

Q2FY23 result review  
and reco change

## Technology

Target price: Rs1,564

## Earnings revision

(%)	FY23E	FY24E
Sales	↑ 0.7	↑ 1.6
EBIT	↑ 1.8	↑ 1.6
EPS	↑ 1.3	↑ 1.8

## Target price revision

Rs1,564 from Rs1,470

## Shareholding pattern

	Dec '21	Mar '22	Jun '22
Promoters	13.1	13.1	13.1
Institutional investors	49.5	50.4	50.6
MFs and others	12.8	13.5	15.0
FIs/Bank	0.0	0.0	0.0
Insurance Cos.	3.2	3.3	3.5
FII	33.5	33.6	32.1
Others	37.4	36.5	36.3

Source: www.nseindia.com

## ESG disclosure score

Year	2020	2021	Chg
ESG score	56.4	59.2	2.8
Environment	42.4	42.7	0.3
Social	41.8	44.9	3.2
Governance	84.9	89.9	5.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

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INDIA

## Infosys

ADD

Upgrade from Hold

Rs1,420

## Renewed focus on cost take out deals

Infosys (Infy) has retained its revenue growth leadership among tier-1 IT companies with healthy revenue growth of 4% QoQ CC in Q2FY23, but it was below our/consensus estimates of 5%/4.5%. Growth continued to be strong in digital, which grew 31% YoY CC. Cloud revenue crossed US\$1bn for the quarter.

Signs of cautious behaviour amongst clients are visible in terms of delay in decision making in select verticals. Management pointed to emerging weakness in telecom and Hi-tech verticals especially in discretionary spends apart from retail and mortgage sub-segment in BFSI called out in previous quarter. Despite macro headwinds leading to weakness in certain pockets, Infy won an impressive broad-based large deal TCV of US\$2.744bn, up 27.5% YoY, highest in last seven quarters. TCV comprises healthy 54% net new deals. Management alluded to increased traction in cost efficiency and automation deals. This is also reflected in an uptick in core services revenue (3% YoY CC) in Q2FY23. Higher scrutiny on spends is resulting in renewed focus on cost take-outs.

Management revised the lower end of revenue guidance band upwards to 15-16% YoY CC vs 14-16% earlier driven by strong performance in H1FY23 (20.1% YoY CC) and strong bookings. Guidance factors in slowing demand in certain verticals and seasonal weakness historically experienced by Infy in H2 mainly due to furloughs and lower working days.

Infy reported impressive improvement in EBIT margin of 150bps QoQ to 21.5%. Margins benefitted from tailwinds of 1) 70bps from currency benefit, 2) 90bps from cost optimisation (pyramid, offshore, automation, large deal optimisation, better pricing partially offset by lower utilisation), 3) 40bps from reducing sub-con costs. These tailwinds were partially offset by 40bps impact due to compensation-related headwinds rolled out on July 1, 2022 for senior and mid-level employees. Management lowered EBIT margin guidance to 21-22% (vs 21-23% earlier), in line with the earlier stated commentary of margins expected to be near the lower end of guidance. Infy reported 20.8% margin in H1FY23, guidance implies margin is likely to remain stable at ~21.5% for the next two seasonally weak quarters.

Our EPS estimates increase by 1.3%/1.8% for FY23/24 largely led by an increase in US\$/INR rate assumption. We note that pain due to macro headwinds is evident in the sector and our revenue estimates already bake in a possible recessionary scenario. However, we upgrade Infosys to ADD (earlier: HOLD) because we believe 1) INFY will benefit from cost-takeout deals, 2) it is likely to deliver industry-leading growth, 3) its margins have bottomed out and will likely improve hereon and 4) favourable valuations of 21x on FY24E EPS (only 12% premium to 10-year average 1-yr forward earnings multiple). We value Infy on 23x FY24E EPS to arrive at a TP of Rs1,564 (prior: 1,470). We do not estimate further material cut in EPS going forward. Infosys has underperformed NIFTY by ~17% in the last 6 months; suggest adding in dips.

Market Cap	Rs5975bn/US\$72.5bn
Reuters/Bloomberg	INFY.BO/INFO IN
Shares Outstanding (mn)	4,207.8
52-week Range (Rs)	1940/1365
Free Float (%)	86.9
FII (%)	32.1
Daily Volume (US\$'000)	1,34,475
Absolute Return 3m (%)	(1.7)
Absolute Return 12m (%)	(15.3)
Sensex Return 3m (%)	7.2
Sensex Return 12m (%)	(4.6)

Year to March	FY21	FY22	FY23E	FY24E
Revenue (Rs mn)	10,04,730	12,16,410	14,68,678	16,17,470
Net Income (Rs mn)	1,93,780	2,21,060	2,41,622	2,86,290
EPS (Rs)	45.7	52.5	57.4	68.0
% Chg YoY	17.2	15.0	9.3	18.5
P/E (x)	31.1	27.0	24.7	20.9
CEPS (Rs)	53.4	60.8	67.2	78.8
EV/E (x)	20.6	18.2	16.2	13.7
Dividend Yield	1.9	2.2	3.3	3.3
RoCE (%)	23.0	24.4	26.0	28.5
RoE (%)	27.3	29.1	31.1	33.8

Please refer to important disclosures at the end of this report

**Other Key highlights**

- ▶ Revenue growth was led by Manufacturing (8.4% QoQ US\$), LifeSciences (5.7% QoQ US\$), HiTech (2.5% QoQ US\$) and Financial Services (2.2% QoQ US\$). Growth declined in Communication by 3% QoQ US\$, Growth was soft in Retail at 0.4% QoQ US\$.
- ▶ In Retail vertical, demand is healthy for digital consumer engagement services and legacy modernisation. But Infy is witnessing slow-down in fashion and discretionary retail. HiTech and Communication verticals are experiencing slowdown in discretionary spends.
- ▶ In Energy & Utility vertical, demand is high for cost-take-out deals. Infy has a diversified presence in BSFI including mortgages, retail, payments and capital markets. Mortgage sub-segment is witnessing slowdown.
- ▶ Infy won 27 large deals with total TCV of US\$2.744bn, 27.5% YoY. Large deal pipeline is strong with good mix of transformation and cost optimization deals. Focus on cost optimization by clients has increased demand for cost efficiency and automation deals for Infy. Clients are facing onsite tech labor shortage and a possible slowdown/recession which could help Infy in winning cost take out deals involving rebadging, vendor consolidation and IT rationalization.
- ▶ Manufacturing vertical margins, which were on declining trajectory since last few quarters, improved significantly to 16.9% vs 9.2% in Q1FY23 (22.5% in Q2FY22) driven by improvement in margins of large deals (Daimler) and also cost reduction efforts undertaken across the company which also benefitted other verticals.
- ▶ Pace of hiring moderated with net addition of 10,032 employees, +3% QoQ vs average net addition of 13.6K per quarter in FY22. Infy has hired 40K freshers in H1FY23 and is on track to achieve 50K fresher hiring number in FY23.
- ▶ LTM attrition declined by 130bps to 27.1%. This implies considerable drop in quarterly attrition. Management mentioned that attrition led cost pressures will gradually ease off as attrition tapers down.
- ▶ **Buyback details:** Infosys announced open market share buyback of Rs93bn at a price not exceeding Rs1,850 per share. Buyback size is in-line with the company's policy to return 85% of FCF over five years. INFY also announced an interim dividend of Rs.16.50 per share.

**Table 1: Q2FY23 actuals vs estimates**

Rs bn	Q2FY23	Q1FY23	QoQ	Q2FY22	YoY	Q2FY23E-I-Sec	vs our estimates
Sales (\$ m)	4,555	4,444	2.5%	3,998	13.9%	4,606	-1.1%
Sales	365	345	6.0%	296	23.4%	367	-0.3%
EBIT Margin	21.5%	20.1%	149 bps	23.6%	-201 bps	20.7%	85 bps
PBT	84	75	11.4%	74	12.7%	79	5.6%
Tax	23.7	21.7	8.9%	20.2	17.1%	20.7	14.5%
Tax Rate	28.2%	28.8%	-64 bps	27.1%	106 bps	26.0%	218 bps
Reported PAT	60.210	54	12.3%	54	11.1%	59	2.4%
EPS	14.4	12.8	12.3%	12.9	11.4%	14.0	2.4%
Average (USD rate)	80.2	77.5	3.4%	74.0	8.3%	79.6	0.7%

Source: Company data, I-Sec research

Table 2: Change in estimates

	Revised		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
<b>Rs bn</b>						
Revenues	1,469	1,617	1,458	1,592	0.7%	1.6%
EBIT	311	364	306	359	1.8%	1.6%
EBIT margin	21.2	22.5	21.0	22.5	20bps	0bps
EPS (Rs/share)	57.4	68.0	56.6	66.8	1.3%	1.8%
Revenues (US\$ mn)	18,307	19,725	18,441	19,906	(0.7)	(0.9)
Revenue growth (US\$, %)	12.2	7.7	13.1	7.9	-80bps	-20bps

Source: Company data, I-Sec research

Table 3: Infosys financial summary

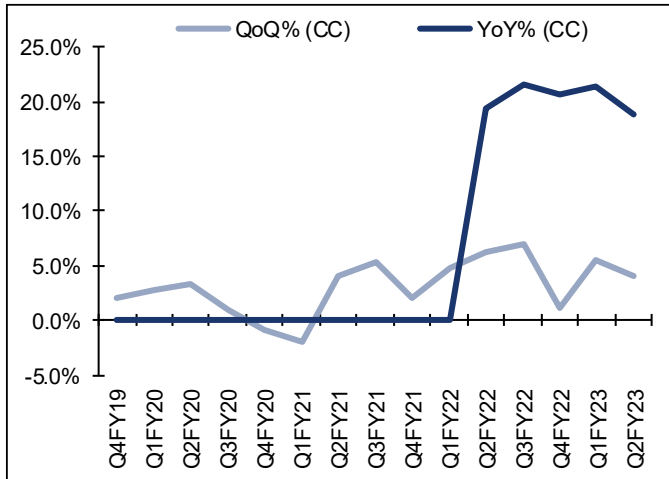
Rs bn	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
USD Rev (mn)	10,939	11,799	12,780	13,562	16,310	18,307	19,725	21,954
YoY	7.2%	7.9%	8.3%	6.1%	20.3%	12.2%	7.7%	11.3%
Revenues	705	827	908	1,005	1,216	1,469	1,617	1,800
YoY	3.0%	17.2%	9.8%	10.7%	21.1%	20.7%	10.1%	11.3%
EBIT	171	189	194	246	280	311	364	405
Margin	24.3%	22.8%	21.3%	24.5%	23.0%	21.2%	22.5%	22.5%
PAT	160	154	166	194	221	242	286	322
EPS (Rs)	35.5	35.4	39.0	45.7	52.5	57.4	68.0	76.5
Payout	142%	129%	45%	107%	59%	81%	69%	61%
OCF	146	158	186	232	239	248	303	326
FCF	126	134	153	199	217	233	271	275
RoE	24%	24%	25%	27%	29%	31%	34%	34%
P/E						24.7	21	18.6

Source: Company data, I-Sec research

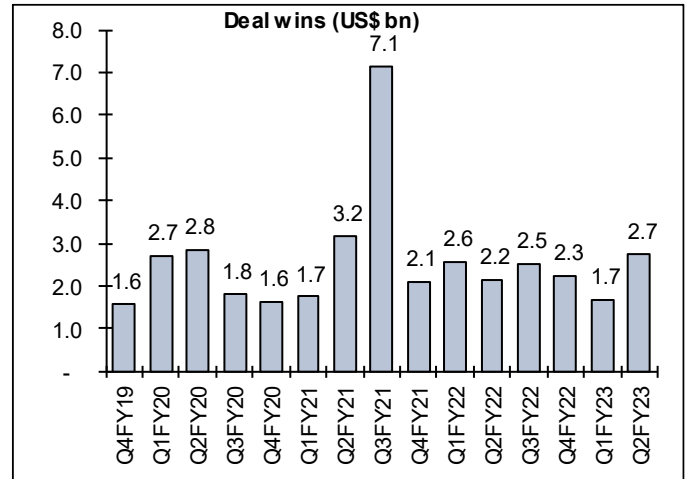
Table 4: Segmental growth (Q2FY23)

	Revenues (US\$ mn)	QoQ (%)	YoY (%)	% of total	YoY CC growth (%)
Total Revenues	4,555	2.5	13.9	100.0	18.8
<b>Revenue by geography</b>					
North America	2,847	3.7	15.0	62.5	15.6
Europe	1,125	1.3	13.5	24.7	28.5
India	132	14.3	27.1	2.9	36.4
ROW	451	(4.3)	5.4	9.9	11.9
<b>Revenue by verticals</b>					
Financial Services	1,389	2.2	7.6	30.5	11.5
Retail	647	0.4	10.8	14.2	15.4
Communication	560	(3.0)	13.0	12.3	18.4
Energy, Utilities, Resources and Services	560	1.7	18.8	12.3	24.3
Manufacturing	583	8.4	33.8	12.8	45.0
Hi Tech	374	2.5	9.9	8.2	9.9
Life Sciences	305	5.7	7.5	6.7	10.3
Others	137	13.9	42.4	3.0	56.6
<b>Revenue by service line</b>					
Services	4,268	2.5	13.6	93.7	
Products & platforms	287	2.5	19.6	6.3	
Digital	2,815	3.8	25.5	61.8	
Core	1,740	0.4	(0.9)	38.2	
<b>Revenues from clients</b>					
Top 5 clients	574	(0.7)	25.9	12.6	
Top 10 clients	920	(0.5)	18.6	20.2	
Top 25 clients	1,608	(0.3)	13.6	35.3	
Ex top 25 clients	2,947	4.1	14.1	64.7	

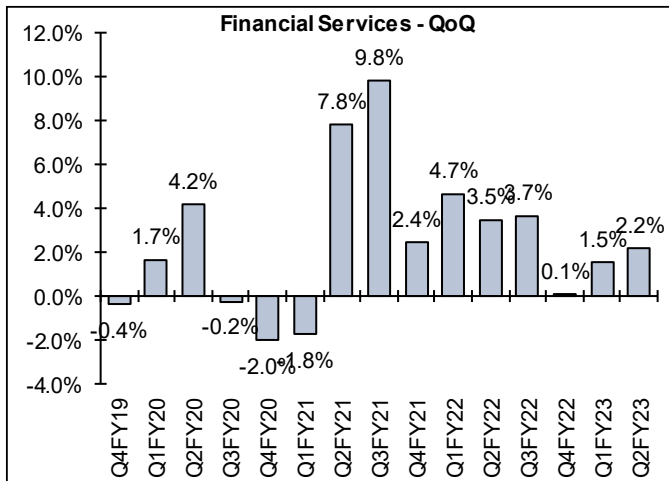
Source: Company data, I-Sec research

**Chart 1: Healthy revenue growth of 4% QoQ CC**

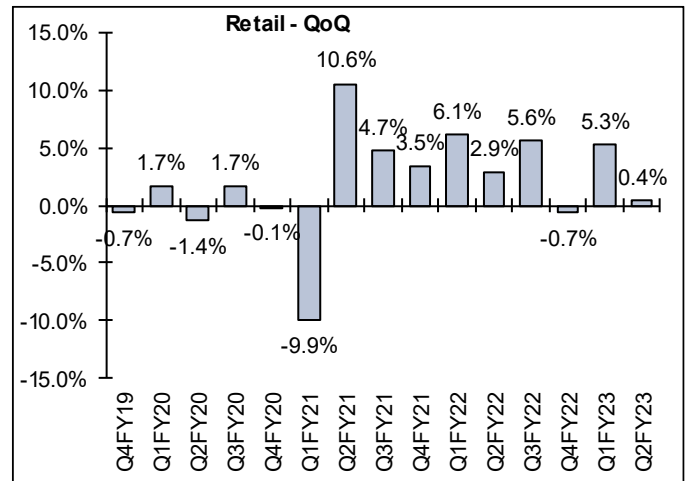
Source: Company, I-Sec research

**Chart 2: Strong growth of 27.5% YoY in TCV**

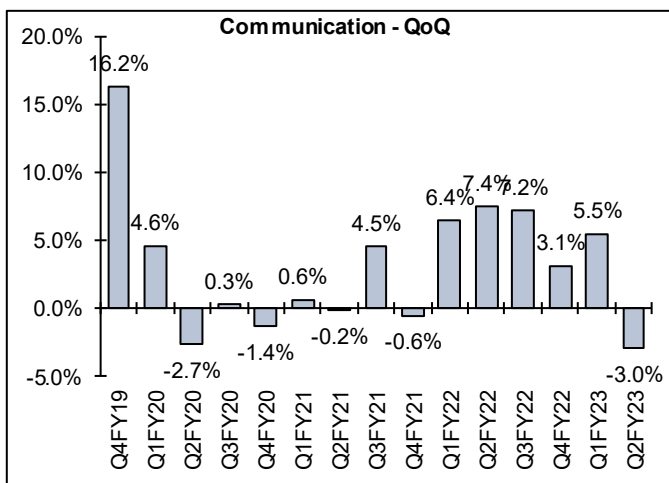
Source: Company, I-Sec research

**Chart 3: Healthy growth in BFSI**

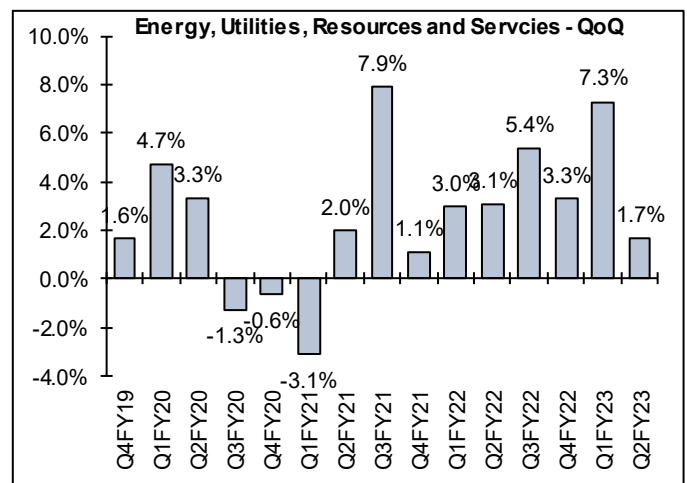
Source: Company, I-Sec research

**Chart 4: Softness in Retail**

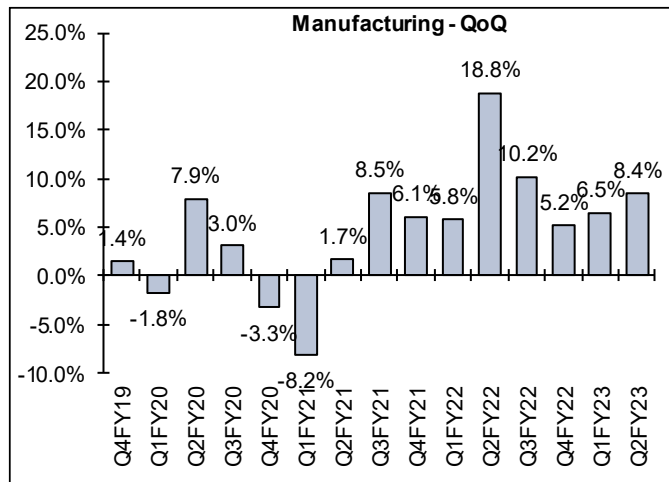
Source: Company, I-Sec research

**Chart 5: Communication declined 3% QoQ**

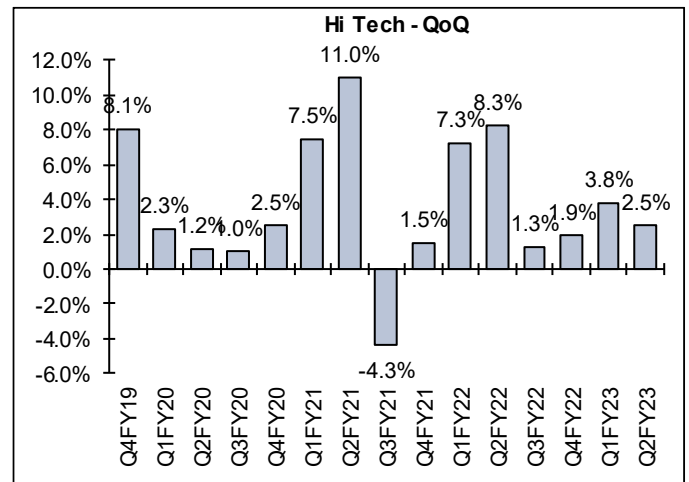
Source: Company, I-Sec research

**Chart 6: E&U reported moderate growth**

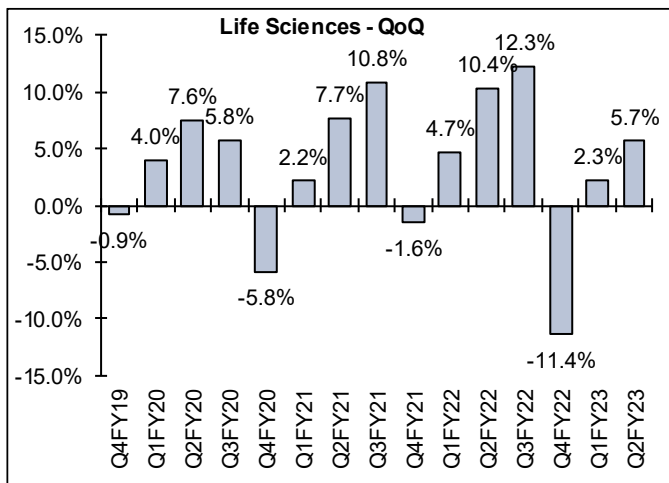
Source: Company, I-Sec research

**Chart 7: Manufacturing posted healthy growth**

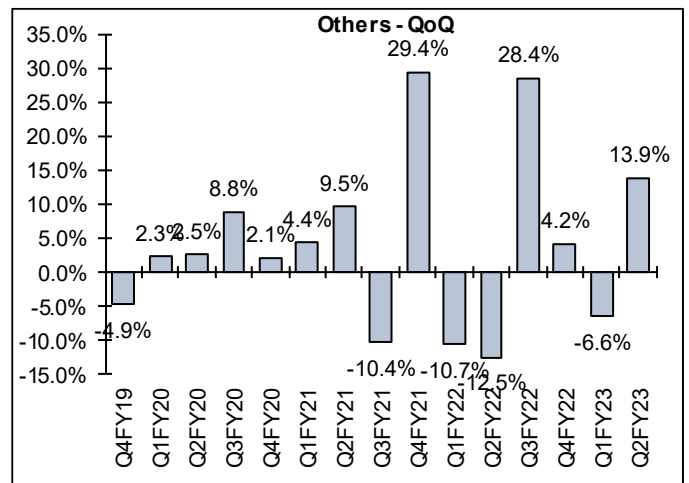
Source: Company, I-Sec research

**Chart 8: Decent growth in Hi-Tech**

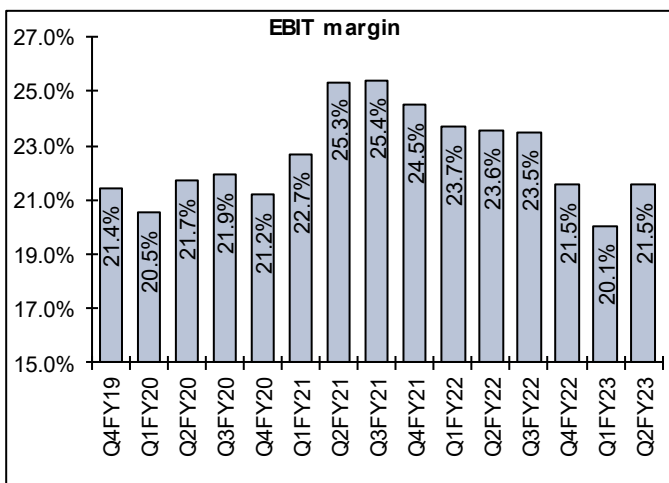
Source: Company, I-Sec research

**Chart 9: Strong growth in Lifesciences**

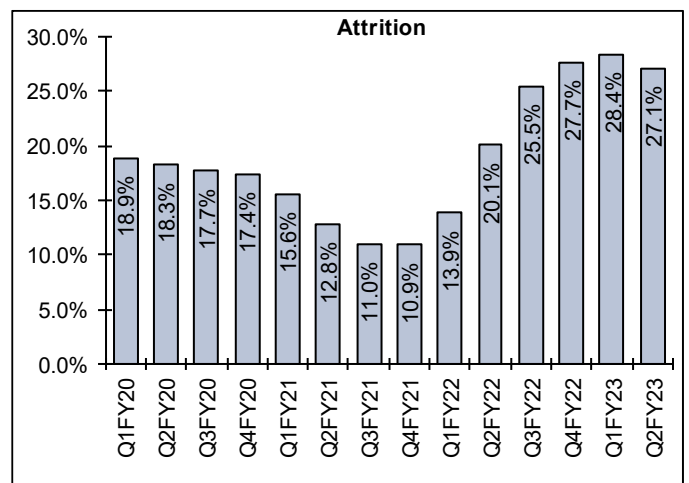
Source: Company, I-Sec research

**Chart 10: Other verticals saw strong growth**

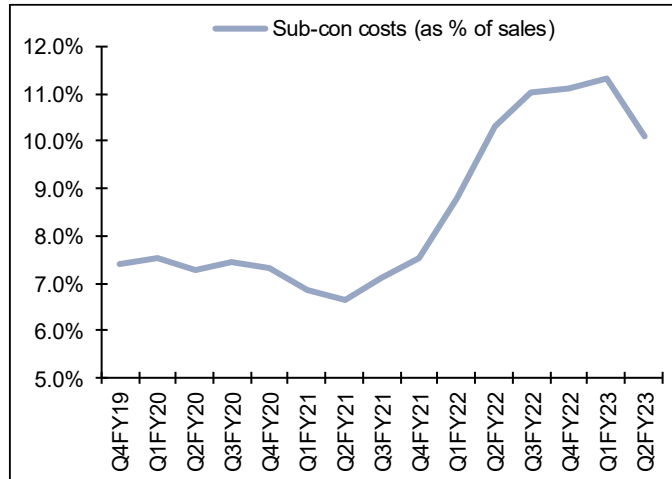
Source: Company, I-Sec research

**Chart 11: ~150bps QoQ improvement in margins**

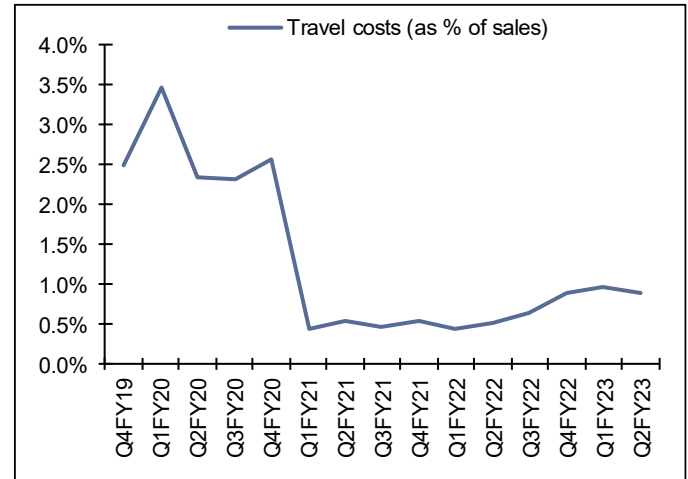
Source: Company, I-Sec research

**Chart 12: Attrition tapering down**

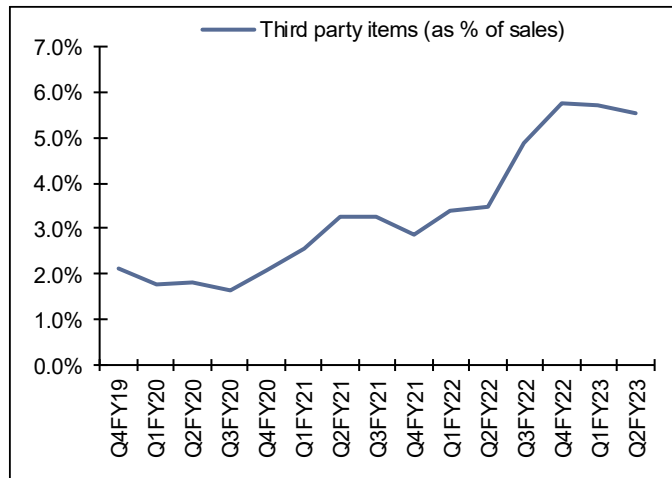
Source: Company, I-Sec research

**Chart 13: Subcon costs declining**

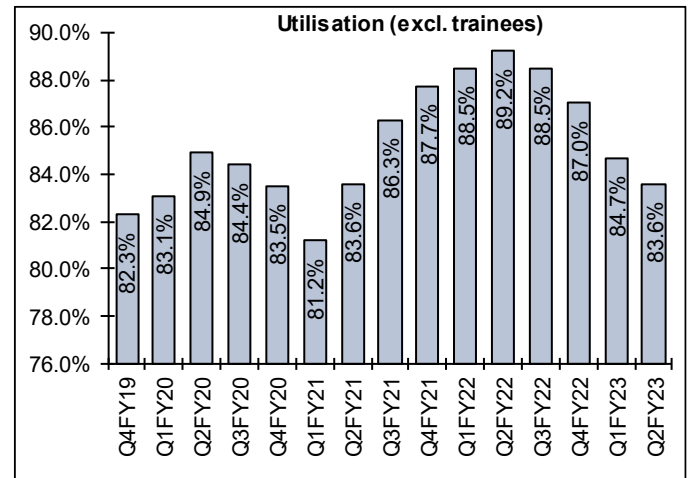
Source: Company, I-Sec research

**Chart 14: Travel costs expected to increase further**

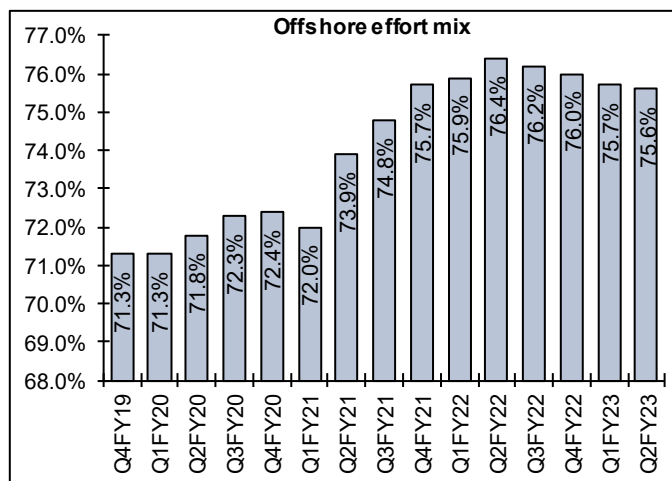
Source: Company, I-Sec research

**Chart 15: Third-party items down ~10bps QoQ**

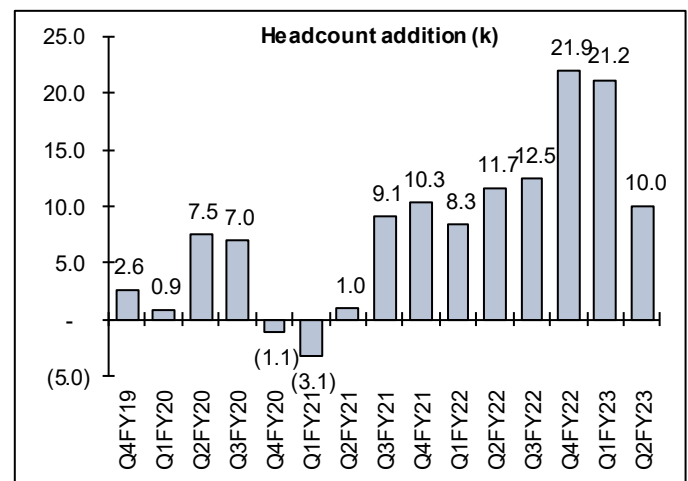
Source: Company, I-Sec research

**Chart 16: Utilisation declined ~110bps QoQ**

Source: Company, I-Sec research

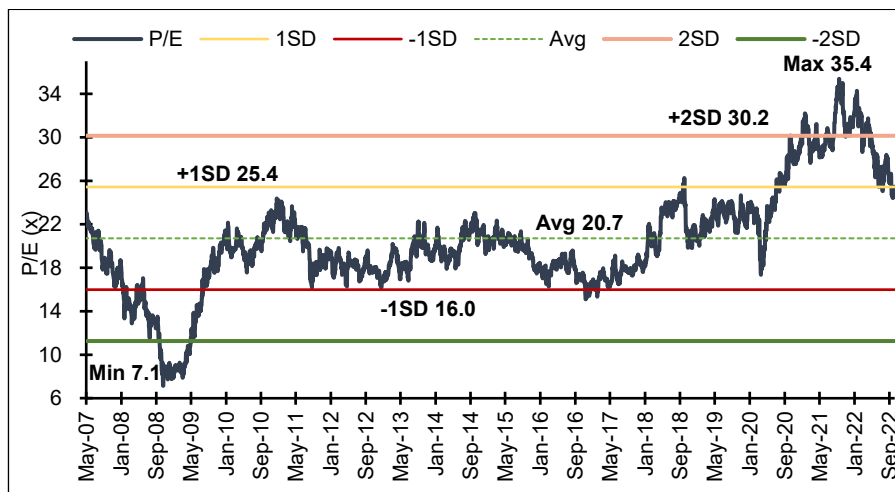
**Chart 17: Offshore effort mix stable**

Source: Company, I-Sec research

**Chart 18: Moderation in headcount addition**

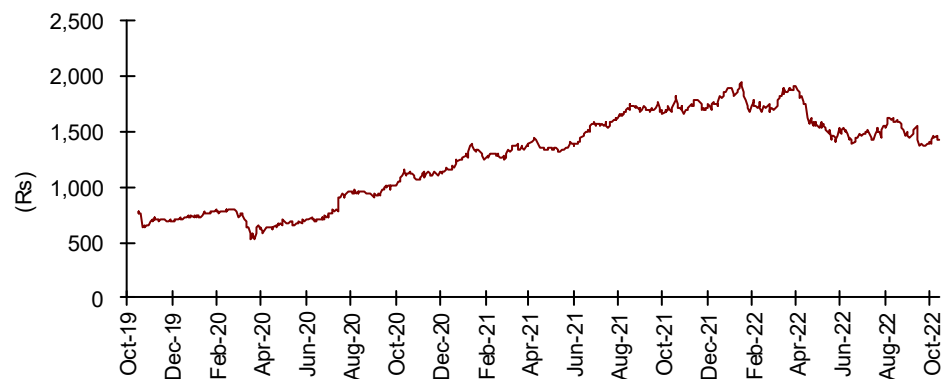
Source: Company, I-Sec research

Chart 19: 1-year forward P/E



Source: Bloomberg, I-Sec research.

Price chart – Infosys



Source: Bloomberg



## Financial summary

Table 5: Profit and Loss statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Revenues (US\$ mn)</b>	<b>13,562</b>	<b>16,310</b>	<b>18,307</b>	<b>19,725</b>
<b>Operating Revenues (Sales)</b>	<b>10,04,730</b>	<b>12,16,410</b>	<b>14,68,678</b>	<b>16,17,470</b>
Operating Expenses	7,25,840	9,01,500	11,16,479	12,07,749
<b>EBITDA</b>	<b>2,78,890</b>	<b>3,14,910</b>	<b>3,52,199</b>	<b>4,09,721</b>
% margins	27.8	25.9	24.0	25.3
Depreciation & Amortisation	32,670	34,760	41,154	45,552
<b>EBIT</b>	<b>2,46,220</b>	<b>2,80,150</b>	<b>3,11,045</b>	<b>3,64,169</b>
% margins	24.5	23.0	21.2	22.5
Other Income	20,060	20,950	21,059	22,979
<b>Recurring PBT</b>	<b>2,66,280</b>	<b>3,01,100</b>	<b>3,32,104</b>	<b>3,87,148</b>
Less: Taxes	72,050	79,690	90,312	1,00,659
Less: Minority Interest	450	350	170	200
Less: Exceptional items	-	-	-	-
<b>Net Income (Reported)</b>	<b>1,93,780</b>	<b>2,21,060</b>	<b>2,41,622</b>	<b>2,86,290</b>

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>LIABILITIES</b>				
Equity Capital	21,240	20,980	20,990	20,990
Reserves and Surpluses	7,46,580	7,36,380	6,90,081	7,73,569
<b>Shareholders' funds</b>	<b>7,67,820</b>	<b>7,57,360</b>	<b>7,11,071</b>	<b>7,94,559</b>
Non-current Liabilities	77,390	85,460	95,490	95,490
<b>Total Liabilities</b>	<b>8,45,210</b>	<b>8,42,820</b>	<b>8,06,561</b>	<b>8,90,049</b>
<b>ASSETS</b>				
Fixed Assets	2,65,680	2,63,040	2,58,450	2,45,450
Other non-current assets	2,10,850	2,43,960	2,45,530	2,45,530
<b>Total non-current assets</b>	<b>4,76,530</b>	<b>5,07,000</b>	<b>5,03,980</b>	<b>4,90,980</b>
<b>Current Assets</b>				
Cash and cash equivalents	2,70,560	2,41,450	1,85,432	2,66,160
Other current assets	3,36,770	4,30,400	5,03,906	5,47,255
<b>Total Current Assets</b>	<b>6,07,330</b>	<b>6,71,850</b>	<b>6,89,338</b>	<b>8,13,415</b>
less: Current Liabilities	2,38,650	3,36,030	3,86,757	4,14,347
<b>Net Current Assets</b>	<b>3,68,680</b>	<b>3,35,820</b>	<b>3,02,581</b>	<b>3,99,069</b>
<b>Total Assets</b>	<b>8,45,210</b>	<b>8,42,820</b>	<b>8,06,561</b>	<b>8,90,049</b>

Source: Company data, I-Sec Research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Op CF before W Cap changes</b>	<b>2,24,560</b>	<b>2,53,090</b>	<b>2,79,537</b>	<b>3,08,863</b>
Working Capital Inflow / (Outflow)	7,680	(14,240)	(31,799)	(5,760)
<b>Operating Cashflow (OCF)</b>	<b>2,32,240</b>	<b>2,38,850</b>	<b>2,47,738</b>	<b>3,03,103</b>
Capex	(21,070)	(21,610)	(14,684)	(32,552)
<b>Free Cashflow (FCF)</b>	<b>2,11,170</b>	<b>2,17,240</b>	<b>2,33,054</b>	<b>2,70,551</b>
Cashflow from other Invst Act (Ex Capex)	(53,490)	(42,550)	(41,171)	25,619
Inc/dec in Equity and related items	490	1,290	-	-
Inc/(Dec) in Borrowings	(6,980)	(9,150)	(1,250)	(2,640)
Dividend paid	(91,370)	(2,38,560)	(1,93,569)	(1,97,147)
Others	-	-	(10,810)	(11,080)
<b>Inc./(Dec.) in Cash</b>	<b>59,820</b>	<b>(71,730)</b>	<b>(13,745)</b>	<b>85,303</b>

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Per Share Data (Rs)</b>				
Reported EPS	45.7	52.5	57.4	68.0
Recurring Cash EPS	53.4	60.8	67.2	78.8
Dividend per share (DPS)	27.0	31.0	46.5	47.0
Book Value per share (BV)	180.0	179.0	190.5	211.6
<b>Growth Ratios (%)</b>				
Operating Income (Sales) - US\$ terms	6.1	20.3	12.2	7.7
Operating Income (Sales)	10.7	21.1	20.7	10.1
EBITDA	25.2	12.9	11.8	16.3
Reported Net Income	16.8	14.1	9.3	18.5
Reported EPS	17.2	15.0	9.3	18.5
Recurring Cash EPS	16.6	13.9	10.5	17.4
<b>Valuation Ratios (x)</b>				
P/E	31.1	27.0	24.7	20.9
P/CEPS	26.6	23.4	21.1	18.0
P/BV	7.9	7.9	7.5	6.7
EV / EBITDA	20.6	18.2	16.2	13.7
EV / Sales	5.7	4.7	3.9	3.5
<b>Operating Ratios</b>				
Other Income / PBT (%)	7.5	7.0	6.3	5.9
Effective Tax Rate (%)	27.1	26.5	27.2	26.0
Receivables (days)	70	68	67	69
D/E Ratio (x)	-	-	-	-
<b>Return/Profitability Ratios (%)</b>				
Reported Net Income Margins	19.3	18.2	16.5	17.7
RoCE	23.0	24.4	26.0	28.5
RoNW	27.3	29.1	31.1	33.8
Dividend Payout Ratio	59.1	59.0	81.0	69.1
Dividend Yield	1.9	2.2	3.3	3.3
EBITDA Margins	27.8	25.9	24.0	25.3
EBIT Margins	24.5	23.0	21.2	22.5

Source: Company data, I-Sec research



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