Infosys (INFTEC)

CMP: ₹ 1,793 | Target: ₹ 2,000 (12%) | Target Period: 12 months

HOLD

July 19, 2024

Improved guidance & outlook …

About the stock: Infosys (Infy) is one of the leading IT players catering to BFSI, Retail, Communications, Manufacturing & Hi-tech verticals. Company consistently has delivered operating margins > 20% and ROCE >30%

Q1FY25 Performance: Infosys reported strong performance in Q1FY25 reporting revenue of US$ 4,714 mn, up 3.6% QoQ/2.5% YoY in CC terms. EBIT margin was up 100 bps QoQ to 21.1%, aided by 100 bps from the absence of one-off items of the previous quarter, 80 bps benefit from Project Maximus and a 40-bps benefit from improved realisations which were partly offset by headwinds of 120 bps from higher variable pay & leave cost. It won record 34 large deals in single quarter while large deal TCV came at US$4.1 bn (57.6% net new).

Investment Rationale:

- **Signs of early recovery in BFSI:** The BFSI segment witnessed a turnaround, driven by ramp up of large deals and absence of one-offs of last quarter as it grew by 7.6% QoQ after a few quarters of decline. The company mentioned that the US market is witnessing recovery, especially in mortgage, capital market, card payments & infra area. Nonetheless, the discretionary spending continues to remain under pressure. **We expect US$ revenue to grow at CAGR of 7.4% between FY24-26E, baking in 4% & 11% growth in FY25E & FY26E respectively.**
- **Robust large deal TCV wins:** The company recorded strong deal wins securing 34 large deals (highest ever in a single quarter), led by retail & communication segments with TCV of US$ 4.1 bn in Q1. **We believe that Infy will continue to win large deals as it (along with other IT majors) is well placed to win cost optimisation & vendor consolidation deals till the discretionary demand picks up.**
- **Revenue guidance revised upwards while margin band maintained**: On the back of a broad-based growth coupled with improvements in US financial services, integration of in-Tech, and strong large deal closures, **the company has revised its revenue growth guidance for FY25 to 3-4% in CC terms (vs 1-3% guided previously). The company reiterated that it expects H1FY25 to be better than H2FY25. On the margins front, the company maintained its guidance margins in the band of 20-22%, with headwind of wage hike likely to impact margins in H2, in our view.** In line with the guidance, we build in EBIT margins of 20.8% & 21.7% in FY25E & FY26E, respectively.

Rating and Target Price

- Recovery in discretionary demand could drive marked improvement in Infy's growth. **After a sharp run up of ~18% in last 1 month, we assign HOLD and value it at target price of ₹ 2,000; at 27x P/E on FY26E EPS.**

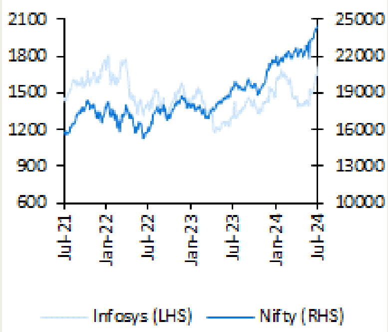
Particulars

(₹ Crore)	Amount
Market cap	7,42,255
Total Debt	-
CC&E	27,701
EV	7,14,554
52 week H/L	1844 / 1305
Equity capital	2,071.0
Face value	5.0

Shareholding pattern

	Sep-23	Dec-23	Mar-24	Jun-24
Promoters	13.3	13.2	13.2	13.1
FII	30.0	30.1	30.4	29.4
DII	31.6	32.0	32.1	33.8
Public	25.1	24.7	24.3	23.7

Price Chart



Key risks

- Delay in ramp up of large deals;
- Better than expected revenue growth

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Company Update

ICICI Securities – Retail Equity Research

Key Financial Summary

₹ Crore	FY22	FY23	FY24	5 year CAGR (FY19-24)	FY25E	FY26E	2 year CAGR (FY24-26E)
Net Sales	1,21,641	1,46,767	1,53,670	13.2%	1,61,128	1,79,881	8.2%
EBITDA	31,491	35,131	36,425	11.8%	38,300	44,251	10.2%
EBITDA Margins (%)	25.9	23.9	23.7		23.8	24.6	
Net Profit	22,012	24,095	26,233	11.2%	26,272	30,698	8.2%
EPS (₹)	51.9	57.6	63.4		63.5	74.2	
P/E	34.5	30.8	28.2		28.5	24.4	
RoNW (%)	29.1	31.8	29.7		28.5	30.6	
RoCE (%)	35.8	38.5	36.3		35.0	38.0	

Source: Company, ICICI Direct Research

Performance highlights and outlook

- **Revenue Performance:** Infosys reported strong performance in Q1FY25 as revenue increased by 3.6% QoQ/2.5% YoY in CC terms. The company reported revenue of US$ 4,714 mn, up 3.3% QoQ/2.1& YoY while in rupee terms revenue came at ₹39,315 crore, up 3.7% QoQ/3.6% YoY.
- **Geography performance**: Geography wise in CC terms, North America (58.9% of mix) declined by 1.2% YoY while Europe (28.4% of mix), India (3.1% of mix) & ROW (9.6% of mix) grew by 9.1%, 19.9% & 2.3% YoY. **It is pertinent to note that India business added ~30% of incremental revenue growth of USD 46mn—half of which was one-time which has positive one-time impact of 50bps on the revenues and 40 bps on margins.**
- **Segment performance**: Segment wise on a QoQ basis in US$ terms Others (3.3% of mix), Financial Services (27.5% of mix), Manufacturing (14.7 of mix), Lifesciences (7.3% of mix), ER&U (13.3% of mix) and Communication (12.1% of mix) which grew by 17.5%, 7.6%, 3%, 3% while Hi-Tech (8% of mix) and Retail (13.8% of mix) de-grew by 5% & 0.3% respectively.
  - **Manufacturing Segment**: The company expects its capability & pipeline in the engineering states will be solidified by its acquisition of in-Tech which will help it accelerate the segment growth in FY25.
  - **EURS (Energy, Utilities, Resources and Services) Segment**: The segment continues to be impacted by high interest rates and geopolitical conflicts. However, the company's differentiation in areas like energy transition, integration business, and human experience is helping it to build a strong pipeline.
- **Margin performance**: EBIT margin of the company increased by 100 bps QoQ to 21.1% due to tailwinds of 100 bps from the absence of one-off items of the previous quarter, 80 bps benefit from **Project Maximus** (largely from higher utilisation & value-based selling) and a 40 bps benefit from improved realisations which were partly offset by headwinds of 120 bps from higher variable pay & leave cost offset by currency and others. The company reported PAT margin of 16.2% in Q1, down ~480 bps QoQ.
- **Guidance for FY25**: Market share gains is one of the key strategic priorities for FY25 to accelerate revenue growth and drive margin improvement through Project Maximus. Further, on the back of a broad-based growth coupled with improvements in US financial services and strong large deal closures, **the company revised its revenue growth guidance for FY25 to 3-4% in CC terms (vs 1-3% guided previously). The company reiterated that it expects H1FY25 to be better than H2FY25. On the margins front the company maintained its guidance margins in the band of 20-22%.**
- **Deal Wins:** Deal wins remain strong despite no improvement in discretionary spending environment. The company **won 34 large deals (highest ever in a single quarter) with TCV of US$ 4.1 bn in Q1. The company also mentioned that out of the 34 deals it signed 8 large deals in retail & communication each, 6 in EURS, 5 in BFSI, 4 in manufacturing, 2 in Hitech and 1 in Lifesciences. Region wise, 21 were from North America, 12 from Europe and 1 from rest of the world.**
- **GenAI/AI**: The company is helping its client's in accelerating their adoption of Gen AI such as in the BFSI segment for modernizing legacy platforms, fraud detection, credit process simplification and is seeing strong traction for the same through their Gen AI programs which are delivered through Topaz and their Cobalt cloud services. During the quarter the company launched Aster, a marketing suite of AI- amplified solutions, which will help their clients in enhancing their marketing efficiency and accelerated performance. Further, the company has trained 270,000 of its employees with AI first skills and expertise & they plan to scale up this number.
- **In-Tech acquisition**: Infy completed the 100% stake acquisition in **in-Tech Holding GmbH, a leading provider of engineering R&D services (in Automotive segment) with its headquarters in Germany for consideration of Eur 450 mn (2.6x of CY23 sales)**.

- **Attrition & Employee addition**: The company's attrition for Q1FY25 increased by 10 bps QoQ to 12.7%. The net employees during the quarter declined by 1,908 bringing the total employee strength to 3,15,332. The net employee count declined for the 6th consecutive quarter.

Exhibit 1: Quarter Performance

₹ crores	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Comments
Revenue	39,315	37,933	3.6	37,923	3.7	Revenue increased by 3.6% QoQ/2.5% YoY in CC terms and included one-off impact of ~50 bps from India cusomer
Employee expenses	26,028	25,209	3.2	25,585	1.7	
Gross Profit	13,287	12,724	4.4	12,338	7.7	
Gross margin (%)	33.8	33.5	25 bps	32.5	126 bps	
Selling & marketing costs	1,937	1,783	8.6	1,735	11.6	
G&A expenses	1,913	1,877	1.9	1,819	5.2	
EBITDA	9,437	9,064	4.1	8,784	7.4	
EBITDA Margin (%)	24.0	23.9	11 bps	23.2	84 bps	
Depreciation	1,149	1,173	-2.0	1,163	-1.2	
EBIT	8,288	7,891	5.0	7,621	8.8	
EBIT Margin (%)	21.1	20.8	28 bps	20.1	99 bps	EBIT margin of the company increased by 100 bps QoQ due to tailwinds of i) 100 bps from the absence of one-off items of the previous quarter ii) 80 bps benefit from Project Maximus (largely from higher utilisation & value based selling) and iii) 40 bps benefit from improved realisations which were partly offset by headwinds of i) 120 bps from higher variable pay & ii) leave cost offset by currency and others.
Other income	733	471	55.6	2,619	-72.0	
PBT	9,021	8,362	7.9	10,240	-11.9	
Tax paid	2,647	2,417	9.5	2,265	16.9	
Reported PAT	6,368	5,945	7.1	7,969	-20.1	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E
Total Income	**1,46,767**	**1,53,670**	**1,61,128**	**1,79,881**
Growth (%)	20.7	4.7	4.9	11.6
COGS (emp exp)	98,128	1,02,735	1,07,531	1,18,722
Admin expenses	7,259	7,537	7,880	8,814
S&M expenses	6,249	6,973	7,416	8,095
Total Opex	1,11,636	1,17,245	1,22,827	1,35,631
EBITDA	**35,131**	**36,425**	**38,300**	**44,251**
Growth (%)	11.6	3.7	5.1	15.5
Depreciation	4,225	4,678	4,802	5,217
Other Income	2,416	4,241	2,511	3,038
PBT	33,322	35,988	36,010	42,072
Total Tax	9,214	9,740	9,723	11,360
PAT	**24,095**	**26,233**	**26,272**	**30,698**
Growth (%)	9.5	8.9	0.1	16.8
EPS (₹)	**57.6**	**63.4**	**63.5**	**74.2**
Growth (%)	11.1	10.0	0.1	16.8

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E
Profit after Tax	24,095	26,233	26,272	30,698
Add: Depreciation	4,225	4,678	4,802	5,217
(Inc)/dec in Current Assets	(10,343)	(3,839)	4,055	(6,297)
Inc/(dec) in CL and Provisions	3,840	(1,243)	1,063	3,704
Taxes paid	(8,794)	(9,231)	(9,723)	(11,360)
CF from operating activities	**23,022**	**25,210**	**33,680**	**30,283**
(Inc)/dec in Investments	(63)	(2,936)	2,511	3,038
(Inc)/dec in Fixed Assets	(2,579)	(2,201)	(2,200)	(2,200)
CF from investing activities	**(1,764)**	**(5,009)**	**311**	**838**
Dividend paid & dividend tax	(13,631)	(14,731)	(22,426)	(22,848)
Others	145	(13)	-	-
CF from financing activities	**(26,695)**	**(17,504)**	**(22,426)**	**(22,848)**
Net Cash flow	(5,437)	2,697	11,565	8,273
Exchange difference	138	(84)	-	-
Opening Cash	17,472	12,173	14,786	26,351
Closing Cash	**12,173**	**14,786**	**26,351**	**34,624**

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E
Equity Capital	2,069	2,071	2,071	2,071
Reserve and Surplus	73,726	86,390	90,236	98,085
Total Shareholders funds	75,795	88,461	92,307	1,00,156
Employee benefit obligations	83	89	89	89
Debt	-	-	-	-
Deferred Tax Liability	1,220	1,794	1,794	1,794
Other non current liabilties	9,532	8,676	8,676	8,676
Total Liabilities	**86,630**	**99,020**	**1,02,866**	**1,10,715**
Assets				
Property,plant and equipment	20,675	19,370	16,768	13,751
Goodwill	7,248	7,303	7,303	7,303
Intangibles	1,749	1,397	1,397	1,397
Available for sale assets	12,569	11,708	11,708	11,708
Other assets	12,694	8,604	8,604	8,604
Cash	12,173	14,786	26,351	34,624
Current Investments	6,909	12,915	12,915	12,915
Trade receivables	25,424	30,193	31,420	35,077
Unbilled revenue	15,289	12,768	12,890	14,031
Prepayment & O.fin.assets	10,979	12,289	12,885	14,385
Other current assets	107	6,481	481	481
Total Current Assets	70,881	89,432	96,942	1,11,512
Trade payables	3,865	3,956	4,028	4,497
Unearned revenue	7,163	7,341	7,654	8,544
OCL & provisions	28,158	27,497	28,175	30,519
Total Current Liabilities	39,186	38,794	39,857	43,561
Net Current Assets	31,695	50,638	57,086	67,952
Application of Funds	**86,630**	**99,020**	**1,02,866**	**1,10,715**

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios

(Year-end March)	FY23	FY24	FY25E	FY26E
Per share data (₹)				
EPS	58.2	63.4	63.5	74.2
Cash EPS	68.4	74.7	75.1	86.8
BV	183	214	223	242
DPS	34.0	46.0	54.1	55.1
Cash Per Share	29.4	35.7	63.7	83.6
Operating Ratios (%)				
EBIT Margin	21.1	20.7	20.8	21.7
PBT Margin	22.7	23.4	22.3	23.4
PAT Margin	16.4	17.1	16.3	17.1
Debtor days	63	72	71	71
Unbilled revenue	33	33	29	27
Creditor days	10	9	9	9
Return Ratios (%)				
RoE	31.8	29.7	28.5	30.6
RoCE	38.5	36.3	35.0	38.0
RoIC	45.8	44.5	52.7	61.8
Valuation Ratios (x)				
P/E	30.8	28.2	28.5	24.4
EV / EBITDA	20.5	19.6	18.5	15.8
EV / Net Sales	4.9	4.6	4.4	3.9
Market Cap / Sales	5.0	4.8	4.6	4.1
Price to Book Value	9.8	8.4	8.1	7.5
Solvency Ratios				
Debt/EBITDA	-	-	-	-
Debt / Equity	-	-	-	-
Current Ratio	2.0	2.1	2.0	1.9
Quick Ratio	2.0	2.1	2.0	1.9

Source: Company, ICICI Direct Research

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