

Estimate change 

TP change 

Rating change 

CMP: INR1,449

TP: INR1,600 (+10%)

Buy

FY24 guidance reset to impact near-term stock view

Core business unchanged; retain Buy on FY25 pickup

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Bloomberg	INFO IN
Equity Shares (m)	4572
M.Cap.(INRb)/(USD\$b)	6013 / 73.3
52-Week Range (INR)	1672 / 1215
1, 6, 12 Rel. Per (%)	5/-16/-25
12M Avg Val (INR M)	9822

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	1,468	1,547	1,731
EBIT Margin (%)	21.1	20.5	21.5
PAT	241	248	293
EPS (INR)	57.6	59.8	70.6
EPS Gr. (%)	9.8	3.9	18.1
BV/Sh. (INR)	180	183	183

Ratios

RoE (%)	32.0	32.8	38.6
RoCE (%)	26.2	26.7	31.2
Payout (%)	96.7	85.0	85.0

Valuations

P/E (x)	25.2	24.2	20.5
P/BV (x)	8.0	7.9	7.9
EV/EBITDA (x)	16.9	16.3	14.0
Div Yield (%)	2.3	3.5	4.1

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

- INFO reported 1QFY24 revenue at USD4.62b, up 1.0% QoQ in CC terms and in line with our estimate. Large deal TCV stood at USD2.3b, up 11% QoQ. It won a USD2.0b deal in Jul'23 (to be included in 2Q). However, in a negative surprise, the company has sharply lowered its FY24 revenue growth guidance to 1.0-3.5% YoY CC from 4.0-7.0% YoY CC earlier. It has attributed the guidance cut to lower-than-expected volume and discretionary spends, delays in decision-making and push-outs in anticipated mega deals.
- EBIT margin declined 20bp to 20.8% (30bp miss), due to higher employee expenses vs. efficiency gains. Despite the steep revenue guidance cut, INFO has maintained its FY24 EBIT margin guidance at 20-22%.
- While the guidance cut is concerning and should be negative for the share price in the short term (partially due to 11% gain in last one month), we view the miss as more of a perception issue rather than an operational one as the earlier guidance was too optimistic in the current environment. Hence, we lower our below-guidance FY24 estimates (earlier at 3.8% YoY CC) by 120bp despite the 325bp cut in guidance at the mid-point, to take into account the weaker demand commentary and project delays. We take comfort in the current 1Q-4QE revenue growth run rate estimate for INFO, which is similar to its peers (Exhibit 1), despite lower FY24E revenue growth of 2.6% YoY CC.
- Given continued strength in the deal pipeline with few mega deals and an expected macro recovery over the next few quarters, we continue to expect double-digit growth in FY25. We expect a 7.7% CAGR in USD revenue over FY23-25.
- Weak revenue should prevent the company from benefiting from the easing supply environment. We expect FY24 EBIT margins at 20.5%, down 60bp YoY. With an improvement in FY25 EBIT margin to 21.5%, INFO should deliver a 10.2% CAGR in INR PAT over FY23-25E.
- We lower our FY24 EPS estimates by 4% to factor in the guidance cut, but we largely maintain our FY25 estimates. We value the stock at INR1,600 at 22.5x FY25E EPS. Reiterate our **BUY** rating on the stock.

Large cut in FY24 guidance a surprise

- In CC terms, revenue grew 4.2% YoY, INR EBIT grew 14% YoY, and INR PAT grew 11% YoY.
- Revenue stood at USD4.62b, up 1% QoQ in CC terms and in line with our estimate of +0.9% QoQ. Reported USD growth was 1.4% QoQ.
- A sharp unexpected cut in FY24 USD CC revenue growth guidance to 1.0-3.5% YoY CC from 4.0-7.0% YoY CC earlier.
- Net employee count was down by 6.9k QoQ and utilization (ex-trainees) was up 110bp QoQ. Attrition (LTM) moderated by 360bp QoQ to 17.3% in 1QFY24.
- EBIT margin of 20.8% was down 20bp QoQ and 30bp below our estimate.
- INFO reported FCF of USD699m, translating to a good FCF/PAT conversion ratio of 96.6% in 1QFY24.
- Net profit of INR 59.5b was down 3.0% QoQ and 5.8% below our estimate, due to higher income tax.

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Key highlights from the management commentary

- The 1Q performance was below the company's expectations as certain projects saw unexpected deferrals that are discretionary in nature and have been pushed out to a later stage.
- Despite the soft 1Q performance, the deal pipeline remains healthy, with multiple large and mega deals being pursued actively in the areas of cost efficiency, vendor consolidation and process optimization.
- Salary hikes are under active consideration. It is evaluating individual performances but has not provided any timeline on the same.
- Despite the sharp cut in revenue guidance, the company remains confident of achieving EBIT margin in the range of 20-22%.

Valuation and view

- INFO has sharply lowered its FY24 revenue growth guidance to 1.0-3.5% YoY CC from 4.0-7.0% YoY CC earlier, on account of lower-than-expected volume and discretionary spending, delays in decision-making and push-outs in anticipated mega deals.
- We expect FY24 revenue growth at 2.6% CC, slightly above the mid-point of the guidance band.
- Despite near-term weakness, we expect INFO to be a key beneficiary of the acceleration in IT spends in the medium term. Based on our revised estimates, the stock is currently trading at 20.5x FY25E EPS. We value the stock at 22.5x FY25E EPS, implying a TP of INR1,600.

Quarterly performance (IFRS)

(INR b)

Y/E March	FY23				FY24				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Revenue (USD m)	4,444	4,555	4,659	4,554	4,617	4,672	4,732	4,840	18,212	18,861	4,606	0.2
QoQ (%)	3.8	2.5	2.3	-2.3	1.4	1.2	1.3	2.3	11.7	3.6	1.1	24bp
Revenue (INR m)	345	365	383	374	379	383	388	397	1,468	1,547	379	0.2
YoY (%)	23.6	23.4	20.2	16.0	10.0	4.9	1.3	6.0	20.7	5.4	9.8	21bp
GPM (%)	29.3	30.5	30.7	30.5	30.5	29.0	29.5	30.5	30.3	29.8	30.6	-11bp
SGA (%)	9.2	8.9	9.2	9.5	9.6	9.3	9.3	9.2	9.2	9.3	9.4	21bp
EBITDA	79	89	93	90	89	86	89	95	351	359	90	-1.2
EBITDA Margin (%)	22.9	24.4	24.4	23.9	23.5	22.4	22.9	24.0	23.9	23.2	23.8	-33bp
EBIT	69	79	82	79	79	75	78	85	309	317	80	-1.4
EBIT Margin (%)	20.1	21.5	21.5	21.0	20.8	19.7	20.2	21.3	21.1	20.5	21.1	-33bp
Other income	6	5	7	6	5	6	6	6	24	23	6	-22.3
ETR (%)	28.8	28.2	26.3	27.5	28.9	26.5	26.5	26.5	27.7	27.1	26.5	240bp
PAT	54	60	66	61	59	60	62	67	241	248	63	-5.8
QoQ (%)	-5.7	12.3	9.4	-7.0	-3.0	0.2	4.1	7.5			3.0	-601bp
YoY (%)	3.2	11.1	13.4	7.8	10.9	-1.0	-5.8	8.8	9.0	2.8	17.8	-687bp
EPS (INR)	12.8	14.3	15.7	14.8	14.4	14.4	15.0	16.1	57.3	59.5	15.2	-5.7

Key performance indicators

Y/E March	FY23				FY24				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenue (QoQ CC %)	5.5	4.0	2.4	-3.2	1.0				15.4	
Margins										
Gross Margin	29.3	30.5	30.7	30.5	30.5	29.0	29.5	30.5	30.3	29.8
EBIT Margin	20.1	21.5	21.5	21.0	20.8	19.7	20.2	21.3	21.1	20.5
Net Margin	15.5	16.5	17.2	16.4	15.7	15.6	16.0	16.8	16.4	16.0
Operating metrics										
Headcount	335	345	347	343	336				343	
Voluntary attrition (%)	28.4	27.1	24.3	20.9	17.3				20.9	
Deal win TCV (USD b)	1.7	2.7	3.3	2.1	2.3				9.8	
Key verticals (YoY CC %)										
BFSI	12.1	11.5	5.5	0.4	(4.2)				7.3	
Retail	17.8	15.4	12.7	12.6	4.0				15.2	
Key geographies (YoY CC %)										
North America	18.4	15.6	10.5	6.0	2.1				12.4	
Europe	33.2	28.5	25.3	20.3	10.1				26.3	



Highlights from the management commentary

Performance in 1QFY24 and demand outlook

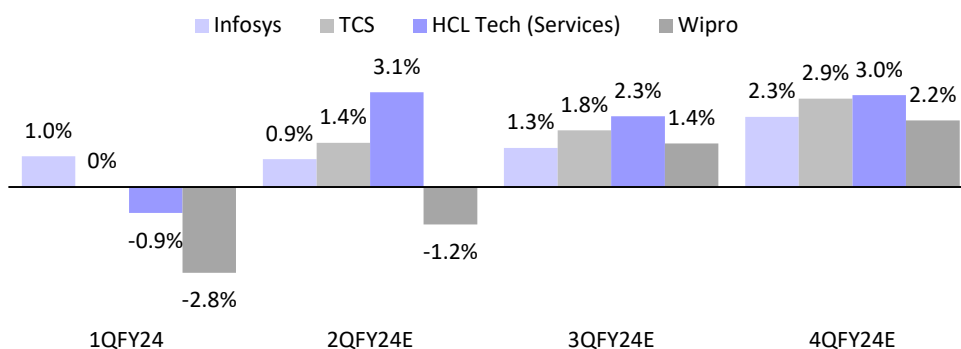
- **Financial Services** – INFO expects the softness to persist in the areas of mortgage, asset management, investment banking and card payments. Large banking clients have become cost conscious and are delaying discretionary and transformation programs. Nevertheless, the company sees a healthy pipeline for the segment.
- **Retail** – The inflationary environment is making enterprise clients cautious about costs and they are approaching vendors to drive efficiency in supply chain while leveraging AI and Automation.
- **Communication-** Budget cuts and delayed decision-making are slowing down project ramp-ups. Cost takeout has become the priority for major telco OEMs and is drawing focus on innovating new business models.
- **Energy and Utility** – Overall, spending continues for the segment; however, decision-making is a little slower on large-scale transformation projects. Utility clients are focusing on investing in new energy areas and value differentiation.
- **Manufacturing** – Strong traction on Engineering, Cloud ERP and Digital. The focus is on increasing production in a smart factory. Demand in Europe, Germany and UK is driving volume for the segment.
- The key reasons for the cut in revenue guidance were:
 - The mega deals that the company was anticipating to execute in the second half of the year have been pushed out and delayed for a longer interval.
 - A significant cut in discretionary spending across segments, mainly BFS, Retail, Telecom and Hi-Tech.
 - Volume from the mega deals that are currently under execution is slowing down due to macro challenges in major economies.
 - The decision-making has slowed down, which is affecting timely deal ramp-ups and creating a slack in revenue conversion.
- The 1Q performance was below the company's expectations as certain projects saw unexpected deferrals that are discretionary in nature and have been pushed out to a later stage.

- Despite the soft 1Q performance, the deal pipeline remains healthy, with multiple large and mega deals being pursued actively in the areas of cost efficiency, vendor consolidation and process optimization.
- Considering the macro headwinds, clients in the Banking vertical remain cautious about costs and are opting not to spend. Weakness is prominent in sub-verticals like Mortgage, Asset Management and Investment Banking.
- Europe is holding up quite well compared to the US. There is a strong traction for Manufacturing in Europe. However, softness is visible in verticals like sub-segment on Financial Service, Telcos and some part of Retail.

Margin Performance and Outlook

- Salary hikes are under active consideration. It is evaluating individual performances but has not provided any timeline on the same.
- Despite an uptick in utilization, the management sees further room for improvement and support for margins going forward.
- Despite the sharp cut in revenue guidance, the company remains confident of achieving EBIT margin in the range of 20-22%.

Exhibit 1: Quarterly growth rate at INFO is not very different compared to its peers



Source: Company, MOFSL

Exhibit 2: BFSI remains soft

Verticals	Contribution to revenue (%)	Growth YoY (CC)
Financial Services	28.1	-4.2
Retail	14.5	4.0
Communications	11.7	-5.6
Energy, Utilities, and Resources	12.9	8.6
Manufacturing	14.1	20.7
Hi-Tech	8.1	2.3
Life Sciences	7.2	13.9
Others	3.4	32.9

Source: Company, MOFSL

Exhibit 3: India and Europe drive growth in 1QFY24

Geographies	Contribution to revenue (%)	Growth YoY (CC)
North America	60.8	2.1
Europe	26.8	10.1
India	2.7	13.7
RoW	9.7	-0.5

Source: Company, MOFSL

Valuation and view

- INFO has sharply lowered its FY24 revenue growth guidance to +1.0-3.5% YoY CC from +4.0-7.0% YoY CC earlier, on account of lower-than-expected volume and discretionary spends, delays in decision-making and push-outs in anticipated mega deals.
- We expect FY24 revenue growth at 2.6% CC, slightly above the mid-point of the guidance band.
- Despite near-term weakness, we expect INFO to be a key beneficiary of the acceleration in IT spends in the medium term. Based on our revised estimates, the stock is currently trading at 20.5x FY25E EPS. We value the stock at 22.5x FY25E EPS, implying a TP of INR1,600.

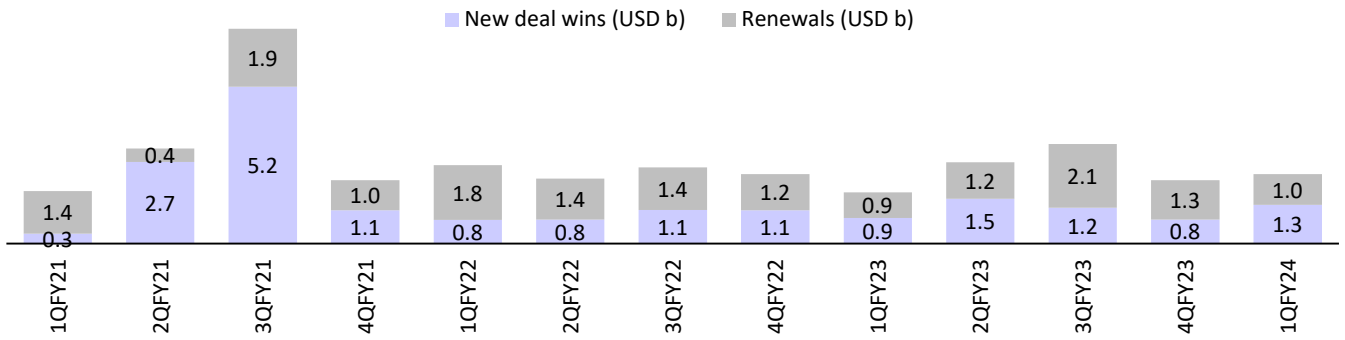
Exhibit 4: Revisions to our estimates

	Revised estimate		Earlier estimate		Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
USD:INR	82.0	82.0	82.1	82.0	0.0%	0.0%
Revenue (USD m)	18,861	21,109	19,002	21,250	-0.7%	-0.7%
Growth (%)	3.6	11.9	4.3	11.8	-80bps	10bps
EBIT margin (%)	20.5	21.5	20.8	21.5	-30bps	0bps
PAT (INR b)	248	293	258	296.5	-4.0%	-1.4%
EPS (INR)	59.6	70.7	62.0	71.1	-3.9%	-0.6%

Source: MOFSL

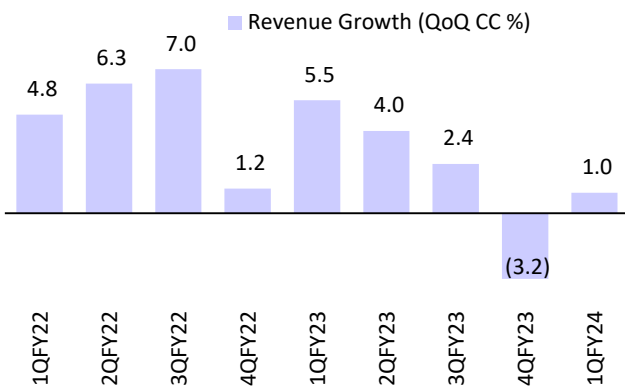
Story in charts

Exhibit 5: Net new deal wins constitute 56% of total large deals in 1QFY24



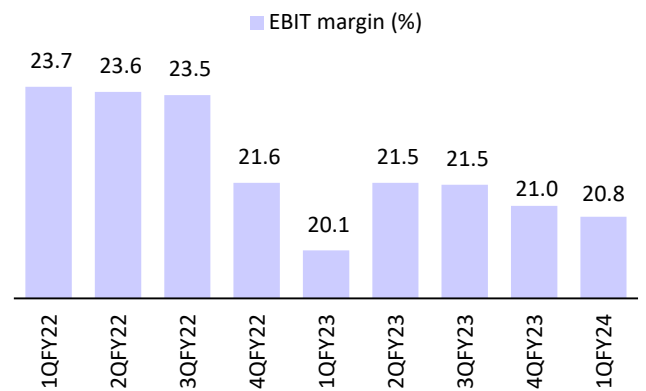
Source: Company, MOFSL

Exhibit 6: Revenue was up 1% CC sequentially



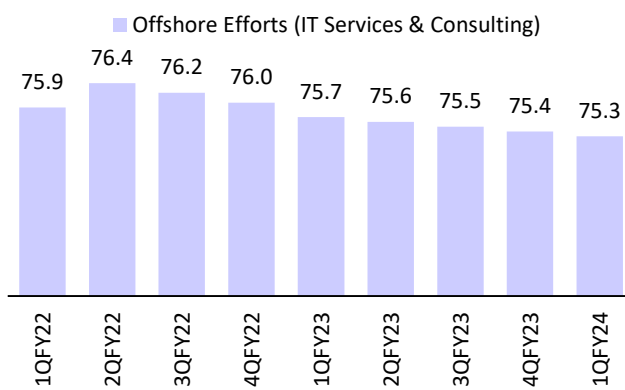
Source: Company, MOFSL

Exhibit 7: EBIT margin (%) down 20bp QoQ (%)



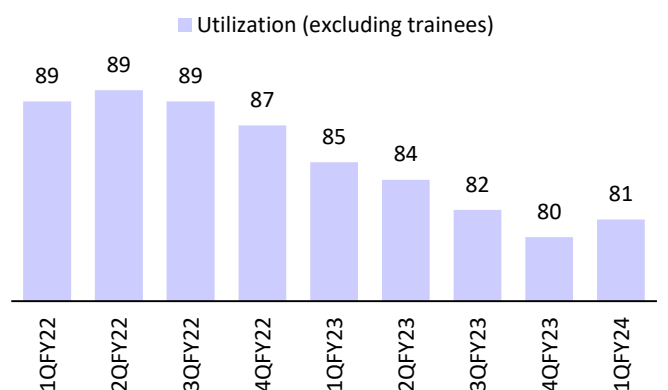
Source: Company, MOFSL

Exhibit 8: Offshoring ratio largely stable (%)



Source: Company, MOFSL

Exhibit 9: Utilization inches up to 81% in 1QFY24 (%)



Source: Company, MOFSL

Exhibit 10: Operating metrics (%)

	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Effort (IT Services and Consulting)									
On-site	24	24	24	24	24	24	25	25	25
Offshore	76	76	76	76	76	76	76	75	75
Utilization (IT Services and Consulting)									
Including trainees	83	84	83	80	78	77	77	77	79
Excluding trainees	89	89	89	87	85	84	82	80	81
Employee metrics									
Total employees (consolidated, in k)	268	280	292	314	335	345	347	343	336
S/W professional (k)	253	265	277	298	318	328	329	325	318
Support and sales (k)	14	15	15	16	17	17	18	18	19
Revenue by client geography									
North America	62	62	62	61	62	63	62	61	61
Europe	24	25	25	25	25	25	26	27	27
India	3	3	3	3	3	3	2	3	3
RoW	11	11	10	10	11	10	10	9	10
Revenue by business segments									
Financial Services	33	32	32	31	31	31	29	29	28
Retail	15	15	15	14	15	14	14	15	15
Communications	12	12	13	13	13	12	12	12	12
Energy, Utilities, Resources, and Services	12	12	12	12	12	12	13	13	13
Manufacturing	10	11	11	12	12	13	13	14	14
Hi-Tech	8	9	8	8	8	8	8	8	8
Life Sciences	7	7	8	7	7	7	7	7	7
Others	3	2	3	3	3	3	3	3	3
Geography (YoY CC)									
North America	21	23	21	19	18	16	11	6	2
Europe	12	20	27	28	33	29	25	20	10
India	21	4	40	30	6	36	-5 -7	14	
RoW	5	5	7	14	18	12	12	3	-1
Business segments (YoY CC)									
Financial Services	23	21	16	14	12	12	6	0	-4
Retail	22	17	20	17	18	15	13	13	4
Communications	5	17	22	29	30	18	13 0	-6	
Energy, Utilities, Resources, and Services	11	15	14	18	25	24	26	17	9
Manufacturing	19	43	48	51	55	45	37	27	21
Hi-Tech	15	12	19	21	16	10	10	4	2
Life Sciences	21	26	29	16	16	10	5	16	14
Others	10	-10	36	7	15	57	8	13	33
DSO	70	66	71	67	63	65	68	62	63
Large deal TCV (USD m)	2,600	2,152	2,530	2,300	1,700	2,700	3,300	2,076	2,300
Clients (as a percentage of revenue)									
Top 10 clients	18.8	19.4	20.2	19.4	20.8	20.2	20.5	20.1	20.4
Top 25 clients	34.4	35.4	35.9	35.4	36.3	35.3	35.3	34.7	34.6
Number of active clients	1,659	1,714	1,738	1,741	1,778	1,779	1,850	1,872	1,883
New clients added in the period	113	117	111	110	106	103	134	115	99

Source: Company, MOFSL

Financials and valuations

Income Statement								(INR b)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Sales	705	827	908	1,005	1,216	1,468	1,547	1,731
Change (%)	3.0	17.2	9.8	10.7	21.1	20.7	5.4	11.9
Software Develop. Exp.	451	539	607	654	820	1,024	1,086	1,187
SGA expenses	82	99	107	104	116	135	144	171
EBITDA	190	209	223	279	315	357	368	430
As a percentage of Net Sales	27.0	25.3	24.5	27.8	25.9	24.4	23.8	24.8
Depreciation	19	20	29	33	35	48	51	57
Interest	0	0	0	0	0	0	0	0
Other Income	32	29	26	20	21	24	23	26
PBT	204	218	220	266	301	333	340	399
Tax	57	56	54	72	80	92	92	106
Rate (%)	27.8	25.9	24.4	27.0	26.4	27.7	27.1	26.5
Minority Interest	0	0	0	1	0	0	0	0
Adjusted PAT	147	161	166	194	221	241	248	293
Extraordinary Items	-13	7	0	0	0	0	0	0
Reported PAT	160	154	166	194	221	241	248	293
Change (%)	11.7	-3.9	7.7	16.7	14.2	9.0	2.8	18.1

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	738
Net Worth	649	649	655	764	754	754	757	759
Capital Employed	658	661	719	845	843	866	870	884
Gross Block	278	328	428	479	511	593	641	695
Less: Depreciation	132	152	181	213	248	296	348	405
Net Block	146	176	247	266	263	297	294	290
Investments and Other Assets	153	143	134	211	244	253	255	266
Curr. Assets	500	529	546	607	672	709	732	778
Debtors	174	202	240	268	343	407	382	427
Cash and Bank Balance	198	196	186	247	175	122	188	179
Investments	64	66	47	23	67	69	69	69
Other Current Assets	64	65	73	69	88	111	93	104
Current Liab. and Prov.	141	186	209	239	336	392	410	450
Net Current Assets	359	342	337	369	336	317	321	329
Application of Funds	658	661	719	845	843	866	870	884

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	35.5	35.4	38.9	45.6	52.4	57.6	59.8	70.6
Cash EPS	39.6	40.0	45.7	53.3	60.7	69.1	72.1	84.4
Book Value	144.0	149.4	153.7	180.0	179.0	180.4	183.0	183.5
DPS	21.8	21.5	17.5	27.0	31.0	33.5	50.6	60.0
Payout (%)	75.5	109.2	44.9	106.7	59.0	96.7	85.0	85.0
Valuation (x)								
P/E ratio	40.8	40.9	37.2	31.8	27.6	25.2	24.2	20.5
Cash P/E ratio	36.6	36.2	31.7	27.2	23.9	21.0	20.1	17.2
EV/EBITDA ratio	34.4	30.2	27.7	22.0	19.4	16.9	16.3	14.0
EV/Sales ratio	9.3	7.6	6.8	6.1	5.0	4.1	3.9	3.5
Price/Book Value ratio	10.1	9.7	9.4	8.1	8.1	8.0	7.9	7.9
Dividend Yield (%)	1.5	1.5	1.2	1.9	2.1	2.3	3.5	4.1
Profitability Ratios (%)								
RoE	22.0	24.8	25.5	27.3	29.2	32.0	32.8	38.6
RoCE	18.3	21.2	21.2	23.0	24.4	26.2	26.7	31.2
Turnover Ratios								
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	5.3	6.0

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	290	339
Cash for Working Capital	-1	-6	-19	6	-12	-65	61	-15
Net Operating CF	146	158	186	241	250	230	350	324
Net Purchase of FA	-20	-24	-34	-21	-22	-26	-39	-43
Free Cash Flow	126	134	152	220	228	204	311	281
Net Purchase of Invest.	51	9	16	-63	-53	8	0	0
Net Cash from Invest.	31	-16	-18	-84	-75	-18	-39	-43
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	-245	-291
Buyback of shares	0	0	-75	0	-111	-115	0	0
Cash Flow from Fin.	-205	-145	-176	-98	-246	-267	-245	-291
Net Cash Flow	-28	-2	-8	60	-72	-54	67	-10
Effect of forex on cash flow	0	0	-1	1	-1	1	0	0
Opening Cash Bal.	226	198	196	186	247	175	122	188
Add: Net Cash	-28	-2	-9	61	-72	-53	67	-10
Closing Cash Bal.	198	196	186	247	175	122	188	179

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

NOTES

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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