



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	✗	↔	✗

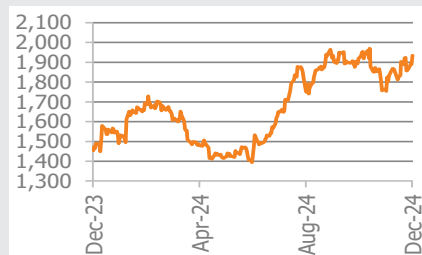
Company details

Market cap:	Rs. 7,98,541 cr
52-week high/low:	Rs. 1,991 / 1,359
NSE volume: (No of shares)	67.8 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	5.4	(0.5)	30.6	30.5
Relative to Sensex	3.8	0.1	21.8	13.2

Mirae Asset Sharekhan Research, Bloomberg

Infosys Ltd

Financial Services on firm footing

IT & ITES	Sharekhan code: INFY		
Reco/View: Buy	↔	CMP: Rs. 1,923	Price Target: Rs. 2,270 ↔
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We reiterate Buy with an unchanged PT of Rs. 2,270. At CMP, the stock trades at 30.3/26.5x/23.7x its FY25/26/27E EPS.
- The company's Financial Services segment in the US continues to see rise in discretionary spends in capital markets, mortgages, cards and payments.
- With uncertainty on rate cuts and elections in US settling down, the plaguing concerns are expected to wane leading to a gradual uptick in discretionary spends across verticals.
- Project Maximus, which has been able to arrest the fall in margins since it was launched in FY24 is expected to drive margins in the medium term.

Infosys led the revenue growth in constant currency (CC) for Tier-1 IT service companies in Q2FY25 driven by broad based participation across verticals, and a 2.3% y-o-y growth in CC in its key Financial services vertical. The company is seeing improved traction in the Financial services vertical with discretionary spending rising in certain pockets of the vertical. The US rate cut cycle in U.S is likely to further improve the discretionary spending across other streams within the Financial services vertical in the medium term. With the uncertainty on rate cuts and elections in US settling down, the plaguing concerns are expected to wane providing a gradual uptick in discretionary spend across other verticals as well. Infosys raised its FY25 revenue growth guidance to 3.75-4.5% in CC from 3-4% earlier, reflecting a better outlook. The company is also confident of achieving the guided margin guidance of 20-22% for FY25 despite potential headwinds such as wage hike, seasonal softness, furloughs, and fewer working days in H2FY25. The company has indicated its aspiration to increase margins in the medium term aided by Project maximus which has been able to arrest the margin decline since it was launched in FY24. With Financial Services on strong footing and demand trends largely stable across verticals we believe the company is well positioned to capture cost optimization and transformation opportunities given its strong domain expertise and market leading capabilities in cloud and generative AI. We reiterate Buy with unchanged price target (PT) of Rs. 2,270. At CMP, the stock trades at 30.3/26.5x/23.7x its FY25/26/27E EPS.

- Financial services on firm footing:** Infosys' BFSI vertical clocked a strong 2.3% CC growth outpacing most Tier 1 peers in Q2FY25. The Company is seeing improved traction in Financial Services which has shown good growth in H1FY25. The company's Financial Services segment in the U.S. continues to see discretionary spend increase in capital markets, in mortgages, cards and payments. Further the rate cuts cycle in U.S is likely to further improve the discretionary spending across other streams within its Financial services vertical in the medium term. Despite a slowdown in the automotive sector in Europe, demand trends are largely stable, positioning the company for healthy growth in the medium term.
- Gradual Uptick in discretionary spend:** With the uncertainty on rate cuts and elections in US settling down, the plaguing concerns are expected to wane providing a gradual uptick in discretionary spend across verticals which is currently confined to certain pockets of BFSI. Deal wins moderated sharply in Q2FY25, down 41% q-o-q/69% y-o-y after several quarters of strong deal wins. However, the pipeline continues to be robust on large deals with the under current largely on cost and efficiency and less on transformation. The company is seeing a double-digit increase in small deals across verticals (<50 million) indicating improving demand environment
- Margins:** The company which launched Project Maximus in FY24, a margin expansion initiative focused on five key pillars: value-based selling, an efficient workforce pyramid, lean processes, automation and generative AI, enhancing critical portfolios, and reducing indirect costs has been able to arrest margin decline. Utilisation (excluding trainees) improved 480 bps to 85.9% in Q2FY25 from 81.1% in Q1FY24 while subcon expenses stood at 7.8% of revenues compared to 8.1% of revenues during the same period. The company is confident of achieving the guided margin guidance of 20-22% for FY25 despite potential headwinds such as wage hike, seasonal softness, furloughs, and fewer working days in H2FY25. The company has indicated its aspiration to increase margins in the medium term aided by Project maximus. The company is on track to onboard the 15,000 plus freshers which would aid pyramid optimization.

Our Call

Valuation – Maintain Buy with unchanged price target of Rs 2,270: Infosys has reported strong H1FY25 performance aided by recovery and growing traction in its Financial services vertical. With the uncertainty on rate cuts and elections in US settling down, the plaguing concerns are expected to wane leading to a gradual uptick in discretionary spend across verticals. With Financial Services on strong footing and demand trends largely stable across verticals we believe the company is well positioned to capture cost optimization and transformation opportunities given its strong domain 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 unchanged price target (PT) of Rs. 2,270. At the CMP, the stock trades at 30.3/26.5x/23.7x its FY25/26/27E EPS.

Key Risks

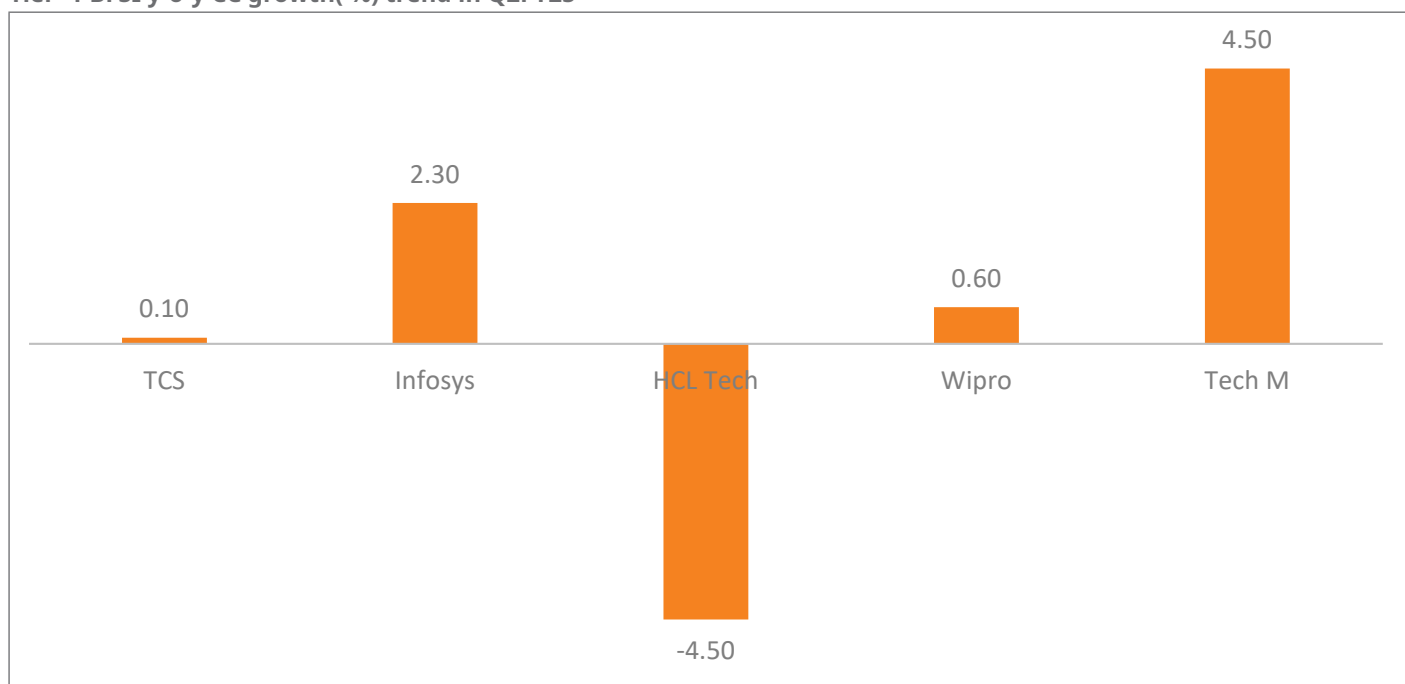
Rupee appreciation and/or adverse cross-currency movements. The contagion effect of banking crisis, macro headwinds and recession in the US can moderate the pace of technology spending.

Valuation (Consolidated)

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)	30.3	30.3	26.5	23.7
P/B (x)	5.0	4.9	4.6	4.2
EV/EBITDA	21.3	19.9	17.9	16.0
ROE (%)	29.7	29.2	31.4	32.0
ROCE (%)	34.8	34.6	37.0	38.3

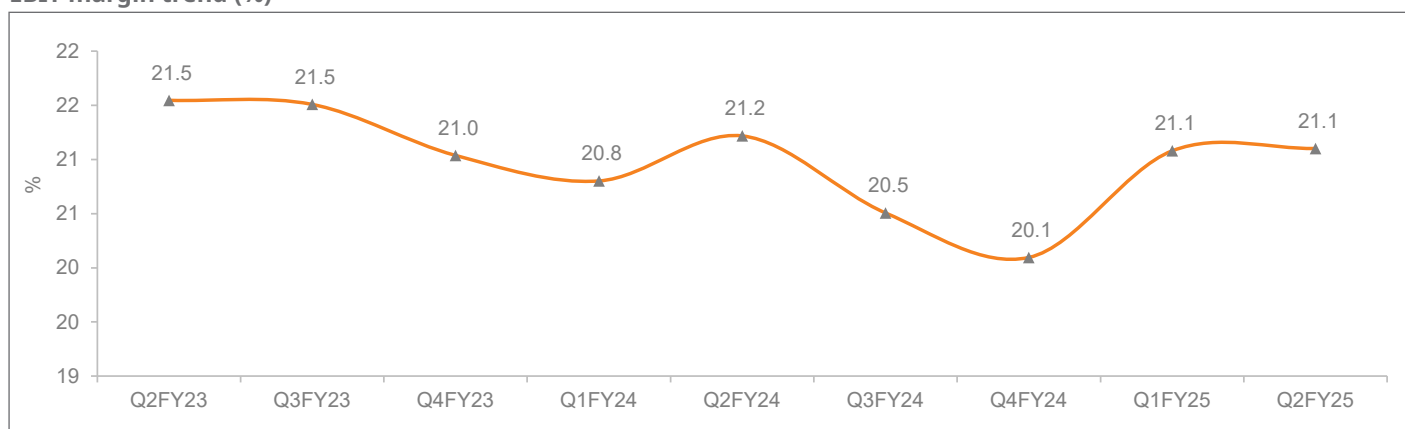
Source: Company; Mirae Asset Sharekhan estimates

Tier -1 BFSI y-o-y CC growth(%) trend in Q2FY25



*Tech M growth is on reported basis; Source: Company; Mirae Asset Sharekhan Research

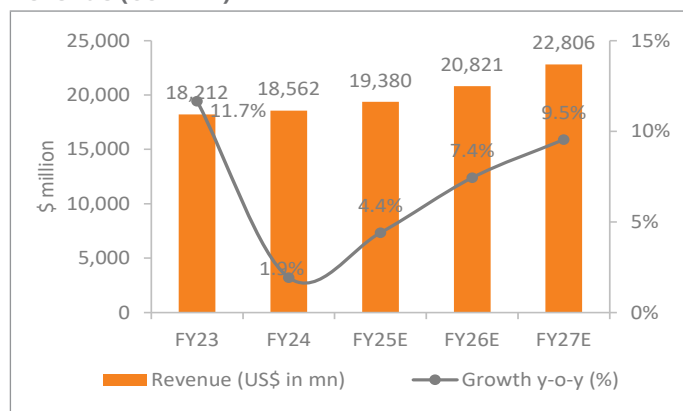
EBIT margin trend (%)



Source: Company; Mirae Asset Sharekhan Research

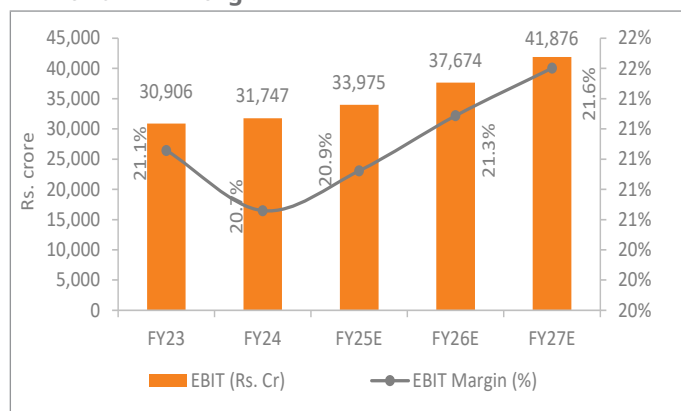
Financials in charts

Revenue (USD mn)



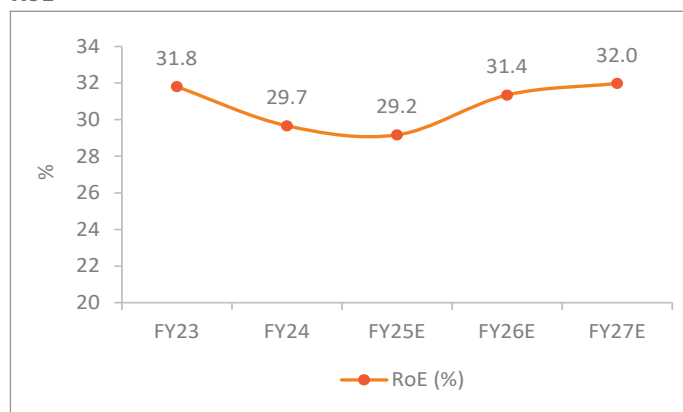
Source: Company; Mirae Asset Sharekhan Research

EBIT and EBIT Margin



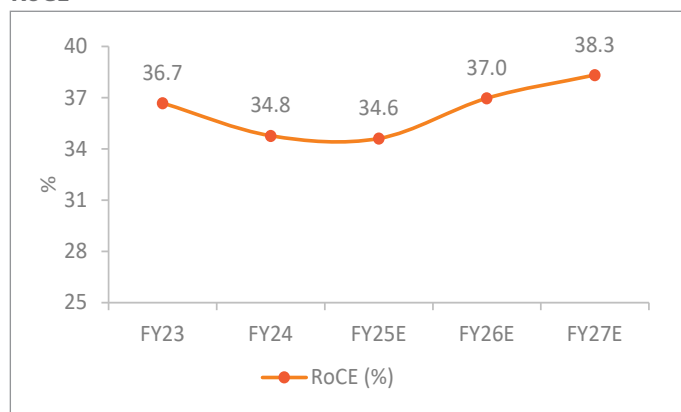
Source: Company; Mirae Asset Sharekhan Research

RoE



Source: Company; Mirae Asset Sharekhan Research

RoCE



Source: Company; Mirae Asset 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.

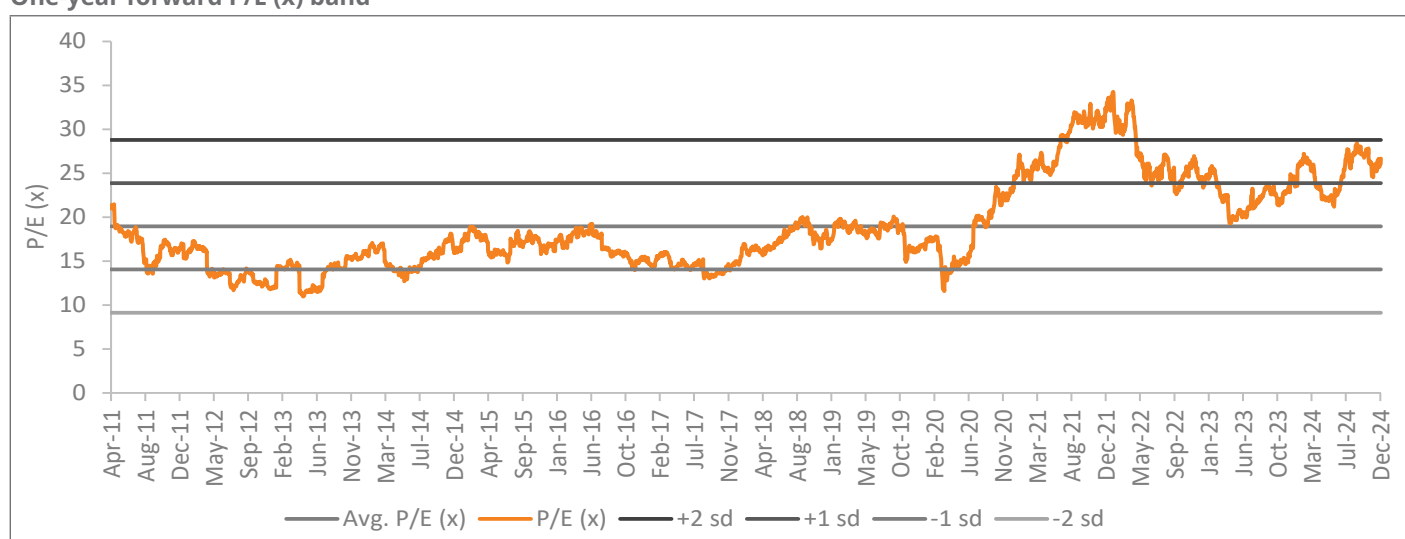
■ Company Outlook – Well-positioned to capture opportunities

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 unchanged price target of Rs 2,270

Infosys has reported strong H1FY25 performance aided by recovery and growing traction in its Financial services vertical. With the uncertainty on rate cuts and elections in US settling down, the plaguing concerns are expected to wane leading to a gradual uptick in discretionary spend across verticals. With Financial Services on strong footing and demand trends largely stable across verticals we believe the company is well positioned to capture cost optimization and transformation opportunities given its strong domain 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 unchanged price target (PT) of Rs. 2,270. At the CMP, the stock trades at 30.3/26.5x/23.7x its FY25/26/27E EPS.

One-year forward P/E (x) band



Source: Sharekhan Research

About the 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	Life Insurance Corp of India	9.79
2	Deutsche Bank Trust Co Americas	9.54
3	Blackrock Inc	5.28
4	SBI Funds Management Ltd	4.34
5	Vanguard Group Inc/The	3.47
6	ICICI Prudential Asset Management	2.67
7	NATIONAL PENSION SYSTEM	1.64
8	UTI Asset Management Co Ltd	1.63
9	Republic of Singapore	1.58
10	HDFC Asset Management Co Ltd	1.56

Source: Bloomberg

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Understanding the Mirae Asset 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: Mirae Asset Sharekhan Research

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