

# Infosys Limited



## Infosys

Revenue growth remains modest; margins expected to stabilize

CMP INR 1621	Target INR 1,772	Potential Upside 9.3%	Market Cap (INR Mn) INR 67,47,380	Recommendation ACCUMULATE	Sector Internet Software & Services
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### Synopsis:

- Infosys Ltd (INFY) generated revenue of INR 3,88,210 Mn in Q3FY24, registering a growth of 1.3% on a YoY basis from INR 3,83,180 Mn and a decline of 0.4% on a QoQ basis from INR 3,89,940 Mn. In CC terms, the Company saw a 1% decline on YoY and QoQ basis.
- The EBIT for the quarter came in at INR 79,610 Mn, a decline of 3.4% on a YoY basis from INR 82,420 Mn and 3.8% from INR 82,740 Mn on a sequential basis. The operating margins for Q3FY24 was 20.5%, a contraction of 100 bps YoY and 71 bps QoQ.
- Net profit for the quarter stood at INR 61,130 Mn, a reduction of 7.2% YoY from INR 65,860 Mn and 1.6% QoQ from INR 62,150 Mn. The PAT margin stood at 15.7%, a decline of 144 bps YoY and 19 bps QoQ.
- Utilization improved to 82.7% due to decline in the number of employees by 1.9% to 3,22,000.

### MARKET DATA

Shares outs (Mn)	4,143.5
Mkt Cap (INR Mn)	67,02,973
52 Wk H/L (INR)	1,620/1,185
Volume Avg (3m K)	6,420
Face Value (INR)	5
Bloomberg Code	INFO IN

### KEY FINANCIALS

(INR Mn)	Q3FY24A	Q2FY24A	Q3FY23A	QoQ	YoY
USD Revenue	4,663	4,718	4,659	-1.2%	0.1%
Revenue	3,88,210	3,89,940	3,83,180	-0.4%	1.3%
EBIT	79,610	82,740	82,420	-3.8%	-3.4%
PAT	61,130	62,150	65,860	-1.6%	-7.2%
EBIT (%)	20.5%	21.2%	21.5%	-71 bps	-100 bps
NPM (%)	15.8%	15.9%	17.2%	-18 bps	-144 bps

Source: Company, Deven Choksey Research

### Revenue growth pressured due to business seasonality

Infosys recorded a revenue of INR 3,88,210 Mn, a growth of 1.3% YoY but a marginal decline of 0.4% QoQ. On a CC basis, revenue declined by 1.0% YoY and 1.0% QoQ. Revenues from North America declined by 4.9 % YoY CC, Europe increased by 5.0% YoY CC, Rest of the world increased by 7.8% YoY CC and India decreased by 1.0% YoY CC. The overall decline in revenue can be majorly attributed to the seasonality of the business. The Company's largest business vertical, Financial Services, saw a decline of 5.9% YoY CC while retail and communication saw a rise of 0.4% and a decline of 8.0% YoY CC. Clients continue to remain cautious on spending and are prioritizing cost optimization and vendor consolidation. Management has tightened their full-year guidance for FY24 to 1.5% to 2.0% (earlier 1.0% to 2.5%).

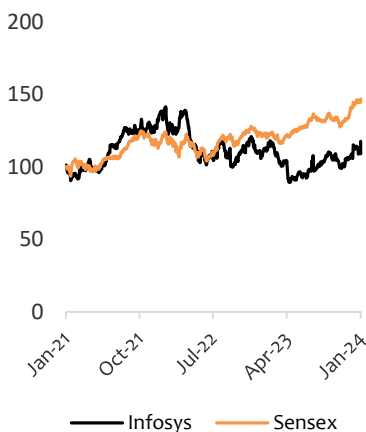
### Wage hikes impact margin but stabilization seen ahead

The operating margins for Q3FY24 stood at 20.5%, a decline of 71 bps QoQ and 100 bps YoY. This margin contraction was due to the wage hike that took effect from November 1<sup>st</sup> and the cybersecurity incident. This was partially offset by a depreciating rupee and cost optimization. For FY24E, management expects margin to remain stable in the range of 20-22%. The Company expects improvement in EBIT margin in the longer run as it performs cost optimization focusing on automation, portfolio optimization, spending cuts and premium offerings.

### Assessing opportunities in Gen AI, cloud, digital and other services

For Q3FY24, the deal wins for Infosys stood at USD 3.2 Bn, 71% of this are net new. This is a sharp decline compared to the deal wins worth USD 7.7 Bn in Q2FY24. Overall, for 9MQY24, the large deal value stands at USD 13.2 Bn, of which 55% in net new. This is the highest ever large deal value for first three quarters in a fiscal year for INFY. The Company also saw a loss of contract with a revenue potential of USD 1.5 Bn in the quarter. Given the top-line pressure in the core business, we think the Company is serious in assessing adjacent growth opportunities. In the Gen AI segment, the Company has developed use case and benefit scenarios for client analytics, process optimization, sales, marketing, knowledge analysis, software development, self-service, and personalization. Infosys is gearing up for growth from this space and has trained more than 100,000 employees in Gen AI segment. The Company also announced the acquisition of InSemi, a semiconductor design and embedded services provider to strengthen its Engineering R&D service capabilities.

### SHARE PRICE PERFORMANCE



### MARKET INFO

SENSEX	73,128
NIFTY	22,032

### SHARE HOLDING PATTERN (%)

Particulars	Sept-23	Jun-23	Mar-23
Promoters	14.9	14.9	15.1
FIIIs	33.6	33.4	35.1
DIIIs	32.2	32.4	33.9
Others	19.3	19.3	15.6
Total	100	100	100

7.0%

Revenue CAGR between FY23 and FY25E

8.2%

PAT CAGR between FY23 and FY25E

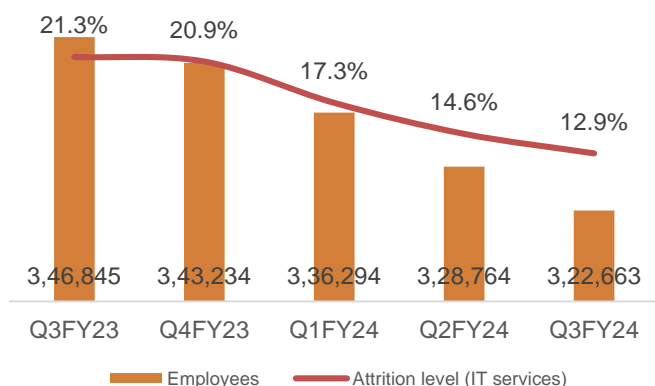
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**Key Concall Highlights:** (i) The revenue for Q3FY24 declined by 1% YoY and QoQ CC. This result was impacted by furloughs and one-offs. (ii) The Company is observing a decline in traction for digital transformation programs and higher activity for costs and efficiency programs and increasing interest in Gen AI programs. (iii) Large deal wins stood at USD 3.2 Bn of which 71% was net new. This included one mega deal. (iv) The large deal value for 9MFY24 stood at USD 13.2 bn, 55% of this is net new. This is the highest ever large deal value for the first three quarters in a fiscal year for the company. (v) 23 large deals were signed in Q3FY24. 8 were signed in manufacturing, 6 in FS, 4 in EURS, 2 in retail and communication and 1 in others (vi) Region-wise, 10 deals were signed in America, 9 in Europe, 3 in ROW and 1 in India. (vii) The Company is observing strong interest in Gen AI programs. (viii) The Company has 100,000 employees trained in Gen AI areas. (ix) The margins experienced headwinds of 130 bps, 70 bps were from wages hikes in November, 60 bps were from the McCamish cyber incident which impacted revenue and costs. This was partially offset by tailwinds of 60 bps from cost optimization including high utilization and low SG&A, and currency movements. (x) Headcount at the end of the quarter stood at 3,22,000, a decline of 1.9%. (xi) Utilization saw an improvement to 82.9%. (xii) On-site mix improved by 20 bps QoQ to 24.4%. (xiii) LTM attrition for Q3FY24 declined by 1.7% to 12.9%. (xiv) Financial services sector, the largest source of revenue for the company remains impacted by inflation, uncertain macro-economic conditions and delayed decision making by clients. (xv) Due to elevated cost pressures, clients are cautious on spending.

### Valuation and view:

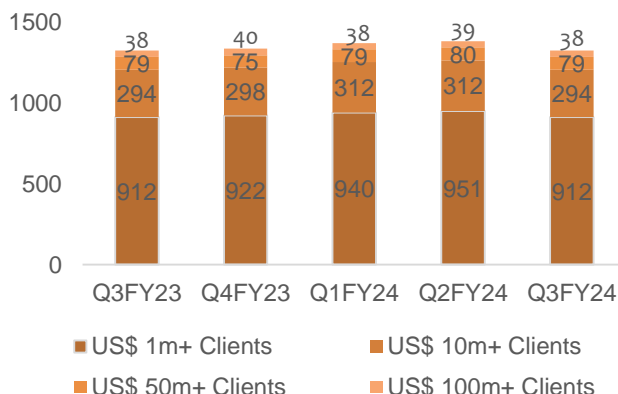
INFY is currently trading at 26.9x/23.7x on FY24E/FY25E earnings. Despite the ongoing macro-economic headwinds, INFY has managed to execute better than our expectations, which should help the Company in its growth beyond FY24E. INFY's margin improvement plan and focus on Gen AI, cloud and other services seems promising and could help generate superior returns. We also introduce FY26E EPS in this report, which we estimate at INR 74.7 per share. We believe concerns over weak prospects for IT companies such as INFY have abated post the recent Q3FY24 results. Accordingly, we raise our target price to INR 1,772, applying a P/E multiple of 23.7x to our FY26E EPS, which implies a 9.3% upside over the CMP. Accordingly, we reiterate our ACCUMULATE rating on the stock.

Total Employee Base & Attrition



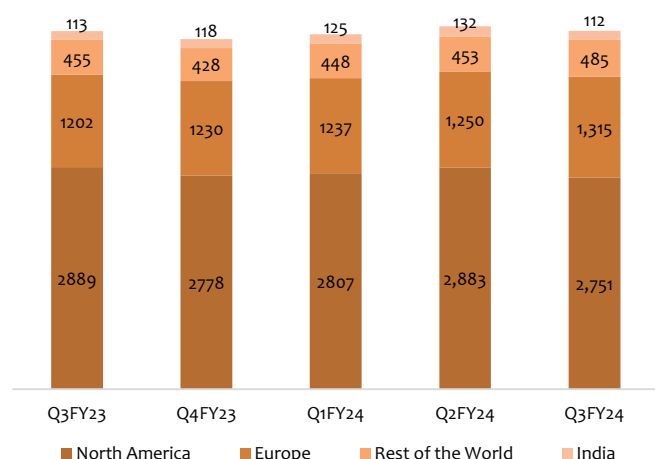
Source: Company, KRChoksey Research

Client Contribution



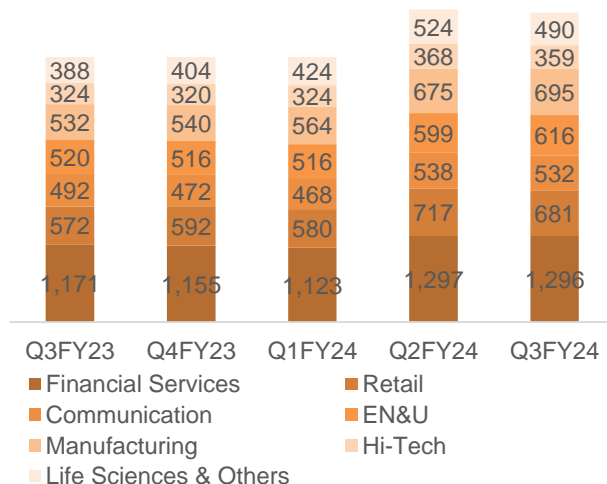
Source: Company, KRChoksey Research

Revenue by Geography (USD Mn)



Source: Company, KRChoksey Research

Vertical-wise Revenue Contribution (USD Mn)



Source: Company, KRChoksey Research

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### KEY FINANCIALS

#### Exhibit 1: Balance Sheet

Particulars (INR Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Property, Plant and Equipment	1,25,600	1,30,750	1,33,460	1,39,109	1,47,561	1,59,147
Right-of-use Asset	47,940	48,230	68,820	68,820	68,820	68,820
CWIP	9,220	4,160	2,880	2,880	2,880	2,880
Goodwill	60,790	61,950	72,480	72,480	72,480	72,480
Intangible Assets	20,720	17,070	17,490	17,490	17,490	17,490
Deferred Tax Assets	10,980	12,120	12,450	12,450	12,450	12,450
Income Tax Assets	58,110	60,980	64,530	64,530	64,530	64,530
Other non current assets	24,540	35,230	51,550	51,550	51,550	51,550
Investments	1,18,630	1,36,510	1,25,690	1,25,690	1,25,690	1,25,690
<b>Total non current assets</b>	<b>4,76,530</b>	<b>5,07,000</b>	<b>5,49,350</b>	<b>5,54,999</b>	<b>5,63,451</b>	<b>5,75,037</b>
Cash & equivalent	2,47,140	1,74,720	1,21,730	1,55,225	1,84,291	2,18,511
Available for sale financial assets	23,420	66,730	69,090	69,090	69,090	69,090
Sundry debtors	1,92,940	2,26,980	2,54,240	2,75,907	2,99,395	3,26,177
Unbilled revenue	75,270	1,15,680	1,52,890	1,52,810	1,65,819	1,80,652
Derivative financial instruments	1,880	1,430	1,010	1,010	1,010	1,010
Prepayments and other current assets	66,680	86,310	1,09,850	1,09,850	1,09,850	1,09,850
<b>Total current assets</b>	<b>6,07,330</b>	<b>6,71,850</b>	<b>7,08,810</b>	<b>7,63,891</b>	<b>8,29,456</b>	<b>9,05,290</b>
<b>Total Assets</b>	<b>10,83,860</b>	<b>11,78,850</b>	<b>12,58,160</b>	<b>13,18,890</b>	<b>13,92,906</b>	<b>14,80,328</b>
Equity Share Capital	21,240	20,980	20,690	20,690	20,690	20,690
Other Equity	7,42,270	7,32,520	7,33,380	7,73,354	8,19,729	8,70,526
Equity Attributable to Owners of the Company	7,63,510	7,53,500	7,54,070	7,94,044	8,40,419	8,91,216
Non controlling Interest	4,310	3,860	3,880	3,880	3,880	3,880
<b>Total Equity</b>	<b>7,67,820</b>	<b>7,57,360</b>	<b>7,57,950</b>	<b>7,97,924</b>	<b>8,44,299</b>	<b>8,95,096</b>
Deferred Income Tax Liabilities	8,750	11,560	12,200	12,200	12,200	12,200
Employee Benefit Obligations	15,140	920	830	830	830	830
Lease Liabilities	45,870	46,020	70,570	70,570	70,570	70,570
Other Liabilities	7,630	26,960	24,750	24,750	24,750	24,750
<b>Total non current liabilities</b>	<b>77,390</b>	<b>85,460</b>	<b>1,08,350</b>	<b>1,08,350</b>	<b>1,08,350</b>	<b>1,08,350</b>
Trade Payables	26,450	41,340	38,650	41,953	45,339	49,446
Unearned Revenue	40,500	63,240	71,630	75,615	82,052	89,392
Lease Liabilities	7,380	8,720	12,420	12,420	12,420	12,420
Other Liabilities	1,14,970	1,64,480	1,97,480	2,08,368	2,25,184	2,45,584
Income Tax Liabilities	21,460	26,070	33,840	35,693	35,521	38,959
Employee Benefit Obligations	20,200	21,820	23,990	23,990	23,990	23,990
Post-Sales Client Support and Warranties	7,130	9,750	13,070	13,797	14,972	16,311
<b>Total Current Liabilities</b>	<b>2,38,650</b>	<b>3,36,030</b>	<b>3,91,860</b>	<b>4,12,616</b>	<b>4,40,257</b>	<b>4,76,882</b>
<b>Total liabilities</b>	<b>10,83,860</b>	<b>11,78,850</b>	<b>12,58,160</b>	<b>13,18,890</b>	<b>13,92,906</b>	<b>14,80,328</b>

Source: Company, Devan Choksey Research

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### KEY FINANCIALS

#### Exhibit 2: Profit & Loss Statement

Particulars (INR Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>10,04,720</b>	<b>12,16,410</b>	<b>14,67,670</b>	<b>15,49,321</b>	<b>16,81,220</b>	<b>18,31,609</b>
Employee Cost	5,55,410	6,39,860	7,83,580	8,32,917	8,88,298	9,83,068
SG&A and Other Cost	1,70,420	2,61,630	3,32,780	3,44,995	3,84,672	4,05,225
<b>EBITDA</b>	<b>2,78,890</b>	<b>3,14,920</b>	<b>3,51,310</b>	<b>3,71,410</b>	<b>4,08,250</b>	<b>4,43,317</b>
Depreciation	32,670	34,770	42,250	47,028	48,710	50,688
<b>EBIT</b>	<b>2,46,220</b>	<b>2,80,150</b>	<b>3,09,060</b>	<b>3,24,382</b>	<b>3,59,540</b>	<b>3,92,629</b>
Other income, net	22,010	22,950	27,000	27,710	33,138	37,493
Finance costs	1,950	2,000	2,840	4,900	5,809	6,224
<b>Pre-tax Income</b>	<b>2,66,280</b>	<b>3,01,100</b>	<b>3,33,220</b>	<b>3,47,192</b>	<b>3,86,868</b>	<b>4,23,897</b>
Income tax expense	72,050	79,640	92,140	98,980	1,04,454	1,14,564
<b>Net profit Before EI &amp; MI</b>	<b>1,94,230</b>	<b>2,21,460</b>	<b>2,41,080</b>	<b>2,48,212</b>	<b>2,82,414</b>	<b>3,09,333</b>
Minority Interest	-720	-360	-130	-170	-308	-339
<b>Net profit After MI</b>	<b>1,93,510</b>	<b>2,21,100</b>	<b>2,40,950</b>	<b>2,48,042</b>	<b>2,82,106</b>	<b>3,08,994</b>
Diluted EPS (INR)	46	52	57	60	70	77
Shares in Mn	4,251	4,219	4,192	4,139	4,139	4,139

Source: Company, KRChoksey Research

#### Exhibit 3: Free Cash Flow Analysis

Particulars (INR Mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Cash Generated From Operations	2,32,240	2,38,850	2,24,670	3,93,879	4,28,596	4,69,531
Net Cash Flow from/(used in) Investing Activities	-74,560	-64,160	-12,090	-52,677	-57,161	-62,275
Net Cash Flow from Financing Activities	-97,860	-2,46,420	-2,66,950	-3,07,335	-3,41,423	-3,74,119
Net Inc/Dec in cash equivalents	59,820	-71,730	-54,370	33,867	30,011	33,137
Closing Balance Cash and Cash Equivalents	2,47,140	1,74,720	1,21,730	1,55,597	1,85,608	2,18,745

Source: Company, Deven Choksey Research

#### Exhibit 4: Ratio Analysis

Key Ratio	FY21	FY22	FY23	FY24E	FY25E	FY26E
EBIT Margin (%)	24.5%	23.0%	21.1%	20.9%	21.4%	21.4%
Tax rate (%)	27.1%	26.4%	27.7%	28.5%	27.0%	27.0%
Net Profit Margin (%)	19.3%	18.2%	16.4%	16.0%	16.8%	16.9%
RoE (%)	27.3%	29.1%	32.0%	32.1%	34.6%	35.8%
RoCE (%)	25.3%	27.2%	29.7%	30.0%	32.2%	33.2%
Current Ratio	2.5	2.0	1.8	1.8	1.9	1.9
EPS (INR per share)	45.5	52.4	57.5	59.9	68.2	74.7

Source: Company, Deven Choksey Research



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Infosys				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP(INR)	Recommendation	Our Rating	Upside
17-Jan-24	1,631	1,772	ACCUMULATE	Buy	More than 15%
09-Nov-23	1,389	1,508	ACCUMULATE	Accumulate	5% – 15%
21-July-23	1,337	1,458	ACCUMULATE	Hold	0 – 5%
17-April-23	1,383	1,645	BUY	Reduce	-5% – 0
13-Jan-23	1,504	1,805	BUY	Sell	Less than – 5%

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