

Infosys Limited



Infosys Limited

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 1,337	INR 1,458	9.1%	INR 55,50,675	ACCUMULATE	Internet Software & Services

Weak performance due to delay in deal closure
Synopsis:

- Infosys Ltd (INFY) has reported quarterly numbers in line with our expectations. The CC revenue from operations in Q1FY24 increased to INR 4,617 mn, a rise of 4.2% on a YoY basis and 1.0% on a QoQ basis in constant currency. The company reported revenues of INR 3,79,330 mn, showing growth of 10.0% YoY and 1.3% QoQ.
- The EBIT for Q1 FY24 increased by 0.2% on a QoQ basis to INR 78,910 mn, and rose by 14.1% on a YoY basis. The EBIT margin for Q1 FY24 was registered at 20.8%, representing a 24 bps dip on a QoQ basis and a 74 bps improvement on a YoY basis.
- The PAT for Q1 FY24 also increased by 3.6% on a QoQ basis to INR 24,170 mn, and grew by 11.3% on a YoY basis. The PAT margin was registered at 15.7%, showing a fall of 70 bps on a QoQ basis and an improvement of 10 bps on a YoY basis.
- The EPS in Q1 FY24 stood at INR 14.37 per share, compared to INR 14.62 per share in Q4 FY23 and INR 12.74 per share in Q1 FY23.

MARKET DATA

Shares outs (Mn)	4,136
Mkt Cap (INR Mn)	55,21,415.9
52 Wk H/L (INR)	1672.4/1215.4
Volume Avg (3m K)	8029.6
Face Value (INR)	5
Bloomberg Code	INFO IN

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(INR Mn)	Q1FY24A	Q4FY23A	Q1FY23A	QoQ	YoY	KRChoksey Est.	Variance (%)
USD Revenue	4,617	4,554	4,444	1.4%	3.9%	4,613	0.1%
Revenue	3,79,330	3,74,410	3,44,700	1.3%	10.0%	3,78,283	0.3%
EBIT	78,910	78,770	69,140	0.2%	14.1%	78,849	0.1%
PAT	59,450	61,280	53,600	-3.0%	10.9%	63,270	-6.0%
OPM (%)	20.8%	21.0%	20.1%	-24bps	74bps	20.8%	-4
NPM(%)	15.7%	16.4%	15.5%	-69bps	12bps	16.7%	-105

Source: Company, KRChoksey Research

Revenue in line with our estimate, negative surprise from revenue guidance:

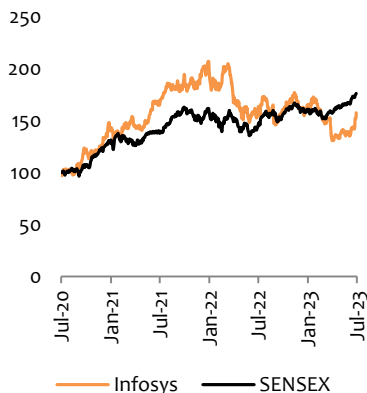
INFY reported subdued Q1FY24 results, primarily attributed to a slowdown in discretionary spending and a decrease in project activity. As a consequence of delays in converting large deals, Infosys has revised its revenue guidance for FY24E from 4-7% to 1-3.5%. During the quarter, Infosys reported a YoY increase of +4.2% in constant currency (CC) revenue and a 1.0% rise QoQ with the CC revenue reaching USD 4,617 mn. The growth was driven by the manufacturing sector (+20.7% YoY), followed by Life Sciences (+13.9% YoY) and E&U (Energy & Utilities) (+8.6% YoY). In terms of geographical regions, Europe exhibited growth of 10.1% YoY, North America grew by 2.1% YoY, India experienced a 13.7% YoY growth, while the Rest of the World (RoW) declined by 0.5% YoY.

Margin expanded due to improved cost efficiency:

The EBIT margin for the quarter declined by 24 bps sequentially, reaching 20.8%. However, this decline was counterbalanced by increased utilization and cost optimization measures, resulting in a 70 bps expansion in margin. Unfortunately, a rise in employee expenses due to wage hikes and variable pay out offset some of these gains, amounting to 90 bps. Despite an uncertain macro environment, the company managed to maintain stable operational margins in Q1, thanks to its continued focus on cost efficiency. The company's strict operational discipline led to improved productivity metrics and higher utilization, contributing to the margin. As a result, the management has kept the margin guidance unchanged in the range of 20-22%.

Slowdown in discretionary spends:

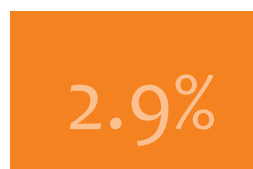
Infosys continues to face challenges among its clientele, and the management foresees persistent weakness in segments such as Communication, Retail, Financial Services, and Hi-tech for the FY24. The delays in converting deals, project ramp downs, and delayed ramp ups are expected to affect revenue growth in the near term, particularly in discretionary spending. Despite these challenges, Infosys achieved a significant milestone by securing a mega deal valued at USD 2.3 billion in Q1 FY24. Furthermore, the company signed 16 large deals, with 56% of them being new. These deals were spread across various industry verticals.

SHARE PRICE PERFORMANCE

MARKET INFO

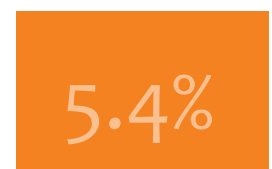
SENSEX	66,684.0
NIFTY	19,745.0

SHARE HOLDING PATTERN (%)

Particulars	Jun-23	Mar-23	Dec-22
Promoters	14.9	15.1	15.1
FIIIs	33.4	35.1	36.3
DIIIs	34.9	33.9	32.8
Others	16.8	15.6	15.5
Total	100	100	100



Revenue CAGR between FY23 and FY25E



PAT CAGR between FY23 and FY25E

Infosys Limited

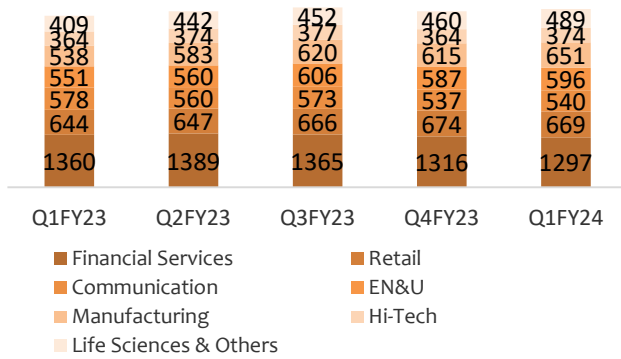
Key Concall Highlights:

i) Infosys has revised its full-year FY24 revenue guidance to 1%-3.5% from the earlier 4%-7% in constant currency terms. However, the margin guidance of 20%-22% has been maintained. ii) In the short term, the company foresees clients pausing or slowing down their transformation programs, particularly in the Mortgage Asset Management, Investment Banking, Payments, and Telecom industries. iii) Both the manufacturing and life sciences divisions of the company experienced a notable 21% increase. The company's European business expanded by 10%, and a strong operating margin of 20.8% was achieved for the quarter. iv) During the quarter, Infosys sealed a mega deal valued at USD 2.3 billion. In the first quarter of FY24, Infosys signed 16 large deals, with 56% of them being new. These deals were distributed across various verticals. v) The management expresses delight in the positive reception of Topaz, the company's AI and Generative AI platform. Presently, the company is engaged in 80 active projects within this segment. vi) The impact of cost efficiency and vendor consolidation work is also being observed in the High-Tech industry and other parts of retail. vii) The communication vertical is experiencing the effects of budget cuts, delays in decision-making, and slower ramp-ups. Growth challenges persist due to rising operating expenditure (opex) pressure. viii) The management holds a positive outlook on energy clients, although there is a slight slowdown in decision-making. Clients are actively pursuing energy transition and net-zero programs. ix) In the manufacturing business, clients are focused on controlling spending and seeking differentiated deals. Despite the volatile environment, the deal pipeline remains robust, with increasing traction observed in areas such as engineering, IoT, supply chain, cloud ERP, and digital solutions. x) Infosys has initiated a comprehensive effort to increase margins, with a focus on areas like pyramid optimization, efficiency, automation, and generative AI.

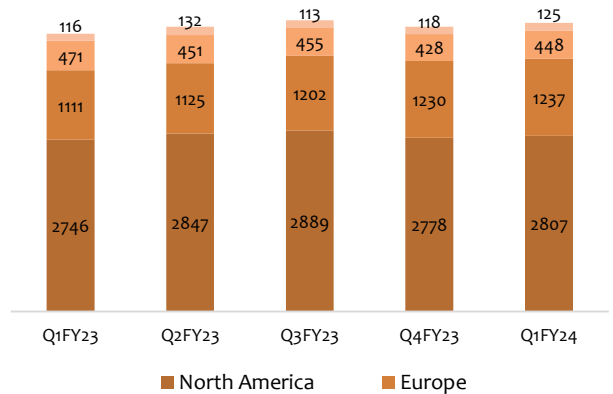
Valuation and view

Infosys is currently trading at a valuation with a P/E multiple of 23.3x/21.1x on FY24E/FY25E earnings. On the backdrop of weak macro environment the company has reduced its revenue and EBIT margin guidance. Revised guidance and delay in deal closure effected the revenue visibility in the near term. However, we believe that IT spending especially in the discretionary side will come back strongly from FY25 onwards. We are revising our FY24 guidance in line with the management guidance; however, continue to be positive on the company growth from FY25 onwards. We are assigning a P/E multiple of 23x (24X earlier) to the FY25 estimated EPS of INR 63.4 to arrive at a target price of INR 1,458 per share (Earlier 1645), an upside of ~9.1% over the CMP. We changed our rating from "BUY" to "ACCUMULATE" rating to the stock.

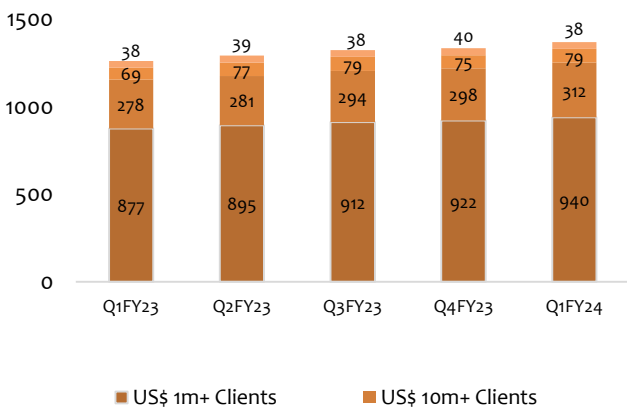
Vertical-wise Revenue Contribution (USD Mn)



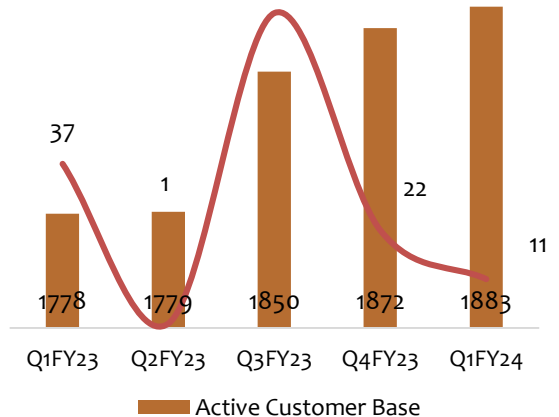
Revenue by Geography (USD Mn)



Client Contribution



Active Customer Base



Source: Company, KRChoksey Research

Source: Company, KRChoksey Research

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Particulars (INR Mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Property, Plant and Equipment	1,24,350	1,25,600	1,36,230	1,35,790	1,29,823	1,23,944
Right-of-use Asset	41680	47940	48230	68820	68820	68820
CWIP	9,540	9,220	5,040	4,470	4,470	4,470
Goodwill	52,860	60,790	61,950	72,480	72,480	72,480
Intangible Assets	19,000	20,720	17,070	17,490	17,490	17,490
Deferred Tax Assets	17,440	10,980	12,120	12,450	12,450	12,450
Income Tax Assets	53840	58110	60980	64530	64530	64530
Other non current assets	21,840	24,540	28,870	47,630	47,630	47,630
Investments	41,370	1,18,630	1,36,510	1,25,690	1,25,690	1,25,690
Total non current assets	3,81,920	4,76,530	5,07,000	5,49,350	5,43,383	5,37,504
Cash & equivalent	186490	247140	174720	121730	164593	207758
Available for sale financial assets	46,550	23,420	66,730	69,090	69,090	69,090
Sundry debtors	1,84,870	1,92,940	2,26,980	2,54,240	2,64,036	2,76,855
Unbilled revenue	71,210	75,270	1,15,680	1,52,890	1,46,235	1,53,335
Derivative financial instruments	620	1,880	1,430	1,010	1,010	1,010
Prepayments and other current assets	56,020	66,680	86,310	1,09,850	1,09,850	1,09,850
Total current assets	5,45,760	6,07,330	6,71,850	7,08,810	7,54,813	8,17,898
Total Assets	9,27,680	10,83,860	11,78,850	12,58,160	12,98,196	13,55,402
Equity Share Capital	21,220	21,240	20,980	20,690	20,690	20,690
Other Equity	6,33,280	7,42,270	7,32,520	7,33,380	7,72,022	8,14,816
Equity Attributable to Owners of the Company	6,54,500	7,63,510	7,53,500	7,54,070	7,92,712	8,35,506
Non controlling Interest	3,940	4,310	3,860	3,880	3,880	3,880
Total Equity	6,58,440	7,67,820	7,57,360	7,57,950	7,96,592	8,39,386
Deferred Income Tax Liabilities	9,680	8,750	11,560	12,200	12,200	12,200
Employee Benefit Obligations	8,070	15,140	920	830	830	830
Lease Liabilities	40,140	45,870	46,020	70,570	70,570	70,570
Other Liabilities	2,790	7,630	26,960	24,750	24,750	24,750
Total non current liabilities	60,680	77,390	85,460	1,08,350	1,08,350	1,08,350
Trade Payables	28,520	26,450	41,340	38,650	40,104	41,566
Derivative Financial Instruments	4,910	560	610	780	780	780
Client Deposits	180	0	0	0	0	0
Unearned Revenue	29,900	40,500	63,240	71,630	72,362	75,875
Lease Liabilities	6,190	7,380	8,720	12,420	12,420	12,420
Other Liabilities	99,920	1,14,970	1,64,480	1,97,480	1,99,186	2,06,447
Income Tax Liabilities	14,900	21,460	26,070	33,840	31,208	32,743
Employee Benefit Obligations	18,320	20,200	21,820	23,990	23,990	23,990
Post-Sales Client Support and Warranties	5,720	7,130	9,750	13,070	13,204	13,845
Total Current Liabilities	2,08,560	2,38,650	3,36,030	3,91,860	3,93,254	4,07,666
Total liabilities	9,27,680	10,83,860	11,78,850	12,58,160	12,98,196	13,55,402

Source: Company, KRChoksey Research

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Exhibit 2: Profit & Loss Statement

Particulars (INR Mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue	9,07,910	10,04,720	12,16,410	14,67,670	14,82,662	15,54,645
Employee Cost	5,08,870	5,55,410	6,39,860	7,83,580	7,96,499	8,17,256
SG&A and Other Cost	1,76,370	1,70,420	2,61,630	3,32,780	3,29,507	3,49,795
EBITDA	2,22,670	2,78,890	3,14,920	3,51,310	3,56,657	3,87,594
Depreciation	28,930	32,670	34,770	42,250	47,629	49,562
EBIT	1,93,740	2,46,220	2,80,150	3,09,060	3,09,028	3,38,032
Other income, net	28,030	22,010	22,950	27,000	22,440	23,562
Finance costs	1,700	1,950	2,000	2,840	4,979	4,979
Provision for Investments	0	0	0	0	0	0
Pre-tax Income	2,20,070	2,66,280	3,01,100	3,33,220	3,26,489	3,56,614
Income tax expense	53,680	72,050	79,640	92,140	84,973	89,154
Net profit Before EI & MI	1,66,390	1,94,230	2,21,460	2,41,080	2,41,516	2,67,461
Extraordinary Item	0	0	0	0	0	0
Minority Interest, MI	-450	-720	-360	-130	0	0
Net profit Before MI	1,65,940	1,93,510	2,21,100	2,40,950	2,41,516	2,67,461
Diluted EPS (INR)	38.91	45.52	52.41	57.12	57.25	63.40
Shares in mn	4,265	4,251	4,219	4,219	4,219	4,219

Source: Company, KRChoksey Research

Exhibit 3: Free Cash Flow Analysis

Particulars (INR Mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Cash Generated From Operations	2,44,560	3,27,400	2,95,950	3,41,220	3,72,370	4,00,670
Net Cash Flow from/(used in) Investing Activities	-29,180	-1,10,860	-59,100	-30,420	-41,661	-43,684
Net Cash Flow from Financing Activities	-2,24,090	-2,41,960	-2,38,030	-2,51,590	-2,87,846	-3,13,820
Others	-480	86,070	-71,240	-1,12,200	0	0
Net Inc/Dec in cash equivalents	-8,710	-25,420	-1,180	59,210	42,863	43,166
Opening Balance	1,95,680	1,86,490	2,47,140	1,74,720	1,21,730	1,64,593
Closing Balance Cash & Cash Equivalents	1,86,490	2,47,140	1,74,720	1,21,730	1,64,593	2,07,758

Source: Company, KRChoksey Research

Exhibit 4: Ratio Analysis

Key Ratio	FY20	FY21	FY22	FY23	FY24E	FY25E
EBIT Margin (%)	21.3%	24.5%	23.0%	21.1%	20.8%	21.7%
Tax rate (%)	24.4%	27.1%	26.4%	27.7%	26.0%	25.0%
Net Profit Margin (%)	18.3%	19.3%	18.2%	16.4%	16.3%	17.2%
RoE (%)	25.5%	27.3%	29.1%	32.0%	31.2%	32.9%
RoCE (%)	22.5%	25.3%	27.2%	29.7%	29.6%	31.1%
Current Ratio	2.6	2.5	2.0	1.8	1.9	2.0
EPS (INR per share)	38.9	45.5	52.4	57.1	57.3	63.4

Source: Company, KRChoksey Research

Infosys Limited

Infosys Limited				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP(INR)	Recommendation	Our Rating	Upside
21-July-23	1337	1458	ACCUMULATE	Buy	More than 15%
17-April-23	1383	1645	BUY	Accumulate	5% – 15%
13-Jan-23	1504	1805	BUY	Hold	0 – 5%
14-Oct-22	1420	1805	BUY	Reduce	-5% – 0
				Sell	Less than – 5%

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