

Retail Equity Research

Infosys Limited

IT Services

BSE CODE: 500209

NSE CODE: INFY

Bloomberg CODE: INFO:IN

SENSEX: 73,129

BUY

 12 Months Investment Period Rating as per Large Cap
 CMP Rs. 1,631 TARGET Rs. 1,824 RETURN 12%
 (Closing: 16-01-24)

KEY CHANGES:
TARGET ↑

RATING ↑

EARNINGS ↓

Steady performance; robust deal wins

Infosys Ltd provides information technology (IT) consulting and software services, including e-business, programme management and supply chain solutions. It also offers application development, product co-development, system implementation and system engineering services.

- In Q3FY24, revenue remained broadly flat (up 1.3% YoY) at Rs. 38,821 cr as higher growth in the manufacturing and life science segments was partially mitigated by a decline in the financial services and communication segments.
- EBITDA margin fell 90bps YoY to 23.5% on account of the McCamish cyberattack incident and salary hikes.
- The seasonally weak quarter has been further impacted by lower discretionary spends and lower demand for digital services, which we believe is temporary. Importantly, healthy deal wins and acquisitions would continue to support earnings performance in medium to long term. Hence, we upgrade our rating from HOLD to BUY on the stock with a rolled forward target price of Rs. 1,824 based on 25x FY26E adjusted EPS.

Muted sales growth on fall in finance, communication segments

Infosys's revenue remained broadly flat (+1.3 % YoY) at Rs. 38,821cr, as growth in the manufacturing (+13.5% YoY), life science (+9.6% YoY) and other (+7.2% YoY) segments was partially mitigated by a 4% and 6.1% YoY decrease in the financial services and communication segments, respectively. Geography-wise, growth was led by the Rest of the world (+7.1% YoY) and Europe (+9.2% YoY), while growth in India and North America declined 1.9% and 4.7% YoY, respectively. Further, EBITDA decreased 2.5% YoY to Rs. 9,137cr, while EBITDA margin narrowed 90bps YoY to 23.5%. The impact of the McCamish cyberattack incident and salary hikes were partially mitigated by sustained cost minimisation efforts. Higher financial costs further impacted on the bottom line, which decreased 7.2% YoY to Rs. 6,113cr.

Key highlights

- The management narrowed revenue growth guidance for FY24 to 1.5-2% in constant currency terms from 1.0-2.5% earlier but has maintained the operating margin guidance at 20-22%.
- The company announced a definitive agreement to acquire InSemi, a leading semiconductor design and embedded services provider, for Rs. 280 cr.
- In Q3FY24, the company's attrition rate declined further by 170bps QoQ to 12.9%.

Continued deal momentum

Healthy deal wins momentum continued with 23 large deals signed, including one mega deal. The company signed eight large deals in manufacturing, six in financial services, four in energy, utilities, resources and services, two in retail, one in communication and one in other verticals. The total contract value of the deal stood at USD 3.2 billion, with 71% being net new.

Valuation

Weak demand for financial service and communication segment coupled with caution outlook across other key sectors and lower discretionary spending are expected to impact the company's short-term earnings performance. However, large deal wins are likely to drive earnings growth in the medium-to-long term. Sustained cost minimisation efforts will continue to limit any downfall in margins. Hence, we upgrade our rating from HOLD to BUY on the stock with a rolled forward target price of Rs. 1,824 using a target multiple of 25x FY26E adj. EPS.

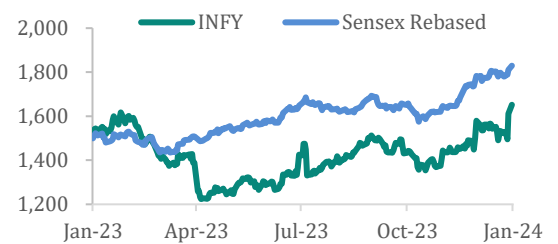
Company Data

Market Cap (cr)	Rs. 675,044
Enterprise Value (cr)	Rs. 674,396
Outstanding Shares (cr)	414.4
Free Float	86.0%
Dividend Yield	1.9%
52 week high	Rs. 1,665
52 week low	Rs. 1,215
6m average volume	377,231
Beta	1.5
Face value	Rs. 5

Shareholding %	Q1FY24	Q2FY24	Q3FY24
Promoters	15.1	14.9	14.9
FII's	35.1	33.4	33.6
MFs/Insti	34.2	35.2	35.8
Public	15.2	16.1	15.4
Others	0.3	0.3	0.4
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	13.7%	14.4%	6.9%
Absolute Sensex	10.5%	10.7%	21.7%
Relative Return*	3.2%	3.7%	-14.8%

*over or under performance to benchmark index



Consolidated (cr)	FY24E	FY25E	FY26E
Sales	149,692	167,662	185,639
Growth (%)	2.0	12.0	10.7
EBITDA	36,688	40,651	45,100
EBITDA Margin (%)	24.5	24.2	24.3
Adj. PAT	24,602	27,438	30,871
Growth (%)	2.1	11.5	12.5
Adj. EPS	58.7	65.5	73.7
Growth (%)	2.1	11.5	12.5
P/E	27.8	24.9	22.1
P/B	8.0	7.1	6.3
EV/EBITDA	18.4	16.5	14.8
ROE (%)	28.9	28.5	28.5
D/E	0.1	0.1	0.1

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q3FY24	Q3FY23	YoY Growth %	Q2FY24	QoQ Growth %	9MFY24	9MFY23	YoY Growth %
Revenue	38,821	38,318	1.3	38,994	(0.4)	115,748	109,326	5.9
EBITDA	9,137	9,367	(2.5)	9,440	(3.2)	27,641	26,133	5.8
EBITDA margins	23.5	24.4	(90bps)	24.2	(70bps)	23.9	23.9	0bps
Depreciation	1,176	1,125	4.5	1,166	0.9	3,515	3,104	13.2
EBIT	7,961	8,242	(3.4)	8,274	(3.8)	24,126	23,029	4.8
Interest	131	80	63.8	138	(5.1)	359	202	77.7
Other Income	789	769	2.6	632	24.8	1,982	2,029	(2.3)
Exceptional Items	-	-	-	-	-	-	-	-
Share of profit from Associate	-	-	-	-	-	-	-	-
PBT	8,619	8,931	(3.5)	8,768	(1.7)	25,748	24,856	3.6
Tax	2,506	2,345	6.9	2,553	(1.8)	7,476	6,882	8.6
Reported PAT	6,113	6,586	(7.2)	6,215	(1.6)	18,274	17,974	1.7
Minority Interest	7	-	n.m.	3	133.3	10	7	42.9
PAT att. to shareholders	6,106	6,586	(7.3)	6,212	(1.7)	18,264	17,967	1.6
Adjustments	-	-	-	-	-	-	-	-
Adj. PAT	6,106	6,586	(7.3)	6,212	(1.7)	18,264	17,967	1.6
No. of shares	414.4	419.6	(1.2)	414.3	0.0	414.4	419.6	(1.2)
Adj. EPS (Rs.)	14.7	15.7	(6.1)	15.0	(1.7)	44.1	42.8	2.9

Change in Estimates

Year / Rs. cr	Old estimates		New estimates			Change %	
	FY24E	FY25E	FY24E	FY25E	FY26E	FY24E	FY25E
Revenue	150,508	168,515	149,692	167,662	185,639	(0.5)	(0.5)
EBITDA	36,944	41,762	36,688	40,651	45,100	(0.7)	(2.7)
Margins (%)	24.5	24.8	24.5	24.2	24.3	0bps	(60bps)
Adj. PAT	24,525	27,940	24,602	27,438	30,871	0.3	(1.8)
Adj. EPS	58.6	66.7	58.7	65.5	73.7	0.3	(1.8)

PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	121,641	146,767	149,692	167,662	185,639
% change	21.1	20.7	2.0	12.0	10.7
EBITDA	31,491	35,130	36,688	40,651	45,100
% change	12.9	11.6	4.4	10.8	10.9
Depreciation	3,476	4,225	4,676	4,726	4,645
EBIT	28,015	30,905	32,012	35,925	40,455
Interest	200	284	428	412	385
Other Income	2,295	2,701	2,500	2,500	2,700
PBT	30,110	33,322	34,084	38,013	42,770
% change	13.1	10.7	2.3	11.5	12.5
Tax	7,964	9,214	9,469	10,560	11,882
Tax Rate (%)	26.4	27.7	27.8	27.8	27.8
Reported PAT	22,146	24,108	24,615	27,453	30,888
PAT att. to common shareholders	22,110	24,095	24,602	27,438	30,871
Adj*	-	-	-	-	-
Adj PAT	22,110	24,095	24,602	27,438	30,871
% change	14.3	9.0	2.1	11.5	12.5
No. of shares (cr)	421.9	418.8	418.8	418.8	418.8
Adj EPS (Rs.)	52.4	57.5	58.7	65.5	73.7
% change	15.1	9.8	2.1	11.5	12.5
DPS (Rs.)	31.0	31.0	35.3	39.4	44.3

CASH FLOW

Y.E March (Rs. cr)	FY22A	FY23A	FY24E	FY25E	FY26E
Net inc. + Depn.	25,586	28,320	29,278	32,164	35,517
Non-cash adj.	4,747	1,502	(1,072)	(1,839)	(2,008)
Changes in W.C	(6,448)	(7,355)	(4,356)	(4,902)	(5,224)
C.F. Operation	23,885	22,467	23,849	25,423	28,285
Capital exp.	(2,161)	(2,579)	(3,892)	(4,359)	(4,827)
Change in inv.	(6,107)	594	(754)	(2,132)	(2,782)
Other invest.CF	1,852	776	1,147	1,427	1,301
C.F - Investment	(6,416)	(1,209)	(3,500)	(5,064)	(6,308)
Issue of equity	21	35	-	-	-
Issue/repay debt	-	-	-	-	-
Dividends paid	(12,652)	(13,631)	(14,785)	(16,490)	(18,553)
Other finance.CF	(12,011)	(13,099)	-	-	-
C.F - Finance	(24,642)	(26,695)	(14,785)	(16,490)	(18,553)
Chg. in cash	(7,173)	(5,437)	5,564	3,869	3,424
Closing cash	17,472	12,173	17,737	21,606	25,030

BALANCE SHEET

Y.E March (Rs. cr)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash	17,472	12,173	17,737	21,606	25,030
Accounts Receivable	22,698	25,424	29,938	35,209	40,841
Inventories	-	-	-	-	-
Other Cur. Assets	27,015	33,284	33,521	34,977	36,434
Investments	13,651	12,569	13,323	15,455	18,237
Gross Fixed Assets	26,018	26,709	30,601	34,960	39,787
Net Fixed Assets	13,075	13,197	12,387	11,988	12,135
CWIP	416	437	463	495	530
Intangible Assets	12,725	15,879	15,951	16,025	16,099
Def. Tax (Net)	1,212	1,245	1,494	1,462	1,555
Other Assets	9,621	11,608	11,673	11,738	11,804
Total Assets	117,885	125,816	136,488	148,955	162,663
Current Liabilities	32,731	37,944	38,318	40,013	41,747
Provisions	-	-	-	-	-
Debt Funds	5,474	8,299	8,734	8,398	7,862
Other Liabilities	3,944	3,778	3,812	3,956	4,131
Equity Capital	2,098	2,069	2,069	2,069	2,069
Reserves & Surplus	73,252	73,338	83,155	94,103	106,421
Shareholder's Fund	75,350	75,407	85,224	96,172	108,490
Minority Interest	386	388	401	416	433
Total Liabilities	117,885	125,816	136,488	148,955	162,663
BVPS (Rs.)	179	180	204	230	259

RATIOS

Y.E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profitab. & Return					
EBITDA margin (%)	25.9	23.9	24.5	24.2	24.3
EBIT margin (%)	23.0	21.1	21.4	21.4	21.8
Net profit mgn.(%)	18.2	16.4	16.4	16.4	16.6
ROE (%)	29.3	32.0	28.9	28.5	28.5
ROCE (%)	34.5	36.8	33.9	34.2	34.6
W.C & Liquidity					
Receivables (days)	68.1	63.2	73.0	76.7	80.3
Inventory (days)	-	-	-	-	-
Payables (days)	77.7	56.5	57.7	56.2	55.5
Current ratio (x)	2.0	1.8	2.0	2.2	2.4
Quick ratio (x)	1.4	1.1	1.4	1.5	1.7
Turnover & Leverage					
Gross asset T.O (x)	4.8	5.6	5.2	5.1	5.0
Total asset T.O (x)	1.1	1.2	1.1	1.2	1.2
Int. coverage ratio (x)	140.1	108.8	74.8	87.3	105.0
Adj. debt/equity (x)	0.1	0.1	0.1	0.1	0.1
Valuation					
EV/Sales (x)	6.5	4.0	4.5	4.0	3.6
EV/EBITDA (x)	25.2	16.7	18.4	16.5	14.8
P/E (x)	36.4	24.5	27.8	24.9	22.1
P/BV (x)	10.7	7.8	8.0	7.1	6.3

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
19-Oct-21	BUY	2,074
14-Jan-22	BUY	2,299
22-Apr-22	HOLD	1,700
1-Aug-22	HOLD	1,667
24-Jan-23	BUY	1,692
18-Apr-23	BUY	1,466
20-Oct-23	HOLD	1,537
17-Jan-24	BUY	1,824

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

Not rated/Neutral

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Not rated/Neutral- The analyst has no investment opinion on the stock under review

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