

19 April 2024

India | Equity Research | Q4FY24 results review

## Infosys

Technology

### Disappointment on all counts; TCV is the only silver lining

Infosys' (INFY) Q4FY24 QoQ CC revenue growth was even below our muted estimate (of -1.2%). QoQ revenue growth and margin were impacted by: 1) one-off impact from BFSI deal renegotiation and 2) higher discretionary component in portfolio being impacted by weak client sentiment. The revenue guidance of 1-3% CC for FY25 does not leave much room for optimism. Strong TCV of USD 4.4bn is the only silver lining. We value INFY at 22x FY26E EPS of INR 72 to arrive at our revised TP of INR 1,570 (earlier TP: INR 1610), implying ~10% potential upside. We cut our FY25/26E EPS by 1-8% after factoring in Q4 print, In-tech acquisition and bleak outlook. **Maintain ADD.** Key risks: Slower-than-anticipated recovery in discretionary IT spends and continued impact from one-offs.

#### Q4FY24 revenue below our muted expectations

INFY reported revenue decline of 2.2% QoQ CC vs our/ median consensus expectations of -1.2%/-0.5% QoQ CC. The discretionary spending environment remains subdued with clients being cautious on digital transformation initiatives. The sentiment remains similar to Q2-Q3FY24. The increasing share of discretionary component is leading to growth volatility and reducing visibility, especially in BFSI vertical. FY24 was impacted by the double whammy of cyber-attack cost in Q3 and deal renegotiation cost in Q4FY24.

#### Muted guidance – growth to be front loaded

The management shared a subpar FY25 revenue growth guidance of 1-3% CC, which is way below our and street's estimates. The guidance is excluding In-tech acquisition and implies a CGQR of 1.04-1.83%. The EBIT margin guidance for FY25 is 20-22%, contrary to likely margin expansion YoY. This is the lowest annual guidance by the company since Q2FY21. H1FY25 may be better than H2FY25, per management commentary

#### Strong net new large deal TCV skewed towards renewals

INFY reported healthy large deal TCV of USD 4.5bn (up 37% QoQ). However, the net new component at 44% is down sharply from 71% in Q3, skewed more towards renewals. Management commentary of persistent weak discretionary spend leading to revenue leakage counters large deal backed growth visibility.

#### Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	14,67,670	15,36,710	16,04,741	17,50,270
EBITDA	3,51,310	3,64,250	3,74,273	4,17,733
EBITDA Margin (%)	23.9	23.7	23.3	23.9
Net Profit	2,41,080	2,62,490	2,63,492	2,96,735
EPS (INR)	57.7	63.4	63.6	71.6
EPS % Chg YoY	9.6	10.0	0.4	12.6
P/E (x)	24.6	22.4	22.3	19.8
EV/EBITDA (x)	16.6	15.7	15.1	13.4
RoCE (%)	29.5	28.2	26.2	26.8
RoE (%)	31.8	31.9	28.6	29.5

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#### Market Data

Market Cap (INR)	5,897bn
Market Cap (USD)	70,597mn
Bloomberg Code	INFO IN
Reuters Code	INFY.BO
52-week Range (INR)	1,733 / 1,215
Free Float (%)	86.0
ADTV-3M (mn) (USD)	132.3

Price Performance (%)	3m	6m	12m
Absolute	(13.5)	(1.4)	12.8
Relative to Sensex	(14.6)	(11.8)	(8.9)

#### Earnings Revisions (%)

	FY25E	FY26E
USD Revenue	(3.5)	(7.1)
EBIT	(5.3)	(11.2)
EPS	(1.4)	(7.7)

#### Previous Reports

12-01-2024: [Q3FY24 results review](#)

13-10-2023: [Q2FY24 results review](#)

INFY won 30 large deals, including two mega deals. It won four large deals in manufacturing and life sciences, six in financial services and retail each, eight large deals in communication, two in others. Region-wise, it signed 16 large deals in North America, 10 in Europe, four in RoW.

Infosys rounded FY24 with 1.4% YoY CC growth marking significant growth pace moderation over FY23 (15.4% YoY CC growth). EBIT margin stood at 20.7% – down 30bps YoY. FY24 revenue and margin were impacted by a series of weak growth quarters and the double whammy of cyber-attack cost in Q3 and deal renegotiation cost in Q4FY24.

### **Multi-front attack on margin**

Infosys reported EBIT margin of 20.1%, -40bps QoQ. Headwinds of 180bps – 1) with 100bps from BFSI contract renegotiation and 2) 80bps from wage hike, offset partially (i.e. 140bps) by tailwinds of: a) 40bps from project Maximus (operating margin improvement initiatives), b) 60bps from wholesale customer support and lower provisions, c) 40bps from reversal of cyber incident cost from Q3FY24.

The quarter saw cost optimisation, including high utilisation and low SG&A, 10bps benefit from reduced subcontracting cost (at 7.8% of revenue currently and could be brought down to 5-6%) and 20bps tailwind from increased offshoring.

**Infosys had one-time re-scoping and renegotiation of one large contract in financial services segment leading to a one-time impact of ~100bps in Q4FY24 to both revenue and margin. Nearly 85% of the scope of the contract continues to be the same.**

Levers to be used for margin going forward: Increasing utilisation (can go up to 84%, from 82% currently), reducing subcontracting expenses and increasing efficiency through automation and AI.

Headcount declined by 1.7% QoQ due to efforts to improve utilisation. Q4FY24 was the 5<sup>th</sup> straight quarter of QoQ headcount decline.

Gen AI is being increasingly used in process optimisation, marketing, software development and personalisation. The company is seeing traction in software engineering within gAI. 3mn lines of coding have been generated using AI LLM.

### **In-tech acquisition- riding the ER&D wave**

Infosys announced the acquisition of In-tech in engineering services space for cash consideration of EUR 450mn with EV/sales at 2.65x. The company is based out of Germany and brings marquee German OEMs' deep client relationships, and an extensive industry expertise to Infosys.

### **Vertical-wise outlook**

The growth was driven by communication/ hi-tech only, which was up 5.6% /10.6% QoQ USD (due to liberty deal). Energy utilities was flat QoQ. Retail/ manufacturing/ healthcare was down 4.1%/3.4%/6%, respectively.

Financial services vertical was down by a sharp 7.1% QoQ, impacted by inflation, weak macro, deal renegotiation and delay in client decision making. Clients are still investing in services like cloud, digital and AI. Despite a poor show in FY24, management is optimistic of a rebound in the vertical in FY25. Discretionary share being higher in BFSI vertical is causing the sharp downturn.

Segmental margin improved for retail and 'others'. Rest all verticals saw sequential decline in margins.

**Other highlights:**

- Attrition was down 30bps QoQ from 12.9% in Q3FY24.
- Cash balance stood at USD 4.6bn in Q4FY24.
- 98 new clients were added QoQ in Q4FY24.
- DSO was down from 72 days in Q3FY24 to 71 days in Q4FY24.
- The Board has announced final dividend of INR 20 and special dividend of INR 8/sh

**Exhibit 1: Q4FY24 actuals vs estimates**

(INR bn)	Q4FY24	Q3FY24	QoQ	Q4FY23	YoY	Cons	vs Bloomberg estimates
CC growth	-2.2%	-1.0%		-3.2%			
Sales (USD mn)	4,564	4,663	-2.1%	4,554	0.2%	4,634	-1.5%
Average (USD rate)	83.1	83.3	-0.2%	82.2	1.1%	83.1	
Sales	379	388	-2.3%	374	1.3%	385	-1.5%
EBIT	76	80	-4.3%	79	-3.2%	79	-4.0%
EBIT Margin	20.1%	20.5%	-41 bps	21.0%	-94 bps	20.6%	-52 bps
Reported PAT	79.7	61.1	30.5%	61.3	30.0%	61.6	29.3%
EPS (INR/share)	19.2	14.7	30.5%	14.8	30.3%	14.9	29.5%

Source: I-Sec research, Company data

**Exhibit 2: Infosys – change in estimates**

	New		Old		New vs Old	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenues (USD mn)	19,218	20,837	19,908	22,423	-3.5%	-7.1%
Revenue growth YoY CC	3.6%	8.4%	7.1%	12.6%	-350bps	-420bps
Revenue growth YoY US\$	3.5%	8.4%	7.0%	12.6%	-350bps	-420bps
USD/INR	83.5	84.0	83.5	84.0	0.0%	0.0%
<b>INR bn</b>						
Revenues	1,605	1,750	1,662	1,883	-3.5%	-7.1%
EBIT	325	364	343	410	-5.3%	-11.2%
EBIT margin	20.3%	20.8%	20.6%	21.8%	-40bps	-100bps
EPS (INR/share)	63.6	71.6	64.4	77.6	-1.4%	-7.7%

Source: I-Sec research, Company data

**Exhibit 3: Employee costs increase by 60bps on impact of wage hike; was offset partially by 10bps benefit from reduced subcontracting; third-party items have increased 20bps QoQ**

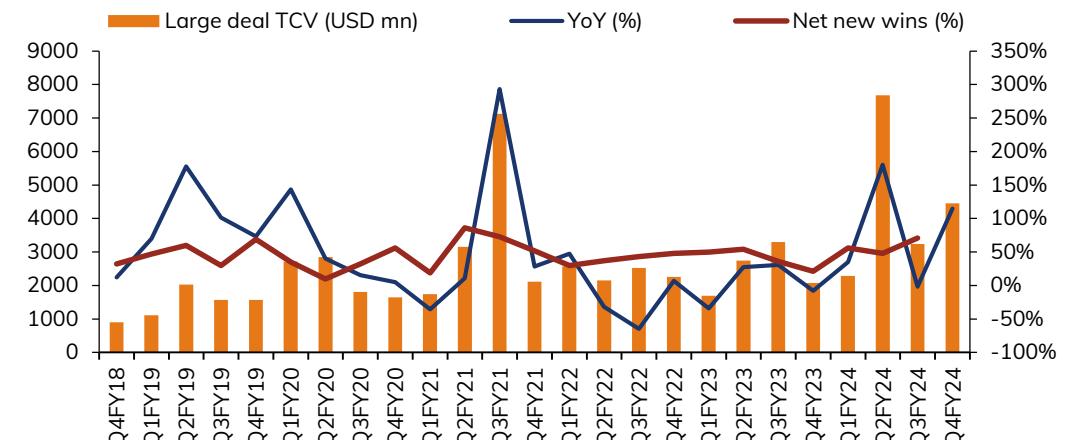
Cost line-items as % of sales	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Employee benefit costs	51.6%	53.2%	53.2%	52.9%	54.2%	54.8%	53.3%	53.2%	53.8%
Cost of technical sub-contractors	11.1%	11.3%	10.1%	8.7%	8.3%	8.2%	7.9%	7.9%	7.8%
Third party items bought for service delivery	5.8%	5.7%	5.6%	6.7%	6.4%	5.9%	7.3%	8.1%	8.3%
Travelling costs	0.9%	1.0%	0.9%	0.8%	1.0%	1.1%	1.0%	0.9%	1.1%
Other costs	10.6%	7.2%	8.7%	9.8%	9.3%	8.8%	10.0%	9.8%	8.0%

Source: I-Sec research, Company data

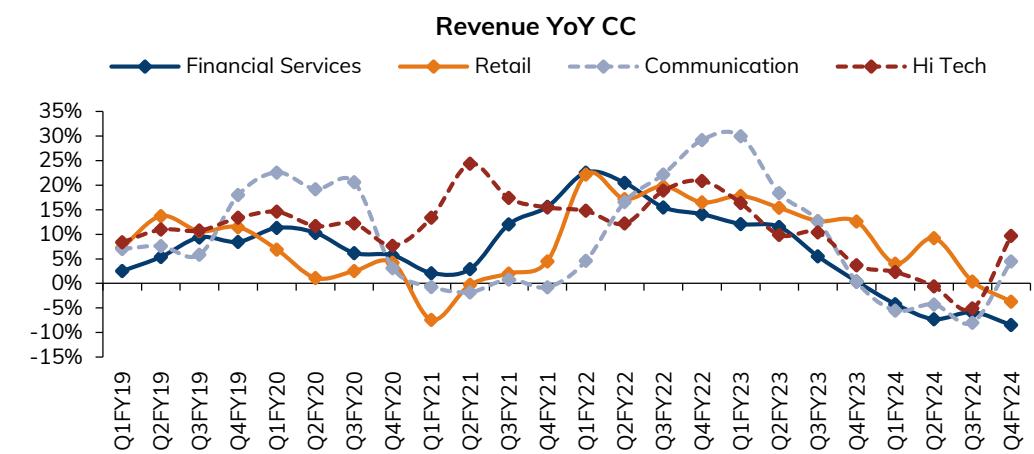
**Exhibit 4: Increase in net new large deal TCV (up 68% YoY TTM-basis) may result in higher incremental revenue in FY25E**

Infosys (USD bn)	FY19	FY20	FY21	FY22	FY23	FY24	FY25E
Net new large deal TCV (> USD 50mn)	3.29	2.74	9.34	3.74	3.95	9.23	
Incremental revenue	0.86	0.98	0.78	2.75	1.90	0.35	1.11
Incremental revenues as % of previous FY net new TCV		30%	29%	29%	51%	9%	12%

Source: I-Sec research, Company data

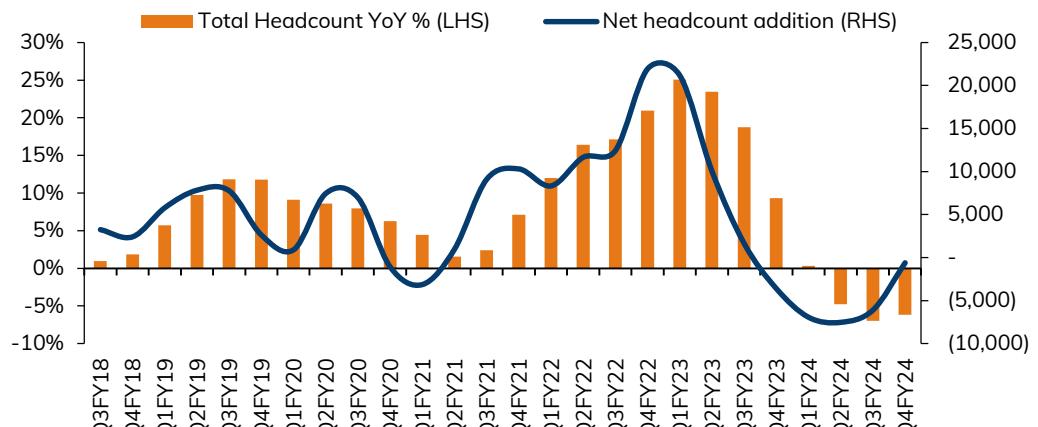
**Exhibit 5: Healthy deal TCV; % of net new declines from 71% in Q3 to 44% in Q4**


Source: I-Sec research, Company data

**Exhibit 6: Revenue growth of impacted verticals continues to be muted; hi-tech picks up on liberty deal**


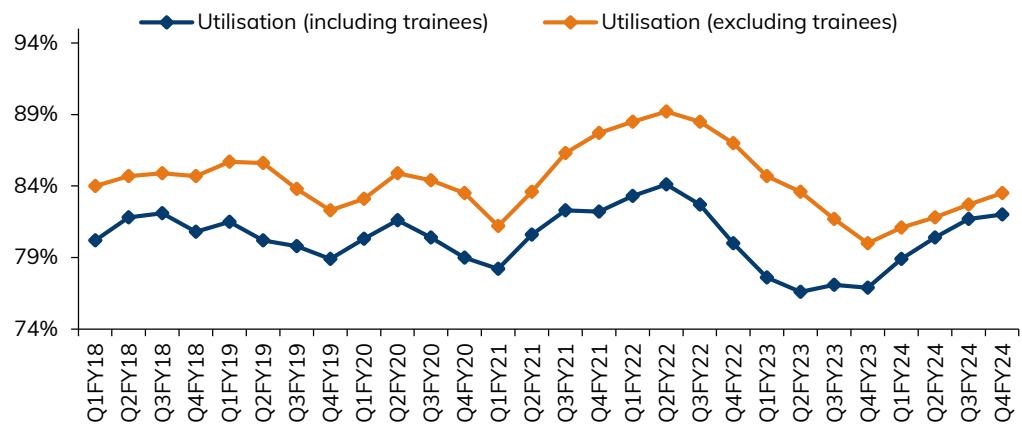
Source: I-Sec research, Company data

### Exhibit 7: Headcount down 7.6% YoY, as company is focused on improving utilisation



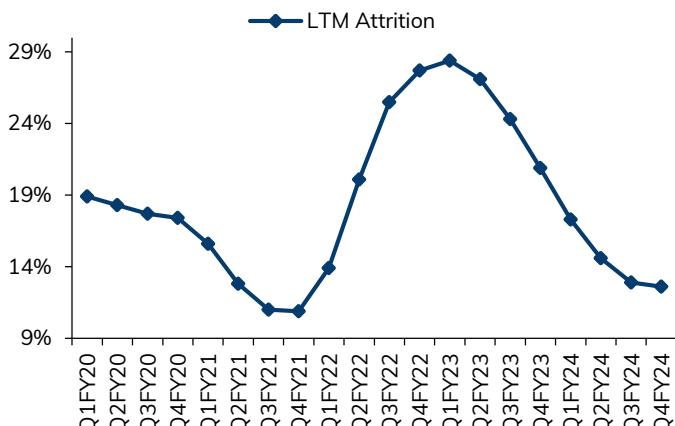
Source: I-Sec research, Company data

### Exhibit 8: Utilisation at 82% in Q4 has scope to improve



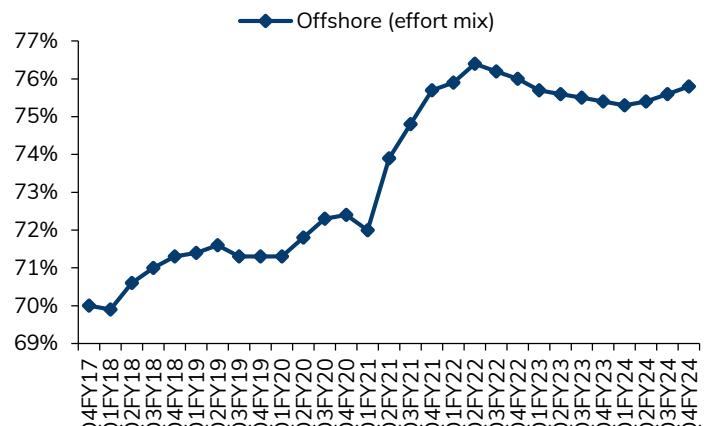
Source: I-Sec research, Company data

### Exhibit 9: LTM attrition down 30bps QoQ

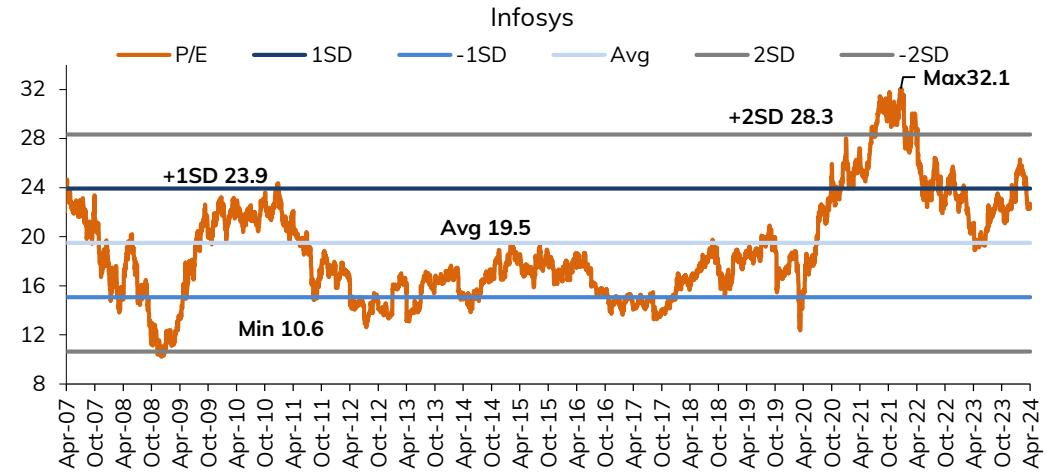
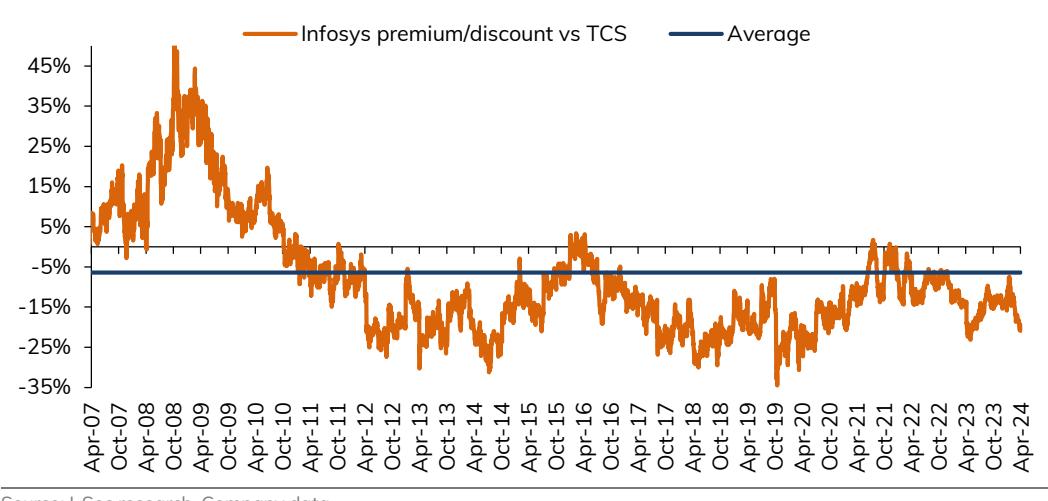


Source: I-Sec research, Company data

### Exhibit 10: Offshore effort mix can improve further



Source: I-Sec research, Company data

**Exhibit 11: Infosys is trading at ~22x (2Y forward P/E) vs average P/E of 19.5x**

**Exhibit 12: INFY is trading at ~16% discount to TCS-in-line with historical average**

**Exhibit 13: Shareholding pattern**

%	Jun'23	Sep'23	Dec'23
Promoters	14.9	14.9	14.8
Institutional investors	68.7	69.4	69.5
MFs and other	18.6	18.5	18.3
Banks/ FIs	3.1	3.0	2.7
Insurance Cos.	13.6	14.3	14.8
FII	33.4	33.6	33.7
Others	16.4	15.7	15.7

Source: Bloomberg, I-Sec research

**Exhibit 14: Price chart**


## Financial Summary

### Exhibit 15: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Net Sales (USD mn)</b>	<b>18,212</b>	<b>18,562</b>	<b>19,218</b>	<b>20,837</b>
<b>Net Sales (INR mn)</b>	<b>14,67,670</b>	<b>15,36,710</b>	<b>16,04,741</b>	<b>17,50,270</b>
Operating Expense	11,58,610	12,19,240	12,79,682	13,86,213
<b>EBITDA</b>	<b>3,51,310</b>	<b>3,64,250</b>	<b>3,74,273</b>	<b>4,17,733</b>
EBITDA Margin (%)	23.9	23.7	23.3	23.9
Depreciation & Amortization	42,250	46,780	49,213	53,676
<b>EBIT</b>	<b>3,09,060</b>	<b>3,17,470</b>	<b>3,25,060</b>	<b>3,64,057</b>
Interest expenditure	2,840	4,680	2,560	2,560
Other Non-operating Income	27,000	47,110	33,571	39,496
<b>Recurring PBT</b>	<b>3,33,220</b>	<b>3,59,900</b>	<b>3,56,070</b>	<b>4,00,993</b>
<b>Profit / (Loss) from Associates</b>	-	-	-	-
Less: Taxes	92,140	97,410	92,578	1,04,258
<b>PAT</b>	<b>2,41,080</b>	<b>2,62,490</b>	<b>2,63,492</b>	<b>2,96,735</b>
Less: Minority Interest	130	160	240	240
<b>Net Income (Reported)</b>	<b>2,41,080</b>	<b>2,62,490</b>	<b>2,63,492</b>	<b>2,96,735</b>
Extraordinaries (Net)	-	-	-	-
<b>Recurring Net Income</b>	<b>2,40,950</b>	<b>2,62,330</b>	<b>2,63,252</b>	<b>2,96,495</b>

Source Company data, I-Sec research

### Exhibit 16: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	7,08,810	8,94,330	10,00,918	11,29,349
of which cash & cash eqv.	1,21,730	1,47,860	2,19,225	2,98,720
Total Current Liabilities & Provisions	3,91,860	3,87,940	3,99,662	4,26,114
<b>Net Current Assets</b>	<b>3,16,950</b>	<b>5,06,390</b>	<b>6,01,256</b>	<b>7,03,235</b>
Investments	1,25,690	1,17,080	1,17,080	1,17,080
Net Fixed Assets	1,37,930	1,28,180	1,02,000	1,02,000
ROU Assets	68,820	65,520	65,520	65,520
Capital Work-in-Progress	-	-	-	-
Goodwill	72,480	73,030	73,030	73,030
Other assets	1,14,490	81,450	81,500	81,500
Deferred Tax assets	12,450	4,540	4,540	4,540
<b>Total Assets</b>	<b>8,66,300</b>	<b>9,90,160</b>	<b>10,58,896</b>	<b>11,60,875</b>
<b>Liabilities</b>				
<b>Borrowings</b>	-	-	-	-
<b>Deferred Tax Liability provisions</b>	<b>12,200</b>	<b>17,940</b>	<b>17,940</b>	<b>17,940</b>
other Liabilities	25,580	23,650	23,650	23,650
Minority Interest	3,880	3,450	3,450	3,450
Equity Share Capital	20,690	20,710	20,710	20,710
Reserves & Surplus*	7,33,380	8,60,410	9,29,146	10,31,125
<b>Total Net Worth</b>	<b>7,54,070</b>	<b>8,81,120</b>	<b>9,49,856</b>	<b>10,51,835</b>
<b>Total Liabilities</b>	<b>8,66,300</b>	<b>9,90,160</b>	<b>10,58,896</b>	<b>11,60,875</b>

Source Company data, I-Sec research

### Exhibit 17: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	3,79,330	3,89,940	3,88,210	3,79,230
% growth (YOY)	1.3	2.8	(0.4)	(2.3)
EBITDA	90,640	94,400	91,370	87,840
Margin %	23.9	24.2	23.5	23.2
Other Income	4,710	4,940	6,590	26,190
Extraordinaries	0	0	0	0
<b>Adjusted Net Profit</b>	<b>59,450</b>	<b>62,120</b>	<b>61,070</b>	<b>79,690</b>

Source Company data, I-Sec research

### Exhibit 18: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
CFO before WC changes	3,83,190	2,66,680	2,81,455	3,13,235
<b>CFO after WC changes</b>	<b>3,18,160</b>	<b>1,03,370</b>	<b>2,57,953</b>	<b>2,90,751</b>
Capital Commitments	(35,490)	(30,760)	(23,033)	(53,676)
<b>Free Cashflow</b>	<b>2,65,710</b>	<b>1,34,130</b>	<b>2,80,987</b>	<b>3,44,427</b>
Other investing cashflow	17,850	47,110	33,571	39,496
<b>Cashflow from Investing Activities</b>	<b>(17,640)</b>	<b>16,350</b>	<b>10,538</b>	<b>(14,180)</b>
Issue of Share Capital	350	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	(4,680)	(2,560)	(2,560)
<b>Cash flow from Financing Activities</b>	<b>(2,66,950)</b>	<b>(1,43,150)</b>	<b>(1,97,076)</b>	<b>(1,97,076)</b>
Dividend paid	(1,36,530)	(1,90,377)	(1,94,516)	(1,94,516)
Others	(3,470)	58,477	0	0
<b>Chg. in Cash &amp; Bank balance</b>	<b>(52,990)</b>	<b>(23,430)</b>	<b>71,415</b>	<b>79,495</b>
Closing cash & balance	1,21,730	98,300	2,19,275	2,98,720

Source Company data, I-Sec research

### Exhibit 19: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	57.7	63.4	63.6	71.6
Diluted EPS	57.7	63.4	63.7	71.7
Cash EPS	67.7	74.7	75.5	84.6
Dividend per share (DPS)	33.9	46.0	47.0	47.0
Book Value per share (BV)	180.4	212.9	229.5	254.2
Dividend Payout (%)	58.8	72.5	73.8	65.6
<b>Growth (%)</b>				
Net Sales	20.7	4.7	4.4	9.1
EBITDA	11.6	3.7	2.8	11.6
EPS	9.6	10.0	0.4	12.6
<b>Valuation Ratios (x)</b>				
P/E	24.6	22.4	22.3	19.8
P/CEPS	21.0	19.0	18.8	16.8
P/BV	7.9	6.7	6.2	5.6
EV / EBITDA	16.6	15.7	15.1	13.4
P/S	4.0	3.8	3.7	3.4
Dividend Yield (%)	2.4	3.2	3.3	3.3
<b>Operating Ratios</b>				
EBITDA Margins (%)	23.9	23.7	23.3	23.9
EBIT Margins (%)	21.1	20.7	20.3	20.8
Effective Tax Rate (%)	27.7	27.1	26.0	26.0
Net Profit Margins (%)	16.4	17.1	16.4	17.0
<b>Inventory Turnover Days</b>				
Fixed Asset Turnover (x)	10.7	11.5	13.9	17.2
Receivables Days	60	66	73	74
Payables Days	10	9	9	9
Working Capital Days	44	66	84	82
Net Debt / EBITDA (x)	(2.9)	(3.2)	(4.5)	(5.6)
<b>Profitability Ratios</b>				
RoCE (%)	29.5	28.2	26.2	26.8
RoIC (%)	52.8	40.4	42.1	45.4
RoNW (%)	31.8	31.9	28.6	29.5

Source Company data, I-Sec research

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