

Strong TCV bookings; revenue guidance increased further

About the stock: Infosys Ltd (Infy) is one of the leading IT players catering to BFSI, retail, communication, manufacturing & hi tech verticals.

- The company generates >58% of revenues from digital technologies
- Dividend payout (>80%), margins (>20%) and RoCE (>31%) key positives

Q3FY23 Results: Infosys reported strong numbers in a seasonally weak quarter.

- Revenue grew 2.4% QoQ and 13.7% YoY in CC terms
- EBIT margins were flat at 21.5% sequentially
- Signed 32 Large deal with TCV of US\$3.3 billion (bn), up 22.2% QoQ

What should investors do? Infy's share price has grown by ~2.8x over the past five years (from ~₹ 526 in January 2018 to ~₹ 1,480 levels in January 2023).

- We maintain **BUY** rating on the stock

Target Price and Valuation: We value Infosys at ₹ 1,730 i.e. 23x P/E on FY25E EPS.

Key triggers for future price performance:

- Differentiated digital and cloud capabilities to drive growth
- Growth remained broad-based and deal momentum robust, with digital transformation rapidly scaling up across verticals and regions
- Infosys to post industry leading revenue growth (14.4% CAGR in FY22-25E)
- Double-digit return ratios, strong cash generation and healthy payout

Alternate Stock Idea: Besides Infosys, in our IT coverage we also like TCS.

- Strong organic growth, consistent financials, industry leading margins and healthy capital allocation policy prompt us to be positive on the stock
- BUY with a target price of ₹ 3,780



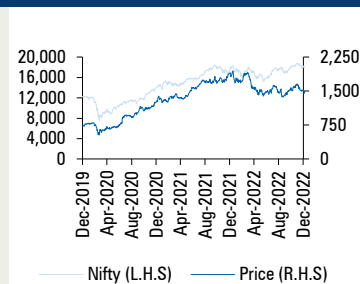
Particulars

Particular	Amount
Market CAP (₹ Crore)	6,29,162.6
Total Debt	-
CC&E (₹ Crore)	24,145.0
EV (₹ Crore)	6,05,017.6
52 week H/L	1953/ 1356
Equity capital	2,098.0
Face value	₹ 5

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	13.1	13.1	13.1	13.1
FII	33.2	33.2	31.7	31.3
DII	16.3	17.1	18.9	28.0
Public	37.4	36.5	36.3	27.6

Price Chart



Recent event & key risks

- 32 large deal win of TCV US\$ 3.3 bn
- **Key Risk:** i) Lower than guided revenue, ii) lower than guided margin

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Key Financial Summary

₹ Crore	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 years CAGR (FY22-25E)
Net Sales	90,791	1,00,472	1,21,641	12.2%	1,48,132	1,66,123	1,81,958	14.4%
EBITDA	22,268	27,890	31,492	8.4%	36,083	41,199	45,126	12.7%
EBITDA Margins (%)	24.5	27.8	25.9		24.4	24.8	24.8	
Net Profit	16,595	19,351	22,111	6.2%	25,768	30,031	31,901	13.0%
EPS (₹)	38.9	45.6	52.1		60.7	70.8	75.2	
P/E	37.8	32.3	28.3		24.3	20.8	19.6	
RoNW (%)	25.2	25.2	29.2		30.1	32.3	32.1	
RoCE (%)	30.8	31.7	36.0		36.2	39.1	39.2	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

- In a seasonally weak Q3 Infosys reported strong revenue numbers reporting revenue of US\$4,659 mn, up 2.3% QoQ, 9.6% YoY. In CC terms, the company reported growth of 2.4% QoQ & 13.7% YoY. In rupee terms, Infosys reported revenue of ₹ 38,318 crore, up 4.9% QoQ & 20.2% YoY
- Digital revenues (62.9% of the revenue mix) grew 4% QoQ to US\$2,930 mn while Core revenues (37.1% of the revenue mix) declined by 0.5% QoQ. In CC terms, Digital revenue grew 21.7% YoY while Core revenue grew 2.4%
- Geography wise (in CC terms on a YoY basis), Europe region (25.8% of mix) reported a second successive quarter of 25%+ growth with growth of 25.3% while the North America market (62% of mix), impacted by furlough, reported growth of 10.5%. RoW region reported growth of 11.9% while India revenue declined 5.4%
- Vertical wise (in CC terms on a YoY basis), growth was led by Manufacturing and Energy, Utilities, Resources & Services sector (EURS), which sustained its growth momentum reporting strong growth of 36.8% & 25.9, respectively, while Retail, Communications, Hi-Tech and Lifescience reported growth of 12.7%, 12.7%, 10.4% & 5%, respectively. Financial Services segment (29.3% of the mix) reported growth of 5.5%. The company indicated that financial services segment was impacted by furloughs & certain contract closure issues
- Despite the revenue growth in a furlough impacted quarter the company reported flat EBIT margin of 21.5% compared to last quarter. Infosys indicated that margin tailwinds were currency benefit (+30 bps) & cost optimisations via lower sub-contractor cost (+70 bps) were negated by the higher SG&A expenses (-30 bps) and furlough impact (-80 bps), resulting into sequentially flat margins
- During the quarter, Infosys won 32 large deals with a TCV of US\$3.3 bn, up 22.2% QoQ. The company indicated that 36.3% of the TCV was of net new deals. The TCV wins were highest since Q4FY21 and indicated that its demand pipeline remains strong despite a challenging environment. Infosys indicated that it is witnessing increased traction in cost optimisation & automation pipeline. It also indicated that the cloud demand remains strong
- The company's 32 large deals were won across the following segment: i) seven in retail; ii) six each in Financial services & Communication, iii) five each in EURS & Manufacturing, iv) two in Lifescience & v) one in Hi-Tech while geography wise the split was: i) 25 in US, ii) five in Europe and iii) one in RoW
- On the back of strong TCV win in the last few quarters & healthy demand pipeline the company increased its revenue guidance for FY23 to 16-16.5% from earlier guidance of 15-16%. Infosys, however, has maintained its EBIT margin guidance of 21-22%
- On the demand outlook, as far as macro impact is concerned, the company said it is seeing some incremental impact in investment banking sub-vertical in the BFSI space in addition to impact visible in the mortgage sub-vertical, which it mentioned during the Q2 call. Infosys maintained that the pain points in some pockets of Retail, Hi-Tech and Telecom continued but they are at levels similar to Q2 and no incremental impact is visible in these verticals apart from BFSI. The company indicated that due to weak macros, opportunities for cost take out programs are increasing but the clients also continue to spend on transformation deals. Hence, the near to medium term opportunities looked balanced. Subsequently both these programs are likely to drive the revenue growth equally
- **FY24 outlook:** The company indicated that it has a strong pipeline for FY24 and it does contain good proportion of large deals. The large deals also have a good combination of cost take out deals as well as large automation deals. Infosys continues to win transformation deals due to its Cobalt based

Infy - ESG Disclosure Score*

Score	FY20	FY21	FY22
Environmental	42.4	42.7	42.7
Social	41.7	48.1	56.1
Governance	84.9	89.9	96.1
Overall ESG Score	56.4	60.3	65.0

*Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures*

capabilities while cost take out deals are being won due to its world class automation capabilities. The company also indicated that clients are likely to fund its transformation deals from the cost saving outcome through cost take out deals. Hence, it is playing on both legs of the revenue growth. The company also indicated that it has an opportunity to earn higher margin in cost take out deals as these are more milestone based

- The company also mentioned that due to weak macros the clients are also looking to cut down the number of vendors. Hence, vendor consolidation is being evaluated by the clients. Infosys also mentioned that in several discussions with clients, which have six to seven vendors currently, they are looking to cut the count to may be one or in some cases two or three. The company mentioned that it is likely to be the beneficiary of client consolidation due to its end to end offering
- Infosys indicated that strong growth in the Europe market for the quarter is also a function of large programs, which were running in this region in the last 18-24 months. The company indicated that a few pockets in Europe are seeing some growth moderation, which includes Germany, UK, some Nordic countries, etc. Manufacturing, energy & utilities in Europe is doing well and is expected to continue performing better in the near term. US market growth for the quarter was impacted by furlough
- The company mentioned that US market growth, going forward, is likely to rebound as out of 32 large deals that it won in Q3, 25 were from the US geography. Infosys mentioned that the pipeline remained strong across these geographies. The company also added that retailer's profitability across US has been under pressure recently. Hence, it has created opportunities to win cost take out programs in the near term. Infosys indicated it is difficult to give any indication of the large deal TCV in future as sometimes it may look higher when it won disproportionate large deals
- The company indicated the pricing environment is much better compared to previous quarters. It is expected to be a margin lever in the medium to long term
- Infosys, during the quarter, added 1,627 net employees taking the total employee strength to 346,845 employees. The net addition was lowest in nine quarters. Utilisation excluding trainees declined by 190 bps to 81.7% due to furlough impact
- The company reported that its LTM attrition declined by 280 bps QoQ to 24.3 while its quarterly attrition declined by 600 bps QoQ. Infosys indicated that it expects attrition to moderate further, going forward
- The company during the last quarter had approved a share buyback program of ₹ 9,300 crore at maximum buyback price of ₹ 1,850 per share. Since December 7, 2022, it has bought back 31.3 mn shares worth ₹ 4,790 crore at an average price of ~₹ 1,531 per share

Peer comparison

Exhibit 1: Peer Comparison

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
HCL Tech (HCLTEC)	1,072	1,115	BUY	2,90,905	49.8	52.8	58.3	21.5	20.3	18.4	24.2	25.8	27.4	21.8	21.9	23.0
Infosys (INFTEC)	1,480	1,730	BUY	6,22,728	52.1	60.7	70.8	28.4	24.4	20.9	36.0	36.2	39.1	29.2	30.1	32.3
TCS (TCS)	3,335	3,780	BUY	12,20,147	104.7	118.5	133.4	31.8	28.1	25.0	51.4	50.1	49.3	43.0	42.6	41.5
Tech M (TECMAH)	1,002	1,240	BUY	97,476	63.1	65.2	80.0	15.9	15.4	12.5	22.5	21.5	23.2	20.7	19.1	20.8
Wipro (WIPRO)	394	420	HOLD	2,15,963	23.5	23.1	26.1	16.8	17.1	15.1	18.8	18.7	20.3	19.6	18.5	20.1

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Revenue	38,318	37,751	31,867	20.2	36,538	4.9	Reported revenue growth of 2.4% QoQ in CC terms
Employee expenses	25,436	25,120	20,516	24.0	24,383	4.3	
Gross Profit	12,882	12,631	11,351	13.5	12,155	6.0	
Gross margin (%)	33.6	33.5	35.6	-200 bps	33.3	35 bps	
Selling & marketing costs	1,611	1,572	1,325	21.6	1,486	8.4	
G&A expenses	1,904	1,841	1,643	15.9	1,767	7.8	
EBITDA	9,367	9,218	8,383	11.7	8,902	5.2	
EBITDA Margin (%)	24.4	24.4	26.3	-186 bps	24.4	8 bps	
Depreciation	1,125	1,035	899	25.1	1,029	9.3	
EBIT	8,242	8,182	7,484	10.1	7,873	4.7	
EBIT Margin (%)	21.5	21.7	23.5	-198 bps	21.5	-4 bps	EBIT margin flat QoQ with tailwinds of 30 bps currency benefit & 70 bps of lower sub-contractor cost offset by headwinds of 30 bps of higher SG&A spend and 80 bps impact of seasonal weakness & furlough impact
Other income	689	600	459	50.1	518	33.0	
PBT	8,931	8,782	7,943	12.4	8,391	6.4	
Tax paid	2,345	2,477	2,121	10.6	2,365	-0.8	
Reported PAT	6,586	6,301	5,809	13.4	6,021	9.4	

Source: Company, ICICI Direct Research

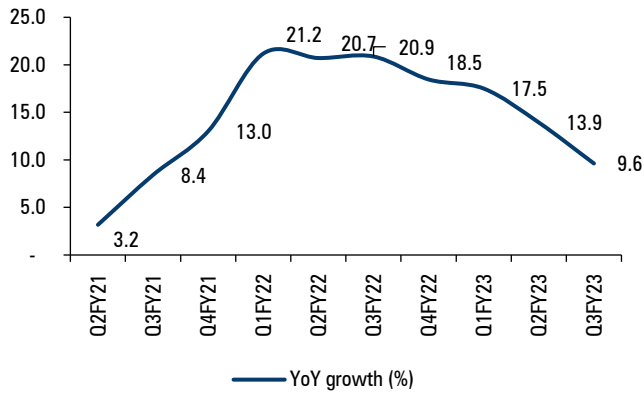
Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E			Comments
	Old	New	% Change	Old	New	% Change	Old	New	% Change	
Revenue	1,45,442	1,48,132	1.8	1,60,984	1,66,123	3.2	1,81,958	1,81,958	0.0	We increase numbers based on continued strong TCV numbers
EBIT	31,270	31,848	1.8	35,416	36,547	3.2	40,031	40,031	0.0	
EBIT Margin (%)	21.5	21.5	0 bps	22.0	22.0	0 bps	22.0	22.0	0 bps	
PAT	25,328.2	25,768	1.7	29,168	30,031	3.0	31,901	31,901	0.0	
EPS (₹)	59.7	60.7	1.7	68.7	70.8	3.0	75.2	75.2	0.0	

Source: Company, ICICI Direct Research

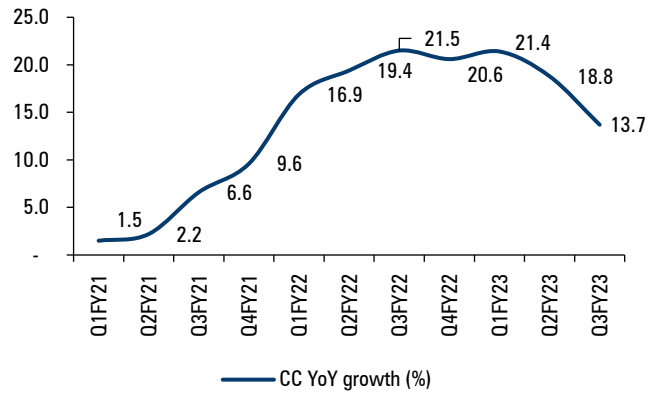
Key Metrics

Exhibit 4: Dollar revenue impacted by furlough...



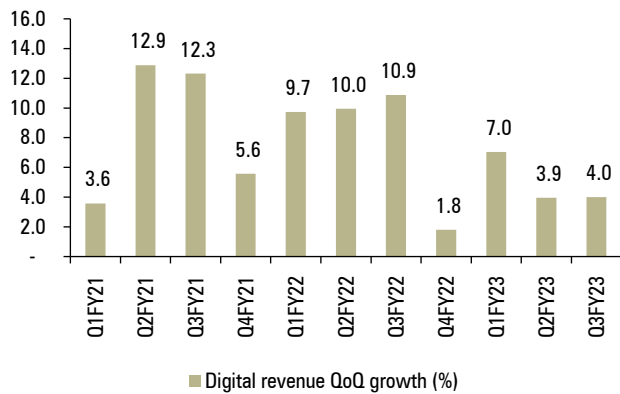
Source: Company, ICICI Direct Research

Exhibit 5: ...same for CC growth



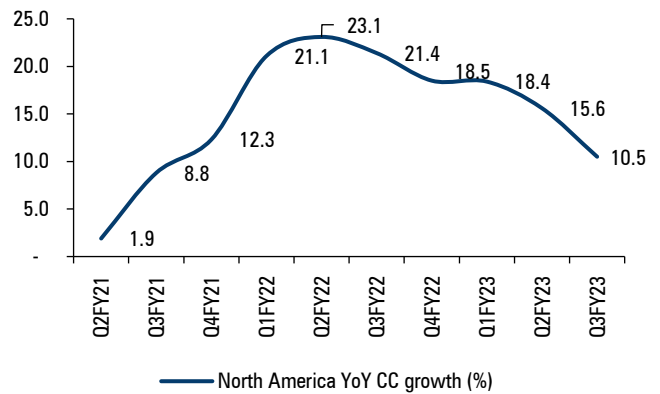
Source: Company, ICICI Direct Research

Exhibit 6: Digital revenue QoQ growth remains steady



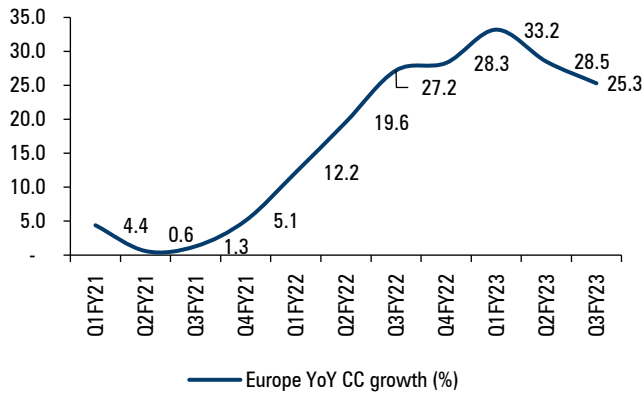
Source: Company, ICICI Direct Research

Exhibit 7: North America impacted by furloughs in Q3



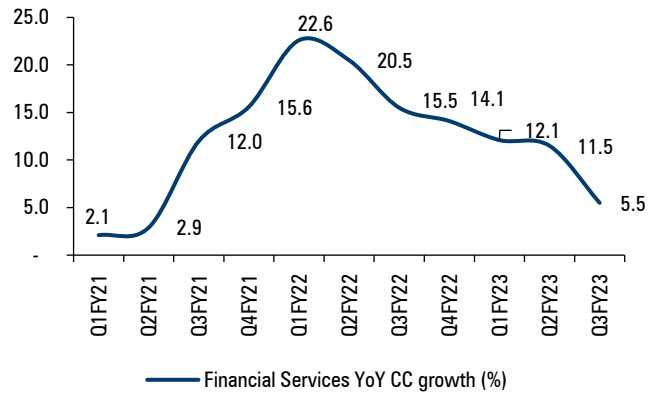
Source: Company, ICICI Direct Research

Exhibit 8: Europe region continues strong growth



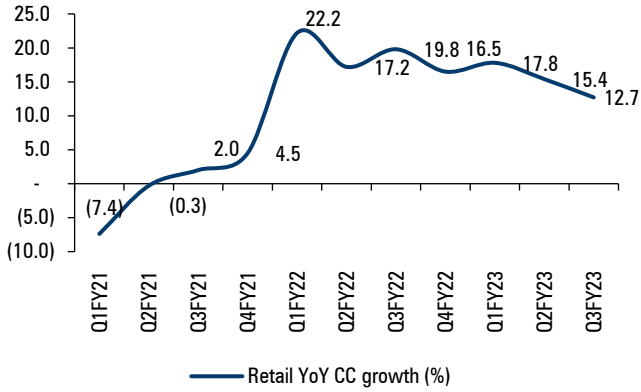
Source: Company, ICICI Direct Research

Exhibit 9: Impact of furlough higher in BFSI



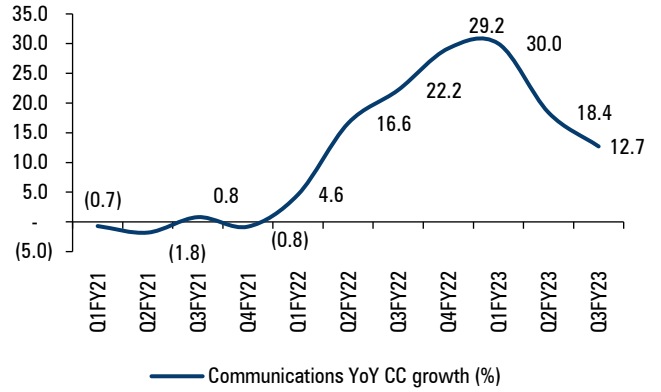
Source: Company, ICICI Direct Research

Exhibit 10: Retail growth steady



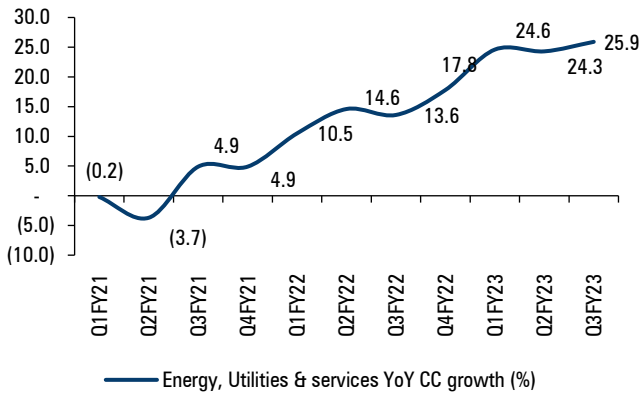
Source: Company, ICICI Direct Research

Exhibit 11: Communications YoY CC growth



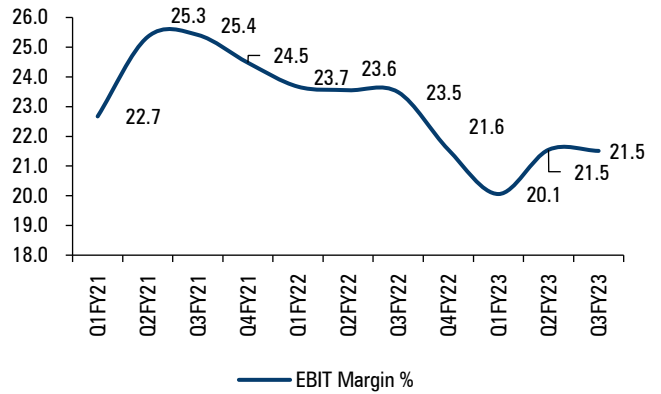
Source: Company, ICICI Direct Research

Exhibit 12: Utilities growth remains strong



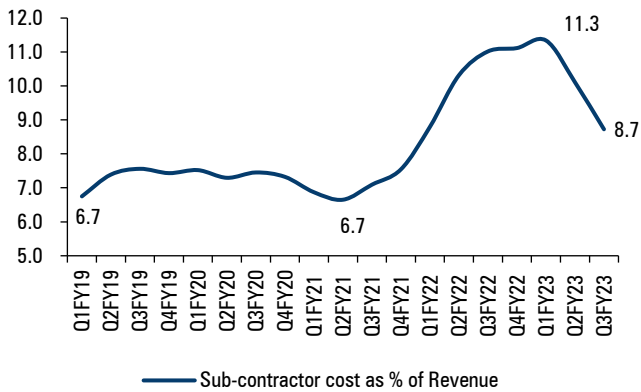
Source: Company, ICICI Direct Research

Exhibit 13: EBIT margin flattish in Q3



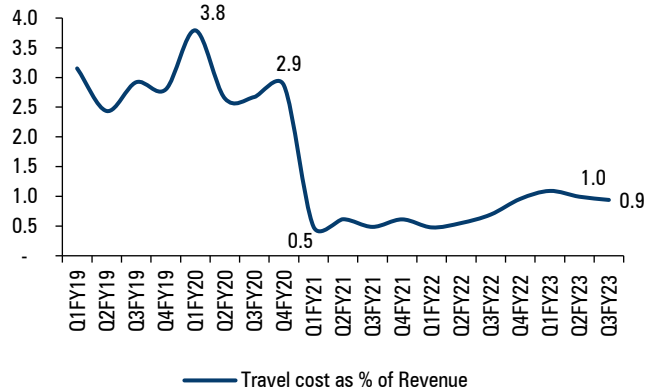
Source: Company, ICICI Direct Research

Exhibit 14: Sub-contractor cost continues to moderate



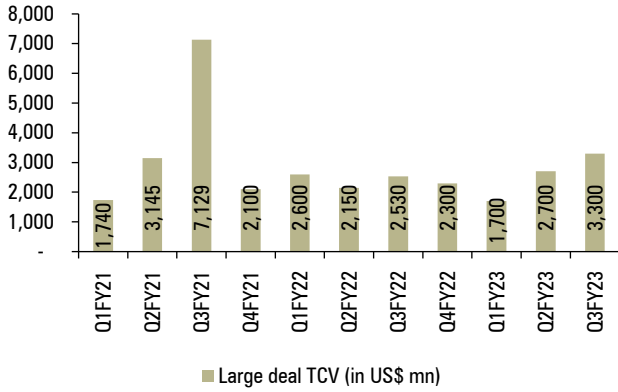
Source: Company, ICICI Direct Research

Exhibit 15: Travel cost remains steady



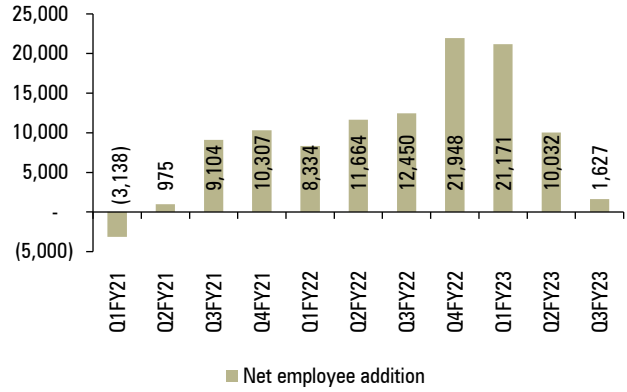
Source: Company, ICICI Direct Research

Exhibit 16: Large deal TCV won highest in last eight quarters



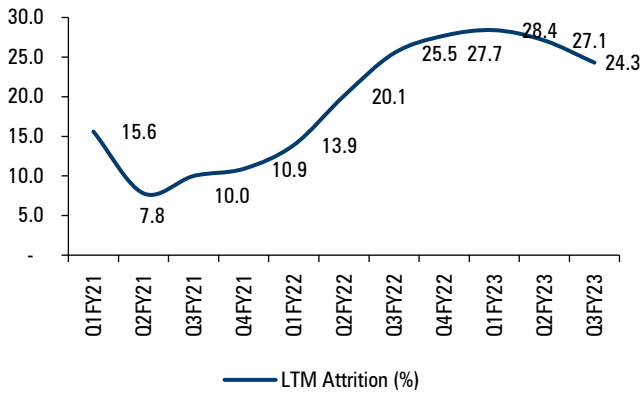
Source: Company, ICICI Direct Research

Exhibit 17: Net employee addition soft in Q3



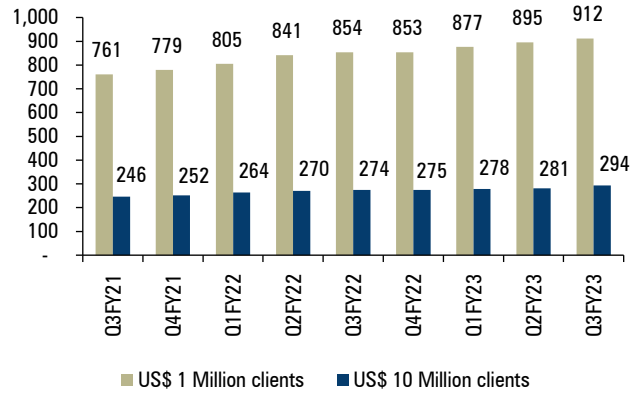
Source: Company, ICICI Direct Research

Exhibit 18: LTM continue to moderate



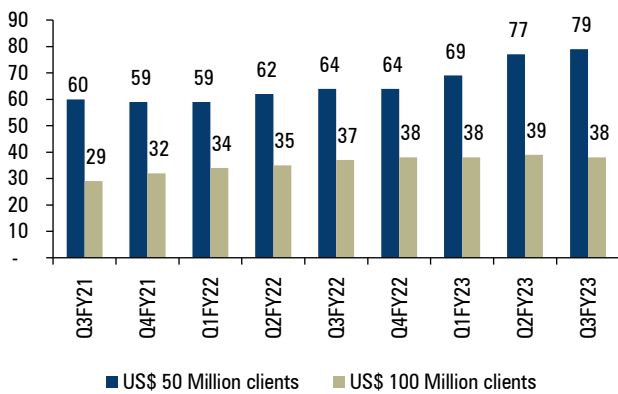
Source: Company, ICICI Direct Research

Exhibit 19: Clients mix trend



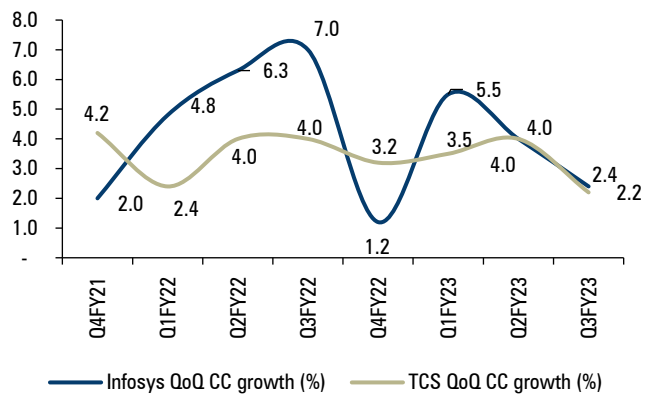
Source: Company, ICICI Direct Research

Exhibit 20: Client mix trend



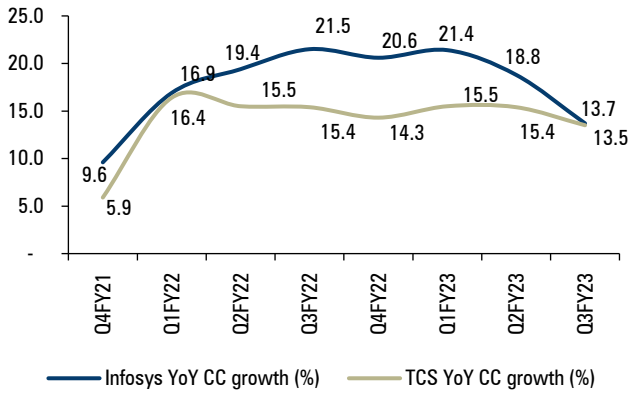
Source: Company, ICICI Direct Research

Exhibit 21: Infosys, TCS QoQ CC growth comparison



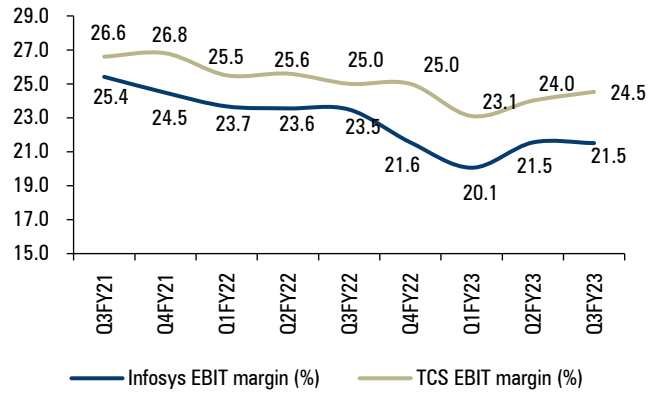
Source: Company, ICICI Direct Research

Exhibit 22: Infosys, TCS YoY CC growth comparison



Source: Company, ICICI Direct Research

Exhibit 23: Infosys, TCS EBIT margin comparison



Source: Company, ICICI Direct Research

Financial summary

Exhibit 24: Profit and loss statement					₹ crore
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Total Income	1,21,641	1,48,132	1,66,123	1,81,958	
Growth (%)	21.1	21.8	12.1	9.5	
COGS (emp exp)	78,521	97,236	1,07,482	1,17,727	
Admin expenses	6,473	8,147	9,967	10,917	
S&M expenses	5,155	6,666	7,476	8,188	
Total Opex	90,149	1,12,049	1,24,925	1,36,833	
EBITDA	31,492	36,083	41,199	45,126	
Growth (%)	12.9	14.6	14.2	9.5	
Depreciation	3,477	4,234	4,651	5,095	
Other Income	2,290	2,298	3,209	2,185	
PBT	30,110	33,951	39,561	42,021	
Total Tax	7,964	8,148	9,495	10,085	
PAT	22,111	25,768	30,031	31,901	
Growth (%)	14.3	16.5	16.5	6.2	
EPS (₹)	52.1	60.7	70.8	75.2	
Growth (%)	14.3	16.5	16.5	6.2	

Source: Company, ICICI Direct Research

Exhibit 25: Cash flow statement					₹ crore
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Profit after Tax	22,111	25,768	30,031	31,901	
Add: Depreciation	3,476	4,234	4,651	5,095	
(Inc)/dec in Current Assets	(9,610)	(6,989)	(6,052)	(5,327)	
Inc/(dec) in CL and Provisions	8,427	132	3,390	2,984	
Taxes paid	(7,612)	(8,148)	(9,495)	(10,085)	
CF from operating activi	24,964	20,847	28,811	32,467	
(Inc)/dec in Investments	(3,179)	2,298	3,209	2,185	
(Inc)/dec in Fixed Assets	(2,161)	(2,200)	(2,200)	(2,200)	
CF from investing activi	(7,495)	98	1,009	(15)	
Dividend paid & dividend tax	(12,652)	(15,850)	(22,620)	(25,727)	
Others	176	-	-	-	
CF from financing activi	(24,642)	(15,850)	(22,620)	(25,727)	
Net Cash flow	(7,173)	5,095	7,201	6,725	
Exchange difference	-	-	-	-	
Opening Cash	24,714	17,472	22,567	29,768	
Closing Cash	17,472	22,567	29,768	36,493	

Source: Company, ICICI Direct Research

Exhibit 26: Balance sheet					₹ crore
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Equity Capital	2,098	2,098	2,098	2,098	
Reserve and Surplus	73,638	83,556	90,967	97,142	
Total Shareholders fu	75,736	85,654	93,065	99,240	
Employee benefit obli	92	92	92	92	
Debt	-	-	1	2	
Deferred Tax Liability	1,156	1,156	1,156	1,156	
Other non current liab	7,298	7,298	7,298	7,298	
Total Liabilities	84,282	94,200	1,01,611	1,07,787	
Assets					
Property, plant and ec	18,402	16,368	13,916	11,022	
Goodwill	6,195	6,195	6,195	6,195	
Intangibles	1,707	1,707	1,707	1,707	
Available for sale ass	13,651	13,651	13,651	13,651	
Other assets	10,745	10,745	10,745	10,745	
Cash	17,472	22,567	29,768	36,493	
Current Investments	6,673	6,673	6,673	6,673	
Trade receivables	22,698	28,446	31,901	34,942	
Unbilled revenue	11,568	11,554	12,958	14,193	
Prepayment & O.fin.a	8,577	9,831	11,025	12,076	
Other current assets	197	197	197	197	
Total Current Assets	67,185	79,269	92,521	1,04,574	
Trade payables	4,134	3,900	4,373	4,790	
Unearned revenue	6,324	5,971	6,696	7,335	
OCL & provisions	23,145	23,864	26,055	27,983	
Total Current Liabilitie	33,603	33,735	37,124	40,108	
Net Current Assets	33,582	45,534	55,397	64,466	
Application of Fu	84,282	94,200	1,01,611	1,07,786	

Source: Company, ICICI Direct Research

Exhibit 27: Key ratios					₹ crore
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Per share data (₹)					
EPS	52.0	60.6	70.6	75.0	
Cash EPS	60.2	70.6	81.6	87.0	
BV	178	201	219	233	
DPS	37.1	37.3	53.2	60.5	
Cash Per Share	41.1	53.1	70.0	85.8	
Operating Ratios (%)					
EBIT Margin	23.0	21.5	22.0	22.0	
PBT Margin	24.8	22.9	23.8	23.1	
PAT Margin	18.2	17.4	18.1	17.5	
Debtor days	68	70	70	70	
Unbilled revenue	29	28	27	27	
Creditor days	12	10	10	10	
Return Ratios (%)					
RoE	29.2	30.1	32.3	32.1	
RoCE	36.0	36.2	39.1	39.2	
RoIC	46.6	49.0	56.1	61.9	
Valuation Ratios (x)					
P/E	28.5	24.4	21.0	19.7	
EV / EBITDA	19.2	16.6	14.4	13.0	
EV / Net Sales	5.0	4.0	3.6	3.2	
Market Cap / Sales	5.2	4.2	3.8	3.5	
Price to Book Value	8.3	7.3	6.8	6.3	
Solvency Ratios					
Debt/EBITDA	-	-	0.0	0.0	
Debt / Equity	-	-	0.0	0.0	
Current Ratio	2.0	2.2	2.2	2.1	
Quick Ratio	2.0	2.2	2.2	2.1	

Source: Company, ICICI Direct Research

Exhibit 28: ICICI Direct coverage universe (IT)

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
HCL Tech (HCLTEC)	1,072	1,115	BUY	2,90,905	49.8	52.8	58.3	21.5	20.3	18.4	24.2	25.8	27.4	21.8	21.9	23.0
Infosys (INFTEC)	1,480	1,730	BUY	6,22,728	52.1	60.7	70.8	28.4	24.4	20.9	36.0	36.2	39.1	29.2	30.1	32.3
TCS (TCS)	3,335	3,780	BUY	12,20,147	104.7	118.5	133.4	31.8	28.1	25.0	51.4	50.1	49.3	43.0	42.6	41.5
Tech M (TECMAH)	1,002	1,240	BUY	97,476	63.1	65.2	80.0	15.9	15.4	12.5	22.5	21.5	23.2	20.7	19.1	20.8
Wipro (WIPRO)	394	420	HOLD	2,15,963	23.5	23.1	26.1	16.8	17.1	15.1	18.8	18.7	20.3	19.6	18.5	20.1
LTIM (LTINFO)	4,279	UR	UR	1,26,571	130.8	155.9*	186.2*	32.7	27.3*	22.9*	32.3	-	-	26.1	-	-
Coforge (NIITEC)	3,903	4,570	BUY	23,771	106.5	147.8	170.8	36.6	26.4	22.9	25.6	31.6	31.2	24.2	28.4	27.8
TeamLease (TEASER)	2,513	2,540	HOLD	4,296	22.5	72.9	88.0	111.8	34.5	28.5	15.4	15.4	16.0	(4.7)	15.1	15.6
Infoedge (INFEDG)	3,719	4,590	HOLD	46,738	35.8	45.5	51.7	103.9	81.8	72.0	4.2	5.4	6.0	3.2	4.1	4.5

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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