Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Infosys Ltd

Strong H1, Guidance raised

IT & ITES	Sharekhan code: INFY

Reco/View: Buy	↔	CMP: Rs. 1,970	Price Target: Rs. 2,270	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

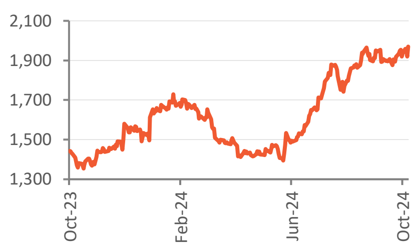
Company details

Market cap:	Rs. 8,17,431 cr
52-week high/low:	Rs. 1,991 / 1,352
NSE volume: (No of shares)	76.0 lakh
BSE code:	500209
NSE code:	INFY
Free float: (No of shares)	361.0 cr

Shareholding (%)

Promoters	14.4
FII	33.3
DII	37.8
Others	14.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.9	14.1	39.2	36.5
Relative to Sensex	3.4	13.8	28.2	14.6

Sharekhan Research, Bloomberg

Summary

- Revenue was strong at $4,894 million, up 3.1% q-o-q in constant currency (CC) terms, nearly in line with our estimate of $4,897 million.
- EBIT margins was flat q-o-q at 21.1%, missing our expectations of 21.3%. The company closed 21 large deals with TCV of $2.4 billion, down 41% q-o-q/68% y-o-y.
- FY25 revenue growth guidance raised to 3.75-4.5% from 3-4% in constant currency terms while maintaining OPM guidance for FY25 at 20-22%
- We maintain Buy with revised PT of Rs. 2,270 (valuing at 30x Sep26E EPS). At CMP, the stock trades at 31/27.2x/24.3x its FY25/26/27E EPS.

Infosys reported revenues stood at $4,894 million, up 3.1% q-o-q/3.3% y-o-y in CC terms, nearly in line with our estimate of $4,897 million. In dollar terms, revenue grew by 3.7% q-o-q /up 3.8% y-o-y while revenue in rupee terms stood at Rs 40,986 crore, up 4.3% q-o-q/ up 5.1% y-o-y. Growth was broad-based across most verticals led by Manufacturing and Energy. EBIT margins was flat q-o-q at 21.1%, missing our expectations of 21.3% aided by Project maximus and currency depreciation but offset by acquisition related amortisation and variable costs. Net profit stood at Rs 6,516 crore, up 2.3% q-o-q/ 4.9% y-o-y. The company closed 21 large deals with TCV of $2.4 billion, down 41% q-o-q/68% y-o-y. Smaller deals, which is less than $50 million saw a strong double digit growth. The company raised FY25 revenue growth guidance to 3.75-4.5% from 3-4% in constant currency terms while maintaining OPM guidance for FY25 at 20-22%. Financial services segment in the US continues to see discretionary spend increase in capital markets, mortgages, cards and payments. The company reported good momentum in financial services in US and broad-based growth which augurs well for the company. We believe the company is well positioned to capture cost optimization and transformation opportunities given its strength in industry expertise and market leading capabilities in cloud and generative AI. We maintain Buy with a revised price target (PT) of Rs. 2270 (valuing at 30x Sep-26E EPS). At CMP, the stock trades at 31/27.2x/24.3x its FY25/26/27E EPS.

Key positives

- Net headcount additions were 2,456 q-o-q, taking total headcount to 317,788.
- Utilisation rate (excluding trainees) rose by 60 bps q-o-q to 85.90% from 85.3% in Q1FY25.
- The company added 1 client in the $100 million+ and 2 clients in the $50million+ category.

Key negatives

- large deal TCV moderated to $2.4 billion, down 41% q-o-q/68% y-o-y.
- Attrition (LTM) inched higher by 20 bps q-o-q to 12.9%.

Management Commentary

- Company raised FY25 revenue growth guidance to 3.75-4.5% in constant currency terms and maintained OPM guidance for the year at 20-22%.
- Employee compensation to see increase in two phases effective January 1, 2025 and April 1, 2025.
- Revenue growth guidance has been raised based on the strong performance in H1FY25, broad-based Q2 performance and double digit growth in small deals.
- Financial services segment in the US continues to see discretionary spend increase, in capital markets, mortgages, cards and payments.
- Company is seeing slowness in the automotive sector in Europe.

Revision in estimates – We have fine-tuned estimates to factor Q2FY25 performance.

Our Call

Valuation – Maintain Buy with revised price target of Rs 2,270: Infosys has reported strong H1FY25 performance and raised the guidance for FY25 which is tad lower than expectations. The company reported good momentum in Financial services in US and broad based growth performance which augurs well for the company. We believe the company is well-positioned to capture cost optimization and transformation opportunities given its strength in industry expertise and market leading capabilities in cloud and generative AI. We expect 8.1%/8.6% Sales and PAT CAGR over FY24-27E. We maintain Buy with a revised price target (PT) of Rs. 2,270 (valuing at 30x Sep-26E EPS). At the CMP, the stock trades at 31/27.2x/24.3x its FY25/26/27E EPS.

Key Risks

Rupee appreciation and/or adverse cross-currency movements. The contagion effect of banking crisis, macro headwinds and recession in the US can moderate the pace of technology spending.

Valuation (Consolidated) Rs cr

Particulars	FY24	FY25E	FY26E	FY27E
Revenue	1,53,671.0	1,62,383.2	1,76,976.1	1,93,853.4
OPM (%)	23.7	23.8	24.1	24.4
Adjusted PAT	26,232.0	26,361.1	30,082.2	33,603.4
% YoY growth	8.9	0.5	14.1	11.7
Adjusted EPS (Rs)	63.4	63.5	72.5	81.0
P/E (x)	31.1	31.0	27.2	24.3
P/B (x)	5.1	5.0	4.7	4.3
EV/EBITDA	21.8	20.4	18.4	16.4
ROE (%)	29.7	29.2	31.4	32.0
ROCE (%)	34.8	34.6	37.0	38.3

Source: Company; Sharekhan estimates

Key result highlights:

- **Strong revenue growth:** Infosys reported CC revenue growth of 3.1% q-o-q/3.3% y-o-y, nearly in-line with our estimates of 3.2 % q-o-q revenue growth in CC terms. In dollar terms revenue grew by 3.7% q-o-q /up 3.8% y-o-y to $ 4,894 million. Revenue in rupee terms stood at Rs 40,986 crore, up 4.3% q-o-q/ up 5.1% y-o-y. Growth was broad based across regions and across most verticals. Inorganic contribution was 0.8%.
- **Margin performance:** EBIT margins was flat q-o-q at 21.1%, missing our expectations of 21.3%. Project Maximus and currency depreciation contributed to 80 bps and 10bps improvement respectively which was offset by 30 bps acquisition-related amortization and 60 bps due to variable costs.
- **Large deal TCVs:** The company closed 21 large deals with TCV of $2.4 billion of which 41% was net new. It signed seven deals in financial services, three each in communication, manufacturing and others, two in retail and one each in EURS and High Tech and Life Sciences. Region wise, the company signed 12 large deals in America, five in Europe, three in India and one in ROW. Smaller deals which is less than $50 million had a strong double digit growth.
- **Demand Commentary:** The financial services segment in the US continues to see discretionary spend increase, in capital markets, mortgages, cards and payments. Financial services saw continued growth momentum in Q2 with traction in cost optimization through large outsourcing and transformation opportunities. The company is seeing slowness in the automotive sector in Europe. Barring these verticals, demand trends remain stable with clients continuing to prioritize cost takeout over discretionary initiatives. Consumer spend in the upcoming holiday season to be a lead indicator for future spend decisions. The communication sector outlook is challenging with clients primarily focused on cost reduction and making their investment profitable. Discretionary spend for OEMs are expected to remain under pressure. Energy sector is seeing significant traction in cloud programs with many companies adopting the Cloud and AI strategy.
- **Vertical-wise performance:** Financial Services, Manufacturing, Energy, Lifesciences, Communications and Hitech grew 2.7%/10.9%/5.4%/3.8%/2.1% and 3.8% q-o-q, respectively while Others segment declined by 2.5% q-o-q. Retail was flat q-o-q.
- **Geography-wise performance:** North America, Europe, India and ROW grew 1.2 and /8.9%/ 3.8% and 4.9% q-o-q, respectively.
- **Headcount continues to decline, utilisation improves:** Attrition (LTM) rose by 20 bps q-o-q to 12.9% from 12.7% in Q1FY25. Utilisation rate (including trainees) improved by 60 bps q-o-q to 85.9%. Net Headcount additions were 2,456 q-o-q taking the total headcount to 317,788. The company is on track to onboard 15000-20000 freshers this year.
- **Client metrics:** The company added 86 clients versus 97 in Q1FY25. The number of active clients increased to 1870 from 1867. Revenue from the top 5, Top 10 and 25 clients grew by 5.4%/ 3.8% and 3.2% q-o-q respectively. The company added 1 client in $100 million+ and 2 clients in $50million+ category.
- **Cash flow:** Free cash flow (FCF) stood at $839 million, down 23% q-o-q/25% y-o-y. Consolidated cash and investments stood at $4.63 billion versus $4.31 billion in Q1FY25.

Results (Consolidated) Rs cr

Particulars	Q2FY25	Q2FY24	Q1FY25	Y-o-Y (%)	Q-o-Q (%)
Revenues ($ mn)	**4,894**	**4,718**	**4,714**	**3.7**	**3.8**
Net sales	**40,986**	**38,994**	**39,315**	**5.1**	**4.3**
Direct Costs	27,314	25,865	26,028	5.6	4.9
Gross Profit	**13,672**	**13,129**	**13,287**	**4.1**	**2.9**
SG&A	3,863	3,689	3,850	4.7	0.3
EBITDA	**9,809**	**9,440**	**9,437**	**3.9**	**3.9**
Depr & amort.	1,160	1,166	1,149	-0.5	1.0
EBIT	8,649	8,274	8,288	4.5	4.4
Other Income	604	494	733	22.3	-17.6
PBT	**9,253**	**8,768**	**9,021**	**5.5**	**2.6**
Tax Provision	2,737	2,553	2,647	7.2	3.4
PAT	**6,516**	**6,215**	**6,374**	**4.8**	**2.2**
Minority interest/Share of associates	-	3	6		
Net profit	**6,516**	**6,212**	**6,368**	**4.9**	**2.3**
EO	-	-	-		
Adjusted net profit	**6,516**	**6,212**	**6,368**	**4.9**	**2.3**
Equity capital (FV Rs5/-)	414	414	414		
EPS (Rs)	**15.7**	**15.0**	**15.4**	**4.6**	**2.1**
Margin (%)					
GPM	33.4	33.7	33.8	-31	-44
EBITDA	23.9	24.2	24.0	-28	-7
EBIT	21.1	21.2	21.1	-12	2
NPM	15.9	15.9	16.2	-3	-30
Tax rate	29.6	29.1	29.3	46	24

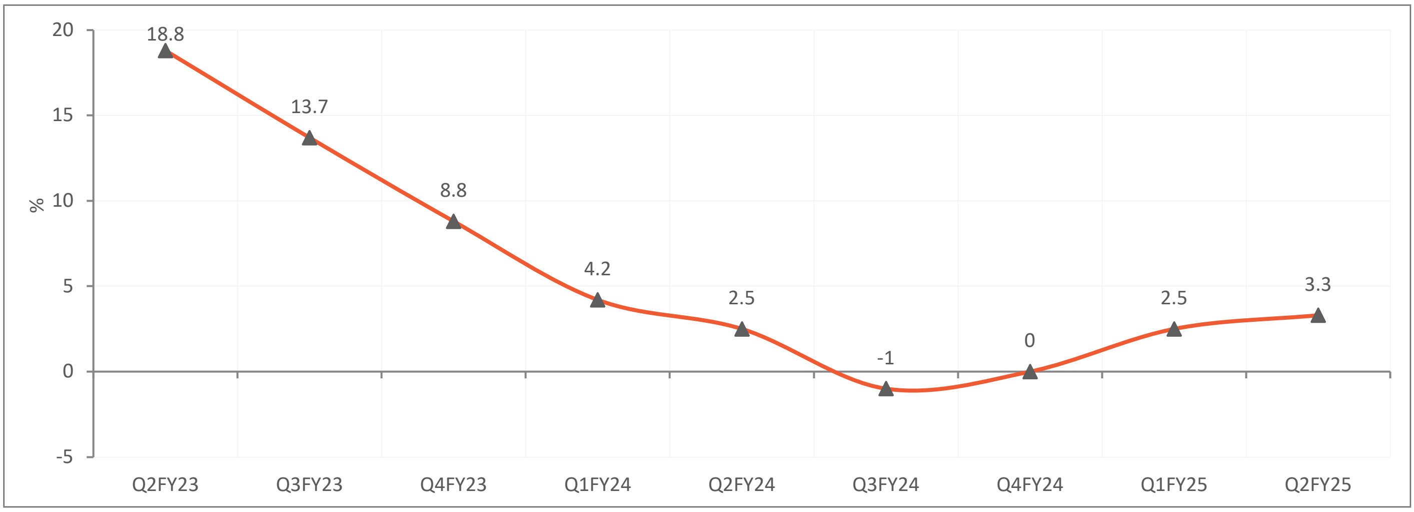
Source: Company; Sharekhan Research

Revenue mix: Geographies, industry verticals, and other operating metrics

Particulars	Revenues	Contribution	$ Growth (%)		CC growth (%)
	($ mn)	(%)	Q-o-Q (%)	Y-o-Y (%)	Y-o-Y (%)
Revenues ($ mn)	4,894	100	3.8	3.7	3.3
Geographic mix					
North America	2,809	57.4	1.2	-2.6	-2.7
Europe	1,458	29.8	8.9	16.6	15.5
India	152	3.1	3.8	14.8	16.0
Rest of world	475	9.7	4.9	4.8	3.8
Industry verticals					
Financial services	1,331	27.2	2.7	2.6	2.3
Retail	651	13.3	0.1	-9.2	-9.6
Communication	582	11.9	2.1	8.3	7.0
Energy, utilities, resources & services	661	13.5	5.4	10.3	10.9
Manufacturing	768	15.7	10.9	13.9	12.3
Hi tech	392	8.0	3.8	6.4	6.0
Life sciences	357	7.3	3.8	-2.9	-3.5
Others	152	3.1	-2.5	-2.6	-1.2
Clients Contribution					
Top 5 clients	670	13.7	5.4	6.9	
Top 10 clients	1,023	20.9	3.8	8.9	
Top 25 clients	1,698	34.7	3.2	5.6	
Deal Wins					
TCV	2,430	-	-40.5	-68.4	

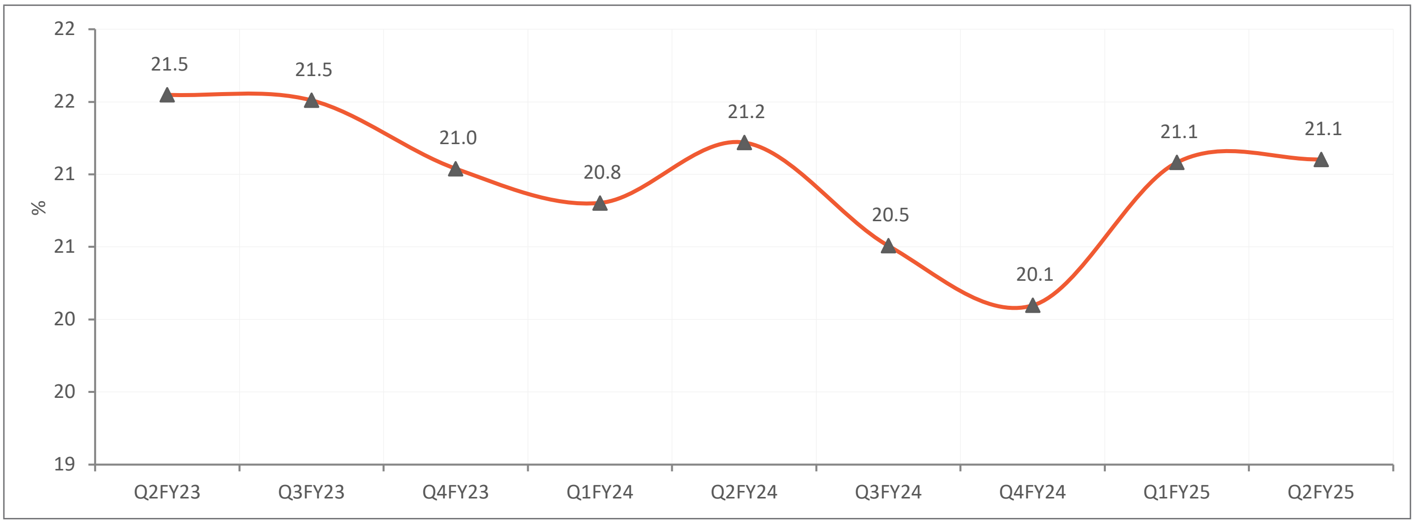
Source: Company; Sharekhan Research

Infosys' constant-currency revenue growth trend (y-o-y)



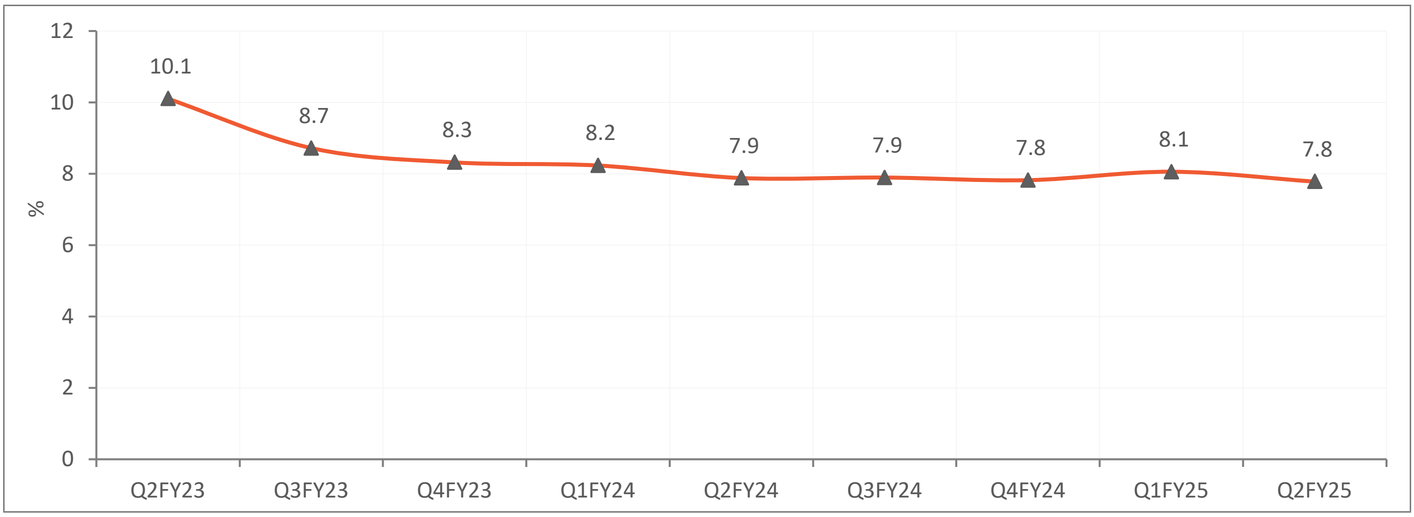
Source: Sharekhan Research

EBIT margin (%) trend



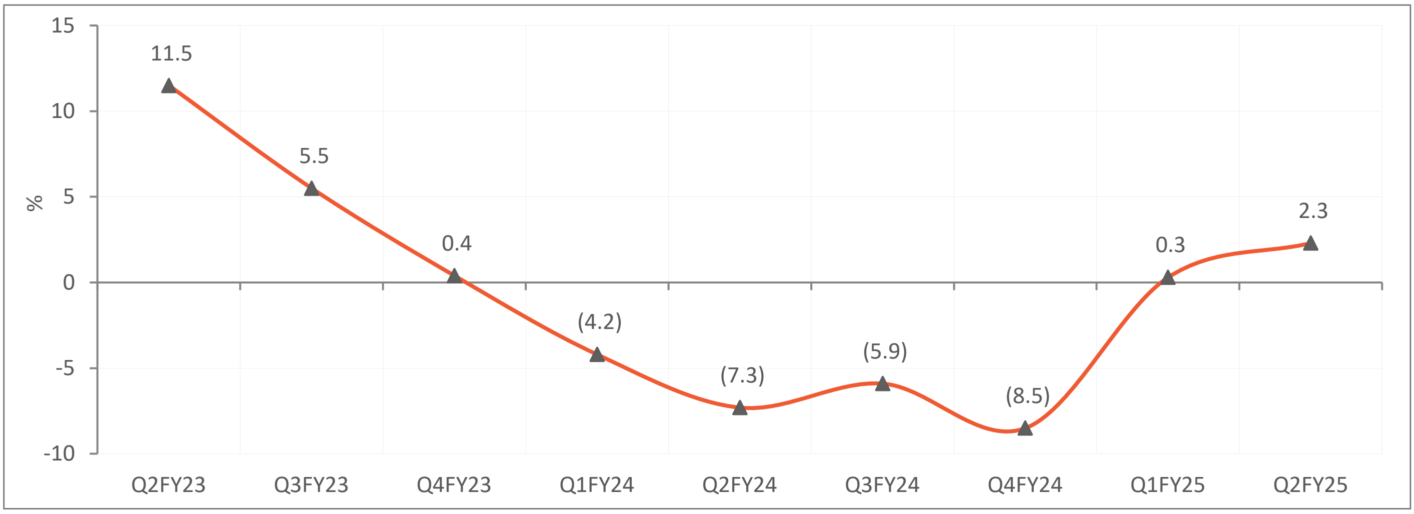
Source: Sharekhan Research

Subcontracting costs trend



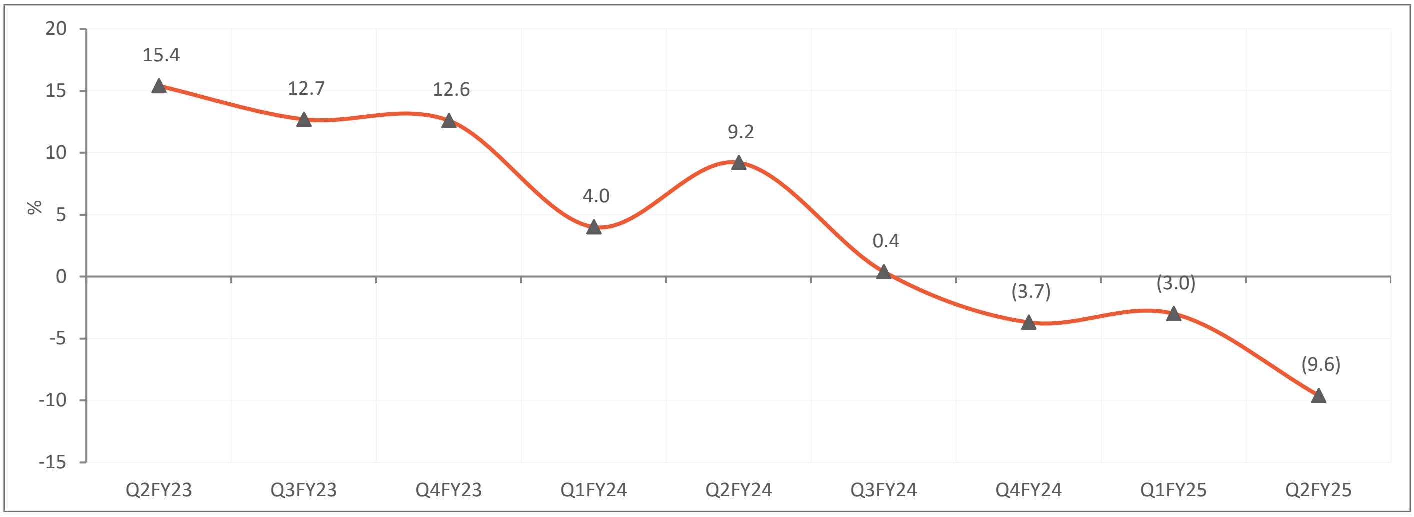
Source: Sharekhan Research

BFSI revenue growth trend



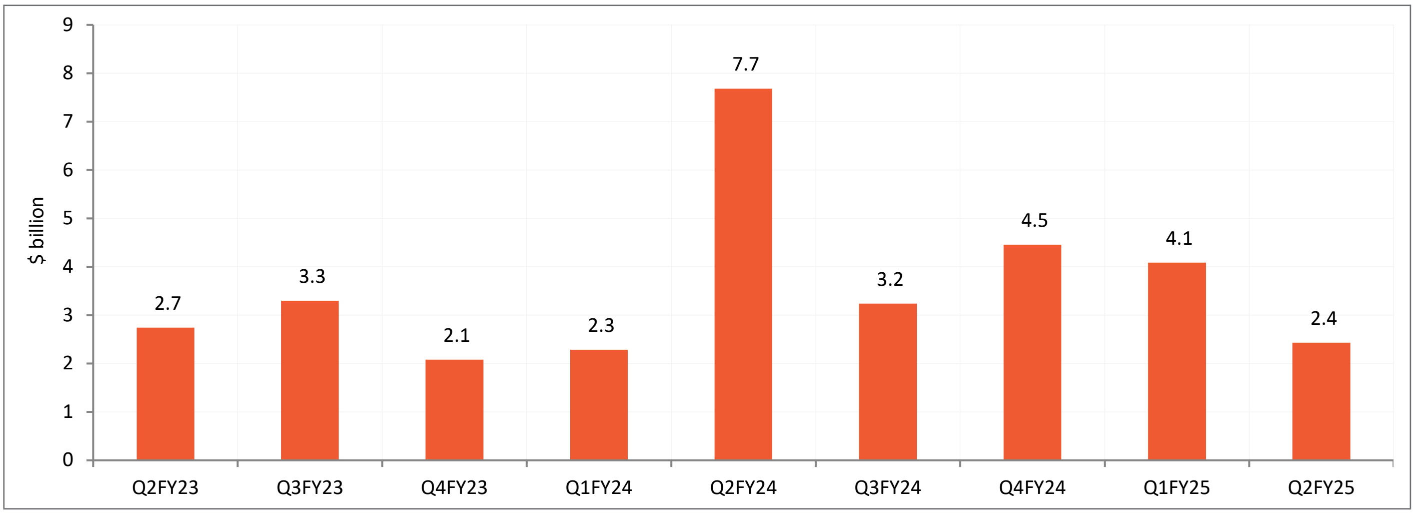
Source: Sharekhan Research

Retail revenue growth trend



Source: Sharekhan Research

TCV of deal wins



Source: Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Macro headwinds bottoming out, coupled with better earnings visibility.

We anticipate growth momentum to return in FY25 aided by lower base coupled with easing sector headwinds. Though, IT sector has already outperformed Nifty last year, we expect overall outperformance in CY24 as well driven by receding headwinds and better earnings visibility.

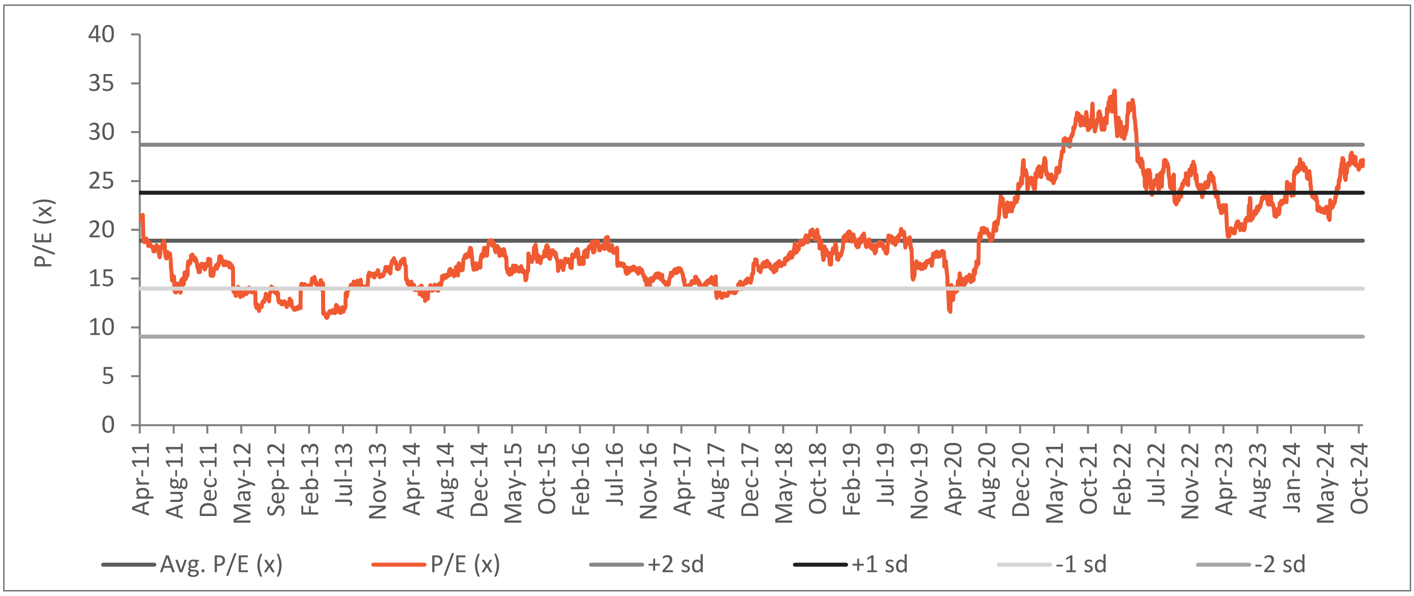
■ Company Outlook – Well-positioned to capture opportunities

Infosys services a large number of Fortune 500/Global 500 clients who have strong balance sheets and are able to hold on better amid the economic downturn. Further, Infosys has aggressively invested in digital technologies in the past couple of years to capture a large portion of upcoming digital spends. Given strong relationships with clients and robust execution capabilities, Infosys is well-positioned to capitalise on opportunities from clients' transformation journeys.

■ Valuation – Maintain Buy with revised price target of Rs 2270:

Infosys has reported strong H1FY25 performance and raised the guidance for FY25 which is tad lower than expectations. The company reported good momentum in Financial services in US and broad based growth performance which augurs well for the company. We believe the company is well-positioned to capture cost optimization and transformation opportunities given its strength in industry expertise and market leading capabilities in cloud and generative AI. We expect 8.1%/8.6% Sales and PAT CAGR over FY24-27E. We maintain Buy with a revised price target (PT) of Rs. 2,270 (valuing at 30x Sep-26E EPS). At the CMP, the stock trades at 31/27.2x/24.3x its FY25/26/27E EPS.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

Founded in 1981, Infosys is the second largest ($16,311 million in FY2022) IT services company in India in terms of export revenue with headcount of 3.14 lakh employees. BFSI accounts for the largest chunk of revenue (~31% of total revenue), followed by retail, energy and utilities, and communication. Region wise, North America and Europe continue to be the mainstay. Digital revenue continued to have a strong growth momentum in the past few quarters and now contributes 59.2% to total revenue.

Investment theme

Infosys has accelerated deal wins momentum through engagement with deal advisors, consulting firms, and private equity players. Effectively, the strong large deal trajectory provides better revenue growth visibility. Further, revitalisation of sales and investment in digital competencies have certainly helped the company to drive its digital business. Sharp focus on execution and augmentation of digital capabilities through investments can bring Infosys back on its high-growth trajectory. Given strong deal wins, strengthening relationships with large clients, and continued digital momentum, we believe Infosys is well positioned to catch up with leaders on revenue growth in the coming years.

Key Risks

1) Rupee appreciation and/or adverse cross-currency movements. 2)The contagion effect of banking crisis, macro headwinds and recession in the US can moderate the pace of technology spending.

Additional Data

Key management personnel

Nandan M. Nilekani	Co-founder and Non-Executive Chairman
Salil Parekh	Chief Executive Officer
Jayesh Sanghrajka	Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Deutsche Bank Trust Co Americas	10.09
2	Life Insurance Corp of India	9.72
3	SBI Funds Management Ltd	4.20
4	Vanguard Group Inc/The	3.48
5	Blackrock Inc	3.46
6	ICICI Prudential Asset Management	2.67
8	NATIONAL PENSION SYSTEM	1.65
9	UTI Asset Management Co Ltd	1.61
10	HDFC Asset Management Co Ltd	1.53
12	Republic of Singapore	1.33

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD) / MCX - Commodity: INZ000171337; BSE – 748, NSE – 10733, MCX – 56125, DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669 (date of initial registration: 03/07/2004, and valid till 02/07/2026); IRDAI Registered Corporate Agent (Composite) License No. CA0950, valid till June 13, 2027.

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