

**Steady operating performance; 'status quo' on demand**

Information Technology ▶ Result Update ▶ January 12, 2024

**TARGET PRICE (Rs): 1,850**

**Infosys reported a tad better-than-expected operating performance for Q3. Revenue declined 1.2% QoQ to USD4.66bn (1% in cc) due to weak discretionary spending, further accentuated by lower volumes because of higher furloughs. EBITM fell 70bps QoQ to 20.5% due to wage hikes (effective 1-Nov-23), cyber security incident partially offset by margin-improvement initiatives under Project Maximus, and currency benefits. Large deal TCV stood at USD3.2bn, with 71% net new (9MFY24 – large deal TCV of USD13.2bn, up 70% YoY; net new TCV of USD7.2bn, up 106% YoY). Infosys has tightened its FY24 revenue growth guidance to 1.5-2% CC (from 1-2.5%), implying -1.5% to 0.5% sequential growth in Q4. As per management, the demand environment is largely unchanged, with cost takeout and consolidation deals continuing to see traction. We expect growth to accelerate in FY25 on account of ramp-up of large deals, strong deal pipeline, and expected recovery in discretionary spending. We tweak FY24-26 EPS estimates by under 1%, factoring in Q3 performance. We retain BUY with an unchanged TP of Rs1,850 at 25x its Dec-25E EPS.**

**Infosys: Financial Snapshot (Consolidated)**

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	12,16,410	14,67,670	15,42,961	16,91,683	18,82,466
EBITDA	3,14,920	3,51,310	3,72,056	4,11,768	4,60,963
Adj. PAT	2,21,110	2,40,950	2,47,566	2,80,928	3,16,380
Adj. EPS (Rs)	52.6	58.1	59.7	67.7	76.2
EBITDA margin (%)	25.9	23.9	24.1	24.3	24.5
EBITDA growth (%)	12.9	11.6	5.9	10.7	11.9
Adj. EPS growth (%)	15.8	10.5	2.7	13.5	12.6
RoE (%)	29.0	31.8	30.8	31.2	31.3
RoIC (%)	55.7	55.2	51.8	55.9	59.9
P/E (x)	28.4	25.7	25.0	22.1	19.6
EV/EBITDA (x)	18.8	16.7	15.6	13.9	12.2
P/B (x)	8.3	8.2	7.3	6.5	5.8
FCFF yield (%)	3.6	3.3	3.6	4.2	4.7

Source: Company, Emkay Research

**Results Summary**

Infosys reported a revenue dip of 1.2% QoQ (down 1% QoQ in CC) to USD4.66bn in Q3, broadly in line with our estimate of USD4.64bn. Third-party items bought for service delivery increased further by 80bps QoQ/140bps YoY, reflecting increased contribution from pass-through revenue. EBITM declined 70bps QoQ to 20.5% compared with our estimate of 20.3%. Margins were impacted by wage hikes effective 1-Nov-23 (-70bps) and cyber security breach at Infosys McCamish (-60bps), partially offset by Project Maximus-led cost optimization (50bps) and currency benefits (10bps). Among verticals, the laggards were Retail (-5.1% QoQ), Life Sciences (-3.7%), Hi-Tech (-2.4%), Communications (-1.2%), and Financial Services (-0.1%), while EURS (+1.9%) and Manufacturing (+3%) reported growth. Europe continued to do well, with 5.2% QoQ growth, while revenue from North America declined 4.6% QoQ. Headcount declined 2% QoQ to 322,663. Deal wins were healthy at USD3.2bn (71% net new and 1 mega deal), with transformation deals remaining out of favor. **What we liked:** Strong deal intake, progress on margin-improvement initiatives under Project Maximus and moderation in LTM attrition to 12.9%. **What we did not like:** Continued weakness in North America, BFSI, Communication, and Hi-Tech.

**Earnings Call KTAs**

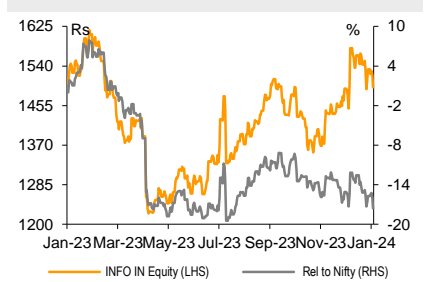
i) Clients remain cautious and focus more on cost-optimization programs. ii) The number of digital programs in the deal pipeline is low, whereas the number of cost takeout and vendor consolidation programs is relatively high. Further, GenAI has garnered significant interest and traction, despite lower revenue currently. iii) CME clients continue to face growth challenges, thus putting pressure on opex. Clients are focusing on conserving cash, leading to a delay in decision-making and project deferrals. iv) Manufacturing is witnessing good traction due to new deal wins and the ramp-up of large deals. While the budget remains largely stable, clients continue to find ways to channel run savings into newer areas like digital, cloud, data, and IoT. v) Cost takeout and vendor consolidation programs are driving spends in the retail segment. The deal pipeline remains strong, although the decision cycle stays long. vi) Budget discussions are currently underway and management does not see any material changes so far. vii) Infosys acquired InSemi Technology Services, a leading semiconductor design and embedded services provider, for a cash consideration of Rs2.8bn (EV/Sales: ~1.8x). viii) Utilization (ex-trainees) rose ~90bps QoQ to 82.7% in Q3 and management sees further scope of improvement. ix) Infosys signed 23 large deals in Q3, including 1 mega deal, split across geographies (10 in America, 9 in Europe, 3 in ROW, and 1 in India) and verticals (8 in Manufacturing, 6 in BFSI, 4 in EURS, 2 each in Communications and Retail, and 1 in Others).

Target Price – 12M	Dec-24
<b>Change in TP (%)</b>	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	23.8
CMP (11-Jan-24) (Rs)	1,494.2

Stock Data	Ticker
52-week High (Rs)	1,620
52-week Low (Rs)	1,185
Shares outstanding (mn)	4,150.4
Market-cap (Rs bn)	6,202
Market-cap (USD mn)	74,688
Net-debt, FY24E (Rs mn)	-3,81,749
ADTV-3M (mn shares)	6
ADTV-3M (Rs mn)	8,759.3
ADTV-3M (USD mn)	105.5
Free float (%)	86.0
Nifty-50	21,647
INR/USD	83.0
<b>Shareholding, Sep-23</b>	
Promoters (%)	13.3
FPIs/MFs (%)	30.0/31.6

**Price Performance**

(%)	1M	3M	12M
Absolute	0.4	-	1.6
Rel. to Nifty	(2.6)	(8.5)	(16.0)

**1-Year share price trend (Rs)****Dipesh Mehta**

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**Exhibit 1: Quarterly snapshot**

(Rs mn)	Q3 FY24	Q2 FY24	QoQ chg	Q3 FY23	YoY chg
Net sales (USD mn)	4,663	4,718	-1.2%	4,659	0.1%
Net sales	388,210	389,940	-0.4%	383,180	1.3%
Operating expenses	296,840	295,540		289,510	
EBITDA	91,370	94,400	-3.2%	93,670	-2.5%
Margins (%)	23.5	24.2	(70)	24.4	(90)
Depreciation	11,760	11,660		11,250	
EBIT	79,610	82,740	-3.8%	82,420	-3.4%
Margins (%)	20.5	21.2	(70)	21.5	(100)
Other income (net)	6,580	4,940		6,890	
Pre-tax profit	86,190	87,680	-1.7%	89,310	
Tax provided	25,060	25,530		23,450	
Profit after tax	61,130	62,150		65,860	
Emkay Net profit	61,130	62,150	-1.6%	65,860	-7.2%
EPS (Rs)	14.7	15.0	-1.7%	15.7	-6.0%

Source: Company, Emkay Research

**Exhibit 2: Changes in estimates**

(Rs mn)	FY24E			FY25E			FY26E		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue (USD mn)	18,657	18,642	-0.1%	20,213	20,139	-0.4%	22,228	22,147	-0.4%
YoY growth	2.4%	2.4%		8.3%	8.0%		10.0%	10.0%	
Revenue	1,544,385	1,542,961	-0.1%	1,697,909	1,691,683	-0.4%	1,889,410	1,882,466	-0.4%
EBIT	320,786	325,163	1.4%	361,926	360,416	-0.4%	405,620	403,920	-0.4%
EBIT margin	20.8	21.1		21.3	21.3		21.5	21.5	
Net profit	245,187	247,566	1.0%	282,415	280,928	-0.5%	318,215	316,380	-0.6%
EPS (Rs)	59.1	59.7	1.0%	68.0	67.7	-0.5%	76.7	76.2	-0.6%

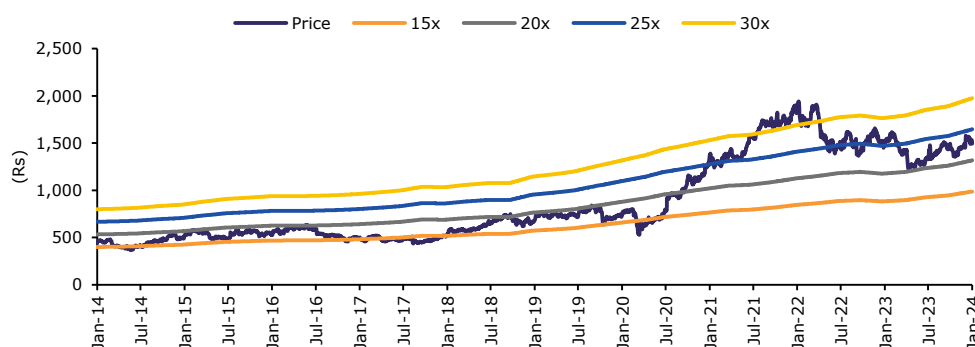
Source: Company, Emkay Research

**Exhibit 3: Actuals vs estimates (Q3FY24)**

(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue (USD mn)	4,663	4,638	4,645	0.5%	0.4%	Revenue came ahead of our expectations partly due to higher pass-through revenue.
Sales	388,210	386,328	386,216	0.5%	0.5%	
EBIT	79,610	78,347	79,174	1.6%	0.6%	
EBIT margin	20.5%	20.3%	20.5%	20 bps	0 bps	Margins beat estimates despite higher pass-through revenue and one-off impact from the cyber security incident.
PAT	61,130	61,017	61,408	0.2%	-0.5%	Net profit came broadly in line with expectations.

Source: Company, Bloomberg, Emkay Research

**Exhibit 4: Infosys – One-year forward P/E**



Source: Company, Emkay Research

## Infosys: Consolidated Financials and Valuations

Profit and Loss					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>12,16,410</b>	<b>14,67,670</b>	<b>15,42,961</b>	<b>16,91,683</b>	<b>18,82,466</b>
Revenue growth (%)	21.1	20.7	5.1	9.6	11.3
<b>EBITDA</b>	<b>3,14,920</b>	<b>3,51,310</b>	<b>3,72,056</b>	<b>4,11,768</b>	<b>4,60,963</b>
EBITDA growth (%)	12.9	11.6	5.9	10.7	11.9
Depreciation & Amortization	34,770	42,250	46,892	51,352	57,043
<b>EBIT</b>	<b>2,80,150</b>	<b>3,09,060</b>	<b>3,25,163</b>	<b>3,60,416</b>	<b>4,03,920</b>
EBIT growth (%)	13.8	10.3	5.2	10.8	12.1
Other operating income	0	0	0	0	0
Other income	22,950	27,160	24,418	27,964	33,025
Financial expense	2,000	3,000	3,000	3,000	3,000
<b>PBT</b>	<b>3,01,100</b>	<b>3,33,220</b>	<b>3,46,581</b>	<b>3,85,381</b>	<b>4,33,945</b>
Extraordinary items	0	0	0	0	0
Taxes	79,640	92,140	98,815	1,04,053	1,17,165
Minority interest	(350)	(130)	(200)	(400)	(400)
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>2,21,110</b>	<b>2,40,950</b>	<b>2,47,566</b>	<b>2,80,928</b>	<b>3,16,380</b>
PAT growth (%)	14.3	9.0	2.7	13.5	12.6
<b>Adjusted PAT</b>	<b>2,21,110</b>	<b>2,40,950</b>	<b>2,47,566</b>	<b>2,80,928</b>	<b>3,16,380</b>
<b>Diluted EPS (Rs)</b>	<b>52.6</b>	<b>58.1</b>	<b>59.7</b>	<b>67.7</b>	<b>76.2</b>
Diluted EPS growth (%)	15.8	10.5	2.7	13.5	12.6
<b>DPS (Rs)</b>	<b>31.0</b>	<b>34.0</b>	<b>38.0</b>	<b>42.5</b>	<b>47.5</b>
<b>Dividend payout (%)</b>	<b>59.0</b>	<b>58.5</b>	<b>63.7</b>	<b>62.8</b>	<b>62.3</b>
EBITDA margin (%)	25.9	23.9	24.1	24.3	24.5
EBIT margin (%)	23.0	21.1	21.1	21.3	21.5
Effective tax rate (%)	26.4	27.7	28.5	27.0	27.0
<b>NOPLAT (pre-IndAS)</b>	<b>2,06,051</b>	<b>2,23,601</b>	<b>2,32,455</b>	<b>2,63,104</b>	<b>2,94,861</b>
Shares outstanding (mn)	4,205.6	4,148.6	4,150.2	4,150.2	4,150.2

Source: Company, Emkay Research

Cash Flows					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	3,01,100	3,33,220	3,46,581	3,85,381	4,33,945
Others (non-cash items)	36,490	49,840	46,692	50,952	56,643
Taxes paid	(76,120)	(87,940)	(98,815)	(1,04,053)	(1,17,165)
Change in NWC	(11,830)	(65,030)	(29,922)	(24,606)	(31,716)
<b>Operating cash flow</b>	<b>2,49,640</b>	<b>2,30,220</b>	<b>2,64,537</b>	<b>3,07,675</b>	<b>3,41,707</b>
Capital expenditure	(21,610)	(25,790)	(41,590)	(46,060)	(49,060)
Acquisition of business	(530)	(9,700)	0	0	0
Interest & dividend income	18,980	18,630	20,848	23,764	28,825
<b>Investing cash flow</b>	<b>(74,950)</b>	<b>(17,640)</b>	<b>(41,590)</b>	<b>(46,060)</b>	<b>(49,060)</b>
Equity raised/(repaid)	(1,09,960)	(1,18,110)	0	0	0
Debt raised/(repaid)	0	0	0	0	0
Payment of lease liabilities	(9,150)	(12,310)	0	0	0
Interest paid	0	0	0	0	0
Dividend paid (incl tax)	(1,27,310)	(1,36,530)	(1,57,707)	(1,76,383)	(1,97,134)
Others	(690)	1,380	0	0	0
<b>Financing cash flow</b>	<b>(2,47,110)</b>	<b>(2,65,570)</b>	<b>(1,57,707)</b>	<b>(1,76,383)</b>	<b>(1,97,134)</b>
Net chg in Cash	(72,420)	(52,990)	65,239	85,231	95,513
OCF	2,49,640	2,30,220	2,64,537	3,07,675	3,41,707
Adj. OCF (w/o NWC chg.)	2,61,470	2,95,250	2,94,459	3,32,280	3,73,423
FCFF	2,28,030	2,04,430	2,22,947	2,61,615	2,92,647
FCFE	2,45,010	2,20,060	2,40,795	2,82,379	3,18,472
OCF/EBITDA (%)	79.3	65.5	71.1	74.7	74.1
FCFE/PAT (%)	110.8	91.3	97.3	100.5	100.7
<b>FCFF/NOPLAT (%)</b>	<b>110.7</b>	<b>91.4</b>	<b>95.9</b>	<b>99.4</b>	<b>99.2</b>

Source: Company, Emkay Research

Balance Sheet					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	20,980	20,690	20,690	20,690	20,690
Reserves & Surplus	7,36,380	7,37,260	8,27,119	9,31,664	10,50,910
<b>Net worth</b>	<b>7,57,360</b>	<b>7,57,950</b>	<b>8,47,809</b>	<b>9,52,354</b>	<b>10,71,600</b>
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(560)	(250)	(250)	(250)	(250)
<b>Total debt</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total liabilities &amp; equity</b>	<b>7,56,800</b>	<b>7,57,700</b>	<b>8,47,559</b>	<b>9,52,104</b>	<b>10,71,350</b>
Net tangible fixed assets	1,30,750	1,33,460	1,23,918	1,17,339	1,12,205
Net intangible assets	17,070	17,490	14,017	10,562	5,942
Net ROU assets	48,230	68,820	76,002	80,744	82,516
Capital WIP	5,040	4,470	5,000	5,000	5,000
Goodwill	61,950	72,480	72,480	72,480	72,480
Investments [JV/Associates]	0	0	0	0	0
<b>Cash &amp; equivalents</b>	<b>3,77,960</b>	<b>3,16,510</b>	<b>3,81,749</b>	<b>4,66,981</b>	<b>5,62,494</b>
Current assets (ex-cash)	5,25,730	6,32,480	6,77,598	7,35,535	8,09,726
Current Liab. & Prov.	4,09,930	4,88,010	5,03,205	5,36,537	5,79,013
<b>NWC (ex-cash)</b>	<b>1,15,800</b>	<b>1,44,470</b>	<b>1,74,392</b>	<b>1,98,998</b>	<b>2,30,713</b>
<b>Total assets</b>	<b>7,56,800</b>	<b>7,57,700</b>	<b>8,47,559</b>	<b>9,52,104</b>	<b>10,71,350</b>
Net debt	(3,77,960)	(3,16,510)	(3,81,749)	(4,66,981)	(5,62,494)
Capital employed	7,56,800	7,57,700	8,47,559	9,52,104	10,71,350
<b>Invested capital</b>	<b>3,73,800</b>	<b>4,36,720</b>	<b>4,60,810</b>	<b>4,80,123</b>	<b>5,03,856</b>
BVPS (Rs)	180.1	182.7	204.3	229.5	258.2
Net Debt/Equity (x)	(0.5)	(0.4)	(0.5)	(0.5)	(0.5)
Net Debt/EBITDA (x)	(1.2)	(0.9)	(1.0)	(1.1)	(1.2)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
<b>RoCE (%)</b>	<b>39.8</b>	<b>44.4</b>	<b>43.6</b>	<b>43.2</b>	<b>43.2</b>

Source: Company, Emkay Research

Valuations and Key Ratios					
Y/E March	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	28.4	25.7	25.0	22.1	19.6
P/CE(x)	24.6	21.9	21.1	18.7	16.6
P/B (x)	8.3	8.2	7.3	6.5	5.8
EV/Sales (x)	4.9	4.0	3.8	3.4	3.0
EV/EBITDA (x)	18.8	16.7	15.6	13.9	12.2
EV/EBIT(x)	21.1	19.0	17.9	15.9	14.0
EV/IC (x)	15.8	13.5	12.6	11.9	11.2
FCFF yield (%)	3.6	3.3	3.6	4.2	4.7
FCFE yield (%)	3.9	3.6	3.9	4.6	5.1
Dividend yield (%)	2.1	2.3	2.5	2.8	3.2
<b>DuPont-RoE split</b>					
Net profit margin (%)	18.2	16.4	16.0	16.6	16.8
Total asset turnover (x)	1.6	1.9	1.9	1.9	1.9
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
<b>RoE (%)</b>	<b>29.0</b>	<b>31.8</b>	<b>30.8</b>	<b>31.2</b>	<b>31.3</b>
<b>DuPont-RoIC</b>					
NOPLAT margin (%)	16.9	15.2	15.1	15.6	15.7
IC turnover (x)	3.3	3.6	3.4	3.6	3.8
<b>RoIC (%)</b>	<b>55.7</b>	<b>55.2</b>	<b>51.8</b>	<b>55.9</b>	<b>59.9</b>
<b>Operating metrics</b>					
Core NWC days	34.7	35.9	41.3	42.9	44.7
<b>Total NWC days</b>	<b>34.7</b>	<b>35.9</b>	<b>41.3</b>	<b>42.9</b>	<b>44.7</b>
Fixed asset turnover	2.7	3.0	2.9	2.9	3.0
Opex-to-revenue (%)	74.1	76.1	75.9	75.7	75.5

Source: Company, Emkay Research

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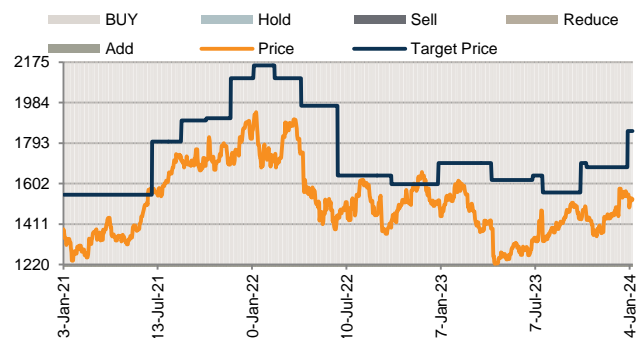
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
31-Dec-23	1,543	1,850	Buy	Dipeshkumar Mehta
30-Nov-23	1,455	1,680	Buy	Dipeshkumar Mehta
13-Oct-23	1,431	1,680	Buy	Dipeshkumar Mehta
02-Oct-23	1,435	1,700	Buy	Dipeshkumar Mehta
21-Jul-23	1,332	1,560	Buy	Dipeshkumar Mehta
02-Jul-23	1,336	1,640	Buy	Dipeshkumar Mehta
14-Apr-23	1,389	1,620	Buy	Dipeshkumar Mehta
01-Apr-23	1,428	1,700	Buy	Dipeshkumar Mehta
13-Jan-23	1,504	1,700	Buy	Dipeshkumar Mehta
02-Jan-23	1,524	1,700	Buy	Dipeshkumar Mehta
14-Oct-22	1,474	1,600	Buy	Dipeshkumar Mehta
04-Oct-22	1,429	1,600	Buy	Dipeshkumar Mehta
25-Jul-22	1,504	1,640	Buy	Dipeshkumar Mehta
23-Jun-22	1,452	1,640	Buy	Dipeshkumar Mehta
01-Jun-22	1,479	1,970	Buy	Dipeshkumar Mehta
14-Apr-22	1,749	1,970	Buy	Dipeshkumar Mehta
01-Apr-22	1,904	2,100	Buy	Dipeshkumar Mehta
22-Feb-22	1,734	2,100	Buy	Dipeshkumar Mehta
13-Jan-22	1,897	2,160	Buy	Dipeshkumar Mehta
01-Jan-22	1,888	2,100	Buy	Dipeshkumar Mehta
30-Nov-21	1,713	2,100	Buy	Dipeshkumar Mehta
14-Oct-21	1,716	1,910	Buy	Dipeshkumar Mehta
02-Oct-21	1,665	1,900	Buy	Dipeshkumar Mehta
27-Aug-21	1,709	1,900	Buy	Dipeshkumar Mehta
15-Jul-21	1,581	1,800	Buy	Dipeshkumar Mehta
02-Jul-21	1,568	1,800	Buy	Dipeshkumar Mehta
14-Apr-21	1,397	1,550	Buy	Dipeshkumar Mehta
05-Apr-21	1,410	1,550	Buy	Dipeshkumar Mehta
18-Mar-21	1,337	1,550	Buy	Dipeshkumar Mehta
14-Jan-21	1,371	1,550	Buy	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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