

# **INFOSYS LTD.**

Equity Research Report  
DCF Valuation

**2026**

A comprehensive equity research report delivering a clear intrinsic valuation of Infosys through detailed financial analysis and DCF modeling.

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## Executive Summary

Infosys Ltd. is a leading global IT services and consulting firm with a strong presence across digital transformation, cloud, and application management services. The company continues to deliver stable cash flows supported by long-term contracts, high client retention, and a scalable delivery model. Our DCF valuation indicates an intrinsic value of **₹1,574 per share**, compared to the current market price of **₹1,548**, implying a modest **upside of 1.7%**. Given the limited valuation gap and the mature nature of the business, we assign a **HOLD** rating. While the company maintains robust fundamentals, healthy margins, and strong free cash flow generation, most positives appear largely priced in, resulting in a balanced risk-reward profile at current levels.

**Recommendation:** HOLD

**DCF Target Price:** ₹1,574/- per share

**CMP:** ₹1,548/- per share

**Upside:** +1.7%

## Company Overview

Infosys Ltd. headquartered in Bengaluru, is a leading next-generation digital services and consulting company, providing its clients with the ability to navigate their digital transformation through core services across the globe in 56 countries. Other services include undertaking digital transformation, cloud solutions, application development, IT infrastructure management, and business process services. Infosys uses the Global Delivery Model (GDM), which employs resources from offshore, nearshore, and onshore talent, to deliver quality IT solutions at optimized costs. With a diversified global client base, stable margins, high cash generation, and robust order flows powered by large, long-term enterprise contracts, Infosys remains a trusted partner in the digital era.

## Company Snapshot

- **Global Leader:** Top-tier digital services & consulting firm with a scalable, cost-efficient offshore delivery model.
- **Key Markets:** North America (~60-65%) and Europe (~26%), anchored by BFSI and Retail clients.
- **Core Offerings:** Balanced mix of Digital (Cloud/AI) and Core Services (Application Development/Maintenance).
- **Platforms:** Infosys Cobalt (Cloud), Infosys Topaz (GenAI), and Finacle (Core Banking).
- **AI-First Pivot:** Aggressive shift toward Generative AI via Topaz to accelerate new revenue streams.
- **Deal Strategy:** Strong pipeline of large “cost take-out” consolidation deals supporting stable bookings.
- **M&A Focus:** Niche acquisitions in engineering services (e.g., InSemi) and design-driven capabilities.

## Industry Overview

### Indian IT Sector

#### **Sector View: Neutral to Accumulate**

The Indian IT services industry is entering FY25-26 with a cautiously improving outlook after a muted FY24. While discretionary tech spending remains soft, the demand environment is stabilizing as clients prioritize cost optimization, consolidation, and modernization tied to clear ROI. Indian IT players continue to benefit from strong outsourcing fundamentals cost efficiency, talent depth, and mature global delivery models but growth remains moderate at an estimated 4-6% for FY25, with potential acceleration in FY26.

**AI-led Transformation:** The industry is shifting from GenAI pilots to “Agentic AI” autonomous systems delivering measurable business outcomes. Enterprises now seek production-grade AI solutions that enhance revenue or structural efficiency, providing a long-term tailwind for providers with strong platforms such as Infosys Topaz and Cobalt.

**Competitive Dynamics & GCC Expansion:** Global Capability Centers (GCCs) are expanding aggressively in India (110+ new centers in 2024-25). Once cost centers, they now operate as innovation hubs, competing with Infosys and peers for high-value digital and engineering work. In response, IT firms are offering “GCC as a Service” models to capture this shift rather than lose wallet share.

**Operating Environment:** With growth moderate, firms are defending margins through utilization improvements, pyramid correction, automation-led delivery, and disciplined hiring. Attrition has normalized to 12-14%, easing wage pressure and supporting cost stability.

**Macro Headwinds:** Although deal pipelines are at record highs, conversion remains slow due to CFO scrutiny and elongated decision cycles. Additionally, geopolitical risks such as U.S. visa or tariff changes could impact companies with high onsite exposure.

**Summary for Infosys:** Infosys operates in a bifurcated market strong momentum in AI-led modernization and cost take-out deals is offset by weak discretionary spending in traditional verticals. The structural rise of GCCs presents a long-term competitive challenge, but near-term visibility is improving as U.S. BFSI shows early signs of recovery and margins stabilize.

## Investment Thesis

### Bull Case

- **Strong FCF & Margin Stability:** Consistent free cash flow generation and disciplined cost structures support steady margins.
- **AI-Led Growth Potential:** Platforms like **Topaz (GenAI)** and **Cobalt (Cloud)** position Infosys to capture next-phase digital and AI modernization demand.
- **Robust Client Relationships:** Large enterprise clients, diversified vertical exposure, and long-term contracts provide revenue visibility.
- **Cost Take-Out Deal Momentum:** Growing demand for consolidation and efficiency-driven deals offers a stable baseline for growth.

### Bear Case

- **Weak Discretionary Spending:** Transformation and non-critical IT projects remain slow, limiting near-term growth.
- **GCC Competition:** Rapid GCC expansion in India challenges traditional outsourcing for high-value digital and engineering work.
- **Deal Conversion Delays:** Despite healthy pipelines, revenue conversion timelines remain elongated.
- **Geopolitical & Regulatory Risks:** U.S. visa, tariff, or policy changes pose ongoing risk given heavy North America exposure.

## Historical Financial Performance

Infosys has recorded steady revenue growth over FY19-FY25, with revenues increasing from ₹82,675 Cr to ₹1,62,990 Cr, supported by robust deal wins and sustained demand for digital and cloud transformation. Operating income remains stable, with EBIT improving from ₹21,041 Cr to ₹38,024 Cr, reflecting disciplined cost management and an efficient delivery model. Net income grew consistently through FY22 before moderating in FY24 due to a softer demand environment, while FCFF remained volatile, influenced by working-capital movements and reinvestment cycles. Overall, Infosys reflects stable fundamentals with healthy margins, strong cash generation capacity, and a resilient business mix supported by its global client base.

## Historical Returns of Infosys Ltd. (In Cr.)

| Year                                   | 2019   | 2020   | 2021   | 2022   | 2023   | 2024   | 2025          |
|--|--------|--------|--------|--------|--------|--------|---------------|
| <b>Revenue</b>                         | 82675  | 90791  | 100472 | 121641 | 146767 | 153670 | 162990        |
| <b>EBIT</b>                            | 21041  | 22177  | 26823  | 30310  | 33606  | 36458  | 38024         |
| <b>EBIT Margin</b>                     | 25.45% | 24.43% | 26.70% | 24.92% | 22.90% | 23.72% | 23.33%        |
| <b>Net Income</b>                      | 15404  | 16594  | 19351  | 22110  | 24095  | 26233  | 26713         |
| <b>Depreciation</b>                    | 2011   | 2893   | 3267   | 3476   | 4225   | 4678   | 4812          |
| <b>Depreciation as % of Revenue</b>    | 2.43%  | 3.19%  | 3.25%  | 2.86%  | 2.88%  | 3.04%  | 2.95%         |
| <b>Capital Expenditure</b>             | 632    | 331    | 7373   | 6485   | 1071   | 5093   | 1864          |
| <b>CapEx as % of Revenue</b>           | 0.76%  | 0.36%  | 7.34%  | 5.33%  | 0.73%  | 3.31%  | 1.14%         |
| <b>Change in Working Capital</b>       | -1991  | -41    | 4496   | -6760  | 431    | 9222   | 4792          |
| <b>Δ in WC as % of Revenue</b>         | -2.41% | -0.05% | 4.47%  | -5.56% | 0.29%  | 6.00%  | 2.94%         |
| <b>Cash Flow from Operations (CFO)</b> | 14841  | 17003  | 23224  | 23885  | 22467  | 25210  | 35694         |
| <b>Total Debt</b>                      | -      | 4633   | 5325   | 5474   | 8299   | 8359   | 8227          |
| <b>Cash &amp; Cash equivalents</b>     | 19568  | 18649  | 24714  | 17472  | 12173  | 14786  | 24455         |
| <b>Shares Outstanding</b>              |        |        |        |        |        |        | <b>414.52</b> |

## Forecast Assumptions

Our forecasts for Infosys incorporate a moderate growth outlook aligned with the sector's FY25-26 recovery trajectory and the company's historical performance. The assumptions reflect stable margins, disciplined cost management, and continued demand for AI-led and cloud modernization programs.

**Revenue Growth:** FY26-FY30 revenue growth is assumed at **6-7% CAGR**, supported by Infosys' historically steady mid to high single digit growth trajectory and strong visibility from long-term digital transformation deals.

**Operating Margin (EBIT):** EBIT margin assumed stable at **20-21%**, supported by historically stable operating margin driven by offshore model and cost efficiency.

**Working Capital:** Change in working capital modeled at **0.81% of revenue**, in line with historical movements and cash collection cycles.

**Capital Expenditure:** Capex maintained at **2.71% of revenue**, reflecting ongoing investments in digital capabilities, cloud infrastructure, and AI platforms.

### WACC

- Risk-Free Rate: **6.21%** of 5 years Indian govt. Bond
- Beta: **0.81**
- Equity Risk Premium: **2.94%** at market return of ~9.15%
- Cost of Equity: **~8.59%** by CAPM
- Cost of Debt (post-tax): **~3.20% @ 28.87% (Tax rate)**
- Capital Structure: **~94% Equity / 6% Debt** as D/E ratio is ~0.06
- **WACC = 8.28%**

**Terminal Growth Rate:** Long-term growth assumed at **4%**, reflecting structural demand for digital transformation and resilient outsourcing trends.

## DCF Valuation & Analysis

Our valuation of Infosys is based on a Free Cash Flow to Firm (FCFF) Discounted Cash Flow model, reflecting moderate growth expectations, stable margins, and a strong balance sheet. The model incorporates a five-year explicit forecast period (FY26-FY30) followed by a terminal value based on long-term growth assumptions.

**WACC = 8.28%** (calculated through our assumptions)

A relatively low beta and a high equity weight reflect the company's low leverage and stable cash flow profile.

### FCFF Forecast:

| Year | 2026     | 2027     | 2028     | 2029     | 2030     |
|------|----------|----------|----------|----------|----------|
| FCFF | 25414.05 | 26938.90 | 28555.23 | 30268.55 | 32084.66 |

### Assumptions made are

|                             |        |
|-----------------------------|--------|
| Revenue Growth (Base Case): | 6.00%  |
| EBIT Margin (Base Case):    | 21.50% |
| Effective Tax Rate:         | 28.87% |
| Depreciation:               | 2.94%  |
| Capital Expenditure:        | 2.71%  |
| Δ in WC:                    | 0.81%  |

EBIT Margin, Depreciation, Capital expenditure, & Change in Working Capital are calculated as % of the revenue.

**Terminal value** is calculated using the Gordon Growth Model:

$$TV = \frac{FCFF_{FY30} \times (1 + g)}{WACC - g}$$

Where:

- $g = 4\%$  (long-term IT sector growth)
- WACC = 8.28%

Terminal Value (TV): 778953.63

**Enterprise Value (EV) = Sum of PV of all FCFF + PV of TV**

| Component                        | Amount         |
|----------------------------------|----------------|
| Enterprise Value (DCF)           | 635737.13      |
| Add: Cash & Equivalents          | 24455.00       |
| Less: Debt                       | 8227.00        |
| Equity Value                     | 651965.13      |
| Shares Outstanding               | 414.52         |
| <b>Intrinsic Value per Share</b> | <b>₹ 1,572</b> |

### Conclusion

Our DCF model yields an intrinsic value of **₹1,573 per share**, marginally above the current market price of **₹1,548**, indicating a **1.7% upside** and supporting a **HOLD** recommendation.

## Sensitivity Analysis

We conducted a sensitivity analysis to evaluate how changes in key valuation assumptions **WACC** and **terminal growth rate (g)** impact the intrinsic value of Infosys. The results show that the valuation is more sensitive to changes in the discount rate than to terminal growth assumptions, reflecting the company's stable but moderately growing cash flow profile.

|             | WACC    |         |         |         |         |         |
|-------------|---------|---------|---------|---------|---------|---------|
|             | (Base)  | 8.28%   | 9.28%   | 10.28%  |         |         |
| Growth Rate | 1572.82 | 6.28%   | 7.28%   |         |         |         |
|             | 3.00%   | 2118.56 | 1629.00 | 1324.99 | 1117.89 | 967.75  |
|             | 3.50%   | 2451.21 | 1809.60 | 1436.54 | 1192.65 | 1020.76 |
| (Base)      | 4.00%   | 2929.77 | 2045.25 | 1574.15 | 1281.57 | 1082.22 |
|             | 4.50%   | 3677.18 | 2365.68 | 1748.17 | 1389.09 | 1154.30 |
|             | 5.00%   | 5008.51 | 2826.64 | 1975.24 | 1521.73 | 1240.04 |

### Key Insights:

- A higher **WACC** sharply reduces valuation, indicating that discount rate assumptions are the most influential driver.
- A modest increase in **terminal growth** raises the valuation but to a lesser extent compared to WACC shifts.
- The base-case valuation of ₹1,574 lies near the midpoint of the sensitivity grid, indicating a balanced risk-reward profile.
- Infosys's intrinsic value remains stable under small assumption variations.

## Key Investment Risks

### 1. Macroeconomic & Demand Headwinds (High Impact)

With ~87% of revenue from North America and Europe, Infosys is highly exposed to Western macro weakness. Discretionary tech spending in BFSI and Retail remains soft, and although deal wins are strong, revenue conversion is slowing as clients delay project starts.

### 2. Competitive Pressure from GCC Expansion (Structural Risk)

GCCs in India (110+ new centers recently) are rapidly evolving into innovation hubs, hiring for AI, digital, and engineering roles. This intensifies competition for high-end talent and erodes Infosys' pricing power in premium digital work.

### 3. Margin & Operational Risks (Medium Impact)

EBIT margins have fallen from ~25% to ~21% due to wage inflation and limited pricing power. While attrition has normalized, any increase forces higher-cost lateral hiring, and rising U.S. onsite costs could pressure margins further unless offset by offshore delivery or automation.

### 4. Valuation Sensitivity to Growth and WACC (Quantitative Risk)

Infosys' DCF valuation is highly sensitive to terminal growth and discount rate assumptions.

- **Base Case:** ₹1,574 per share (4% LT growth, 8.28% WACC)
- **Growth Downside:** 3% LT growth → ₹1,324 (~16% downside)
- **WACC Upside Risk:** A 100 bps rise in WACC to 9.28% → ₹1,282 (~19% downside)

It has little margin of safety even a small decline in long-term growth materially reduces intrinsic value. This sensitivity indicates limited buffer if growth remains "lower for longer."

### 5. Regulatory, Tax, and Cybersecurity Risks (Medium Impact)

Large tax disputes (e.g., ₹32,403 Cr GST notice) and cybersecurity breaches (e.g., McCamish settlement) highlight recurring compliance and operational risks. Additionally, sharply higher U.S. H-1B visa fees raise onsite delivery costs and could compress margins by 50-100 bps if not offset by shifting work offshore.

### 6. Currency & Policy Volatility

USD/INR fluctuations and changes in U.S. technology, tax, or immigration policy directly affect profitability. Geopolitical shocks or policy tightening could impact client budgets and offshore delivery models.

## Summary:

Infosys delivers strong fundamentals and resilient cash flows, but muted near-term demand, structural margin pressures, and valuation sensitivity keep the stock fairly valued, supporting a HOLD view.

## Final Rating

**Final Recommendation: HOLD**

**DCF-Based Fair Value: ₹1,574/- per share**

**Current Market Price: ₹1,548/- per share**

**Implied Upside: +1.7%**

Our DCF valuation suggests that Infosys is trading close to intrinsic value, with limited upside amid muted discretionary spending, competitive pressure from GCCs, and sensitivity to long-term growth and WACC assumptions. While the company's balance sheet, cash flows, and digital capabilities remain robust, current valuations appear to reflect most positives, supporting a **HOLD** stance until clearer signs of a demand uptick or margin expansion emerge.

## Appendix

### A. Financial Statements (Extracted & Modeled)

- Historical Income Statement (FY19-FY25)
  - Historical Cash Flow and FCFF Trends
  - Forecast Assumptions (Revenue CAGR, EBIT Margin, Capex, WC Changes)
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### B. DCF Model Outputs

- Detailed FCFF Calculations (FY26-FY30)
  - Terminal Value Computation (Gordon Growth Method)
  - WACC Breakdown (Risk-Free Rate, Beta, ERP, Cost of Debt, Capital Structure)
  - Sensitivity Table:
    - WACC vs Terminal Growth
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### C. Key Industry Data

- IT Services Export Growth (4-6% FY25 projections)
  - NIFTY IT vs NIFTY 50 Returns (Nov 2024-Nov 2025)
  - BFSI, Retail, and Manufacturing Demand Trends
  - GCC Expansion Statistics (110+ new centers in India)
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### D. Regulatory & Legal References

- GST Demand Notice Summary
  - Cybersecurity Incident (McCamish Systems)
  - U.S. Visa Fee Hike Details
  - Relevant SEBI/NSE Disclosures
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### E. Data Sources

- Infosys Annual Reports
  - NSE & BSE Price Data
  - Industry Reports (NASSCOM, Gartner, IDC)
  - Your DCF and financial model outputs
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### F. Model Assumptions & Notes

- All forecasts are prepared using conservative, management-neutral assumptions
- Currency assumed stable at current USD/INR levels unless specified
- Historical data cross-verified with Infosys filings and your model