

January 12, 2024

**RESULT REPORT Q3 FY24** | Information Technology

# Infosys Ltd

**Broadly inline performance; Revenue guidance for FY24 lowered to 1.5% to 2.0% on demand concerns**

## Result Synopsis

*Infosys (INFO) reported broadly inline performance for the quarter. The revenue growth was above estimates; while EBIT margin was inline with expectation. It reported decrease in revenue by 1.0% QoQ in cc terms. Revenue decreased by 1.2% QoQ in USD terms (down 0.4% QoQ in INR terms). EBIT margin decreased by 71 bps QoQ to 20.5% on impact of wage hike during the quarter.*

*The near term demand environment remains challenging as clients remain cautious regarding the evolving macroeconomic situation in the US and Europe and there has been slowdown in discretionary tech spending in sectors such as Hitech, Retail, Telecom, etc. and it continues to impact near term revenue performance. Management has lowered FY24E revenue growth guidance to 1.5% to 2.0% in cc terms from earlier guidance of 1.0% to 2.5% on account of near term demand concerns. Employee attrition continues to decline and should support operating margin going ahead. We estimate revenue CAGR of 11.2% over FY23-26E with average EBIT margin of 21.9%. We maintain our BUY rating on the stock with revised target price of Rs 1,870/share at 22.5x on FY26E EPS. The stock trades at PER of 20.88x/18.0x on FY25E/FY26E EPS.*

## Result Highlights

- Reported revenue of Rs 388.2bn (down 0.4% QoQ in INR terms, down 1.2% QoQ in USD terms). The revenue decreased by 1.0% QoQ in cc terms. In terms of verticals, the YoY growth was led by Manufacturing (up 10.6% YoY in cc terms) and Life Sciences (up 6.3% YoY in cc terms).
- EBIT margin decreased by 71 bps QoQ to 20.5%, led by increase in Direct Cost (up 0.8% QoQ) during the quarter.
- Reported Large deal wins of \$3.2bn vs \$7.7bn in Q2FY24.
- Gross client addition was 88 vs 100 in Q2FY24. Days sales outstanding increased to 72 days vs 67 in Q2FY24.
- Offshore effort mix increased by 20 bps QoQ to 75.6%. Added (6,101) employees in the quarter to close at 3,22,663 employees. LTM attrition was down 170 bps QoQ to 12.9%. Utilization (excluding trainees) was up 90 bps QoQ to 82.7%.
- FY24 revenue growth guidance revised to 1.5%-2.0% in cc terms and operating margin guidance retained at 20%-22%.

## Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	388,210	396,701	386,820	-2.1%	0.4%
EBITDA	91,370	96,952	91,040	-5.8%	0.4%
EBITDA Margin (%)	23.54%	24.44%	23.54%	-90 bps	0 bps
Adjusted PAT	61,130	64,350	61,630	-5.0%	-0.8%

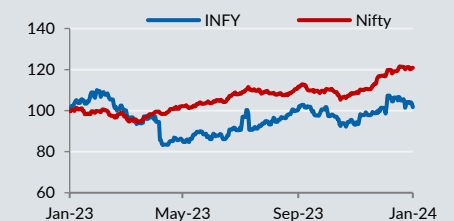
Source: Company, YES Sec

Reco	: <b>BUY</b>
CMP	: Rs 1,494
Target Price	: Rs 1,870
Potential Return	: + 25.2%

## Stock data (as on January 11, 2024)

Nifty	21,647
52 Week h/l (Rs)	1620 / 1185
Market cap (Rs/USD mn)	6290697 / 75709
Outstanding Shares (mn)	4,139
6m Avg t/o (Rs mn):	8,690
Div yield (%):	2.4
Bloomberg code:	INFO IN
NSE code:	INFY

## Stock performance



	1M	3M	1Y
Absolute return	0.4%	0.0%	1.6%

## Shareholding pattern (As of Sep'23 end)

Promoter	13.3%
FII+DII	61.6%
Others	14.1%

## Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,870	1,838

## Δ in earnings estimates

	FY24E	FY25E	FY26E
EPS (New)	59.2	71.7	83.1
EPS (Old)	60.0	72.1	NA
% change	-1.3%	-0.6%	NA

## Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Net Revenue	1,551,795	1,760,618	2,016,581
YoY Growth	5.7%	13.5%	14.5%
EBIDTA	374,628	448,510	518,435
YoY Growth	6.6%	19.7%	15.6%
PAT	248,395	300,780	348,519
YoY Growth	3.0%	21.1%	15.9%
ROE	30.7%	32.3%	32.1%
EPS	59	72	83
P/E	25.2	20.8	18.0
BV	205	239	280
P/BV	7.3	6.3	5.3

## PARTH GHIYA

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## Exhibit 2: Quarterly snapshot Console: Sequential decrease in EBIT margin

Particulars	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	yoy%	qoq%	9MFY24	9MFY23	yoy %
Sales (\$ mn)	4,659	4,554	4,617	4,718	4,663	0.1	-1.2	13,998	13,658	2.5
Sales (Rs mn)	383,180	374,410	379,330	389,940	388,210	1.3	-0.4	1,157,480	1,093,260	5.9
EBITDA	93,670	89,980	90,640	94,400	91,370	-2.5	-3.2	276,410	261,330	6
EBITDA %	24.4	24.0	23.9	24.2	23.5	-91 bps	-67 bps	23.9	23.9	-2 bps
Depreciation	11,250	11,210	11,730	11,660	11,760	4.5	0.9	35,150	31,040	13
EBIT	82,420	78,770	78,910	82,740	79,610	-3.4	-3.8	241,260	230,290	5
EBIT Margin %	21.5	21.0	20.8	21.2	20.5	-100 bps	-71 bps	20.8	21.1	-22 bps
Other income	7,690	6,710	5,610	6,320	7,890	2.6	24.8	19,820	20,290	-2
Interest	800	820	900	1380	1310	63.8	-5.1	3,590	2,020	78
PBT	89,310	84,660	83,620	87,680	86,190	-3.5	-1.7	257,490	248,560	4
Tax	23,450	23,320	24,170	25,530	25,060	6.9	-1.8	74,760	68,820	9
PAT	65,860	61,340	59,450	62,150	61,130	-7.2	-1.6	182,730	179,740	2
NPM (%)	17.2	16.4	15.7	15.9	15.7	-144 bps	-19 bps	15.8	16.4	-65 bps

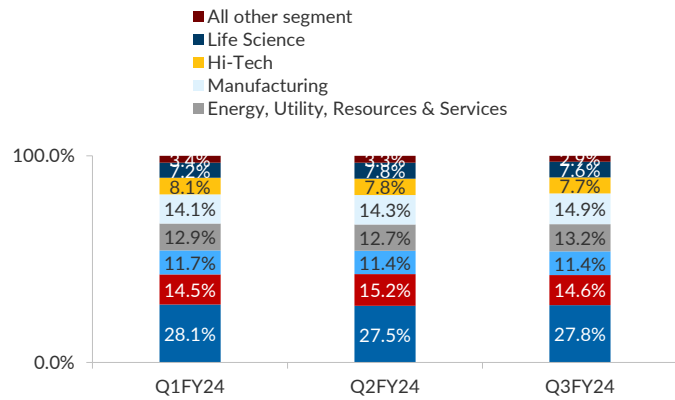
Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

- Revenue decreased by 1.0% QoQ in cc term and 1.0% YoY in cc terms. Financial Services, Communication and Hitech verticals dragged the revenue growth.
- Large Deal TCV for the quarter was at \$3.2 billion, with net new of 71%. Number of Active clients stood at 1,872 (vs 1,884 in Q2FY24).
- 23 Large deals signed including 1 Mega deal. 8 deals signed in Manufacturing vertical, 6 deals in Financial Services, 4 deals in EURS, 2 deals in Retail and 2 deals in Communication and 1 deal in other vertical.
- Europe grew 5% YoY in cc terms, ROW grew 7.8% YoY in cc terms whereas North America decreased 4.9% YoY in cc terms.
- 100,000 employees are being trained in Gen AI under various use cases like client management, risk analysis, operation efficiency, software development, etc.
- Margins were impacted due to headwind of 70 bps on account of wage hike, 60 bps impact of cybersecurity incident offset by 50 bps efficiency optimization and 10 bps currency exchange.
- Communication vertical clients are skeptical for their OPEX spends leading to muted growth.
- ER&D segment is expected to witness traction due to increase in investment from clients.
- Cost optimization deals signed during 9MFY24 were margins dilutive whereas renewal deals witnessed price and margin stability.
- Cash generation remained robust with FCF to net profit conversion for Q3FY24 at 90.6%.

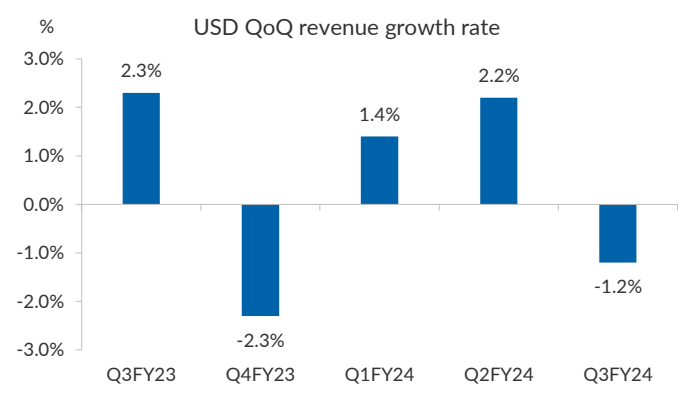
**STORY IN CHARTS**

**Exhibit 3: Retail, Hitech and Telecom are the adversely impacted verticals**



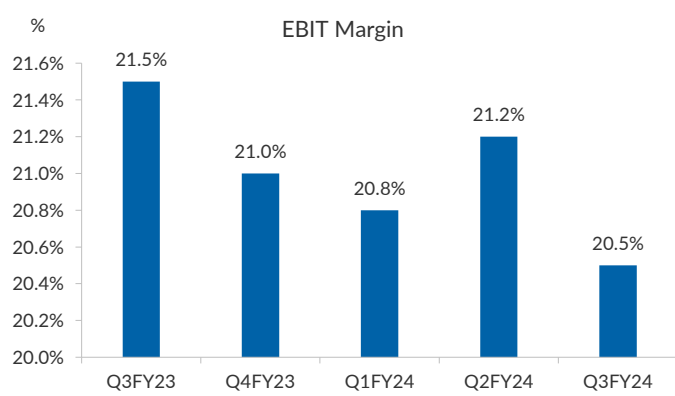
Source: Company, YES Sec

**Exhibit 4: Sequential revenue growth remains muted**



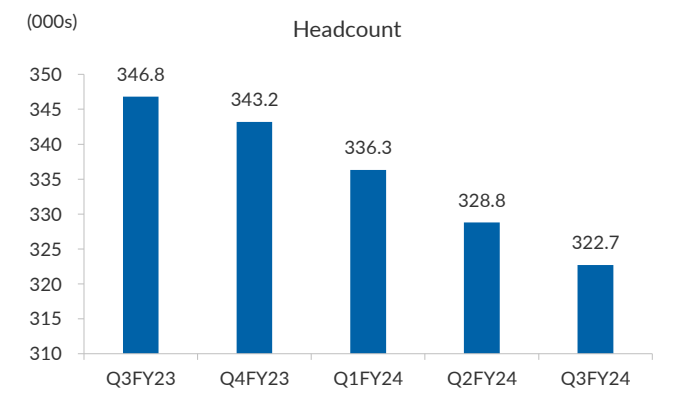
Source: Company, YES Sec

**Exhibit 5: EBIT Margin decreased due to wage hike**



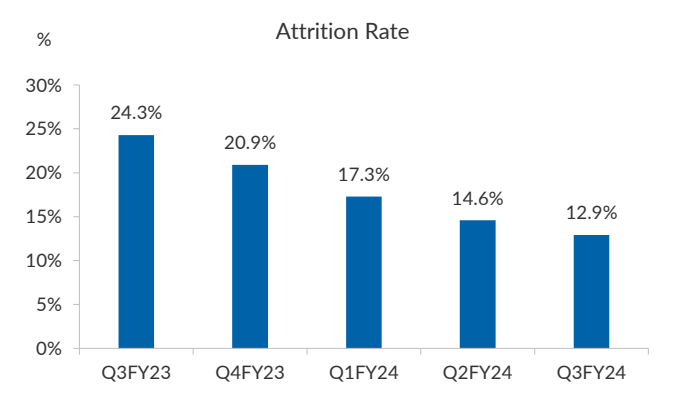
Source: Company, YES Sec

**Exhibit 6: Sequential dip in total headcount**



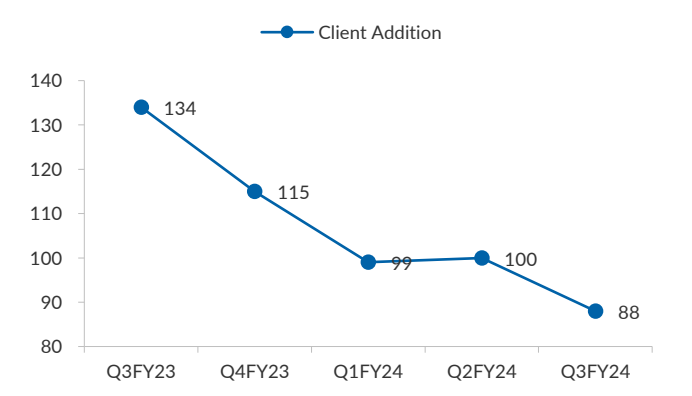
Source: Company, YES Sec

**Exhibit 7: Attrition rate continues to moderate**



Source: Company, YES Sec

**Exhibit 8: Client addition remains muted as per trend**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 9: Balance Sheet

Y/e March 31 (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share capital	21,240	20,980	20,690	20,690	20,690	20,690
Reserves & surplus	746,580	736,380	737,260	838,801	980,141	1,152,435
Shareholders' funds	767,820	757,360	757,950	859,491	1,000,831	1,173,125
Non-current liabilities	77,390	85,460	108,350	109,604	110,920	112,302
Other non-current liabilities	77,390	85,460	108,350	109,604	110,920	112,302
Current liabilities	238,650	336,030	391,860	406,360	453,155	507,104
Other current liabilities	238,650	336,030	391,860	406,360	453,155	507,104
<b>Total (Equity and Liabilities)</b>	<b>1,083,860</b>	<b>1,178,850</b>	<b>1,258,160</b>	<b>1,375,455</b>	<b>1,564,906</b>	<b>1,792,531</b>
Non-current assets	476,530	507,000	549,350	561,169	573,532	586,474
Fixed assets (Net block)	156,950	152,860	155,420	157,445	159,485	161,542
Non-current Investments	-	-	-	-	-	-
Other non-current assets	319,580	354,140	393,930	403,724	414,047	424,932
Current assets	607,330	671,850	708,810	814,286	991,374	1,206,058
Cash & current investment	270,560	241,450	190,820	257,237	364,384	494,048
Other current assets	336,770	430,400	517,990	557,049	626,990	712,010
<b>Total (Assets)</b>	<b>1,083,860</b>	<b>1,178,850</b>	<b>1,258,160</b>	<b>1,375,455</b>	<b>1,564,906</b>	<b>1,792,531</b>

Source: Company, YES Sec

### Exhibit 10: Income Statement

Y/e March 31 (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	1,004,730	1,216,410	1,467,670	1,551,795	1,760,618	2,016,581
Operating expenses	(725,830)	(901,490)	(1,116,360)	(1,177,166)	(1,312,107)	(1,498,145)
EBITDA	278,900	314,920	351,310	374,628	448,510	518,435
Depreciation	(32,680)	(34,770)	(42,250)	(46,585)	(51,058)	(58,481)
EBIT	246,220	280,150	309,060	328,043	397,452	459,955
Other income	22,010	22,950	27,000	26,918	31,691	36,298
Finance cost	(1,950)	(2,000)	(2,840)	(4,887)	(5,059)	(4,860)
Profit before tax	266,280	301,100	333,220	350,074	424,084	491,393
Tax (current + deferred)	(72,050)	(79,640)	(92,140)	(101,679)	(123,304)	(142,874)
Reported Profit / (Loss)	194,230	221,460	241,080	248,395	300,780	348,519
Adjusted net profit	194,230	221,460	241,080	248,395	300,780	348,519

Source: Company, YES Sec

## Exhibit 11: Cash Flow Statement

Y/e March 31 (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	266,280	301,100	333,220	350,074	424,084	491,393
Depreciation	32,680	34,770	42,250	46,585	51,058	58,481
Change in working capital	6,040	3,750	(31,760)	(24,559)	(23,146)	(31,071)
Total tax paid	(66,520)	(77,970)	(91,830)	(101,804)	(123,430)	(143,001)
Others	(20,060)	(20,950)	(24,160)	(22,031)	(26,632)	(31,439)
Cash flow from operations (a)	218,420	240,700	227,720	248,266	301,935	344,363
Capital expenditure	(33,640)	(30,680)	(44,810)	(48,610)	(53,098)	(60,537)
Change in investments	23,130	(43,310)	(2,360)	(2,764)	(2,874)	(2,989)
Others	(70,170)	(9,310)	(1,930)	17,248	21,494	25,540
Cash flow from investing (b)	(80,680)	(83,300)	(49,100)	(34,125)	(34,478)	(37,986)
Free cash flow (a+b)	137,740	157,400	178,620	214,140	267,457	306,377
Equity raised/(repaid)	3,950	(1,920)	2,090	-	-	-
Dividend (incl. tax)	(91,170)	(126,520)	(136,310)	(146,854)	(159,441)	(176,224)
Others	10,130	(101,380)	(97,390)	(3,633)	(3,743)	(3,478)
Cash flow from financing (c)	(77,090)	(229,820)	(231,610)	(150,486)	(163,184)	(179,703)
Net change in cash (a+b+c)	60,650	(72,420)	(52,990)	63,654	104,273	126,674

Source: Company, YES Sec

## Exhibit 12: Ratio Analysis

Y/e March 31	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth(%)						
Revenue Growth	10.7	21.1	20.7	5.7	13.5	14.5
EBITDA Growth	25.3	12.9	11.6	6.6	19.7	15.6
EBIT Growth	27.1	13.8	10.3	6.1	21.2	15.7
Net Profit Growth	16.7	14.0	8.9	3.0	21.1	15.9
Profitability Ratios(%)						
EBITDA Margin	27.8	25.9	23.9	24.1	25.5	25.7
EBIT margin	24.5	23.0	21.1	21.1	22.6	22.8
Net Profit margin	19.3	18.2	16.4	16.0	17.1	17.3
RoA	24.5	24.8	25.4	24.9	27.0	27.4
RoE	27.2	29.0	31.8	30.7	32.3	32.1
RoCE	31.5	33.2	36.2	35.7	38.2	38.4
Liquidity Ratios						
Net debt/Equity (x)	(0.4)	(0.3)	(0.3)	(0.3)	(0.4)	(0.4)
Current ratio (x)	2.5	2.0	1.8	2.0	2.2	2.4
Quick ratio (x)	2.5	2.0	1.8	2.0	2.2	2.4
Valuation Ratios						
PER(x)	41.0	28.1	26.0	25.2	20.8	18.0
PCE(x)	35.1	24.3	22.1	21.3	17.8	15.4
Price/Book(x)	10.4	8.2	8.3	7.3	6.3	5.3
EV/EBITDA(x)	27.6	19.0	17.3	16.0	13.2	11.1

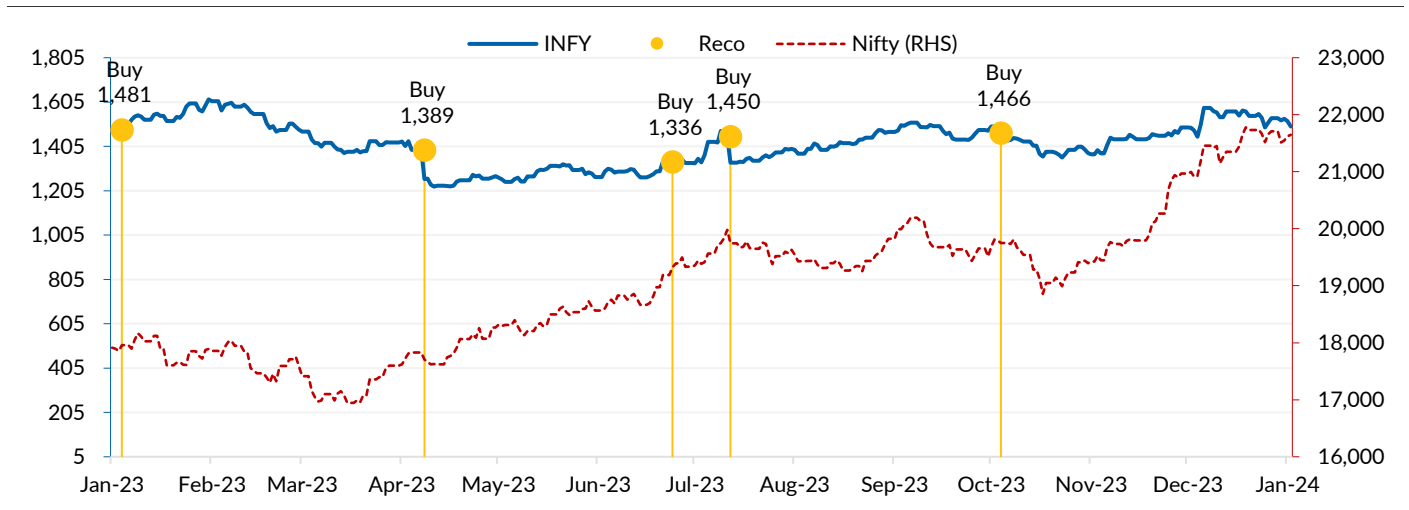
Source: Company, YES Sec

**Exhibit 13: Dupont Analysis**

Dupont Analysis	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net margin(%)	19.3	18.2	16.4	16.0	17.1	17.3
Asset turnover (x)	1.0	1.1	1.2	1.2	1.2	1.2
Leverage factor (x)	1.4	1.5	1.6	1.6	1.6	1.5
Return on Equity(%)	27.2	29.0	31.8	30.7	32.3	32.1

Source: Company, YES Sec

**Recommendation Tracker**



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**Grievances Redressal Cell:** customer.service@ysil.in/igc@ysil.in

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**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

**NOT RATED / UNDER REVIEW**

## ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.