Infosys HOLD

Broad based growth persist

Summary

Infosys (INFO) posted above estimates dollar revenue of USD 4,939mn, up 1.7% QoQ. The broad based growth across verticals continue to persist in this quarter as well like Q2. This growth acceleration is on the back of improving discretionary spend (specifically in BFSI in US) & large deal ramping up and would continue to be the driving force. Coupled with client's focus shifting on IT investments with focus on AI, cloud adoption, cybersecurity, data and analytics. Having said that, deal wins are majorly focused on cost optimization & vendor consolidation which would impact the margins. Factoring all the scenarios & pricing strategy, management has upgraded their revenue guidance for FY25 at 4.5%- 5% and margin guidance remained stable at 20-22%. Due to ramp up of existing projects coupled with new mega deals, we believe the company will achieve higher end of the guidance in FY25E. However, considering Q4 been soft for the company, we maintain HOLD rating on the stock with target price of Rs. 2,052 (27x FY27E EPS) v/s previous TP of Rs. 1,995.

Key Highlights and Investment Rationale

- **Easing out discretionary spend:** Management saw recovery of spend in BFS segment in US which would lead to growth rebound than last year. 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**: The company's FY25 margins were impacted by one offs and underutilization of resources due to volatile demand environment. Considering a recovery in demand, we believe that the company is in better position to manage its operating tools (pyramid rationalization, lower sub-contracting cost and automation) to improve margins in FY26E.

TP	Rs2,052
CMP	**Rs1,926**
Potential upside/downside	7%
Previous Rating	HOLD

Price Performance (%)	-1m	-3m	-12m
Absolute	(2.7)	0.3	18.1
Rel to Sensex	3.1	5.8	12.8

V/s Consensus			
EPS (Rs)	**FY25E**	**FY26E**	**FY27E**
IDBI Capital	63	68	76
Consensus	64	72	81
% difference	*(1.5)*	*(6.1)*	*(5.7)*

Key Stock Data	
Bloomberg/Reuters	INFO IN / INFY.BO
Sector	IT Services
Shares o/s (mn)	4,152
Market cap. (Rs mn)	7,998,101
3-m daily average value (Rs mn)	423.1
52-week high / low	Rs2,007 / 1,359
Sensex / Nifty	77,043 / 23,312

Shareholding Pattern (%)	
Promoters	14.4
FII	33.3
DII	35.5
Public	16.8

Financial snapshot **(Rs mn)**

Year	FY23	FY24	FY25E	FY26E	FY27E
Revenue	14,67,672	15,36,710	16,12,469	17,55,742	19,36,329
Change (yoy, %)	*21*	*5*	*5*	*9*	*10*
EBITDA	3,51,312	3,64,250	3,87,497	4,19,512	4,64,570
Change (yoy, %)	*12*	*4*	*6*	*8*	*11*
EBITDA Margin(%)	*23.9*	*23.7*	*24.0*	*23.9*	*24.0*
Adj.PAT	2,40,952	2,22,900	2,61,436	2,82,497	3,15,542
EPS (Rs)	58	54	63	68	76
Change (yoy, %)	*10.5*	*(7.6)*	*17.3*	*8*	*12*
PE(x)	33.1	35.8	30.5	28	25
Dividend Yield (%)	1.8	2.4	2.9	3	4
EV/EBITDA (x)	22	21	20	18	16
RoE (%)	32	27	29	30	32
RoCE (%)	37	35	34	35	38

Source: IDBI Capital Research

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Other Key Highlights

- Revenue of $4,939 mn recording CC terms growth of 1.7%/6.1% QoQ/YoY. The growth was broad based across geos & verticals and large deal ramping up. Vertical wise; BFSI (+5.8%YoY) on account of increase in discretionary spend in capital markets, mortgages, cards & payments; manufacturing (+10% YoY), E&U (+18.6% YoY), Communication was (+4.4% YoY), Hi Tech (+8.5% YoY), Life Sciences was up 6.5% YoY, while, Retail remained flat YoY.
- EBIT margin improved by 20bps sequentially at 21.3%, tailwinds of 40bps from currency movement, 30bps from project maximus, 20bps from lower cost relating to provisions for post sales customer support and expected loss provision offset by higher third party costs. For the 9months, YTD margin improved by 30bps despite the headwinds from FY24 wage hike, higher variable payout, impact of amortization of intangibles from recent acquisition and large ramp-ups.
- Large deal TCV stood at US$ 2.5 bn (+4% QoQ), with net new of 63% which is a 57% increase in net new deal TCV. 17 mega deal won in the quarter which includes 5 deals BFSI, 4 in communication, 2 each in retail & others, 3 in manufacturing, & 1 in Hi-tech. Region-wise; 11 deals in America and 6 in Europe (includes 1 BOT deal with a client to set up a GCC in India). For 9months, deal wins stood at 72 deals with TCV of $9bn from which 55% is net new. Deal pipeline remains strong with mix of small & large deals across verticals and clients are focusing on cost efficiency & vendor consolidation.
- **Demand trend:** During the quarter, management saw financial services in Europe turned into revival mode, with improvement in retail & consumer product in US. Automotive sector in Europe continues to remain slow with discretionary pressure easing. However, having said, management still expects clients focus to remain on cost take out over discretionary initiatives. Financial services in US would continue to see discretionary spend in capital market, mortgages, cards & payments. Communication segment continues to face volatile macro scenario which could lead to operational expense pressure. In E&U, macro headwinds and supply- demand imbalances would continue to influence spending patterns. Growth in demand in this segment for electricity to cater to data centers which is expected to bring more investment.
- Management saw an uptick in client behavior to see IT investments more favorably post-election related uncertainty and interest rate cuts in recent months. While the focus remains on cost optimization,

spending towards new growth areas like AI, cloud adoption, cybersecurity data and analytics is observed. With respect to manufacturing, the segment will continue to see weakness in auto (sub-segment) in Europe. Management observed continued momentum in areas such as engineering, IoT, supply chain, cloud ERP and digital transformation.

- Headcount for the quarter stood at 3,23,379 additions of 5,591 with attrition rate at 13.7% and utilization at 86%. Headwinds of 70bps from furloughs & lower working days by higher leave utilization & other. Management stated the utilization rate is bit higher than the comfort/normal rate (83-85%).
- Infosys has upgraded the guidance to 4.5%- 5% CC growth and maintains EBIT margin guidance of 20-22% in FY25E. The revision in guidance was led by broad based sector growth, increase in smaller deals and value based selling. With respect to margins, company will post wage hike to their employees in Q4 (typically 6-8% in India & lower single digit in others) which will lead to contraction in margins. However, management expects to get it offset with reversal of higher third party expense of Q3 in next quarter.

Exhibit 1: Financial snapshot (Rs mn)

Year-end: March	Q3FY25	Q2FY25	QoQ (%)	Q3FY24	YoY (%)
Revenues (US$ mn)	**4,939**	**4,894**	***0.9***	**4,663**	***5.9***
Revenues	**4,17,640**	**4,09,860**	***1.9***	**3,88,210**	***7.6***
COGS	2,79,170	2,73,140	*2.2*	2,60,770	*7.1*
Gross profit	1,38,470	1,36,720	*1.3*	1,27,440	*8.7*
SG&A	37,320	38,630	*(3.4)*	36,070	*3.5*
EBITDA	**1,01,150**	**98,090**	***3.1***	**91,370**	***10.7***
Depreciation & amortization	12,030	11,600	*3.7*	11,760	*2.3*
EBIT	89,120	86,490	*3.0*	79,610	*11.9*
Other income	7,580	6,040	*25.5*	6,580	*15.2*
PBT	96,700	92,530	*4.5*	86,190	*12.2*
Tax	28,480	27,370	*4.1*	25,060	*13.6*
Minority interest	160	100	*60.0*	70	*n.m.*
Adjusted net profit	**68,060**	**65,060**	***4.6***	**61,060**	***11.5***
Exceptional item	0	0	*n.m.*	0	*n.m.*
Reported net profit	**68,060**	**65,060**	***4.6***	**61,060**	***11.5***
Diluted EPS (Rs)	**16.44**	**15.71**	***4.6***	**14.74**	***11.5***
As % of net revenue					
Gross profit	33.2	33.4		32.8	
SG&A	8.9	9.4		9.3	
EBITDA	24.2	23.9		23.5	
EBIT	21.3	21.1		20.5	
Reported net profit	16.3	15.9		15.7	
Tax rate	29.5	29.6		29.1	

Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. estimates

Year to March	Q3FY25	Q3FY25E	*Variance (%)*
Revenue (US$ mn)	4,939	4,865	*1.5%*
Revenue (Rs mn)	4,17,640	4,10,606	*1.7%*
EBIT (Rs mn)	89,120	87,048	*2.4%*
EBIT margin (%)	*21.3%*	*21.2%*	*30 bps*
Recurring PAT (Rs mn)	68,060	66,929	*1.7%*
Recurring PAT margin (%)	*16.30%*	*16.30%*	*(03) bps*
EPS (Rs)	16.4	16.2	*1.5%*

Source: Company; IDBI Capital Research

Exhibit 3: Earnings Revision

		FY25E			FY26E		FY27E
Year-end: March	New	Old	*Chg (%)*	New	Old	*Chg (%)*	New
Revenue (US$ mn)	19,157	19,253	-0.5	20,753	20,983	-1.1	22,834
Revenue (Rs bn)	1,612	1,623	-0.7	1,756	1,742	0.8	1,936
EBIT (Rs bn)	*340*	*340*	*0.1*	*363*	*379*	*-4.2*	*409*
EBIT margin (%)	*21.10%*	*20.69%*	*40bps*	*20.7%*	*22.0%*	*(130bps)*	*21.1%*
EPS (Rs/sh)	63.1	66.9	-5.7	68.2	77.4	-11.9	76.2

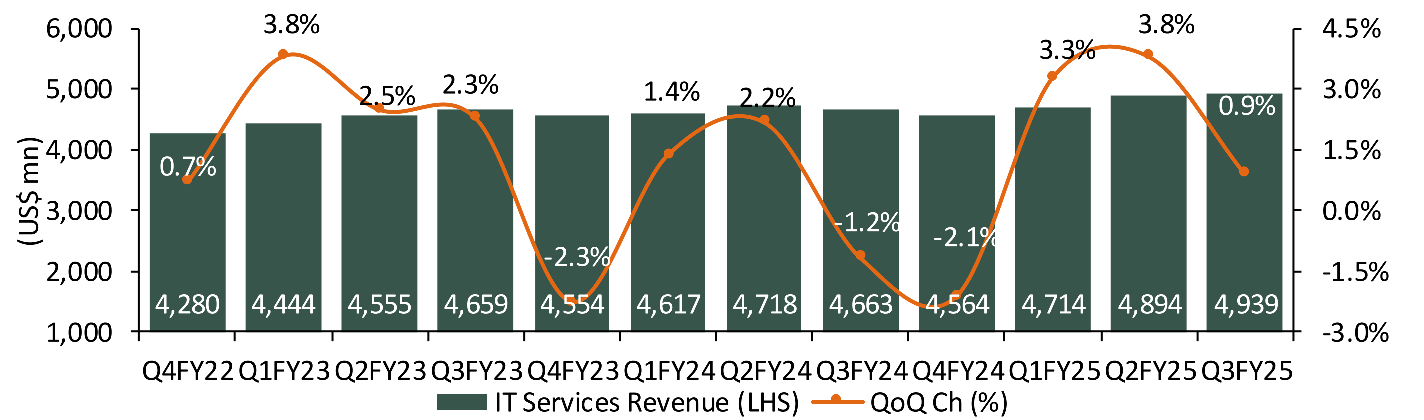
Source: Company; IDBI Capital Research

Exhibit 4: Large clients trend

Year-end: March	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
US$1 mn+	912	922	940	951	944	959	987	985	997
US$10 mn+	294	298	312	312	308	315	309	307	301
US$50 mn+	79	75	79	80	82	83	84	86	89
US$100 mn+	38	40	38	39	40	40	40	41	41

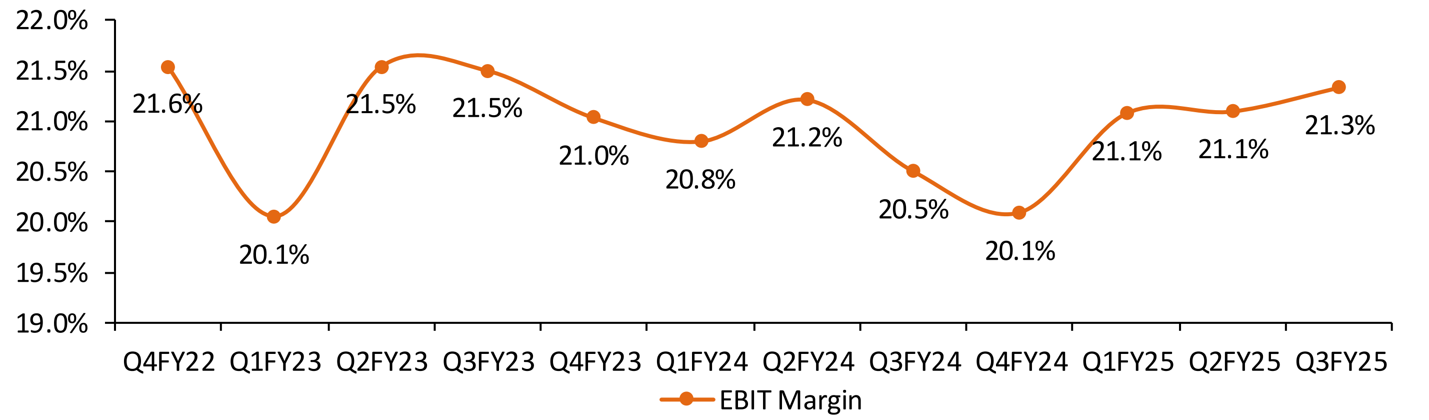
Source: Company; IDBI Capital Research

Exhibit 5: Q3FY25 revenue improved by ~1% QoQ



Source: Company; IDBI Capital Research

Exhibit 6: Q3FY25 EBIT margin improved by 20bps QoQ



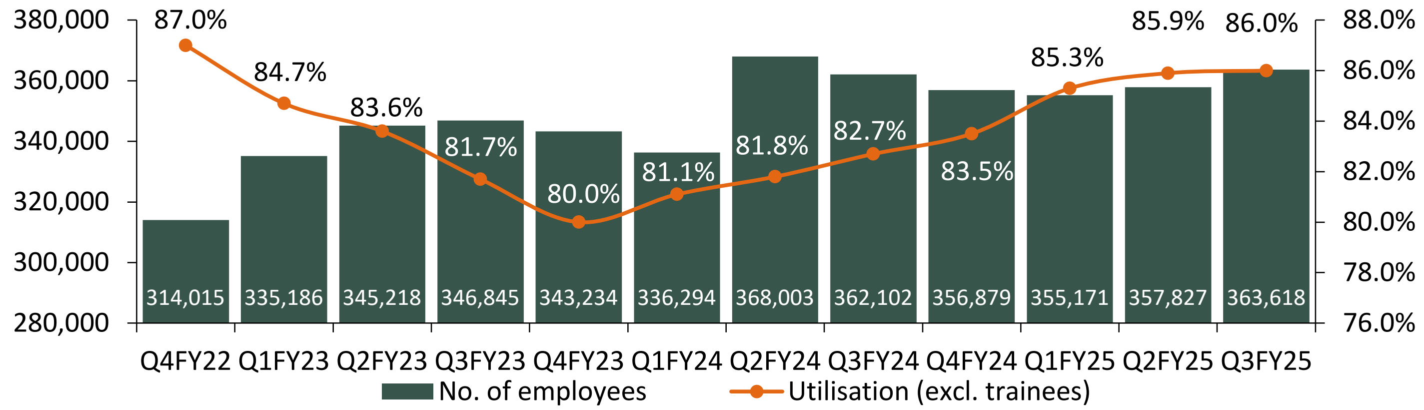
Source: Company; IDBI Capital Research

Exhibit 7: Revenue growth across various segments (%)

Parameters	% of revenue	*YoY growth (in CC)*
		6.1%
Geography		
US	58.4%	*4.8%*
Europe	29.8%	*12.2%*
India	3.1%	*40.1%*
ROW	8.7%	*-11.1%*
Verticals		
Financial Services	27.8%	*6.1%*
Retail	13.8%	*0.1%*
Communications	11.2%	*4.0%*
Energy, Utilities, Resources and Services	13.5%	*8.6%*
Manufacturing	15.5%	*10.7%*
Hi Tech	7.9%	*8.4%*
Life Sciences	7.6%	*6.3%*
Others	2.7%	*3.2%*

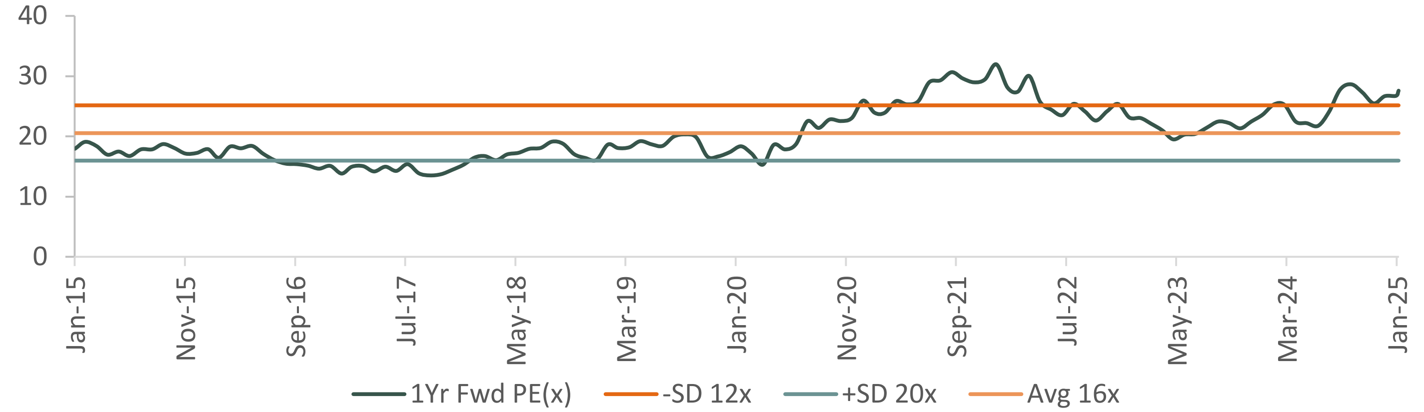
Source: Company; IDBI Capital Research

Exhibit 8: Utilization excluding trainees improved to 86%



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	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net sales	**12,16,410**	**14,67,672**	**15,36,710**	**16,12,469**	**17,55,742**	**19,36,329**
Change (yoy, %)	*21.1*	*21*	*5*	*5*	*9*	*10*
Operating expenses	(9,01,490)	(11,16,360)	(11,72,460)	(12,24,972)	(13,36,231)	(14,71,760)
EBITDA	**3,14,920**	**3,51,312**	**3,64,250**	**3,87,497**	**4,19,512**	**4,64,570**
Change (yoy, %)	*12.9*	*12*	*4*	*6*	*8*	*11*
Margin (%)	*25.9*	*23.9*	*23.7*	*24.0*	*23.9*	*24.0*
Depreciation	(34,770)	(42,250)	(46,780)	(47,189)	(56,271)	(55,936)
EBIT	**2,80,150**	**3,09,062**	**3,17,470**	**3,40,308**	**3,63,241**	**4,08,633**
Interest paid	(2,000)	(2,840)	(4,690)	(4,150)	(4,040)	(4,400)
Other income	22,950	27,000	27,400	33,138	33,489	34,353
Pre-tax profit	**3,01,100**	**3,33,222**	**3,40,180**	**3,69,296**	**3,92,690**	**4,38,586**
Tax	(79,640)	(92,140)	(97,410)	(1,07,480)	(1,09,953)	(1,22,804)
Effective tax rate (%)	*26.4*	*27.7*	*28.6*	*29.1*	*28.0*	*28.0*
Minority Interest	(350.0)	(130.0)	(160.0)	(380.0)	(240.0)	(240.0)
Net profit	**2,21,110**	**2,40,952**	**2,22,900**	**2,61,436**	**2,82,497**	**3,15,542**
Exceptional items	-	-	-	-	-	-
Adjusted net profit	**2,21,110**	**2,40,952**	**2,22,900**	**2,61,436**	**2,82,497**	**3,15,542**
Change (yoy, %)	*14.3*	*9*	*(7)*	*17*	*8*	*12*
EPS	52.7	58.2	53.8	63.1	68.2	76.2
Dividend per sh.	31.0	34.0	46.0	55.0	60.0	68.0
Dividend Payout (%)	*58.8*	*58.4*	*85.5*	*87*	*88*	*89*

Balance Sheet

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Shareholders' funds	**7,53,500**	**7,54,070**	**8,81,160**	**9,14,786**	**9,48,763**	**9,82,649**
Share capital	20,980	20,690	20,710	20,710	20,710	20,710
Reserves & surplus	7,32,520	7,33,380	8,60,450	8,94,076	9,28,053	9,61,939
Total Debt	**-**	**-**	**-**	**-**	**-**	**-**
Other liabilities	54,180	82,740	96,990	96,990	96,990	96,990
Curr Liab & prov	**3,55,190**	**4,05,020**	**3,92,000**	**4,09,575**	**4,45,967**	**4,91,837**
Current liabilities	3,19,370	3,58,110	3,38,190	3,53,112	3,84,487	4,24,033
Provisions	35,820	46,910	53,810	56,463	61,480	67,803
Total liabilities	4,09,370	4,87,760	4,88,990	5,06,565	5,42,957	5,88,827
Total equity & liabilities	**11,66,730**	**12,45,710**	**13,73,600**	**14,24,801**	**14,95,170**	**15,74,926**
Net fixed assets	2,13,930	2,26,310	2,13,630	2,28,466	2,17,302	1,73,738
Investments	-	-	-	-	-	-
Other non-curr assets	1,44,440	1,84,900	1,48,570	1,55,894	1,69,746	1,87,205
Current assets	**8,08,360**	**8,34,500**	**10,11,400**	**10,40,441**	**11,08,122**	**12,13,982**
Inventories	-	-	-	-	-	-
Sundry Debtors	2,26,980	2,54,240	3,01,930	3,16,815	3,44,965	3,80,446
Cash and Bank	3,77,960	3,16,510	3,94,090	3,92,697	4,02,824	4,36,142
Loans and advances	2,03,420	2,63,750	3,15,380	3,30,928	3,60,332	3,97,394
Total assets	**11,66,730**	**12,45,710**	**13,73,600**	**14,24,801**	**14,95,170**	**15,74,926**

Cash Flow Statement (Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Pre-tax profit	3,01,100	3,33,222	3,40,180	3,69,296	3,92,690	4,38,586
Depreciation	(15,010)	42,250	46,780	55,164	61,164	63,564
Tax paid	(77,970)	(91,830)	(83,760)	(1,07,480)	(1,09,953)	(1,22,804)
Chg in working capital	7,520	(37,760)	(1,12,340)	(12,859)	(21,162)	(26,673)
Other operating activities	(13,770)	(12,210)	1,11,922	(7,324)	(13,852)	(17,459)
Cash flow from operations (a)	**2,01,870**	**2,33,672**	**3,02,782**	**2,96,798**	**3,08,887**	**3,35,214**
Capital expenditure	18,820	(54,630)	(34,100)	(70,000)	(50,000)	(20,000)
Chg in investments	-	-	-	-	-	-
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	**18,820**	**(54,630)**	**(34,100)**	**(70,000)**	**(50,000)**	**(20,000)**
Equity raised/(repaid)	(1,01,044)	(99,690)	20	-	-	-
Debt raised/(repaid)	-	-	-	-	-	-
Dividend (incl. tax)	(1,30,076)	(1,40,692)	(1,90,532)	(2,27,810)	(2,48,520)	(2,81,656)
Chg in minorities	(800)	(110)	(590)	(380)	(240)	(240)
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	**(2,31,920)**	**(2,40,492)**	**(1,91,102)**	**(2,28,190)**	**(2,48,760)**	**(2,81,896)**
Net chg in cash (a+b+c)	**(11,230)**	**(61,450)**	**77,580**	**(1,392)**	**10,127**	**33,318**

Financial Ratios

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Book Value (Rs)	179.6	182	213	221	229	237
Adj EPS (Rs)	*52.7*	*58.2*	*53.8*	*63.1*	*68.2*	*76.2*
Adj EPS growth (%)	*15.6*	*11*	*-8*	*17*	*8*	*12*
EBITDA margin (%)	*25.9*	*23.9*	*23.7*	*24.0*	*23.9*	*24.0*
Pre-tax margin (%)	*24.8*	*22.7*	*22.1*	*22.9*	*22.4*	*22.7*
Net Debt/Equity (x)	*-0.5*	*-0.4*	*-0.4*	*-0.4*	*-0.4*	*-0.4*
ROCE (%)	*34.4*	*37*	*35*	*34*	*35*	*38*
ROE (%)	*29.2*	*32*	*27*	*29*	*30*	*32*
DuPont Analysis						
Asset turnover (x)	1.1	1.2	1.2	1.2	1.2	1.2
Leverage factor (x)	1.5	1.6	1.6	1.6	1.6	1.6
Net margin (%)	*18.2*	*16.4*	*14.5*	*16.2*	*16.1*	*16.3*
Working Capital & Liquidity ratio						
Inventory days	0	0	0	0	0	0
Receivable days	68	63	72	72	72	72
Payable days	17	13	12	12	12	12

Valuations

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
PER (x)	37	33	36	31	28	25
Price/Book value (x)	10.7	10.6	9.1	8.7	8.4	8.1
EV/Net sales (x)	6	5	5	5	4	4
EV/EBITDA (x)	24	22	21	20	18	16
Dividend Yield (%)	*1.6*	*1.8*	*2.4*	*2.9*	*3.1*	*3.5*

Source: Company; IDBI Capital Research

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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