

In-line Performance; Steady Growth Ahead

Est. Vs. Actual for Q1FY26: Revenue – **INLINE** ; EBIT Margin – **BEAT** ; PAT – **INLINE**

Recommendation Rationale

- **Macro Headwinds:** The business environment remains uncertain due to unresolved tariffs and geopolitical situations, leading clients to be cautious with discretionary spending and delaying decision-making.
- **Deal Wins/Pipeline:** Infosys secured \$3.8 Bn in large deals, with 55% being net new. This includes vendor consolidation deals totalling over \$1 Bn, featuring one megadeal with a major global bank. The company is benefiting from vendor consolidation, supported by its strong delivery capabilities and AI innovation.
- **AI Implementation:** The company is developing 300 AI agents across business operations and IT. These agents are designed to assist clients in making faster decisions, enhancing customer experience, and improving operational efficiency.

Sector Outlook: Cautiously optimistic

Company Outlook & Guidance: The revenue guidance for FY26 has been revised to 1% to 3% growth in constant currency terms, up from the earlier guidance of 0% to 3%. Additionally, the company does not foresee any significant change in Q2FY26 and expects performance to remain at similar levels, indicating continued caution amid a challenging macroeconomic environment.

Current Valuation: 24x FY27E P/E

Current TP: 1680/share

Recommendation: We resume our coverage with a **HOLD** rating on the stock.

Financial performance

In Q1FY26, Infosys reported revenue of Rs 42,279 Cr vs Rs 39,315 Cr (Q1FY25), up 7.5% YoY and 3.3% QoQ. EBIT stood at Rs 8,803 Cr vs Rs 8,288 Cr (Q1FY25), up 6.2% YoY and 2.7% QoQ, driven by higher topline growth. EBIT margin declined by ~13 bps to 20.8% due to compensation increases, higher variable pay, currency movements, and sales investments, partially offset by improved realisation from Project Maximus and seasonality. Net income stood at Rs 6,924 Cr vs Rs 6,374 Cr (Q1FY25), up 8.6% YoY and down 1.6% QoQ, impacted by higher tax expenses. In CC terms, revenue grew by 2.6% QoQ and 3.8% YoY. Attrition rose by 170 bps to 14.4% vs 12.7% YoY (Q1FY25). The TCv for the quarter stood at \$3.8 Bn vs \$4.1 Bn, lower by 7.3% YoY and higher by 46.2% QoQ.

Valuation & Recommendation

The revised guidance reflects an expectation of a steady environment rather than an improving one, considering Q1 and the visibility for Q2. Moreover, management expects H2FY26 to be weaker than H1FY26 due to normal seasonality. Therefore, **we resume our coverage with a HOLD rating on the stock** and assign a 24x P/E multiple to its FY27E earnings to arrive at a TP of Rs 1,680/share, implying an upside of 8% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q1FY26	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	42,279	3.3	7.5	41,995	0.7
EBIT	8,803	2.66	6.2	8293	6.2
EBIT Margin	20.8	-13bps	-26bps	19.7	5.4
Net Profit	6,924	(1.6)	8.6	6,768	2.3
EPS (Rs)	16.7	(1.6)	8.4	16.3	2.3

Source: Company, Axis Research

(CMP as of 23rd July 2025)

CMP (Rs)	1,559
Upside /Downside (%)	8%
High/Low (Rs)	2,007/1,307
Market cap (Cr)	6,59,636
Avg. daily vol. (6m)Shrs.	76,95,850
No. of shares (Cr)	415

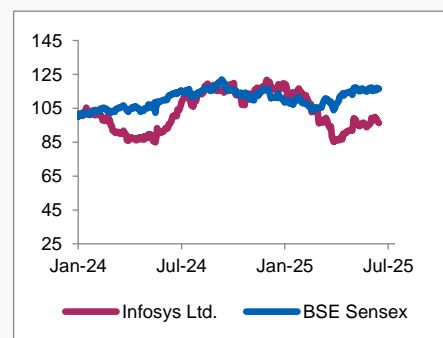
Shareholding (%)

	Dec-24	Mar-25	Jun-25
Promoter	14.4	14.6	14.6
FII's	33.3	32.9	31.9
MFs/UTI	20.1	20.5	20.9
Banks/FIs	0.1	0.1	0.1
Others	32.2	32.0	32.6

Financial & Valuations

Y/E Mar (Rs Cr)	FY25	FY26E	FY27E
Net Sales	1,62,972	1,71,795	1,82,061
EBIT	34,406	35,297	36,955
Net Profit	26,732	27,417	28,657
EPS (Rs)	64	66	69
PER (x)	24.7	24.1	23.0
P/BV (x)	6.9	5.4	4.3
EV/EBITDA (x)	16.2	15.1	13.6
ROE (%)	29.07	25.03	20.83

Relative Performance



Source: AceEquity, Axis Securities

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Outlook

- From a near-term perspective, global uncertainties will keep overall growth muted. However, the company's core efficiencies, investments, and deal momentum across regions will support overall business over the next couple of quarters.

Key highlights

- In CC terms, North America witnessed a growth of 0.4% YoY while it grew sequentially by 2.9% QoQ as 20 out of 28 large deals in Q1 came from the region. Europe grew 12.3% YoY, more than three times the company average, driven by past investments and large deal wins. India and Rest of the World (ROW) remained flattish YoY.
- On the segmental front, BFSI grew by 5.6% YoY; Manufacturing grew by 12.2% YoY; Energy, Utilities, Resources & Services grew by 6.4% YoY; Communication grew by 4.0% YoY, while Hi-tech and Retail saw flattish growth of 1.7% and 0.4%, respectively. The company saw de-growth in Lifesciences and other verticals by 7.9% YoY and 15.3% YoY.
- During the quarter, Infosys secured \$3.8 Bn in large deals, with 55% being net new. This included vendor consolidation deals totalling over \$1 Bn, including one megadeal with a major global bank. Looking ahead, the company continues to benefit from clients consolidating vendors due to its strong delivery capabilities, AI innovation, and multi-service capabilities.
- The company is witnessing strong interest in AI, especially agents and large enterprise AI platforms, as well as in cloud, data and analytics, and enterprise application areas. However, some sectors like logistics, consumer products, manufacturing, and auto are facing constraints due to the economic environment.
- Infosys is strategically focused on building 300 AI agents across business operations and IT. These agents help clients with faster decisions, improved customer experience, and operational efficiency.
- The management stated that current large deals, including vendor consolidation and GCC deals, are not negatively impacting their balance sheet or cash flow, and they expect to maintain over 100% free cash flow conversion to net profit in future as well. Free cash flow stood at \$884 Mn, which is 109% of net profit, marking the fifth consecutive quarter of free cash flow being over 100% of net profit.
- The revenue guidance for FY26 has been revised to 1% to 3% growth in constant currency terms, from the earlier guidance of 0% to 3%. This revision reflects the continued uncertain macroeconomic environment and prolonged decision-making by clients. However, the EBIT margin remains unchanged at 20-22%.

Key Risks to our Estimates and TP

- The demand environment is uncertain because of the potential threat of recession from the world's largest economies.
- The rising subcontracting cost and cross-currency headwinds may impact operating margins negatively.

Results Review
(Rs Cr)

Y/E March	Q1FY26	Q4FY25	QoQ (%)	Q1FY25	YoY (%)
Net sales	42,279	40,925	3.3	39,315	7.5
Total Expenditure	32,336	31,051	4.1	29,878	8.2
EBITDA	9,943	9,874	0.7	9,437	5.4
<i>EBITDA margin (%)</i>	23.5%	24.1%	-61bps	24.0%	-49bps
Depreciation	1,140	1,299	(12.2)	1,149	(0.8)
EBIT	8,803	8,575	2.7	8,288	6.2
<i>EBIT margin (%)</i>	20.8%	21.0%	-13bps	21.1%	-26bps
Interest cost	105	102	2.9	105	-
Other income	1,042	1,190	(12.4)	838	24.3
Exceptional item	0	0	NA	0	NA
PBT	9,740	9,663	0.8	9,021	8.0
Tax	2,816	2,625	7.3	2,647	6.4
Profit after tax	6,924	7,038	(1.6)	6,374	8.6
Reported EPS	16.7	17.0	(1.6)	15.4	8.4
Adj. PAT	6,924	7,038	(1.6)	6,374	8.6
Adj. EPS	16.7	16.9	(1.6)	15.4	8.6

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Net sales	1,46,767	1,53,671	1,62,972	1,71,795	1,82,061
Change (YoY, %)	-	4.7	6.1	5.4	6.0
Operating expenses	1,11,637	1,17,246	1,23,755	1,31,760	1,40,005
EBITDA	35,130	36,425	39,217	40,035	42,056
Change (YoY, %)	11.6	3.7	7.7	2.1	5.0
Margin (%)	23.9	23.7	24.1	23.3	23.1
Depreciation	4,225	4,678	4,811	4,738	5,101
EBIT	30,905	31,747	34,406	35,297	36,955
Interest paid	284	469	416	437	467
Other income	2,701	4,711	3,599	4,021	3,823
Pre-tax profit	33,322	35,989	37,589	38,881	40,311
Tax	9,214	9,741	10,857	11,463	11,655
Effective tax rate (%)	28	27	29	29	29
Net profit	24,108	26,248	26,732	27,417	28,657
Exceptional items	-	-	-	-	-
Adjusted net profit	24,108	26,248	26,732	27,417	28,657
Change (YoY, %)	8.9	8.9	1.8	2.6	4.5
Adj.EPS	58	63	64	66	69
Dividend per share	29	32	32	33	35
Dividend Payout (%)	50	50	50	50	50

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Share capital	2,069	2,071	2,073	2,073	2,073
Reserves & surplus	73,338	86,045	93,745	1,21,162	1,49,819
Shareholders funds	75,407	88,116	95,818	1,23,235	1,51,892
Total Debt	0	0	0	0	0
Other liabilities	10,835	10,559	9,850	9,523	9,634
Current Liabilities & prov.	39,186	38,794	42,850	44,889	45,291
Current liabilities	37,879	36,998	41,375	43,414	43,816
Provisions	1,307	1,796	1,475	1,475	1,475
Total liabilities	50,021	49,353	52,700	54,412	54,925
Total equity & liabilities	1,25,816	1,37,814	1,48,903	1,78,143	2,07,202
Net fixed assets	13,346	12,370	11,778	7,999	3,747
Investments	12,569	11,708	11,059	11,059	11,059
Other non-current assets	29,020	24,304	28,967	28,967	28,967
Current assets	70,881	89,432	97,099	1,30,117	1,63,429
Inventories	0	0	0	0	0
Sundry Debtors	25,424	30,193	31,158	34,359	36,412
Cash & Liquid	12,173	14,786	24,455	54,272	85,530
Other Current Assets	33,284	44,453	41,486	41,486	41,486
Total assets	1,25,816	1,37,814	1,48,903	1,78,143	2,07,202

Source: Company, Axis Securities

Cash Flow
(Rs Cr)

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Pre tax	24,108	26,248	26,732	27,417	28,657
Depreciation	4,225	4,678	4,811	4,738	5,101
Change in working capital	(3,412)	(16,330)	6,058	(1,161)	(1,652)
Other operating activities	(2,417)	(4,242)	(3,183)	(3,584)	(3,356)
Cash flow from operations (a)	22,504	10,354	34,418	27,410	28,750
Capital expenditure	(714)	(498)	(703)	(590)	(420)
Change in investments	(1,058)	(50)	(2,785)	-	-
Other investing activities	(205)	10,338	2,370	4,021	3,823
Cash flow from investing (b)	(1,977)	9,790	(1,118)	3,431	3,403
Equity raised/(repaid)	(29)	2	2	-	-
Debt raised/(repaid)	2,289	(276)	(709)	(327)	111
Dividend (incl. tax)	(12,054)	(13,124)	(13,366)	(13,709)	(14,328)
Change in minorities	2	(43)	40	-	-
Other financing activities	(4,066)	(3,673)	(3,932)	(697)	(1,006)
Cash flow from financing (c)	(25,826)	(17,531)	(23,631)	(1,024)	(895)
Net change in cash (a+b+c)	(5,299)	2,613	9,669	29,817	31,258
Opening cash balance	17,472	12,173	14,786	24,455	54,272
Closing cash balance	12,173	14,786	24,455	54,272	85,530

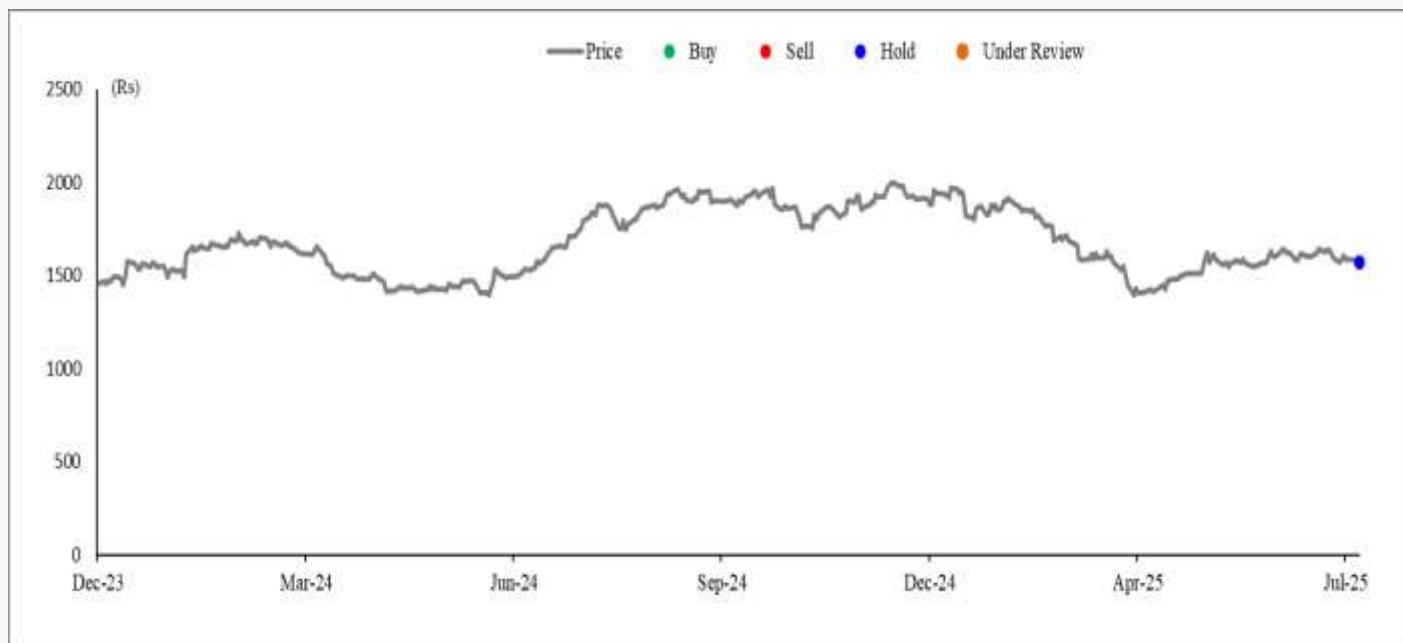
Source: Company, Axis Securities

Ratio Analysis
(%)

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Book Value (Rs)	180	213	231	297	366
Adj EPS (Rs)	58	63	64	66	69
Adj EPS growth (%)	10	10	2	3	5
EBITDA margin (%)	23.9	23.7	24.1	23.3	23.1
Pre-tax margin (%)	22.7	23.4	23.1	22.6	22.1
Debt/Equity (x)	-	-	-	-	-
ROCE (%)	28	29	26	23	20
ROE (%)	32	32	29	25	21
Financial leverage ratios					
Debt / Equity (x)	0.0	0.0	0.0	0.0	0.0
Interest Coverage (x)	123.7	77.7	94.3	91.7	90.0
Interest / Debt (%)	-	-	-	-	-
Working Capital & Liquidity Ratio					
Inventory days	0	0	0	0	0
Receivable days	62	71	69	72	72
Payable days	9	9	9	12	12
Valuation ratio					
PER (x)	27.6	25.1	24.7	24.1	23.0
Adjusted PER (x)	27.6	25.1	24.7	24.1	23.0
P/BV (x)	8.8	7.5	6.9	5.4	4.3
EV/EBITDA (x)	18.6	17.6	16.2	15.1	13.6
Market Cap. / Sales (x)	4.5	4.3	4.0	3.8	3.6

Source: Company, Axis Securities

Infosys Price Chart and Recommendation History



Date	Reco	TP	Research
24-Jul-25	HOLD	1,680	Result Update

Source: Axis Securities Research

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