

April 22, 2024

Deal wins – only exciting affair amid muted FY24...

About the stock: Infosys (Infy) is one of the leading IT players catering to BFSI, Retail, Communications, Manufacturing & Hi-tech verticals.

- Company generates ~60% revenue from North America & ~27% revenue from BFSI and has delivered margins > 20% and ROCE >30%

Q4FY24 Performance: Infosys reported weak Q4 results on both revenue & margins front. The company's revenue declined by 2.2% QoQ in CC terms mainly due to renegotiation of contract of BFSI client. In rupee terms the revenue came at INR 37,923 crore, down 2.3% QoQ. EBIT margin of the company came at 20.1%, down 40 bps QoQ due to the headwinds of contract negotiation & rescoping, increase of salary & travel cost mitigated by the tailwinds of project maximus, absence of one time costs & lower post sales support provision. The company won robust large deal TCv of US\$ 4.5 bn during the quarter.

Investment Rationale:

- Discretionary spends demand impact revenue growth:** Infosys business has high exposure to discretionary spends and with weak discretionary spending environment the revenue conversion has remain weak over the last 5 quarters for the company. We, however, believe that **cost optimization & vendor consolidation opportunity along with the ramp up of deals won previously will provide revenue growth opportunity albeit at a slower pace in FY25. We believe that the company's revenue in dollar terms will grow at 3.4% & 9.5% in FY25E & FY26E respectively. We, thus expect revenue to grow at CAGR of 7.2% between FY24-26E compared to CAGR of 9.5% between FY19-24 in dollar revenue.**
- TCV wins robust despite macro uncertainties:** The company large deal wins remain strong despite the macro uncertainty continuing in market. The company won TCv of US\$ 17.7 bn from 90 large deals in FY24 compared to TCv of US\$ 9.8 bn in FY23. **We believe that Infy will continue to win large deals as it is well placed to win cost optimisation & vendor consolidation deals till the discretionary demand picks up.**
- Margin to remain range bound in the near term:** The margin in FY24 was impacted by the headwinds of wage hike, multiple one off incident & weak revenue growth. Infy **aspires to improve its margins in the medium but for FY25 it is guiding for margin band of 20-22% with the margin levers being improvement in utilisation, reduction in subcon cost, increase in automation and pricing. We believe that despite modest revenue growth in FY25 the company's margin will improve due to absence of one-off events occurred in FY24 and the margin levers deployed by the company. We expect margins to increase by 40 bps & 50 bps in FY25E & FY26E.**

Rating and Target Price

- Recovery in discretionary demand by FY25 end (in our view), could drive marked improvement in Infy's growth. We assign **BUY**, rating on Infy and value it at target price of ₹ 1,650; at 23x P/E on FY26E EPS.

Key Financial Summary

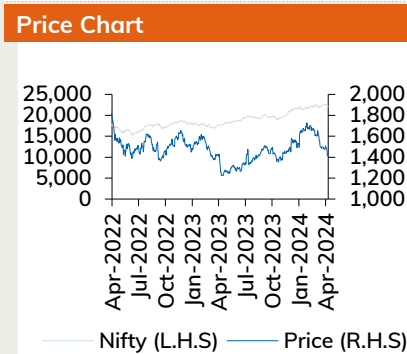
₹ Crore	FY22	FY23	FY24	5 year CAGR (FY19-24)	FY25E	FY26E	2 years CAGR (FY24-26E)
Net Sales	1,21,641	1,46,767	1,53,670	13.2%	1,60,220	1,76,532	7.2%
EBITDA	31,491	35,131	36,425	11.8%	38,617	43,427	9.2%
EBITDA Margins (%)	25.9	23.9	23.7		24.1	24.6	
Net Profit	22,012	24,095	26,233	11.2%	26,074	29,638	6.3%
EPS (₹)	51.9	57.6	63.4		63.0	71.6	
P/E	27.2	24.2	22.3		22.4	19.7	
RoNW (%)	29.1	31.8	29.7		28.4	30.1	
RoCE (%)	35.8	38.5	36.3		34.9	37.2	

Source: Company, ICICI Direct Research



Particulars	Amount
Market CAP (₹ Crore)	5,84,211.0
Total Debt	-
CC&E (₹ Crore)	27,701.0
EV (₹ Crore)	5,56,510.0
52 week H/L	1733/ 1185
Equity capital (₹ Crore)	2,071.0
Face value	5.0

Shareholding pattern	Mar-23	Jun-23	Sep-23	Dec-23
Promoters	13.3	13.3	13.3	13.2
FII	30.8	29.7	30.0	30.1
DII	29.7	31.0	31.6	32.0
Public	26.2	26.0	25.1	24.7



- ### Key risks
- Delay in ramp up of large deals;
 - Lower than expected margin growth

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Performance highlights and outlook

- **Revenue Performance:** The company in Q4FY24 reported revenue of US\$ 4,564 mn, down 2.2% QoQ and up 0.2% YoY. In rupee terms the revenue came at ₹37,923 crore, down 2.3% QoQ and up 1.3% YoY. Revenue in CC terms declined by 2.2% QoQ and grew 1.4% YoY. For FY24 the company reported revenue of US\$ 18,562 mn (₹1,53,670 crore), up 1.9% YoY. **In CC terms the company's revenue growth came at 1.4% marginally lower than bottom end guided range of 1.5-2%.**
- **Contract rescoping:** During the quarter, Infy had a **renegotiation & rescoping of one of the large contracts with a financial services client. The renegotiations had a one-time impact of 100 bps on revenue & margins of the company.** The company further clarified that only 15% value of the contract is renegotiated while 85% of the contract continues.
- **Geography & Segment performance:** Geography wise in Q4 in CC terms, North America (59.6% of mix) declined by 2.2% YoY while Europe (28.6% of mix) grew by 4.9% YoY. Vertical wise in CC terms on YoY basis Manufacturing (14.7% of mix) & Hi-Tech (8.7% of mix) grew by 8.7% & 9.7% while Financial Services (26.4% of mix) & Retail (14.3% of mix) declined by 8.5% & 3.7%.
- **Margin performance:** EBIT margin of the company contracted by 40 bps QoQ to 20.1% due to the headwind impact of 100 bps contract rescoping & renegotiation by a large BFSI client & 80 bps impact of increase in salary & travel cost mitigated by tailwinds of 60 bps lower post sales customer support, 40 bps of Project Maximus (cost optimization program by company) & 40 bps due to reversal of cyber security incident costs in Q3. The company reported PAT margin of 2.1% in Q4.

For FY24 The company reported an **EBIT margin of 20.7%, down 40 bps compared to FY23. The company's PAT margin came at 19.1% compared to 18.7% in FY23.**

- **Deal Wins: Deal wins remain strong despite no improvement in discretionary spending environment.** The company won **30 large deal with TCV of US\$ 4.5 bn in Q4 (up 37% QoQ) & US\$ 17.7 bn in FY24** which is the highest large TCV won by the company in a fiscal year. The company mentioned that the **deal wins include 2 mega deals.** The company also mentioned that out of the **30 deals it signed 8 large deals in communication, 6 each in BFSI and retail, 4 each in manufacturing and life sciences, 2 in URS. Region wise, 16 were from North America, 10 from Europe and 4 from rest of the world.**

On Gen AI projects, the company mentioned that it is seeing benefit from Gen AI in software engineering for the projects that it is working on.

- **In-Tech acquisition:** Infy informed that it has entered an agreement to acquire 100% stake in **in-Tech Holding GmbH, a leading provider of engineering R&D services (in Automotive segment) with its headquarters in Germany for consideration of Eur 450 mn (2.6x of CY23 sales).** In-Tech has ~2,200 employees across 8 countries & **for CY23 reported sales of Eur 170 mn. The transaction is expected to be complete in H1 of FY25.**
- **Demand Outlook:** The company mentioned that it has **a higher mix of discretionary business in its portfolio.** The company mentioned that its performance in **FY24 was impacted highly due to weak discretionary demand and it further indicated that the demand scenario has not changed much for the past 2 quarters.** The company indicated that it believes that **BFSI & retail which is impacted by elevated interest rates & inflation would revive in FY25.** The company further mentioned that **manufacturing in FY25 would grow at lower rate compared to FY24 and Hi-tech demand is expected to remain weak.**
- **Guidance for FY25:** **Due to weak discretionary spending demand the company is guiding for revenue growth of 1-3% for FY25.** The company further mentioned that it expects normal seasonality in FY25 and **expects H1FY25 growth to be stronger than H2FY25.** The company mentioned that the guidance doesn't include the contribution from in-Tech acquisition.

On the margins front the company is guiding for margins in the band of 20-22%. The company's mentioned that the levers of margin improvement will be improved utilization, reduction in subcon cost, use of automation & pricing. The company further mentioned that it aspires to improve its margins in the medium term but it will be range bound till demand picks up.

- **Attrition & Employee addition:** The company's attrition for Q4FY24 reduced further by 30 bps QoQ to 12.6%. The company net employees during the quarter declined by 5,423 bringing the total employee strength to 3,17,240. The net employee count declined for 5 consecutive quarter and the company mentioned that it has moved to agile hiring model wherein it will recalibrate it hiring as demand picks up.
- **Dividend:** The company in Q4FY24 declared dividend of ₹ 28 per share including special dividend ₹ 8 bringing the total dividend payout for FY24 to ₹ 46 per share.

The company approved the capital allocation policy for FY25-29 wherein the company will return ~85% of the free cash flow over the 5 years by way of dividends or buybacks to the shareholders.

Exhibit 1: Quarter Performance

₹ crores	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	Comments	FY24	FY23	YoY (%)
Revenue	37,923	37,441	1.3	38,821	-2.3	Revenue declined higher than anticipated due to contract renegotiation	1,53,670	1,46,767	4.7
Employee expenses	25,585	24,890	2.8	26,077	-1.9		1,02,736	98,128	4.7
Gross Profit	12,338	12,551	-1.7	12,744	-3.2		50,934	48,639	4.7
Gross margin (%)	32.5	33.5	-99 bps	32.8	-29 bps		33.1	33.1	0 bps
Selling & marketing costs	1,735	1,659	4.6	1,700	2.1		6,973	6,249	11.6
G&A expenses	1,819	1,894	-4.0	1,907	-4.6		7,537	7,259	3.8
EBITDA	8,784	8,998	-2.4	9,137	-3.9		36,424	35,131	3.7
EBITDA Margin (%)	23.2	24.0	-87 bps	23.5	-37 bps		23.7	23.9	-23 bps
Depreciation	1,163	1,121	3.7	1,176	-1.1		4,678	4,225	10.7
EBIT	7,621	7,877	-3.2	7,961	-4.3		31,746	30,906	2.7
EBIT Margin (%)	20.1	21.0	-94 bps	20.5	-41 bps	EBIT margin declined due to the following headwinds: i) -100 bps contract renegotiation & ii) -80 bps impact of increase in salary & travel exp. mitigated by the tailwinds of i) +60 bps benefit on post sale customer support & ii) +40 bps each due to savings from Project Maximus & reversal of cyber security incident costs	20.7	21.1	-40 bps
Other income	2,619	589	344.7	658	298.0	Other income includes refund from Income Tax	4,241	2,416	75.5
PBT	10,240	8,466	21.0	8,619	18.8		35,987	33,322	8.0
Tax paid	2,265	2,332	-2.9	2,506	-9.6		9,740	9,214	5.7
Reported PAT	7,969	6,128	30.0	6,106	30.5		26,233	24,095	8.9

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	
Total Income	1,46,767	1,53,670	1,60,220	1,76,532	
Growth (%)	20.7	4.7	4.3	10.2	
COGS (emp exp)	98,128	1,02,735	1,06,542	1,16,511	
Admin expenses	7,259	7,537	7,851	8,650	
S&M expenses	6,249	6,973	7,210	7,944	
Total Opex	1,11,636	1,17,245	1,21,603	1,33,105	
EBITDA	35,131	36,425	38,617	43,427	
Growth (%)	11.6	3.7	6.0	12.5	
Depreciation	4,225	4,678	4,877	5,374	
Other Income	2,416	4,241	1,998	2,568	
PBT	33,322	35,988	35,738	40,621	
Total Tax	9,214	9,740	9,649	10,968	
PAT	24,095	26,233	26,074	29,638	
Growth (%)	9.5	8.9	(0.6)	13.7	
EPS (₹)	57.6	63.4	63.0	71.6	
Growth (%)	11.1	10.0	(0.6)	13.7	

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	
Profit after Tax	24,095	26,233	26,074	29,638	
Add: Depreciation	4,225	4,678	4,877	5,374	
(Inc)/dec in Current Assets	(10,343)	(3,839)	4,377	(5,437)	
Inc/(dec) in CL and Provisions	3,840	(1,243)	883	3,222	
Taxes paid	(8,794)	(9,231)	(9,649)	(10,968)	
CF from operating activities	23,022	25,210	34,213	30,229	
(Inc)/dec in Investments	(63)	(2,936)	1,998	2,568	
(Inc)/dec in Fixed Assets	(2,579)	(2,201)	(2,200)	(2,200)	
CF from investing activities	(1,764)	(5,009)	(202)	368	
Dividend paid & dividend tax	(13,631)	(14,731)	(22,806)	(22,804)	
Others	145	(13)	-	-	
CF from financing activities	(26,695)	(17,504)	(22,806)	(22,804)	
Net Cash flow	(5,437)	2,697	11,205	7,793	
Exchange difference	138	(84)	-	-	
Opening Cash	17,472	12,173	14,786	25,991	
Closing Cash	12,173	14,786	25,991	33,784	

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	
Equity Capital	2,069	2,071	2,071	2,071	
Reserve and Surplus	73,726	86,390	89,658	96,492	
Total Shareholders funds	75,795	88,461	91,729	98,563	
Employee benefit obligations	83	89	89	89	
Debt	-	-	-	-	
Deferred Tax Liability	1,220	1,794	1,794	1,794	
Other non current liabilities	9,532	8,676	8,676	8,676	
Total Liabilities	86,630	99,020	1,02,288	1,09,122	
Assets					
Property, plant and equipment	20,675	19,370	16,693	13,519	
Goodwill	7,248	7,303	7,303	7,303	
Intangibles	1,749	1,397	1,397	1,397	
Available for sale assets	12,569	11,708	11,708	11,708	
Other assets	12,694	8,604	8,604	8,604	
Cash	12,173	14,786	25,991	33,784	
Current Investments	6,909	12,915	12,915	12,915	
Trade receivables	25,424	30,193	31,243	34,424	
Unbilled revenue	15,289	12,768	12,818	13,770	
Prepayment & O.fin.assets	10,979	12,289	12,813	14,117	
Other current assets	107	6,481	481	481	
Total Current Assets	70,881	89,432	96,261	1,09,490	
Trade payables	3,865	3,956	4,006	4,413	
Unearned revenue	7,163	7,341	7,610	8,385	
OCL & provisions	28,158	27,497	28,062	30,101	
Total Current Liabilities	39,186	38,794	39,677	42,899	
Net Current Assets	31,695	50,638	56,583	66,591	
Application of Funds	86,630	99,020	1,02,288	1,09,122	

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	
Per share data (₹)					
EPS	58.2	63.3	62.9	71.5	
Cash EPS	68.4	74.6	74.7	84.5	
BV	183	214	221	238	
DPS	34.0	46.0	55.0	55.0	
Cash Per Share	29.4	35.7	62.7	81.5	
Operating Ratios (%)					
EBIT Margin	21.1	20.7	21.1	21.6	
PBT Margin	22.7	23.4	22.3	23.0	
PAT Margin	16.4	17.1	16.3	16.8	
Debtor days	63	72	71	71	
Unbilled revenue	33	33	29	27	
Creditor days	10	9	9	9	
Return Ratios (%)					
RoE	31.8	29.7	28.4	30.1	
RoCE	38.5	36.3	34.9	37.2	
RoIC	45.8	44.5	53.2	61.0	
Valuation Ratios (x)					
P/E	24.2	22.3	22.4	19.7	
EV / EBITDA	16.1	15.3	14.1	12.4	
EV / Net Sales	3.9	3.6	3.4	3.0	
Market Cap / Sales	4.0	3.8	3.6	3.3	
Price to Book Value	7.7	6.6	6.4	5.9	
Solvency Ratios					
Debt/EBITDA	-	-	-	-	
Debt / Equity	-	-	-	-	
Current Ratio	2.0	2.1	2.0	1.9	
Quick Ratio	2.0	2.1	2.0	1.9	

Source: Company, ICICI Direct Research

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