

Retail Equity Research

Infosys Limited

IT Services

BSE CODE: 500209

NSE CODE: INFY

Bloomberg CODE: INFO:IN

SENSEX: 73,738

HOLD

12 Months Investment Period Rating as per Large Cap

CMP Rs. 1,442 TARGET Rs. 1,573 RETURN 9% ↑
(Closing: 23-04-24)

KEY CHANGES:

TARGET ↓

RATING ↓

EARNINGS ↓

Muted growth, outlook unchanged

Infosys Limited provides IT consulting and software services, including e-business, program management and supply chain solutions. The Group's services include application development, product co-development, and system implementation and system engineering. Infosys targets businesses specialising in the insurance, banking, telecom and manufacturing sectors.

- Infosys Limited posted Q4FY24 revenue of Rs. 37,923cr (+1.3% YoY), supported by growth in revenue from the Manufacturing as well as Energy, Utility, Resources, and Services segment and PAT of Rs. 7,970cr (+30.1% YoY) on account of double-digit growth across all verticals
- EBITDA margin shrank 80bps YoY to 23.2% as a result of high operating costs during the quarter.
- Total headcount was 317,000, while yearly attrition rate declined further by 0.3% to 12.6%.
- Continued growth in revenue along with new high-value deal wins should aid growth. However, lower discretionary spending and pressure on margins remain a concern in the near term. Therefore, we reduce our rating on the stock to HOLD with a lowered target price of Rs. 1,573 based on 22x FY26E adj. EPS.

Decent revenue growth owing to lower financial services revenue

Q4FY24 revenue grew by a lower-than-expected 1.3% YoY to Rs. 37,923cr, particularly owing to lower revenue from financial services (-7.5% YoY) on account of renegotiation and re-scoping of contracts with one of the company's financial services clients. Other verticals exhibited improvement as Energy, Utility, Resources, and Services grew 5.0%, Communications 16.4%, Hi-Tech 7.3%, Life sciences 3.0% and Manufacturing rose 10.0% YoY.

Margin remains under pressure

EBITDA decreased to Rs. 8,784cr in Q4FY24 (-2.4% YoY), and the EBITDA margin contracted by 80bps YoY to 23.2% owing to an increase in supply side pressures and high personnel costs. PAT, however, surged 30.1% YoY to Rs. 7,970cr, supported by 306.1% YoY growth in other income, inclusive of interest on income tax refund. The management expects the revenues to grow 1% to 3% in FY25 on constant currency basis on account of large deal wins and operating margin will be 20% to 22% for FY24 with the implementation of cost efficiency precautions.

Key concall highlights

- Infosys added 30 new deals during the quarter, which included 8 mega deals in communication, 6 each in BFSI and Retail, 4 each in Manufacturing and Life-sciences and 2 in Energy and Utilities. In absolute terms large deal wins amounted to \$4.5 billion, enhancing the net new percentage business 52% for the year and 44% for Q4FY24.
- The company improved its net working capital cycle from 70 days to 71 days during the quarter with strong free cash flows at \$2.9 bn in FY24 (+14% YoY)

Valuation

We expect the company to perform better in the upcoming quarter on the back of healthy new deals along with cost efficiency strategies, database initiatives adopted by the company and investments in AI technologies. However, the company is facing headwinds from discretionary spending, especially in BFSI which may hinder near term growth. Therefore, we reduce our rating on the stock to HOLD with a lowered target price of Rs. 1,573 based on 22x FY26E adj. EPS.

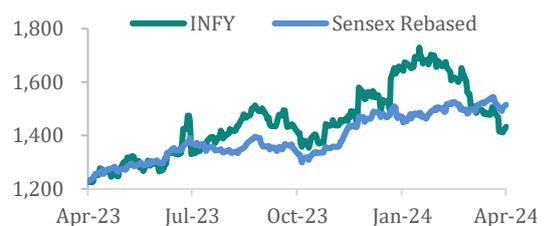
Company Data

Market Cap (cr)	Rs. 594,612
Enterprise Value (cr)	Rs. 587,786
Outstanding Shares (cr)	414.5
Free Float	86.0%
Dividend Yield	3.2%
52 week high	Rs. 1,731
52 week low	Rs. 1,215
6m average volume (lacs)	3.8
Beta	1.1
Face value	Rs. 5

Shareholding (%)	Q2FY24	Q3FY24	Q4FY24
Promoters	14.9	14.9	14.7
FII's	33.4	33.6	34.1
MFs/Insti	35.2	35.8	36.2
Public	16.1	15.4	14.7
Others	0.3	0.4	0.3
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-13.1%	0.4%	16.7%
Absolute Sensex	3.1%	12.6%	23.5%
Relative Return*	-16.2%	-12.2%	-6.8%

*Over or under performance to benchmark index



Consolidated (cr)	FY24A	FY25E	FY26E
Sales	153,670	162,732	176,370
Growth (%)	4.7	5.9	8.4
EBITDA	36,425	38,875	42,841
EBITDA Margin (%)	23.7	23.9	24.3
Adj. PAT	26,233	26,570	29,678
Growth (%)	8.9	1.3	11.7
Adj. EPS	63.3	64.0	71.5
Growth (%)	10.0	1.1	11.7
P/E	23.7	22.4	20.0
P/B	7.0	6.0	5.4
EV/EBITDA	16.9	15.1	13.6
ROE (%)	29.8	26.9	26.8
D/E	0.1	0.1	0.1

Quarterly Financials (Consolidated)

Profit & Loss Account

Rs. cr	Q4FY24	Q4FY23	YoY Growth (%)	Q3FY24	QoQ Growth (%)	FY24	FY23	YoY Growth (%)
Revenue	37,923	37,441	1.3	38,821	(2.3)	153,670	146,767	4.7
EBITDA	8,784	8,997	(2.4)	9,137	(3.9)	36,425	35,130	3.7
EBITDA margins	23.2	24.0	(80bps)	23.5	(30bps)	23.7	23.9	(20bps)
Depreciation	1,163	1,121	3.7	1,176	(1.1)	4,678	4,225	10.7
EBIT	7,621	7,876	(3.2)	7,961	(4.3)	31,747	30,905	2.7
Interest	110	82	34.1	131	(16.0)	470	284	65.5
Other Income	2,729	672	306.1	789	245.9	4,711	2,701	74.4
Exceptional Items	-	-	-	-	-	-	-	-
Share of profit from Associate	-	-	-	-	-	-	-	-
PBT	10,240	8,466	21.0	8,619	18.8	35,988	33,322	8.0
Tax	2,264	2,332	(2.9)	2,506	(9.7)	5,251	5,598	(6.2)
Reported PAT	7,976	6,134	30.0	6,113	30.5	26,248	24,108	8.9
Minority Interest	6	6	-	7	(14.3)	15	13	15.4
PAT att. to shareholders	7,970	6,128	30.1	6,106	30.5	26,233	24,095	8.9
Adjustments	-	-	-	-	-	-	-	-
Adj. PAT	7,970	6,128	30.1	6,106	30.5	26,233	24,095	8.9
No. of shares	414.5	418.8	(1.0)	414.4	0.0	414.5	418.8	(1.0)
Adj. EPS (Rs.)	19.2	14.6	31.4	14.7	30.5	63.3	57.5	10.0

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	167,662	185,639	162,732	176,370	(2.9)	(5.0)
EBITDA	40,651	45,100	38,875	42,841	(4.4)	(5.0)
Margins (%)	24.2	24.3	23.9	24.3	(30bps)	0bps
Adj. PAT	27,438	30,871	26,570	29,678	(3.2)	(3.9)
Adj. EPS	65.5	73.7	64.0	71.5	(2.3)	(3.0)

PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Revenue	121,641	146,767	153,670	162,732	176,370
% change	21.1	20.7	4.7	5.9	8.4
EBITDA	31,491	35,130	36,425	38,875	42,841
% change	12.9	11.6	3.7	6.7	10.2
Depreciation	3,476	4,225	4,678	4,535	4,468
EBIT	28,015	30,905	31,747	34,340	38,373
Interest	200	284	470	390	360
Other Income	2,295	2,701	4,711	2,500	2,700
PBT	30,110	33,322	35,988	36,450	40,714
% change	13.1	10.7	8.0	1.3	11.7
Tax	7,964	9,214	9,740	9,865	11,019
Tax Rate (%)	26.4	27.7	27.1	27.1	27.1
Reported PAT	22,146	24,108	26,248	26,585	29,695
PAT att. to common shareholders	22,110	24,095	26,233	26,570	29,678
Adj*	-	-	-	-	-
Adj PAT	22,110	24,095	26,233	26,570	29,678
% change	14.3	9.0	8.9	1.3	11.7
No. of shares (cr)	421.9	418.8	414.5	415.1	415.1
Adj EPS (Rs.)	52.4	57.5	63.3	64.0	71.5
% change	15.1	9.8	10.0	1.1	11.7
DPS (Rs.)	31.0	34.0	46.0	38.4	42.9

CASH FLOW

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Net inc. + Depn.	25,586	28,320	30,911	31,104	34,146
Non-cash adj.	4,747	1,502	(3,125)	(6,068)	(5,175)
Changes in W.C	(6,448)	(7,355)	(2,576)	(2,924)	(1,828)
C.F. Operation	23,885	22,467	25,210	22,113	27,142
Capital exp.	(2,161)	(2,579)	(2,201)	(4,231)	(4,586)
Change in inv.	(6,107)	594	(4,625)	(2,717)	(3,185)
Other invest.CF	1,852	776	1,817	1,144	1,093
C.F - Investment	(6,416)	(1,209)	(5,009)	(5,804)	(6,677)
Issue of equity	21	35	5	-	-
Issue/repay debt	-	-	-	-	-
Dividends paid	(12,652)	(13,631)	(14,692)	(15,942)	(17,807)
Other finance.CF	(12,011)	(13,099)	(2,817)	-	-
C.F - Finance	(24,642)	(26,695)	(17,504)	(15,942)	(17,807)
Chg. in cash	(7,173)	(5,437)	2,697	367	2,658
Closing cash	17,472	12,173	14,786	15,153	17,811

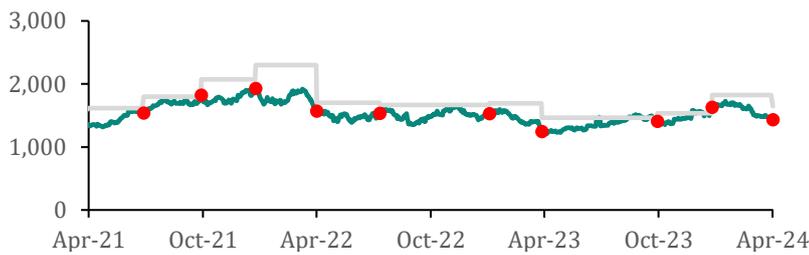
BALANCE SHEET

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	17,472	12,173	14,786	15,153	17,811
Accounts Receivable	22,698	25,424	30,193	33,360	35,274
Inventories	-	-	-	-	-
Other Cur. Assets	27,015	33,284	44,453	47,871	50,836
Investments	13,651	12,569	11,708	14,050	16,860
Gross Fixed Assets	26,018	26,709	28,910	33,141	37,727
Net Fixed Assets	13,075	13,346	12,370	12,046	12,142
CWIP	416	288	293	314	335
Intangible Assets	12,725	15,879	15,252	15,325	15,399
Def. Tax (Net)	1,212	1,245	454	493	551
Other Assets	9,621	11,608	8,305	8,646	9,018
Total Assets	117,885	125,816	137,814	147,257	158,225
Current Liabilities	32,731	37,944	36,835	36,003	35,498
Provisions	-	-	-	-	-
Debt Funds	5,474	8,299	8,359	7,967	7,340
Other Liabilities	3,944	3,778	4,159	4,182	4,395
Equity Capital	2,098	2,069	2,071	2,071	2,071
Reserves & Surplus	73,252	73,338	86,045	96,673	108,544
Shareholder's Fund	75,350	75,407	88,116	98,744	110,615
Minority Interest	386	388	345	360	377
Total Liabilities	117,885	125,816	137,814	147,257	158,225
BVPS (Rs.)	179	180	213	238	266

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab. & Return					
EBITDA margin (%)	25.9	23.9	23.7	23.9	24.3
EBIT margin (%)	23.0	21.1	20.7	21.1	21.8
Net profit mgn.(%)	18.2	16.4	17.1	16.3	16.8
ROE (%)	29.3	32.0	29.8	26.9	26.8
ROCE (%)	34.5	36.8	32.8	32.1	32.4
W.C & Liquidity					
Receivables (days)	68.1	63.2	71.7	74.8	73.0
Inventory (days)	-	-	-	-	-
Payables (days)	77.7	56.5	56.1	56.2	52.9
Current ratio (x)	2.0	1.8	2.3	2.6	2.9
Quick ratio (x)	1.4	1.1	1.5	1.6	1.8
Turnover & Leverage					
Gross asset T.O (x)	4.8	5.6	5.5	5.2	5.0
Total asset T.O (x)	1.1	1.2	1.2	1.1	1.2
Int. coverage ratio (x)	140.1	108.8	67.5	88.0	106.7
Adj. debt/equity (x)	0.1	0.1	0.1	0.1	0.1
Valuation					
EV/Sales (x)	6.5	4.0	4.0	3.6	3.3
EV/EBITDA (x)	25.2	16.7	16.9	15.1	13.6
P/E (x)	36.4	24.5	23.7	22.4	20.0
P/BV (x)	10.7	7.8	7.0	6.0	5.4

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
14-Jan-22	BUY	2,299
22-Apr-22	HOLD	1,700
1-Aug-22	HOLD	1,667
24-Jan-23	BUY	1,692
18-Apr-23	BUY	1,466
20-Oct-23	HOLD	1,537
16-Jan-24	BUY	1,824
24-Apr-24	HOLD	1,573

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

Not rated/Neutral

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Not rated/Neutral- The analyst has no investment opinion on the stock under review

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