

April 19, 2024

Q4FY24 Result Update

Key Financials - Consolidated

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. bn)	1,468	1,537	1,562	1,671
EBITDA (Rs. bn)	351	364	375	409
Margin (%)	23.9	23.7	24.0	24.5
PAT (Rs. bn)	241	243	249	271
EPS (Rs.)	57.6	58.6	60.2	65.6
Gr. (%)	9.7	1.7	2.7	8.9
DPS (Rs.)	55.7	46.0	51.1	55.6
Yield (%)	3.9	3.2	3.6	3.9
RoE (%)	32.0	29.7	28.3	30.7
RoCE (%)	29.7	27.7	26.6	28.8
EV/Sales (x)	3.9	3.6	3.5	3.3
EV/EBITDA (x)	16.3	15.4	14.7	13.4
PE (x)	24.6	24.2	23.6	21.6
P/BV (x)	7.9	6.7	6.7	6.6

Key Data

INFY.BO | INFO IN

52-W High / Low	Rs.1,733 / Rs.1,215
Sensex / Nifty	72,489 / 21,996
Market Cap	Rs.5,891bn/ \$ 70,516m
Shares Outstanding	4,151m
3M Avg. Daily Value	Rs.11050.12m

Shareholding Pattern (%)

Promoter's	15.08
Foreign	33.69
Domestic Institution	35.76
Public & Others	15.43
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(11.4)	(1.5)	12.7
Relative	(11.3)	(9.7)	(6.9)

Pritesh Thakkar

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Infosys (INFO IN)

Rating: HOLD | CMP: Rs1,419 | TP: Rs1,375

Chasing high tide, focused on execution

Quick Pointers:

- Pain continues across verticals and geographies, large deal TCV is the only silver line
- Cut-down in discretionary spends continues, while large deal re-scoping created a near-term drag

INFY reported revenue of USD4.6b, down 2.2% QoQ in CC and down 2.1% in reported terms, below consensus of 0.6% QoQ decline. With 4Q exit FY24 growth translates to 1.4% CC YoY, tad below the lower-end of the guidance band (1.5-2% YoY). The sequential decline was led by re-scoping of large deal within Financial Service vertical that created an impact of 100bps QoQ. Even if we eliminate the one-off impact, the weakness was visible across key verticals and geographies. Despite the softness in revenue growth, deal TCV was attractive at USD4.5b, which translates to a full year TCV of USD17.7b (1.0x).

The management indicated that it hasn't witnessed any meaningful change in the spending behavior within its client portfolio. The enterprise clients continued to reprioritize spends on critical business aspects to drive cost optimization through AI and Automation. While discretionary spends, continue to get scrutinized even more, leading to a deferral in project closures and execution challenges. The weakness in execution is evident through the slower pace of ramp up on the multiple mega deals awarded in FY24. Despite recording the highest-ever deal TCV in FY24, the company has given out a muted revenue guidance to the tune of 1-3% YoY CC. We believe, the conversion challenges continue to persist in FY25 on account of slowdown in dictionary spends and delay in decision-making, which might lead to further pausing or deferring programs that are non-critical to business enterprises.

Although, Q4 had witnessed a dip in margin (100 bps impact attributed to large-deal re-scoping), the management is flexing on multiple levers to improve margins: (1) improve utilization (2) optimize subcon and rationalize pyramid (3) improve offshoring and near-shoring. Despite anticipating muted revenue growth in FY25, the management was optimistic to drive margins to an upwards trajectory and has maintained its guidance to the earlier band of 20-22%.

Valuations and outlook: We believe the company's meaningful dependency on discretionary spends is leading to execution challenges and affecting its near-term growth. The project re-scoping and negotiations have again created a knee-jerk reaction to its executions and deliverables. We believe the current macro environment is not favoring its service mix, leading to create near-term leakages, otherwise the long-term story remains intact. We are baking in revenue growth of 2% and 7% YoY CC with margin improvement of 30bps and 50bps for FY25e and FY26e, respectively. We estimate revenues/earnings CAGR of 4.3%/5.8% over FY24-FY26e. The stock is currently trading at 22x FY26e, we are assigning P/E of 21x to FY26e with a target price of INR 1,375. With that I assume coverage on Infosys with a "HOLD" rating.

Weak performance, discouraging revenue outlook

- USD rev of \$4.56bn, -2.2% QoQ in CC, below consensus of -0.6% QoQ. Reported USD growth was -2.1% QoQ
- The decline in growth was led by Fin Services (-7.1% QoQ), Retail (-4.1% QoQ) and MFG (-3.4% QoQ, Communications and Hi-Tech were up 5.6% and 10.6% QoQ, respectively.
- **The company has given out a muted FY25 revenue guidance band of 1-3% CC YoY, while the consensus are at USD 19.8b (~6.9% YoY). Margin guidance intact to the tune of 20-22%**
- EBIT margin of 20.1%, down 40bp QoQ and 60bp below consensus
- **Net headcount declined again by 5.4k (vs 6.1k QoQ decline in Q3), which is the fifth-straight quarter of decline reported by INFY**, Utilization up 80bp QoQ (ex trainees), Attrition (LTM) down 30bps QoQ to 12.6%
- **Large deal TCV of \$4.45bn vs \$3.24bn reported in Q3 with book to bill of 1.0x, that translated to full year FY24 TCV to \$17.66 vs \$9.8bn in FY23**
- Adj Net profit of INR60.0b, down 1.8% QoQ. Reported PAT at INR80b, led by Tax reversal of INR19.7b
- Board has recommended final dividend of Rs20/share and special dividend of Rs8/share
- The company has made an acquisition of In-Tech (within ER&D space) for Eur450m, with an EV/sales of 2.65

Concall Highlights

Demand Outlook

- Revenue growth and margins had an impact of 100 bps each, which was led by project re-scoping and re-negotiation of one of the large deals within Financial Service. Post the re-renegotiation activities, the company get to work on the 85% of the scope.
- The BFSI growth was majorly impacted due to project re-scoping, while macro challenges and higher concentration of discretionary within BFS has led to meaningful decline within the space. Additionally, the softness within mortgage business also contributed to this weakness, it expects FY25 growth to be higher than that of FY24
- Manufacturing sees healthy growth within the space. The traction around engineering, IoT, supply chain, and digital transformation remained strong. It sees healthy deal pipeline within the space
- At the onset of macro uncertainty, the clients continue to focus on cost savings and efficiency-driven deals with the incremental usage of AI and automation. Additionally, the client cautiousness is leading to delay in deal closures and slower ramp ups with increase participation on vendor consolidation activities
- The revenue guidance of 1-3% YoY CC does not include the revenue contribution from acquisition of In-Tech (Germany based) within the R&D space. The deal is expected to close by H1FY25
- The client sentiment remains unchanged on resuming discretionary related work. And the restriction is not limited to any specific industry, instead the spending cut has been broad-based.

Margin Outlook

- In Q4, the op. margin had an impact of 180 bps, 100 bps due to project re-scoping, another 80 bps due to compensation revision and visa costs, which partly got offset by ~50 bps improvement in productivity and another ~60 bps due to lower provision
- The 100 bps expansion in margin was primarily led by 120 bps improvement in subcontractor expenses, aided by 70 bps improvement in productivity and better utilization, which partly got offset by 90 bps increase in third-party cost
- Given the supply-demand mismatch easing out, the management expects on an average 4-7% wage revision in 1QFY25, while top performers or niche skills are expected to reward even higher with double-digit growth

Exhibit 1: 4QFY24 Results: USD revenues decline of 2.1%, EBIT margin reduced by 40bps QoQ

Consolidated (INR b)	4QFY24	3QFY24	QoQ gr. (%)	4QFY23	YoY gr. (%)	FY24	FY23	YoY gr. (%)
IT Services Revenue (USD m)	4,564	4,663	-2.1	4,554	0.2	18,562	18,212	1.9
Overall Revenue (INR b)	379	388	-2.3	374	1.3	1,537	1,468	4.7
Gross Profit	112	116	-3.4	114	-2.2	463	444	4.1
Gross Margin (%)	29.5	29.8	-30bps	30.5	-110bps	30.1	30.3	-20bps
SG&A and Other Costs	23.9	24.3	-1.7	24.3	-1.8	98.3	92.8	5.9
% of Rev	6.3	6.3	0bps	6.5	-20bps	6.4	6.3	10bps
EBITDA	88	91	-3.8	90	-2.3	364	351	3.7
EBIT Margin (%)	23.2	23.5	-40bps	24.0	-90bps	23.7	23.9	-20bps
Depreciation	12	12	-1	11	4.0	47	42	10.7
% of Rev	3.1	3.0	0bps	3.0	10bps	3.0	2.9	20bps
EBIT	76	80	-4.3	79	-3.2	317	309	2.7
EBIT Margin (%)	20.1	20.5	-40bps	21.0	-90bps	20.7	21.1	-40bps
Other Income (net)	6	7	-1.5	6	10.0	23	24	-6.0
PBT	83	86	-4.1	85	-2.3	340	333	2.1
Tax	23	25	-9.6	23	-2.9	97	92	5.7
Effective tax rate (%)	27.4	29.1	-170bps	27.5	-20bps	28.6	27.7	100bps
Adjusted PAT	60	61	-1.8	61	-2.1	243	241	0.7
Exceptional items	20	0.0	NA	0.0	NA	19.7	0.0	NA
Reported PAT	80	61	30.5	61	30.0	262	241	8.9
Reported EPS (INR)	19	15	30.4	15	30.2	63	58	10.0

Source: Company, PL

Exhibit 2: Regional growth (%)

Geographies	Contribution to revenue (%)	QoQ gr. (%)
North America	59.6	-1.1
Europe	28.6	-0.7
India	2.2	-10.3
ROW	9.6	-9.7

Source: Company, PL

Exhibit 3: Vertical Growth (%)

Verticals	Contribution to revenue (%)	QoQ gr. (%)
Financial Services	26.4	-7.1
Retail	14.3	-4.1
Communications	12.3	5.6
Energy, Utilities, Resources	13.4	-0.6
Manufacturing	14.7	-3.4
Hi Tech	8.7	10.6
Life Sciences	7.3	-6.0
Others	2.9	1.4

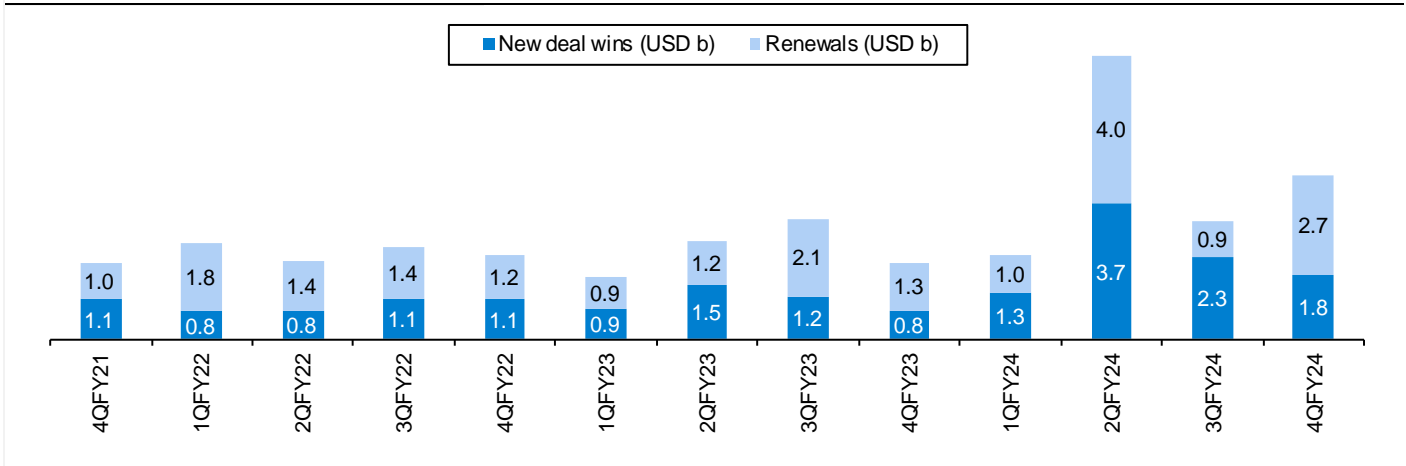
Source: Company, PL

Exhibit 4: Key Performance Indicator

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	FY23	FY24
Revenue (QoQ CC %)	5.5	4.0	2.4	-3.2	1.0	2.3	-1.0	-2.2	15.4	1.4
Margins										
Gross Margin	29.3	30.5	30.7	30.5	30.5	30.7	29.8	29.5	30.3	30.1
EBIT Margin	20.1	21.5	21.5	21.0	20.8	21.2	20.5	20.1	21.1	20.7
Net Margin	15.5	16.5	17.2	16.4	15.7	15.9	15.7	15.8	16.4	15.8
Operating metrics										
Headcount	335	345	347	343	336	329	323	317	343	317
Voluntary Attrition (%)	28.4	27.1	24.3	20.9	17.3	14.6	12.9	12.6	20.9	12.6
Deal Win TCV (USD b)	1.7	2.7	3.3	2.1	2.3	7.7	3.2	4.5	9.8	17.7

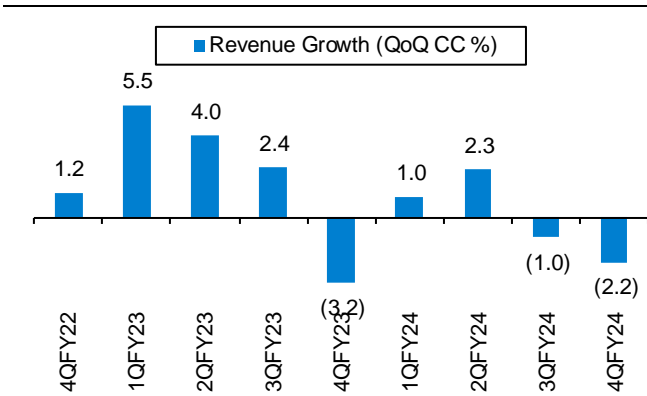
Source: Company, PL

Exhibit 5: TCV Wins bounced back in 4Q



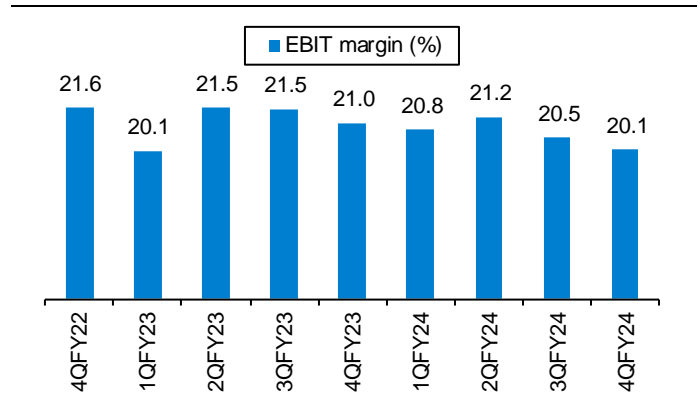
Source: Company, PL

Exhibit 6: Revenue declined 2.2% QoQ CC



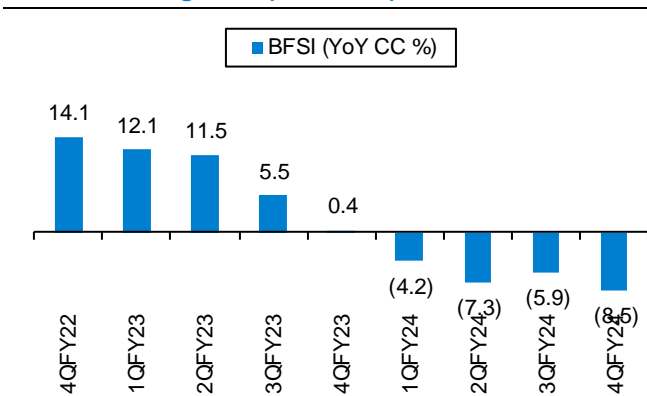
Source: Company, PL

Exhibit 7: EBIT margin (%) remains under pressure at 20.1%



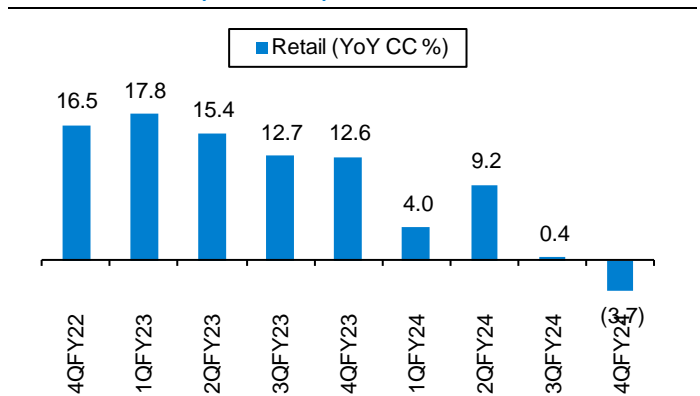
Source: Company, PL

Exhibit 8: BFSI growth (YoY CC %)



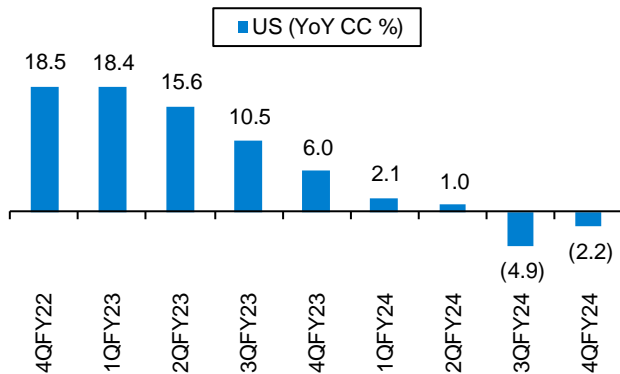
Source: Company, PL

Exhibit 9: Retail (YoY CC %)



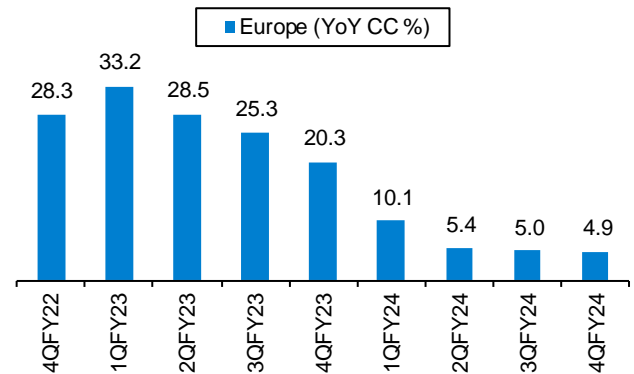
Source: Company, PL

Exhibit 10: US growth (YoY CC %)



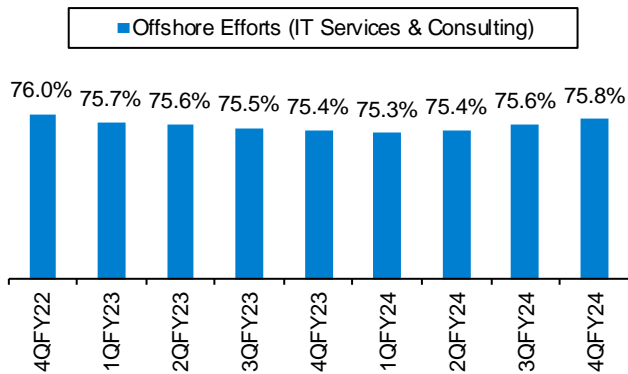
Source: Company, PL

Exhibit 11: Europe (YoY CC %)



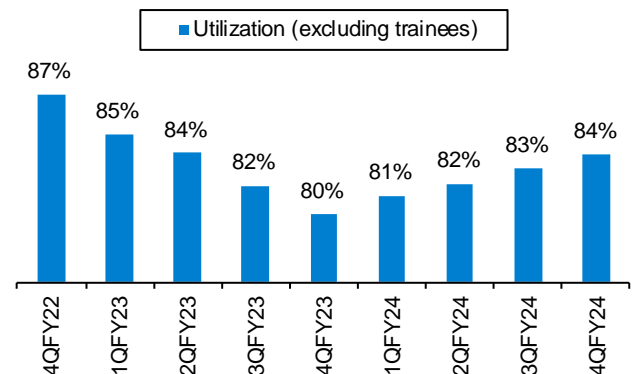
Source: Company, PL

Exhibit 12: Offshoring % inched up by 20bp



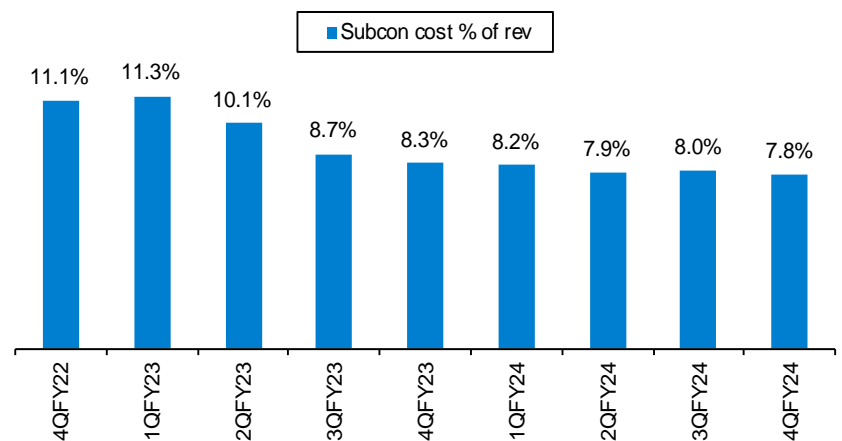
Source: PL, Company

Exhibit 13: Utilization improved to 84% in Q4



Source: PL, Company

Exhibit 14: Subcon % of Rev



Source: Company, PL

Exhibit 15: Operating Metrics

Consolidated (INR b)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Effort (IT Services and Consulting)											
Onsite	24%	24%	24%	24%	24%	25%	25%	25%	25%	24%	24%
Offshore	76%	76%	76%	76%	76%	76%	75%	75%	75%	76%	76%
Utilization (IT Services and Consulting)											
Including trainees	84%	83%	80%	78%	77%	77%	77%	79%	80%	82%	82%
Excluding trainees	89%	89%	87%	85%	84%	82%	80%	81%	82%	83%	84%
Employee Metrics											
Total Employees (Consolidated, in k)	280	292	314	335	345	347	343	336	329	323	317
S/W professional (k)	265	277	298	318	328	329	325	318	310	305	300
Support and sales (k)	15	15	16	17	17	18	18	19	18	18	17
Revenues by client geography											
North America	62%	62%	61%	62%	63%	62%	61%	61%	61%	59%	60%
Europe	25%	25%	25%	25%	25%	26%	27%	27%	27%	28%	29%
India	3%	3%	3%	3%	3%	2%	3%	3%	3%	2%	2%
ROW	11%	10%	10%	11%	10%	10%	9%	10%	10%	10%	10%
Revenues by Business segments											
Financial Services	32%	32%	31%	31%	31%	29%	29%	28%	28%	28%	26%
Retail	15%	15%	14%	15%	14%	14%	15%	15%	15%	15%	14%
Communications	12%	13%	13%	13%	12%	12%	12%	12%	11%	11%	12%
Energy, Utilities, Resources and Services	12%	12%	12%	12%	12%	13%	13%	13%	13%	13%	13%
Manufacturing	11%	11%	12%	12%	13%	13%	14%	14%	14%	15%	15%
Hi Tech	9%	8%	8%	8%	8%	8%	8%	8%	8%	8%	9%
Life Sciences	7%	8%	7%	7%	7%	7%	7%	7%	8%	8%	7%
Others	2%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Geography YoY % CC											
North America	23%	21%	19%	18%	16%	11%	6%	2%	1%	-5%	-2%
Europe	20%	27%	28%	33%	29%	25%	20%	10%	5%	5%	5%
India	4%	40%	30%	6%	36%	-5%	-7%	14%	3%	-1%	-15%
ROW	5%	7%	14%	18%	12%	12%	3%	-1%	4%	8%	5%
Business Segments YoY % CC											
Financial Services	21%	16%	14%	12%	12%	6%	0%	-4%	-7%	-6%	-9%
Retail	17%	20%	17%	18%	15%	13%	13%	4%	9%	0%	-4%
Communications	17%	22%	29%	30%	18%	13%	0%	-6%	-4%	-8%	5%
Energy, Utilities, Resources and Services	15%	14%	18%	25%	24%	26%	17%	9%	5%	0%	3%
Manufacturing	43%	48%	51%	55%	45%	37%	27%	21%	13%	11%	9%
Hi Tech	12%	19%	21%	16%	10%	10%	4%	2%	-1%	-5%	10%
Life Sciences	26%	29%	16%	16%	10%	5%	16%	14%	18%	6%	1%
Others	-10%	36%	7%	15%	57%	8%	13%	33%	15%	7%	1%
DSO	66	71	67	63	65	68	62	63	67	72	71
Large deal TCV (USD m)	2,152	2,530	2,300	1,691	2,744	3,300	2,076	2,285	7,684	3,241	4,454
Client (% of revenues)											
Top 10 client	19.4%	20.2%	19.4%	20.8%	20.2%	20.5%	20.1%	20.4%	19.9%	20.0%	20.4%
Top 25 client	35.4%	35.9%	35.4%	36.3%	35.3%	35.3%	34.7%	34.6%	34.1%	33.7%	34.3%
Number of active clients	1,714	1,738	1,741	1,778	1,779	1,850	1,872	1,883	1,884	1,872	1,882
New clients added in the period	117	111	110	106	103	134	115	99	100	88	98
Repeat business %	24%	24%	24%	24%	24%	25%	25%	25%	25%	24%	24%

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	1,468	1,537	1,562	1,671
YoY gr. (%)	20.7	4.7	1.6	7.0
Employee Cost	1,024	1,074	1,091	1,158
Gross Profit	444	463	471	513
Margin (%)	30.3	30.1	30.1	30.7
Employee Cost	-	-	-	-
Other Expenses	-	-	-	-
EBITDA	351	364	375	409
YoY gr. (%)	11.6	3.7	3.0	9.0
Margin (%)	23.9	23.7	24.0	24.5
Depreciation and Amortization	42	47	47	50
EBIT	309	317	328	359
Margin (%)	21.1	20.7	21.0	21.5
Net Interest	-	-	-	-
Other Income	24	23	20	23
Profit Before Tax	333	340	349	382
Margin (%)	22.7	22.1	22.3	22.9
Total Tax	92	97	99	111
Effective tax rate (%)	27.7	28.6	28.5	29.0
Profit after tax	241	243	249	271
Minority interest	0	0	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	241	243	249	271
YoY gr. (%)	9.0	0.7	2.8	8.9
Margin (%)	16.4	15.8	16.0	16.2
Extra Ord. Income / (Exp)	-	20	-	-
Reported PAT	241	262	249	271
YoY gr. (%)	9.0	8.9	(5.0)	8.9
Margin (%)	16.4	17.1	16.0	16.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	241	262	249	271
Equity Shares O/s (bn)	4	4	4	4
EPS (Rs)	57.6	58.6	60.2	65.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	421	419	441	465
Tangibles	374	371	394	418
Intangibles	47	48	48	48
Acc: Dep / Amortization	(197)	(216)	(263)	(313)
Tangibles	(167)	(182)	(229)	(279)
Intangibles	(29)	(34)	(34)	(34)
Net fixed assets	350	320	296	270
Tangibles	332	306	282	256
Intangibles	17	14	14	14
Capital Work In Progress	-	-	-	-
Goodwill	72	73	73	73
Non-Current Investments	-	-	-	-
Net Deferred tax assets	0	(13)	(14)	(16)
Other Non-Current Assets	114	86	84	87
Current Assets				
Investments	69	129	129	129
Inventories	-	-	-	-
Trade receivables	254	302	307	328
Cash & Bank Balance	122	148	236	282
Other Current Assets	264	315	250	234
Total Assets	1,258	1,378	1,379	1,406
Equity				
Equity Share Capital	21	21	21	21
Other Equity	733	860	862	864
Total Network	754	881	883	885
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	96	88	89	95
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	39	40	40	43
Other current liabilities	353	348	345	360
Total Equity & Liabilities	1,258	1,378	1,379	1,406

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	241	262	249	271
Add. Depreciation	42	47	47	50
Add. Interest	-	-	-	-
Less Financial Other Income	24	23	20	23
Add. Other	12	95	-	-
Op. profit before WC changes	295	405	296	321
Net Changes-WC	(65)	(144)	62	18
Direct tax	-	-	-	-
Net cash from Op. activities	230	261	359	339
Capital expenditures	(26)	(22)	(22)	(24)
Interest / Dividend Income	-	-	-	-
Others	8	(37)	-	-
Net Cash from Invt. activities	(18)	(59)	(22)	(24)
Issue of share cap. / premium	-	-	-	-
Debt changes	(115)	(20)	-	-
Dividend paid	(137)	(147)	(248)	(270)
Interest paid	-	-	-	-
Others	(15)	(7)	-	-
Net cash from Fin. activities	(267)	(175)	(248)	(270)
Net change in cash	(54)	27	89	46
Free Cash Flow	204	239	336	315

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
Per Share(Rs)				
EPS	57.6	58.6	60.2	65.6
CEPS	67.7	69.9	71.5	77.7
BVPS	180.4	212.9	213.3	213.7
FCF	48.9	57.7	81.2	76.2
DPS	55.7	46.0	51.1	55.6
Return Ratio(%)				
RoCE	29.7	27.7	26.6	28.8
ROIC	22.6	19.6	20.2	21.5
RoE	32.0	29.7	28.3	30.7
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.3)	(0.4)	(0.5)
Net Working Capital (Days)	54	62	62	62
Valuation(x)				
PER	24.6	24.2	23.6	21.6
P/B	7.9	6.7	6.7	6.6
P/CEPS	21.0	20.3	19.8	18.3
EV/EBITDA	16.3	15.4	14.7	13.4
EV/Sales	3.9	3.6	3.5	3.3
Dividend Yield (%)	3.9	3.2	3.6	3.9

Source: Company Data, PL Research

Quarterly Financials (Rs m)

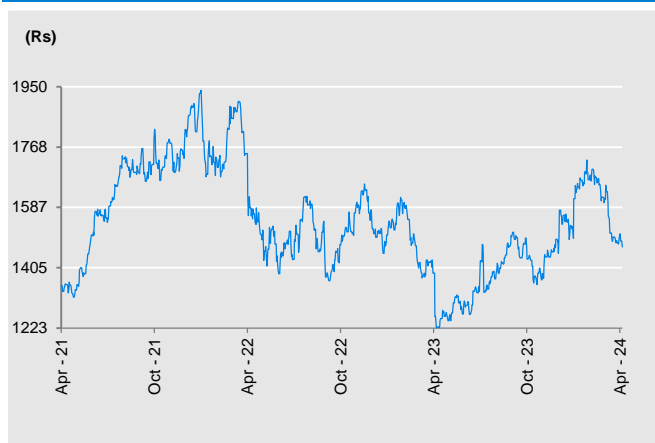
Y/e Mar	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Net Revenue	379	390	388	379
YoY gr. (%)	10.0	6.7	1.3	1.3
Raw Material Expenses	264	270	273	267
Gross Profit	116	120	116	112
Margin (%)	30.5	30.7	29.8	29.5
EBITDA	91	94	91	88
YoY gr. (%)	15.2	6.0	(2.5)	(2.3)
Margin (%)	23.9	24.2	23.5	23.2
Depreciation / Depletion	12	12	12	12
EBIT	79	83	80	76
Margin (%)	20.8	21.2	20.5	20.1
Net Interest	-	-	-	-
Other Income	5	5	7	6
Profit before Tax	84	88	86	83
Margin (%)	22.0	22.5	22.2	21.8
Total Tax	24	26	25	23
Effective tax rate (%)	28.9	29.1	29.1	27.4
Profit after Tax	59	62	61	60
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	59	62	61	60
YoY gr. (%)	10.8	3.1	(7.1)	(2.1)
Margin (%)	15.7	15.9	15.8	15.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	59	62	61	80
YoY gr. (%)	10.8	3.1	(7.1)	30.0
Margin (%)	15.7	15.9	15.8	21.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	59	62	61	80
Avg. Shares O/s (m)	4	4	4	4
EPS (Rs)	14.4	15.0	14.8	14.5

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
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Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Tata Consultancy Services	Accumulate	4,360	4,001

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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