

Inline performance; Upgraded guidance

Q2FY25 Result Update | Sector: IT | October 18, 2024

ACCUMULATE

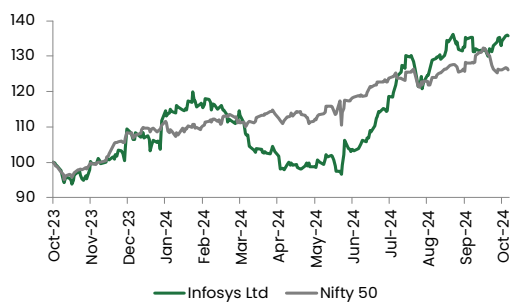
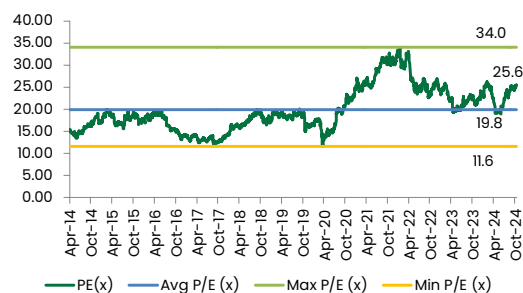
CMP (Rs)	1,911
Target Price (Rs)	2,041
Potential Upside	6.8%
Sensex	80,649
Nifty	24,661

Key Stock data

BSE Code	500209
NSE Code	INFY
Bloomberg	INFO:IN
Shares o/s, Cr (FV 5)	415.0
Market Cap (Rs Cr)	7,92,961
3M Avg Volume	65,85,022
52 week H/L	1,991/1,352

Shareholding Pattern

(%)	Dec-23	Mar-24	Jun-24
Promoter	14.8	14.7	14.6
FII	33.7	34.1	32.7
DII	35.8	35.6	37.3
Others	15.7	15.6	15.4

1 year relative price performance

1 year Forward P/E (x)

Research Analyst
Vinay Kalani

vinay.kalani1@religare.com

Steady revenue growth: Infosys reported increased in Q2FY25 constant currency revenue growth by 3.1%/3.3% QoQ YoY respectively. In rupee terms, revenue reached ₹40,986 crore, marking a growth of 4.3% QoQ and 5.1% YoY. Dollar revenue stood at USD 4,894 million, up by 3.8% QoQ and 3.7% YoY. The growth was primarily driven by the manufacturing, energy, communications, financial services and high-tech sector. However, retail and life sciences sectors experienced a decline. Geographically, India and Europe showed strong growth, while North America remained flat.

Margins were in-line with management expectations: The Company's EBIT stood at Rs 8,649cr which grew by 4.4% QoQ and 4.5% YoY while margins were in-line with management expectation at 21.1%, which grew by 2bps QoQ but declined 12bps YoY due to acquisition related expenses and higher variable pay, offset by Project Maximus and currency tailwinds. Going ahead, management focuses on growing margins in the similar range of 20-22% for FY25, driven by focus on Gen AI & Maximus models and increase in utilization levels. Its PAT stood at Rs 6,516 cr, an increase of 4.8% YoY and 2.2% QoQ with PAT margin at 15.9% a decline of 4bps YoY and 31bps YoY.

Order wins was subdued: Infosys secured large deals worth USD 2.4 billion for the quarter, a 69% decline compared to the same quarter last year. Of these deals, 41% were net new. Deal wins were led by seven deals in financial services, three each in communications, manufacturing, and others vertical. The company added 86 new clients during the quarter, bringing the total to 1,870. It also added one client in the USD 100 mn+.

Attrition remains low: LTM attrition increased slightly to 12.9% in Q2 from 12.7% in Q1FY25. The utilization rate is at a comfortable level, and moving forward, net hiring is expected to drive volume growth. Management plans to on-board 15,000 to 20,000 fresh graduates through both on-campus and off-campus placements during FY25.

Upgraded revenue guidance for FY25: Management has increased its revenue growth guidance for FY25 to 3.75%-4.5% in constant currency; up from the previous 3%-4%. This growth is expected to be driven by a focus on newer technologies and securing more large deals. However, they also mentioned that clients continued to be cautious for discretionary spending and signing new deals. Further, on the operating margin front they maintain similar guidance of 20%-22%.

Outlook & Valuation: Infosys reported a mixed quarter overall with broad-based sequential growth of 3.3% YoY in CC. Company has increased its FY 2025 revenue growth guidance to 3.75-4.50% from 3-4%, earlier. We believe there are near term challenges in the demand environment as discretionary spending by clients remains weak. However, there are signs of improvement in the US BFSI sector. The growth is expected to be driven by demand for its Gen AI & Cloud as well as emerging technologies. Additionally, their focus remains on optimization and better utilization which will aid to drive margins. On a financial front, we expect revenue/EBIT to grow by 6.2%/10.1% CAGR over FY24-26E as we have incorporated management guidance for FY25. We have retained our rating to **Accumulate** on the stock by revising the target price to **Rs 2,041** by assigning a P/E multiple of 26x (unchanged) on FY26E EPS.

Financial Summary - consolidated

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
Net revenue	1,46,767	1,53,671	1,60,586	1,73,433
EBIT	30,906	31,747	34,306	38,502
EBITM (%)	21.1	20.7	21.4	22.2
APAT	24,108	26,248	28,596	31,974
APATM (%)	16.4	17.1	17.8	18.4
EPS (Rs)	58.3	63.4	69.0	77.2
PE (x)	32.8	30.2	27.7	24.8
RoE (%)	32.0	29.8	28.6	27.9

Source : RBL Research

Key Highlights:

- Management is observing a rise in discretionary spending, though clients continue to prioritize cost-cutting over discretionary expenses. There is some increase in discretionary spending, particularly in areas like capital markets, mortgages, cards, and payments.
- Management emphasized strong client engagement across their offerings and noted that AI-driven productivity is a component in all their major deals. They are continuously enhancing their capabilities in Generative AI by building platforms, implementing agent solutions, and developing SLMs.
- The deal pipeline remains strong across various verticals, with positive momentum particularly evident in the financial services sector.
- Amongst geographies, Europe contribution increased to 29.8% in Q2 and its reported growth of 18.2% YoY while North America contribution to revenue decreased to 57.4% and witnessed a de-growth of 1.3% YoY while India contribution remained at around 3.1% and it reported a growth 16.4% YoY.
- Amongst verticals, Retail and Life sciences witnessed a decline of 8% YoY & 1.6% respectively, in Q2 while growth was led by manufacturing with 15.4% YoY, energy with 11.7% YoY followed by communication & Hi-tech with 9.7% YoY & 7.8% YoY.
- Company declared an interim-dividend of Rs 21/share for the quarter ended.

Revenue growth was strong, with increases in Europe & India, but a decline in North America.

EBIT margins at 21.1% in-line with management expectation

P&L Account Quarterly – consolidated

Particulars, Rs cr	Q2FY25	Q2FY24	Y-o-Y (%)	Q1FY25	Q-o-Q (%)
Revenue (\$ Mn)	4,894	4,718	3.7	4,714	3.8
Revenue (Rs cr)	40,986	38,994	5.1	39,315	4.3
Cost of Sales	28,474	27,031	5.3	27,177	4.8
Gross Profit	12,512	11,963	4.6	12,138	3.1
Gross Margins (%)	30.5	30.7	-15bps	30.9	-35bps
Selling and marketing expenses	1,855	1,754	5.8	1,937	(4.2)
General and administrative expenses	2,008	1,935	3.8	1,913	5.0
Total Expenditure	32,337	30,720	5.3	31,027	4.2
EBITDA	9,809	9,440	3.9	9,437	3.9
EBITDA Margins (%)	23.9	24.2	-28bps	24.0	-7bps
Depreciation	1,160	1,166	(0.5)	1,149	1.0
EBIT	8,649	8,274	4.5	8,288	4.4
EBIT Margins (%)	21.1	21.2	-12bps	21.1	2bps
Other Income	712	632	12.7	838	(15.0)
Interest	108	138	(21.7)	105	2.9
PBT	9,253	8,768	5.5	9,021	2.6
Tax	2,737	2,553	7.2	2,647	3.4
PAT	6,516	6,215	4.8	6,374	2.2
PAT Margin (%)	15.9	15.9	-4bps	16.2	-31bps
EPS	15.7	15.0	4.8	15.4	2.2

Source : RBL Research

All segments witnessed growth except Financial Services and Retail.

Revenue Share by Business Segments (%) - consolidated

Particulars	Q2FY25	Q2FY24	Q1FY25	Reported YoY Growth (%)	CC YoY Growth (%)
Financial services	27.2	27.5	27.5	(0.1)	0.3
Retail	13.3	15.2	13.8	(3.0)	(3.0)
Communication	11.9	11.4	12.1	5.2	5.4
Energy, Utilities, Resources & Services	13.5	12.7	13.3	5.2	6.3
Manufacturing	15.7	14.3	14.7	6.4	6.0
Hi-Tech	8.0	7.8	8.0	1.5	2.1
Life Sciences	7.3	7.8	7.3	2.7	2.9
Others	3.1	3.3	3.3	1.7	4.5

Source : RBL Research

India and Europe showed strong growth

Revenue Share by Client Geography (%)

Particulars	Q2FY25	Q2FY24	Q1FY25	Reported YoY Growth (%)	CC YoY Growth (%)
North America	57.4	61.1	58.9	(1.2)	(1.2)
Europe	29.8	26.5	28.4	8.6	9.1
India	3.1	2.8	3.1	18.4	19.9
Rest of the world	9.7	9.6	9.6	0.6	2.3

Source : RBL Research

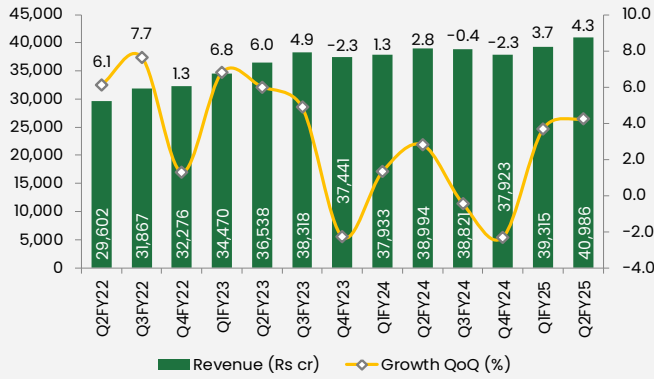
Clients Contribution

Particulars, Rs cr	Q2FY25	Q2FY24	Q1FY25
Number of Clients			
Active	1,870	1,884	1867
Added during the period	86	100	87
No of Mn \$ clients*			
1 Mn \$ +	985	951	987
10 Mn \$ +	307	312	309
50 Mn \$ +	86	80	74
100 Mn \$ +	41	39	40
Clients contributing to revenues			
Top 5 clients	13.7%	13.3%	13.5%
Top 10 clients	20.6%	19.9%	20.9%
Top 25 clients	34.7%	34.1%	34.9%

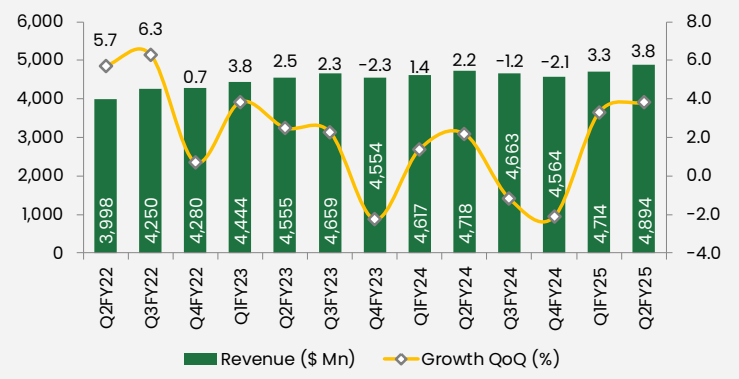
Source : RBL Research

Story in charts

Revenue in Rupee grew by 4.3% QoQ and 5.1% YoY

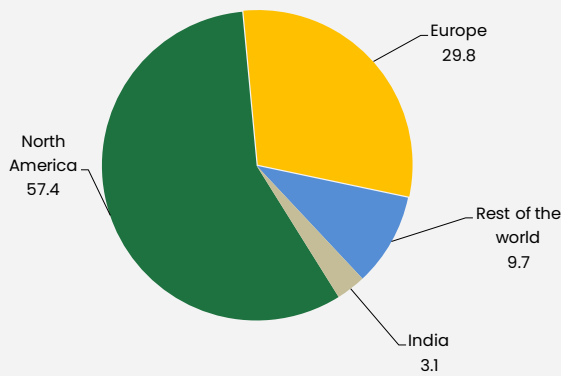


Revenue in USD grew by 3.8% QoQ and 3.7% YoY

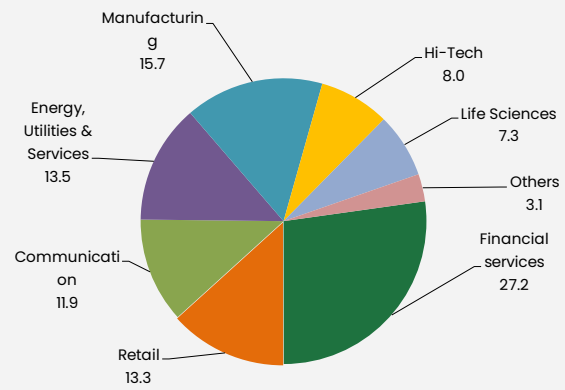


Source : RBL Research

Revenue by Client Geography %

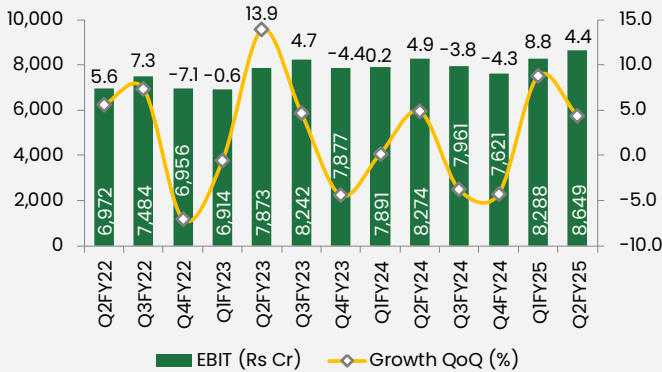


Revenue by Business Segments %

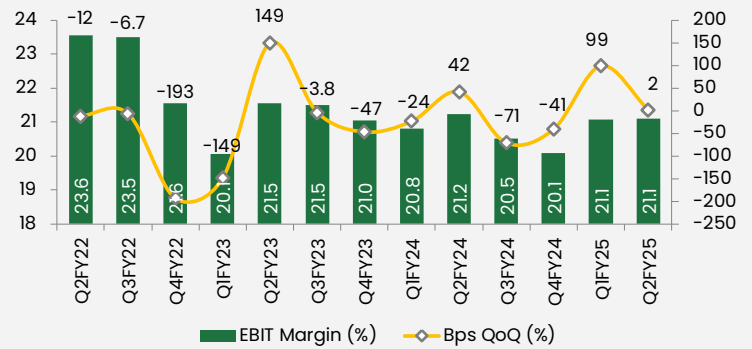


Source : RBL Research

EBIT grew by 4.4% QoQ and 4.5% YoY

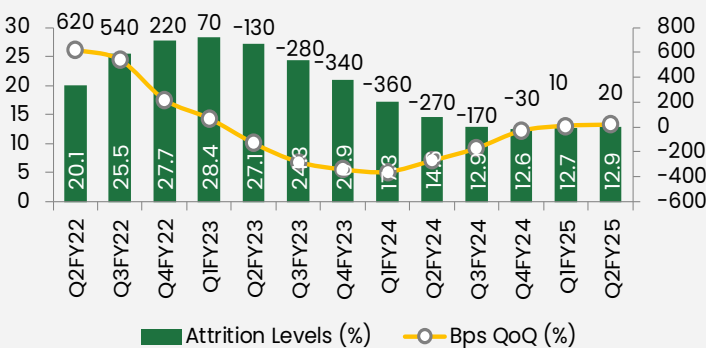


EBIT margin up by 2bps QoQ but declined 12bps YoY

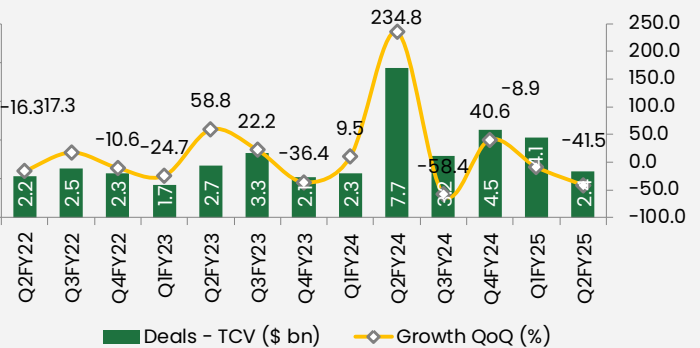


Source : RBL Research

Attrition levels at 12.9% in Q2FY25



Won large new deals worth USD 2.4bn for Q2FY25



Source : RBL Research

P&L Account – consolidated

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
Net Sales (\$ Mn)	18,212	18,562	19,304	20,366
Net Sales (INR Cr)	1,46,767	1,53,671	1,60,586	1,73,433
Expenditure				
Cost of Sales	1,02,353	1,07,414	1,11,286	1,19,322
Total raw materials	1,02,353	1,07,414	1,11,286	1,19,322
Gross Profit	44,414	46,257	49,300	54,111
Gross Margins %	30.3	30.1	30.7	31.2
Selling & Marketing	6,249	6,972	7,286	7,544
Administrative Expense	7,259	7,538	7,708	8,065
Total expenditure	1,15,861	1,21,924	1,26,280	1,34,931
EBITDA	35,131	36,425	38,963	43,358
EBITDAM (%)	23.9	23.7	24.3	25.0
Depreciation	4,225.0	4,678.0	4,657.0	4,856.1
EBIT	30,906	31,747	34,306	38,502
EBIT Margin %	21.1	20.7	21.4	22.2
Other income	2,700	4,711	4,923	5,317
Interest expenses	284	469	481	494
PBT	33,322	35,989	38,748	43,325
Tax	9,214	9,741	10,152	11,351
PAT (after Exceptional)	24,108	26,248	28,596	31,974
PAT Margin %	16.4	17.1	17.8	18.4
EPS	58.3	63.4	69.0	77.2

Source : RBL Research

Balance Sheet – consolidated

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
Share Capital	2,069	2,071	2,071	2,071
Reserves & Surplus	73,338	86,045	98,073	1,12,651
Total Shareholder's Fund	75,407	88,116	1,00,144	1,14,722
Minority Interest	388	345	361	389
Deferred tax liabilities	4,604	5,379	5,621	6,071
Long term provision	1,307	1,796	1,877	2,027
Other long term liabilities	9,615	8,765	8,832	9,539
Total	15,526	15,940	16,330	17,637
Current Liabilities				
Trade payables	3,865	3,956	4,134	4,465
Other current liabilities	30,630	29,457	30,511	32,952
Total	34,495	33,413	34,645	37,417
Total liabilities	1,25,816	1,37,814	1,51,480	1,70,165
Application of Assets				
Net Block	22,265	20,612	22,504	24,586
Goodwill on consolidation	7,248	7,303	7,303	7,303
Non current investment	12,569	11,708	12,235	13,214
Tax assets	7,704	9,896	9,635	10,406
Long term loans and advances	39	34	36	38
Other non-current assets	5,116	5,226	5,461	5,898
Total	54,941	54,779	57,174	61,445
Current Assets				
Current investments	6,909	12,915	14,453	17,343
Trade receivables	25,424	30,193	31,677	34,211
Cash balance	12,173	14,786	21,904	28,791
Short term loans and advances	289	248	259	280
Other current assets	26,080	24,893	26,013	28,094
Total	70,875	83,035	94,306	1,08,720
Total assets	1,25,816	1,37,814	1,51,480	1,70,165

Source : RBL Research

Cashflow – consolidated

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
Profit before tax	33,322	35,989	38,748	43,325
Add: Depreciation	4,225	4,678	4,657	4,856
Add: Interest cost	284	470	481	494
Less: Other Income	(1,118)	(2,067)	-	-
Others	1,606	454	-	-
Operating profit before working capital changes	38,319	39,524	43,886	48,675
Changes in working capital	(6,503)	(5,083)	(969)	(1,768)
Cash from Operations	31,816	34,441	42,917	46,907
Less: Taxes	(8,794)	(9,231)	(10,152)	(11,351)
Cash flow from Operations	23,022	25,210	32,765	35,555
Net cash used in Investing				
Purchase of fixed assets	(2,579)	(2,201)	(6,549)	(6,938)
Purchase of investments	815	(6,160)	(2,065)	(3,869)
Other income	-	1,768	(481)	(494)
Others	-	1,584	-	-
Cash flow from investing	(1,764)	(5,009)	(9,095)	(11,301)
Cash flow from Financing				
Proceeds from Equity shares	(11,464)	5	-	-
Dividend (Incl dividend tax)	(13,631)	(14,692)	(16,568)	(17,396)
Others	(1,600)	(2,817)	16	29
Cash flow from Financing	(26,695)	(17,504)	(16,552)	(17,368)
Net cash Inflow/Outflow	(5,437)	2,697	7,118	6,887
Opening cash	17,472	12,173	14,786	21,904
Exchange gain/loss	138	(84)	-	-
Closing Cash	12,173	14,786	21,904	28,791

Source : RBL Research

Key ratios – consolidated

Particulars	FY23	FY24	FY25E	FY26E
Per share Data				
EPS (Rs)	58.3	63.4	69.0	77.2
Book value per share (Rs)	182.2	212.7	241.8	277.0
Dividend per share (Rs)	32.9	35.5	40.0	42.0
Dividend Yield (%)	1.7	1.9	2.1	2.2
Dividend Payout (%)	56.5	56.0	57.9	54.4
Profitability Ratios				
EBITDAM(%)	23.9	23.7	24.3	25.0
PBTM (%)	22.7	23.4	24.1	25.0
NPM (%)	16.4	17.1	17.8	18.4
RoE (%)	32.0	29.8	28.6	27.9
RoCE (%)	41.0	36.0	34.3	33.6
Efficiency Data				
Debt-Equity Ratio	0.0	0.0	0.0	0.0
Interest Cover Ratio	108.8	67.7	71.3	78.0
Fixed Asset Ratio	0.2	0.1	0.1	0.1
Debtors (Days)	63.2	71.7	72.0	72.0
Inventory (Days)	0.0	0.0	0.0	0.0
Payable (Days)	9.6	9.4	9.4	9.4
WC (Days)	53.6	62.3	62.6	62.6
Valuation				
P/E (x)	32.8	30.2	27.7	24.8
P/BV	10.5	9.0	7.9	6.9
EV/EBITDA	22.2	21.3	19.8	17.6
EV/Sales	5.3	5.1	4.8	4.4

Source : RBL Research

Research Team

Name	Email ID
Ajit Mishra	ajit.mishra@religare.com
Gaurav Arora	gaurav.arora3@religare.com
Abhijeet Banerjee	abhijeet.banerjee@religare.com
Gaurav Sharma	gauravsharma2@religare.com
Ashwani Harit	ashwani.harit@religare.com
Divya Parmar	divya.parmar@religare.com
Vinay Kalani	vinay.kalanil@religare.com
Aniket Varshney	aniket.varshney@religare.com

Rating Methodology

Ratings	Upside
Buy	More than 15%
Accumulate	5% - 15%
Hold	0%- 5%
Sell	Below 0%

Note: RBL Investment ratings (All ratings based on absolute return; All ratings and target price refers to 12 month performance horizon, unless mentioned otherwise).

Before you use this research report, please ensure to go through the disclosure inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations, 2014 and Research Disclaimer at the following link: <https://www.religareonline.com/disclaimer>

Specific analyst(s) specific disclosure(s) inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations,

S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

2014 is/are as under:

Statements on ownership and material conflicts of interest, compensation– Research Analyst (RA)

Nature of Interest (if answer to F (a) above is Yes :

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

Copyright in this document vests exclusively with RBL. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose, without prior written permission from RBL. We do not guarantee the integrity of any emails or attached files and are not responsible for any changes made to them by any other person.

Research Disclaimer: <https://www.religareonline.com/disclaimer>