



Q4FY24 Infosys Limited



Infosys Ltd.

Sustained revenue challenges and margin pressure

CMP INR 1,433	Target INR 1,531	Potential Upside 6.9%	Market Cap (INR Mn) INR 59,54,419	Recommendation ACCUMULATE	Sector Internet Software & Services
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Result of Q4FY24:

- Infosys announced relatively underwhelming Q4FY24 results, with revenue falling short of our expectations, while profits exceeded our forecasts largely on the back of substantial other income.
- Revenue of INR 3,79,230 Mn (+1.3% YoY) was led by growth in the Communication (+4.2% YoY), Energy, Utilities, Resources & Services (+1.5% YoY), and Hi-Tech (+8.7% YoY) segments, although it fell short of our estimates by 3.2%.
- EBIT of INR 76,210 Mn (+2.4% YoY) fell behind our estimates by 6.1% due to higher-than-expected cost of sales; EBIT margins contracted by 94 bps YoY.
- PAT jumped by 30.5% YoY to INR 79,750 Mn due to a significant increase in other income; PAT margins improved by 465 bps YoY.
- In Q4FY24, the attrition rate stood at 12.6%, exceeding our base case estimate of 11.2% by 140 bps.
- We apply a reduced multiple of 21.0x on FY26E EPS to reflect top-line weakness and margin pressure. We lower our Target Price (TP) to INR 1,531 per share, with an ACCUMULATE rating.

MARKET DATA

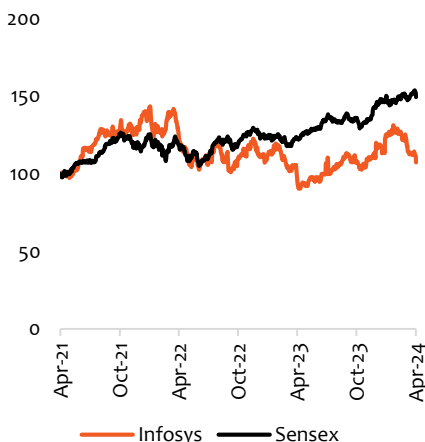
Shares outs (Mn)	4,139
Mkt Cap (INR Mn)	59,54,419
52 Wk H/L (INR)	1,733/1,215
Volume Avg (3m K)	7,162
Face Value (INR)	5
Bloomberg Code	INFO IN

KEY FINANCIALS

INR Millions	Q4FY24A	Q3FY24A	Q4FY23A	QoQ	YoY
USD Revenue	4,564	4,663	4,554	-2.1%	0.2%
Revenue	3,79,230	3,88,210	3,74,410	-2.3%	1.3%
EBIT	76,210	79,610	78,770	-4.3%	-3.2%
PAT	79,750	61,130	61,340	30.5%	30.0%
OPM (%)	20.1%	20.5%	21.0%	-41.1	-94.2
NPM(%)	21.0%	15.7%	16.4%	528.3	464.6

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Revenue dips sequentially, margin pressure persists

- Infosys reported a 2.3% QoQ decline in Q4FY24 top-line due to lower discretionary spending.
- Regional revenues varied, with North America experiencing a 2.2% YoY decline, Europe growing by 4.9% YoY, and the Rest of the World up by 4.5% YoY. However, revenues in India significantly declined by 15.4% YoY.
- Financial Services, Infosys' largest vertical, saw a notable decline of 8.5% YoY in cc terms, while Retail declined by 3.7% YoY, and Communications increased by 4.5% YoY.
- Operating margins decreased to 20.1%, down 41 bps QoQ and 94 bps YoY. QoQ margins were impacted by a one-time 100 bps from contract renegotiation, alongside ongoing wage revisions and increased visa expenses.
- Utilization rates (excluding trainees) improved by 80 bps QoQ to 83.5%, with potential further improvement to reach between 84.0%-85.0%. This indicates a focus on enhancing operational efficiency amidst fluctuating demand.

Modest FY25E growth guidance despite large deal TCVs and strategic acquisitions

- Infosys reported Total Contract Value (TCV) of USD 4.5 billion for Q4FY24, marking increases of 37.0% QoQ and 115.0% YoY, driven by strong capabilities in cost efficiencies, automation, and consolidation deals. The full-year FY24 large deal TCV reached USD 17.7 Bn, significantly surpassing the previous year's USD 9.8 Bn.
- In Q4FY24, Infosys signed 30 large deals, including two mega deals, bringing the annual total to 90 deals, emphasizing the company's market strength in securing substantial contracts.
- Despite robust TCV growth, Infosys has forecasted modest revenue growth of 1.0%-3.0% for FY25E, citing potential slowdowns in demand and cuts in discretionary spending which may impact growth prospects.
- Infosys acquired In-tech, a prominent Engineering R&D service provider focused on the German automotive sector for EUR 450 million, aiming to expand its digital transformation offerings in automotive, rail transport, and smart industry sectors.

MARKET INFO

SENSEX	73,648
NIFTY	22,336

SHARE HOLDING PATTERN (%)

Particulars (%)	Mar-24	Dec-23	Sep-23
Promoters	14.7	14.8	14.9
FIIIs	34.1	33.7	33.6
DIIIs	35.6	35.5	35.2
Others	15.6	16	16.3
Total	100	100	100

5.9%

Revenue CAGR between FY24 and FY26E

7.3%

Adj. PAT CAGR between FY24 and FY26E

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Key Concall Highlights:

- Infosys achieved USD 4.5 Bn in large deals for Q4FY24, maintaining an operating margin of 20.1%. In Q4FY24 YoY revenue growth was flat in CC and saw a QoQ decline of 2.2%.
- Infosys expanded Generative AI capabilities across multiple domains, leading to the generation of over 3 Mn lines of code.
- **Management guided revenue growth of 1.0% to 3.0% in CC terms and operating margin ranging from 20.0% to 22.0% for FY25E**, driven by leveraging large deals wins from FY24 and continuing emphasis on cost efficiency and digital transformation.
- The Company achieved a **record total contract value (TCV) of USD 17.7 Bn** in large deals for FY24, with 52.0% representing net new business.
- For FY25E, Infosys anticipates normal seasonal trends with a stronger performance expected in H1FY25E, specifically during the June and September quarters of FY25E.
- External factors such as delayed Fed rate cuts affecting discretionary spending and geopolitical instability in the Middle East are recognized as potential headwinds yet have not significantly shifted client sentiment towards digital and discretionary projects as per recent discussions.
- The Company estimates financial services to show better performance in the upcoming year, diverging from manufacturing where growth is expected but at a reduced rate compared to FY24.
- Infosys anticipates GenAI and automation advancements as key drivers for future margin enhancements.
- Infosys' BFSI segment experienced a decline of approximately 3.0%-4.0% even after adjusting for contract renegotiations, primarily due to a lower proportion of discretionary spending within this vertical and ongoing softness in mortgage-related services. However, management anticipates an improvement in the BFSI sector in FY25E.
- The Company reported an increase in **utilization rates, moving from 77.0% in FY23 to 80.7% for FY24 and Q4FY24 stood at 82.0%**. Management indicates comfort with utilization rates reaching up to 84.0%-85.0%, suggesting additional headroom for efficiency gains.
- Infosys' FY25E revenue guidance takes into account the USD 9.2 Bn of net new deals signed in FY24 along with additional anticipated signings. However, similar to Q3FY24 and Q4FY24, discretionary demand remains unchanged and is factored into the conservative guidance, suggesting no expected improvement in discretionary spending trends.
- Third-party costs related to service delivery have risen from 4.5% to 7.5% of revenue over the past three years, reflecting a strategic shift in business operations toward more comprehensive project delivery, including hardware and software costs.
- The board declared a dividend of INR 20/Share along with a special dividend of INR 8/share, maintaining an 85.0% payout ratio of free cash flow. This policy, aimed at returning approximately 85.0% of free cash flows cumulatively through a mix of semi-annual dividends and buybacks, is expected to **continue for the next five years**.

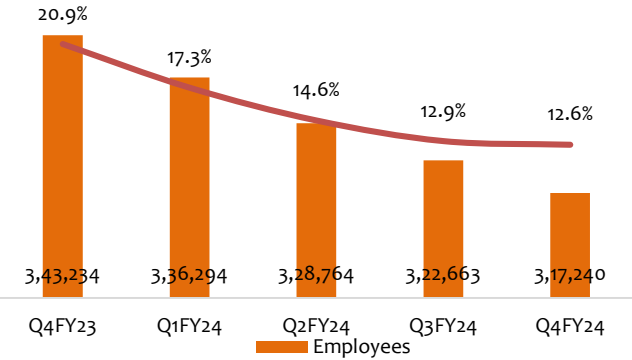
Source: Company, KRChoksey Research

Valuation and view:

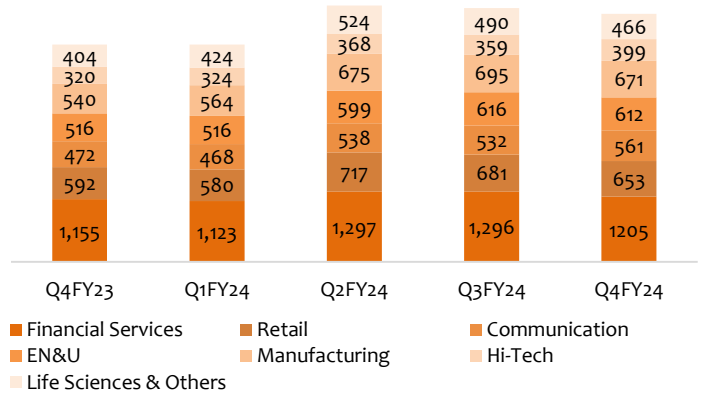
Infosys' Q4FY24 revenue and EBIT fell short of expectations with subdued growth but the Company may see improved growth in FY26E if discretionary spending recovers and recent deal wins influence the medium-term growth trajectory. **However, for now, we lower our FY26E EPS to INR 72.9 (previously: INR 77.0) to reflect the weak discretionary spending and the ongoing margin pressure.** The Company is currently trading at 21.4x on FY26E earnings. Apart from the pressure on discretionary spending, the BFSI segment (largest by revenue) as well as overall margins continue to decline, prompting us to lower the P/E multiple to 21.0x (previously: 23.7x) to our FY26E EPS. Accordingly, we reduce our Target Price to INR 1,531 per share (previously: INR 1,772), which implies an 6.9% upside over the CMP. We reiterate our "ACCUMULATE" rating on the shares of Infosys.

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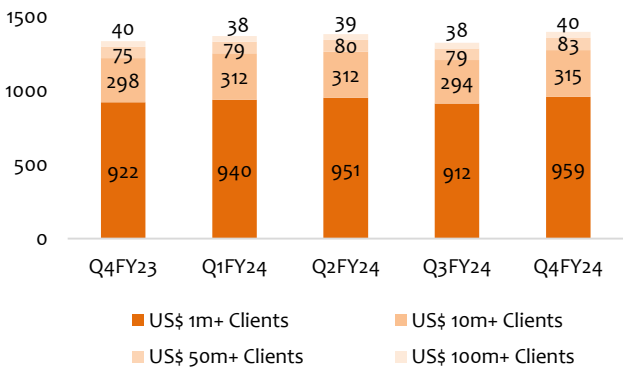
Reducing employee attrition rates indicates the possibility of margin enhancement



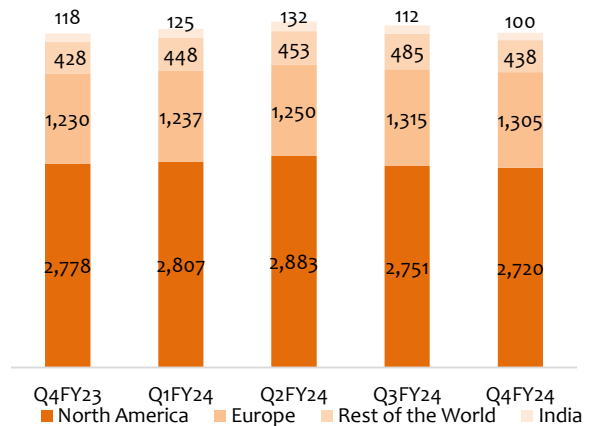
Financial services and retail starting to decline



Growth in client deals across various segments indicates diversified expansion



Revenue decreased sequentially across regions



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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY 22	FY 23	FY 24	FY 25E	FY 26E
Revenue	12,16,410	14,67,670	15,36,710	15,97,719	17,24,262
Employee Cost	6,39,860	7,83,580	8,26,210	8,62,758	9,48,323
SG&A and Other Cost	2,61,630	3,32,780	3,46,250	3,41,582	3,46,990
EBITDA	3,14,920	3,51,310	3,64,250	3,93,379	4,28,949
Depreciation	34,770	42,250	46,780	47,695	49,631
EBIT	2,80,150	3,09,060	3,17,470	3,45,684	3,79,318
Other income, net	22,950	27,000	47,110	38,206	41,168
Finance costs	2,000	2,840	4,690	6,687	6,687
Pre-tax Income	3,01,100	3,33,220	3,59,890	3,77,203	4,13,799
Income tax expense	79,640	92,140	97,410	1,03,731	1,11,726
Net profit Before EI & MI	2,21,460	2,41,080	2,62,480	2,73,472	3,02,073
Minority Interest, MI	-360	-130	-150	-264	-290
Net profit After MI	2,21,100	2,40,950	2,62,330	2,73,208	3,01,783
Diluted EPS (INR)	52.4	57.5	63.4	66.0	72.9
Shares in Million	4,219	4,192	4,139	4,139	4,139

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Millions	FY 22	FY 23	FY 24	FY 25E	FY 26E
Net Cash Generated From Operations	2,38,850	2,24,670	2,52,100	4,26,098	4,55,429
Net Cash Flow from/(used in) Investing Activities	-64,160	-12,090	-50,090	-38,542	-41,594
Net Cash Flow from Financing Activities	-2,46,420	-2,66,950	-1,75,040	-3,33,226	-3,65,223
Net Inc/Dec in cash equivalents	-71,730	-54,370	26,970	54,331	48,611
Opening Balance	2,47,140	1,74,720	1,21,730	1,47,860	2,02,191
Adjustments	-690	1,380	-840	0	0
Closing Balance Cash and Cash Equivalents	1,74,720	1,21,730	1,47,860	2,02,191	2,50,803

Source: Company, KRChoksey Research

Exhibit 3: Key Ratio

Key Ratio	FY 22	FY 23	FY 24	FY 25E	FY 26E
EBITDA Margin (%)	23.0%	21.1%	20.7%	21.6%	22.0%
Tax rate (%)	26.4%	27.7%	27.1%	27.5%	27.0%
Net Profit Margin (%)	18.2%	16.4%	17.1%	17.1%	17.5%
RoE (%)	29.1%	32.0%	32.1%	30.3%	31.8%
RoCE (%)	27.2%	29.7%	28.3%	27.8%	29.2%
Current Ratio (x)	2.0	1.8	2.3	2.4	2.4
EPS (INR)	52.4	57.5	63.4	66.0	72.9

Source: Company, KRChoksey Research

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Exhibit 4: Balance Sheet

INR Millions	FY 22	FY 23	FY 24	FY 25E	FY 26E
Property, Plant and Equipment	1,30,750	1,33,460	1,23,700	1,14,547	1,06,510
Right-of-use Asset	48,230	68,820	65,520	65,520	65,520
CWIP	4,160	2,880	2,930	2,930	2,930
Goodwill	61,950	72,480	73,030	73,030	73,030
Intangible Assets	17,070	17,490	13,970	13,970	13,970
Deferred Tax Assets	12,120	12,450	4,540	4,540	4,540
Income Tax Assets	60,980	64,530	30,450	30,450	30,450
Other non-current assets	35,230	51,550	52,600	52,600	52,600
Investments	1,36,510	1,25,690	1,17,080	1,17,080	1,17,080
Total non-current assets	5,07,000	5,49,350	4,83,820	4,74,667	4,66,630
Cash & equivalent	2,47,140	1,74,720	1,21,730	1,47,860	2,02,191
Available for sale financial assets	23,420	66,730	69,090	1,29,150	1,29,150
Sundry debtors	1,92,940	2,26,980	2,54,240	3,01,930	2,84,525
Unbilled revenue	75,270	1,15,680	1,52,890	1,27,680	1,57,583
Derivative financial instruments	1,880	1,430	1,010	1,010	1,010
Prepayments and other current assets	66,680	86,310	1,09,850	1,86,690	1,86,690
Total current assets	6,07,330	6,71,850	7,08,810	8,94,320	9,61,150
Total Assets	10,83,860	11,78,850	12,58,160	13,78,140	14,35,817
Equity Share Capital	21,240	20,980	20,690	20,710	20,710
Other Equity	7,42,270	7,32,520	7,33,380	8,60,450	9,04,163
Equity Attributable to Owners of the Company	7,63,510	7,53,500	7,54,070	8,81,160	9,24,873
Non-controlling Interest	4,310	3,860	3,880	3,450	3,450
Total Equity	7,67,820	7,57,360	7,57,950	8,84,610	9,28,323
Deferred Income Tax Liabilities	8,750	11,560	12,200	17,940	17,940
Employee Benefit Obligations	15,140	920	830	0	0
Lease Liabilities	45,870	46,020	70,570	64,000	64,000
Other Liabilities	7,630	26,960	24,750	23,650	23,650
Total non-current liabilities	77,390	85,460	1,08,350	1,05,590	1,05,590
Trade Payables	26,450	41,340	38,650	39,650	42,894
Derivative Financial Instruments	560	610	780	0	0
Unearned Revenue	40,500	63,240	71,630	73,410	76,324
Lease Liabilities	7,380	8,720	12,420	19,590	19,590
Other Liabilities	1,14,970	1,64,480	1,97,480	1,75,260	1,80,026
Income Tax Liabilities	21,460	26,070	33,840	35,850	38,176
Employee Benefit Obligations	20,200	21,820	23,990	26,220	26,220
Post-Sales Client Support and Warranties	7,130	9,750	13,070	17,960	18,673
Total Current Liabilities	2,38,650	3,36,030	3,91,860	3,87,940	4,01,904
Total liabilities	10,83,860	11,78,850	12,58,160	13,78,140	14,35,817

Source: Company, KRChoksey Research

Infosys Ltd.

Infosys Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
22-April-24	1,433	1,531	ACCUMULATE	Buy	More than 15%
12-Jan-24	1,613	1,772	ACCUMULATE	Accumulate	5% – 15%
09-Nov-23	1,389	1,508	ACCUMULATE	Hold	0 – 5%
21-July-23	1,337	1,458	ACCUMULATE	Reduce	-5% – 0
17-April-23	1,383	1,645	BUY	Sell	Less than – 5%
13-Jan-23	1,504	1,805	BUY		

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