COMPANY UPDATE

BUY

TP: Rs 1,760 | ⮝ 39%

INFOSYS | Technology & Internet | 12 June 2023

Annual report analysis: Sentiments weak; Cobalt to drive growth

- **Key spending areas in FY23 included cloud, generative AI, cybersecurity, IoT, and immersive technologies**
- **Focus shift towards digital channels led to a decline in core (non-digital) revenue share; margin pressure continued**
- **Expect digital transformation (Cobalt) and cost takeout to spur growth; maintain BUY with unchanged TP of Rs 1,760**

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Digital revenue continues to grow apace: INFO reported revenue growth of 15% YoY CC in FY23, driven by the manufacturing (+39% YoY) and energy (23% YoY) verticals. Digital revenue contributed ~62% of total revenue and grew 26% YoY CC while the company reported flattish growth of ~1.9% YoY CC in core (non-digital) revenue. It won 95 large deals during the year with TCV of US$ 9.8bn.

Sustained margin pressure: EBIT margin slipped 200bps to 21.1% primarily due to an increase in headcount, higher compensation costs as well as higher expenses related to third-party items (software and hardware). A bulk of the margin dilution came from the retail segment where EBIT margin contracted 440bps YoY to 30.2%, although the vertical grew 15% CC YoY. Subcontracting cost was under control (9.6% of revenue vs. 10.4% in FY22) due to deployment of fresh graduates, easing of travel restrictions and successful reskilling/upskilling of existing employees.

Return profile solid with robust cash conversion: INFO has maintained a robust payout ratio and has given out 114% of FCF, against its payout policy of at least 85% of FCF. The company generated ROE and ROCE of 32% and 26% in FY23 vs. 29% and 24% respectively in FY22. Cash conversion remained strong – while pre-tax OCF/EBITDA came in at 90.2%, FCF/PAT for the year stood at 84.8%.

Steady hiring leads to well-balanced pyramid: INFO added 29,000+ employees on a net basis in FY23 while gross fresher recruitment stood at 50,000, including ~10,000 employees locally to boost its onshore strategy. Voluntary attrition declined significantly to 20.9% (-680bps YoY), though utilisation (including trainees) reduced to 77.1% (-540bps YoY).

Maintain BUY: The stock is trading at 17.3x/14.8x FY24E/FY25E EPS. Despite INFO's cautious outlook on a few verticals, we believe its strength in managing the twin journeys of digital transformation (Cobalt) and cost takeout will drive growth leadership. We maintain our BUY rating and continue to value the stock at 20.5x FY25E EPS, translating to an unchanged TP of Rs 1,760.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	INFO IN/Rs 1,266
Market cap	US$ 64.8bn
Free float	86%
3M ADV	US$ 129.3mn
52wk high/low	Rs 1,673/Rs 1,185
Promoter/FPI/DII	15%/36%/49%

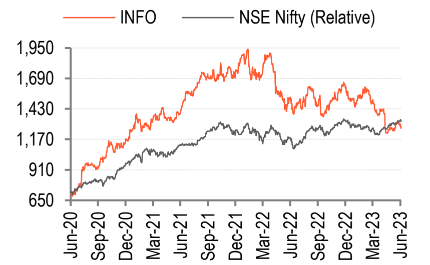
Source: NSE | Price as of 9 Jun 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	14,93,753	17,29,592	19,71,116
EBITDA (Rs mn)	3,57,354	4,39,059	5,02,757
Adj. net profit (Rs mn)	2,47,056	3,07,276	3,61,187
Adj. EPS (Rs)	58.7	73.0	85.8
Consensus EPS (Rs)	58.7	69.3	81.0
Adj. ROAE (%)	30.6	33.5	34.4
Adj. P/E (x)	21.6	17.3	14.8
EV/EBITDA (x)	14.3	11.6	9.9
Adj. EPS growth (%)	11.3	24.4	17.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Annual report takeaways

Revenue guided to grow 4-7% in FY24

INFO has guided for revenue growth of 4-7% in FY24 while lowering its operating margin guidance band from 21-22% to 20-22%.

Key spending areas

Cloud, generative AI, cybersecurity, Internet of Things (IoT), and immersive technologies were the key spending areas in FY23. Per INFO, enterprises are shifting their attention toward improving personalised experiences for customers and delivering distinct value propositions by introducing new products and services. Due to the economic slowdown, the company continues to maintain close proximity to its clients with its near-shore delivery capabilities and localisation strategy.

Focus on ESG metrices to continue

INFO has adopted the use of renewable energy throughout its campuses by installing solar PV panels on rooftops and ground mount systems. The company has successfully implemented a carbon offsetting programme across five states which it estimates will benefit more than 240,000 rural families and create over 2,800 rural jobs.

Carbon-neutrality remains in focus. INFO recycles all wastewater within its campuses, has built 39 lakes across campuses with a rainwater storage capacity of ~425mn litres, and also has ~400 deep injection wells providing a combined recharge capacity of ~20mn litres. The company reported global CSR spends of Rs 5.2bn with 3.8mn beneficiaries in India.

Valuation methodology

Discretionary business has been adversely impacted by the macroeconomic slowdown over the last few months. Despite INFO's cautious outlook on a few verticals such as communications and BFSI, we believe its strength in managing the twin journeys of digital transformation (Cobalt) and cost takeout will drive growth leadership. We maintain our BUY rating and continue to value the stock at 20.5x FY25E EPS, translating to an unchanged TP of Rs 1,760.

Key risks

- A further rise in interest rates would be a key downside risk to our estimates as deal wins could soften due to longer client decision-making cycles, especially in the financial services, retail, hi-tech and telecom verticals

Sector recommendation snapshot

Company	Ticker	Market Cap (US$ bn)	Price (Rs)	Target (Rs)	Rating
Affle (India)	AFFLE IN	0.3	1,014	1,110	BUY
Coforge	COFORGE IN	3.3	4,408	4,830	BUY
eClerx Services	ECLX IN	0.8	1,713	3,790	BUY
HCL Technologies	HCLT IN	36.6	1,110	1,240	BUY
IndiaMart InterMesh	INMART IN	2.1	5,588	7,660	BUY
Info Edge	INFOE IN	6.5	4,143	6,780	BUY
Infosys	INFO IN	64.8	1,266	1,760	BUY
Just Dial	JUST IN	0.6	751	990	BUY
LTIMindtree	LTI IN	10.3	4,823	8,140	BUY
Mphasis	MPHL IN	4.2	1,853	2,541	BUY
Persistent Systems	PSYS IN	4.8	4,887	5,330	BUY
Tata Consultancy Services	TCS IN	142.9	3,209	3,580	HOLD
Tech Mahindra	TECHM IN	11.3	1,063	1,130	HOLD
Wipro	WPRO IN	26.5	397	420	HOLD

Source: BOBCAPS Research, NSE | Price as of 9 Jun 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Total revenue	**10,04,730**	**12,16,410**	**14,93,753**	**17,29,592**	**19,71,116**
EBITDA	2,79,350	3,14,820	3,57,354	4,39,059	5,02,757
Depreciation	32,680	34,770	39,015	45,520	38,178
EBIT	2,46,670	2,80,050	3,18,339	3,93,539	4,64,578
Net interest inc./(exp.)	16,150	16,570	17,227	19,079	20,271
Other inc./(exp.)	19,960	21,050	20,547	21,699	23,511
Exceptional items	0	0	0	0	0
EBT	2,66,630	3,01,100	3,38,886	4,15,238	4,88,090
Income taxes	72,050	79,640	91,830	1,07,962	1,26,903
Extraordinary items	0	0	0	0	1
Min. int./Inc. from assoc.	590	250	0	0	0
Reported net profit	**1,93,990**	**2,21,210**	**2,47,056**	**3,07,276**	**3,61,186**
Adjustments	0	0	0	0	1
Adjusted net profit	**1,93,990**	**2,21,210**	**2,47,056**	**3,07,276**	**3,61,187**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	0	0	0	0	1
Other current liabilities	3,08,910	4,11,740	4,29,710	4,50,168	4,86,028
Provisions	7,130	9,750	10,231	11,847	13,501
Debt funds	0	0	0	0	1
Other liabilities	0	0	0	0	0
Equity capital	21,240	20,980	20,980	20,980	20,980
Reserves & surplus	7,46,580	7,36,370	8,34,760	9,57,133	11,00,975
Shareholders' fund	7,67,820	7,57,350	8,55,740	9,78,113	11,21,955
Total liab. and equities	**10,83,860**	**11,78,840**	**12,95,681**	**14,40,127**	**16,21,486**
Cash and cash eq.	2,47,140	1,74,720	2,64,334	3,86,644	5,44,225
Accounts receivables	1,92,940	2,26,980	2,37,363	2,46,408	2,48,415
Inventories	0	0	0	0	0
Other current assets	75,270	1,15,680	1,18,682	1,23,204	1,24,207
Investments	1,47,990	2,12,640	2,12,640	2,12,640	2,12,640
Net fixed assets	2,65,680	2,63,040	2,74,025	2,78,505	2,90,327
CWIP	47,940	48,230	48,230	48,230	48,230
Intangible assets	0	0	0	0	1
Deferred tax assets, net	10,980	12,660	12,660	12,660	12,660
Other assets	1,43,860	1,73,120	1,75,976	1,80,067	1,89,011
Total assets	**10,83,860**	**11,78,840**	**12,95,681**	**14,40,127**	**16,21,485**

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash flow from operations	**2,27,791**	**1,00,360**	**2,67,733**	**3,35,514**	**4,01,415**
Capital expenditures	(41,570)	(21,610)	(50,000)	(50,000)	(50,000)
Change in investments	(28,798)	(42,580)	0	0	0
Other investing cash flows	19,960	18,980	20,547	21,699	23,511
Cash flow from investing	**(50,408)**	**(45,210)**	**(29,453)**	**(28,301)**	**(26,489)**
Equities issued/Others	0	210	0	0	0
Debt raised/repaid	0	0	0	0	1
Interest expenses	0	(1,260)	0	0	0
Dividends paid	(1,16,733)	(1,26,520)	(1,48,666)	(1,84,903)	(2,17,344)
Other financing cash flows	0	0	0	0	1
Cash flow from financing	**(1,16,733)**	**(1,27,570)**	**(1,48,666)**	**(1,84,903)**	**(2,17,342)**
Chg in cash & cash eq.	**60,650**	**(72,420)**	**89,614**	**1,22,310**	**1,57,584**
Closing cash & cash eq.	**2,47,140**	**1,74,720**	**2,64,334**	**3,86,644**	**5,44,225**

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	45.5	52.8	58.7	73.0	85.8
Adjusted EPS	45.5	52.8	58.7	73.0	85.8
Dividend per share	22.8	26.3	29.4	36.5	42.9
Book value per share	180.2	179.9	203.3	232.4	266.5

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	5.1	4.2	3.4	3.0	2.5
EV/EBITDA	18.4	16.2	14.3	11.6	9.9
Adjusted P/E	27.8	24.0	21.6	17.3	14.8
P/BV	7.0	7.0	6.2	5.4	4.7

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	72.8	73.5	72.9	74.0	74.0
Interest burden (PBT/EBIT)	108.1	107.5	106.5	105.5	105.1
EBIT margin (EBIT/Revenue)	24.6	23.0	21.3	22.8	23.6
Asset turnover (Rev./Avg TA)	99.9	107.5	120.7	126.4	128.8
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.5	1.5	1.5
Adjusted ROAE	27.2	29.0	30.6	33.5	34.4

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Revenue	10.7	21.1	22.8	15.8	14.0
EBITDA	25.4	12.7	13.5	22.9	14.5
Adjusted EPS	16.7	15.9	11.3	24.4	17.5
Profitability & Return ratios (%)					
EBITDA margin	27.8	25.9	23.9	25.4	25.5
EBIT margin	24.6	23.0	21.3	22.8	23.6
Adjusted profit margin	19.3	18.2	16.5	17.8	18.3
Adjusted ROAE	27.2	29.0	30.6	33.5	34.4
ROCE	36.3	37.3	39.5	40.6	41.2
Working capital days (days)					
Receivables	69	63	57	51	46
Inventory	0	0	0	0	0
Payables	144	146	135	124	116
Ratios (x)					
Gross asset turnover	3.9	4.6	5.6	6.3	6.9
Current ratio	2.1	1.6	1.8	2.0	2.2
Net interest coverage ratio	15.3	16.9	18.5	20.6	22.9
Adjusted debt/equity	(0.3)	(0.2)	(0.3)	(0.4)	(0.5)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

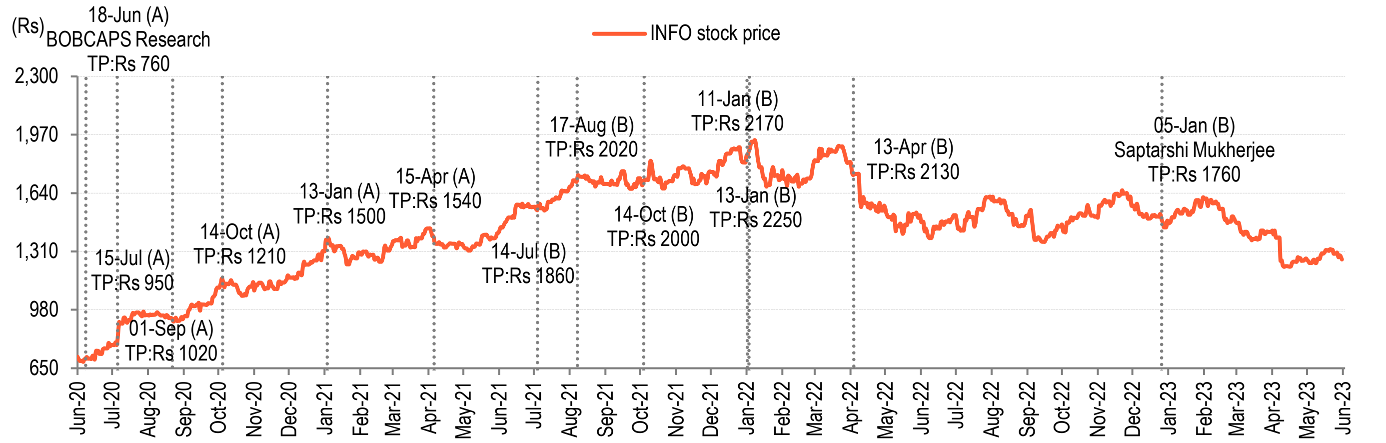
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): INFOSYS (INFO IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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