

## Healthy Quarter; Positives priced in...

**About the stock:** Infosys 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%.

**Q2FY25 Performance:** Infosys revenues in Q2FY25 increased by 3.1% QoQ/3.3% YoY in CC terms to US\$ 4894 mn, with 0.8% growth being inorganic contribution. EBIT margin remained flat QoQ at 21.1% as tailwinds of 80 bps from Project Maximus and 10 bps from currency movement was offset by 30 bps impact from acquisition (on account of amortization of intangible assets) and 60 bps from higher variable pay and other costs. It won 21 large deals in single quarter while large deal TCv came at US\$2.4 bn (41.6% net new).

### Investment Rationale:

- Broad based growth; BFSI witnesses some demand recovery:** Discretionary spend continues to pick up in some pockets of BFSI, which witnessed a sharp recovery in Q1 and sustained its growth momentum in Q2 as well (+2.7% QoQ). While the automotive segment saw some softness in Europe, almost all segments witnessed growth on a sequential basis. **We roll forward to FY27E estimates and expect US\$ revenue to grow at CAGR of 8.1% between FY24-27E, baking in 6.1%, 9% & 9.4% growth in FY25E, FY26E & FY27E respectively.**
- Revenue guidance revised upwards while margin band maintained:** On the back of a broad-based and resilient margins growth, the company has revised its revenue growth guidance for FY25 to 3.75-4.5% in CC terms (vs 3-4% guided previously). This, however, implies a muted growth for H2 at -0.5-0.5% CQGR owing to seasonality impact from furloughs, fewer working days etc. The company maintained its guidance margins in the band of 20-22%, with limited headwind of wage hike likely as it will be rolled out in a phased manner in Q4FY25 as well as Q1FY26. In line with the guidance, **we build in EBIT margins of 21.1%, 21.7% & 22% in FY25E, FY26E & FY27E respectively.**
- Broad based TCv wins, albeit underwhelming:** Large deal TCv came at US\$2.4 bn (41.6% being net new) was down 41% QoQ and 69% YoY, which is underwhelming. However, small deal pipeline growth in double digits was a consolation. Vertical wise, BFSI led with 7 deal signings, followed by 3 each in Communication, Manufacturing and Others. Region wise, it signed 12 large deals in America, 5 in Europe, 3 in India and 1 in ROW.

### Rating and Target Price

- Recovery in discretionary demand would be a key growth driver for Infosys. **After a sharp run up of ~33% in last 6 months, we see limited upside and maintain HOLD, valuing it at 26x P/E on average of FY26E and FY27E EPS, with target price of ₹ 2,000**

### Key Financial Summary

₹ Crore	FY22	FY23	FY24	5 year CAGR (FY19-24)	FY25E	FY26E	FY27E	3 year CAGR (FY24-27E)
Net Sales	1,21,641	1,46,767	1,53,670	13.2%	1,63,072	1,77,678	1,94,357	8.1%
EBITDA	31,491	35,131	36,425	11.8%	39,050	43,709	48,395	9.9%
EBITDA Margins (%)	25.9	23.9	23.7		23.9	24.6	24.9	
Net Profit	22,012	24,095	26,233	11.2%	26,893	30,190	33,668	8.7%
EPS (₹)	51.9	57.6	63.4		65.0	72.9	81.3	
P/E	36.2	32.3	29.7		28.9	25.8	23.1	
RoNW (%)	29.1	31.8	29.7		29.0	30.2	31.1	
RoCE (%)	35.8	38.5	36.3		35.7	37.5	38.8	

Source: Company, ICICI Direct Research



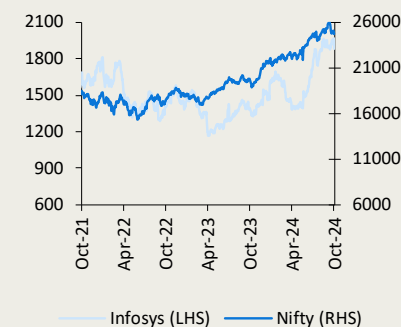
#### Particulars

(₹ Crore)	Amount
Market cap	7,78,271
Total Debt	-
CC&E	27,701
EV	7,50,570
52 week H/L	1991 / 1351
Equity capital	2,071.0
Face value	5.0

#### Shareholding pattern

	Dec-23	Mar-24	Jun-24	Sep-24
Promoters	13.2	13.2	13.1	13.1
FII	30.1	30.4	29.4	30.1
DII	32.0	32.1	33.8	34.5
Public	24.7	24.3	23.7	22.4

#### Price Chart



#### Key risks

- Delay in recovery of discretionary spend;
- Better than expected revenue growth in H2FY25

#### Research Analyst

Bhupendra Tiwary, CFA  
bhupendra.tiwary@icicisecurities.com

CA Anjini Sharma  
anjini.sharma@icicisecurities.com

Deep Thosani  
deep.thosani@icicisecurities.com

## Performance highlights and outlook

- **Revenue Performance:** Infosys reported a steady performance in Q2FY25 as revenue increased by 3.1% QoQ/3.3% YoY in CC terms, including an inorganic contribution of 0.8%. The company reported revenue of US\$ 4,894 mn, up 3.8% QoQ/3.7% YoY while in rupee terms revenue came at ₹40,986 crore, up 4.3% QoQ/5.1% YoY.
- **Geography performance:** All the geographies reported a YoY growth in CC terms, barring North America (57.4% of the mix) which declined by 2.7%. Europe (29.8% of the mix) grew 15.5%, Rest of the World (9.7% of the mix) grew by 3.8% and India (3.1% of the mix) grew by 16%.
- **Segment performance:** Segment wise on a YoY basis in CC terms, Manufacturing (15.7 of mix), EURS (13.5% of mix), Communication (11.9% of mix), Hi-Tech (8% of mix) and Financial Services (27.2% of mix) grew by 12.3%, 10.9%, 7%, 6% and 2.3% respectively, while Retail (13.3% of mix), Lifesciences (7.3% of mix) and Others (3.1% of mix) de-grew by 9.6% & 3.5% and 1.2% respectively.
  - **Manufacturing Segment: Growth in manufacturing was strong partially contributed by In-tech acquisition.** The European automotive sector saw challenges as discretionary spend remains under pressure. However, opportunities are arising around supply chain optimization, cloud ERP, smart factory and connected devices across various sub-verticals.
  - **BFSI Segment: BFSI saw a continued growth momentum led by cost optimization through large outsourcing and transformation opportunities. Discretionary spend has improved in capital markets, mortgages and cards & payments.** Strong deal wins coupled with expanding pipeline of small deals gives visibility for future growth for the segment.
- **Margin performance:** EBIT margin remained flat QoQ at 21.1% as tailwinds of 80 bps from Project Maximus and 10 bps from currency movement was offset by 30 bps impact from acquisition (on account of amortization of intangible assets) and 60 bps from higher variable pay and other costs. The company reported a PAT margin of 15.9%, down 30 bps sequentially.
- **Project Maximus yielding benefits:** Project Maximus and value-based selling have begun delivering benefits, with a significant delta between revenue and volume growth driven by pricing.
- **Guidance for FY25:** The management revised its revenue guidance for FY25 to 3.75%-4.5% (vs 3-4% earlier), implying a muted CQGR growth of revenue in H2 of (-)0.7% to 0.2%, owing to seasonality, lower number of billing days etc. It maintained its margin guidance in the band of 20-22% with limited headwind of wage hike likely as it will be rolled out in a phased manner in Q4FY25 as well as Q1FY26.
- **Deal Wins:** The company won 21 large deals, with 7 deals coming from Financial Services, 3 each in Communication, Manufacturing and Others, 2 in Retail and 1 each in EURS and Hi-Tech and Life Sciences. Region wise America stood tall with 12 large deals, followed by 5 in Europe, 3 in India and 1 in ROW. **Although, the overall TCV was weak at US\$ 2.4bn (-41.5% QoQ/-68.8% YoY), the management stated that the small deal pipeline (less than US\$50 mn deals) is up in double digit QoQ.**
- **GenAI/AI:** Management mentioned that **all the large deals have a GenAI component implemented in them.** Additionally, it is also building a small language model which has a potential of building GenAI applications for its clients.
- **Acquisition/ Merger:** Infosys during the quarter, has acquired Blitz 24-893 SE at €135,000 in an all-cash deal. The acquired entity doesn't have any operations as of now. Additionally, the company has also merged its wholly owned subsidiaries WongDoody Inc. (WD), Outbox Systems Inc. (d.b.a. Simplus), Blue Acorn iCi Inc. (BA), and Kaleidoscope Animations Inc.

(Kaleidoscope) into Infosys Nova Holdings LLC (Nova), another wholly owned subsidiary. The merger aims to streamline the legal entity structure and create operational synergies.

- **Attrition & Employee addition:** The company's net employee count for the quarter reported a growth of 2,456 employees (after a decline in 6 quarters) totalling to 3,17,788 employees. The Company is on track to hire 15,000 freshers in FY25, of which many are already on-boarded. Its attrition inched up ~20 bps sequentially to 12.9%.
- **Dividend:** The company declared a dividend of ₹21 per share.

**Exhibit 1: Quarter Performance**

₹ crores	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comments
Revenue	40,986	38,994	5.1	39,315	4.3	Revenue increased by 3.1% QoQ/3.3% YoY in CC terms, with 0.8% growth being inorganic contribution
Employee expenses	27,314	25,865	5.6	26,028	4.9	
Gross Profit	13,672	13,129	4.1	13,287	2.9	
Gross margin (%)	33.4	33.7	-31 bps	33.8	-44 bps	
Selling & marketing costs	1,855	1,754	5.8	1,937	-4.2	
G&A expenses	2,008	1,935	3.8	1,913	5.0	
EBITDA	9,809	9,440	3.9	9,437	3.9	
EBITDA Margin (%)	23.9	24.2	-28 bps	24.0	-7 bps	
Depreciation	1,160	1,166	-0.5	1,149	1.0	
EBIT	8,649	8,274	4.5	8,288	4.4	
EBIT Margin (%)	21.1	21.2	-12 bps	21.1	2 bps	EBIT margin remained flat QoQ at 21.1% as tailwinds of 80 bps from Project Maximus and 10 bps from currency movement were offset by 30 bps impact from acquisition (on account of amortization of intangible assets) and 60 bps from higher variable pay and other costs.
Other income	604	494	22.3	733	-17.6	
PBT	9,253	8,768	5.5	9,021	2.6	
Tax paid	2,737	2,553	7.2	2,647	3.4	
Reported PAT	6,506	6,212	4.7	6,368	2.2	

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 2: Profit and loss statement					₹ crore
(Year-end March)	FY24	FY25E	FY26E	FY27E	
<b>Total Income</b>	<b>1,53,670</b>	<b>1,63,072</b>	<b>1,77,678</b>	<b>1,94,357</b>	
Growth (%)	4.7	6.1	9.0	9.2	
COGS (emp exp)	1,02,735	1,08,549	1,17,267	1,27,693	
Admin expenses	7,537	7,966	8,706	9,523	
S&M expenses	6,973	7,507	7,996	8,746	
Total Opex	1,17,245	1,24,023	1,33,969	1,45,962	
<b>EBITDA</b>	<b>36,425</b>	<b>39,050</b>	<b>43,709</b>	<b>48,395</b>	
Growth (%)	3.7	7.2	11.9	10.7	
Depreciation	4,678	4,703	5,153	5,636	
Other Income	4,241	2,514	2,820	3,382	
PBT	35,988	36,860	41,376	46,141	
Total Tax	9,740	9,952	11,172	12,458	
<b>PAT</b>	<b>26,233</b>	<b>26,893</b>	<b>30,190</b>	<b>33,666</b>	
Growth (%)	8.9	2.5	12.3	11.5	
<b>EPS (₹)</b>	<b>63.4</b>	<b>65.0</b>	<b>72.9</b>	<b>81.3</b>	
Growth (%)	10.0	2.5	12.3	11.5	

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement					₹ crore
(Year-end March)	FY24	FY25E	FY26E	FY27E	
Profit after Tax	26,233	26,893	30,190	33,668	
Add: Depreciation	4,678	4,703	5,153	5,636	
(Inc)/dec in Current Assets	(3,839)	3,364	(4,829)	(5,887)	
Inc/(dec) in CL and Provisions	(1,243)	1,447	2,885	3,294	
Taxes paid	(9,231)	(9,952)	(11,172)	(12,458)	
<b>CF from operating activities</b>	<b>25,210</b>	<b>33,893</b>	<b>30,578</b>	<b>33,329</b>	
(Inc)/dec in Investments	(2,936)	2,514	2,820	3,382	
(Inc)/dec in Fixed Assets	(2,201)	(2,200)	(2,200)	(2,200)	
<b>CF from investing activities</b>	<b>(5,009)</b>	<b>314</b>	<b>620</b>	<b>1,182</b>	
Dividend paid & dividend tax	(14,731)	(22,578)	(23,088)	(25,326)	
Others	(13)	-	-	-	
<b>CF from financing activities</b>	<b>(17,504)</b>	<b>(22,578)</b>	<b>(23,088)</b>	<b>(25,326)</b>	
Net Cash flow	2,697	11,629	8,110	9,184	
Exchange difference	(84)	-	-	-	
Opening Cash	12,173	14,786	26,415	34,524	
<b>Closing Cash</b>	<b>14,786</b>	<b>26,415</b>	<b>34,524</b>	<b>43,709</b>	

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet					₹ crore
(Year-end March)	FY24	FY25E	FY26E	FY27E	
Equity Capital	2,071	2,071	2,071	2,071	
Reserve and Surplus	86,390	90,705	97,806	1,06,147	
Total Shareholders funds	88,461	92,776	99,877	1,08,218	
Employee benefit obligations	89	89	89	89	
Debt	-	-	-	-	
Deferred Tax Liability	1,794	1,794	1,794	1,794	
Other non current liabilities	8,676	8,676	8,676	8,676	
<b>Total Liabilities</b>	<b>99,020</b>	<b>1,03,335</b>	<b>1,10,436</b>	<b>1,18,777</b>	
<b>Assets</b>					
Property, plant and equipment	19,370	16,867	13,914	10,478	
Goodwill	7,303	7,303	7,303	7,303	
Intangibles	1,397	1,397	1,397	1,397	
Available for sale assets	11,708	11,708	11,708	11,708	
Other assets	8,604	8,604	8,604	8,604	
Cash	14,786	26,415	34,524	43,709	
Current Investments	12,915	12,915	12,915	12,915	
Trade receivables	30,193	31,799	34,647	37,900	
Unbilled revenue	12,768	13,046	13,859	15,160	
Prepayment & O.fin.assets	12,289	13,041	14,209	15,543	
Other current assets	6,481	481	481	481	
Total Current Assets	89,432	97,696	1,10,635	1,25,707	
Trade payables	3,956	4,077	4,442	4,859	
Unearned revenue	7,341	7,746	8,440	9,232	
OCL & provisions	27,497	28,418	30,244	32,329	
Total Current Liabilities	38,794	40,241	43,125	46,420	
Net Current Assets	50,638	57,456	67,510	79,287	
<b>Application of Funds</b>	<b>99,020</b>	<b>1,03,335</b>	<b>1,10,436</b>	<b>1,18,777</b>	

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
(Year-end March)	FY24	FY25E	FY26E	FY27E
<b>Per share data (₹)</b>				
EPS	63.4	65.0	72.9	81.3
Cash EPS	74.7	76.3	85.4	94.9
BV	214	224	241	261
DPS	46.0	54.5	55.7	61.1
Cash Per Share	35.7	63.8	83.4	105.6
<b>Operating Ratios (%)</b>				
EBIT Margin	20.7	21.1	21.7	22.0
PBT Margin	23.4	22.6	23.3	23.7
PAT Margin	17.1	16.5	17.0	17.3
Debtor days	72	71	71	71
Unbilled revenue	33	29	28	27
Creditor days	9	9	9	9
<b>Return Ratios (%)</b>				
RoE	29.7	29.0	30.2	31.1
RoCE	36.3	35.7	37.5	38.8
RoIC	44.5	53.7	61.2	68.8
<b>Valuation Ratios (x)</b>				
P/E	29.7	28.9	25.8	23.1
EV / EBITDA	20.6	18.9	16.7	14.9
EV / Net Sales	4.9	4.5	4.1	3.7
Market Cap / Sales	5.1	4.8	4.4	4.0
Price to Book Value	8.8	8.4	7.8	7.2
<b>Solvency Ratios</b>				
Debt/EBITDA	-	-	-	-
Debt / Equity	-	-	-	-
Current Ratio	2.1	2.0	1.9	1.9
Quick Ratio	2.1	2.0	1.9	1.9

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,  
ICICI Securities Limited,  
Third Floor, Brillanto House,  
Road No 13, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com

## ANALYST CERTIFICATION

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: [complianceofficer@icicisecurities.com](mailto:complianceofficer@icicisecurities.com)

For any queries or grievances: Mr. Bhavesh Soni Email address: [headservicequality@icicidirect.com](mailto:headservicequality@icicidirect.com) Contact Number: 18601231122

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