Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Company Update

Infosys Ltd

Robust deal flow to provide resilience, Upgrade to Buy

IT & ITES	Sharekhan code: INFY
Reco/View: Buy ↑	CMP: Rs. 1,490
	Price Target: Rs. 1,690 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX

	+	=	-
Right Sector (RS)		✓	
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 13.08

Updated Aug 08, 2023

Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

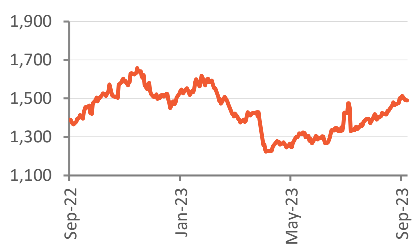
Company details

Market cap:	Rs. 6,18,379 cr
52-week high/low:	Rs. 1,672 / 1,215
NSE volume: (No of shares)	73.42 lakh
BSE code:	500209
NSE code:	INFY
Free float: (No of shares)	359.9 cr

Shareholding (%)

Promoters	14.9
FII	33.4
DII	34.6
Others	17.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.3	14.3	6.1	7.3
Relative to Sensex	4.4	8.9	-9.8	-4.5

Sharekhan Research, Bloomberg

Summary

- Recent mega deal wins improve growth visibility and thus, we upgrade Infosys to Buy with a revised PT of Rs.1,690 (reflects slightly better multiple and rollover of PE multiple to Sept 25 EPS estimate). We believe Infosys remains well placed to win large deals, defend market share given its diversified presence across geographies, well-spread revenue streams across verticals and with sharp focus on strategic clients. At the CMP, the stock trades at 21.6x/19.1x its FY25/26E EPS.
- Deal momentum continues to stay robust with Infosys reporting few large/mega deals ranging from \$1.5-2bn in July-Sep23.
- Infosys will largely benefit from the likely recovery in the highly impacted verticals - BFSI, Communication (MNC telecom company deal win of \$1.6 bn) and Hi-tech in the next few quarters aided by deal wins and ramp-up of deal pipeline. As global uncertainties subside, gradual acceleration in discretionary spending is anticipated, further driving growth for IT companies.
- Despite the uncertain macro environment, the strong competitive strengths are expected to provide resilience to revenue growth profile through large/mega deals wins and robust deal pipeline while margin expansion is expected to be aided by improvement in operational levers.

Despite the uncertain environment marked by cuts in discretionary spending and project delays, deal wins remained robust for Top IT majors, with Infosys and TCS deal TCV growing 35% & 24% y-o-y respectively. Deal win momentum has continued for Infosys in the recent months through some large deal wins \$1.5-2bn in July-Sep23. Discretionary spending, which has been subdued due to uncertainty, is expected to gradually pick up from CY24 as macroeconomic uncertainties begin to recede from their peak levels. Over the past several quarters BFSI, Hi-tech and Telecom verticals have been most impacted due to challenging macros. However, we expect Infosys to largely benefit from recovery in most impacted verticals - BFSI, Communication (MNC telecom company deal win of \$1.6 bn)) and Hi-tech in the next couple of quarters aided by deal wins and ramp-up of deal pipeline. We believe Infosys remains well placed to win large deals, defend market share given its diversified presence across geographies, well-spread revenue streams across verticals and with sharp focus on strategic clients. We upgrade Infosys to Buy rating from Reduce with revised PT of Rs. 1,690 (reflects slightly better multiple and rollover of PE multiple to September 2025 EPS estimate). At the CMP, the stock trades at 21.6x/19.1x its FY25/26E EPS.

- **Strong Deal Win momentum:** Although Tier 1 IT companies reported a soft start in FY24 highlighting an uncertain demand environment, cuts in discretionary spending and project delays, however the deal wins have remained robust for Top IT majors with Infosys and TCS deal TCV growing 35% & 24% y-o-y respectively. Deal momentum continues to stay robust for the IT majors with Infosys reporting few large/mega deals ranging from \$1.5-2bn in July-Sep23. The deal win with the MNC telecom company (\$1.64 million) which involves digital platform development and maintenance allows the telecom company to realize run-rate savings more than 100 million euros per annum, inclusive of other savings and technology investments. While the uncertain environment has led to a larger migration towards larger cost take out programs, Infosys is seeing good traction in them as reflected in the recent mega deal wins. We believe discretionary spends which have been muted due to uncertain environment is set to improve gradually from CY24 as macro uncertainties start wanning from peak levels.
- **Recovery in impacted verticals over next couple of quarters:** Over the past several quarters BFSI, Hi-tech and Telecom verticals have been most impacted due to challenging macros. However, management commentaries across IT services companies indicate few green shoots emerging in Hi-tech vertical. BFS firms continue to show cautiousness in discretionary spends despite better financial metrics while telecom vertical may benefit from ramp-up of recent deal win. We expect Infosys to largely benefit from the likely recovery in the highly impacted verticals - BFSI, Communication (MNC telecom company deal win of \$1.6 bn) and Hi-tech in the next couple of quarters aided by deal wins and ramp-up of deal pipeline. Additionally, as global uncertainties subside, a gradual acceleration in discretionary spending is anticipated , which will further drive growth for IT companies.
- **Strong competitive strength:** Although the macro environment remains uncertain with client caution continuing in discretionary spends (reflected in company's muted constant currency revenue growth guidance of 1-3.5% for FY24), we believe Infosys remains well placed to win large deals, defend market share in key accounts and to capitalize on the digital demand wave given its diversified presence across geographies, well-spread revenue streams across verticals and with sharp focus on strategic clients. The company continues to be confident regarding the guided margin band of 20-22% and has indicated various margin levers like pyramid efficiency, automation, improvements in critical portfolios, reducing indirect costs etc. to drive margin expansion. Hence, despite uncertain macro environment, the strong competitive strengths are expected to provide resilience to revenue growth profile through large/mega deals wins and robust deal pipeline while margin expansion is expected to be aided by improvement in operational levers.

Our Call

Valuation – Upgrade to Buy with revised PT of Rs. 1,690: Despite the uncertain macro environment we believe Infosys remains well placed to win large deals, defend market share given its diversified presence across geographies, well-spread revenue streams across verticals and owing to its sharp focus on strategic clients. We have fine-tuned the earnings estimates for FY25E and introduced FY26 earnings estimates. We expect 8.6%/10.2% Sales and PAT CAGR over FY23-26E. Hence, we upgrade Infosys to Buy rating from Reduce with revised PT of Rs. 1,690 (reflects slightly better multiple and rollover of PE multiple to September 2025 EPS estimate). At CMP, the stock trades at 21.6x/19.1x its FY25/26E EPS.

Key Risks

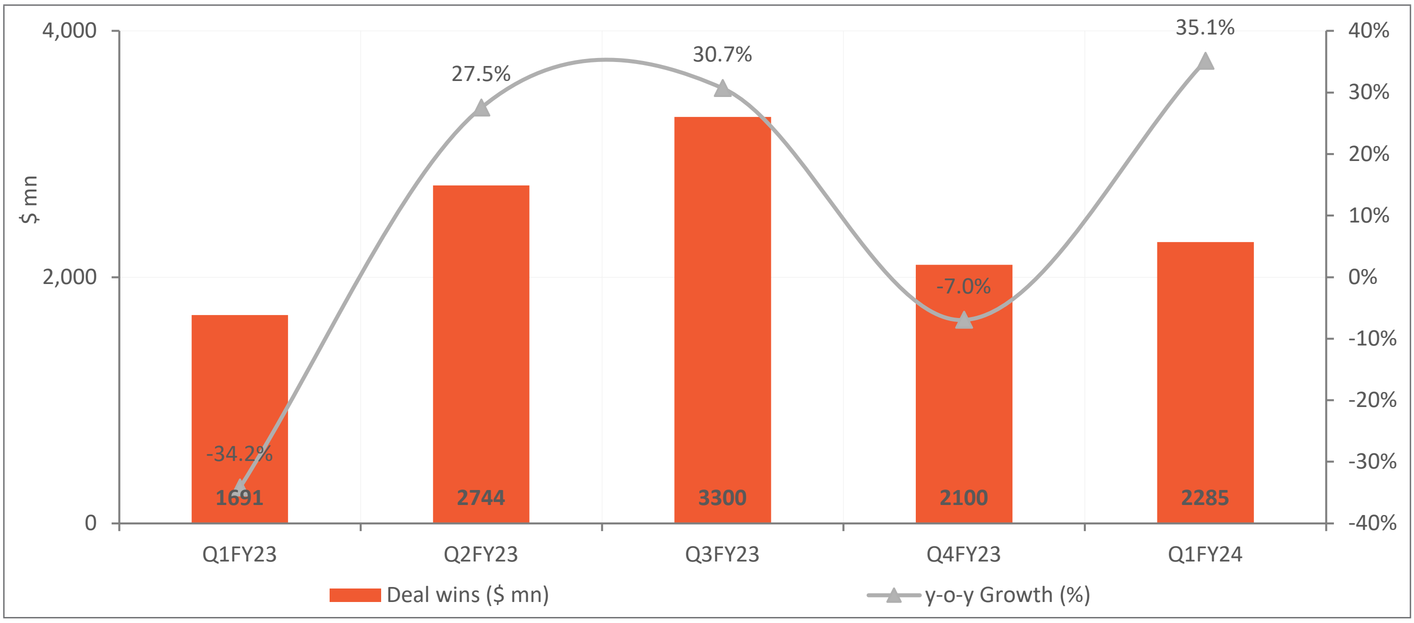
Rupee appreciation and/or adverse cross-currency movements. The contagion effect of the banking crisis, macro headwinds, and a possible recession in the US are likely to moderate the pace of technology spending.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24E	FY25E	FY26E
evenue	1,46,767.0	1,51,630.7	1,68,872.5	1,87,876.9
OPM (%)	23.9	23.9	24.9	25.2
Adjusted PAT	24,097.0	23,701.2	28,518.9	32,211.8
% YoY growth	9.0	-1.6	20.3	12.9
Adjusted EPS (Rs)	57.6	57.3	68.9	77.9
P/E (x)	25.9	26.0	21.6	19.1
P/B (x)	4.5	4.3	4.1	3.7
EV/EBITDA	17.4	16.6	14.2	12.5
ROE (%)	31.8	29.6	33.9	35.1
ROCE (%)	36.7	36.0	40.2	42.5

Source: Company; Sharekhan estimates

Strong deal win momentum



Source: Company; Sharekhan Research

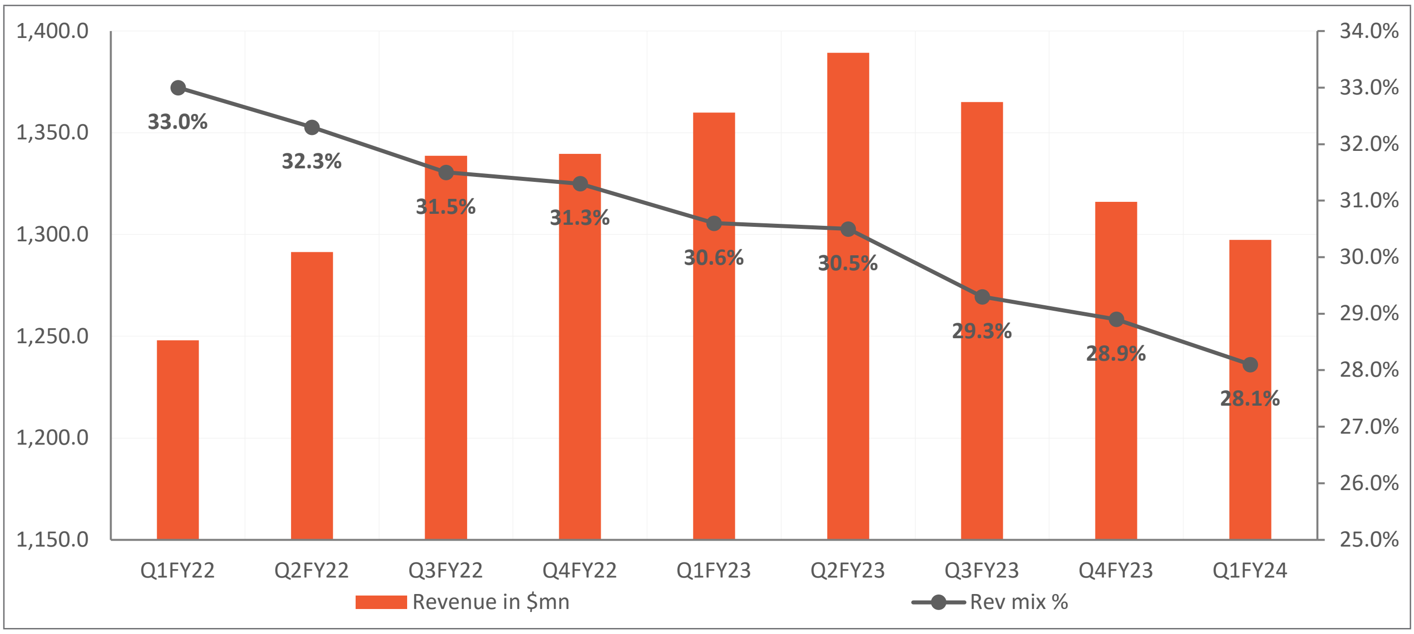
Recent Large deal wins

Month	Deal Win ($1bn)	Client	Tenure (years)	Description
Sep-23	1.5	Not disclosed	15	Enhanced digital experiences with the modernisation and business operations services by leveraging Infosys' platforms and AI solutions
Aug-23	1.6	Mnc telecom com-pany	5	Strategic collaboration to bring AI-Powered digital Entertainment to Customers Worldwide and Drive Significant Efficiencies on Technology Costs
Jul-23	2	Existing Client	5	Artificial intelligence (AI) and automation development, modernization and maintenance services.

Source: Company; Sharekhan Research

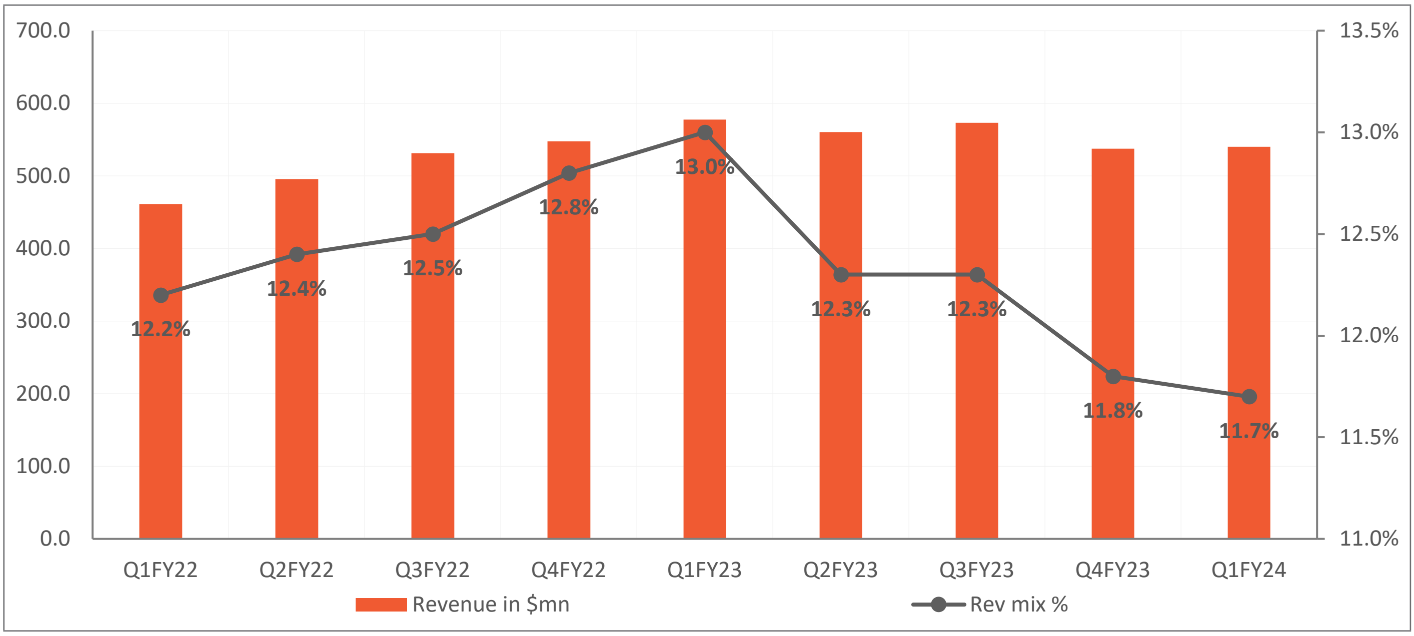
Recovery expected in impacted verticals aided by deal wins and ramp up of deal pipeline

Financial Services



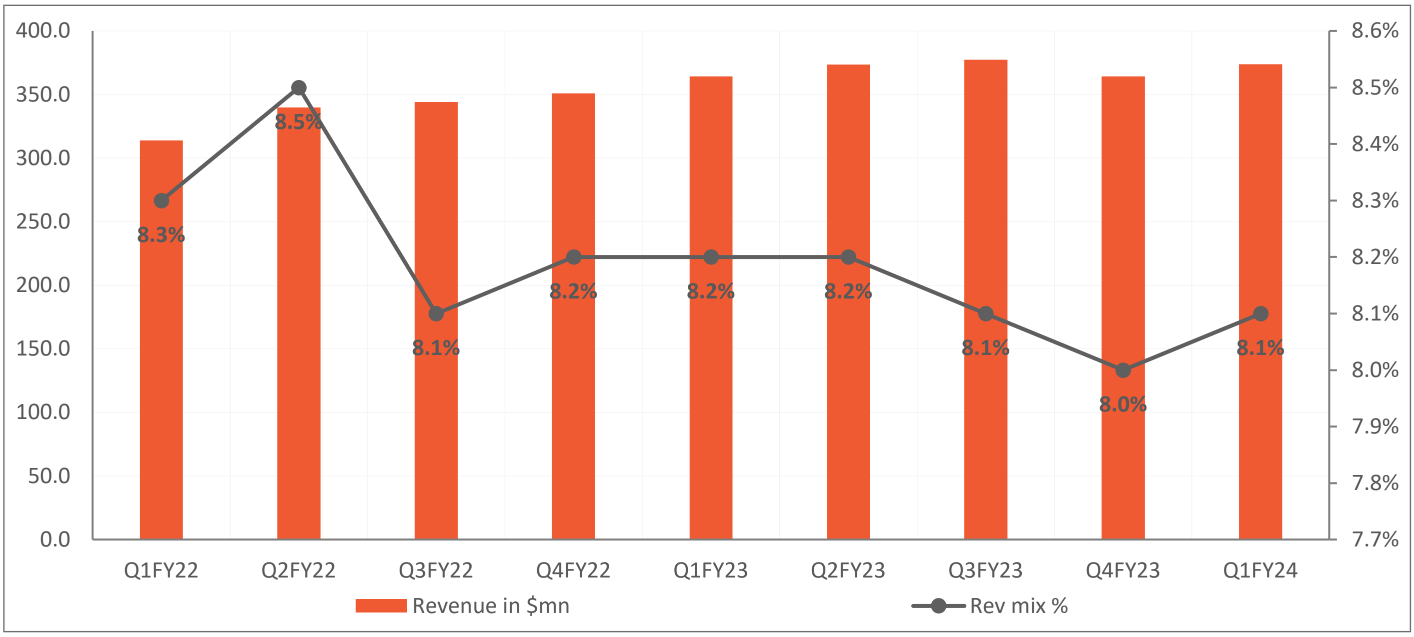
Source: Company; Sharekhan Research

Communication



Source: Company; Sharekhan Research

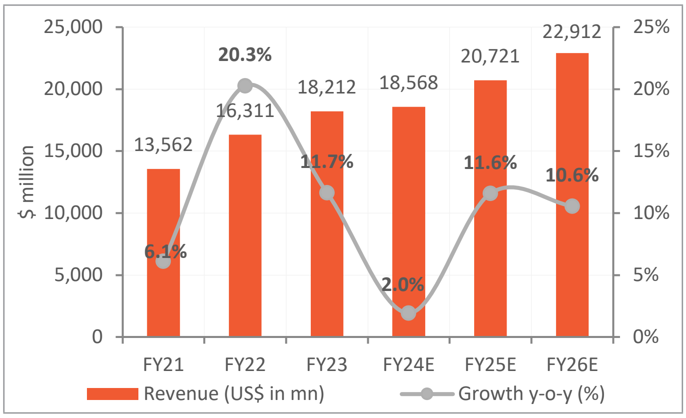
Hi-tech



Source: Company; Sharekhan Research

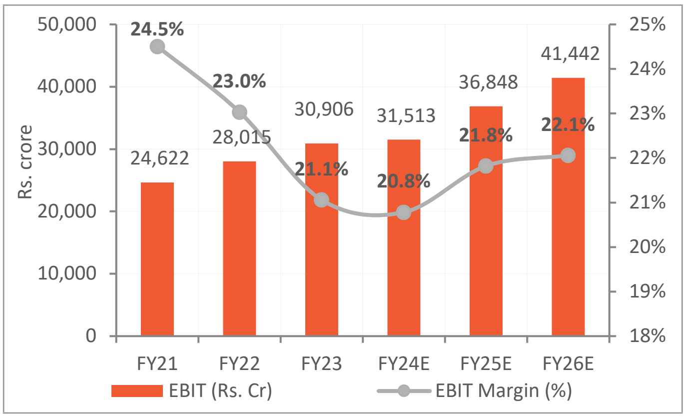
Financials in charts

Revenue in USD



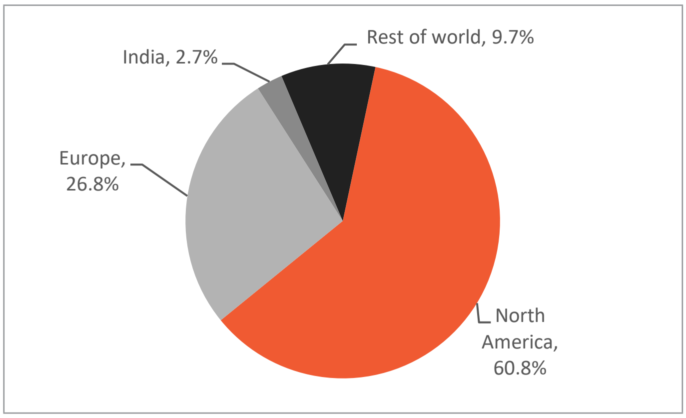
Source: Company, Sharekhan Research

EBIT and EBIT margin trend



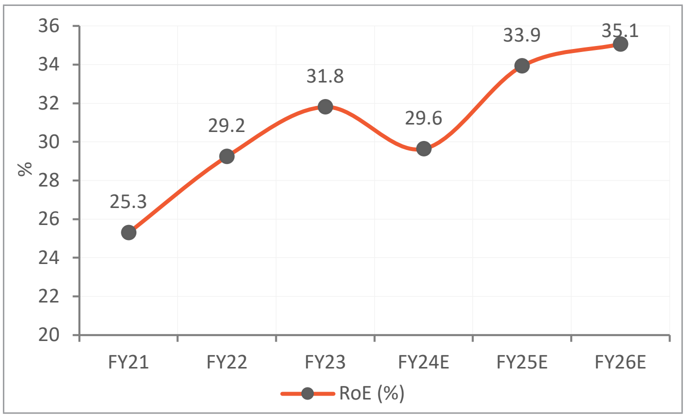
Source: Company, Sharekhan Research

Geographical break up



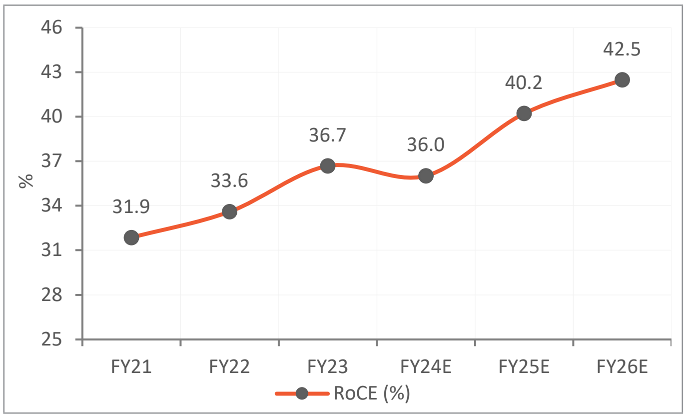
Source: Company, Sharekhan Research

ROE



Source: Company, Sharekhan Research

ROCE



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Persisting multiple global headwinds turning outlook for FY24E uncertain

Owing to multiple global headwinds the outlook for FY24E looks uncertain, and the recovery could be gradual in the coming quarters. Hence, concerns relating to macro headwinds are unlikely to abate anytime soon thus restricting any material outperformance for Indian IT companies.

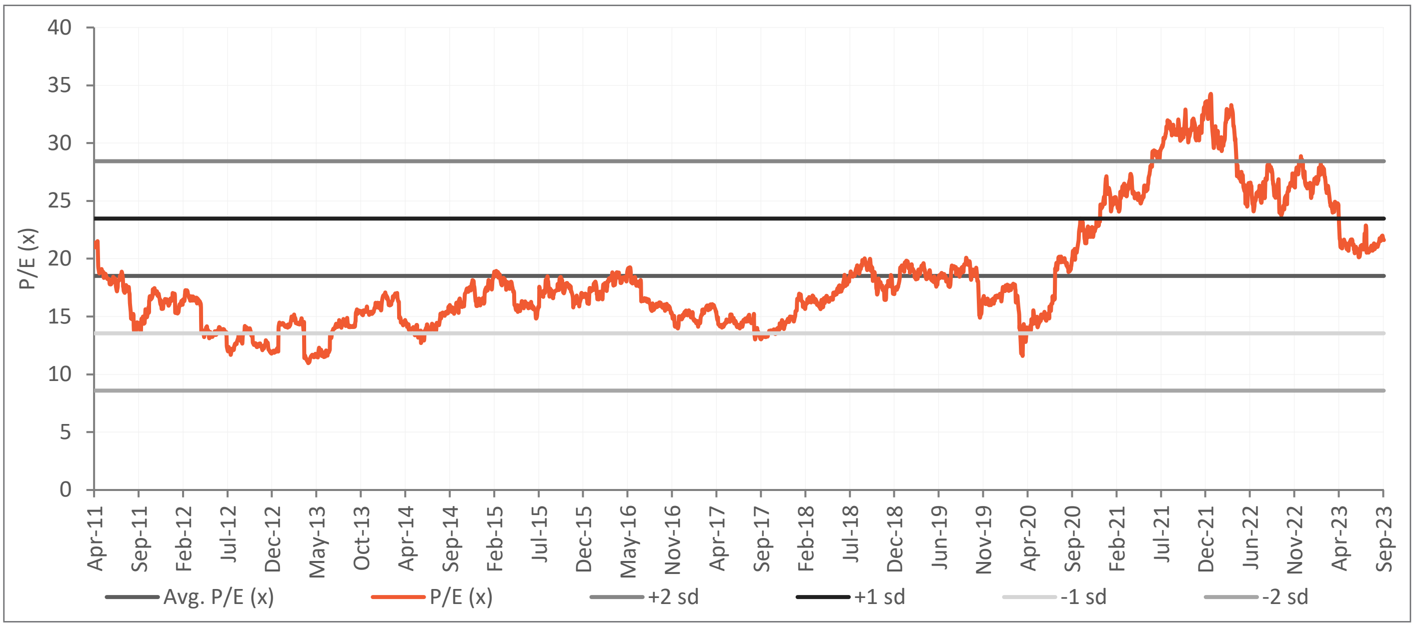
■ Company Outlook – Well-positioned to capture opportunities

Infosys services a large number of Fortune 500/Global 500 clients who have strong balance sheets and are able to hold on better amid the economic downturn. Further, Infosys has aggressively invested in digital technologies in the past couple of years to capture a large portion of upcoming digital spends. Given strong relationships with clients and robust execution capabilities, Infosys is well-positioned to capitalise on opportunities from clients' transformation journeys.

■ Valuation – Upgrade to Buy with revised PT of Rs. 1,690

Despite the uncertain macro environment we believe Infosys remains well placed to win large deals, defend market share given its diversified presence across geographies, well-spread revenue streams across verticals and owing to its sharp focus on strategic clients. We have fine-tuned the earnings estimates for FY25E and introduced FY26 earnings estimates. We expect 8.6%/10.2% Sales and PAT CAGR over FY23-26E. Hence, we upgrade Infosys to Buy rating from Reduce with revised PT of Rs. 1,690 (reflects slightly better multiple and rollover of PE multiple to September 2025 EPS estimate). At CMP, the stock trades at 21.6x/19.1x its FY25/26E EPS.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

Founded in 1981, Infosys is the second largest ($18,212 million in FY23) IT services company in India in terms of export revenue with headcount of 3.43 lakh employees. BFSI accounts for the largest chunk of revenue (~31% of total revenue), followed by retail, energy and utilities, and communication. Region wise, North America and Europe continue to be the mainstay. Digital revenue continued to have a strong growth momentum in the past few quarters.

Investment theme

Infosys has accelerated deal wins momentum through engagement with deal advisors, consulting firms, and private equity players. Effectively, the strong large deal trajectory provides better revenue growth visibility. Further, revitalisation of sales and investment in digital competencies have certainly helped the company to drive its digital business. Sharp focus on execution and augmentation of digital capabilities through investments can bring Infosys back on its high-growth trajectory. Given strong deal wins, strengthening relationships with large clients, and continued digital momentum, we believe Infosys is well positioned to catch up with leaders on revenue growth in the coming years.

Key Risks

1) Rupee appreciation and/or adverse cross-currency movements, 2) Contagion effect of banking crisis, and 3) macro headwinds and possible recession in the U.S. are likely to moderate the pace of technology spending.

Additional Data

Key management personnel

Nandan M. Nilekani	Co-founder and Non-Executive Chairman
Salil Parekh	Chief Executive Officer
Nilanjan Roy	Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Deutsche Bank Trust Co Americas	11.02
2	Life Insurance Corp of India	7.86
3	SBI Funds Management Ltd	4.30
4	Vanguard Group Inc/The	3.34
5	BlackRock Inc	2.92
6	ICICI Prudential Asset Management	2.53
7	Republic of Singapore	2.19
8	NATIONAL PENSION SYSTEM	1.61
9	UTI Asset Management Co Ltd	1.56
10	HDFC Asset Management Co Ltd	1.49

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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