



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	✗	↔	✗

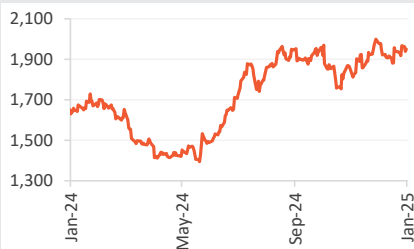
Company details

Market cap:	Rs. 7,99,459 cr
52-week high/low:	Rs. 2007/1359
NSE volume: (No of shares)	60.0 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	-2.7	0.3	11.6	18.1
Relative to Sensex	3.1	5.8	16.2	12.8

Source: Mirae Asset Sharekhan Research, Bloomberg

Infosys

Good quarter, expecting softer Q4

IT & ITES	Sharekhan code: INFY	
Reco/View: Buy	↔	CMP: Rs. 1,926 Price Target: Rs. 2,270 ↔
↑ Upgrade	↔ Maintain	↓ Downgrade

Summary

- Reported revenue stood at \$4,939 million, up 1.7% q-o-q in constant currency (CC) terms, beating our estimate of \$4,876 million.
- EBIT margins improved ~20 bps q-o-q to 21.3 %, beating our estimates. Company closed 17 large deals with TCV of \$2.5 billion, up ~3% q-o-q/down 27% y-o-y.
- FY25 revenue growth guidance raised to 4.5-5% from 3.75-4.5% in constant currency terms, while maintaining OPM guidance for FY25 at 20-22%.
- We maintain Buy with an unchanged PT of Rs. 2,270. At CMP, the stock trades at 30/27.5x/24.7x its FY25/26/27E EPS.

Reported revenues stood at \$4,939 million, up 1.7% q-o-q/6.1% y-o-y in CC terms beating our estimate of \$4,876 million. In dollar terms revenue grew by 0.9% q-o-q /5.9% y-o-y while Revenue in rupee terms stood at Rs 41,764 crore, up 1.9% q-o-q/7.6% y-o-y. Sequential growth was led by Financial services ,Retail and Lifesciences verticals. EBIT margins improved 20 bps q-o-q to 21.3%, beating our estimates of 21.1%. Adjusted Net profit stood at Rs 6, 806 crore, up 4.6% q-o-q/ 11.5% y-o-y. The company closed 17 large deals with TCV of \$2.5 billion, up ~3% q-o-q/down 27% y-o-y. The company raised FY25 revenue growth guidance to 4.5-5% from 3.75-4.5% in CC terms, while maintaining OPM guidance for FY25 at 20-22% which implies -2.2% to -0.2% q-o-q growth in CC for Q4. Management is seeing improvement in Retail and Consumer product industry in the US with discretionary pressures easing while seeing revival in European financial services. We believe the company remains well positioned to capture cost optimization and transformation opportunities given its strong domain knowledge and market leading capabilities in cloud with Cobalt and generative AI with Topaz. We maintain Buy with an unchanged price target (PT) of Rs. 2270. At CMP, the stock trades at 30/27.5x/24.7x its FY25/26/27E EPS.

Key positives

- Net headcount additions were 5,591 q-o-q, taking total headcount to 323,379.
- Company added 3 clients in the \$50 million+ category.

Key negatives

- Attrition (LTM) inched higher by 80 bps q-o-q to 13.7%
- Revenue from the top 5, Top 10 and 25 clients declined by 6.4%/ 3.9% and 0.5% q-o-q respectively.

Management Commentary

- Company raised FY25 revenue growth guidance to 4.5-5% from 3.75-4.5% in CC terms and maintained OPM guidance for the year at 20-22%.
- Management is seeing improvement in Retail and Consumer product industry in the US with discretionary pressures easing while seeing revival in European financial services.
- Clients continue to prioritise cost takeout over discretionary initiatives.
- Manufacturing continues to see weakness in the automotive in Europe. The communications sector continues to face volatile macro environment leading to growth challenges and rising op-ex pressure.
- In Energy, Utilities, Resources & Services vertical, macro headwinds and supply-demand imbalances continue to influence spending patterns.

Revision in estimates - We have fine-tuned estimates to factor in Q3FY25 performance.

Our Call

Valuation - Maintain Buy with unchanged price target of Rs 2,270: Infosys has reported healthy Q3FY25 numbers, despite Q3 seasonality and raised the guidance for FY25 on the back of improving discretionary spends in Financial services in Europe and Retail and Consumer Product industry in US. Though the guidance has been revised upwards, it implies -2.2% to -0.2% q-o-q growth in CC for Q4 indicating potential revenue decline due to seasonality, fewer working days and drop-in third-party revenue seen in Q3. However, the steady large deal win TCV with strong Headcount additions augurs well for driving the momentum in the fiscals ahead. We believe the company remains well-positioned to capture cost optimization and transformation opportunities given its strong domain knowledge and market leading capabilities in cloud with Cobalt and generative AI with Topaz. We expect 8.3%/7.3% Sales and PAT CAGR over FY24-27E. We maintain Buy with an unchanged price target (PT) of Rs. 2,270. At the CMP, the stock trades at 30/27.5x/24.7x its FY25/26/27E EPS.

Key Risks

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

Valuation (Consolidated)

Particulars	FY24	FY25E	FY26E	Rs cr FY27E
Revenue	1,53,671.0	1,64,060.7	1,78,709.1	1,95,157.5
OPM (%)	23.7	24.1	24.1	24.3
Adjusted PAT	26,232.0	26,650.6	29,037.8	32,361.5
% YoY growth	8.9	1.6	9.0	11.4
Adjusted EPS (Rs)	63.4	64.3	70.1	78.1
P/E (x)	30.4	30.0	27.5	24.7
P/B (x)	5.0	4.9	4.6	4.3
EV/EBITDA	21.3	19.5	17.8	16.0
ROE (%)	29.7	29.4	30.5	31.4
ROCE (%)	34.8	35.3	37.0	38.2

Source: Company; Mirae Asset Sharekhan estimates

Key highlights

- ♦ **Healthy revenue growth:** Infosys reported a CC revenue growth of 1.7% q-o-q/6.1% y-o-y, beating our modest estimates of 0.7% q-o-q revenue growth in CC terms. In dollar terms revenue grew by 0.9% q-o-q /5.9% y-o-y to \$ 4,939 million. Revenue in rupee terms stood at Rs 41,764 crore, up 1.9% q-o-q/7.6% y-o-y.
- ♦ **Margin performance:** EBIT margins improved 20 bps q-o-q to 21.3%, beating our estimates of 21.1%. Margin walk for the quarter comprised of headwinds of 40bps from currency, 30bps from Project Maximus , 20 bps from lower costs relating to provisions for post-sales customer support and expected credit loss provisions, offset by higher third-party costs. Headwinds of 70 basis points from furloughs and lower working days, offset by utilisation and others
- ♦ **Large deal TCVs:** The company closed 17 large deals with TCV of \$2.5 billion of which 63% was net new. The company signed five deals in financial services, four in communication, three in manufacturing, two each in retail and URS, and one in Hi-tech. Region-wise, the company signed 11 large deals in America and six in Europe. This also includes a BOT deal with a client to set up a GCC in India.
- ♦ **Vertical-wise performance:** Financial Services, Retail, Energy and Lifesciences grew 3.1%/4.7%/0.9% and 5.1% q-o-q, respectively while Communication, Manufacturing, Hi-tech and Others segment declined by 5%/0.4%/0.3% and 12.1% q-o-q, respectively
- ♦ **Geography-wise performance:** North America, Europe, India grew 2.7%/ 0.9% and 0.9% q-o-q, respectively while Rest of the World declined 9.5% q-o-q.
- ♦ **Strong headcount additions:** Net Headcount additions were 5,591 q-o-q taking the total headcount to 323,379. Attrition (LTM) rose by 80 bps q-o-q to 13.7% from 12.9% in Q2FY25. Utilisation rate (excluding trainees) improved by 10bps q-o-q to 86%. The company expects to onboard 15,000 freshers this year and 20,000 plus freshers next year.
- ♦ **Client metrics:** The company added 101 clients versus 86 in Q2FY25. The number of active clients increased to 1876 from 1870. Revenue from the top 5, Top 10 and 25 clients declined by 6.4%/ 3.9% and 0.5% q-o-q, respectively. The company added 3 clients in \$50 million+ category but lost six clients in \$10 million+ category
- ♦ **Cash flow:** Free cash flow (FCF) stood at \$1263 million, up 51% q-o-q/90% y-o-y. Consolidated cash and investments stood at \$4.65 billion versus \$4.63 billion in Q2FY25.

Results

Particulars	Q3FY25	Q3FY24	Q2FY25	% YoY	Rs cr % QoQ
Revenues (\$ mn)	4,939	4,663	4,894	5.9	0.9
Net sales	41,764	38,821	40,986	7.6	1.9
Direct Costs	27,917	26,077	27,314	7.1	2.2
Gross Profit	13,847	12,744	13,672	8.7	1.3
SG&A	3,732	3,607	3,863	3.5	-3.4
EBITDA	10,115	9,137	9,809	10.7	3.1
Depr & amort.	1,203	1,176	1,160	2.3	3.7
EBIT	8,912	7,961	8,649	11.9	3.0
Other Income	758	658	604	15.2	25.5
PBT	9,670	8,619	9,253	12.2	4.5
Tax Provision	2,848	2,506	2,737	13.6	4.1
PAT	6,822	6,113	6,516	11.6	4.7
Minority interest/Share of associates	16	7	10		
Net profit	6,806	6,106	6,506	11.5	4.6
EO	-	-	-		
Adjusted net profit	6,806	6,106	6,506	11.5	4.6
EPS (Rs)	16.4	14.8	15.7	11.3	4.6
Margin (%)					
GPM	33.2	32.8	33.4	33	-20
EBITDA	24.2	23.5	23.9	68	29
EBIT	21.3	20.5	21.1	83	24
NPM	16.3	15.7	15.9	57	42
Tax rate	29.5	29.1	29.6	38	-13

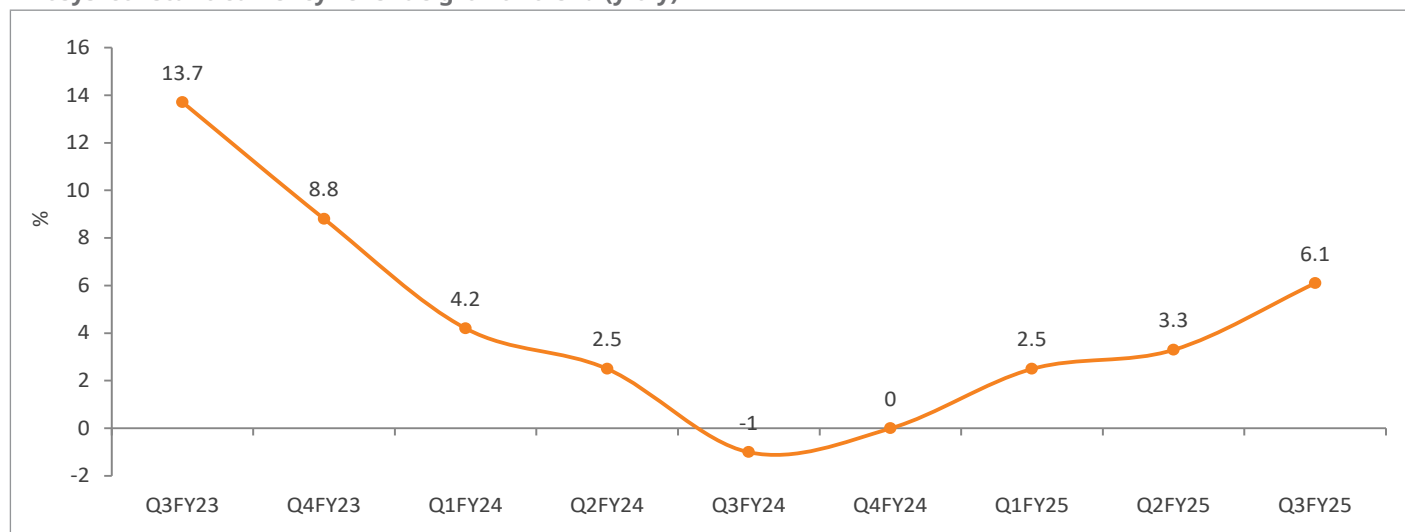
Source: Company; Mirae Asset Sharekhan Research

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)	4,939	100	0.9	5.9	6.1
Geographic mix					
North America	2,884	58.4	2.7	4.8	4.8
Europe	1,472	29.8	0.9	11.9	12.2
India	153	3.1	0.9	36.8	40.1
Rest of world	430	8.7	-9.5	-11.4	-11.1
Industry verticals					
Financial services	1,373	27.8	3.1	5.9	6.1
Retail	682	13.8	4.7	0.1	0.1
Communication	553	11.2	-5.0	4.1	4.0
Energy, utilities, resources & services	667	13.5	0.9	9.2	8.6
Manufacturing	766	15.5	-0.4	10.2	10.7
Hi tech	390	7.9	-0.3	8.7	8.4
Life sciences	375	7.6	5.1	5.9	6.3
Others	133	2.7	-12.1	-1.4	3.2
Clients Contribution					
Top 5 clients	627	12.7	-6.4	0.4	
Top 10 clients	983	19.9	-3.9	5.4	
Top 25 clients	1,689	34.2	-0.5	7.5	
Deal wins (\$ mn)					
TCV	2,495	-	2.7	-23.0	

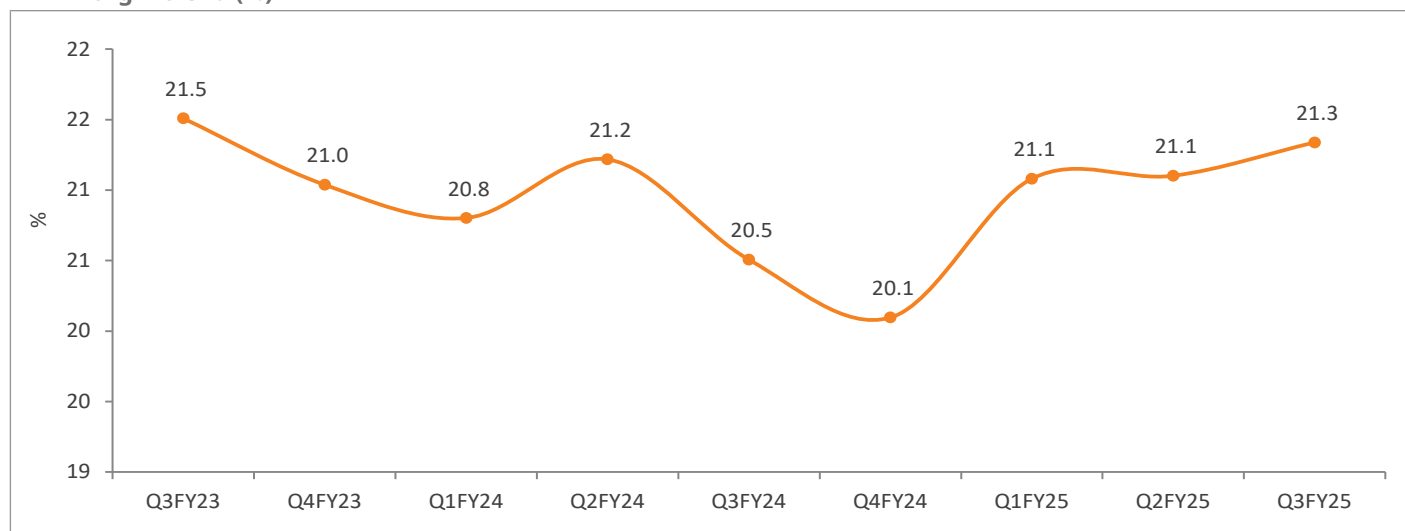
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Infosys' constant-currency revenue growth trend (y-o-y)



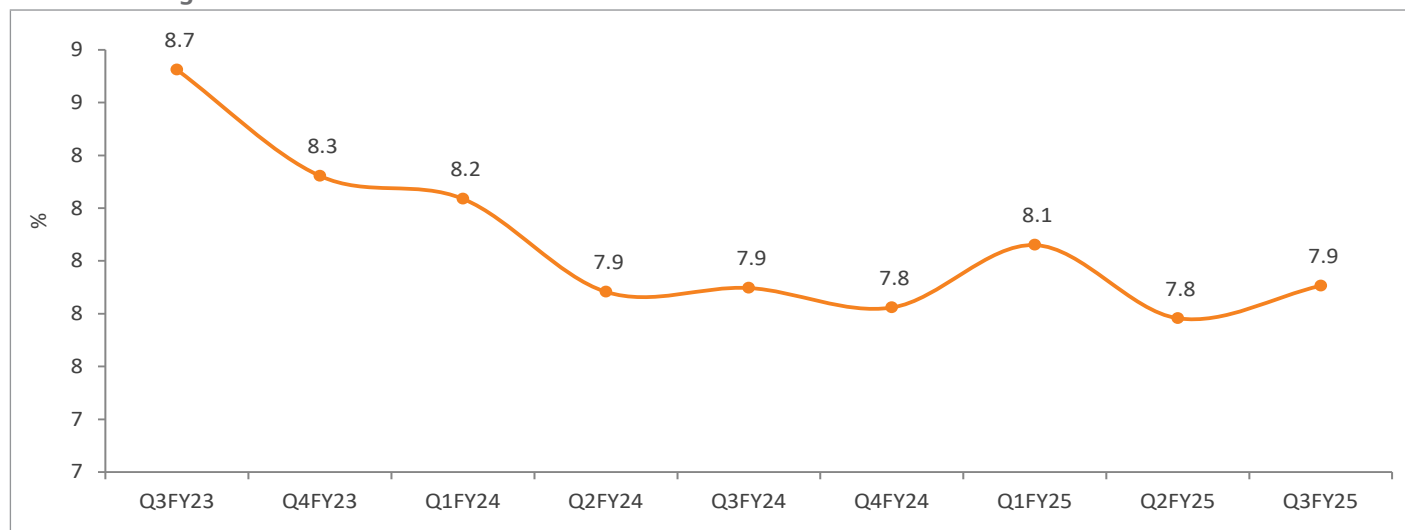
Source: Company; Mirae Asset Sharekhan Research

EBIT margin trend (%)



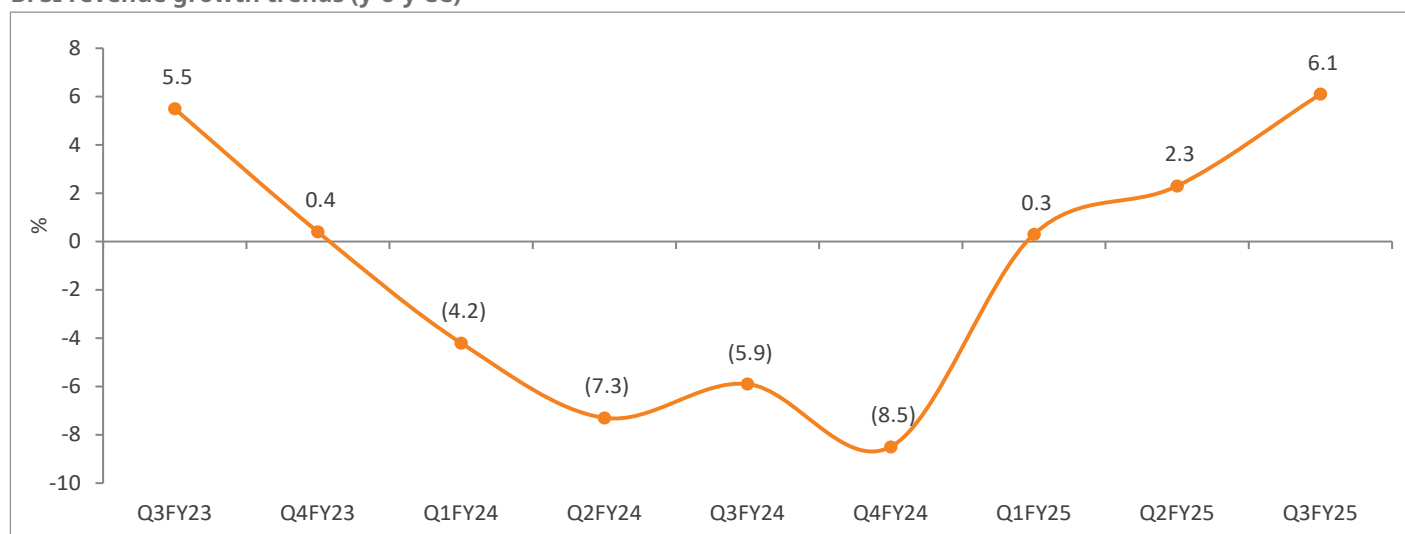
Source: Company; Mirae Asset Sharekhan Research

Subcontracting costs as a % of revenue



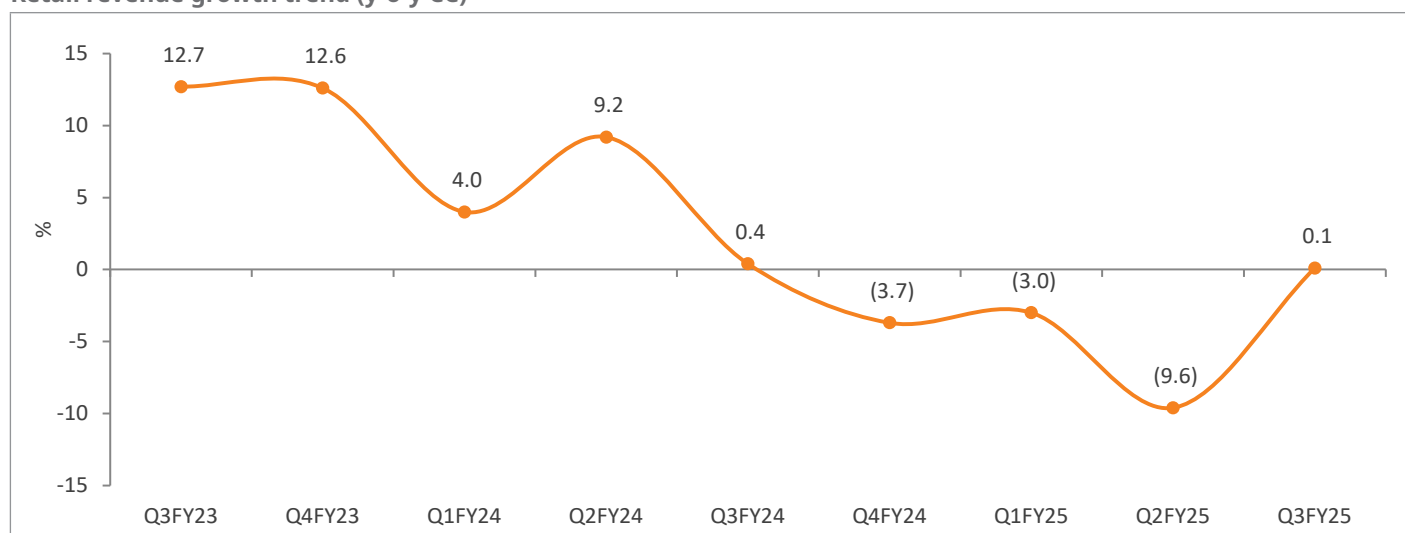
Source: Company; Mirae Asset Sharekhan Research

BFSI revenue growth trends (y-o-y CC)



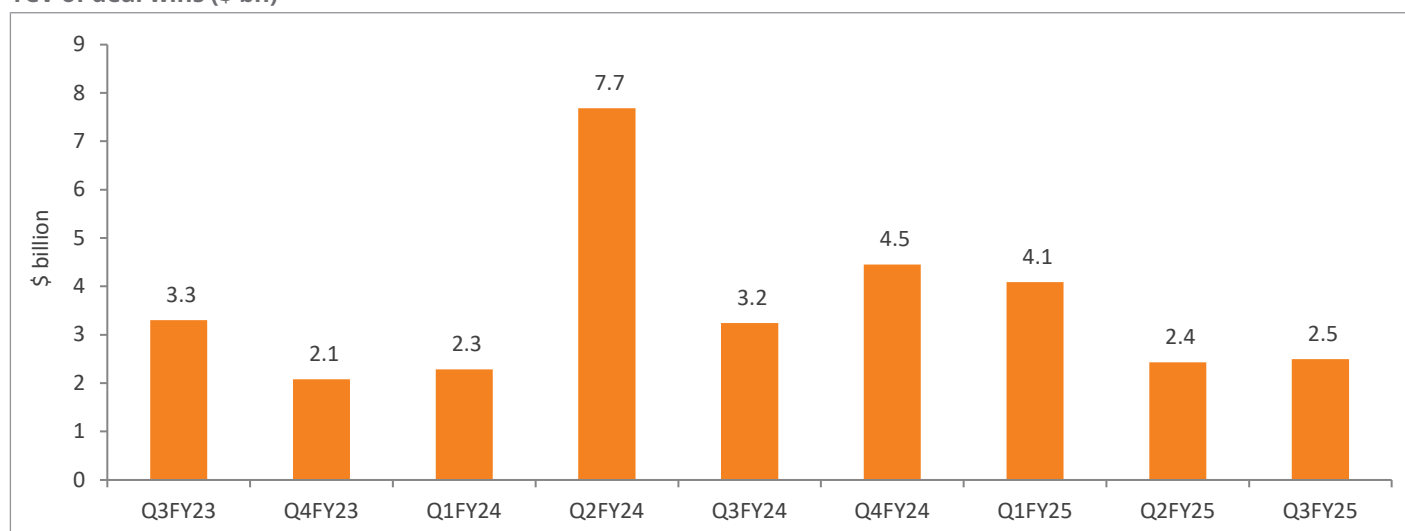
Source: Company; Mirae Asset Sharekhan Research

Retail revenue growth trend (y-o-y CC)



Source: Company; Mirae Asset Sharekhan Research

TCV of deal wins (\$ bn)



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.

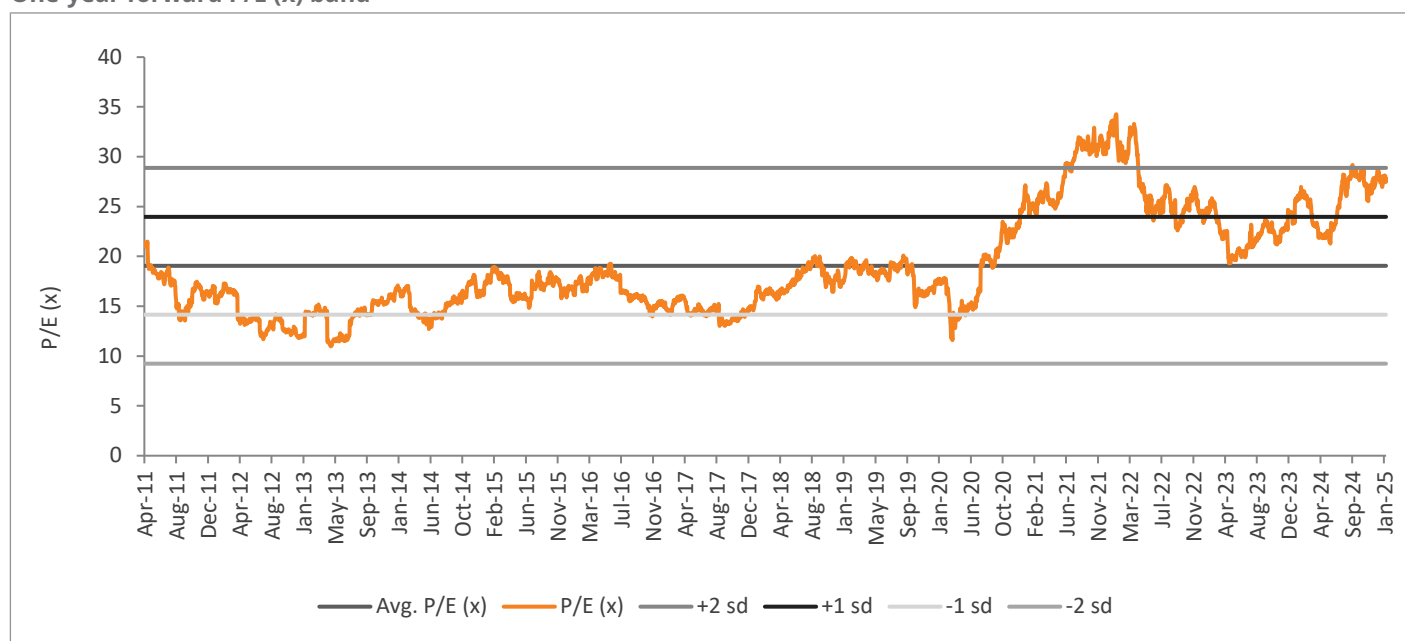
■ Company Outlook – Well-positioned to capture opportunities

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 2270

Infosys has reported healthy Q3FY25 numbers, despite Q3 seasonality and raised the guidance for FY25 on the back of improving discretionary spends in Financial services in Europe and Retail and Consumer Product industry in US. Though the guidance has been revised upwards, it implies -2.2% to -0.2% q-o-q growth in CC for Q4 indicating potential revenue decline due to seasonality, fewer working days and drop-in third-party revenue seen in Q3. However, the steady large deal win TCV with strong Headcount additions augurs well for driving the momentum in the fiscals ahead. We believe the company remains well-positioned to capture cost optimization and transformation opportunities given its strong domain knowledge and market leading capabilities in cloud with Cobalt and generative AI with Topaz. We expect 8.3%/7.3% Sales and PAT CAGR over FY24-27E. We maintain Buy with an unchanged price target (PT) of Rs. 2,270. At the CMP, the stock trades at 30/27.5x/24.7x its FY25/26/27E EPS.

One-year forward P/E (x) band



Source: Company; Mirae Asset 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

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	4.26
5	Vanguard Group Inc	3.51
6	ICICI Prudential Asset Management	2.61
7	UTI Asset Management Co Ltd	1.69
8	HDFC Asset Management Co Ltd	1.65
9	NATIONAL PENSION SYSTEM	1.64
10	Republic of Singapore	1.58

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 deteriorating 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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