spending with enterprises re-evaluating their cost structure, strengthening business resilience, and fostering agility by investing in new-age technologies.

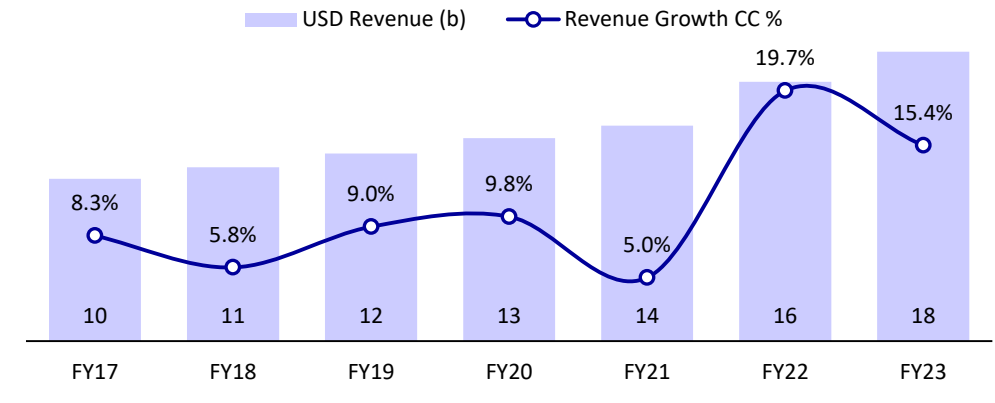


**“In the past few quarters, we have seen the global economy dealing with inflation, interest rate increases, and changes in demand environment for companies in various industries. Our strength in digital, cloud, and in automation, along with cost efficiency capabilities have held us in good stead. These will continue to be critical in the evolving economic environment.”**

**- Salil Parekh  
CEO and Managing Director**

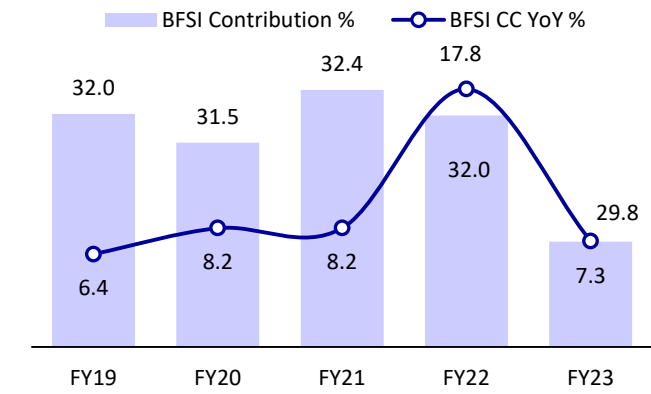
**Exhibit 1: USD Revenue and CC Growth %**

Despite the economic slowdown, the FY23 revenue growth is still higher than the historical CC revenue growth (ex-FY22)



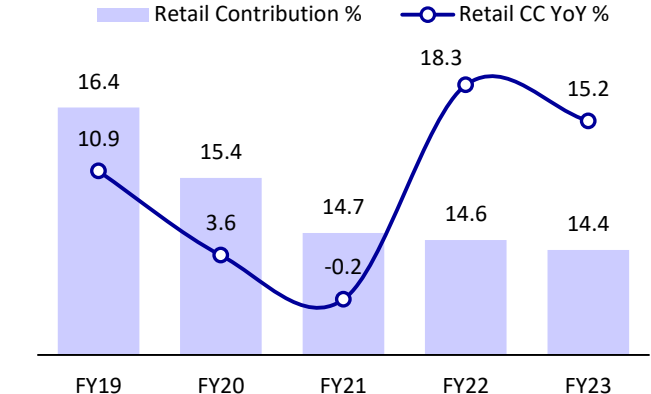
Source: MOFSL, Company

**Exhibit 2: BFSI CC growth moderated sharply**



Source: MOFSL, Company

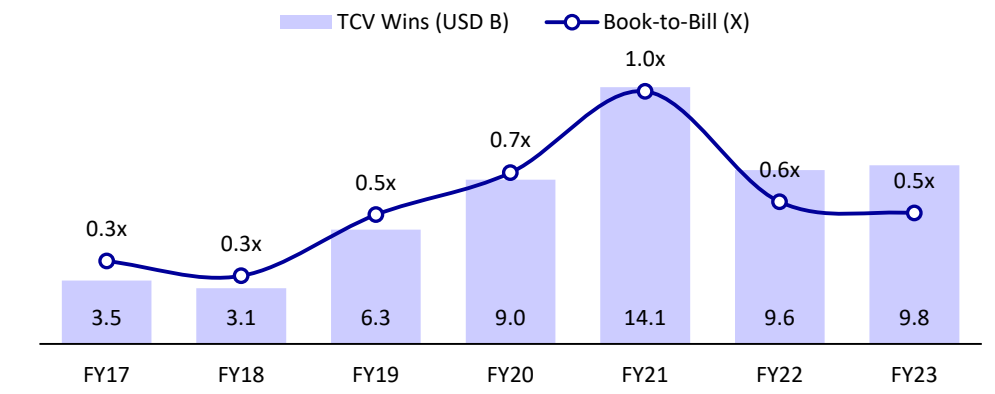
**Exhibit 3: Retail CC growth still remains high**



Source: MOFSL, Company

**Exhibit 4: Large Deal TCV witnessed a slight uptick**

The book-to-bill ratio is almost flat in FY23 over FY22. The deal closures are likely to expedite once the macro uncertainty recedes.



Source: MOFSL, Company

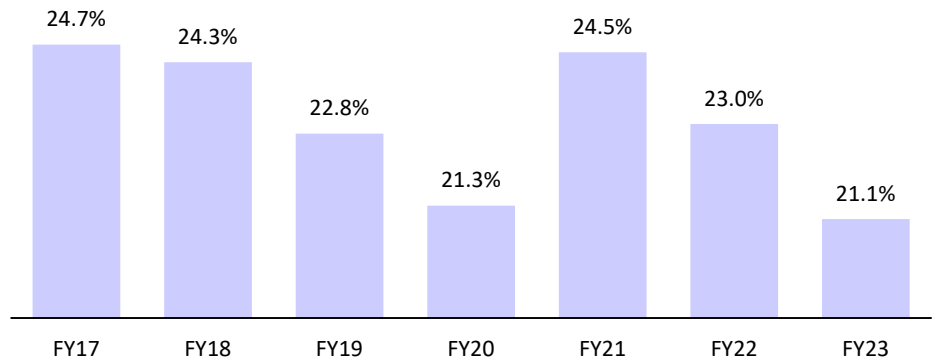
## Margins moderated for two consecutive years

FY23 average annual increase in the salaries of employees was 9.9% in India (incl. promotion and other compensation- based revision)

Employees outside India received a wage increase in line with the market trends in their respective countries.

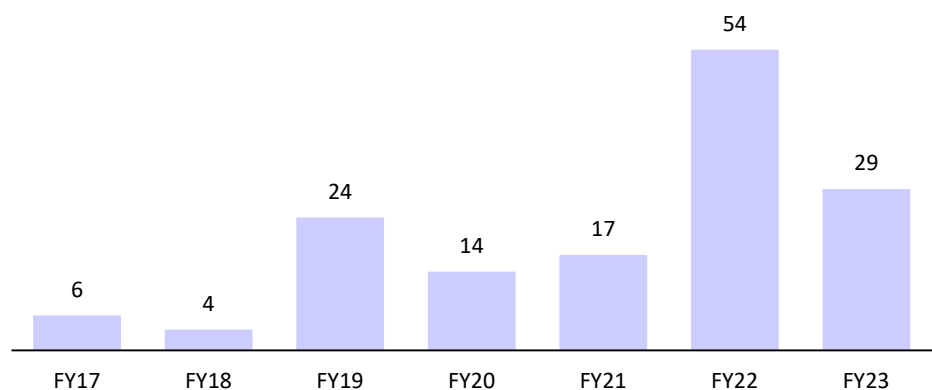
- The EBIT margin continues to moderate at 21.1% in FY23 from its peak in FY21 on account of an increase in fresher hiring (~50k in FY23) that is leading to lower billable counts and underutilization of resources (utilization down 540 bp in FY23).
- The incremental spend in third-party resources (software and hardware) as a part of delivery has increased in FY23 to \$1.1b from \$0.7b in FY22.
- Again the increase in compensation in the inflationary environment (onsite) is expected to further pressurize its margins.
- The margin headwinds above are partly offset by a decline in subcon % of revenues to 9.6% in FY23 from 10.6% in FY22
- Considering the inflationary environment, the company has given out an EBIT margin guidance of 20-22% for FY24.

**Exhibit 5: Pyramid rationalization continues to pressurize EBIT margins**



Source: MOFSL, Company

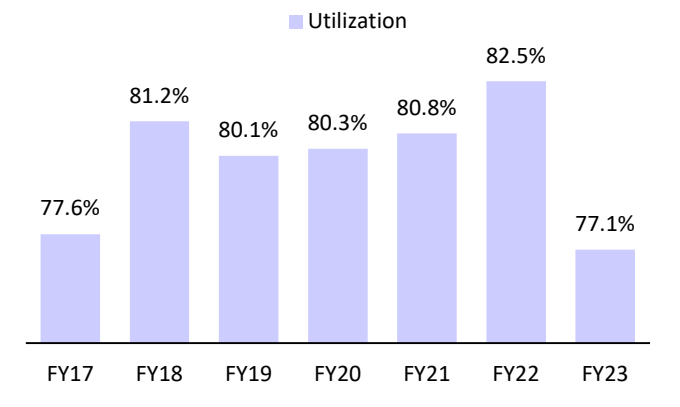
**Exhibit 6: Net headcount addition ('000) moderated in FY23 after a sharp uptick in FY22**



Source: MOFSL, Company

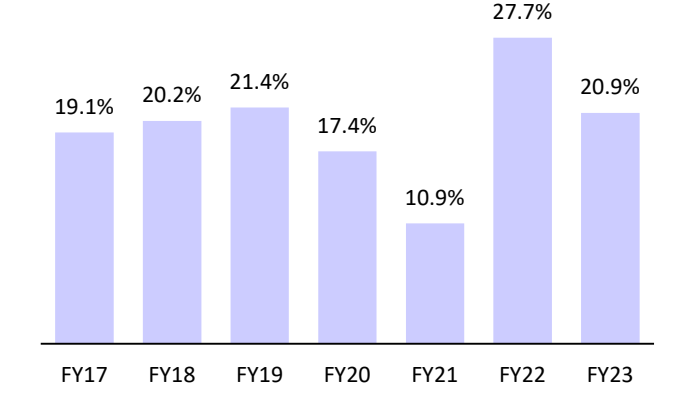
The major net headcount addition happened in H1 with 31k+ hiring, while Q4 witnessed a decline in headcount of ~3600

**Exhibit 7: Sharp decline in utilization (%) in FY23**



Source: MOFSL, Company

**Exhibit 8: Attrition rate cooled off in FY23**

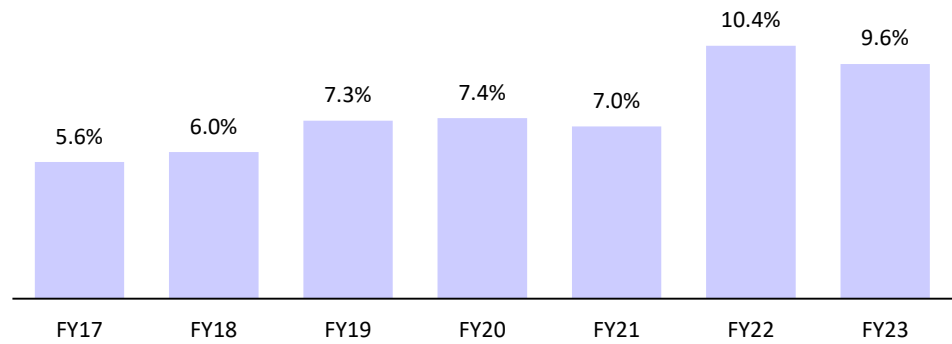


\*Voluntary attrition from FY20;

Source: MOFSL, Company

**Exhibit 9: Subcontracting expenditure as a percentage of revenue started to moderate from its peak**

The subcon expenses are expected to reduce with an increase in the number of freshers. However, the company reiterated that it intends to maintain the right mix of subcontractors vs full-time employee



Source: MOFSL, Company

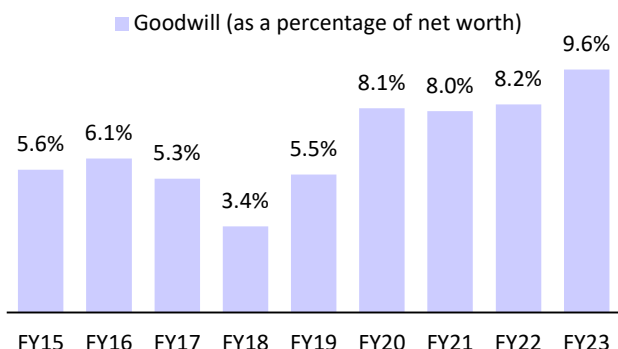
**Margin outlook**

- The management foresees multiple margin levers in FY24 and expects to maintain the margins within the guided band.
- The current cost structure is inefficient, primarily due to supply-led challenges and consecutive wage hikes last year. This has resulted in a substantial drop in margins.
- However, in FY24, the company is expected to restructure employee pyramid with the right-mix of freshers, and address some of the margin headwinds by improving the utilization rate, optimizing bench strength, and implementing pricing strategies (with COLA clause).

### Payout ratio and return profile remain strong

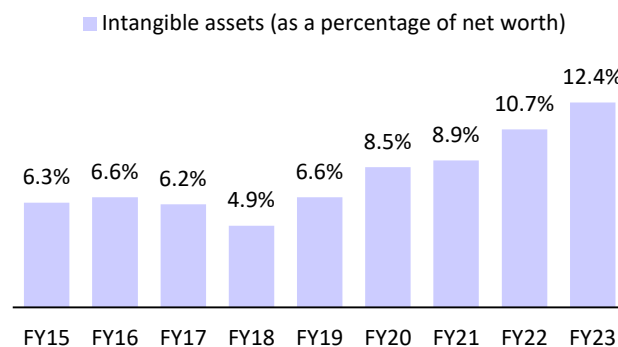
- Infosys' payout ratio remains quite attractive at 96.7% (114% of FCF) in FY23, which is much above its capital allocation policy of at least 85% of FCF.
- The return profile remains quite strong with ROE at 32.0% and ROCE at 26.2%.
- The sharp increase in Goodwill % of net worth (up 140 bp YoY) in FY23 was on account of additions to goodwill amounting to INR 6,300m for its acquisition in FY23 (oddivy and BASE life science group).

Exhibit 10: Share of goodwill/intangible assets ...



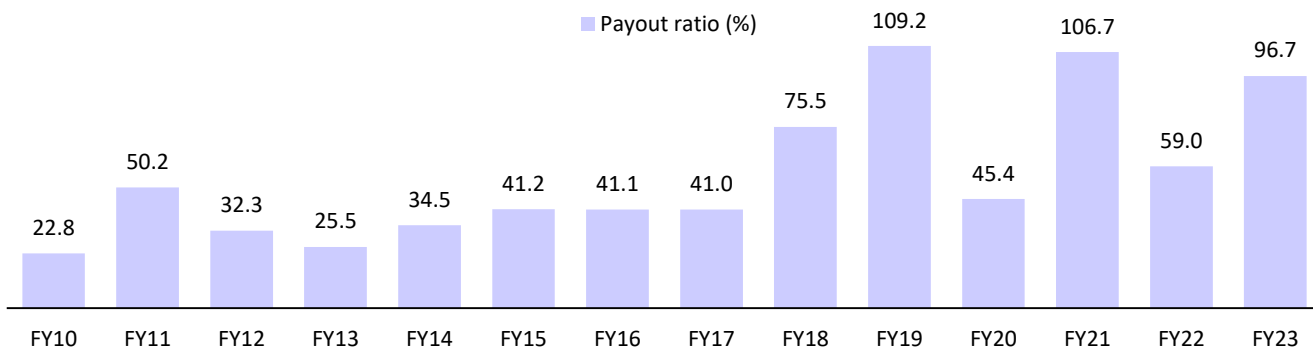
Source: Company, MOFSL

Exhibit 11: ...has witnessed an uptick in FY23



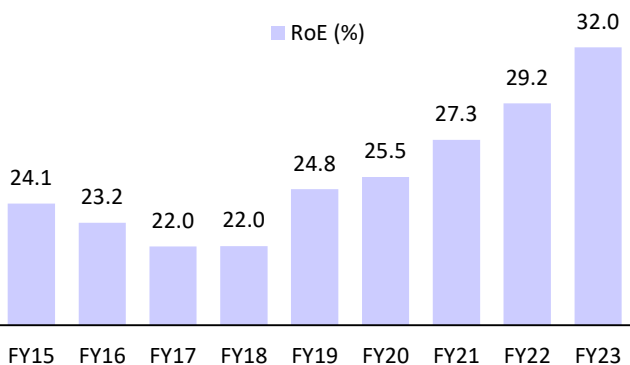
Source: Company, MOFSL

Exhibit 12: Infosys Payout



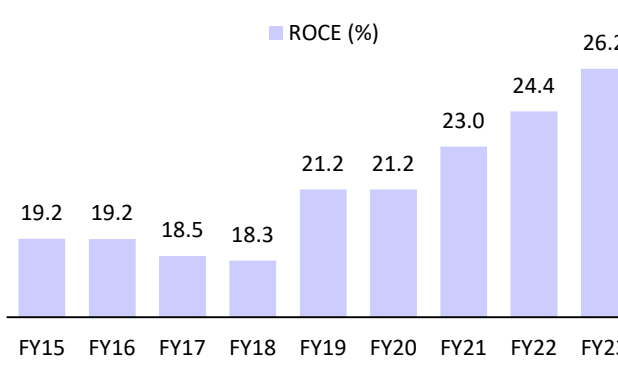
Source: MOFSL, Company

Exhibit 13: ROE % - Supportive due to increase in payout



Source: MOFSL, Company

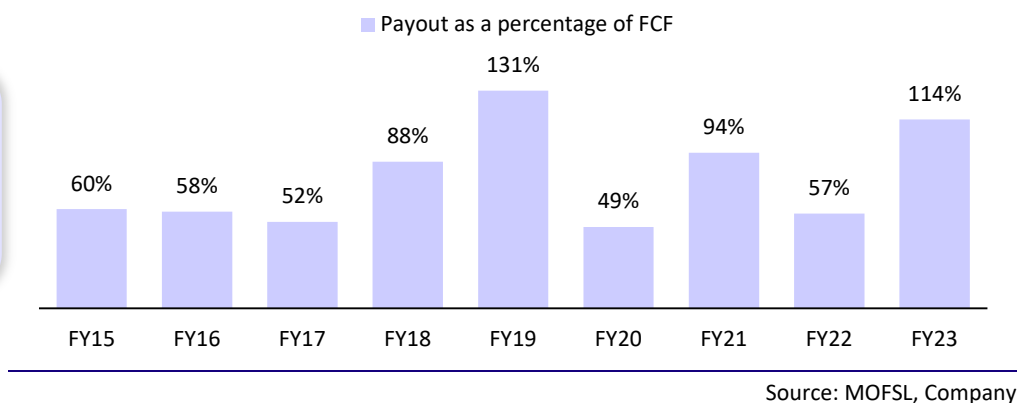
Exhibit 14: ROCE % - Growing at a steady rate



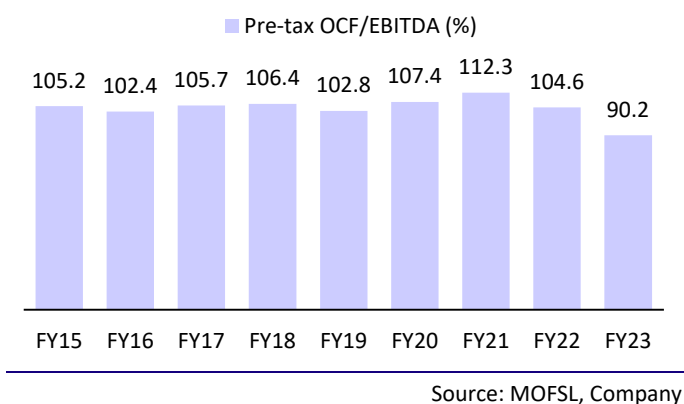
Source: MOFSL, Company

**Exhibit 15: Robust payout % of FCF**

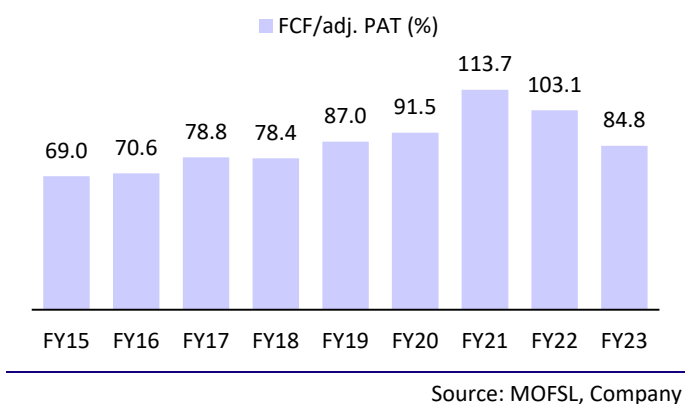
Cash conversion remains strong. Pre-tax OCF/EBITDA came in at 90.2% and FCF/PAT stood at 84.8% in FY23.



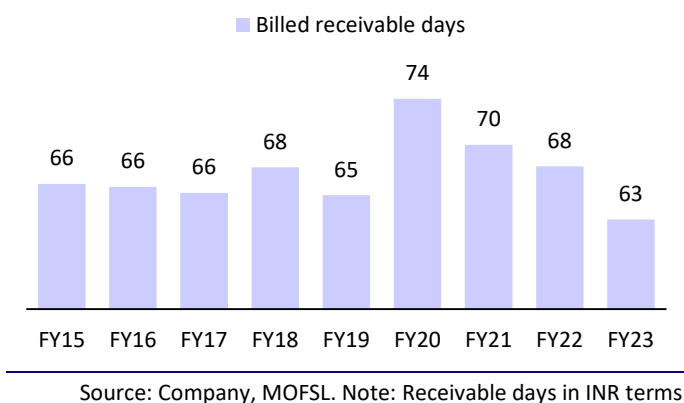
**Exhibit 16: OCF/EBITDA and...**



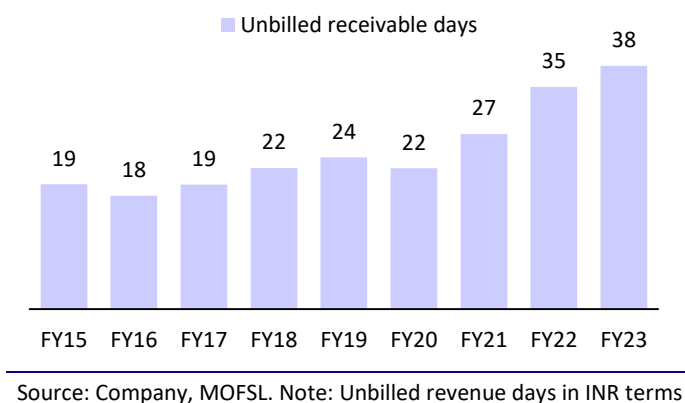
**Exhibit 17: ...FCF/PAT moderated, but still remain strong**



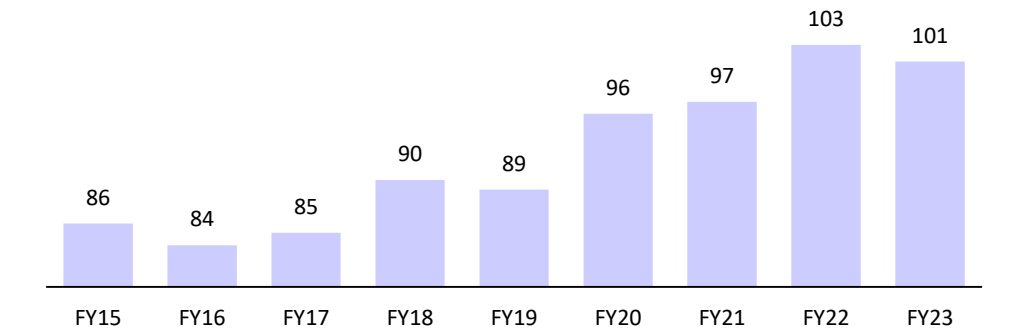
**Exhibit 18: Improved receivables - Led by timely collection**



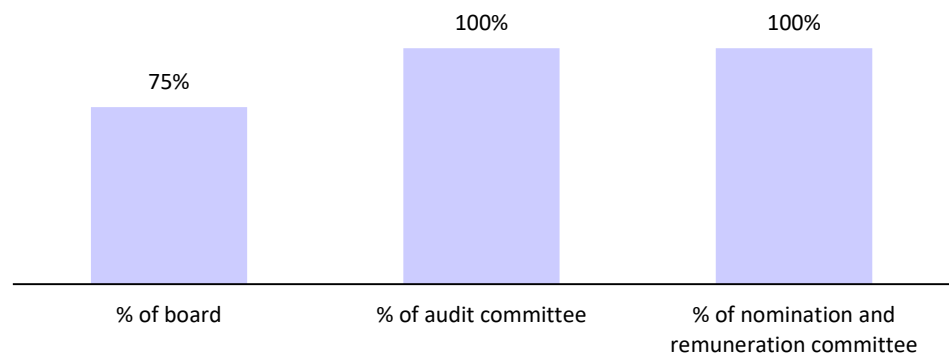
**Exhibit 19: Unbilled Rev. – Rising due to contract shift**





**Exhibit 20: Overall DSO Days (billed + unbilled) moderated a bit in FY23**

Source: MOFSL, Company

**Exhibit 21: Independent Directors % of board/audit /remuneration committee**

Source: MOFSL, Company

**Exhibit 22: Management remuneration**

(INR m)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
CEO	484	451	169	247	343	497	710	565
CFO	65	92	80	74	54	61	84	106
COO*	81	118	82	91	106	173	373	NA
<b>Total</b>	<b>630</b>	<b>662</b>	<b>331</b>	<b>411</b>	<b>503</b>	<b>731</b>	<b>1166</b>	<b>671</b>
<b>Mgmt. remuneration as a percentage of PAT</b>	<b>0.5</b>	<b>0.5</b>	<b>0.2</b>	<b>0.3</b>	<b>0.3</b>	<b>0.4</b>	<b>0.53</b>	<b>0.28</b>

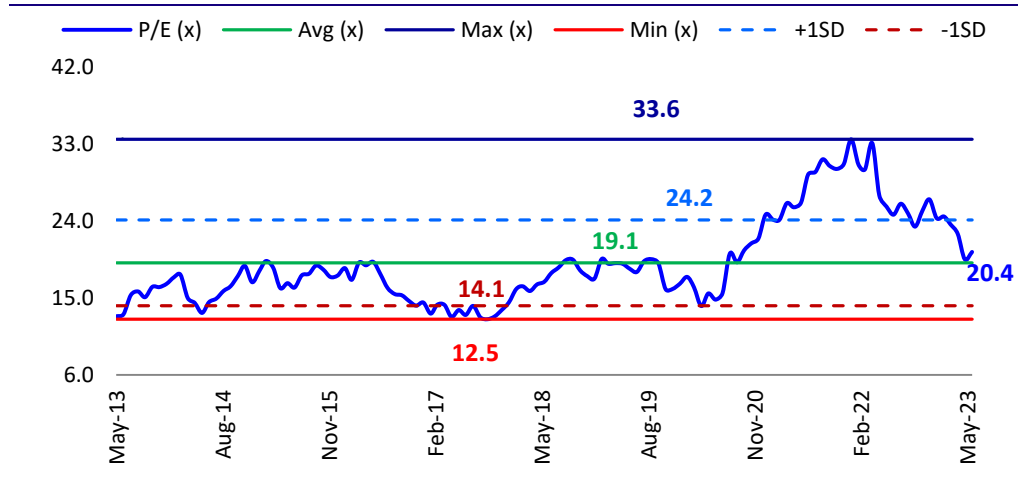
\*U.B Pravin Roa retired as COO on Dec 2021

Source: Company, MOFSL

**Valuation and view**

- INFO’s discretionary business has been adversely impacted by the macroeconomic slowdown over the last few months.
- The delayed decision-making and higher deal scrutiny will have a direct impact on the deal conversion. We expect FY24 revenue growth to be around 5.2% YoY in CC terms, which falls under the lower end of the guidance range.
- Despite near-term weakness, we expect INFO to be a key beneficiary of acceleration in IT spends in the medium/long term. The stock is currently trading at 18x FY25E EPS. We value the stock at 21x FY25E EPS, implying a TP of INR 1,520.

**Exhibit 23: PE Chart 1-year forward - Infosys**



Source: Company, MOFSL

## Financials and valuations

Income Statement								(INR b)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Sales</b>	<b>705</b>	<b>827</b>	<b>908</b>	<b>1,005</b>	<b>1,216</b>	<b>1,468</b>	<b>1,572</b>	<b>1,758</b>
Change (%)	3.0	17.2	9.8	10.7	21.1	20.7	7.1	11.8
Software Develop. Exp.	451	539	607	654	820	1,024	1,088	1,204
SGA expenses	82	99	107	104	116	135	151	172
<b>EBITDA</b>	<b>190</b>	<b>209</b>	<b>223</b>	<b>279</b>	<b>315</b>	<b>357</b>	<b>384</b>	<b>439</b>
As a percentage of Net Sales	27.0	25.3	24.5	27.8	25.9	24.4	24.4	25.0
Depreciation	19	20	29	33	35	48	52	58
Interest	0	0	0	0	0	0	0	0
Other Income	32	29	26	20	21	24	27	30
<b>PBT</b>	<b>204</b>	<b>218</b>	<b>220</b>	<b>266</b>	<b>301</b>	<b>333</b>	<b>359</b>	<b>411</b>
Tax	57	56	54	72	80	92	95	109
Rate (%)	27.8	25.9	24.4	27.0	26.4	27.7	26.5	26.5
Minority Interest	0	0	0	1	0	0	0	0
<b>Adjusted PAT</b>	<b>147</b>	<b>161</b>	<b>166</b>	<b>194</b>	<b>221</b>	<b>241</b>	<b>263</b>	<b>302</b>
Extraordinary Items	-13	7	0	0	0	0	0	0
<b>Reported PAT</b>	<b>160</b>	<b>154</b>	<b>166</b>	<b>194</b>	<b>221</b>	<b>241</b>	<b>263</b>	<b>302</b>
Change (%)	11.7	-3.9	7.7	16.7	14.2	9.0	9.3	14.6

Balance Sheet								(INR b)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Share Capital	19	22	21	21	21	21	21	21
Reserves	631	628	633	742	733	733	736	737
<b>Net Worth</b>	<b>649</b>	<b>649</b>	<b>655</b>	<b>764</b>	<b>754</b>	<b>754</b>	<b>757</b>	<b>757</b>
<b>Capital Employed</b>	<b>658</b>	<b>661</b>	<b>719</b>	<b>845</b>	<b>843</b>	<b>866</b>	<b>871</b>	<b>885</b>
Gross Block	278	328	428	479	511	593	642	696
Less : Depreciation	132	152	181	213	248	296	348	406
<b>Net Block</b>	<b>146</b>	<b>176</b>	<b>247</b>	<b>266</b>	<b>263</b>	<b>297</b>	<b>294</b>	<b>290</b>
Investments & Other Assets	153	143	134	211	244	253	257	268
<b>Curr. Assets</b>	<b>500</b>	<b>529</b>	<b>546</b>	<b>607</b>	<b>672</b>	<b>709</b>	<b>738</b>	<b>783</b>
Debtors	174	202	240	268	343	407	388	433
Cash & Bank Balance	198	196	186	247	175	122	187	175
Investments	64	66	47	23	67	69	69	69
Other Current Assets	64	65	73	69	88	111	94	105
<b>Current Liab. &amp; Prov</b>	<b>141</b>	<b>186</b>	<b>209</b>	<b>239</b>	<b>336</b>	<b>392</b>	<b>417</b>	<b>457</b>
<b>Net Current Assets</b>	<b>359</b>	<b>342</b>	<b>337</b>	<b>369</b>	<b>336</b>	<b>317</b>	<b>321</b>	<b>327</b>
<b>Application of Funds</b>	<b>658</b>	<b>661</b>	<b>719</b>	<b>845</b>	<b>843</b>	<b>866</b>	<b>871</b>	<b>885</b>

## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>35.5</b>	<b>35.4</b>	<b>38.9</b>	<b>45.6</b>	<b>52.4</b>	<b>57.6</b>	<b>63.5</b>	<b>71.8</b>
Cash EPS	39.6	40.0	45.7	53.3	60.7	69.1	76.0	85.7
Book Value	144.0	149.4	153.7	180.0	179.0	180.4	182.7	180.5
DPS	21.8	21.5	17.5	27.0	31.0	33.5	53.7	61.4
Payout (%)	75.5	109.2	45.4	106.7	59.0	96.7	85.0	85.0
<b>Valuation (x)</b>								
P/E	36.3	36.4	33.1	28.3	24.6	22.4	20.3	17.9
Cash P/E	32.5	32.2	28.2	24.2	21.2	18.6	17.0	15.0
EV/EBITDA	30.6	26.8	24.6	19.6	17.2	15.1	13.9	12.3
EV/Sales	8.2	6.8	6.0	5.4	4.5	3.7	3.4	3.1
Price/Book Value	9.0	8.6	8.4	7.2	7.2	7.1	7.1	7.1
Dividend Yield (%)	1.7	1.7	1.4	2.1	2.4	2.6	4.2	4.8
<b>Profitability Ratios (%)</b>								
RoE	22.0	24.8	25.5	27.3	29.2	32.0	34.9	39.9
RoCE	18.3	21.2	21.2	23.0	24.4	26.2	28.1	31.9
<b>Turnover Ratios</b>								
Debtors (Days)	90	89	96	97	103	101	90	90
Fixed Asset Turnover (x)	4.8	4.7	3.7	3.8	4.6	4.9	5.4	6.1

### Cash Flow Statement

(INR b)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
CF from Operations	147	164	205	235	261	295	306	349
Cash for Working Capital	-1	-6	-19	6	-12	-65	59	-15
<b>Net Operating CF</b>	<b>146</b>	<b>158</b>	<b>186</b>	<b>241</b>	<b>250</b>	<b>230</b>	<b>365</b>	<b>334</b>
Net Purchase of FA	-20	-24	-34	-21	-22	-26	-39	-44
<b>Free Cash Flow</b>	<b>126</b>	<b>134</b>	<b>152</b>	<b>220</b>	<b>228</b>	<b>204</b>	<b>326</b>	<b>290</b>
Net Purchase of Invest.	51	9	16	-63	-53	8	0	0
<b>Net Cash from Invest.</b>	<b>31</b>	<b>-16</b>	<b>-18</b>	<b>-84</b>	<b>-75</b>	<b>-18</b>	<b>-39</b>	<b>-44</b>
Proceeds from Equity	0	0	0	0	0	0	0	0
Others	0	0	-6	-7	-8	-15	0	0
Dividend Payments	-205	-145	-95	-91	-127	-137	-260	-302
Buyback of shares	0	0	-75	0	-111	-115	0	0
<b>Cash Flow from Fin.</b>	<b>-205</b>	<b>-145</b>	<b>-176</b>	<b>-98</b>	<b>-246</b>	<b>-267</b>	<b>-260</b>	<b>-302</b>
<b>Net Cash Flow</b>	<b>-28</b>	<b>-2</b>	<b>-8</b>	<b>60</b>	<b>-72</b>	<b>-54</b>	<b>65</b>	<b>-12</b>
Effect of forex on cash flow	0	0	-1	1	-1	1	0	0
<b>Opening Cash Bal.</b>	<b>226</b>	<b>198</b>	<b>196</b>	<b>186</b>	<b>247</b>	<b>175</b>	<b>122</b>	<b>187</b>
Add: Net Cash	-28	-2	-9	61	-72	-53	65	-12
<b>Closing Cash Bal.</b>	<b>198</b>	<b>196</b>	<b>186</b>	<b>247</b>	<b>175</b>	<b>122</b>	<b>187</b>	<b>175</b>

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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