

BUY

CMP (Rs)	1,450
Target Price (Rs)	1,738
Potential Upside	19.9%
Sensex	67,572
Nifty	19,979

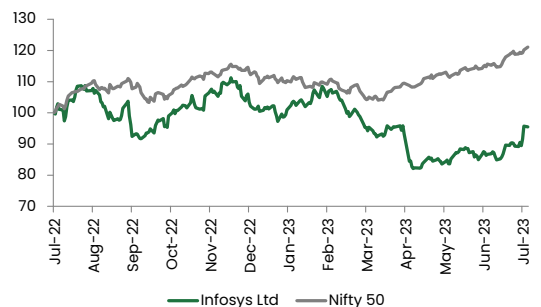
Key Stock data

BSE Code	500209
NSE Code	INFY
Bloomberg	INFO:IN
Shares o/s, Cr (FV 5)	413.8
Market Cap (Rs Cr)	601,570
3M Avg Volume	6,783,523
52 week H/L	1,673/1,185

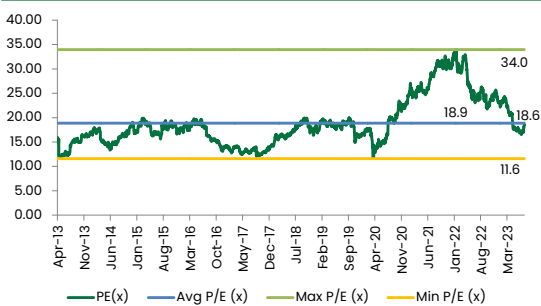
Shareholding Pattern

(%)	Sep-22	Dec-22	Mar-23
Promoter	15.2	15.1	15.1
FII	36.2	36.3	35.1
DII	32.4	32.8	33.9
Others	16.3	15.9	15.9

1 Year relative price performance



PE Forward (x)



Research Analyst

Nirvi Ashar

nirvi.ashar@religare.com

Results in-line but management revised revenue guidance downwards is a concern

Q1FY24 Result Update | Sector: IT | July 21, 2023

Revenue growth in-line: Infosys results for Q1FY24 came in-line with rupee revenue at Rs 37,933cr which is a growth of 1.3% QoQ and 10% YoY while dollar revenue stood at USD 4,617, up by 1.4% QoQ and 3.9% YoY while growth in constant currency was at 1% QoQ and 4.2% YoY. Challenging environment and delay in spending by clients as well as signing the deals impacted growth. Amongst geographies, North America and Europe contributing ~87-88% of revenue saw a growth of just 1% & 0.6% QoQ while India and Other regions posted growth of 5.2% and 4.5% however their contribution to revenue is minimal between 12-13%. Amongst segments, muted growth was seen from financials and retail segments (contributes ~42-43% of revenue) while manufacturing, energy hi-Tech and life science gained in the range of ~1.3-5.8% QoQ.

Steady EBIT margins: Infosys reported EBIT margins of 20.8% in-line with management guidance. EBIT growth for Q1FY24 came in at 14.1% YoY while EBIT margins was up by 74bps YoY while sequentially growth remained flat and margins de-grew by 24bps due to higher variable pay to employees which was an impact of ~90bps while cost optimization measures and improved utilization helped in savings of 70bps.

Attrition moderated for yet another quarter: This is the fourth consecutive quarter where Attrition has been easing and it stood at 17.3%, a decline of 360bps QoQ and 1,110bps YoY which is positive. Attrition for Q1FY23 was at 28.4% (down by 39% YoY) and for Q4FY23 at 20.9% (down by 17% QoQ).

Deal momentum continued to be strong: Infosys won deals worth USD 2.3bn for Q1FY24, a growth of 10% YoY (USD 2.1bn) and 35% QoQ (USD 1.7bn). Going ahead, clients focus remains on cost efficiency, automation and AI technology wherein large and mega deals wins are expected from 2HFY24 onwards.

Management revised its guidance downwards: Though Q1FY24 results were in-line, management revised its FY24 Revenue growth guidance to 1.0%-3.5% in constant currency from 4-7% earlier. However, it maintained its operating margin guidance at 20%-22%. Management commentary was cautious for the near term and they stated that for the near term deals signings as well as start dates are delayed and volume of work is reduced for financials & telecom sector which may continue to impact revenue growth. However, from a medium to long term perspective they believe there are a lot of mega deals lined up as well as solutions & platforms in new technology as per clients' demand which would help in translating into revenue in the second half.

Outlook & Valuation: We believe in the near term the challenges on macro front, delay in spending & decision by clients would continue to impact growth for Infosys. Also, management cautious view and downwards revision in revenue growth guidance remains a concern. Incorporating the management revised guidance our estimates are cut by 4-5% for FY24E & FY25E and our revenue /EBIT in rupee term is expected to now grow by 7.2%/10.6% CAGR over next 2 years. Thus, our target price is revised downwards to **Rs 1,738** from earlier Rs 1,855 but we maintain a **Buy rating**.

Financial Summary - consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net revenue	121,641	146,767	157,672	168,709
EBIT	28,015	30,906	34,215	37,791
EBITM (%)	23.0	21.1	21.7	22.4
APAT	22,146	24,108	27,176	29,965
APATM (%)	18.2	16.4	17.2	17.8
EPS (Rs)	52.8	58.3	65.7	72.4
PE (x)	27.5	24.9	22.1	20.0
RoE (%)	29.4	32.0	30.8	29.5

Source : RBL Research

Revenue in rupee & USD grew by 1.3% & 1.4% QoQ due to challenging macro condition and delay by clients in signing deals

P&L Account Quarterly – consolidated

Particulars, Rs cr	Q1FY24	Q1FY23	Y-o-Y %	Q4FY23	Q-o-Q %
Revenue (\$ Mn)	4,617	4,444	3.9	4,554	1.4
Revenue (Rs cr)	37,933	34,470	10.0	37,441	1.3
Cost of Sales	26,382	24,369	8.3	26,011	1.4
Gross Profit	11,551	10,101	14.4	11,430	1.1
Gross Margins (%)	30.5	29.3	115bps	30.5	-8bps
Selling and marketing expenses	1,783	1,493	19.4	1,659	7.5
General and administrative expenses	1,877	1,694	10.8	1,894	(0.9)
Total Expenditure	30,042	27,556	9.0	29,564	1.6
EBITDA	9,064	7,864	15.3	8,998	0.7
EBITDA Margins (%)	23.9	22.8	108bps	24.0	-14bps
Depreciation	1,173	950	23.5	1,121	4.6
EBIT	7,891	6,914	14.1	7,877	0.2
EBIT Margins (%)	20.8	20.1	74bps	21.0	-24bps
Other Income	561	676	(17.0)	671	(16.4)
Interest	90	56	60.7	82	9.8
PBT	8,362	7,534	11.0	8,466	(1.2)
Tax	2,417	2,172	11.3	2,332	3.6
PAT	5,945	5,362	10.9	6,134	(3.1)
PAT Margin (%)	15.7	15.6	12bps	16.4	-71bps
EPS	14.4	12.8	12.4	14.8	(3.1)

Source : RBL Research

Revenue Share by Business Segments (%)

Particulars	Q1FY24	Q1FY23	Y-o-Y %	Q4FY23	Q-o-Q %
Financial services	10,659.2	10,547.8	1.1	10,820	(1.5)
Retail	5,500.3	4,998.2	10.0	5,541	(0.7)
Communication	4,438.2	4,481.1	(1.0)	4,418	0.5
Energy, Utilities, Resources & Services	4,893.4	4,274.3	14.5	4,830	1.3
Manufacturing	5,348.6	4,170.9	28.2	5,055	5.8
Hi-Tech	3,072.6	2,826.5	8.7	2,995	2.6
Life Sciences	2,731.2	2,240.6	21.9	2,696	1.3
Others	1,289.7	930.7	38.6	1,086	18.8

Source : RBL Research

Revenue Share by Client Geography (%)

Particulars	Q1FY24	Q1FY23	Y-o-Y %	Q4FY23	Q-o-Q %
North America	23,063.3	21,302.5	8.3	22,839	1.0
Europe	10,166.0	8,617.5	18.0	10,109	0.6
India	1,024.2	896.2	14.3	973	5.2
Rest of the world	3,679.5	3,653.8	0.7	3,519	4.5

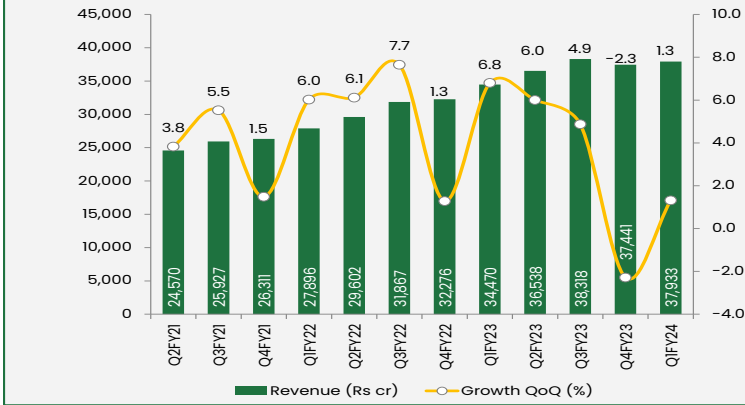
Source : RBL Research

Muted growth was seen in Financials & Retail segments

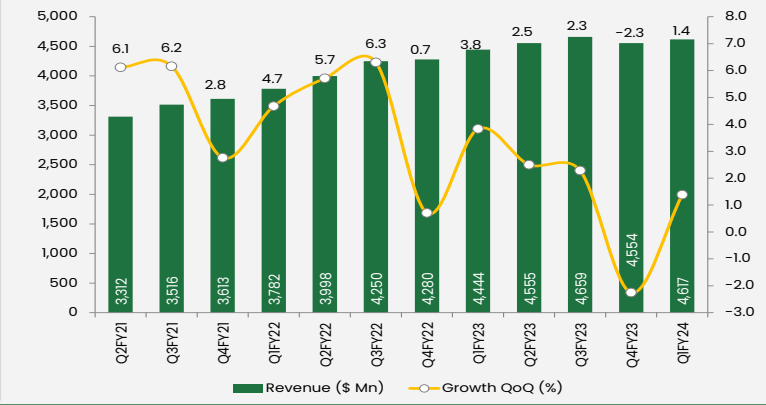
America & Europe did not see much traction and grew by 1% & 0.6% QoQ

Story in charts

Revenue in Rupee grew by 1.3% QoQ and 10% YoY

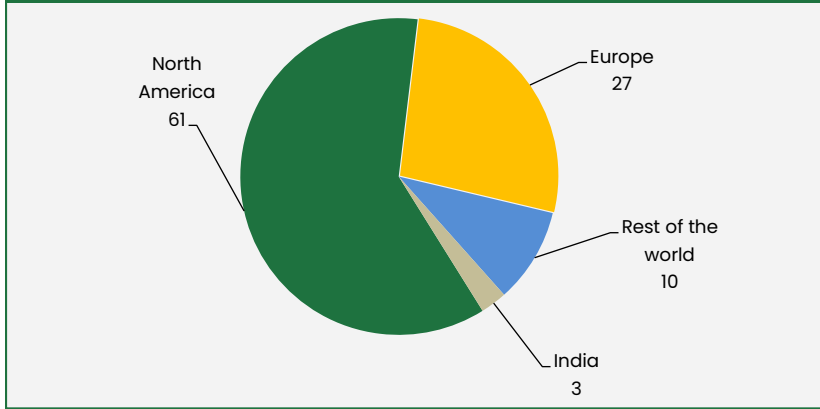


Revenue in USD grew by 1.4% QoQ and 3.9% YoY

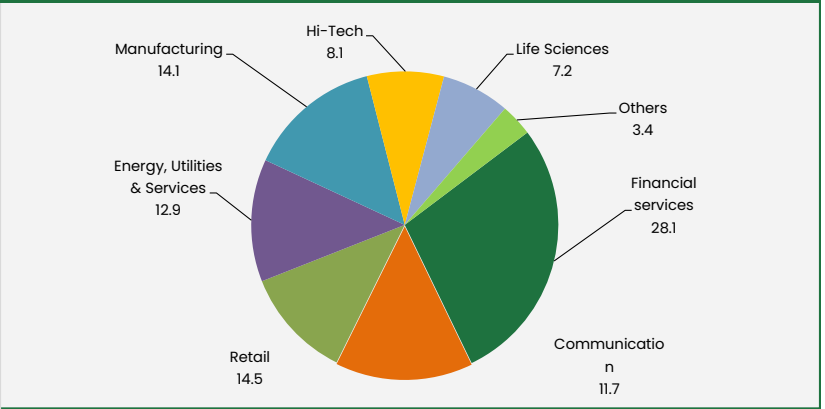


Source : RBL Research

Revenue by Client Geography %

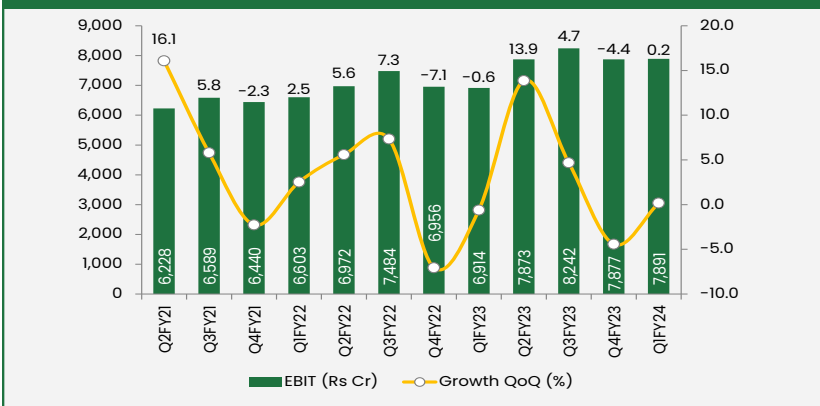


Revenue by Business Segments %

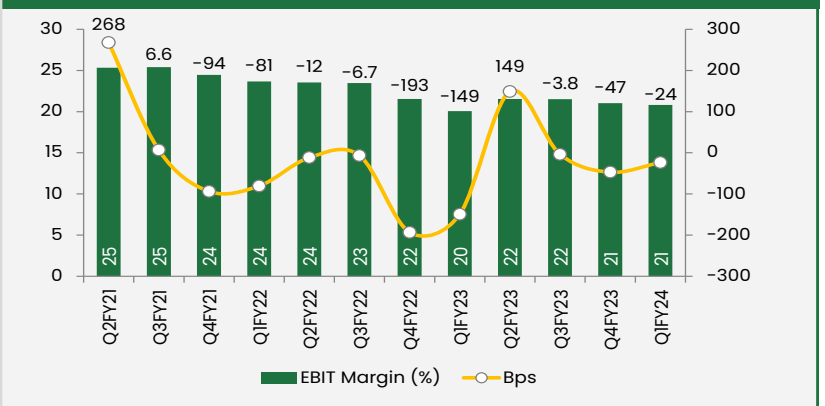


Source : RBL Research

EBIT grew by 0.2% QoQ and 14.1% YoY

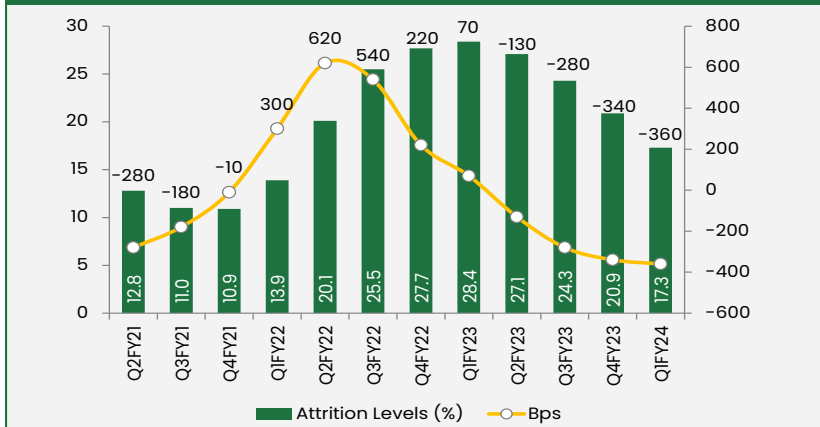


EBIT margins decreased 24bps QoQ but improved by 74bps YoY

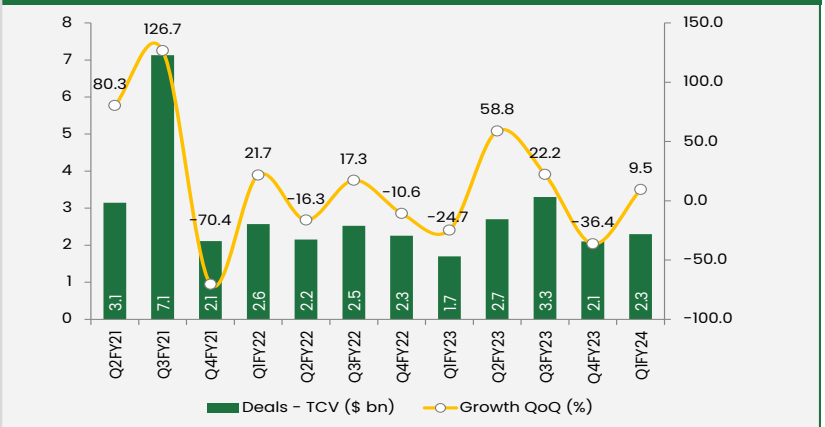


Source : RBL Research

Attrition moderated by 360bps QoQ to 17.3% in Q1FY24



Infosys won deals worth USD 2.3 bn up by 9.5% QoQ



Source : RBL Research

P&L Account – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net Sales (\$ Mn)	16,310	18,212	19,346	20,701
Net Sales (INR Cr)	121,641	146,767	157,672	168,709
Growth %	21.1	20.7	7.4	7.0
Expenditure				
Cost of Sales	81,999	102,353	107,217	113,879
Total raw materials	81,999	102,353	107,217	113,879
Gross Profit	39,642	44,414	50,455	54,831
Gross Margins %	32.6	30.3	32.0	32.5
Selling & Marketing Expense	5,155	6,249	7,884	8,435
Administrative Expense	6,472	7,259	8,357	8,604
Total expenditure	93,626	115,861	123,457	130,919
EBIT	28,015	30,906	34,215	37,791
EBIT Margin %	23.0	21.1	21.7	22.4
Other income	2,295	2,700	2,901	3,104
Interest expenses	200	284	291	291
PBT	30,110	33,322	36,824	40,603
Tax	7,964	9,214	9,648	10,638
PAT (after Exceptional)	22,146	24,108	27,176	29,965
PAT Margin %	18.2	16.4	17.2	17.8
EPS	52.8	58.3	65.7	72.4

Source : RBL Research

Balance Sheet – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Share Capital	2,098	2,069	2,069	2,069
Reserves & Surplus	73,252	73,338	86,031	99,444
Total Shareholder's Fund	75,350	75,407	88,100	101,513
Minority Interest	386	388	417	446
Deferred tax liabilities	3,763	4,604	4,730	5,061
Long term provision	975	1,307	1,404	1,502
Other long term liabilities	7,390	9,615	10,249	10,966
Total	12,128	15,526	16,383	17,530
Current Liabilities				
Trade payables	4,134	3,865	4,152	4,443
Other current liabilities	25,887	30,630	33,111	35,429
Total	30,021	34,495	37,263	39,872
Total liabilities	117,885	125,816	142,163	159,361
Application of Assets				
Net Block	20,109	22,265	24,288	26,513
Goodwill on consolidation	6,195	7,248	7,248	7,248
Non current investment	13,651	12,569	13,503	14,448
Tax assets	7,310	7,704	8,276	8,856
Long term loans and advances	-	39	42	45
Other non-current assets	3,435	5,116	4,452	4,764
Total	50,700	54,941	57,810	61,874
Current Assets				
Current investments	6,673	6,909	7,422	7,942
Trade receivables	22,698	25,424	27,215	29,120
Cash balance	17,472	12,173	23,039	31,880
Other current assets	20,342	26,080	26,368	28,213
Total	67,185	70,875	84,354	97,487
Total assets	117,885	125,816	142,163	159,361

Source : RBL Research

Cashflow – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Profit before tax	30,110	33,322	36,824	40,603
Add: Depreciation	3,476	4,225	3,942	3,712
Add: Interest cost	200	284	291	291
Less: Other Income /Interest Rec	(807)	(1,118)	-	-
Others	780	1,606	-	-
Operating profit before working capital changes	33,759	38,319	41,057	44,606
Changes in working capital	(1,183)	(6,503)	1,614	(911)
Cash from Operations	32,576	31,816	42,671	43,695
Less: Taxes	(7,612)	(8,794)	(9,648)	(10,638)
Cash flow from Operations	24,964	23,022	33,023	33,057
Net cash used in Investing				
Purchase of fixed assets	(2,161)	(2,579)	(5,965)	(5,937)
Purchase of investments	-	815	(1,447)	(1,465)
Dividend Income//Interest Rec.	-	-	(291)	(291)
Cash flow from investing	(7,495)	(1,764)	(7,703)	(7,693)
Cash flow from Financing				
Proceeds from Equity shares	(11,125)	(11,464)	-	-
Dividend (Incl dividend tax)	(12,731)	(13,631)	(14,483)	(16,552)
Others	(786)	(1,600)	29	29
Cash flow from Financing	(24,642)	(26,695)	(14,454)	(16,523)
Net cash Inflow/Outflow	(7,173)	(5,437)	10,866	8,841
Opening cash	24,714	17,472	12,173	23,039
Exchange gain/loss	(69.0)	138	-	-
Closing Cash	17,472	12,173	23,039	31,880

Source : RBL Research

Key ratios – consolidated

Particulars	FY22	FY23	FY24E	FY25E
Per share Data				
EPS (Rs)	52.8	58.3	65.7	72.4
Book value per share (Rs)	179.6	182.2	212.9	245.3
Dividend per share (Rs)	30.3	32.9	35.0	40.0
Dividend Yield (%)	2.1	2.3	2.4	2.8
Dividend Payout (%)	57.5	56.5	53.3	55.2
Profitability Ratios				
EBITDAM(%)	25.9	23.9	24.2	24.6
PBTM (%)	24.8	22.7	23.4	24.1
NPM (%)	18.2	16.4	17.2	17.8
RoE (%)	29.4	32.0	30.8	29.5
RoCE (%)	37.2	41.0	38.8	37.2
Efficiency Data				
Debt-Equity Ratio	0.0	0.0	0.0	0.0
Interest Cover Ratio	140.1	108.8	117.4	129.7
Fixed Asset Ratio	0.2	0.2	0.2	0.2
Debtors (Days)	68.1	63.2	63.0	63.0
Inventory (Days)	0.0	0.0	0.0	0.0
Payable (Days)	12.4	9.6	9.6	9.6
WC (Days)	55.7	53.6	53.4	53.4
Valuation				
P/E (x)	27.5	24.9	22.1	20.0
P/BV	8.1	8.0	6.8	5.9
EV/EBITDA	18.8	16.7	15.1	13.7
EV/Sales	4.9	4.0	3.7	3.4

Source : RBL Research

Research Team

Name	Email ID
Siddarth Bhamre	siddarth.bhamre@religare.com
Ajit Mishra	ajit.mishra@religare.com
Manoj Vayalar	manoj.vayalar@religare.com
Nirvi Ashar	nirvi.ashar@religare.com
Gaurav Arora	gaurav.arora3@religare.com
Akshay Tiwari	akshay.tiwari@religare.com
Abhijeet Banerjee	abhijeet.banerjee@religare.com
Gaurav Sharma	gauravsharma2@religare.com
Rohan Shah	rohan.shah@religare.com

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Statements on ownership and material conflicts of interest, compensation– Research Analyst (RA)

S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below, are given separately]

Nature of Interest (if answer to F (a) above is Yes :

.....

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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