

Weak Q4; strong revenue guidance for FY23...

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

Q4FY22 Results: Infosys reported weak Q4 numbers.

- US\$ revenues grew 0.7% QoQ to \$4,280 million, up 1.2% QoQ in CC terms
- EBIT margins were down 190 bps QoQ to 21.6%
- The company declared a dividend of ₹ 31 per share for FY22

What should investors do? Infy's share price has grown by ~4.3x over the past five years (from ~₹ 402 in April 2017 to ~₹ 1,748 levels in April 2022).

- We revise our rating on the stock from BUY to HOLD

Target Price and Valuation: We value Infosys at ₹ 2,000 i.e. 28x P/E on FY24E 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 across verticals and regions
- Infosys to post industry leading revenue growth (13.4% CAGR in FY22-24E)
- 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
- HOLD with a target price of ₹ 4,120



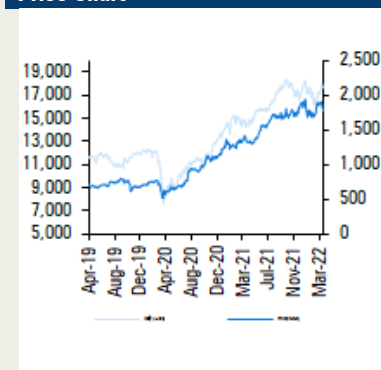
Particulars

Particular	Amount
Market CAP (₹ Crore)	743,092.0
Total Debt	-
CC&E (₹ Crore)	24,145.0
EV (₹ Crore)	718,947.0
52 week H/L	1953/ 1311
Equity capital	2,098.0
Face value	₹ 5

Shareholding pattern

	Mar-21	Jun-21	Sep-21	Dec-21
Promoters	13.0	13.0	13.1	13.0
FII	32.7	33.4	33.5	33.2
DII	23.1	22.0	15.7	16.3
Public	31.3	31.7	37.8	37.6

Price Chart



Recent event & key risks

- Dividend of ₹ 31/share for FY22
- **Key Risk:** i) Higher-than-expected revenues, ii) Higher-than-expected margin pressure amid supply side challenges

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Key Financial Summary

₹ Crore	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 years CAGR (FY22-24E)
Net Sales	90,791	100,472	121,641	12.2%	139,310	156,472	13.4%
EBITDA	22,268	27,890	31,492	8.4%	36,023	41,244	14.4%
EBITDA Margins (%)	24.5	27.8	25.9		25.9	26.4	
Net Profit	16,595	19,351	22,111	6.2%	25,877	30,159	16.8%
EPS (₹)	38.9	45.6	52.1		61.0	71.1	
P/E	44.9	38.4	33.6		28.7	24.6	
RoNW (%)	25.2	25.2	29.2		30.5	32.8	
RoCE (%)	30.8	31.7	36.0		36.8	39.6	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

- Infosys reported 0.7% QoQ dollar revenue growth to US\$4,280 million (mn) while it grew 18.5% YoY. In CC terms, it reported growth of 1.2% QoQ and 20.6% on a YoY basis
- For FY22, Infosys reported revenues of US\$16.311 billion (bn), up 20.3% over FY21. For FY22, CC revenue growth was 19.7%, which was in the guided range of 19.5-20%. **The company is now guiding revenue growth of 13-15% in CC terms for FY23**
- For Q4, in terms of revenues by geographies (in CC terms), the North America market (61% of mix), grew 18.1% YoY while Europe and India reported growth of +22.3% and 26.4% YoY, respectively. RoW region grew 9.8%, YoY
- For Q4, vertical wise (in CC terms), BFSI (31% of mix), retail (14.3% mix) & Communication (12.8% of mix) grew 14.1%, 16.5% and 29.2% YoY while energy, manufacturing, hi-tech grew 17.8%, 50.6% and 20.9% YoY, respectively
- Digital revenues increased 38.8% YoY and now accounts for 59.2% of overall revenues. In terms of large deal pipeline, it was down 9.1% QoQ, while it was up at 9.5% YoY to US\$2.3 billion. Large deal pipeline for FY22 was at US\$9.5 bn in the digital segment, Cloud is growing faster and their cobalt offering is getting lot of traction across clients
- Reported EBIT margins declined ~200 bps QoQ to 21.5% for Q4. EBIT margin was as follows: i) there was an impact of (-160 bps) on lower calendar days and contractual provisions, ii) (-60 bps) on lower utilisation, iii) (-100 bps) due to higher visa costs and third party costs, which were mitigated by (+110bps) salary related benefits. **The company is guiding for 21-23% EBIT margin band for FY23, which takes care of compensation tweaking as well one time investments in expansion in cloud and digital capabilities**
- Attrition remains a pain point as it has run up sharply in the last few quarters. The company did mention that attrition on an LTM basis has gone up 270 bps to 27.7% now but attrition on a quarterly annualised basis has come down by 500 bps. Sub-contracting costs are also rising as percentage of sales. It was at 11.1% of sales for the quarter vs. 7.5% of sales for Q4FY21
- The company mentioned that they have been in active discussions with clients in terms of price increase amid cost pressure due to supply side challenges. Infy indicated that clients recognised the same and are now receptive to the discussion
- As far as deal wins are concerned, BFSI segment saw 27 deal wins in FY22 where US leads growth. In retail segment, deals were signed in digital and cost saving programs in e-commerce, supply chain, customer lifecycle management, etc, it won 16 large deals in FY22 in this segment. In communications, deals were focused on customer experience, time to market key themes. In energy verticals, deals were signed in digital transformation, customer experience and operational efficiency themes. It won four deals in Q4 and 18 large deals in FY22 in this vertical
- In manufacturing vertical it won six large deals in Q4 and 13 deals in FY22. In this vertical, clients are spending on engineering, cloud ERP, digital transformation, etc. In hi-tech vertical clients are spending on edge computing, cybersecurity, digital marketing, etc. In life sciences- cloud transformation, reducing clinical trial cycle time, digital patient care are some areas where clients are making investments
- The company has a miniscule presence in Russia (<100 employees), which is now being moved to other delivery centres in eastern Europe. The company clarified that Russian employees were serving global clients

- There was addition of 21,948 employees taking employee strength to 314,015. The company planning to add 50,000 freshers in FY23 vs. 85,000 in FY22
- ETR for Q4 was lower due to reversal of ₹ 2,420 million (mn) related to prior period provisions on certain disputed matters for which the judgment came in favour of the company

Peer comparison

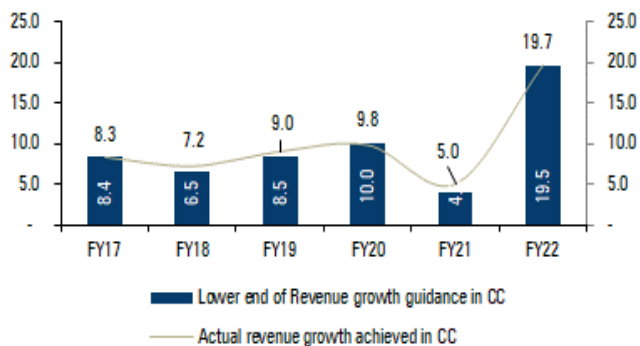
Exhibit 1: Peer Comparison

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
HCL Tech (HCLTEC)	1,131	1,430	HOLD	306,916	48.0	54.9	59.6	23.6	20.6	19.0	23.0	25.1	26.2	19.5	21.1	21.9
Infosys (INFTEC)	1,748	2,000	HOLD	735,338	52.0	60.9	70.9	33.6	28.7	24.6	36.0	36.8	39.6	29.2	30.5	32.8
TCS (TCS)	3,691	4,120	HOLD	1,350,556	104.7	119.3	133.0	35.2	30.9	27.7	51.4	50.8	49.5	43.0	43.2	41.5
Tech M (TECMAH)	1,415	1,850	BUY	137,514	64.7	76.8	86.2	21.9	18.4	16.4	22.8	24.4	24.4	20.4	21.4	21.2
Wipro (WIPRO)	558	750	BUY	305,856	21.8	25.6	28.8	25.6	21.8	19.4	22.5	26.2	29.0	21.6	25.4	28.5

Source: Company, ICICI Direct Research

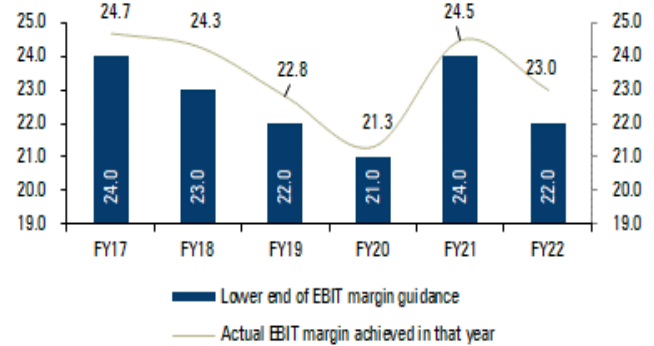
Guidance vs. actual trend for last few years on revenue growth in CC, EBIT margin

Exhibit 2: Guidance vs. actual – Revenue growth in CC



Source: Company, ICICI Direct Research

Exhibit 3: Guidance vs. actual – EBIT margin (%)



Source: Company, ICICI Direct Research

Exhibit 4: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Revenue	32,276	32,836	26,311	22.7	31,867	1.3	The company reported CC growth of 1.2% for the quarter, FY22 numbers in guided band
Employee expenses	21,382	21,342	16,333	30.9	20,516	4.2	
Gross Profit	10,894	11,494	9,978	9.2	11,351	-4.0	
Gross margin (%)	33.8	35.0	37.9	-417 bps	35.6	-187 bps	
Selling & marketing costs	1,347	1,332	1,200	12.3	1,325	1.7	
G&A expenses	1,701	1,665	1,507	12.9	1,643	3.5	
EBITDA	7,846	8,497	7,271	7.9	8,383	-6.4	
EBITDA Margin (%)	24.3	25.9	27.6	-333 bps	26.3	-200 bps	
Depreciation	890	866	831	7.1	899	-1.0	
EBIT	6,956	7,632	6,440	8.0	7,484	-7.1	
EBIT Margin (%)	21.6	23.2	24.5	-292 bps	23.5	-193 bps	EBIT margin declined 200bps QoQ on impacted by i) -160 bps impact on lower calendar days and contractual provisions ii) -60bps on lower utilization iii) -100bps on higher visa costs which was mitigated by +120 bps salary related benefits
Other income	587	459	545	7.7	459	27.9	
PBT	7,543	8,091	6,985	8.0	7,943	-5.0	
Tax paid	1,848	2,160	1,857	-0.5	2,121	-12.9	
Reported PAT	5,686	5,917	5,076	12.0	5,809	-2.1	PAT was below our estimates due to lower than expected operating performance

Source: Company, ICICI Direct Research

Exhibit 5: Change in estimates

	FY23E			FY24E			Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenue	138,450	139,310	0.6	152,412	156,472	2.7	We upward revenue guidance on strong order pipeline
EBIT	32,951	32,041	-2.8	37,036	36,771	-0.7	
EBIT Margin (%)	23.8	23.0	-80 bps	24.3	23.5	-80 bps	We trim down margins for FY23E and FY24E on costs pressure due to demand supply mismatch
PAT	26,883.2	25,877	-3.7	30,419	30,159	-0.9	
EPS (₹)	63.4	61.0	-3.7	71.7	71.1	-0.9	

Source: Company, ICICI Direct Research

Key Metrics

Exhibit 6: Geography wise break-up

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Revenue by geography (%)					
North America	61.6	61.7	61.9	61.8	61.4
Europe	24.4	24.2	24.8	24.9	25.2
India	3.0	2.9	2.6	3.0	3.2
ROW	11.0	11.2	10.7	10.3	10.2
Growth QoQ in \$ terms (%)					
North America	2.8	4.8	6.1	6.1	0.1
Europe	4.5	3.8	8.3	6.7	1.9
India	18.6	1.2	-5.2	22.7	7.4
ROW	-4.2	6.6	1.0	2.3	-0.3

Source: Company, ICICI Direct Research

Europe reported growth while North America was muted

Exhibit 7: Vertical wise break-up

	%contribution to revenues Q4FY22	%contribution to revenues Q3FY22	Growth QoQ (%)
Revenue by verticals (%)			
Financial Services	31.3	31.5	0.1
Insurance			
Retail	14.3	14.5	-0.7
Communication	12.8	12.5	3.1
E&U	12.0	11.7	3.3
Manufacturing	11.8	11.3	5.2
Hi Tech	8.2	8.1	1.9
Life Sciences	6.6	7.5	-11.4
Others	3.0	2.9	33.8

Source: Company, ICICI Direct Research

Manufacturing and hi-tech reported growth while BFSI and retail had muted growth

Exhibit 8: Client & human resource matrix

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Client metrics					
5 Million \$ clients	779	805	841	854	853
25 Million \$ clients	252	264	270	274	275
50 Million \$ clients	59	59	62	64	64
100 Million \$ clients	32	34	35	37	38
Headcount, Utilization & Attrition					
Total Employees	259619	267953	279617	292067	314015
Utilization (Excluding trainees)	87.7	88.5	89.2	88.5	87.0
LTM Attrition	10.9	13.9	20.1	25.5	27.7

Source: Company, ICICI Direct Research

Attrition rose 220 bps QoQ

Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating Income	100,472	121,641	139,310	156,472
Growth (%)	10.7	21.1	14.5	12.3
COGS (employee expenses)	62,145	78,521	88,659	98,799
Admin expenses	5,810	6,473	8,359	9,388
S&M expenses	4,627	5,155	6,269	7,041
Total Operating Expenditure	72,582	90,149	103,287	115,229
EBITDA	27,890	31,492	36,023	41,244
Growth (%)	25.2	12.9	14.4	14.5
Depreciation	3,268	3,477	3,982	4,473
Other Income	2,201	2,290	2,248	3,049
PBT	26,628	30,110	34,094	39,625
Total Tax	7,205	7,964	8,183	9,431
PAT	19,351	22,111	25,877	30,159
Growth (%)	16.6	14.3	17.0	16.6
EPS (₹)	45.6	52.1	61.0	71.1
Growth (%)	17.2	14.3	17.0	16.6

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	19,351	22,111	25,877	30,159
Add: Depreciation	3,267	3,476	3,982	4,473
(Inc)/dec in Current Assets	(2,504)	(9,610)	(4,021)	(5,773)
Inc/(dec) in CL and Provisions	3,137	8,427	(1,531)	3,234
Taxes paid	(6,389)	(7,612)	(8,183)	(9,431)
CF from operating activities	24,127	24,964	22,059	29,043
(Inc)/dec in Investments	1,235	(3,179)	2,248	3,049
(Inc)/dec in Fixed Assets	(2,107)	(2,161)	(2,200)	(2,200)
CF from investing activities	(8,359)	(7,495)	48	849
Dividend paid & dividend tax	(9,117)	(12,652)	(16,880)	(22,817)
Others	29	176	-	-
CF from financing activities	(9,786)	(24,642)	(16,880)	(22,817)
Net Cash flow	5,982	(7,173)	5,227	7,076
Exchange difference	83	-	-	-
Opening Cash	18,649	24,714	17,472	22,699
Closing Cash	24,714	17,472	22,699	29,774

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	2,124	2,098	2,098	2,098
Reserve and Surplus	74,658	73,638	82,634	89,977
Total Shareholders funds	76,782	75,736	84,732	92,075
Employee benefit obligations	97	92	92	92
Debt	-	-	-	1
Deferred Tax Liability	875	1,156	1,156	1,156
Other non current liabilities	6,767	7,298	7,298	7,298
Total Liabilities	84,521	84,282	93,278	100,621
Assets				
Property, plant and equipment	18,417	18,402	16,620	14,347
Goodwill	6,079	6,195	6,195	6,195
Intangibles	2,072	1,707	1,707	1,707
Available for sale assets	11,863	13,651	13,651	13,651
Other assets	9,222	10,745	10,745	10,745
Cash	24,714	17,472	22,699	29,774
Current Investments	2,342	6,673	6,673	6,673
Trade receivables	19,294	22,698	26,752	30,048
Unbilled revenue	7,527	11,568	10,866	12,205
Prepayment & O.fin.assets	6,668	8,577	9,246	10,385
Other current assets	188	197	197	197
Total Current Assets	60,733	67,185	76,433	89,282
Trade payables	2,645	4,134	3,667	4,119
Unearned revenue	4,050	6,324	5,616	6,307
OCL & provisions	17,170	23,145	22,789	24,879
Total Current Liabilities	23,865	33,603	32,072	35,306
Net Current Assets	36,868	33,582	44,360	53,976
Application of Funds	84,521	84,282	93,278	100,621

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	45.5	52.0	60.9	70.9
Cash EPS	53.2	60.2	70.2	81.5
BV	181	178	199	217
DPS	27.0	37.1	39.7	53.7
Cash Per Share	58	41	53	70
Operating Ratios (%)				
EBIT Margin	24.5	23.0	23.0	23.5
PBT Margin	26.5	24.8	24.5	25.3
PAT Margin	19.3	18.2	18.6	19.3
Debtor days	70	68	70	70
Unbilled revenue	27	29	29	27
Creditor days	10	12	10	10
Return Ratios (%)				
RoE	25.2	29.2	30.5	32.8
RoCE	31.7	36.0	36.8	39.6
RoC	42.8	46.6	50.1	57.3
Valuation Ratios (x)				
P/E	38.4	33.6	28.7	24.6
EV / EBITDA	25.7	22.8	19.8	17.1
EV / Net Sales	7.1	5.9	5.1	4.5
Market Cap / Sales	7.4	6.1	5.3	4.7
Price to Book Value	9.7	9.8	8.8	8.1
Solvency Ratios				
Debt/EBITDA	-	-	-	0.0
Debt / Equity	-	-	-	0.0
Current Ratio	2.3	2.0	2.2	2.2
Quick Ratio	2.3	2.0	2.2	2.2

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct coverage universe (IT)

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
HCL Tech (HCLTEC)	1,131	1,430	HOLD	306,916	48.0	54.9	59.6	23.6	20.6	19.0	23.0	25.1	26.2	19.5	21.1	21.9
Infosys (INFTEC)	1,748	2,000	HOLD	735,338	52.0	60.9	70.9	33.6	28.7	24.6	36.0	36.8	39.6	29.2	30.5	32.8
TCS (TCS)	3,691	4,120	HOLD	1,350,556	104.7	119.3	133.0	35.2	30.9	27.7	51.4	50.8	49.5	43.0	43.2	41.5
Tech M (TECMAH)	1,415	1,850	BUY	137,514	64.7	76.8	86.2	21.9	18.4	16.4	22.8	24.4	24.4	20.4	21.4	21.2
Wipro (WIPRO)	558	750	BUY	305,856	21.8	25.6	28.8	25.6	21.8	19.4	22.5	26.2	29.0	21.6	25.4	28.5
LTI (LTINFC)	5,913	8,050	BUY	103,609	136.4	168.8	191.3	43.4	35.0	30.9	33.0	34.0	32.5	27.6	28.5	27.2
Mindtree (MINCON)	4,063	5,055	HOLD	66,960	89.8	109.2	126.4	45.2	37.2	32.1	36.0	36.3	35.2	28.2	28.2	27.1
Coforge (NIITEC)	4,150	5,300	HOLD	25,275	115.2	146.7	163.1	36.0	28.3	25.5	28.6	30.9	29.7	25.0	27.1	25.9
TeamLease (TEASER)	3,909	4,500	BUY	6,683	68.2	101.0	125.1	57.3	38.7	31.3	16.3	19.9	20.3	15.7	18.7	19.0
Infoedge (INFEDG)	4,786	5,800	BUY	60,147	37.1	51.0	55.1	129.1	93.9	86.8	13.1	16.7	16.7	9.9	12.6	12.6

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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