

October 12, 2023

RESULT REPORT Q2 FY24 | Information Technology

Infosys Ltd

Broadly inline performance; Revenue guidance for FY24 lowered to 1 to 2.5% on demand concerns

Result Synopsis

Infosys (INFO) reported broadly inline performance for the quarter. The revenue growth was above estimates; while EBIT margin was inline with expectation. It reported increase in revenue by 2.3% QoQ in cc terms. Revenue grew by 2.2% QoQ in USD terms (up 2.8% QoQ in INR terms). EBIT margin improved by 42 bps QoQ to 21.2% on lower SG&A cost in the quarter.

The near term demand environment remains challenging as clients remain cautious regarding the evolving macroeconomic situation in the US and Europe and there has been slowdown in discretionary tech spending in sectors such as Hitech, Retail, Telecom, etc. and it continues to impact near term revenue performance. Management has lowered FY24E revenue growth guidance to 1 to 2.5% in cc terms from earlier guidance of 1 to 3.5% on account of near term demand concerns. Employee attrition continues to decline and should support operating margin going ahead. We estimate revenue CAGR of 10.3% over FY23-25E with average EBIT margin of 21.9%. We maintain our BUY rating on the stock with revised target price of Rs 1,838/share at 25.5x on FY25E EPS. The stock trades at PER of 24.4x/20.3x on FY24E/FY25E EPS.

Result Highlights

- Reported revenue of Rs 389.9bn (up 2.8% QoQ in INR terms, up 2.2% QoQ in USD terms) led by growth in Manufacturing, Retail, Hitech and Other verticals. The revenue increased by 2.3% QoQ in cc terms. In terms of verticals, the YoY growth was led by Manufacturing (up 12.6% YoY in cc terms) and Retail (up 9.2% YoY in cc terms).
- EBIT margin improved by 42 bps QoQ to 21.2%, led by decrease in Selling and Marketing Expenses (down 1.6% QoQ) during the quarter.
- Reported Large deal wins of \$7.7bn vs \$2.3bn in Q1FY24.
- Gross client addition was 100 vs 99 in Q1FY24. Days sales outstanding increased to 67 days vs 63 in Q1FY24.
- Offshore effort mix increased by 10 bps QoQ to 75.4%. Added (7,530) employees in the quarter to close at 3,28,764 employees. LTM attrition was down 270 bps QoQ to 14.6%. Utilization (excluding trainees) was up 70 bps QoQ to 81.8%.
- FY24 revenue guidance revised to 1.0%-2.5% in cc terms and operating margin guidance retained at 20%-22%.
- Declared interim dividend of Rs 18 / share.

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	389,940	385,504	384,980	1.2%	1.3%
EBITDA	94,400	92,334	91,130	2.2%	3.6%
EBITDA Margin (%)	24.21%	23.95%	23.67%	26 bps	54 bps
Adjusted PAT	62,150	61,997	62,580	0.2%	-0.7%

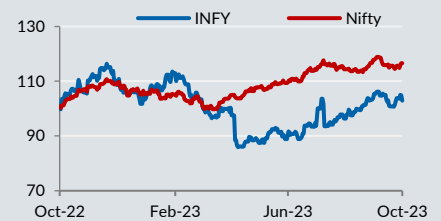
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 1,466
Target Price	: Rs 1,838
Potential Return	: + 25.4%

Stock data (as on October 12, 2023)

Nifty	19,794
52 Week h/l (Rs)	1673 / 1185
Market cap (Rs/USD mn)	6184792 / 74320
Outstanding Shares (mn)	4,139
6m Avg t/o (Rs mn):	9,391
Div yield (%):	2.3
Bloomberg code:	INFO IN
NSE code:	INFY

Stock performance



	1M	3M	1Y
Absolute return	-2.4%	9.9%	2.6%

Shareholding pattern (As of Jun'23 end)

Promoter	13.3%
FII+DII	60.8%
Others	14.6%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,838	1,742

Δ in earnings estimates

	FY24E	FY25E
EPS (New)	60.0	72.1
EPS (Old)	60.6	72.6
% change	-0.9%	-0.7%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Net Revenue	1,467,670	1,558,617	1,783,975
YoY Growth	20.7%	6.2%	14.5%
EBIDTA	351,310	380,321	451,444
YoY Growth	11.6%	8.3%	18.7%
PAT	241,080	251,939	302,346
YoY Growth	8.9%	4.5%	20.0%
ROE	31.8%	30.8%	31.5%
EPS	57	60	72
P/E	25.5	24.4	20.3
BV	181	209	249
P/BV	8.1	7.0	5.9

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Exhibit 2: Quarterly snapshot Console: Sequential improvement in EBIT margin

Particulars	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	yoy%	qoq%	H1FY24	H1FY23	yoy %
Sales (\$ mn)	4,555	4,659	4,554	4,617	4,718	3.6	2.2	9,335	8,999	4
Sales	365,380	383,180	374,410	379,330	389,940	6.7	2.8	769,270	710,080	8
EBITDA	89,020	93,670	89,980	90,640	94,400	6.0	4.1	185,040	167,660	10
EBITDA %	24.4	24.4	24.0	23.9	24.2	-15 bps	31 bps	24.1	23.6	44 bps
Depreciation	10,290	11,250	11,210	11,730	11,660	13.3	-0.6	23,390	19,790	18
EBIT	78,730	82,420	78,770	78,910	82,740	5.1	4.9	161,650	147,870	9
EBIT Margin %	21.5	21.5	21.0	20.8	21.2	-33 bps	42 bps	21.0	20.8	19 bps
Other income	5,840	7,690	6,710	5,610	6,320	8.2	12.7	11,930	12,600	-5
Interest	660	800	820	900	1380	109.1	53.3	2,280	1,220	87
PBT	83,910	89,310	84,660	83,620	87,680	4.5	4.9	171,300	159,250	8
Tax	23,650	23,450	23,320	24,170	25,530	7.9	5.6	49,700	45,370	10
PAT	60,260	65,860	61,340	59,450	62,150	3.1	4.5	121,600	113,880	7
NPM (%)	16.5	17.2	16.4	15.7	15.9	-55 bps	27 bps	15.8	16.0	-23 bps

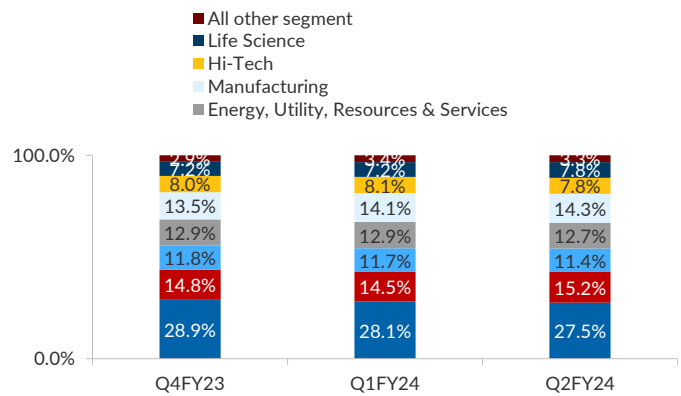
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- Revenue grew 2.3% QoQ in cc term and 2.5% YoY in cc terms. Growth was led by Manufacturing, Life Sciences and Retail Vertical.
- BFSI vertical witnessed pressure during the quarter due to clients remaining cautious on investments. Asset Management, Payment Cards and Mortgage Business were majorly impacted.
- Hitech and Communication Verticals also witnessed pressure due to cut down in discretionary spends.
- Large Deal TCV for the quarter was at \$7.7 billion, with net new of 48%. Number of Active clients stood at 1,884 (vs 1,883 in Q1FY24).
- 4 Mega Deals signed during Q2FY24, and its execution ramp up will mostly begin by FY25 or end of FY24.
- 17 Large Deals signed during the quarter. 6 deals in Retail vertical, 5 deals in Manufacturing vertical, 4 deals in Telecom vertical, 2 deals in Life Science vertical, 4 deals in BFSI vertical.
- Margins improved due to positive impact of 50 bps on account of improved utilization, 30 bps impact of revenue from one timers, 10 bps impact due to currency tailwind being offset by negative impact of 40 bps due to higher other costs
- Margins may be impacted in Q3FY24 due to wage hikes rolling out from November 1.
- Deal conversion cycle is elongated due to delay in decision making by clients. Volume growth is impacted due to slowdown in discretionary spending.
- Gen AI training has been provided to ~57,000 employees. Topaz, a Gen AI product of Infosys is being utilised with 90+ proprietary parties on Narrow Transformer Approach.

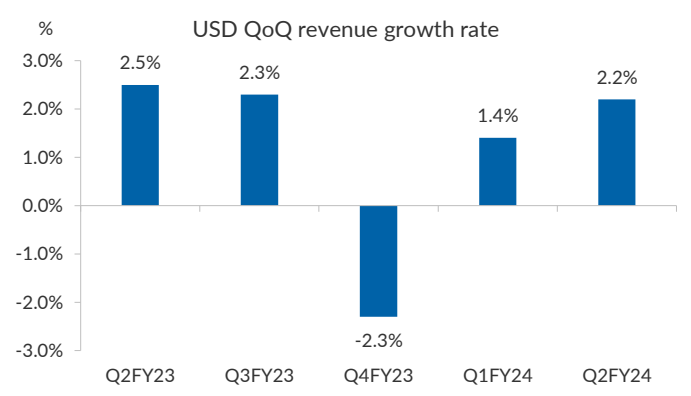
STORY IN CHARTS

Exhibit 3: Retail, Hitech and Telecom are the adversely impacted verticals



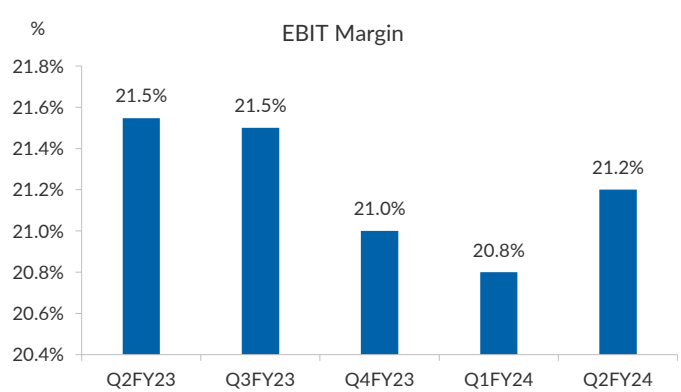
Source: Company, YES Sec

Exhibit 4: Sequential revenue growth remains modest



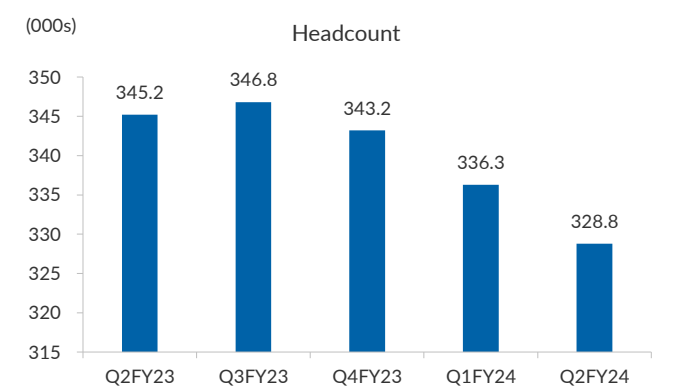
Source: Company, YES Sec

Exhibit 5: EBIT Margin improved due to lower SG&A



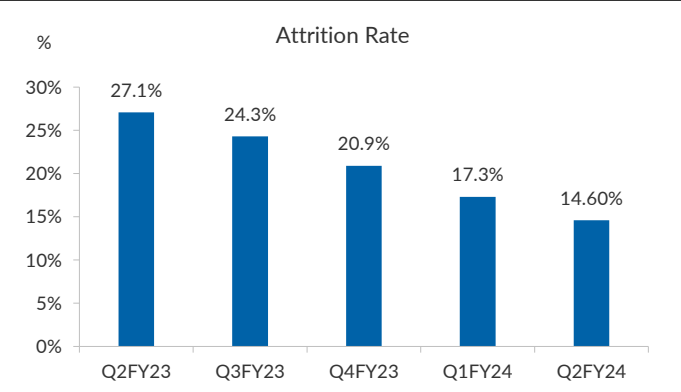
Source: Company, YES Sec

Exhibit 6: Sequential dip in total headcount



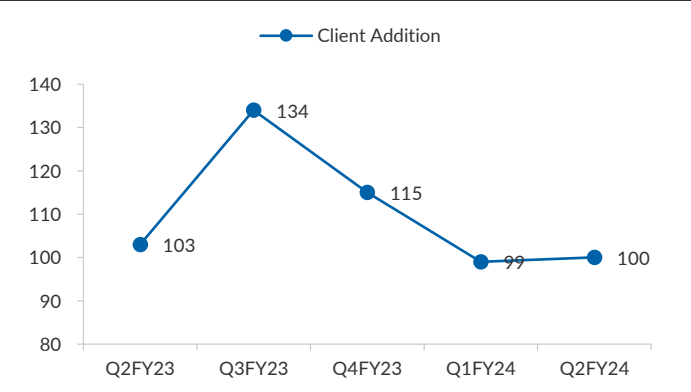
Source: Company, YES Sec

Exhibit 7: Attrition rate continues to moderate



Source: Company, YES Sec

Exhibit 8: Client addition remains as per trend



Source: Company, YES Sec

FINANCIALS

Exhibit 9: Balance Sheet

Y/e March 31 (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Share capital	21,220	21,240	20,980	20,690	20,690	20,690
Reserves & surplus	637,220	746,580	736,380	737,260	854,933	1,023,013
Shareholders' funds	658,440	767,820	757,360	757,950	875,623	1,043,703
Non-current liabilities	60,680	77,390	85,460	108,350	109,604	110,920
Other non-current liabilities	60,680	77,390	85,460	108,350	109,604	110,920
Current liabilities	208,560	238,650	336,030	391,860	406,585	453,924
Other current liabilities	208,560	238,650	336,030	391,860	406,585	453,924
Total (Equity and Liabilities)	927,680	1,083,860	1,178,850	1,258,160	1,391,811	1,608,548
Non-current assets	381,920	476,530	507,000	549,350	561,169	573,532
Fixed assets (Net block)	155,990	156,950	152,860	155,420	157,445	159,485
Non-current Investments	-	-	-	-	-	-
Other non-current assets	225,930	319,580	354,140	393,930	403,724	414,047
Current assets	545,760	607,330	671,850	708,810	830,642	1,035,015
Cash & current investment	233,040	270,560	241,450	190,820	271,656	401,329
Other current assets	312,720	336,770	430,400	517,990	558,986	633,686
Total (Assets)	927,680	1,083,860	1,178,850	1,258,160	1,391,811	1,608,548

Source: Company, YES Sec

Exhibit 10: Income Statement

Y/e March 31 (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	907,910	1,004,730	1,216,410	1,467,670	1,558,617	1,783,975
Operating expenses	(685,240)	(725,830)	(901,490)	(1,116,360)	(1,178,296)	(1,332,531)
EBITDA	222,670	278,900	314,920	351,310	380,321	451,444
Depreciation	(28,930)	(32,680)	(34,770)	(42,250)	(46,281)	(51,735)
EBIT	193,740	246,220	280,150	309,060	334,040	399,709
Other income	28,030	22,010	22,950	27,000	26,138	32,112
Finance cost	(1,690)	(1,950)	(2,000)	(2,840)	(4,999)	(5,276)
Profit before tax	220,080	266,280	301,100	333,220	355,180	426,544
Tax (current + deferred)	(53,680)	(72,050)	(79,640)	(92,140)	(103,241)	(124,198)
Reported Profit / (Loss)	166,400	194,230	221,460	241,080	251,939	302,346
Adjusted net profit	166,400	194,230	221,460	241,080	251,939	302,346

Source: Company, YES Sec

Exhibit 11: Cash Flow Statement

Y/e March 31 (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	220,080	266,280	301,100	333,220	355,180	426,544
Depreciation	28,930	32,680	34,770	42,250	46,281	51,735
Change in working capital	(23,710)	6,040	3,750	(31,760)	(26,272)	(27,360)
Total tax paid	(54,440)	(66,520)	(77,970)	(91,830)	(103,365)	(124,324)
Others	(26,340)	(20,060)	(20,950)	(24,160)	(21,140)	(26,835)
Cash flow from operations (a)	144,520	218,420	240,700	227,720	250,684	299,760
Capital expenditure	(44,450)	(33,640)	(30,680)	(44,810)	(48,306)	(53,776)
Change in investments	19,720	23,130	(43,310)	(2,360)	(2,764)	(2,874)
Others	1,410	(70,170)	(9,310)	(1,930)	16,469	21,915
Cash flow from investing (b)	(23,320)	(80,680)	(83,300)	(49,100)	(34,601)	(34,735)
Free cash flow (a+b)	121,200	137,740	157,400	178,620	216,083	265,025
Equity raised/(repaid)	1,560	3,950	(1,920)	2,090	-	-
Dividend (incl. tax)	(95,150)	(91,170)	(126,520)	(136,310)	(134,266)	(134,266)
Others	(36,800)	10,130	(101,380)	(97,390)	(3,745)	(3,960)
Cash flow from financing (c)	(130,390)	(77,090)	(229,820)	(231,610)	(138,011)	(138,226)
Net change in cash (a+b+c)	(9,190)	60,650	(72,420)	(52,990)	78,073	126,799

Source: Company, YES Sec

Exhibit 12: Ratio Analysis

Y/e March 31	FY20	FY21	FY22	FY23	FY24E	FY25E
Growth(%)						
Revenue Growth	9.8	10.7	21.1	20.7	6.2	14.5
EBITDA Growth	6.6	25.3	12.9	11.6	8.3	18.7
EBIT Growth	2.6	27.1	13.8	10.3	8.1	19.7
Net Profit Growth	7.9	16.7	14.0	8.9	4.5	20.0
Profitability Ratios(%)						
EBITDA Margin	24.5	27.8	25.9	23.9	24.4	25.3
EBIT margin	21.3	24.5	23.0	21.1	21.4	22.4
Net Profit margin	18.3	19.3	18.2	16.4	16.2	16.9
RoA	21.8	24.5	24.8	25.4	25.2	26.6
RoE	25.4	27.2	29.0	31.8	30.8	31.5
RoCE	28.1	31.5	33.2	36.2	36.1	37.4
Liquidity Ratios						
Net debt/Equity (x)	(0.4)	(0.4)	(0.3)	(0.3)	(0.3)	(0.4)
Current ratio (x)	2.6	2.5	2.0	1.8	2.0	2.3
Quick ratio (x)	2.6	2.5	2.0	1.8	2.0	2.3
Valuation Ratios						
PER(x)	39.8	41.0	28.1	25.5	24.4	20.3
PCE(x)	33.9	35.1	24.3	21.7	20.6	17.4
Price/Book(x)	10.0	10.4	8.2	8.1	7.0	5.9
EV/EBITDA(x)	28.7	27.6	19.0	17.0	15.5	12.7

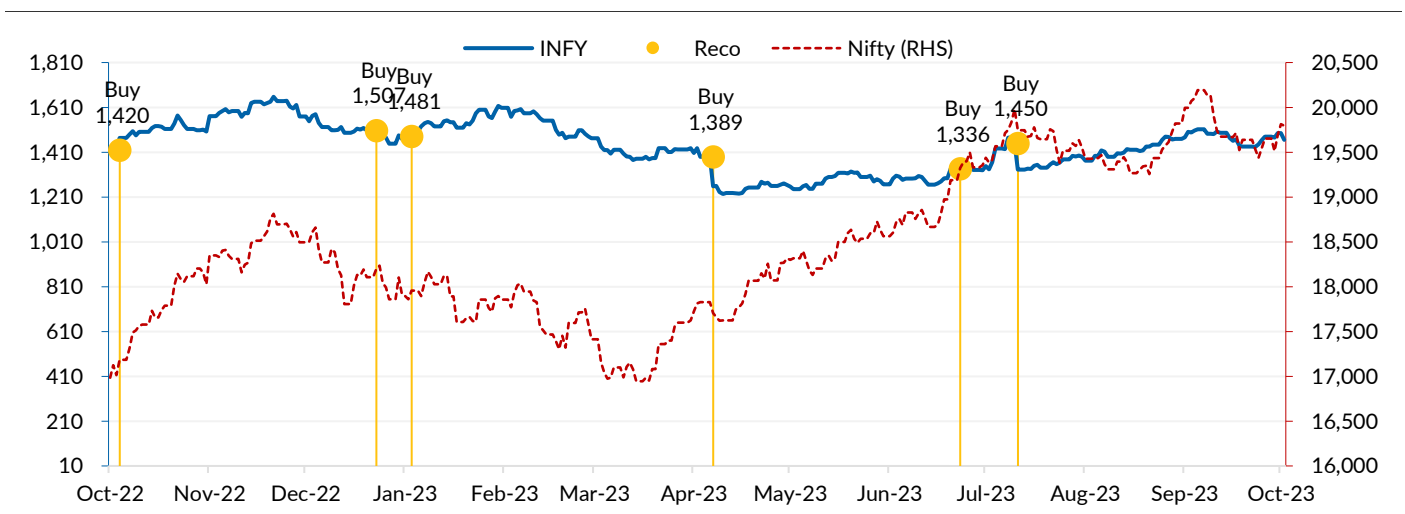
Source: Company, YES Sec

Exhibit 13: Dupont Analysis

Dupont Analysis	FY20	FY21	FY22	FY23	FY24E	FY25E
Net margin(%)	18.3	19.3	18.2	16.4	16.2	16.9
Asset turnover (x)	1.0	1.0	1.1	1.2	1.2	1.2
Leverage factor (x)	1.4	1.4	1.5	1.6	1.6	1.6
Return on Equity(%)	25.4	27.2	29.0	31.8	30.8	31.5

Source: Company, YES Sec

Recommendation Tracker



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Name of the Research Analyst : Piyush Pandey, Parth Ghiya

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YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.