

Unplanned ramp down impacts growth; FY24 guidance widened to accommodate uncertainties...

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 >62% of revenues from digital technologies
- Dividend payout (>80%), margins (>20%) and RoCE (>31%) key positives

Q4FY23 Results: Infosys reported weak revenue numbers in Q4FY23.

- Revenue declined 3.2% QoQ and grew 8.8% YoY in CC terms
- EBIT margins declined 50 bps QoQ to 21%
- Signed 17 large deals with TCV of US\$2.1 bn, down 36.4% QoQ

What should investors do? Infy's share price has grown by ~2.5x over the past five years (from ~₹ 564 in April 2018 to ~₹ 1,388 levels in April 2023).

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

Target Price & Valuation: We value Infosys at ₹ 1,600 i.e., 22x 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 getting scaled up across verticals and regions
- Infosys to post rupee revenue growth of 10.3% CAGR in FY23-25E
- Double-digit return ratios, strong cash generation and healthy payout

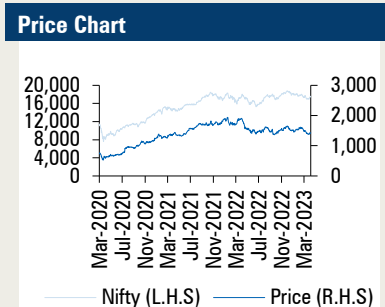
Alternate Stock Idea: Besides Infosys, in our IT coverage we also like TCS.

- 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 ₹ 3,720



Particulars	
Particular	Amount
Market CAP (₹ Crore)	5,75,095.6
Total Debt	-
CC&E (₹ Crore)	19,082.0
EV (₹ Crore)	5,56,013.6
52 week H/L	1757/ 1355
Equity capital	2,069.0
Face value	₹5

Shareholding pattern				
	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	13.1	13.1	13.1	13.2
FII	33.2	31.7	31.3	31.6
DII	17.1	18.9	28.0	28.6
Public	36.5	36.3	27.6	26.6



- Recent event & key risks**
- Revenue guidance of 4-7% in CC terms & margin guidance of 20-22% for FY24
 - **Key Risk:** i) Lower than guided revenue, ii) Lower than guided margin

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Key Financial Summary

₹ Crore	FY21	FY22	FY23	5 year CAGR (FY18-23)	FY24E	FY25E	2 years CAGR (FY23-25E)
Net Sales	1,00,472	1,21,641	1,46,767	15.8%	1,57,109	1,78,668	10.3%
EBITDA	27,890	31,491	35,131	13.1%	37,078	43,059	10.7%
EBITDA Margins (%)	27.8	25.9	23.9		23.6	24.1	
Net Profit	19,351	22,012	24,095	10.5%	26,713	30,276	12.1%
EPS (₹)	45.6	51.9	57.6		64.5	73.1	
P/E	30.4	26.8	23.9		21.5	19.0	
RoNW (%)	25.2	29.1	31.8		32.5	33.4	
RoCE (%)	31.7	35.8	38.5		37.8	39.3	

Key takeaways of recent quarter & conference call highlights

- Infosys reported weak numbers on the revenue front as its revenue during the quarter declined 3.2% QoQ & grew 8.8% YoY in CC terms. In dollar terms, revenue was down 2.3% QoQ & up 6.4% YoY to US\$4,554 mn while in rupee terms it reported revenue of ₹ 37,441 crore, down 2.3% QoQ & 16% YoY
- Digital revenues (62.9% of mix) declined 2.3% QoQ to US\$2,864 mn while Core revenues (37.1% of revenue mix) declined 2.3% QoQ also. In CC terms, Digital revenue grew 15% YoY while core revenue declined 0.2%
- Geography wise (in CC terms YoY), North America (61% of mix) reported single digit growth of 6% while Europe (27% of mix) reported growth of 20.3%
- Vertical wise (in CC terms YoY), financial services vertical (28.9% of mix) reported growth of just 0.4% due to unexpected ramp down in pockets of mortgage, investment banking & asset management. The company also mentioned that its total exposure to regional banks is less than 2% of overall revenue of the company. Manufacturing vertical grew 26.5% while Energy & Utilities, Life sciences, Retail, Hitech & communications reported growth of 17.1%, 15.7%, 12.6%, 3.7% & 0.3%, respectively
- EBIT margin of the company declined 50 bps QoQ to 21% while the company indicated the following headwinds for decline in margins: 1) 70 bps impact of decline in utilisation & ii) -90 bps impact of one-time revenue loss due to cancellation of projects during the quarter mitigated by the tailwinds of i) +50 bps due to cost optimisation & lower subcontractor cost & ii) +60 bps on post sale customer support
- For FY23, the company reported revenue of US\$18,212 mn, up 11.7% while in CC terms the growth was 15.4%. In rupee terms, revenues came in at ₹ 146,767 crore, up 20.7%. On the EBIT margin front, Infosys reported margin of 21.1% for FY23 compared to 23% in FY22
- The company, during the quarter, won 17 large deals with a TCV of US\$2.1 bn, down 36.4% QoQ and 8.7% YoY. The company also indicated that net new deals contributed ~21% of TCV in Q4. Infosys further said that its deal pipeline remains robust and its pipeline includes several mega deals. The company also indicated that several of the deals in the pipeline are cost optimisation and vendor consolidation. Infosys also mentioned that in FY23 it won large TCV of US\$9.8 bn with a net new TCV of US\$3.9 bn (39.8% of TCV, 95 large deals)
- The 17 large deals won by the company were across the following segments: i) five in manufacturing; ii) four in financial services, iii) three each in communications, iv) two each in lifescience & hi-tech and v) one in energy & utilities while geography wise the split was: i) 10 in US & ii) seven in Europe
- The company indicated that it is leveraging generative AI capability for clients as well as within the company. It has active programs going on to address specific need of the clients. Infosys mentioned that it expects more opportunities to come up in this space, which is also likely to improve productivity withing the company
- The company indicated that the demand environment has changed in Q4 compared to last quarter wherein it witnessed unplanned ramp down by clients and delays in decision making, which resulted in lower volumes (demand softness) and subsequently in revenue decline. There was also a one-time impact on the revenue for the quarter (pertains to some project cancellations). The company indicated that it witnessed some stability in March but the demand scenario is quite dynamic and uncertain
- The company indicated that its large deal pipeline remains robust, which also contains certain mega deals. It mentioned that several of these opportunities are cost take out programs and consolidation projects. The

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

company indicated that certain industries like financial services, investment banking, telecom, hi-tech, retail are more impacted due to uncertainty and delays in decision making. The company also mentioned that US region is more impacted than Europe region. Infosys mentioned that keeping uncertainty in mind, it continues to focus on cost optimisation programs to work on its pyramid, onsite-offshore ratio, travel, subcontractors, office consolidation and pricing and it expects this to build up the path for margin expansion in the future

- Infosys indicated that growth in FY23 was mixed in H1 and H2 wherein H1 resorted 20% growth while in H2, the growth was slower at 11% (which was a reflection of change of demand environment)
- The company completed the open market share buyback on February 13, at an average price of ₹ 1,539 per share (compared to maximum buyback price of ₹ 1,850 per share). Consequently, the share capital of the company has reduced by 1.44%. Including the recently concluded buyback and final dividend for FY23, the company has returned ~86% of free cash flow to shareholders under the current capital allocation policy
- The company mentioned that recent issues in US regional banks are likely to have a minimal impact on BFSI vertical as exposure to regional banks is less than 2% of overall revenues. Retail sector continued its investments in digital transformation to accelerate revenue maximisation with budget spend in the right areas to increase RoI while some pressure is visible in discretionary spend. Hence, focus areas are e-commerce platform, supply chain management, customer engagement tools. Manufacturing continues to ramp up large deals and some vendor consolidation benefit is coming here while investment continued in the areas of ER&D, industrial IoT and 5G. Europe manufacturing is having some impact of high energy prices, increase in interest rates as well as supply chain disruption. Communication sector is witnessing pressure on increase in opex, ramp downs and delayed decision making. Energy, utilities continued strong performance on large deal wins
- For margins the company is guiding for an EBIT margin of 20-22% for FY24. The company mentioned that margin guidance factored in growth assumptions for FY24, annual wage hikes in FY24, some normalisation of costs like travel & facilities etc, impact of utilisations etc
- On pricing, the company mentioned that it is been working on three initiatives in the last 18 months to improve its pricing: i) the company indicated that it in the last 12 months it has curbed down on the renewal discount, which it was earlier offering, which is expected to improve realisation ii) the company has adopted a new digital pricing method for new deals, which takes into consideration different methods like cost based pricing, outcome based pricing, etc. to make innovative contract with customers & iii) negotiate with clients to include cost of living adjustment (COLA) clause to the MSA agreements with clients, which will provide opportunity to negotiate pricing with the client in the future
- The company mentioned that after recent exit of two senior leaders including the one in financial services segment, it is planning to roll out a new structure for the BFSI vertical. The company mentioned that it has strong internal leadership pool and some of them are likely to step up to take bigger responsibilities
- On the M&A front, the company announced that it has a strong balance sheet to do small, medium or large acquisition as the current market is conducive for inorganic opportunities. Infosys, however, confirmed that its revenue guidance growth for FY24 is organic and does not include incremental revenue coming in from acquisitions

- The company’s net employee count during the quarter declined by 3,611 bringing the total headcount to 343,234. Utilisation of the company declined for a sixth consecutive quarter and in Q4 utilisation declined 170 bps QoQ to 80% due to a decline in volumes. The company indicated that utilisation will improve in the coming quarters as freshers become billable, which will also aid in pyramid optimisation. On the hiring outlook for FY24 the company did not give any hiring target and indicated it will rationalise its hiring as per the available pool of resources & demand
- Attrition of the company continues to decline and in Q4 its LTM attrition declined sharply by 340 bps QoQ to 20.9%. The company further informed that its quarterly attrition declined ~400 bps while its quarterly attrition is below pre-Covid levels
- Infosys declared a final dividend of ₹ 17.5 per share in Q4 taking the total dividend for FY23 to ₹ 34 per share, up 9.7%

Peer comparison

Exhibit 1: Peer Comparison

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
HCL Tech (HCLTEC)	1,072	1,220	BUY	2,90,905	53.6	59.2	63.9	20.0	18.1	16.8	26.2	27.7	29.0	22.2	23.3	23.9
Infosys (INFTEC)	1,388	1,600	BUY	5,81,029	57.6	64.5	73.1	24.1	21.5	19.0	38.5	37.8	39.3	31.8	32.5	33.4
TCS (TCS)	3,190	3,720	BUY	11,67,237	115.2	129.6	143.1	27.7	24.6	22.3	56.0	54.6	52.4	46.6	45.6	43.3
Tech M (TECMAH)	1,087	1,130	HOLD	1,05,745	63.0	74.0	86.3	17.3	14.7	12.6	20.9	21.8	22.9	18.6	19.5	20.2
Wipro (WIPRO)	368	455	BUY	2,01,711	23.3	26.4	28.4	15.8	13.9	13.0	18.9	20.5	21.0	18.7	20.3	21.0

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Revenue	37,441	38,900	32,276	16.0	38,318	-2.3	Revenue growth was impacted due to unexpected ramp down by clients, projects cancellation and one time impact
Employee expenses	24,890	25,502	21,382	16.4	25,436	-2.1	
Gross Profit	12,551	13,398	10,894	15.2	12,882	-2.6	
Gross margin (%)	33.5	34.4	33.8	-23 bps	33.6	-10 bps	
Selling & marketing costs	1,659	1,782	1,347	23.2	1,611	3.0	
G&A expenses	1,894	2,218	1,701	11.3	1,904	-0.5	
EBITDA	8,998	9,398	7,846	14.7	9,367	-3.9	
EBITDA Margin (%)	24.0	24.2	24.3	-28 bps	24.4	-41 bps	
Depreciation	1,121	1,148	890	26.0	1,125	-0.4	
EBIT	7,877	8,250	6,956	13.2	8,242	-4.4	
EBIT Margin (%)	21.0	21.2	21.6	-51 bps	21.5	-47 bps	EBIT margin declined due to the following headwinds: i) -70 bps drop in utilization & ii) -90 bps impact of one time impact of revenue decline mitigated by the tailwinds of i) +50 bps cost optimization & lower subcon cost & ii) +60 bps benefit on post sale customer support
Other income	589	700	587	0.3	689	-14.5	
PBT	8,466	8,950	7,543	12.2	8,931	-5.2	
Tax paid	2,332	2,372	1,848	26.2	2,345	-0.6	
Reported PAT	6,128	6,578	5,686	7.8	6,586	-7.0	

Source: Company, ICICI Direct Research

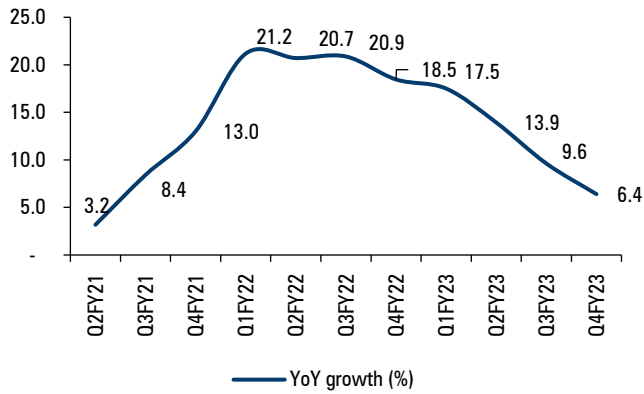
Exhibit 3: Change in estimates

	FY24E			FY25E			Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenue	1,66,123	1,57,109	-5.4	1,81,958	1,78,668	-1.8	We are now taking back ended growth
EBIT	36,547	32,522	-11.0	40,031	37,878	-5.4	
EBIT Margin (%)	22.0	20.7	-130 bps	22.0	21.2	-80 bps	Margins are trimmed as per slower than expected rampup in utilisation
PAT	30,031	26,713	-11.0	31,901	30,276	-5.1	
EPS (₹)	70.8	64.5	-11.0	75.2	73.1	-5.1	

Source: Company, ICICI Direct Research

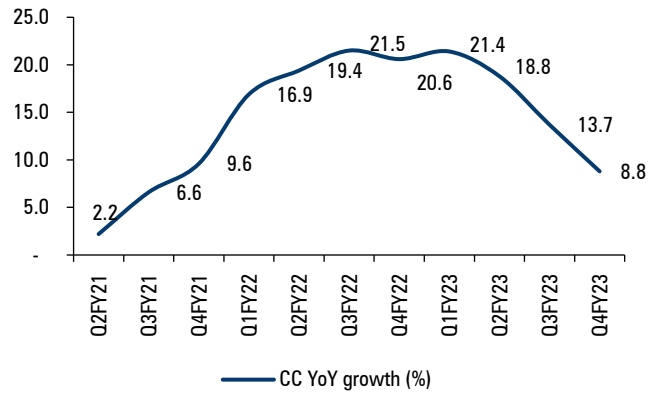
Key Metrics

Exhibit 4: Unexpected ramp downs impact growth



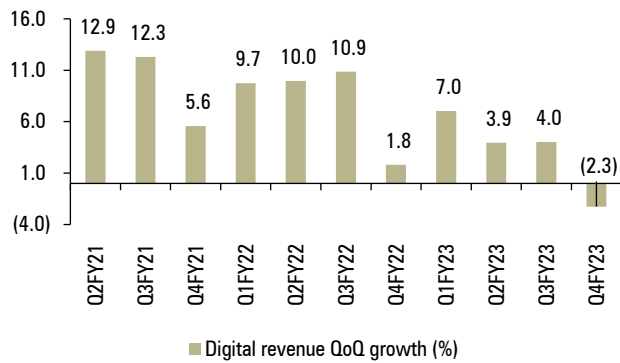
Source: Company, ICICI Direct Research

Exhibit 5: ...leading to decline in CC growth



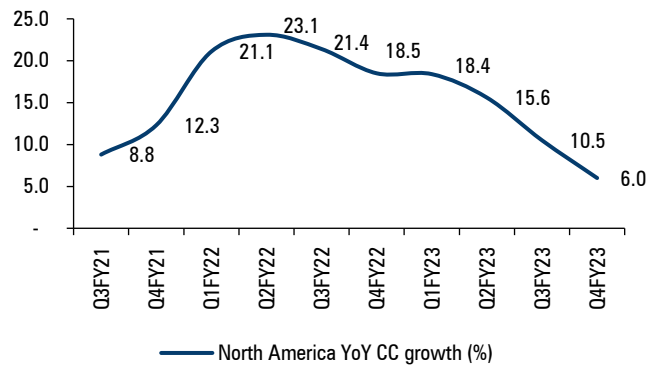
Source: Company, ICICI Direct Research

Exhibit 6: Cost take out focus impacts growth



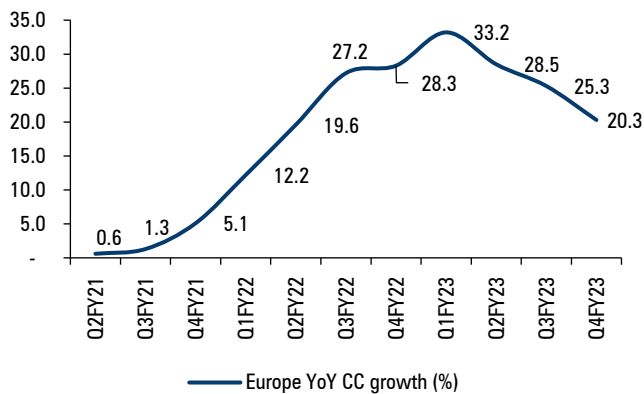
Source: Company, ICICI Direct Research

Exhibit 7: Volume decline & client's issues impact growth



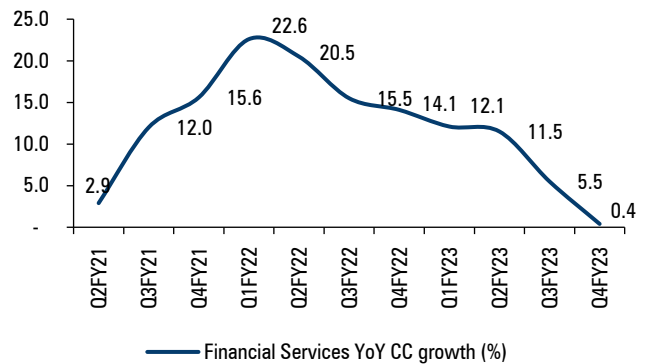
Source: Company, ICICI Direct Research

Exhibit 8: Europe region also sees growth moderation



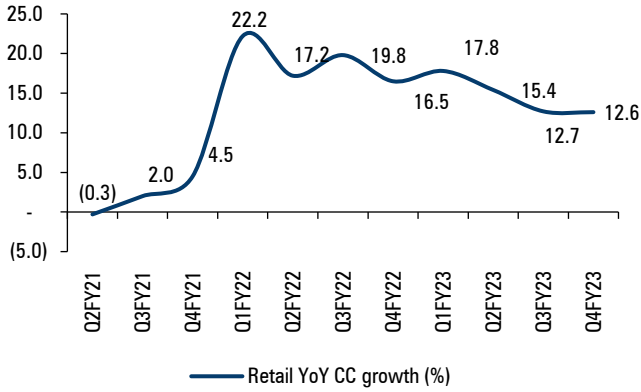
Source: Company, ICICI Direct Research

Exhibit 9: BFSI sees weakness in few pockets of investment banking, mortgage & asset management



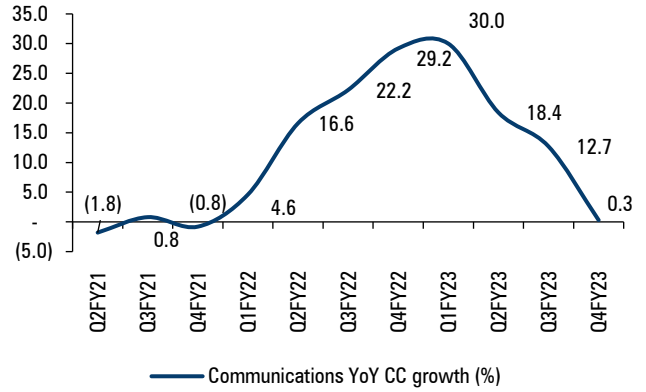
Source: Company, ICICI Direct Research

Exhibit 10: Retail growth steady



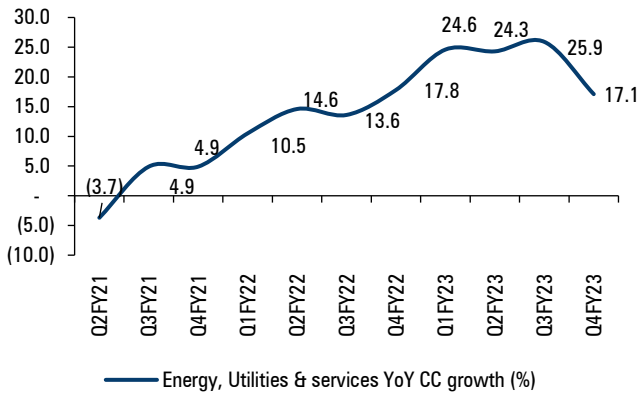
Source: Company, ICICI Direct Research

Exhibit 11: While Communications is seeing slowdown



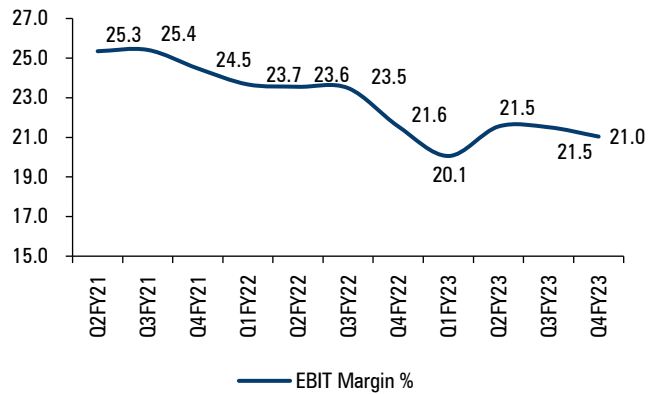
Source: Company, ICICI Direct Research

Exhibit 12: As is energy & utilities



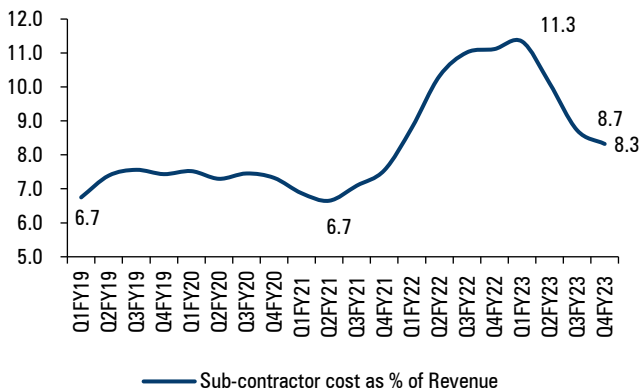
Source: Company, ICICI Direct Research

Exhibit 13: Lower utilisation, one-time revenue impact drags margins



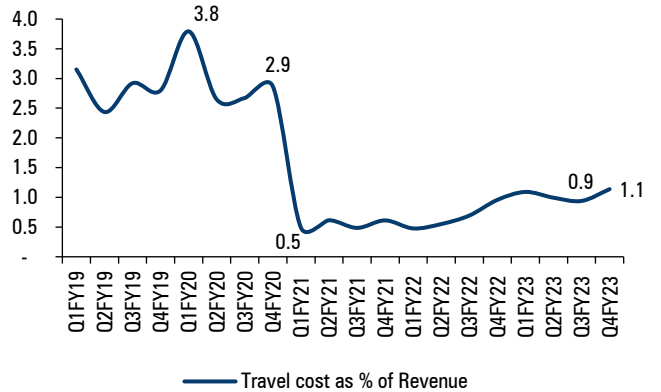
Source: Company, ICICI Direct Research

Exhibit 14: Sub-contractor cost continues to moderate



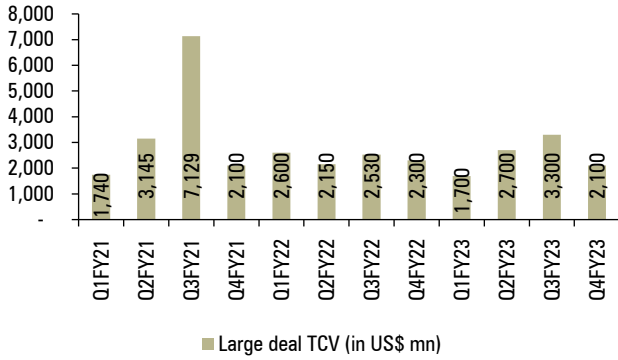
Source: Company, ICICI Direct Research

Exhibit 15: Travel cost increasing gradually



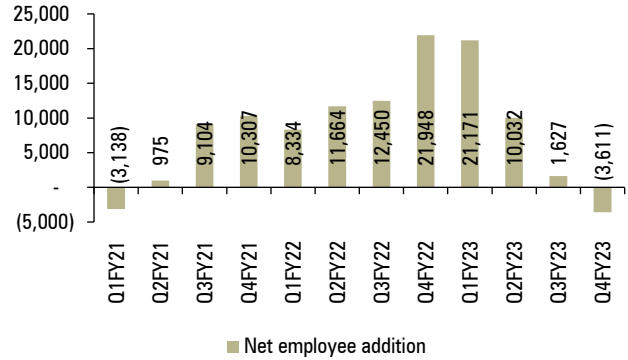
Source: Company, ICICI Direct Research

Exhibit 16: Large deal TCV declines 8.7% YoY in Q4



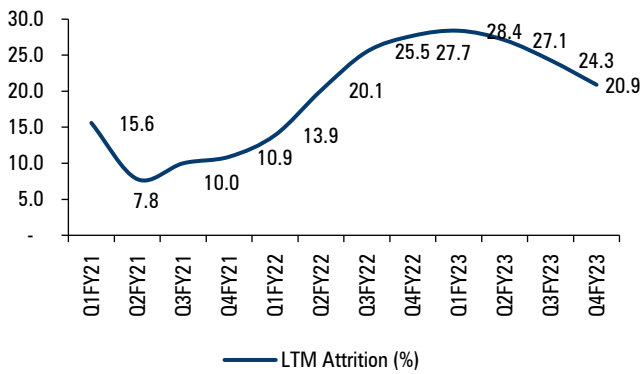
Source: Company, ICICI Direct Research

Exhibit 17: Net reduction reflection of demand



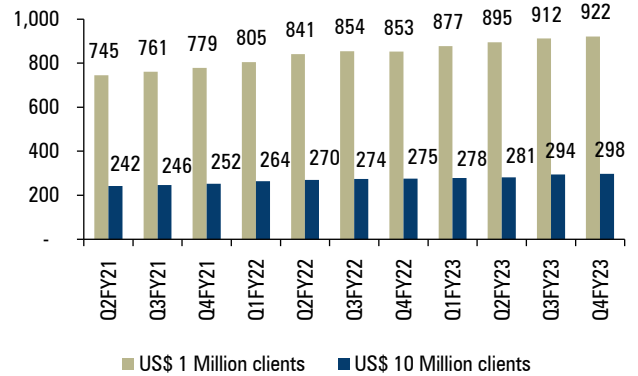
Source: Company, ICICI Direct Research

Exhibit 18: LTM declines sharply in Q4



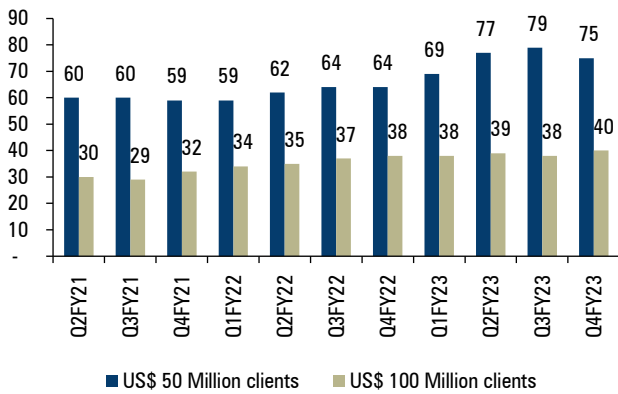
Source: Company, ICICI Direct Research

Exhibit 19: Clients mix trend



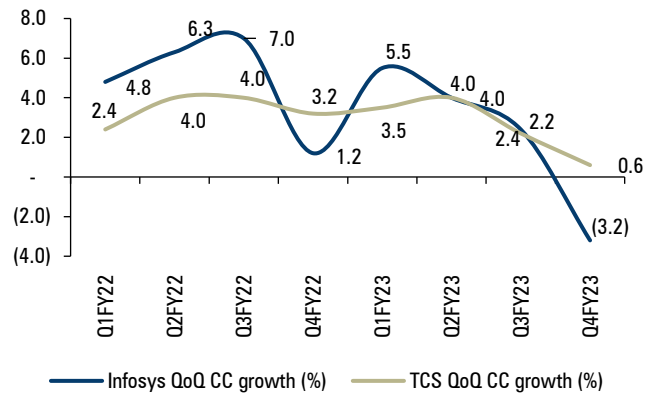
Source: Company, ICICI Direct Research

Exhibit 20: Client mix trend



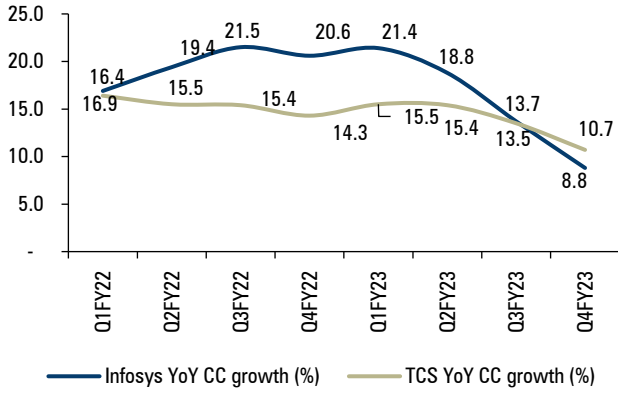
Source: Company, ICICI Direct Research

Exhibit 21: Infosys lagging TCS in growth



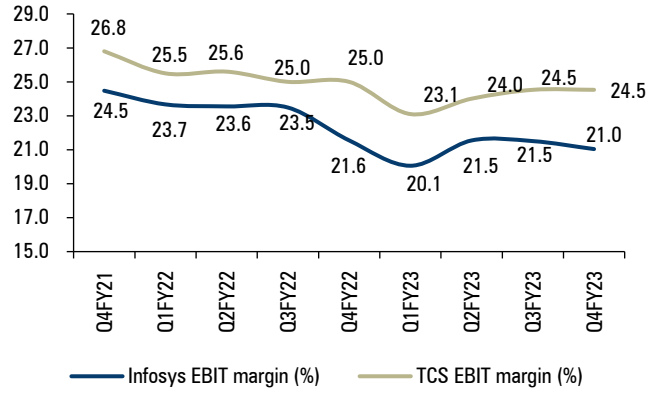
Source: Company, ICICI Direct Research

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	FY23	FY24E	FY25E
Total Income	1,21,641	1,46,767	1,57,109	1,78,668
Growth (%)	21.1	20.7	7.0	13.7
COGS (emp exp)	78,522	98,128	1,04,949	1,18,457
Admin expenses	6,473	7,259	8,013	9,112
S&M expenses	5,155	6,249	7,070	8,040
Total Opex	90,150	1,11,636	1,20,031	1,35,609
EBITDA	31,491	35,131	37,078	43,059
Growth (%)	12.9	11.6	5.5	16.1
Depreciation	3,477	4,225	4,556	5,181
Other Income	2,192	2,416	2,644	1,977
PBT	30,011	33,322	35,166	39,854
Total Tax	7,964	9,214	8,440	9,565
PAT	22,012	24,095	26,713	30,276
Growth (%)	13.8	9.5	10.9	13.3
EPS (₹)	51.9	57.6	64.5	73.1
Growth (%)	13.8	11.1	11.9	13.3

Source: Company, ICICI Direct Research

Exhibit 25: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Profit after Tax	22,012	24,095	26,713	30,276
Add: Depreciation	3,476	4,225	4,556	5,181
(Inc)/dec in Current Assets	(9,610)	(10,343)	469	(7,029)
Inc/(dec) in CL and Provisions	8,427	3,840	2,256	4,703
Taxes paid	(7,612)	(8,794)	(8,440)	(9,565)
CF from operating activities	24,964	23,022	31,350	31,155
(Inc)/dec in Investments	(3,179)	(63)	2,644	1,977
(Inc)/dec in Fixed Assets	(2,161)	(2,579)	(2,200)	(2,200)
CF from investing activities	(7,495)	(1,764)	444	(223)
Dividend paid & dividend tax	(12,652)	(13,631)	(20,405)	(21,716)
Others	176	145	-	-
CF from financing activities	(24,642)	(26,695)	(20,405)	(21,716)
Net Cash flow	(7,173)	(5,437)	11,389	9,215
Exchange difference	-	138	-	-
Opening Cash	24,714	17,472	12,173	23,562
Closing Cash	17,472	12,173	23,562	32,778

Source: Company, ICICI Direct Research

Exhibit 26: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Equity Capital	2,098	2,069	2,069	2,069
Reserve and Surplus	73,638	73,726	80,034	88,594
Total Shareholders funds	75,736	75,795	82,103	90,663
Employee benefit obligations	92	83	83	83
Debt	-	-	1	2
Deferred Tax Liability	1,156	1,220	1,220	1,220
Other non current liabilities	7,298	9,532	9,532	9,532
Total Liabilities	84,282	86,630	92,938	1,01,498
Assets				
Property, plant and equipment	18,402	20,675	18,319	15,337
Goodwill	6,195	7,248	7,248	7,248
Intangibles	1,707	1,749	1,749	1,749
Available for sale assets	13,651	12,569	12,569	12,569
Other assets	10,745	12,694	12,694	12,694
Cash	17,472	12,173	23,562	32,778
Current Investments	6,673	6,909	6,909	6,909
Trade receivables	22,698	25,424	27,216	30,950
Unbilled revenue	11,568	15,289	12,255	13,936
Prepayment & O.fin.assets	8,577	10,979	11,753	13,365
Other current assets	197	107	107	107
Total Current Assets	67,185	70,881	81,801	98,046
Trade payables	4,134	3,865	4,137	4,705
Unearned revenue	6,324	7,163	7,668	8,720
OCL & provisions	23,145	28,158	29,637	32,720
Total Current Liabilities	33,603	39,186	41,442	46,145
Net Current Assets	33,582	31,695	40,359	51,900
Application of Funds	84,282	86,630	92,938	1,01,498

Source: Company, ICICI Direct Research

Exhibit 27: Key ratios				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Per share data (₹)				
EPS	51.9	58.2	64.5	73.1
Cash EPS	60.1	68.4	75.5	85.6
BV	179	183	198	219
DPS	31.0	34.0	49.2	52.3
Cash Per Share	41.2	29.4	56.9	79.1
Operating Ratios (%)				
EBIT Margin	23.0	21.1	20.7	21.2
PBT Margin	24.7	22.7	22.4	22.3
PAT Margin	18.1	16.4	17.0	16.9
Debtor days	68	63	63	63
Unbilled revenue	29	33	32	27
Creditor days	12	10	10	10
Return Ratios (%)				
RoE	29.1	31.8	32.5	33.4
RoCE	35.8	38.5	37.8	39.3
RoIC	46.6	45.8	52.1	61.3
Valuation Ratios (x)				
P/E	26.8	23.9	21.5	19.0
EV / EBITDA	17.5	15.8	14.7	12.4
EV / Net Sales	4.5	3.8	3.5	3.0
Market Cap / Sales	4.7	3.9	3.7	3.2
Price to Book Value	7.8	7.6	7.0	6.3
Solvency Ratios				
Debt/EBITDA	-	-	0.0	0.0
Debt / Equity	-	-	0.0	0.0
Current Ratio	2.0	2.0	1.8	1.8
Quick Ratio	2.0	2.0	1.8	1.8

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)		
					FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
HCL Tech (HCLTEC)	1,072	1,220	BUY	2,90,905	53.6	59.2	63.9	20.0	18.1	16.8	26.2	27.7	29.0	22.2	23.3	23.9
Infosys (INFTEC)	1,388	1,600	BUY	5,81,029	57.6	64.5	73.1	24.1	21.5	19.0	38.5	37.8	39.3	31.8	32.5	33.4
TCS (TCS)	3,190	3,720	BUY	11,67,237	115.2	129.6	143.1	27.7	24.6	22.3	56.0	54.6	52.4	46.6	45.6	43.3
Tech M (TECMAH)	1,087	1,130	HOLD	1,05,745	63.0	74.0	86.3	17.3	14.7	12.6	20.9	21.8	22.9	18.6	19.5	20.2
Wipro (WIPRO)	368	455	BUY	2,01,711	23.3	26.4	28.4	15.8	13.9	13.0	18.9	20.5	21.0	18.7	20.3	21.0
LTIM (LTINFO)	4,645	5,320	BUY	1,37,397	153.9	181.0	221.7	30.2	25.7	21.0	33.8	34.2	35.9	27.2	27.6	28.9
Coforge (NIITEC)	4,026	4,870	BUY	24,520	148.9	172.7	194.7	27.0	23.3	20.7	31.8	31.5	30.6	28.5	28.0	26.9
TeamLease (TEASER)	2,187	2,335	HOLD	3,739	73.7	77.5	93.4	29.7	28.2	23.4	15.5	14.3	14.9	15.3	14.0	14.5
Infoedge (INFEDG)	3,825	3,265	HOLD	48,070	52.1	54.6	58.2	73.4	70.1	65.7	6.3	6.3	6.5	4.7	4.8	4.9

Source: Company, ICICI Direct Research

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Sell: <-15%



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