

Infosys

BUY

Robust revenue guidance keeps us positive

Summary

Infosys' (INFO) Q4FY22 financial performance was disappointing mainly due to delay in contract sales booking and lower large deals in lifescience. However, the company has given robust guidance for FY23E of 13-15% which indicates healthy demand outlook. The absence of mega deal wins as seen in FY22E makes this guidance even more robust. In addition, higher net addition of ~22k and 48% net new deal wins (vs 44% in Q3) implies healthy new & existing business momentum. We believe the lower margin guidance of 21-23% indicates the company intends to invest and take advantage of robust revenue growth. We expect margins to improve in H2FY23E. We expect a further 60 bps improvement in FY24 to 22.6%. Hence we maintain our BUY rating with revised target price of Rs 2020 (28x FY24E EPS).

Key Highlights and Investment Rationale

- Healthy net hiring and new deals to drive growth :** Infosys is seeing robust growth in cloud, big data, IOT, engineering AI and modernisation. Further net new wins of 48% of US\$2.2 bn (vs 44% in Q3, 37% in Q2 and 30% in Q1) indicates robust addition of new clients. Further, client mining, addition of ~22k employees in Q4, 55000 fresher in FY23E and traction in Eastern Europe indicates robust growth in coming quarters. Hence, we have assumed a 16.6% growth in FY23E (higher than guided range).
- Margin improvement to be back ended:** We expect salary hikes, supply side pressures, lower utilization, travel, onsite shift and investments to impact H1FY23E margins. However, we expect plateauing of subcon cost, pricing improvement and lower fresher cost to improve margins in H2FY23E. Hence we have assumed 22% for FY23E and 22.6% for FY24E.

TP	Rs2,020
CMP	Rs1,749
Potential upside/downside	16%
Previous Rating	BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	(4.0)	(6.9)	22.6
Rel to Sensex	(9.1)	(2.3)	0.8

V/s Consensus

EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	52.7	59.4	70.9
Consensus	53.4	63.1	72.4
% difference	(1.2)	(5.9)	(2.1)

Key Stock Data

Bloomberg/Reuters	INFO IN / INFY.BO
Sector	IT Services
Shares o/s (mn)	4,207
Market cap. (Rs mn)	7,356,114
3-m daily average value (Rs mn)	704.3
52-week high / low	Rs1,954 / 1,312
Sensex / Nifty	58,339 / 17,476

Shareholding Pattern (%)

Promoters	13.1
FII	33.2
DII	16.0
Public	37.7

Financial snapshot

Year	FY20	FY21	FY22	FY23E	FY24E
Revenue	9,07,910	10,04,730	12,16,410	14,26,506	16,39,903
Change (yoy, %)	10	11	21	17	15
EBITDA	2,22,680	2,78,890	3,14,920	3,51,838	4,13,167
Change (yoy, %)	7	25	13	12	17
EBITDA Margin(%)	24.5	27.8	25.9	25	25
Adj.PAT	1,65,950	1,93,510	2,21,110	2,49,284	2,97,486
EPS (Rs)	39.1	45.6	52.7	59.4	70.9
Change (yoy, %)	5.3	16.5	15.6	13	19
PE(x)	45	38	33	29	25
Dividend Yield (%)	1	2	2	3	3
EV/EBITDA (x)	32	25	22	20	17
RoE (%)	25.5	27.3	29	31	35
RoCE (%)	29	32	34	37	41

Source: IDBI Capital Research

Other Key Highlights

- Company would continue to focus on expanding its cloud business, build digital capabilities and capture market share in emerging technologies.
- Revenue growth was muted on a sequential basis (+0.7%) due to a client contractual challenge.
- Company expects revenue to grow in the range of 13%-15% during FY23 on the back of strong demand and expansion in services being provided to existing and new clients.
- EBIT margin stood at 21.6% recording a reduction of 193 bps QoQ. Margin was impacted due to lower utilization, lower calendar working days (60 bps impact), higher visa cost (100 bps impact) and one off client contractual, partially offset by salary related benefits like higher working days (110 bps).
- Management has guided margins to remain in the range of 21%-23% for FY 23 (vs. 22%-24% for FY22).
- The reduction in margin guidance can be attributed to wage hike in Q1FY23, increase in travel and facilities costs, one time investments in cloud and digital business and higher mix of Onsite.
- Focus on cost optimization, favorable pricing and reduction in sub-contracting costs are expected to protect the margins.
- Management expects attrition levels to taper down in FY 23 due to increased hiring of fresh talent and utilization levels reaching 85%.
- Demand environment remains to be strong with \$9.5 Bn worth large deals signed during FY22 (\$2.3 Bn for Q4FY22).
- Hiring trend continues to be robust in Eastern parts of Europe, especially Poland and Romania.
- Final dividend of Rs. 16 per share was declared by the Board.

Exhibit 1: Financial snapshot

(Rs mn)

Year-end: March	Q4FY22	Q3FY22	QoQ (%)	Q4FY21	YoY (%)
Revenues (US\$ mn)	4,280	4,250	0.7	3,613	18.5
Revenues	3,22,760	3,18,670	1.3	2,63,110	22.7
COGS	2,13,820	2,05,160	4.2	1,63,330	30.9
Gross profit	1,08,940	1,13,510	(4.0)	99,780	9.2
SG&A	30,480	29,680	2.7	27,070	12.6
EBITDA	78,460	83,830	(6.4)	72,710	7.9
Depreciation & amortization	8,900	8,990	(1.0)	8,310	7.1
EBIT	69,560	74,840	(7.1)	64,400	8.0
Other income	5,870	4,590	27.9	4,950	18.6
PBT	75,430	79,430	(5.0)	69,350	8.8
Tax	18,480	21,210	(12.9)	18,570	(0.5)
Minority interest	90	130	(30.8)	20	350.0
Adjusted net profit	56,860	58,090	(2.1)	50,760	12.0
Exceptional item	0	0	n.m.	0	n.m.
Reported net profit	56,860	58,090	(2.1)	50,760	12.0
Diluted EPS (Rs)	13.5	13.9	(2.5)	12.0	13.0
As % of net revenue					
Gross profit	33.8	35.6		37.9	
SG&A	9.4	9.3		10.3	
EBITDA	24.3	26.3		27.6	
EBIT	21.6	23.5		24.5	
Reported net profit	17.6	18.2		19.3	
Tax rate	24.5	26.7		26.8	

Source: Company; IDBI Capital Research

Q4FY22 revenue growth of 0.7% was below our forecast.

EBIT margin de grew by 193 bps QoQ

Exhibit 2: Earnings Revision

Year-end: March	FY23F			FY24E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (US\$ mn)	19,020	20,026	-5.0	21,578	22,923	-5.9
Revenue (Rs bn)	1,427	1,502	-5.0	1,640	1,719	-4.6
EBIT margin (%)	22.0%	24.4%	(245)bps	22.6%	24.8%	(218)bps
EPS (Rs)	59.4	68.1	-12.7	70.9	79.0	-10.3

Source: Company; IDBI Capital Research

Exhibit 3: Actual vs. estimates

Year to March	Q4FY22	Q4FY22E	Variance (%)
Revenue (US\$ mn)	4,280	4,447	-3.7
Revenue (Rs mn)	3,22,760	3,33,501	-3.2
EBIT (R smn)	69,560	80,188	-13.3
EBIT margin (%)	21.6%	24.0%	(250)bps
Recurring PAT (Rs mn)	56,860	63,975	-11.1
Recurring PAT margin (%)	17.6%	19.2%	(160)bps
EPS (Rs)	13.5	15.3	-11.5

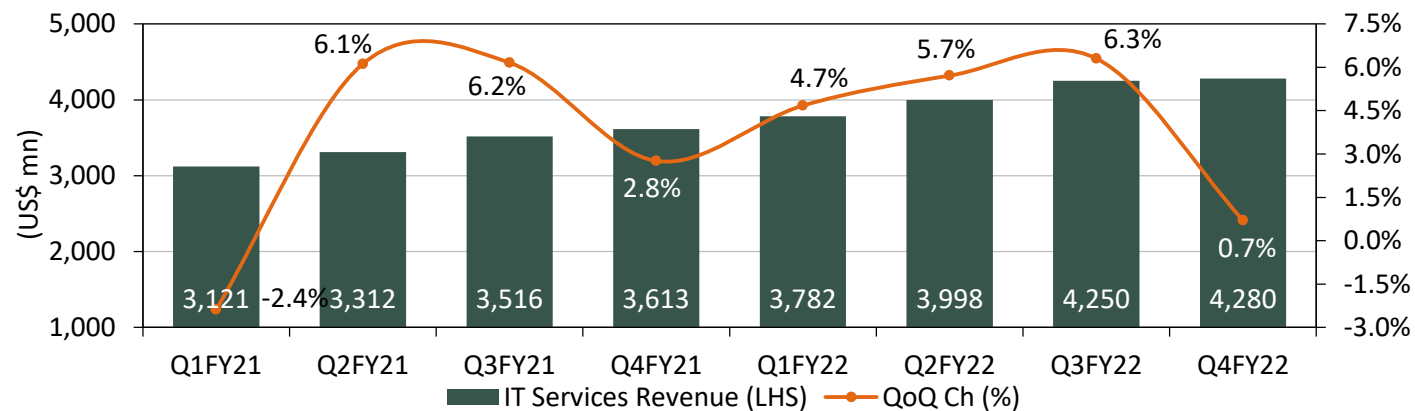
Source: Company; IDBI Capital Research

Exhibit 4: Large clients trend

Year-end: March	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
US\$1 mn+	729	745	761	779	805	841	854	853
US\$10 mn+	236	242	246	252	264	270	274	275
US\$50 mn+	60	60	60	59	59	62	64	64
US\$100 mn+	25	30	29	32	34	35	37	38

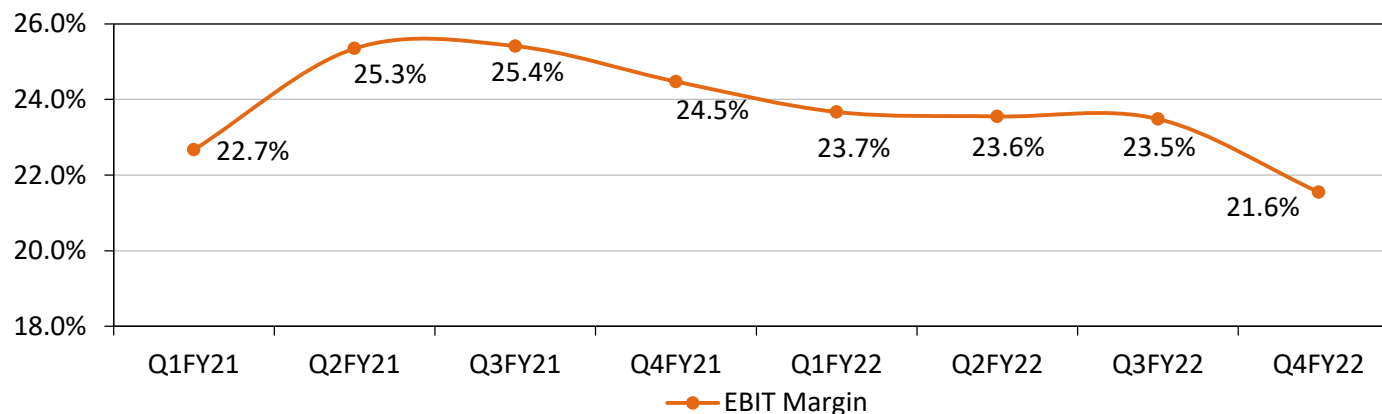
Source: Company; IDBI Capital Research

Exhibit 5: Q4FY22 revenue growth was below our forecast



Source: Company; IDBI Capital Research

Exhibit 6: Q4FY22 EBIT margin was below our estimate



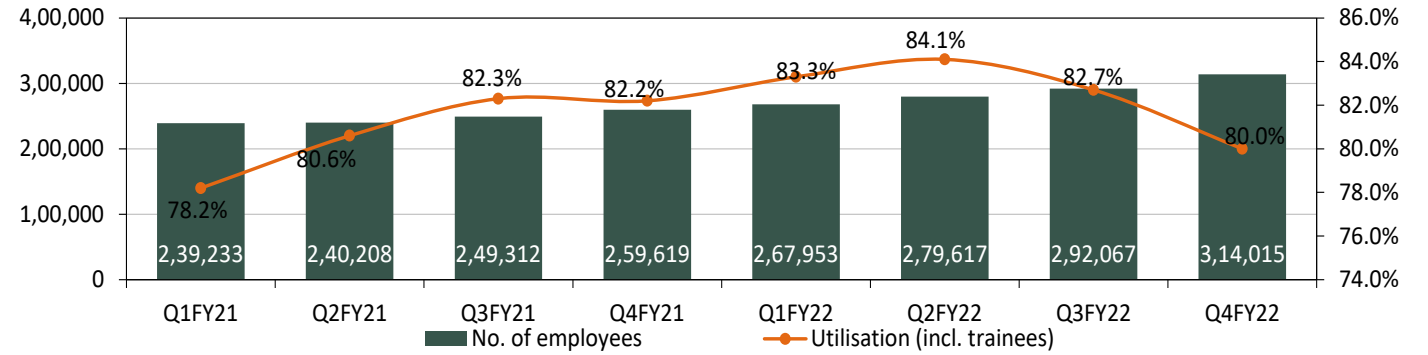
Source: Company; IDBI Capital Research

Exhibit 7: Revenue growth across various segments (%)

Parameters	% of revenue	YoY growth (in CC)
Total revenue		20.6%
Digital revenue	59.2%	38.8%
Geography		
US	61.4%	18.5%
Europe	25.2%	28.3%
India	3.2%	29.4%
ROW	10.2%	13.9%
Verticals		
Financial Services	31.3%	14.1%
Retail	14.3%	16.5%
Communications	12.8%	29.2%
Energy, Utilities, Resources and Services	12.0%	17.8%
Manufacturing	11.8%	50.6%
Hi Tech	8.2%	20.9%
Life Sciences	6.6%	16.2%
Others	3.0%	7.3%

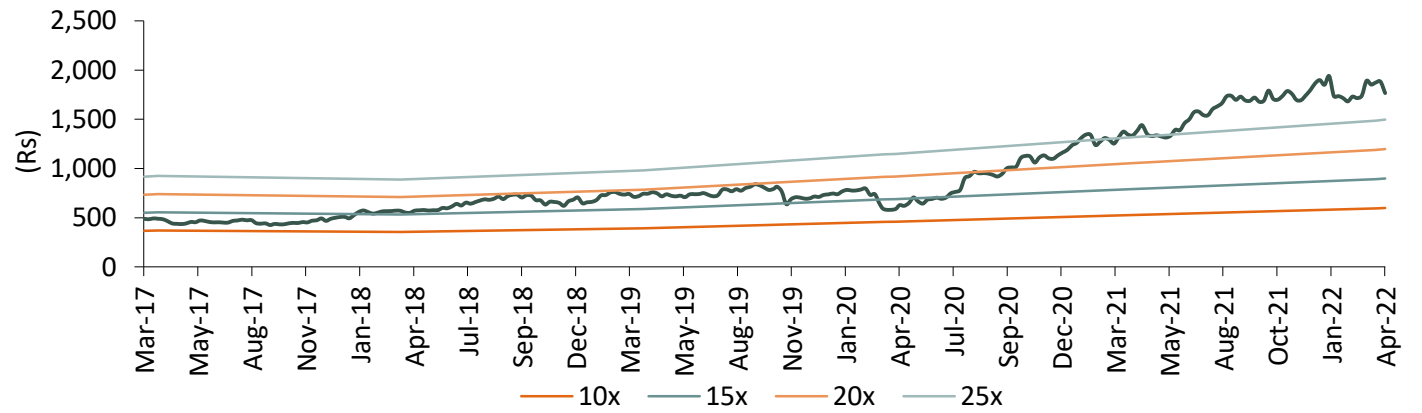
Source: Company; IDBI Capital Research

Exhibit 8: Utilisation including trainees declined



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	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	8,26,760	9,07,910	10,04,730	12,16,410	14,26,506	16,39,903
<i>Change (yoy, %)</i>	17	10	11	21	17	15
Operating expenses	(6,17,860)	(6,85,230)	(7,25,840)	(9,01,490)	(10,74,668)	(12,26,736)
EBITDA	2,08,900	2,22,680	2,78,890	3,14,920	3,51,838	4,13,167
<i>Change (yoy, %)</i>	10	7	25	13	12	17
<i>Margin (%)</i>	25.3	24.5	27.8	25.9	24.7	25.2
Depreciation	(20,110)	(28,940)	(32,670)	(34,770)	(37,942)	(42,142)
EBIT	1,88,790	1,93,740	2,46,220	2,80,150	3,13,896	3,71,025
Interest paid	-	(1,690)	(1,950)	(2,000)	(2,000)	(2,000)
Other income	28,830	28,030	22,010	22,950	27,280	32,913
Pre-tax profit	2,17,620	2,20,080	2,66,280	3,01,100	3,39,176	4,01,938
Tax	(56,310)	(53,680)	(72,050)	(79,640)	(89,542)	(1,04,102)
<i>Effective tax rate (%)</i>	26	24	27	26	26	26
Net profit	1,54,100	1,66,400	1,94,230	2,21,460	2,49,634	2,97,836
Adjusted net profit	1,61,260	1,65,950	1,93,510	2,21,110	2,49,284	2,97,486
<i>Change (yoy, %)</i>	10	3	17	14	13	19
EPS	37.2	39.1	45.6	52.7	59.4	70.9
Dividend per sh.	18	18	27	31	45	55
<i>Dividend Payout (%)</i>	57	54	59	59	76	78

Balance Sheet

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E*	FY23E	FY24E
Shareholders' funds	6,49,480	6,54,500	7,63,510	7,62,657	8,23,246	8,90,106
Share capital	21,700	21,206	21,219	20,966	20,966	20,966
Reserves & surplus	6,27,780	6,33,295	7,42,291	7,41,691	8,02,280	8,69,140
Other liabilities	(7,000)	38,570	51,020	51,020	51,020	51,020
Curr Liab & prov	1,90,600	2,13,230	2,54,040	3,06,602	3,59,558	4,13,345
Current liabilities	1,69,170	1,92,610	2,25,450	2,71,609	3,18,521	3,66,170
Provisions	21,430	20,620	28,590	34,993	41,036	47,175
Total liabilities	1,83,600	2,51,800	3,05,060	3,57,622	4,10,578	4,64,365
Total equity & liabilities	8,33,660	9,10,240	10,72,880	11,24,589	12,38,134	13,58,782
Net fixed assets	1,70,980	2,05,750	2,17,740	2,04,970	1,99,028	1,98,886
Investments	-	-	-	-	-	-
Other non-curr assets	87,560	1,17,360	1,29,180	1,45,969	1,71,181	1,96,788
Current assets	5,75,120	5,87,130	7,25,960	7,73,650	8,67,925	9,63,107
Inventories	-	-	-	-	-	-
Sundry Debtors	1,48,270	1,84,870	1,92,940	2,33,284	2,73,576	3,14,502
Cash and Bank	3,08,290	2,74,410	3,89,190	3,63,736	3,87,212	4,10,483
Loans and advances	1,18,560	1,27,850	1,43,830	1,76,629	2,07,136	2,38,123
Total assets	8,33,660	9,10,240	10,72,880	11,24,589	12,38,134	13,58,782

Note: *Awaiting Annual Report

Cash Flow Statement

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E*	FY23E	FY24E
Pre-tax profit	2,17,620	2,20,080	2,66,280	3,01,100	3,39,176	4,01,938
Depreciation	19,490	21,790	32,670	34,770	37,942	42,142
Tax paid	(55,900)	(54,440)	(66,520)	(79,640)	(89,542)	(1,04,102)
Chg in working capital	(3,160)	(23,260)	16,760	(20,582)	(17,844)	(18,124)
Other operating activities	(54,430)	(54,842)	1,07,769	(16,419)	59,661	(23,840)
Cash flow from operations (a)	1,23,620	1,09,328	3,56,959	2,19,229	3,29,393	2,98,013
Capital expenditure	(44,460)	(56,560)	(44,660)	(22,000)	(32,000)	(42,000)
Chg in investments	-	-	-	-	-	-
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(44,460)	(56,560)	(44,660)	(22,000)	(32,000)	(42,000)
Equity raised/(repaid)	(60)	(494)	(82,586)	(91,974)	-	-
Debt raised/(repaid)	-	-	-	-	-	-
Dividend (incl. tax)	(91,140)	(89,063)	(1,14,583)	(1,29,989)	(1,88,694)	(2,30,626)
Chg in minorities	520	2,910	(350)	(350)	(350)	(350)
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	(90,680)	(86,648)	(1,97,519)	(2,22,313)	(1,89,044)	(2,30,976)
Net chg in cash (a+b+c)	(11,520)	(33,880)	1,14,780	(25,084)	16,349	25,037

Note: *Awaiting Annual Report

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Book Value (Rs)	150	154	180	182	196	212
Adj EPS (Rs)	37	39	46	53	59	71
Adj EPS growth (%)	10	5	17	16	13	19
EBITDA margin (%)	25.3	24.5	27.8	25.9	24.7	25.2
Pre-tax margin (%)	26	24	27	25	24	25
Net Debt/Equity (x)	0	0	-1	0	0	0
ROCE (%)	29	29	32	34	37	41
ROE (%)	24.8	25.5	27.3	29.0	31.4	34.7

DuPont Analysis

Asset turnover (x)	1.0	1.0	1.0	1.1	1.2	1.3
Leverage factor (x)	1.2	1.3	1.4	1.4	1.5	1.5
Net margin (%)	19.5	18.3	19.3	18.2	17.5	18.1

Working Capital & Liquidity ratio

Inventory days	0	0	0	0	0	0
Receivable days	65	74	70	70	70	70
Payable days	10	15	13	13	13	13

Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	47.1	44.7	38.3	33.2	29.4	24.6
Price/Book value (x)	11.7	11.3	9.7	9.6	8.9	8.2
EV/Net sales (x)	8.8	7.9	7.0	5.7	4.9	4.2
EV/EBITDA (x)	35	32	25	22	20	17
Dividend Yield (%)	1	1	2	2	3	3

Source: Company; IDBI Capital Research



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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