

Infosys

BUY

Improving discretionary spend to be a key trigger

Summary

Infosys (INFO) Q4FY24 numbers were below consensus estimates. Infy has also guided subdued FY25E revenue growth (1%-3% YoY in CC terms) mainly due to lower discretionary spend, volatile demand environment and cost rationalization at clients end. Infy continues to win vendor consolidation deals and cost efficiency deals. This coupled with strong large deal wins in FY24 (US\$17.7 billion, with 52% being net new) and ramp up of mega deals we believe the company will achieve higher end of the guidance in FY25E. However, considering robust expectation in past we have tapered our EPS estimates lower by 4% & 6% in FY25E & FY26E respectively. Hence we have lowered our target price to Rs 1,635 (22x FY26E EPS) from Rs 1,730. Further, considering recent fall in price we maintain our buy rating on the stock.

Key Highlights and Investment Rationale

- Macro challenges to persist:** Slowdown in discretionary spend and elongated deal cycle has led to poor growth in the near term. We expect the company to witness subdued FY25E due to macro challenges. Hence, we have assumed 3.7% YoY growth for FY25E (this includes acquisition). However, in longer term we expect macro headwinds to recede and INFO will be key beneficiary of revival of discretionary spend and ramp up of mega deals. Hence, we believe INFO is well positioned to capture long term trends.
- Margin to improve in FY25E:** The company's FY24 margins were impacted by one offs and underutilization of resources due to volatile demand environment. However, considering a subdued demand we believe the company is in better position to manage utilization. This coupled with pyramid rationalization, lower sub-contracting cost and automation will help the company to improve margins by 129 bps to 22% in FY25E.

TP	Rs1,635			Key Stock Data	
CMP	Rs1,421				
Potential upside/downside	15%				Bloomberg/Reuters
Previous Rating	BUY				INFO IN / INFY.BO
Price Performance (%)					
	-1m	-3m	-12m		
Absolute	(11.3)	(13.5)	12.7		
Rel to Sensex	(11.0)	(15.3)	(8.7)		
V/s Consensus			Shareholding Pattern (%)		
EPS (Rs)	FY25E	FY26E	Promoters	14.8	
IDBI Capital	67	73	FII	33.7	
Consensus	66	74	DII	33.2	
% difference	1.6	(1.8)	Public	18.3	

Year	FY22	FY23	FY24	(Rs mn)	
				FY25E	FY26E
Revenue	12,16,410	14,67,672	15,36,710	15,98,018	17,41,628
Change (yoY, %)	21	21	5	4	9
EBITDA	3,14,920	3,51,312	3,64,250	3,97,564	4,44,464
Change (yoY, %)	13	12	4	9	12
EBITDA Margin(%)	25.9	23.9	23.7	24.9	25.5
Adj.PAT	2,21,110	2,40,952	2,62,320	2,76,968	3,01,476
EPS (Rs)	53	58	63	67	73
Change (yoY, %)	15.6	10.5	8.8	6	9
PE(x)	27	24	22	21	20
Dividend Yield (%)	2.2	2.4	3.2	4	4
EV/EBITDA (x)	18	16	15	14	12
RoE (%)	29	32	32	31	31
RoCE (%)	34	37	35	35	35

Source: IDBI Capital Research

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Other Key Highlights

- Company recorded revenue of \$4,564 mn recording CC terms growth of -2.2%/0.0% QoQ/YoY. Manufacturing (+8.7% YoY), Hi-tech (+9.7% YoY), Communication (+4.5% YoY), E&U (+3.3% YoY) and Life sciences (+1% YoY). However, Financial Services & Retail contracted by 8.5% and 3.9% YoY respectively.
- EBIT margin in the quarter impacted by 40 bps QoQ to 20.1%. This was mainly due to onetime impact of 100bps of re-scoping & renegotiation of BFSI large deal and 80bps by salary increases, higher brand building expenses which was positively offset by 60bps of post-paid customer support, 40bps by project maximus and 40bps by impact of Q3 of in-tech. FY24 EBIT margin stood at 20.7%.
- Large deal signing stood at US\$ 4.5 bn, with net new of 44%. 30 mega deal won in the quarter which includes 8 mega deals in communication, 6 each in BFSI & Retail, 4 each in manufacturing & Life-sciences and 2 in Energy & utilities. Region wise; 16 deals in North America, 10 in Europe and 4 in ROW. In FY24 large deal stood at \$17.7bn with 52% net new deals. Deal pipeline remains strong in verticals like manufacturing, BFSI, Hi-tech and E&U and company is focusing on cost efficiency & vendor consolidation.
- **Demand outlook:** In the near term clients are cautious and are re-prioritizing budget. The deals in near term are more of vendor consolidation deals and cost efficiency. Management stated that BFSI growth in FY25E is expected to be better than FY24. The company is seeing cautiously optimistic outlook in E&U mainly due to cost optimization deals, Manufacturing would see slower growth and could improve with traction in areas like IoT, supply chain, marc manufacturing and Retail is seeing improvement led by cost take out deals and Generative AI. The company is seeing strong traction in Generative AI across verticals. Generative AI can improve productivity and which could be re invested in discretionary spend. The management believes H1FY25 to be better than H2FY25. Management stated that utilisation rate can reach upto 85% and employee count would be re-calibrated as and when required.
- Infosys has guided 1%-3% CC growth and EBIT margin guidance of 20-22% in FY25E. In terms of margins headwinds are large deal transition cost, wage hike for previous year and this year which is expected to be offset by higher utilization, lower subcon cost, automation and pyramid rationalization.
- The company has acquired in-tech an ER&D services provider focused on German automotive industry. The company has acquired the same at Euro 450 mn at an EV/ Sales of 2.6x.

Q4FY24 revenue declined by -2.1% QoQ.
EBIT margin decreased by ~40 bps QoQ

Exhibit 1: Financial snapshot

(Rs mn)

Year-end: March	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	YoY (%)
Revenues (US\$ mn)	4,564	4,663	(2.1)	4,554	0.2
Revenues	3,79,230	3,88,210	(2.3)	3,74,410	1.3
COGS	2,55,850	2,60,770	(1.9)	2,48,900	2.8
Gross profit	1,23,380	1,27,440	(3.2)	1,25,510	(1.7)
SG&A	35,540	36,070	(1.5)	35,530	0.0
EBITDA	87,840	91,370	(3.9)	89,980	(2.4)
Depreciation & amortization	11,630	11,760	(1.1)	11,210	3.7
EBIT	76,210	79,610	(4.3)	78,770	(3.2)
Other income	6,480	6,580	(1.5)	5,890	10.0
PBT	82,690	86,190	(4.1)	84,660	(2.3)
Tax	22,650	25,060	(9.6)	23,320	(2.9)
Minority interest	60	70	(14.3)	60	0.0
Adjusted net profit	59,980	61,060	(1.8)	61,280	(2.1)
Exceptional item	19,710	0	n.m.	0	n.m.
Reported net profit	79,690	61,060	30.5	61,280	30.0
Diluted EPS (Rs)	14.33	14.74	(2.8)	14.77	(3.0)

As % of net revenue

Gross profit	32.5	32.8	33.5
SG&A	9.4	9.3	9.5
EBITDA	23.2	23.5	24.0
EBIT	20.1	20.5	21.0
Reported net profit	15.8	15.7	16.4
Tax rate	27.4	29.1	27.5

Source: Company; IDBI Capital Research

Exhibit 2: Earnings Revision

Year-end: March	FY25E			FY26E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (US\$ mn)	19,253	20,446	-5.8	20,983	22,683	-7.5
Revenue (Rs bn)	1,598	1,699	-5.9	1,742	1,883	-7.5
EBIT margin (%)	22.0%	21.5%	44 bps	22.0%	21.6%	40 bps
EPS (Rs)	66.9	69.7	-4.1	72.8	77.4	-6.0

Source: Company; IDBI Capital Research

Exhibit 3: Actual vs. estimates

Year to March	Q4FY24	Q4FY24E	Variance (%)
Revenue (US\$ mn)	4,564	4,700	-2.9%
Revenue (Rs mn)	3,79,230	3,88,210	-2.3%
EBIT (Rs mn)	76,210	80,606	-5.5%
EBIT margin (%)	20.1%	20.8%	(66) bps
Recurring PAT (Rs mn)	59,980	64,520	-7.0%
Recurring PAT margin (%)	15.82%	16.62%	(80bps)
EPS (Rs)	14.5	15.6	-7.0%

Source: Company; IDBI Capital Research

Exhibit 4: Large clients trend

Year-end: March	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
US\$1 mn+	853	877	895	912	922	940	951	944	959
US\$10 mn+	275	278	281	294	298	312	312	308	315
US\$50 mn+	64	69	77	79	75	79	80	82	83
US\$100 mn+	38	38	39	38	40	38	39	40	40

Source: Company; IDBI Capital Research

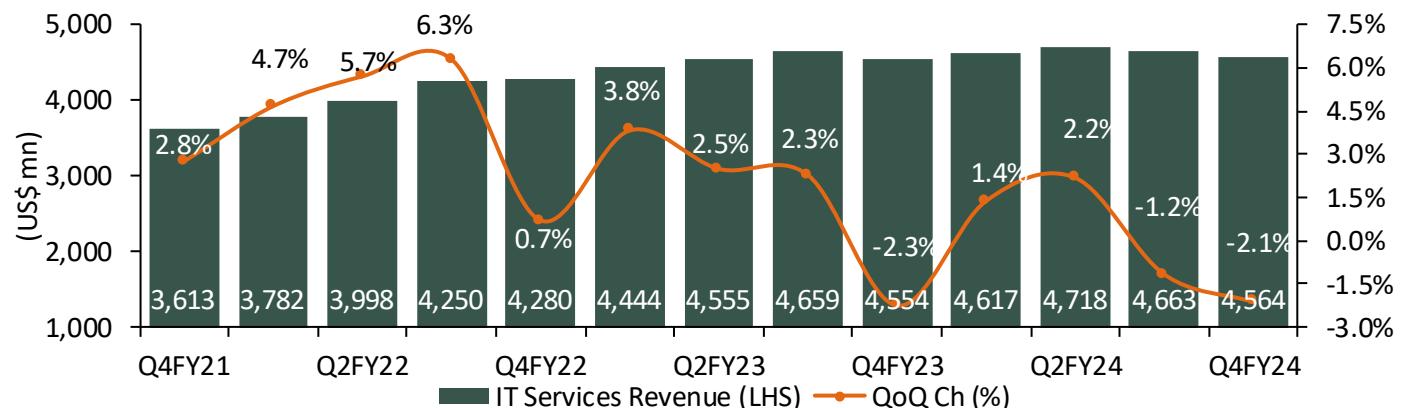
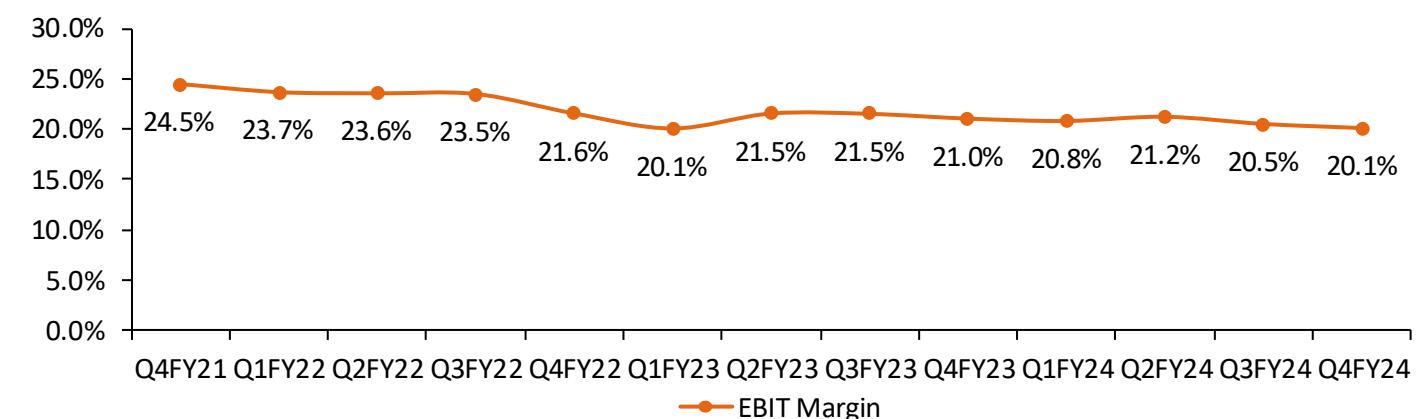
Exhibit 5: Q4FY24 revenue declined by 2.1% QoQ

Source: Company; IDBI Capital Research
Exhibit 6: Q4FY24 EBIT margin declined by 40bps QoQ

Source: Company; IDBI Capital Research

Exhibit 7: Revenue growth across various segments (%)

Parameters	% of revenue	YoY growth (in CC)
	0.0%	
Geography		
US	59.6%	-2.2%
Europe	28.6%	4.9%
India	2.2%	-15.4%
ROW	9.6%	4.5%
Verticals		
Financial Services	26.4%	-8.5%
Retail	14.3%	-3.7%
Communications	12.3%	4.5%
Energy, Utilities, Resources and Services	13.4%	3.3%
Manufacturing	14.7%	8.7%
Hi Tech	8.7%	9.7%
Life Sciences	7.3%	1.0%
Others	2.9%	0.5%

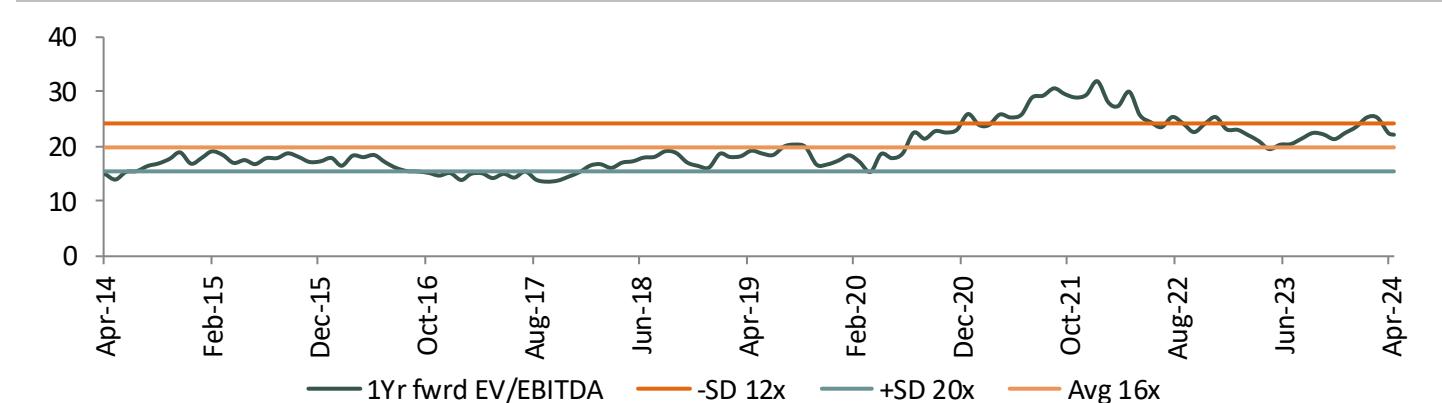
Source: Company; IDBI Capital Research

Exhibit 8: Utilization including trainees improved slightly to 82%



Source: Company; IDBI Capital Research

Exhibit 9: One-year forward PER trend



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Net sales	10,04,730	12,16,410	14,67,672	15,36,710	15,98,018	17,41,628
<i>Change (yoY, %)</i>	10.7	21	21	5	4	9
Operating expenses	(7,25,840)	(9,01,490)	(11,16,360)	(11,72,460)	(12,00,455)	(12,97,164)
EBITDA	2,78,890	3,14,920	3,51,312	3,64,250	3,97,564	4,44,464
<i>Change (yoY, %)</i>	25.2	13	12	4	9	12
<i>Margin (%)</i>	27.8	25.9	23.9	23.7	24.9	25.5
Depreciation	(32,670)	(34,770)	(42,250)	(46,780)	(46,780)	(61,249)
EBIT	2,46,220	2,80,150	3,09,062	3,17,470	3,50,784	3,83,215
Interest paid	(1,950)	(2,000)	(2,840)	(4,690)	(4,400)	(4,400)
Other income	22,010	22,950	27,000	27,400	32,315	33,365
Pre-tax profit	2,66,280	3,01,100	3,33,222	3,40,180	3,78,699	4,12,181
Tax	(72,050)	(79,640)	(92,140)	(97,410)	(1,01,491)	(1,10,464)
<i>Effective tax rate (%)</i>	27.1	26.4	27.7	28.6	26.8	26.8
Minority Interest	(720.0)	(350.0)	(130.0)	(160.0)	(240.0)	(240.0)
Net profit	1,93,510	2,21,110	2,40,952	2,62,320	2,76,968	3,01,476
Exceptional items	-	-	-	-	-	-
Adjusted net profit	1,93,510	2,21,110	2,40,952	2,62,320	2,76,968	3,01,476
<i>Change (yoY, %)</i>	16.6	14	9	9	6	9
EPS	45.6	52.7	58.2	63.3	66.9	72.8
Dividend per sh.	27.0	31.0	34.0	46.0	55.0	60.0
<i>Dividend Payout (%)</i>	59.2	58.8	58.4	73	82	82

Balance Sheet							(Rs mn)
Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E	
Shareholders' funds	7,63,510	7,53,500	7,54,070	8,81,160	9,30,318	9,83,274	
Share capital	21,219	20,980	20,690	20,710	20,710	20,710	
Reserves & surplus	7,42,291	7,32,520	7,33,380	8,60,450	9,09,608	9,62,564	
Total Debt	-	-	-	-	-	-	
Other liabilities	51,020	54,180	82,740	96,990	96,990	96,990	
Curr Liab & prov	2,54,040	3,55,190	4,05,020	3,92,000	4,05,904	4,42,382	
Current liabilities	2,25,450	3,19,370	3,58,110	3,38,190	3,49,947	3,81,396	
Provisions	28,590	35,820	46,910	53,810	55,957	60,985	
Total liabilities	3,05,060	4,09,370	4,87,760	4,88,990	5,02,894	5,39,372	
Total equity & liabilities	10,72,880	11,66,730	12,45,710	13,73,600	14,36,662	15,26,095	
Net fixed assets	2,17,740	2,13,930	2,26,310	2,13,630	2,33,331	2,22,081	
Investments	-	-	-	-	-	-	
Other non-curr assets	1,29,180	1,44,440	1,84,900	1,48,570	1,54,497	1,68,382	
Current assets	7,25,960	8,08,360	8,34,500	10,11,400	10,48,834	11,35,632	
Inventories	-	-	-	-	-	-	
Sundry Debtors	1,92,940	2,26,980	2,54,240	3,01,930	3,13,976	3,42,192	
Cash and Bank	3,89,190	3,77,960	3,16,510	3,94,090	4,06,896	4,36,005	
Loans and advances	1,43,830	2,03,420	2,63,750	3,15,380	3,27,962	3,57,435	
Total assets	10,72,880	11,66,730	12,45,710	13,73,600	14,36,662	15,26,095	

Cash Flow Statement							(Rs mn)
Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E	
Pre-tax profit	2,66,280	3,01,100	3,33,222	3,40,180	3,78,699	4,12,181	
Depreciation	32,670	(15,010)	42,250	46,780	55,299	61,249	
Tax paid	(66,520)	(77,970)	(91,830)	(83,760)	(1,01,491)	(1,10,464)	
Chg in working capital	16,760	7,520	(37,760)	(1,12,340)	(10,724)	(21,212)	
Other operating activities	25,169	(13,770)	(12,210)	1,11,922	(5,927)	(13,884)	
Cash flow from operations (a)	2,74,359	2,01,870	2,33,672	3,02,782	3,15,856	3,27,869	
Capital expenditure	(44,660)	18,820	(54,630)	(34,100)	(75,000)	(50,000)	
Chg in investments	-	-	-	-	-	-	
Other investing activities	-	-	-	-	-	-	
Cash flow from investing (b)	(44,660)	18,820	(54,630)	(34,100)	(75,000)	(50,000)	
Equity raised/(repaid)	14	(1,01,044)	(99,690)	20	-	-	
Debt raised/(repaid)	-	-	-	-	-	-	
Dividend (incl. tax)	(1,14,583)	(1,30,076)	(1,40,692)	(1,90,532)	(2,27,810)	(2,48,520)	
Chg in minorities	(350)	(800)	(110)	(590)	(240)	(240)	
Other financing activities	-	-	-	-	-	-	
Cash flow from financing (c)	(1,14,919)	(2,31,920)	(2,40,492)	(1,91,102)	(2,28,050)	(2,48,760)	
Net chg in cash (a+b+c)	1,14,780	(11,230)	(61,450)	77,580	12,806	29,109	

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	179.9	180	182	213	225	237
<i>Adj EPS (Rs)</i>	45.6	52.7	58.2	63.3	66.9	72.8
<i>Adj EPS growth (%)</i>	16.5	16	11	9	6	9
<i>EBITDA margin (%)</i>	27.8	25.9	23.9	23.7	24.9	25.5
<i>Pre-tax margin (%)</i>	26.5	24.8	22.7	22.1	23.7	23.7
<i>Net Debt/Equity (x)</i>	-0.5	-0.5	-0.4	-0.4	-0.4	-0.4
<i>ROCE (%)</i>	32.5	34	37	35	35	35
<i>ROE (%)</i>	27.3	29	32	32	31	31
DuPont Analysis						
Asset turnover (x)	1.0	1.1	1.2	1.2	1.1	1.1
Leverage factor (x)	1.4	1.5	1.6	1.6	1.6	1.6
<i>Net margin (%)</i>	19.3	18.2	16.4	17.1	17.3	17.3
Working Capital & Liquidity ratio						
Inventory days	0	0	0	0	0	0
Receivable days	70	68	63	72	72	72
Payable days	13	17	13	12	12	12

Valuations

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
PER (x)	31	27	24	22	21	20
Price/Book value (x)	7.9	7.9	7.8	6.7	6.3	6.0
EV/Net sales (x)	6	5	4	4	3	3
EV/EBITDA (x)	20	18	16	15	14	12
<i>Dividend Yield (%)</i>	1.9	2.2	2.4	3.2	3.9	4.2

Source: Company; IDBI Capital Research



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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