

BUY

TP: Rs 1,760 | ▲ 21%

INFOSYS

Technology & Internet

21 July 2023

Guidance cut a temporary blip

- FY24 revenue growth guidance slashed from 4-7% to 1-3.5%, implying continued uncertainty – a sector-wide phenomenon
- Large deal wins strong at US\$ 2.3bn in Q1; pipeline healthy backed by cost efficiency, automation and vendor consolidation
- Headwinds temporary not structural; maintain BUY with an unchanged TP of Rs 1,760, set at 20.5x FY25E EPS

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Tepid Q1 sparks steep guidance cut: INFO reported disappointing Q1FY24 revenue of US\$ 4.6bn, up just 1% QoQ CC (+4.2% YoY CC) owing to sequential softness in the key verticals of BFSI, retail and communication. Management downgraded its revenue growth guidance for the fiscal from 4-7% to 1-3.5%, which implies a 0-0.82% CQGR over the next three quarters. Guidance has been cut for the second consecutive quarter and mainly stemmed from subpar volumes and delayed project ramp-up in Q1.

Strong traction in large deal TCV despite global macro weakness: Large deal wins during the quarter stood at US\$ 2.3bn in Q1 (vs. US\$ 9.8bn in FY23) and included US\$ 1.3bn of net new components (vs. US\$ 3.9bn in FY23). The recent deal signings are likely to flow through towards the end of the fiscal year which means INFO could see a spillover of contract value to bill conversion in FY25. Management thus expects growth to pick up next fiscal.

FY24 margin guidance maintained at 20-22%: EBIT margin declined 24bps QoQ to 20.8% as the benefits of higher productivity (+70bps) were erased by wage cost intervention (-90bps). Despite the steep revenue guidance cut, INFO has maintained its FY24 margin guidance at 20-22% mainly on the back of a newly adopted strategy of pricing intervention, pyramid improvement, automation to raise productivity, introduction of Gen AI, portfolio mix enhancement (revenue/client trend), and general & administrative expense optimisation.

Maintain BUY: The stock is trading at 19.9x/16.9x 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. While the guidance cut is concerning and negative for the share price in the short term, we view the miss as more temporary than structural in nature. We thus 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 1,450
Market cap	US\$ 74.2bn
Free float	86%
3M ADV	US\$ 113.7mn
52wk high/low	Rs 1,673/Rs 1,185
Promoter/FPI/DII	15%/36%/49%

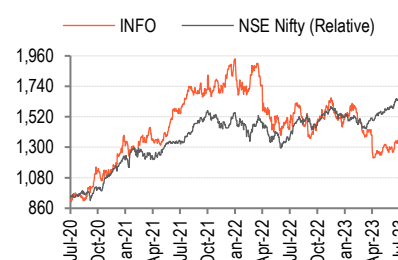
Source: NSE | Price as of 20 Jul 2023

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)	24.7	19.9	16.9
EV/EBITDA (x)	16.5	13.4	11.5
Adj. EPS growth (%)	11.3	24.4	17.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



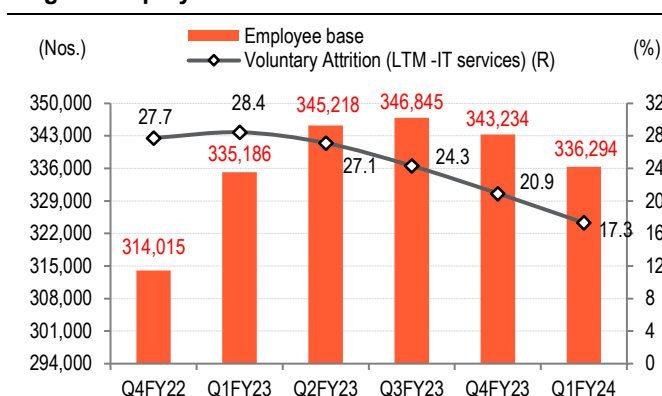
Source: NSE



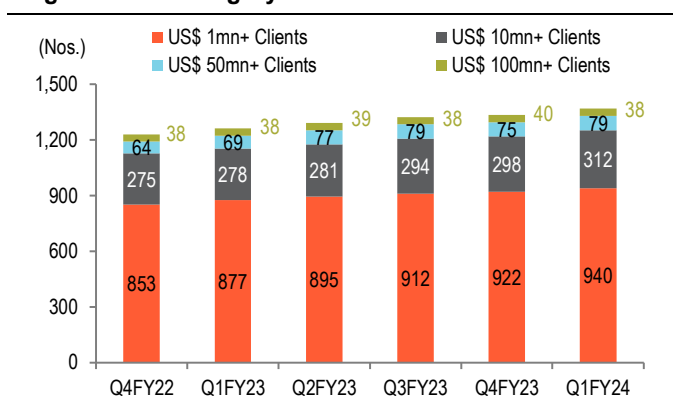
Fig 1 – Quarterly performance

(Rs mn)	Q1FY24	Q4FY23	Q1FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
US\$ Revenue	4,617	4,554	4,444	1.4	3.9	4,604	0.3
INR Revenue	3,79,330	3,74,410	3,44,700	1.3	10.0	3,78,449	0.2
EBIT	78,910	78,770	69,140	0.2	14.1	78,157	1.0
PAT	59,450	61,280	53,600	(3.0)	10.9	61,131	(2.7)
EBIT Margin (%)	20.8	21.0	20.1	(24bps)	74bps	20.7	15bps
PAT Margin (%)	15.7	16.4	15.5	(69bps)	12bps	16.2	(48bps)

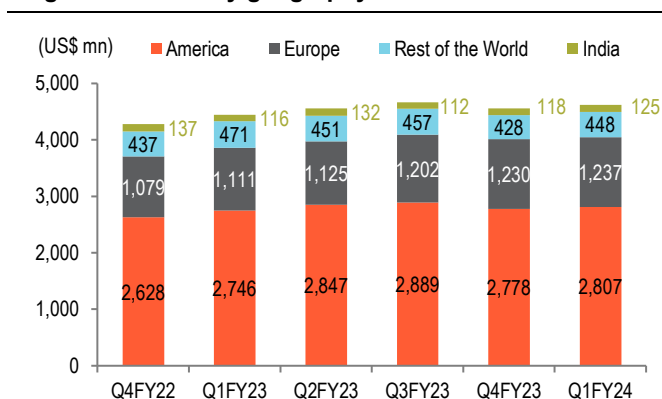
Source: Company, BOBCAPS Research

Fig 2 – Employee base & Attrition

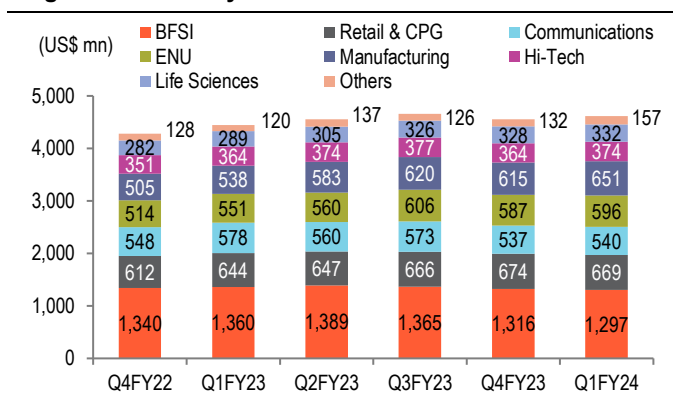
Source: Company, BOBCAPS Research

Fig 3 – Client category

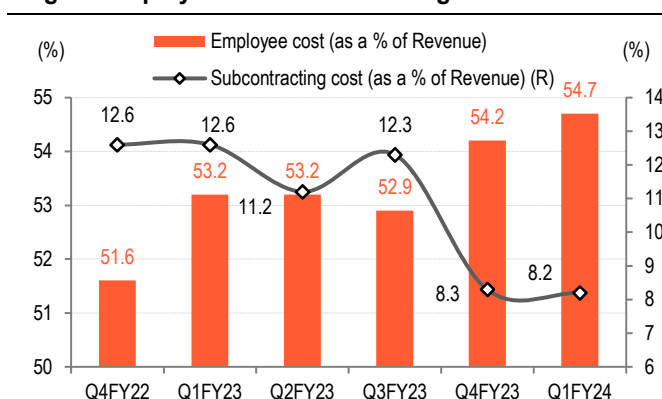
Source: Company, BOBCAPS Research

Fig 4 – Revenue by geography

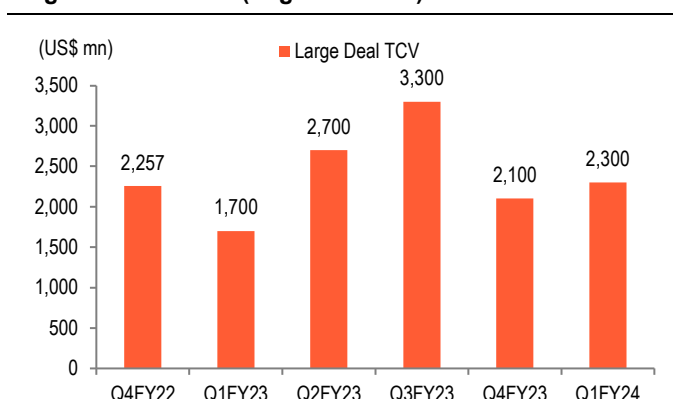
Source: Company, BOBCAPS Research

Fig 5 – Revenue by vertical

Source: Company, BOBCAPS Research

Fig 6 – Employee and Subcontracting cost

Source: Company, BOBCAPS Research

Fig 7 – Order book (large deal TCV)

Source: Company, BOBCAPS Research

Earnings call highlights

- INFO's Q1FY24 revenue grew 1% QoQ CC and 4.2% YoY CC led by the manufacturing and life sciences verticals.
- The Q1 performance was below expectations as certain projects that are discretionary in nature saw unexpected deferrals and were pushed to a later stage.
- Despite the soft performance, the deal pipeline remains healthy with multiple large and mega deals in the areas of cost efficiency, vendor consolidation and process optimisation.
- Large deal TCV for the quarter was at US\$ 2.3bn, with net new components forming 56%. INFO indicated that one mega US\$ 2bn deal was signed post Q1FY24 and its execution ramp-up will begin by the end of FY24.
- The BFSI vertical witnessed pressure during the quarter due to clients remaining cautious on investments, especially in the areas of asset management, payment cards and mortgage.
- Management expects the energy vertical to witness an uptick in Q2FY24 due to high-quality deals in both the pipeline and conversion phases.
- Salary hikes are under active consideration and INFO is evaluating individual performances. No timeline has been provided for the same.

Valuation methodology

The stock is trading at 19.9x/16.9x 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. While the guidance cut is concerning and negative for the share price in the short term, we view the miss as more temporary than structural in nature. We thus 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	1,064	1,110	HOLD
Coforge	COFORGE IN	3.7	4,819	4,830	HOLD
HCL Technologies	HCLT IN	38.2	1,156	1,240	HOLD
Infosys	INFO IN	74.2	1,450	1,760	BUY
Mphasis	MPHL IN	5.0	2,214	2,541	BUY
Persistent Systems	PSYS IN	4.9	5,044	5,330	HOLD
Tata Consultancy Services	TCS IN	154.2	3,463	3,580	HOLD
Tech Mahindra	TECHM IN	13.3	1,253	1,130	HOLD
Wipro	WPRO IN	27.9	418	420	HOLD

Source: BOBCAPS Research, NSE | Price as of 20 Jul 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	5.9	4.8	3.9	3.4	2.9
EV/EBITDA	21.2	18.7	16.5	13.4	11.5
Adjusted P/E	31.8	27.5	24.7	19.9	16.9
P/BV	8.0	8.1	7.1	6.2	5.4

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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BUY – Expected return >+15%

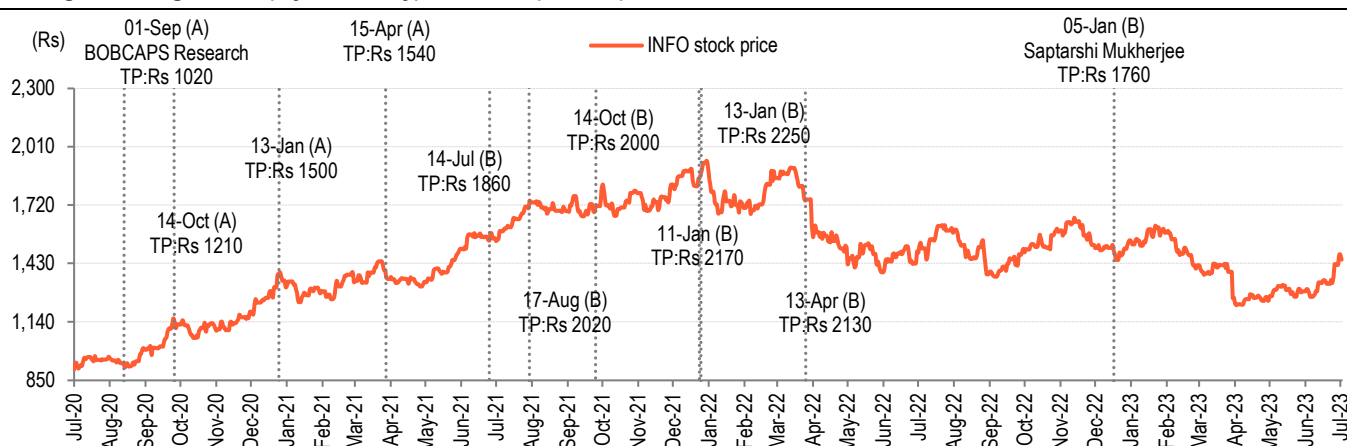
HOLD – Expected return from -6% to +15%

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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