

Q4 woes continue; uncertainty weighs on FY26 guidance

Information Technology ▶ Result Update ▶ April 18, 2025

CMP (Rs): 1,420 | TP (Rs): 1,650

Infosys reported a disappointing revenue performance in Q4, and missed implied growth guidance. Revenue declined 3.5% QoQ in cc terms, falling short of our expectations. The management attributed 2/3rd of the sequential revenue decline to a lower pass-through revenue while observing some deal slippages; the remaining 1/3rd decline is ascribed to the seasonal volume drop. EBITM declined by 30bps to 21.0% due to wage hike, albeit coming in above our expectation. Large-deal TCV in Q4 was steady at USD2.6bn, of which 63% is net new. The company has guided to a wider 0-3% CC revenue growth range for FY26 (implying CQGR of 0.4-1.6%), considering the heightened uncertainty and increased cautiousness among clients in the current environment. The management indicated that guidance assumes normal seasonality at the upper end, while the lower end factors in risks of a weak start and some further deterioration in the macro environment. It has guided to EBITM band of 20-22% for FY26, with an endeavor to improve its margin trajectory. We trim FY26-27E EPS by 4.3-5.6%, accounting for the Q4 miss and FY26 guidance. We retain BUY while cutting our TP by +13% to Rs1,650 at 23x Mar-27E EPS (earlier 25x).

Results Summary

Infosys reported revenue drop of 4.2% QoQ (-3.5% CC) to USD4.7bn. EBITM contracted by 30bps to 21%, albeit ahead of our expectations of 20.5%. Margin contraction was owing to wage hike (-140bps) and acquisition-related amortization (-40bps), partially offset by lower post-sales support (80bps), currency tailwind (20bps), Project Maximus (30bps), and lower 3rd party cost (20bps). Except Communications (flat QoQ) and Hi-tech (0.6%), all other verticals posted a decline - Financial Services (-2.2%), Lifesciences (-14.3%), Retail (-7.7%), Manufacturing (-1.8%), and EURS (-7.8%). Infosys won 24 large deals with total TCV of USD2.6bn, of which 63% is net new. Headcount was up 0.1% QoQ to 323,578. LTM attrition inched up to 14.1% from 13.7% in Q3. What we liked: Steady large-deal intake, cash conversion (OCF/EBITDA: 86%). What we did not like: Revenue miss in Q4.

Earning Call KTAs

1) Infosys has not seen any major ramp-downs so far. Recent tariff announcements have led to cautious behavior by clients and delayed decision-making in select pockets. 2) FY26 guidance does not include contribution from acquisitions and assumes reduction in 3rd party revenue vs FY25, based on order book and current deal pipeline. 3) BFSI is steady so far, though the management remains watchful of any impact from the heightened uncertainty. It expects steady growth in capital markets as well as in cards and payments in large global banks/US regional banks. 4) In Manufacturing, CY25 budgets are lower for auto and industrial manufacturing, and flat for aero. Elevated uncertainty due to US tariffs is likely to lead to subdued spending and delayed decision-making. Weakness in auto, especially in Europe, persists. Deal pipelines remain healthy, with focus on cost takeouts, opportunities in infrastructure transformation and...(contd)...

Target Price - 12M	Mar-26
Change in TP (%)	(13.2)
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	16.2

Stock Data	INFO IN
52-week High (Rs)	2,007
52-week Low (Rs)	1,307
Shares outstanding (mn)	4,153.3
Market-cap (Rs bn)	5,896
Market-cap (USD mn)	69,055
Net-debt, FY25E (Rs mn)	0.0
ADTV-3M (mn shares)	7
ADTV-3M (Rs mn)	13,255.3
ADTV-3M (USD mn)	155.3
Free float (%)	86.7
Nifty-50	23,851.7
INR/USD	85.4

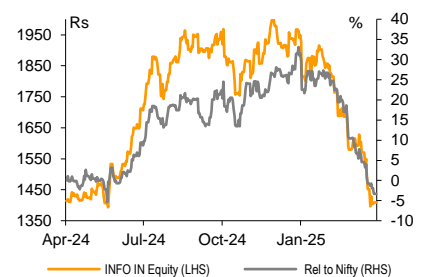
Shareholding, Dec-24

Promoters (%)	13.1
FPIs/MFs (%)	30.1/34.7

Price Performance

(%)	1M	3M	12M
Absolute	(10.7)	(21.8)	0.9
Rel. to Nifty	(15.8)	(23.9)	(6.3)

1-Year share price trend (Rs)



Infosys: Financial Snapshot (Consolidated)					
Y/E Mar (Rs mn)	FY23	FY24	FY25	FY26E	FY27E
Revenue	1,467,670	1,536,710	1,629,900	1,688,132	1,793,133
EBITDA	351,310	364,250	392,350	411,745	439,631
Adj. PAT	240,950	262,320	267,130	278,696	299,394
Adj. EPS (Rs)	58.1	63.2	64.3	67.1	72.1
EBITDA margin (%)	23.9	23.7	24.1	24.4	24.5
EBITDA growth (%)	11.6	3.7	7.7	4.9	6.8
Adj. EPS growth (%)	10.5	8.8	1.8	4.3	7.4
RoE (%)	31.8	31.9	28.9	27.9	27.8
RoIC (%)	55.2	49.5	50.1	52.9	56.1
P/E (x)	24.4	22.5	22.1	21.1	19.7
EV/EBITDA (x)	15.9	15.1	14.0	13.4	12.5
P/B (x)	7.8	6.7	6.1	5.7	5.3
FCFF yield (%)	3.7	4.3	6.3	5.1	5.6

Source: Company, Emkay Research

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...(contd)...consolidation, as well as some traction in ERP modernization programs. 5) The Retail sector has been impacted by economic uncertainty, resulting in lower consumer spending in core markets. Due to the recent tariff announcements, clients' budgets are expected to be tightened and there is increased caution. Decision cycles are getting stretched for discretionary spending and larger deals. 6) EURS continues to grow, and the company sees a strong pipeline of opportunities from both, existing and potential clients. Acquisition of MRE Consulting will strengthen the company's vertical expertise and open new buying centers in the energy trading and risk management areas. 7) The Communications vertical remains soft. Discretionary spending is under pressure, with clients focusing on cutting costs, restructuring, and consolidation deals. 8) In high tech, most clients remain cautious due to the macroeconomic headwinds and tariff announcements, with discretionary spending remaining under pressure. There is increased margin pressure on account of committed spending on data centers. 9) Mid-to-senior level employees will see wage hikes, effective Apr-25. 10) the company added 15k freshers in FY25, and plans to hire 20k more in FY26. 11) The company expects FCF to be above 100% of net profit in FY26. 12) It expects ETR to be 29-30%. 13) Clients are moving from a use-case-based approach to an AI-led transformational one, with AI agents playing a crucial role. 14) The company announced 2 acquisitions—MRE Consulting (brings newer capabilities in trading and risk management, especially in the energy sector) and The Missing Link (strengthens cybersecurity and cloud capabilities).

Exhibit 1: Infosys – Quarterly snapshot

(Rs mn)	Q4FY25	Q3FY25	QoQ chg	Q4FY24	YoY chg
Net sales (USD mn)	4,730	4,939	-4.2%	4,564	3.6%
Net sales	4,09,250	4,17,640	-2.0%	3,79,230	7.9%
Operating expenses	3,10,510	3,16,490		2,91,390	
EBITDA	98,740	1,01,150	-2.4%	87,840	12.4%
- Margin (%)	24.1	24.2	(10)	23.2	100
Depreciation	12990	12030		11630	
EBIT	85,750	89,120	-3.8%	76,210	12.5%
- Margin (%)	21.0	21.3	(30)	20.1	90
Other income (net)	10,880	7,580		26,190	
Pre-tax profit	96,630	96,700	-0.1%	1,02,400	
Tax provided	26,250	28,480		22,650	
Profit after tax	70,380	68,220		79,750	
Emkay Net profit	70,330	68,060	3.3%	79,690	-11.7%
EPS (Rs)	16.9	16.4	3.3%	19.2	-11.8%

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates

(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue (USD mn)	4,730	4,865	4,872	-2.8%	-2.9%	Revenue came below our expectations.
Sales	409,250	4,21,788	4,21,456	-3.0%	-2.9%	
EBIT	85,750	86,598	87,663	-1.0%	-2.2%	
EBIT margin	21.0%	20.5%	20.8%	40 bps	20 bps	Margin came ahead of expectations.
PAT	70,330	66,287	67,433	6.1%	4.3%	Net profit beat expectations due to higher other income and lower ETR.

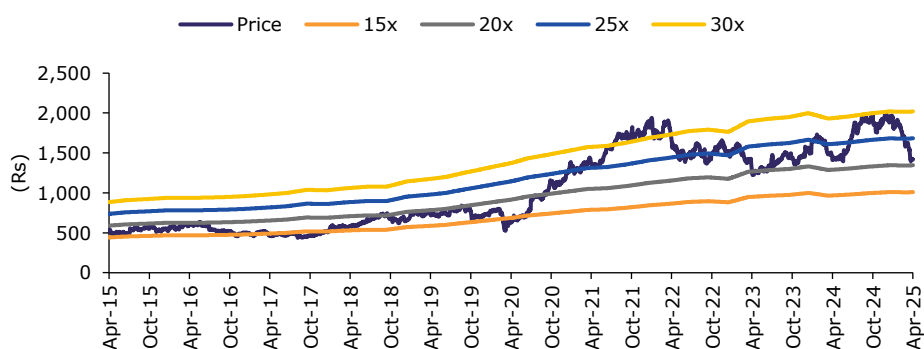
Source: Company, Bloomberg, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY26E			FY27E		
	Old	New	Change	Old	New	Change
Revenue (USD mn)	20,453	19,516	-4.6%	21,790	20,493	-6.0%
YoY growth	5.4%	1.2%		6.5%	5.0%	
Revenue	17,69,187	16,88,132	-4.6%	19,06,588	17,93,133	-6.0%
EBIT	3,77,960	3,60,801	-4.5%	4,09,391	3,85,201	-5.9%
EBIT margin (%)	21.4	21.4		21.5	21.5	
Net profit	2,91,147	2,78,696	-4.3%	3,17,010	2,99,394	-5.6%
EPS (Rs)	70.1	67.1	-4.3%	76.3	72.1	-5.6%

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	FY25	FY26E	FY27E
Revenue	1,467,670	1,536,710	1,629,900	1,688,132	1,793,133
Revenue growth (%)	20.7	4.7	6.1	3.6	6.2
EBITDA	351,310	364,250	392,350	411,745	439,631
EBITDA growth (%)	11.6	3.7	7.7	4.9	6.8
Depreciation & Amortization	42,250	46,780	48,110	50,944	54,430
EBIT	309,060	317,470	344,240	360,801	385,201
EBIT growth (%)	10.3	2.7	8.4	4.8	6.8
Other operating income	-	-	-	-	-
Other income	24,160	42,420	31,830	32,124	36,875
Financial expense	0	0	0	0	0
PBT	333,220	359,890	376,070	392,924	422,076
Extraordinary items	0	0	0	0	0
Taxes	92,140	97,410	108,570	113,948	122,402
Minority interest	(130)	(160)	(370)	(280)	(280)
Income from JV/Associates	-	-	-	-	-
Reported PAT	240,950	262,320	267,130	278,696	299,394
PAT growth (%)	9.0	8.9	1.8	4.3	7.4
Adjusted PAT	240,950	262,320	267,130	278,696	299,394
Diluted EPS (Rs)	58.1	63.2	64.3	67.1	72.1
Diluted EPS growth (%)	10.5	8.8	1.8	4.3	7.4
DPS (Rs)	32.9	37.3	48.9	49.0	52.5
Dividend payout (%)	56.7	59.0	75.9	73.0	72.8
EBITDA margin (%)	23.9	23.7	24.1	24.4	24.5
EBIT margin (%)	21.1	20.7	21.1	21.4	21.5
Effective tax rate (%)	27.7	27.1	28.9	29.0	29.0
NOPLAT (pre-IndAS)	223,601	231,542	244,859	256,168	273,493
Shares outstanding (mn)	4,149	4,150	4,152	4,152	4,152

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY23	FY24	FY25	FY26E	FY27E
PBT (ex-other income)	329,020	354,790	323,520	392,644	421,796
Others (non-cash items)	142,110	142,110	162,430	164,892	176,832
Taxes paid	(87,940)	(92,310)	(56,020)	(113,948)	(122,402)
Change in NWC	(65,030)	(51,620)	(6,050)	(14,126)	(7,311)
Operating cash flow	230,220	260,660	367,860	315,515	346,513
Capital expenditure	(25,790)	(22,010)	(22,370)	(36,890)	(41,030)
Acquisition of business	(9,700)	(1,010)	(31,550)	(4,300)	0
Interest & dividend income	18,630	21,670	27,480	30,924	35,675
Investing cash flow	(17,640)	(58,650)	(30,380)	(52,010)	(41,030)
Equity raised/(repaid)	(118,110)	50	(5,340)	0	0
Debt raised/(repaid)	0	0	0	0	0
Payment of lease liabilities	(12,310)	(20,240)	(23,550)	0	0
Interest paid	0	0	0	0	0
Dividend paid (incl tax)	(136,530)	(154,850)	(202,870)	(203,455)	(217,988)
Others	0	0	(9,850)	0	0
Financing cash flow	(266,950)	(175,040)	(241,610)	(203,455)	(217,988)
Net chg in Cash	(54,370)	26,970	95,870	60,049	87,495
OCF	230,220	260,660	367,860	315,515	346,513
Adj. OCF (w/o NWC chg.)	295,250	312,280	373,910	329,640	353,824
FCFF	204,430	238,650	345,490	278,625	305,483
FCFE	223,060	260,320	372,970	309,548	341,157
OCF/EBITDA (%)	65.5	71.6	93.8	76.6	78.8
FCFE/PAT (%)	92.6	99.2	139.6	111.1	113.9
FCFF/NOPLAT (%)	91.4	103.1	141.1	108.8	111.7

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY23	FY24	FY25	FY26E	FY27E
Share capital	20,690	20,710	20,730	20,730	20,730
Reserves & Surplus	737,260	863,900	941,300	1,016,541	1,097,947
Net worth	757,950	884,610	962,030	1,037,271	1,118,677
Minority interests	-	-	-	-	-
Non-current liab. & prov.	(250)	13,400	6,140	9,220	9,220
Total debt	0	0	0	0	0
Total liabilities & equity	757,700	898,010	968,170	1,046,491	1,127,897
Net tangible fixed assets	133,460	123,700	117,780	111,312	104,893
Net intangible assets	17,490	13,970	27,660	24,077	18,055
Net ROU assets	-	-	-	-	-
Capital WIP	4,470	4,480	10,220	5,000	5,000
Goodwill	72,480	73,030	101,060	105,360	105,360
Investments [JV/Associates]	-	-	-	-	-
Cash & equivalents	316,510	394,090	479,960	550,829	638,325
Current assets (ex-cash)	632,480	698,810	678,160	705,852	744,020
Current Liab. & Prov.	488,010	475,590	509,780	520,267	551,124
NWC (ex-cash)	144,470	223,220	168,380	185,586	192,896
Total assets	757,700	898,010	968,170	1,046,491	1,127,897
Net debt	(316,510)	(394,090)	(479,960)	(550,829)	(638,325)
Capital employed	757,700	898,010	968,170	1,046,491	1,127,897
Invested capital	436,720	499,440	477,990	490,662	484,573
BVPS (Rs)	182.7	213.1	231.7	249.8	269.4
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)	(1.5)
Interest coverage (x)	0	0	0	0	0
RoCE (%)	44.0	43.8	40.7	39.3	39.2

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY23	FY24	FY25	FY26E	FY27E
P/E (x)	24.4	22.5	22.1	21.1	19.7
P/CE(x)	20.8	19.1	18.7	17.9	16.7
P/B (x)	7.8	6.7	6.1	5.7	5.3
EV/Sales (x)	3.8	3.6	3.4	3.3	3.1
EV/EBITDA (x)	15.9	15.1	14.0	13.4	12.5
EV/EBIT(x)	18.0	17.3	16.0	15.2	14.3
EV/IC (x)	12.8	11.0	11.5	11.2	11.3
FCFF yield (%)	3.7	4.3	6.3	5.1	5.6
FCFE yield (%)	3.8	4.4	6.3	5.3	5.8
Dividend yield (%)	2.3	2.6	3.4	3.5	3.7
DuPont-RoE split					
Net profit margin (%)	16.4	17.1	16.4	16.5	16.7
Total asset turnover (x)	1.9	1.9	1.7	1.7	1.6
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	31.8	31.9	28.9	27.9	27.8
DuPont-RoIC					
NOPLAT margin (%)	15.2	15.1	15.0	15.2	15.3
IC turnover (x)	3.6	3.3	3.3	3.5	3.7
RoIC (%)	55.2	49.5	50.1	52.9	56.1
Operating metrics					
Core NWC days	35.9	53.0	37.7	40.1	39.3
Total NWC days	35.9	53.0	37.7	40.1	39.3
Fixed asset turnover	3.0	2.9	2.9	2.7	2.7
Opex-to-revenue (%)	76.1	76.3	75.9	75.6	75.5

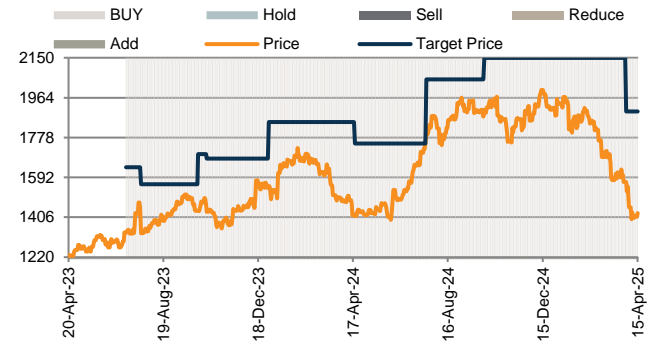
Source: Company, Emkay Research

RECOMMENDATION HISTORY – DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
31-Mar-25	1,571	1,900	Buy	Dipeshkumar Mehta
17-Jan-25	1,815	2,150	Buy	Dipeshkumar Mehta
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

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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