



Comprehensive Corporate Finance Evaluation of Infosys Ltd.

Course: Corporate Finance using Excel

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Executive Summary

This report will give a full corporate finance assessment of Infosys Ltd. and will discuss its investment choices, capital structure, dividend policy, working capital efficiency and the financial risk of the company in the years 2015-2025. Infosys has had a remarkable financial strength, which is zero debt, constant cash flows, and high profitability with a ROE between 22-43. The company has a WACC of 12.33% which is purely funded by equity financing which leads to asset light model and hence an efficient cash conversion cycle of 52.86 days.

The revenues of Infosys have been growing tremendously with the value of 1,62,990 crore with a net profit of 26,713 crore in FY25. The DCF valuation implies that there is a positive NPV, which is an indication of a large value creation. Disciplined and shareholder-friendly capital allocation is demonstrated by a stable payout ratio of 30-35 dividends, and buybacks periodically. All in all, the finance choices adopted by Infosys are characterized by the high resiliency of operations and prospects of value creation in the long-term.

1. Company Overview

Infosys Ltd. is a multinational IT consultant and digital transformation company, which offers services in cloud computing, artificial intelligence, automation, and new technologies. Since its formation in the year 1981, Infosys has been based in Bangalore and it currently operates in 59 countries employing more than 320,000 people.

It has a diversified pool of clients in the Fortune 500 in the BFSI, Retail, Energy, Healthcare, Manufacturing, and Hi-Tech segments. This extensive coverage minimizes the risk of concentration and helps in the maintenance of consistent revenues.

Financial Highlights (FY25)

- Revenue: 1,62,990 crores
- Net Profit: 26,713 crores
- Debt: Nearly zero
- Capital Returns: Frequent dividends and share buybacks.

The performance of the company is steadily increasing particularly after 2020 as more investments were made in digital transformation across the globe. The net income has been increasing steadily throughout the decade which has been facilitated by management efficiency, demand, and good control of costs.

2. Investment Decision Analysis.

2.1 Capital Expenditure Trends

Infosys has a disciplined investment strategy that is guided by its light business model. The primary technology infrastructure and development of digital capability are largely supported through Capex. Depreciation is still proportional to the growth of assets and this shows that there is no over-investment.

2.2 Free Cash Flow to Firm (FCFF)

FCFF analysis indicates strong cash generating in long-term:

- Cash Flow operation: good and steadily increasing.
- Investment in Cash flow: Moderately negative, which is controlled Capex.
- Funding Cash Flow: Negative dividends and buybacks.

Key FCFF Drivers:

- EBIT Margins: Stable at 22-25%
- Working Capital: extremely low as compared to revenue.
- Growth Rates: Ranged from 5.18% to 20.7%

FCFF is estimated to average more than 35,000 crore per year, which is caused by gradual increase in revenue and low working capital needs. The present value is decreasing over the years of projection not because of the weakness in its operations.

2.3 Project Valuation Metrics

- NPV: Positive
- IRR: Higher than WACC (12.33%)
- PI: > 1

These indicators establish the fact that the investments of Infosys are value-accretive and in line with its long-term strategic goals.

3. Financing Decisions Analysis.

3.1 Capital Structure

Infosys has a zero-debt capital structure and solely depends on equity and internally-generated cash.

Key Metrics:

- Debt-to-Equity: 0.00
- Interest cover: Not applicable.
- Market Value of Equity: 6,24,920 crores

Low debt reduces the risk on the financial side and allows flexibility or sacrifices the tax benefits of debt.

3.2 Cost of Capital

Beta Calculations:

- 5-year Monthly: 0.902 (selected)
- 5-year Daily: 0.969
- 10-year Monthly: 0.863

The 5-year monthly beta chosen gives the best estimate of systematic risk that is stable.

Cost of Equity (CAPM):

$$K_e = 6.53\% + 0.90 \times 6.43\% = 12.33\%$$

Since debt is zero,

$$WACC = 12.33\%$$

3.3 Application of the Theoretical Framework.

- MM Proposition II: Implicates value creation based on tax shelters. Infosys, however, uses no debt.
- Trade-off Theory: Infosys prefers not to be in financial stress to tax advantages.
- Pecking Order Theory: High dependency on internal funds is in line with this school of thought.

4. Dividend Policy Analysis

4.1 Dividend Payout and Trends

The dividends per share went up regulatorily between 15 and 23. The payout ratio was stable at 30%-35%, which are indicators of disciplined capital allocation.

4.2 Share Buybacks

Periodic share buybacks are underway at Infosys and they provide:

- Tax-efficient returns
- EPS enhancement

- Allocation of capital flexibility.
- Positive signalling effects

4.3 Dividend Valuation Models

- DGM Implied Ke: 19.69% (not accurate enough because of the uneven rates of dividend growths)
- CAPM Ke: 12.33% (preferred approach)

Infosys has a dividend strategy that is well balanced in terms of growth investment and shareholder returns.

5. Working Capital Management

5.1 Key Components (FY 2024-25)

Average Receivables: 30,675 crores

Average Payables: 4,455 crores

Revenue: 1,66,590 crores

COGS: 1,13,347 crores

5.2 Efficiency Ratios

DSO: 67.21 days

DPO: 14.35 days

Inventory Days: 0

Cash Conversion Cycle

$CCC = 67.21 - 14.35 = 52.86$ days

A CCC below 55 days indicates an outstanding cash efficiency and further strengthens light operations of the company.

6. Financial Ratio Analysis

6.1 Profitability

- ROCE: 34.68-43.96%
- ROE: 27.81%-43.96%
- EBIT Margin: ~25%

- ROA: 17-19%

These indicators indicate a high profitability, effective operations and sustainable competitive advantage.

6.2 Liquidity

Infosys is in a good liquidity standing:

- Current Ratio: 1.8-3.2
- Quick Ratio: Virtually the same because of zero inventory.

6.3 Leverage

- Debt-to-Equity: 0.00
- Interest Coverage: N/A
- Multiplier of equity: Low and constant.

This very conservative plan gets rid of the financial risk but restricts the tax breaks.

7. Market Performance and Risk

The stock of Infosys shows long term growth, short term volatility and stability in bad market. The stock has a beta of 0.90, which is slightly lower as compared to the market volatility which is predicted to be lower given its stable business model globally.

8. Recommendations

8.1 Selective Use of Debt

Introduce low leverage (D/E: 0.10-0.25) to:

- Unlock tax shields
- Lower WACC
- Improve ROE
- Be of high credit quality.

8.2 Maintain Dividend Strategy

Continue:

- 30-35% payout ratio
- Periodic buybacks

8.3 Enhance Working Capital Effectiveness.

Goal of reducing DSO to 60 days by:

- Better billing terms
- Early payment incentives
- Better collection mechanisms.

The reduction of CCC by 5 days would release more than 2,000 crores of working capital.

8.4 Strategic Investments

Divide revenue (per annum) into:

- AI and GenAI capabilities
- Cloud-native platforms
- Cybersecurity
- Automation & analytics

8.5 Sector and Geographic Diversification.

Keep growing in such areas of high growth as healthcare, energy transition, and advanced manufacturing.

Conclusion

Infosys Ltd. possesses an outstanding financial capability, operation performance and strategic discipline. It is one of the strongest international information technology service companies with its zero-debt structure, high profitability (ROE up to 43 percent), strong liquidity, and effective cash cycle.

The company has continuously generated shareholder value by making positive NPV projects, making capital allocation disciplined and good free flows of cash. Although the conservative no-debt policy will result in minimum risk, bias in generating value may be added by selective leverage.

Infosys has an excellent standing in digital transformation and new technologies, which makes it adequately positioned to continue with long-term growth and attain high-quality shareholder returns.