

Disappointing Quarter; muted FY25 guidance

Information Technology ▶ Result Update ▶ April 19, 2024

TARGET PRICE (Rs): 1,750

Infosys reported a disappointing operating performance in Q4. Revenue declined 2.2% QoQ in cc terms, falling short of our expectations. Weakness was on account of persistent muted discretionary spending, along with a one-time impact of ~100bps due to re-scoping & re-negotiation with a large BFSI client. EBITM declined by 40bps QoQ to 20.1%, while adjusted for one-off impact from rescoping of a large BFSI contract, EBITM at ~21.1% fell slightly below our estimate of 21.4%. Large-deal TCV in Q4 was healthy at USD4.45bn, of which 44% is net new. Company has guided for revenue growth of 1-3% cc in FY25 (implying CQGR of 1.1-1.9%), with EBITM of 20-22%. Mgmt suggested that discretionary spending remains weak, as seen in H2FY24. Even after lowering revenue growth guidance through FY24, Infosys missed its implied Q4 guidance which raises concerns on growth predictability. We cut FY25-26E EPS by 6-6.5%, building in the Q4 miss, lower guidance, and higher ETR. Continual performance miss is likely to weigh on the stock, but valuation is not demanding (~5% FCF yield). We retain BUY with TP now at Rs1,750, on 25x Mar-26E EPS.

Infosys: Financial Snapshot (Consolidated)					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	1,216,410	1,467,670	1,536,710	1,609,118	1,774,289
EBITDA	314,920	351,310	364,250	387,150	433,519
Adj. PAT	221,110	240,950	262,320	258,166	290,871
Adj. EPS (Rs)	52.6	58.1	63.2	62.2	70.1
EBITDA margin (%)	25.9	23.9	23.7	24.1	24.4
EBITDA growth (%)	12.9	11.6	3.7	6.3	12.0
Adj. EPS growth (%)	15.8	10.5	8.8	(1.6)	12.7
RoE (%)	29.0	31.8	31.9	27.7	28.3
RoIC (%)	55.7	55.2	49.5	46.9	50.8
P/E (x)	27.0	24.4	22.5	22.8	20.3
EV/EBITDA (x)	17.8	15.9	15.1	14.0	12.3
P/B (x)	7.9	7.8	6.7	6.0	5.4
FCFF yield (%)	3.8	3.5	4.1	4.1	4.8

Source: Company, Emkay Research

Results Summary

Infosys's revenue declined 2.1% QoQ (down 2.2% in cc terms) to USD4.56bn, coming in below our estimate of USD4.64bn and missing Company's implied guidance. If not for the one-time impact from re-scoping of a large contract, Company would have delivered growth within its guided range. Reported EBITM declined by 40bps QoQ to 20.1%, logging below our estimate of 21.4%. Both, revenue and margin, saw a 100bps impact due to renegotiation and rescoping of a large contract with a BFSI client. Margins were also negatively impacted, by 80bps, due to wage hikes implemented in Nov-23, higher brand building, and visa expenses offset by tailwinds from lower provision for client receivables (60bps), benefits of project Maximus (40bps) and lower impact from the cyber security incident (40bps). Among verticals, BFSI (-7.1% QoQ), Retail (-4.1%), Manufacturing (-3.4%), and Life Sciences (-6%) saw a decline, while Communications (5.6%), Hi-Tech (10.6%), and ERU (0.1%) saw growth. All geographies witnessed a decline on sequential basis, with North America and Europe down 1.1% and 0.7%, respectively. Deal-win TCV was healthy at USD4.45bn. Total headcount declined 1.7% QoQ to 317,240. Company has declared a final dividend of Rs20, along with a special dividend of Rs8 per share. **What we liked:** Healthy deal intake, cash conversion (FY24 OCF/EBITDA: 71.6%), further reduction in LTM attrition (12.6% vs 12.9% in Q3). **What we did not like:** Operating performance miss; lower revenue guidance for FY25.

Earnings Call KTAs

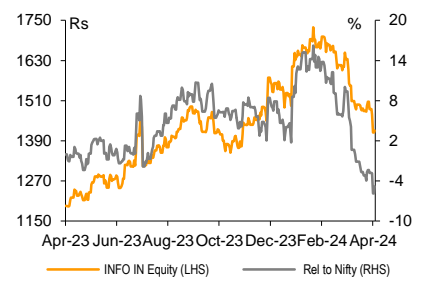
i) In Q4, Company had re-scoping and renegotiation of one of the large contracts in the BFSI segment, leading to a one-time impact of ~100bps in Q4. Nearly 85% of the scope of the contract continues as-is. Management indicated this to be an isolated incident. ii) Company continues to witness macroeconomic effects (high inflation and interest rates) in BFSI, in turn leading to cautious spending by clients. iii) Management expects the normal seasonality to play out in FY25 per its guidance, i.e. H1 to be stronger than H2. iv) Communication clients maintain a cautious approach amid growth concerns and challenges. Growth in coming quarters will be led by ramp-ups of previously won deals. v) Micro-concerns in Hi-tech persist, leading to delay in deal closures, decision-making, and clients' repurposing spend. Discretionary programs have been kept on hold. vi) Company expects FY25 growth to accelerate from FY24 levels in Financial Services and Telecom, due to large-deal wins. Manufacturing, while still showing healthy growth, will see lower growth vs FY24. Hi-tech is expected to remain soft. vii) Effective FY25, Company expects to continue its capital allocation policy of returning ~85% of FCFs cumulatively over a 5-year period (FY25-29). viii) It acquired in-tech, a leading ER&D services provider focused on the German automotive industry, for a cash consideration of EUR450mn (EV/S 2.6x). The acquisition is expected to close during H1FY25.

Target Price – 12M	Mar-25
Change in TP (%)	(5.4)
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	23.3
CMP (18-Apr-24) (Rs)	1,419.3

Stock Data	Ticker
52-week High (Rs)	1,733
52-week Low (Rs)	1,215
Shares outstanding (mn)	4,150.9
Market-cap (Rs bn)	5,891
Market-cap (USD mn)	70,516
Net-debt, FY25E (Rs mn)	-457,798
ADTV-3M (mn shares)	7
ADTV-3M (Rs mn)	11,050.1
ADTV-3M (USD mn)	132.3
Free float (%)	86.0
Nifty-50	21,996
INR/USD	83.5
Shareholding, Dec-23	
Promoters (%)	13.2
FPIs/MFs (%)	30.1/32.0

Price Performance			
(%)	1M	3M	12M
Absolute	(11.4)	(13.6)	12.7
Rel. to Nifty	(11.3)	(15.3)	(9.3)

1-Year share price trend (Rs)



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Exhibit 1: Quarterly snapshot

(Rs mn)	Q4 FY24	Q3 FY24	QoQ chg	Q4 FY23	YoY chg
Net sales (USD mn)	4,564	4,663	-2.1%	4,554	0.2%
Net sales	379,230	388,210	-2.3%	374,410	1.3%
Operating expenses	291,390	296,840		284,430	
EBITDA	87,840	91,370	-3.9%	89,980	-2.4%
Margins (%)	23.2	23.5	(40)	24.0	(90)
Depreciation	11630	11760		11210	
EBIT	76,210	79,610	-4.3%	78,770	-3.2%
Margins (%)	20.1	20.5	(40)	21.0	(90)
Interest received					
Other income (net)	26,190	6,580		5,890	
Pre-tax profit	102,400	86,190	18.8%	84,660	
Tax provided	22,650	25,060		23,320	
Profit after tax	79,750	61,130		61,340	
Emkay Net profit	79,750	61,130	30.5%	61,340	30.0%
EPS (Rs)	19.2	14.7	30.5%	14.8	30.0%

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates

(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue (USD mn)	4,564	4,640	4,643	-1.6%	-1.7%	Revenue came below our expectations and missed the company's implied guidance.
Sales	379,230	385,094	385,561	-1.5%	-1.6%	
EBIT	76,210	82,247	80,582	-7.3%	-5.4%	
EBIT margin	20.1%	21.4%	20.9%	-130 bps	-80 bps	Margin missed expectations.
PAT	79,750	63,821	62,461	25.0%	27.7%	Net profit beat expectations due to income tax refund for prior years. Adjusted net profit missed expectations.

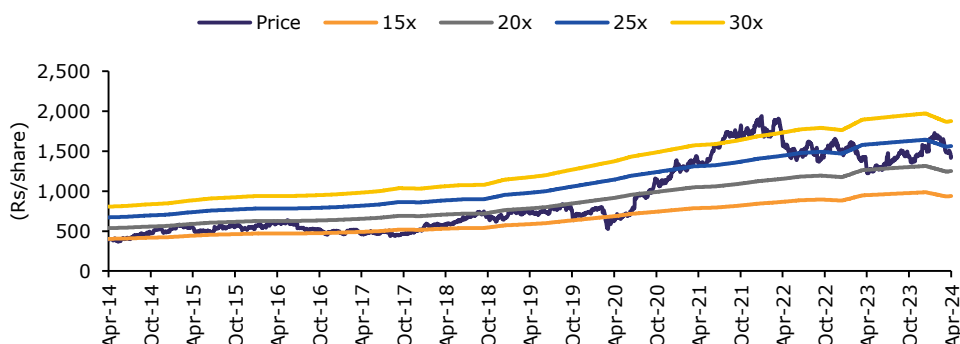
Source: Company, Bloomberg, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY25E			FY26E		
	Old	New	Change	Old	New	Change
Revenue (USD mn)	19,766	19,156	-3.1%	21,650	20,874	-3.6%
YoY growth	6.1%	3.2%		9.5%	9.0%	
Revenue	1,660,358	1,609,118	-3.1%	1,840,212	1,774,289	-3.6%
EBIT	353,511	338,956	-4.1%	395,086	380,571	-3.7%
EBIT margin	21.3	21.1		21.5	21.4	
Net profit	275,819	258,166	-6.4%	309,738	290,871	-6.1%
EPS (Rs)	66.5	62.2	-6.4%	74.6	70.1	-6.1%

Source: Company, Emkay Research

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



Source: Company, Emkay Research

Infosys: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	1,216,410	1,467,670	1,536,710	1,609,118	1,774,289
Revenue growth (%)	21.1	20.7	4.7	4.7	10.3
EBITDA	314,920	351,310	364,250	387,150	433,519
EBITDA growth (%)	12.9	11.6	3.7	6.3	12.0
Depreciation & Amortization	34,770	42,250	46,780	48,194	52,947
EBIT	280,150	309,060	317,470	338,956	380,571
EBIT growth (%)	13.8	10.3	2.7	6.8	12.3
Other operating income	0	0	0	0	0
Other income	22,950	27,160	45,420	28,053	32,501
Financial expense	2,000	3,000	3,000	3,000	3,000
PBT	301,100	333,220	359,890	364,009	410,073
Extraordinary items	0	0	0	0	0
Taxes	79,640	92,140	97,410	105,563	118,921
Minority interest	(350)	(130)	(160)	(280)	(280)
Income from JV/Associates	0	0	0	0	0
Reported PAT	221,110	240,950	262,320	258,166	290,871
PAT growth (%)	14.3	9.0	8.9	(1.6)	12.7
Adjusted PAT	221,110	240,950	262,320	258,166	290,871
Diluted EPS (Rs)	52.6	58.1	63.2	62.2	70.1
Diluted EPS growth (%)	15.8	10.5	8.8	(1.6)	12.7
DPS (Rs)	31.0	34.0	46.0	40.0	45.0
Dividend payout (%)	59.0	58.5	72.8	64.3	64.2
EBITDA margin (%)	25.9	23.9	23.7	24.1	24.4
EBIT margin (%)	23.0	21.1	20.7	21.1	21.4
Effective tax rate (%)	26.4	27.7	27.1	29.0	29.0
NOPLAT (pre-IndAS)	206,051	223,601	231,542	240,659	270,206
Shares outstanding (mn)	4,205.6	4,148.6	4,150.4	4,150.4	4,150.4

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	301,100	333,220	359,890	364,009	410,073
Others (non-cash items)	36,490	49,840	44,550	47,914	52,667
Taxes paid	(76,120)	(87,940)	(92,310)	(105,563)	(118,921)
Change in NWC	(11,830)	(65,030)	(51,620)	(11,755)	(18,322)
Operating cash flow	249,640	230,220	260,660	294,606	325,497
Capital expenditure	(21,610)	(25,790)	(22,010)	(54,755)	(43,560)
Acquisition of business	(530)	(9,700)	(1,010)	(10,125)	0
Interest & dividend income	18,980	18,630	21,670	23,853	28,301
Investing cash flow	(74,950)	(17,640)	(58,650)	(64,880)	(43,560)
Equity raised/(repaid)	(109,960)	(118,110)	50	0	0
Debt raised/(repaid)	0	0	0	0	0
Payment of lease liabilities	(9,150)	(12,310)	(20,240)	0	0
Interest paid	0	0	0	0	0
Dividend paid (incl tax)	(127,310)	(136,530)	(154,850)	(166,018)	(186,770)
Others	(690)	1,380	(840)	0	0
Financing cash flow	(247,110)	(265,570)	(175,880)	(166,018)	(186,770)
Net chg in Cash	(72,420)	(52,990)	26,130	63,708	95,167
OCF	249,640	230,220	260,660	294,606	325,497
Adj. OCF (w/o NWC chg.)	261,470	295,250	312,280	306,360	343,819
FCFF	228,030	204,430	238,650	239,851	281,937
FCFE	245,010	220,060	257,320	260,704	307,238
OCF/EBITDA (%)	79.3	65.5	71.6	76.1	75.1
FCFE/PAT (%)	110.8	91.3	98.1	101.0	105.6
FCFF/NOPLAT (%)	110.7	91.4	103.1	99.7	104.3

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	20,980	20,690	20,710	20,710	20,710
Reserves & Surplus	736,380	737,260	863,900	956,048	1,060,150
Net worth	757,360	757,950	884,610	976,758	1,080,860
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(560)	(250)	13,400	13,400	13,400
Total debt	0	0	0	0	0
Total liabilities & equity	756,800	757,700	898,010	990,158	1,094,260
Net tangible fixed assets	130,750	133,460	123,700	115,872	110,165
Net intangible assets	17,070	17,490	13,970	23,632	18,311
Net ROU assets	48,230	68,820	65,520	69,726	71,368
Capital WIP	5,040	4,470	4,480	5,000	5,000
Goodwill	61,950	72,480	73,030	83,155	83,155
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	377,960	316,510	394,090	457,798	552,965
Current assets (ex-cash)	525,730	632,480	698,810	734,789	800,613
Current Liab. & Prov.	409,930	488,010	475,590	499,815	547,316
NWC (ex-cash)	115,800	144,470	223,220	234,975	253,297
Total assets	756,800	757,700	898,010	990,158	1,094,260
Net debt	(377,960)	(316,510)	(394,090)	(457,798)	(552,965)
Capital employed	756,800	757,700	898,010	990,158	1,094,260
Invested capital	373,800	436,720	499,440	527,360	536,295
BVPS (Rs)	180.1	182.7	213.1	235.3	260.4
Net Debt/Equity (x)	(0.5)	(0.4)	(0.4)	(0.5)	(0.5)
Net Debt/EBITDA (x)	(1.2)	(0.9)	(1.1)	(1.2)	(1.3)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	39.8	44.4	43.8	38.9	39.6

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24	FY25E	FY26E
P/E (x)	27.0	24.4	22.5	22.8	20.3
P/CE(x)	23.3	20.8	19.1	19.2	17.1
P/B (x)	7.9	7.8	6.7	6.0	5.4
EV/Sales (x)	4.6	3.8	3.6	3.4	3.0
EV/EBITDA (x)	17.8	15.9	15.1	14.0	12.3
EV/EBIT(x)	20.0	18.0	17.3	16.0	14.0
EV/IC (x)	15.0	12.8	11.0	10.3	10.0
FCFF yield (%)	3.8	3.5	4.1	4.1	4.8
FCFE yield (%)	4.1	3.7	4.4	4.4	5.2
Dividend yield (%)	2.2	2.4	3.2	2.8	3.2
DuPont-RoE split					
Net profit margin (%)	18.2	16.4	17.1	16.0	16.4
Total asset turnover (x)	1.6	1.9	1.9	1.7	1.7
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	29.0	31.8	31.9	27.7	28.3
DuPont-RoIC					
NOPLAT margin (%)	16.9	15.2	15.1	15.0	15.2
IC turnover (x)	3.3	3.6	3.3	3.1	3.3
RoIC (%)	55.7	55.2	49.5	46.9	50.8
Operating metrics					
Core NWC days	34.7	35.9	53.0	53.3	52.1
Total NWC days	34.7	35.9	53.0	53.3	52.1
Fixed asset turnover	2.7	3.0	2.9	2.9	2.9
Opex-to-revenue (%)	74.1	76.1	76.3	75.9	75.6

Source: Company, Emkay Research

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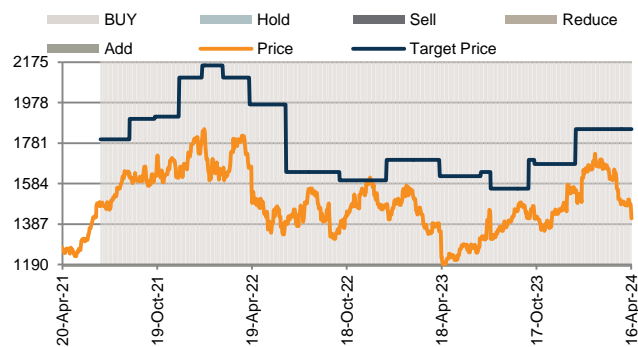
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
31-Mar-24	1,498	1,850	Buy	Dipeshkumar Mehta
01-Mar-24	1,655	1,850	Buy	Dipeshkumar Mehta
12-Jan-24	1,613	1,850	Buy	Dipeshkumar Mehta
31-Dec-23	1,543	1,850	Buy	Dipeshkumar Mehta
30-Nov-23	1,455	1,680	Buy	Dipeshkumar Mehta
13-Oct-23	1,413	1,680	Buy	Dipeshkumar Mehta
02-Oct-23	1,417	1,700	Buy	Dipeshkumar Mehta
21-Jul-23	1,315	1,560	Buy	Dipeshkumar Mehta
02-Jul-23	1,318	1,640	Buy	Dipeshkumar Mehta
14-Apr-23	1,353	1,620	Buy	Dipeshkumar Mehta
01-Apr-23	1,391	1,700	Buy	Dipeshkumar Mehta
13-Jan-23	1,465	1,700	Buy	Dipeshkumar Mehta
02-Jan-23	1,485	1,700	Buy	Dipeshkumar Mehta
14-Oct-22	1,421	1,600	Buy	Dipeshkumar Mehta
04-Oct-22	1,377	1,600	Buy	Dipeshkumar Mehta
25-Jul-22	1,449	1,640	Buy	Dipeshkumar Mehta
23-Jun-22	1,400	1,640	Buy	Dipeshkumar Mehta
01-Jun-22	1,425	1,970	Buy	Dipeshkumar Mehta
14-Apr-22	1,667	1,970	Buy	Dipeshkumar Mehta
01-Apr-22	1,815	2,100	Buy	Dipeshkumar Mehta
22-Feb-22	1,654	2,100	Buy	Dipeshkumar Mehta
13-Jan-22	1,809	2,160	Buy	Dipeshkumar Mehta
01-Jan-22	1,800	2,100	Buy	Dipeshkumar Mehta
30-Nov-21	1,633	2,100	Buy	Dipeshkumar Mehta
14-Oct-21	1,622	1,910	Buy	Dipeshkumar Mehta
02-Oct-21	1,574	1,900	Buy	Dipeshkumar Mehta
27-Aug-21	1,615	1,900	Buy	Dipeshkumar Mehta
15-Jul-21	1,494	1,800	Buy	Dipeshkumar Mehta
02-Jul-21	1,482	1,800	Buy	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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