

# Pass-through revenue aids growth; implied Q4 guidance disappoints

Information Technology ▶ Result Update ▶ January 17, 2025

**TARGET PRICE (Rs): 2,150**

**Infosys reported better than expected revenue growth in Q3. Revenue grew 1.7% QoQ CC, partly aided by increase in pass-through revenue and incremental contribution (20bps) from the in-tech acquisition. EBITM expanded by 20bps to 21.3%, in line with expectation. Deal-win (worth USD2.5bn) was steady, with net new deals TCV up 57% QoQ. Deal pipeline has also improved, with the large-deal pipeline becoming stronger. Q3 saw improvement in the discretionary spending environment in the Retail and CPG in North America, and BFSI in Europe; this follows improvement in BFSI in North America in Q2. Demand is stable in other industries, with cost optimization driving the spends. It has upped FY25 revenue growth guidance for the 3<sup>rd</sup> consecutive quarter to 4.5-5% (3.75-4.5% earlier). However, this implies sequential decline of 2.5% to 0.6% in Q4, negatively impacted by seasonality of pass-through revenue and lesser working days. We tweak FY25-27E EPS by less than 1%, factoring in the Q3 performance. We retain BUY and TP of Rs2,150 at 28x Dec-26E EPS.**

## Infosys: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	1,467,670	1,536,710	1,638,712	1,796,462	1,973,829
EBITDA	351,310	364,250	391,278	435,512	480,944
Adj. PAT	240,950	262,320	262,467	295,900	328,927
Adj. EPS (Rs)	58.1	63.2	63.2	71.3	79.2
EBITDA margin (%)	23.9	23.7	23.9	24.2	24.4
EBITDA growth (%)	11.6	3.7	7.4	11.3	10.4
Adj. EPS growth (%)	10.5	8.8	0.0	12.7	11.2
RoE (%)	31.8	31.9	28.4	29.3	29.8
RoIC (%)	55.2	49.5	49.2	55.5	60.7
P/E (x)	33.2	30.5	30.5	27.1	24.3
EV/EBITDA (x)	21.9	20.9	19.2	17.1	15.3
P/B (x)	10.6	9.0	8.3	7.6	6.9
FCFF yield (%)	2.6	3.0	3.7	3.6	4.0

Source: Company, Emkay Research

## Results Summary

Infosys reported revenue growth of 0.9% QoQ (1.7% CC) to USD4.94bn, ahead of our estimate of USD4.87bn. Cost of third-party items bought for service delivery to clients increased by ~150bps QoQ, reflecting increased contribution from pass-through revenue, largely explaining the revenue beat. EBITM expanded by 20bps to 21.3%, in line with our estimate. Margin expansion was aided by currency tailwinds (40bps), benefits accruing from Project Maximus (30bps), and lower provision for post-sales customer support and expected credit loss (20bps), partially offset by higher furloughs and lesser working days (~70bps). Among verticals, Financial Services (3.1% QoQ), Retail (4.7%), Lifesciences (5.1%), and EURS (0.9%) saw growth, while Communications (-5%), Manufacturing (-0.4%), Hi-Tech (-0.3%), and Others (-12.1%) saw a decline. North America, Europe, and India grew 2.7%, 0.9%, and 0.9%, respectively, while ROW declined 9.5%. Headcount grew 1.8% QoQ to 323,379. LTM attrition inched up to 13.7%, from 12.9% in Q2FY25. **What we liked:** Steady operating performance, healthy cash conversion (OCF/EBITDA 110.7%). **What we did not like:** Weakness in top-5 clients, Q4 implied guidance.

## Earnings Call KTAs

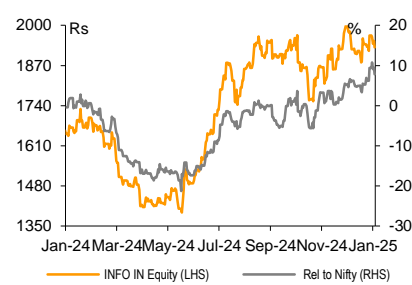
1) The mgmt highlighted it is beginning to see positivity in discretionary spends led by revival in BFSI in North America since a couple of quarters (esp in capital markets, mortgages, cards, payments), and now in Europe. Retail and CPG in North America is also seeing uptick in demand and deal booking. Automotive sector in Europe, however, remains under pressure, while other verticals saw no change. 2) Client focus continues on cost optimization, though an increased traction is witnessed in spending toward new growth areas like AI, cloud adoption, cybersecurity data, and analytics. 3) The company closed 17 large deals in Q3 – 11 in America and 6 in Europe. 4) BFSI saw a third consecutive quarter of volume growth, reflecting continued positivity in demand. 5) The company plans to roll out wage hikes in 2 phases – first in January (majority of the employees) and the second in April. The average wage hike is likely to be 6-8% for India-based employees. 6) The mgmt indicated that realization improved 3.6% YoY in 9MFY25 on the back of progress in value-based selling under Project Maximus. 7) The mgmt attributed weakness in top-5 clients to furloughs and currency impact. 8) The company is developing 100 new Gen AI agents for deployment across clients. It has developed 4 small LLMs – for banking, IT operations, cyber security and, broadly, for enterprise.

Target Price – 12M	Dec-25
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	11.5
CMP (16-Jan-25) (Rs)	1,928.5

Stock Data	Ticker
52-week High (Rs)	2,007
52-week Low (Rs)	1,358
Shares outstanding (mn)	4,152.3
Market-cap (Rs bn)	8,007
Market-cap (USD mn)	92,518
Net-debt, FY25E (Rs mn)	-480,690
ADTV-3M (mn shares)	6
ADTV-3M (Rs mn)	10,608.9
ADTV-3M (USD mn)	122.6
Free float (%)	86.0
Nifty-50	23,312
INR/USD	86.6
<b>Shareholding, Sep-24</b>	
Promoters (%)	13.1
FPIs/MFs (%)	30.1/34.5

Price Performance			
(%)	1M	3M	12M
Absolute	(2.6)	0.4	18.9
Rel. to Nifty	3.1	7.6	12.3

## 1-Year share price trend (Rs)



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**Exhibit 1: Quarterly snapshot**

(Rs mn)	Q3FY25	Q2FY25	QoQ chg	Q3FY24	YoY chg
Net sales (USD mn)	4,939	4,894	0.9%	4,663	5.9%
Net sales	417,640	409,860	1.9%	388,210	7.6%
Operating expenses	316,490	311,770		296,840	
EBITDA	101,150	98,090	3.1%	91,370	10.7%
Margins (%)	24.2	23.9	30	23.5	70
Depreciation	12030	11600		11760	
EBIT	89,120	86,490	3.0%	79,610	11.9%
Margins (%)	21.3	21.1	20	20.5	80
Other income (net)	7,580	6,040		6,580	
Pre-tax profit	96,700	92,530	4.5%	86,190	
Tax provided	28,480	27,370		25,060	
Profit after tax	68,220	65,160		61,130	
Emkay Net profit	68,060	65,060	4.6%	61,060	11.5%
EPS (Rs)	16.4	15.7	4.6%	14.7	11.4%

Source: Company, Emkay Research

**Exhibit 2: Actuals vs estimates**

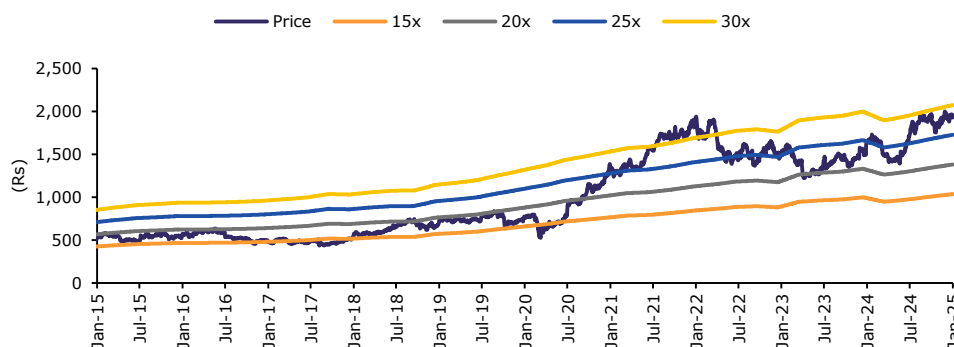
(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue (USD mn)	4,939	4,870	4,891	1.4%	1.0%	Revenue came in above our expectations.
Sales	417,640	411,962	412,909	1.4%	1.1%	
EBIT	89,120	87,591	87,537	1.7%	1.8%	
EBIT margin	21.3%	21.3%	21.2%	10 bps	10 bps	Margin came in line with our expectations.
PAT	68,060	66,687	67,304	2.1%	1.1%	Net profit beat our expectations due to revenue beat.

Source: Company, Bloomberg, Emkay Research

**Exhibit 3: Changes in estimates**

(Rs mn)	FY25E			FY26E			FY27E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue (USD mn)	19,357	19,437	0.4%	21,007	21,011	0.0%	22,683	22,688	0.0%
YoY growth	4.3%	4.7%		8.5%	8.1%		8.0%	8.0%	
Revenue	1,632,150	1,638,712	0.4%	1,796,126	1,796,462	0.0%	1,973,461	1,973,829	0.0%
EBIT	343,309	344,217	0.3%	384,668	384,598	0.0%	425,828	425,766	0.0%
EBIT margin	21.0	21.0		21.4	21.4		21.6	21.6	
Net profit	261,231	262,467	0.5%	293,774	295,900	0.7%	327,331	328,927	0.5%
EPS (Rs)	62.9	63.2	0.5%	70.8	71.3	0.7%	78.8	79.2	0.5%

Source: Company, Emkay Research

**Exhibit 4: Infosys – One-year forward PER**

Source: Company, Emkay Research

Infosys: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	1,467,670	1,536,710	1,638,712	1,796,462	1,973,829
Revenue growth (%)	20.7	4.7	6.6	9.6	9.9
EBITDA	351,310	364,250	391,278	435,512	480,944
EBITDA growth (%)	11.6	3.7	7.4	11.3	10.4
Depreciation & Amortization	42,250	46,780	47,060	50,915	55,178
EBIT	309,060	317,470	344,217	384,598	425,766
EBIT growth (%)	10.3	2.7	8.4	11.7	10.7
Other operating income	0	0	0	0	0
Other income	27,160	45,420	30,811	35,557	40,906
Financial expense	3,000	3,000	3,000	3,000	3,000
PBT	333,220	359,890	372,028	417,154	463,672
Extraordinary items	0	0	0	0	0
Taxes	92,140	97,410	109,171	120,975	134,465
Minority interest	(130)	(160)	(390)	(280)	(280)
Income from JV/Associates	0	0	0	0	0
Reported PAT	240,950	262,320	262,467	295,900	328,927
PAT growth (%)	9.0	8.9	0.1	12.7	11.2
Adjusted PAT	240,950	262,320	262,467	295,900	328,927
Diluted EPS (Rs)	58.1	63.2	63.2	71.3	79.2
Diluted EPS growth (%)	10.5	8.8	0.0	12.7	11.2
DPS (Rs)	34.0	46.0	44.0	49.5	55.0
Dividend payout (%)	58.5	72.8	69.6	69.5	69.4
EBITDA margin (%)	23.9	23.7	23.9	24.2	24.4
EBIT margin (%)	21.1	20.7	21.0	21.4	21.6
Effective tax rate (%)	27.7	27.1	29.3	29.0	29.0
NOPLAT (pre-IndAS)	223,601	231,542	243,208	273,064	302,294
Shares outstanding (mn)	4,148.6	4,150.4	4,152.1	4,152.1	4,152.1

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	333,220	359,890	372,028	417,154	463,672
Others (non-cash items)	49,840	44,550	46,670	50,635	54,898
Taxes paid	(87,940)	(92,310)	(109,171)	(120,975)	(134,465)
Change in NWC	(65,030)	(51,620)	43,837	(13,904)	(14,260)
Operating cash flow	230,220	260,660	353,365	332,910	369,845
Capital expenditure	(25,790)	(22,010)	(57,750)	(43,530)	(47,030)
Acquisition of business	(9,700)	(1,010)	(26,320)	0	0
Interest & dividend income	18,630	21,670	26,831	31,357	36,706
Investing cash flow	(17,640)	(58,650)	(84,070)	(43,530)	(47,030)
Equity raised/(repaid)	(118,110)	50	0	0	0
Debt raised/(repaid)	0	0	0	0	0
Payment of lease liabilities	(12,310)	(20,240)	0	0	0
Interest paid	0	0	0	0	0
Dividend paid (incl tax)	(136,530)	(154,850)	(182,694)	(205,531)	(228,368)
Others	1,380	(840)	0	0	0
Financing cash flow	(265,570)	(175,880)	(182,694)	(205,531)	(228,368)
Net chg in Cash	(52,990)	26,130	86,600	83,849	94,447
OCF	230,220	260,660	353,365	332,910	369,845
Adj. OCF (w/o NWC chg.)	295,250	312,280	309,528	346,814	384,105
FCFF	204,430	238,650	295,615	289,380	322,815
FCFE	220,060	257,320	319,446	317,737	356,521
OCF/EBITDA (%)	65.5	71.6	90.3	76.4	76.9
FCFE/PAT (%)	91.3	98.1	121.7	107.4	108.4
FCFF/NOPLAT (%)	91.4	103.1	121.5	106.0	106.8

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	20,690	20,710	20,710	20,710	20,710
Reserves & Surplus	737,260	863,900	943,673	1,034,041	1,134,600
Net worth	757,950	884,610	964,383	1,054,751	1,155,310
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(250)	13,400	9,940	9,940	9,940
Total debt	0	0	0	0	0
Total liabilities & equity	757,700	898,010	974,323	1,064,691	1,165,250
Net tangible fixed assets	133,460	123,700	114,669	110,518	108,129
Net intangible assets	17,490	13,970	28,694	23,211	17,634
Net ROU assets	68,820	65,520	69,996	72,245	72,064
Capital WIP	4,470	4,480	5,000	5,000	5,000
Goodwill	72,480	73,030	99,350	99,350	99,350
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	316,510	394,090	480,690	564,539	658,986
Current assets (ex-cash)	632,480	698,810	684,249	743,520	808,789
Current Liab. & Prov.	488,010	475,590	508,326	553,693	604,702
NWC (ex-cash)	144,470	223,220	175,923	189,827	204,088
Total assets	757,700	898,010	974,323	1,064,691	1,165,250
Net debt	(316,510)	(394,090)	(480,690)	(564,539)	(658,986)
Capital employed	757,700	898,010	974,323	1,064,691	1,165,250
Invested capital	436,720	499,440	488,633	495,152	501,264
BVPS (Rs)	182.7	213.1	232.3	254.0	278.2
Net Debt/Equity (x)	(0.4)	(0.4)	(0.5)	(0.5)	(0.6)
Net Debt/EBITDA (x)	(0.9)	(1.1)	(1.2)	(1.3)	(1.4)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	44.4	43.8	40.1	41.2	41.9

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	33.2	30.5	30.5	27.1	24.3
P/CE(x)	28.2	25.9	25.9	23.1	20.8
P/B (x)	10.6	9.0	8.3	7.6	6.9
EV/Sales (x)	5.2	5.0	4.6	4.1	3.7
EV/EBITDA (x)	21.9	20.9	19.2	17.1	15.3
EV/EBIT(x)	24.9	24.0	21.9	19.4	17.3
EV/IC (x)	17.6	15.2	15.4	15.0	14.7
FCFF yield (%)	2.6	3.0	3.7	3.6	4.0
FCFE yield (%)	2.8	3.2	4.0	4.0	4.5
Dividend yield (%)	1.8	2.4	2.3	2.6	2.9
DuPont-RoE split					
Net profit margin (%)	16.4	17.1	16.0	16.5	16.7
Total asset turnover (x)	1.9	1.9	1.8	1.8	1.8
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	31.8	31.9	28.4	29.3	29.8
DuPont-RoIC					
NOPLAT margin (%)	15.2	15.1	14.8	15.2	15.3
IC turnover (x)	3.6	3.3	3.3	3.7	4.0
RoIC (%)	55.2	49.5	49.2	55.5	60.7
Operating metrics					
Core NWC days	35.9	53.0	39.2	38.6	37.7
Total NWC days	35.9	53.0	39.2	38.6	37.7
Fixed asset turnover	3.0	2.9	2.9	2.9	3.0
Opex-to-revenue (%)	76.1	76.3	76.1	75.8	75.6

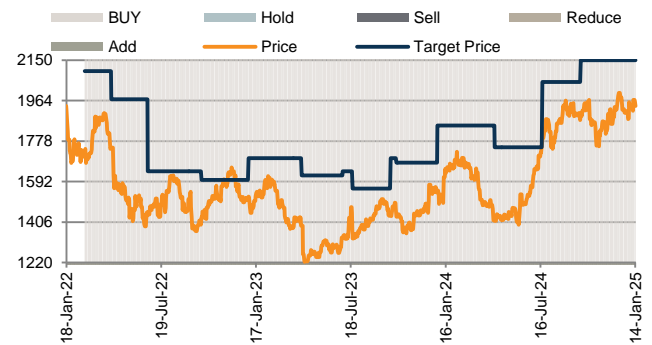
Source: Company, Emkay Research

## RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
01-Jan-25	1,883	2,150	Buy	Dipeshkumar Mehta
18-Oct-24	1,880	2,150	Buy	Dipeshkumar Mehta
01-Oct-24	1,904	2,150	Buy	Dipeshkumar Mehta
19-Jul-24	1,793	2,050	Buy	Dipeshkumar Mehta
09-Jun-24	1,534	1,750	Buy	Dipeshkumar Mehta
03-Jun-24	1,406	1,750	Buy	Dipeshkumar Mehta
27-May-24	1,471	1,750	Buy	Dipeshkumar Mehta
19-Apr-24	1,411	1,750	Buy	Dipeshkumar Mehta
01-Apr-24	1,495	1,850	Buy	Dipeshkumar Mehta
31-Mar-24	1,498	1,850	Buy	Dipeshkumar Mehta
01-Mar-24	1,655	1,850	Buy	Dipeshkumar Mehta
12-Jan-24	1,613	1,850	Buy	Dipeshkumar Mehta
31-Dec-23	1,543	1,850	Buy	Dipeshkumar Mehta
30-Nov-23	1,455	1,680	Buy	Dipeshkumar Mehta
13-Oct-23	1,431	1,680	Buy	Dipeshkumar Mehta
02-Oct-23	1,435	1,700	Buy	Dipeshkumar Mehta
21-Jul-23	1,332	1,560	Buy	Dipeshkumar Mehta
02-Jul-23	1,336	1,640	Buy	Dipeshkumar Mehta
14-Apr-23	1,389	1,620	Buy	Dipeshkumar Mehta
01-Apr-23	1,428	1,700	Buy	Dipeshkumar Mehta
13-Jan-23	1,504	1,700	Buy	Dipeshkumar Mehta
02-Jan-23	1,524	1,700	Buy	Dipeshkumar Mehta
14-Oct-22	1,474	1,600	Buy	Dipeshkumar Mehta
04-Oct-22	1,429	1,600	Buy	Dipeshkumar Mehta
25-Jul-22	1,504	1,640	Buy	Dipeshkumar Mehta
23-Jun-22	1,452	1,640	Buy	Dipeshkumar Mehta
01-Jun-22	1,479	1,970	Buy	Dipeshkumar Mehta
14-Apr-22	1,749	1,970	Buy	Dipeshkumar Mehta
01-Apr-22	1,904	2,100	Buy	Dipeshkumar Mehta
22-Feb-22	1,734	2,100	Buy	Dipeshkumar Mehta

Source: Company, Emkay Research

## RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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<b>SELL</b>	<15% downside

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