

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR1,466 TP: INR1,660 (+13%) Buy

FY24 guidance cut surprising but not material

FY25 should see pickup on ramp-up of large deal; Maintain BUY

Bloomberg	INFO IN
Equity Shares (m)	4572
M.Cap.(INRb)/(USDb)	6082.4 / 73.1
52-Week Range (INR)	1673 / 1185
1, 6, 12 Rel. Per (%)	-1/-9/-13
12M Avg Val (INR M)	9587

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	1,468	1,547	1,686
EBIT Margin (%)	22.8	21.3	24.5
PAT	241	253	286
EPS (INR)	57.6	61.1	69.2
EPS Gr. (%)	9.8	6.2	13.1
BV/Sh. (INR)	180	183	183

Ratios

RoE (%)	32.0	33.5	37.8
RoCE (%)	26.2	27.4	30.7
Payout (%)	96.7	85.0	85.0

Valuations

P/E (x)	25.5	24.0	21.2
P/BV (x)	8.1	8.0	8.0
EV/EBITDA (x)	17.1	16.0	14.4
Div Yield (%)	2.3	3.5	4.0

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	13.3	13.3	13.1
DII	31.0	29.7	18.9
FII	41.1	43.3	32.0
Others	14.6	13.7	36.0

FII Includes depository receipts

- INFO reported 2QFY24 revenue at USD4.72b, up 2.3% QoQ in CC terms and ahead of our estimate of 0.8% QoQ CC growth, primarily due to a one-time pass-through revenue gain of 160bp. Large deal TCV at USD7.7b (48% new) was the highest ever as it won four mega deals during the quarter. However, despite the strong revenue beat and deal inflow, INFO surprisingly lowered the upper end of its FY24 revenue growth guidance to +1.0-2.5% YoY CC from +1.0-3.5% YoY CC earlier, attributing it to continued weakness in discretionary spends and a delay in mega deal scale-up to FY25.
- EBIT margin was up 40bp to 21.2% (50bp beat), led by lower net employee count, high utilization, good productivity and one-time items. Despite the revenue guidance cut, INFO has maintained its FY24 EBIT margin guidance at 20-22%.
- Despite the good 2Q, INFO surprised on the downside for the third straight quarter, unprecedented in its recent history. While we see this as negative and expect near-term pressure on the share price, we had already anticipated muted FY24 revenue growth (our est. 2.6% YoY CC before results). This was visible last quarter as well, when there was a bigger divergence between guidance and expectation. Hence, we see limited damage to INFO's growth story from the back-to-back cuts.
- More importantly, while macro uncertainty will lead to INFO delivering tepid growth in FY24 (with a likely decline in 3QFY24 due to absence of pass-through benefit), FY25 should gain from the inflow of multiple mega deals this year. With expected macro recovery over the next few quarters, we expect the company to deliver 9.0% YoY CC USD revenue growth in FY25. On the other hand, we remain watchful of a potential increase in pass-through revenue contribution (7.3% of 2QFY24 revenue) as the share of large deals continues to rise on account of strong inflow.
- The 40bp margin improvement during the quarter was encouraging and indicated INFO's ability to manage workforce despite the lack of an operating leverage opportunity. We now expect FY24 EBIT margins at 21.3%, up 30bp YoY. With an improvement in FY25 EBIT margin to 21.7%, INFO should deliver a 9.0% CAGR in INR PAT over FY23-25E.
- We adjust our FY24/FY25 EPS estimates by +1.4%/-1.4% to factor in 2Q performance. We value the stock at INR1,660 at 24x FY25E EPS. Reiterate our **BUY** rating on the stock.

Strong all-round beat; FY24 topline guidance cut implies tough 3Q

- In CC terms, revenue grew 2.5% YoY, INR EBIT grew 5.1% YoY, and INR PAT grew 3.2% YoY.
- Revenue stood at USD4.72b, up 2.3% QoQ in CC terms and above our estimate of 0.8% QoQ. Reported USD growth stood at 2.2% QoQ. Large deal TCV stood at USD7.7b (vs. USD2.3b in Q1), with a book-to-bill ratio of 1.6x.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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- The cut in FY24 USD CC revenue growth guidance to +1.0-2.5% YoY CC from +1.0-3.5% YoY CC despite the beat on topline was surprising.
- Net employee count again declined by 7.5k (vs. -6.9k QoQ in Q1), utilization was up 70bp QoQ (excluding trainees); LTM Attrition was down 270bp QoQ at 14.6%.
- EBIT margin stood at 21.2%, up 40bp QoQ and 50bp above our estimates.
- INFO reported FCF of USD670m, translating into a good FCF/PAT conversion ratio of 89.1% in 2QFY24.
- Net profit came in at INR62.1b, up 4.5% QoQ and in line with our estimates due to higher tax outgo.
- The board recommended a dividend of INR18 per share.

Key highlights from the management commentary

- The macro environment remains challenging due to the impact of digital transformation and discretionary work, which is affecting volumes. Revenue was supported by better realizations and one-time items.
- In terms of large deal wins, INFO reported its highest-ever quarterly TCV of USD7.7b with 21 large deal wins, including four mega deals, in areas of cost optimization, transformation and AI. The deal win number did not include a USD1.5b MoU signed during the quarter. Mega deals are expected to ramp up in the fag-end of 4QFY24 and FY25.
- INFO has announced a compensation review for employees in Nov'23.

Valuation and view

- INFO trimmed the upper end of its FY24 revenue growth guidance by 100bp to 1.0-2.5% YoY CC, on account of lower volume and low discretionary spending. We believe it is encouraging that despite multiple revenue guidance cuts, it has maintained its margin targets.
- We expect FY24 revenue growth at 2.4% CC, near the upper band of its guidance.
- Despite near-term weakness, we expect INFO to be a key beneficiary of the acceleration in IT spends in the medium term. Based on our revised estimates, the stock is currently trading at 21x FY25E EPS. We value the stock at 24x FY25E EPS, implying a TP of INR1,660.

Quarterly performance (IFRS)

(INR b)

Y/E March	FY23				FY24				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Revenue (USD m)	4,444	4,555	4,659	4,554	4,617	4,718	4,652	4,712	18,212	18,699	4,651	1.4
QoQ (%)	3.8	2.5	2.3	-2.3	1.4	2.2	-1.4	1.3	66.5	2.7	0.7	144bp
Revenue (INR m)	345	365	383	374	379	390	386	391	1,468	1,547	384	1.4
YoY (%)	23.6	23.4	20.2	16.0	10.0	6.7	0.8	4.5	108.1	5.4	5.2	150bp
GPM (%)	29.3	30.5	30.7	30.5	30.5	30.7	30.7	31.1	30.3	30.7	30.4	32bp
SGA (%)	9.2	8.9	9.2	9.5	9.6	9.5	9.4	9.4	9.2	9.5	9.7	-20bp
EBITDA	87	97	102	98	96	101	100	103	384	400	97	3.5
EBITDA Margin (%)	25.2	26.7	26.6	26.1	25.4	25.8	25.9	26.3	26.2	25.9	25.3	51bp
EBIT	69	79	82	79	79	83	82	85	309	329	80	4.0
EBIT Margin (%)	20.1	21.5	21.5	21.0	20.8	21.2	21.3	21.7	21.1	21.3	20.7	52bp
Other income	6	5	7	6	5	5	6	6	24	22	5	-1.2
ETR (%)	28.8	28.2	26.3	27.5	28.9	29.1	26.5	26.5	27.7	27.7	26.5	262bp
PAT	54	60	66	61	59	62	65	67	241	253	62	0.1
QoQ (%)	-5.7	12.3	9.4	-7.0	-3.0	4.5	4.5	2.9			4.4	12bp
YoY (%)	3.2	11.1	13.4	7.8	10.9	3.2	-1.5	9.0	63.8	5.1	3.1	12bp
EPS (INR)	12.8	14.3	15.7	14.8	14.4	15.0	15.7	16.1	57.3	60.8	15.0	0.1

Key performance indicators

Y/E March	FY23				FY24				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue (QoQ CC %)	5.5	4.0	2.4	-3.2	1.0	2.3			15.4	
Margins										
Gross Margin	29.3	30.5	30.7	30.5	30.5	30.7	30.7	31.1	30.3	30.7
EBIT Margin	20.1	21.5	21.5	21.0	20.8	21.2	21.3	21.7	21.1	21.3
Net Margin	15.5	16.5	17.2	16.4	15.7	15.9	16.8	17.1	16.4	16.4
Operating metrics										
Headcount	335	345	347	343	336	329			343	
Voluntary attrition (%)	28.4	27.1	24.3	20.9	17.3	14.6			20.9	
Deal win TCV (USD b)	1.7	2.7	3.3	2.1	2.3	7.7			9.8	
Key verticals (YoY CC %)										
BFSI	12.1	11.5	5.5	0.4	(4.2)	(7.3)			7.3	
Retail	17.8	15.4	12.7	12.6	4.0	9.2			15.2	
Key geographies (YoY CC %)										
North America	18.4	15.6	10.5	6.0	2.1	1.0			12.4	
Europe	33.2	28.5	25.3	20.3	10.1	5.4			26.3	



Highlights from the management commentary

Performance in 2QFY24 and demand outlook

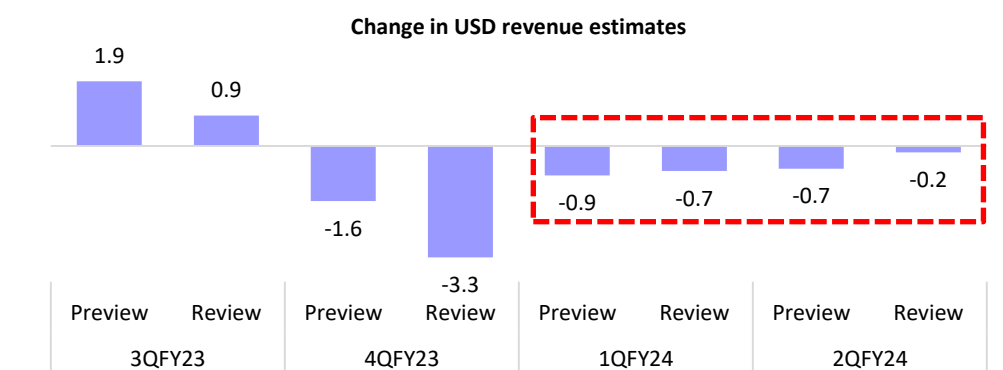
- The macro environment remains challenging due to the impact of digital transformation and discretionary work, which is affecting volumes. Revenue was supported by better realizations and one-time items.
- In terms of large deal wins, INFO reported its highest-ever quarterly TCV of USD7.7b with 21 large deal wins, including four mega deals, in areas of cost optimization, transformation and AI. The deal win number did not include a USD1.5b MoU signed during the quarter.
- Mega deals are expected to ramp up in the fag-end of 4QFY24 and FY25. Despite high deal conversions, the deal pipeline remains healthy for INFO.
- The management believes that the company is gaining market share in areas of cost optimization and vendor consolidation deals.
- For financial services, INFO expects the softness to persist in mortgage, asset management, investment banking and card payments.
- In retail, client budgets remain tight. INFO is seeing increasing interest for GenAI in retail. Clients in energy and utilities remain cautious.

- Manufacturing continues to do well for INFO on account of vendor consolidation deals and demand from cloud and supply chain transformation programs.
- Communication remains affected by near-term uncertainty and high opex. Large deal wins will help INFO to mitigate some of the impact.
- The management has trimmed the upper end of its revenue growth guidance by 1% on account of continued slowdown in discretionary work and back-ended support from large deals.

Margin Performance and Outlook

- During the quarter, margin tailwinds included 50bp gains from cost optimization, 30bp from one-time items, and 30bp from forex, partly offset by a 50bp headwind from high third-party software expenses.
- The management expects continued improvement in margin, aided by margin improvement program 'Maximus'. Margin levers include pyramid rationalization, utilization, automation, indirect costs and value.
- INFO has announced a compensation review for employees in Nov'23.
- The pricing has remained largely stable for INFO.
- Despite an uptick in utilization, the management sees further room for improvement and support for margins going forward.
- Despite a further cut in its revenue growth guidance, the management remains confident of achieving EBIT margin in the range of 20-22%.

Exhibit 1: No material cuts in estimates for last two quarters despite guidance cuts (%)



Source: Company, MOFSL

Exhibit 2: BFSI remains soft

Verticals	Contribution to revenue (%)	Growth YoY (CC)
Financial Services	27.5	-7.3
Retail	15.2	9.2
Communications	11.4	-4.3
Energy, Utilities, and Resources	12.7	5.1
Manufacturing	14.3	12.6
Hi-Tech	7.8	-0.6
Life Sciences	7.8	18.4
Others	3.3	15.3

Source: Company, MOFSL

Exhibit 3: Europe drives growth in 2QFY24

Geographies	Contribution to revenue (%)	Growth YoY (CC)
North America	61.1	1.0
Europe	26.5	5.4
India	2.8	2.6
RoW	9.6	3.9

Source: Company, MOFSL

Valuation and view

- INFO trimmed the upper end of its FY24 revenue growth guidance by 100bp to 1.0-2.5% YoY CC, on account of lower volume and low discretionary spending. We believe it is encouraging that despite multiple revenue guidance cuts, it has maintained its margin targets.
- We expect FY24 revenue growth at 2.4% CC, near the upper band of its guidance.
- Despite near-term weakness, we expect INFO to be a key beneficiary of the acceleration in IT spends in the medium term. Based on our revised estimates, the stock is currently trading at 21x FY25E EPS. We value the stock at 24x FY25E EPS, implying a TP of INR1,660.

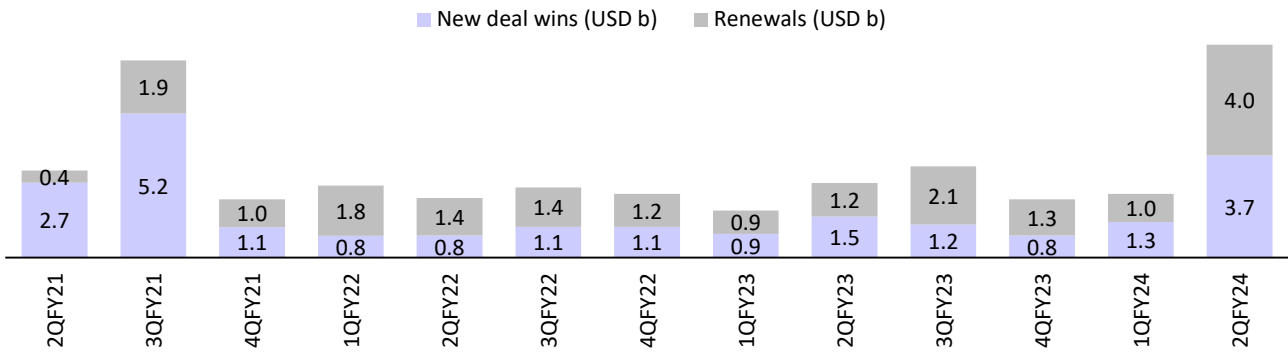
Exhibit 4: Revisions to our estimates

	Revised estimate		Earlier estimate		Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
USD:INR	82.7	83.0	82.7	83.0	0.0%	0.0%
Revenue (USD m)	18,699	20,313	18,735	20,732	-0.2%	-2.0%
Growth (%)	2.7	8.6	2.9	10.7	-20bps	-200bps
EBIT margin (%)	21.3	21.7	20.7	21.5	60bps	20bps
PAT (INR b)	253	286	250	290.3	1.4%	-1.3%
EPS (INR)	60.9	69.2	60.1	70.2	1.4%	-1.4%

Source: MOFSL

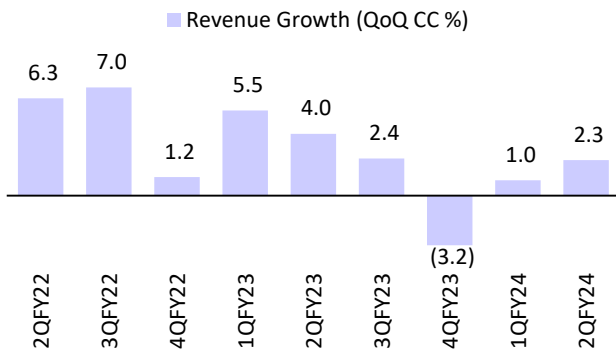
Story in charts

Exhibit 5: Strong large deal win TCV with book to bill of 1.6x



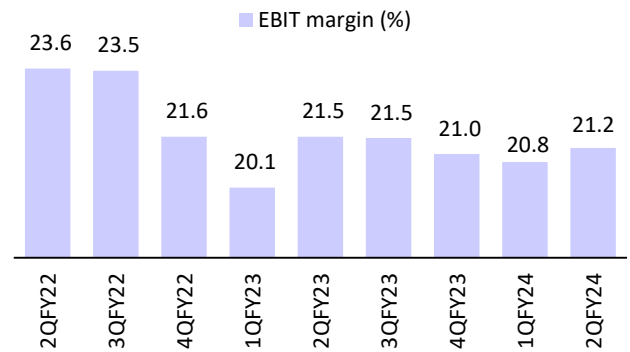
Source: Company, MOFSL

Exhibit 6: INFO saw good revenue growth in 2QFY24



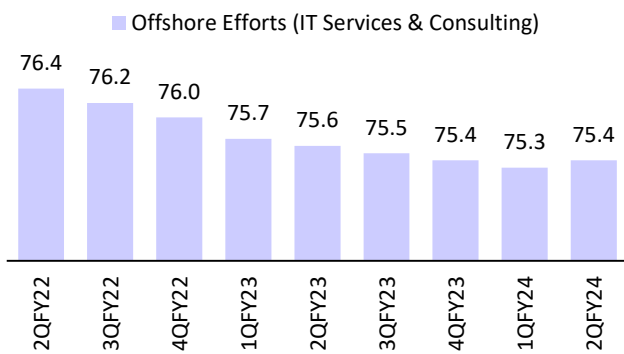
Source: Company, MOFSL

Exhibit 7: EBIT margin (%) improved 40bp QoQ



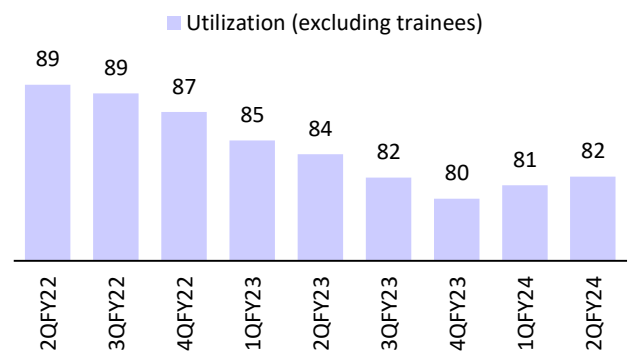
Source: Company, MOFSL

Exhibit 8: Offshoring ratio largely stable (%)



Source: Company, MOFSL

Exhibit 9: Utilization inches up to 82% in 2QFY24 (%)



Source: Company, MOFSL

Exhibit 10: Operating metrics

	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Effort (IT Services and Consulting)									
On-site	24%	24%	24%	24%	24%	25%	25%	25%	25%
Offshore	76%	76%	76%	76%	76%	76%	75%	75%	75%
Utilization (IT Services and Consulting)									
Including trainees	84%	83%	80%	78%	77%	77%	77%	79%	80%
Excluding trainees	89%	89%	87%	85%	84%	82%	80%	81%	82%
Employee metrics									
Total employees (consolidated, in k)	280	292	314	335	345	347	343	336	329
S/W professional (k)	265	277	298	318	328	329	325	318	310
Support and sales (k)	15	15	16	17	17	18	18	19	18
Revenue by client geography									
North America	62%	62%	61%	62%	63%	62%	61%	61%	61%
Europe	25%	25%	25%	25%	25%	26%	27%	27%	27%
India	3%	3%	3%	3%	3%	2%	3%	3%	3%
RoW	11%	10%	10%	11%	10%	10%	9%	10%	10%
Revenue by business segments									
Financial Services	32%	32%	31%	31%	31%	29%	29%	28%	28%
Retail	15%	15%	14%	15%	14%	14%	15%	15%	15%
Communications	12%	13%	13%	13%	12%	12%	12%	12%	11%
Energy, Utilities, Resources, and Services	12%	12%	12%	12%	12%	13%	13%	13%	13%
Manufacturing	11%	11%	12%	12%	13%	13%	14%	14%	14%
Hi-Tech	9%	8%	8%	8%	8%	8%	8%	8%	8%
Life Sciences	7%	8%	7%	7%	7%	7%	7%	7%	8%
Others	2%	3%	3%	3%	3%	3%	3%	3%	3%
Geography (YoY CC)									
North America	23%	21%	19%	18%	16%	11%	6%	2%	1%
Europe	20%	27%	28%	33%	29%	25%	20%	10%	5%
India	4%	40%	30%	6%	36%	-5%	-7%	14%	3%
RoW	5%	7%	14%	18%	12%	12%	3%	-1%	4%
Business segments (YoY CC)									
Financial Services	21%	16%	14%	12%	12%	6%	0%	-4%	-7%
Retail	17%	20%	17%	18%	15%	13%	13%	4%	9%
Communications	17%	22%	29%	30%	18%	13%	0%	-6%	-4%
Energy, Utilities, Resources, and Services	15%	14%	18%	25%	24%	26%	17%	9%	5%
Manufacturing	43%	48%	51%	55%	45%	37%	27%	21%	13%
Hi-Tech	12%	19%	21%	16%	10%	10%	4%	2%	-1%
Life Sciences	26%	29%	16%	16%	10%	5%	16%	14%	18%
Others	-10%	36%	7%	15%	57%	8%	13%	33%	15%
DSO	66	71	67	63	65	68	62	63	67
Large deal TCV (USD m)	2,152	2,530	2,300	1,700	2,700	3,300	2,076	2,300	7,700
Clients (as a percentage of revenue)									
Top 10 clients	19.4%	20.2%	19.4%	20.8%	20.2%	20.5%	20.1%	20.4%	19.9%
Top 25 clients	35.4%	35.9%	35.4%	36.3%	35.3%	35.3%	34.7%	34.6%	34.1%
Number of active clients	1,714	1,738	1,741	1,778	1,779	1,850	1,872	1,883	1,884
New clients added in the period	117	111	110	106	103	134	115	99	100

Source: Company, MOFSL

Financials and valuations

Income Statement							(INR b)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Sales	705	827	908	1,005	1,216	1,468	1,547	1,686
Change (%)	3.0	17.2	9.8	10.7	21.1	20.7	5.4	9.0
Software Develop. Exp.	451	539	607	654	820	1,024	1,071	1,166
SGA expenses	82	99	107	104	116	135	147	155
EBITDA	190	209	223	279	315	357	380	421
As a percentage of Net Sales	27.0	25.3	24.5	27.8	25.9	24.4	24.6	25.0
Depreciation	19	20	29	33	35	48	51	56
Interest	0	0	0	0	0	0	0	0
Other Income	32	29	26	20	21	24	22	25
PBT	204	218	220	266	301	333	351	390
Tax	57	56	54	72	80	92	97	103
Rate (%)	27.8	25.9	24.4	27.0	26.4	27.7	27.7	26.5
Minority Interest	0	0	0	1	0	0	0	0
Adjusted PAT	147	161	166	194	221	241	253	286
Extraordinary Items	-13	7	0	0	0	0	0	0
Reported PAT	160	154	166	194	221	241	253	286
Change (%)	11.7	-3.9	7.7	16.7	14.2	9.0	5.1	13.1

Balance Sheet							(INR b)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Share Capital	19	22	21	21	21	21	21	21
Reserves	631	628	633	742	733	733	736	738
Net Worth	649	649	655	764	754	754	757	759
Capital Employed	658	661	719	845	843	866	870	881
Gross Block	278	328	428	479	511	593	641	693
Less: Depreciation	132	152	181	213	248	296	348	403
Net Block	146	176	247	266	263	297	294	290
Investments and Other Assets	153	143	134	211	244	253	255	262
Curr. Assets	500	529	546	607	672	709	732	767
Debtors	174	202	240	268	343	407	381	416
Cash and Bank Balance	198	196	186	247	175	122	188	181
Investments	64	66	47	23	67	69	69	69
Other Current Assets	64	65	73	69	88	111	93	101
Current Liab. and Prov.	141	186	209	239	336	392	410	438
Net Current Assets	359	342	337	369	336	317	321	329
Application of Funds	658	661	719	845	843	866	870	881

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	35.5	35.4	38.9	45.6	52.4	57.6	61.1	69.2
Cash EPS	39.6	40.0	45.7	53.3	60.7	69.1	73.5	82.6
Book Value	144.0	149.4	153.7	180.0	179.0	180.4	182.9	183.4
DPS	21.8	21.5	17.5	27.0	31.0	33.5	51.7	58.8
Payout (%)	75.5	109.2	44.9	106.7	59.0	96.7	85.0	85.0
Valuation (x)								
P/E ratio	41.2	41.4	37.6	32.1	27.9	25.5	24.0	21.2
Cash P/E ratio	37.0	36.6	32.1	27.5	24.1	21.2	19.9	17.7
EV/EBITDA ratio	34.8	30.5	28.0	22.3	19.6	17.1	16.0	14.4
EV/Sales ratio	9.4	7.7	6.9	6.2	5.1	4.2	3.9	3.6
Price/Book Value ratio	10.2	9.8	9.5	8.1	8.2	8.1	8.0	8.0
Dividend Yield (%)	1.5	1.5	1.2	1.8	2.1	2.3	3.5	4.0
Profitability Ratios (%)								
RoE	22.0	24.8	25.5	27.3	29.2	32.0	33.5	37.8
RoCE	18.3	21.2	21.2	23.0	24.4	26.2	27.4	30.7
Turnover Ratios								
Debtors (Days)	90	89	96	97	103	101	90	90
Fixed Asset Turnover (x)	4.8	4.7	3.7	3.8	4.6	4.9	5.3	5.8

Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
(INR b)								
CF from Operations	147	164	205	235	261	295	295	332
Cash for Working Capital	-1	-6	-19	6	-12	-65	61	-13
Net Operating CF	146	158	186	241	250	230	356	319
Net Purchase of FA	-20	-24	-34	-21	-22	-26	-39	-42
Free Cash Flow	126	134	152	220	228	204	317	277
Net Purchase of Invest.	51	9	16	-63	-53	8	0	0
Net Cash from Invest.	31	-16	-18	-84	-75	-18	-39	-42
Proceeds from Equity	0	0	0	0	0	0	0	0
Others	0	0	-6	-7	-8	-15	0	0
Dividend Payments	-205	-145	-95	-91	-127	-137	-250	-285
Buyback of shares	0	0	-75	0	-111	-115	0	0
Cash Flow from Fin.	-205	-145	-176	-98	-246	-267	-250	-285
Net Cash Flow	-28	-2	-8	60	-72	-54	67	-7
Effect of forex on cash flow	0	0	-1	1	-1	1	0	0
Opening Cash Bal.	226	198	196	186	247	175	122	188
Add: Net Cash	-28	-2	-9	61	-72	-53	67	-7
Closing Cash Bal.	198	196	186	247	175	122	188	181

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NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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