

Weakness Continues; Tepid Guidance for FY25

Est. vs. Actual for Q4FY24: Revenue – **MISS**; EBITDA Margin – **MISS**; PAT – **MISS**; Deal Wins – **Beat**

Change in Estimates post Q4FY24

FY25E/FY26E: Revenue -1%/-1%; EBITDA 0%/0%; PAT -1%/-1%

Recommendation Rationale

- **Revenue growth momentum impacted:** Lower discretionary spends, delays in decision-making, and lower demand for digital services impacted the company's revenue growth momentum.
- **Deal wins at \$4.5 Bn:** The company's TCV stood strong and above our expectations, with deal wins at \$4.5 Bn in Q4FY24
- **Subdued demand scenario in North America:** The management is cautious about the demand scenario in North America and expects BFSI, Hi-tech, and Communication verticals to remain tepid. However, Europe stands comparatively resilient.

Sector Outlook: Neutral

Company Outlook & Guidance: The management has given a subdued revenue growth guidance range of 1%-3% (in CC terms) for FY25. This stands below our expectations. The company's margin guidance stands at 20%-22%.

Current Valuation: 16x FY26E P/E; Earlier Valuation: 18x FY26E

Current TP: 1,280/share (Earlier TP: Rs 1,425/share)

Recommendation: In light of demand challenges in the medium term and supply-side constraints, we expect Infosys to report sluggish growth in FY24. Hence, we recommend a **SELL** rating on the stock until uncertainties settle down.

Financial Performance

In Q4FY24, Infosys Ltd (Infy) reported revenue of Rs 37,923 Cr, down 2.3% QoQ and 2.2% QoQ (in CC terms) which stood below our expectations. The company's operating profit, too, stood below our expectations at Rs 7,621 Cr, reporting a de-growth of 4.3% QoQ. Its operating margins declined 40bps to 20.1%, which was largely on account of higher operating expenses and a wage hike during the quarter. Furthermore, its net profit for Q4FY24 stood at Rs 7,969 Cr, registering a growth of 30.5% QoQ, aided by a one-time tax refund of Rs1,933 Cr

Outlook

From a near-term perspective, we believe global uncertainties and economic slowdown may impact the automation spend and result in delays in investment decisions in North America. The company earns the majority of its revenue (~40%) from North America. Moreover, IT services are expected to witness lower demand in the near term. On a positive note, as compared to North America, Europe is expected to have resilient demand and investments are likely to continue. The demand scenario is likely to regain its momentum as ongoing uncertainties settle down in the next two to three quarters, post which the company expects consistent deal wins.

Valuation & Recommendation

We recommend a **SELL** rating on the stock and assign a 16x P/E multiple to its FY26E earnings of Rs 80/share to arrive at a TP of Rs 1,280/share, implying a downside of 10% from the CMP.

Key Financials (Consolidated)

| (Rs Cr) | Q4FY24 | QoQ (%) | YoY (%) | Axis Est. | Variance |
|-------------|--------|---------|---------|-----------|----------|
| Net Sales | 37,923 | -2% | 1% | 38,945 | 3% |
| EBIT | 7,621 | -4% | -3% | 8099 | 6% |
| EBIT Margin | 20% | (41) | (94) | 21% | 30 |
| Net Profit | 7,976 | 31% | 30% | 6218 | -22% |
| EPS (Rs) | 19.22 | 30% | 30% | 15.1 | -21% |

Source: Company, Axis Research

(CMP as of 18 April 2024)

| | |
|---------------------------|------------|
| CMP (Rs) | 1,421 |
| Upside /Downside (%) | (10)% |
| High/Low (Rs) | 1,731/1216 |
| Market cap (Cr) | 5,89,652 |
| Avg. daily vol. (6m)Shrs. | 39,43,740 |
| No. of shares (Cr) | 412 |

Shareholding (%)

| | Jun-23 | Sept-23 | Dec-23 |
|--------------|--------|---------|--------|
| Promoter | 15.1 | 15.1 | 14.8 |
| FII's | 36.3 | 35.1 | 33.7 |
| MFs / UTI | 17.7 | 18.3 | 18.3 |
| Banks / FIIs | 0.1 | 0.1 | 0.1 |
| Others | 30.8 | 31.4 | 33.1 |

Financial & Valuations

| Y/E Mar (Rs Cr) | FY24 | FY25E | FY26E |
|-----------------|----------|----------|----------|
| Net Sales | 1,53,670 | 1,69,293 | 1,87,809 |
| EBITDA | 36,425 | 43,000 | 47,703 |
| Net Profit | 26,248 | 28,876 | 32,648 |
| EPS (Rs) | 63.9 | 70.3 | 80.3 |
| PER (x) | 23.4 | 21.2 | 18.8 |
| P/BV (x) | 7.1 | 6.2 | 5.5 |
| EV/EBITDA (x) | 16.0 | 12.9 | 11.1 |
| ROE (%) | 30% | 32% | 32% |

Change in Estimates (%)

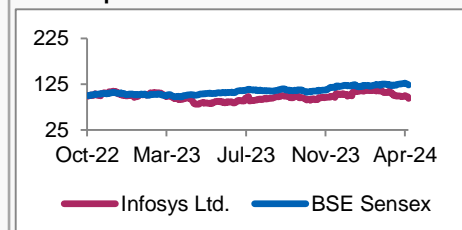
| Y/E Mar | FY25E | FY26E |
|---------|-------|-------|
| Sales | (1)% | (1)% |
| EBITDA | 0% | 0% |
| PAT | (1)% | (1)% |

ESG disclosure Score**

| | |
|-----------------------------|-------------|
| Environmental Disclosure | 70.3 |
| Social Disclosure Score | 56.1 |
| Governance Disclosure | 96.1 |
| Total ESG Disclosure | 74.2 |
| Sector Average | 47.8 |

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance


Source: Aceequity, Axis Securities

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Recommendation Rationale & Key Highlights

- **Demand uncertainties in the medium term:** The growth momentum in the US is appearing to slow down due to uncertainties born out of the recent banking crisis in the world's largest economies. Europe, in comparison, stands resilient in terms of IT spends. Delays in the decision-making due to macroeconomic challenges are to temper conversion of the deal ramp-up in the near term. Digital services face tepid demand across geographies which is a significant pie of the company's total revenue. However, the management is confident in regaining the momentum by the end of the year (in Q4FY24), backed by a robust deal pipeline.
- **BFSI impacted severely on the vertical growth front; Retail and Manufacturing verticals stood strong:** On the vertical front, the BFSI de-grew by 8.5% YoY while the Communication vertical grew by 4.5% YoY. The Retail vertical delivered de-growth of 3.7% YoY. The Manufacturing vertical reported growth of 8.7% while Life Sciences grew by 1% YoY. The Hi-tech vertical reported a growth of 9.7% YoY. The management continues to foresee weakness in the verticals such as BFSI, Hi-tech, and Communications. However, Manufacturing and Retail remained resilient and continue to deliver a strong growth trajectory.
- **North America subdued; Europe continues to be strong:** On the geographical front, while North America (59.6% of revenue) declined by 2.2% YoY, Europe (28.6% of revenue) grew by 4.9% YoY, RoW (9.6% of revenue) business grew by 4.5% YoY (in the CC terms). For Q4FY24, the company's free cash conversion stood at Rs 7,032 Cr.
- **Slowing down hiring; negative net addition:** Infy continues to have negative employee addition for the quarter with a net addition of negative 5,423 employees. Total employee strength stood at 3,17,240. The attrition rate declined by 30bps to 12.6%. The management has guided for a slow hiring scenario as delays in discretionary spends tampers the majority of ramp up.
- **Infosys management issued an interim dividend of Rs 20/share.**

Key Risks to our Estimates and TP

- The demand environment is uncertain on account of the potential threat of recession from the world's largest economies.
- The rising subcontracting cost and cross-currency headwinds may impact the company's operating margins negatively moving forward.

Active clients

| | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 |
|--------------------------|--------|--------|--------|--------|--------|--------|
| Active clients | 1850 | 1872 | 1883 | 1884 | 1872 | 1882 |
| Added during the quarter | 134 | 115 | 99 | 100 | 115 | 98 |

Source: Company, Axis Research

Client Parameters

| | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 |
|------------------|--------|--------|--------|--------|--------|--------|
| \$1 Mn clients | 912 | 922 | 940 | 951 | 944 | 959 |
| \$10 Mn clients | 294 | 298 | 312 | 312 | 308 | 315 |
| \$50 Mn clients | 79 | 75 | 79 | 80 | 82 | 83 |
| \$100 Mn clients | 38 | 40 | 38 | 39 | 40 | 40 |

Source: Company, Axis Research

Human Resources

| | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 |
|------------------------|----------|----------|----------|----------|----------|----------|
| Total Headcount | 2,92,067 | 3,46,895 | 3,43,234 | 3,36,294 | 3,22,663 | 3,17,240 |
| Net Addition | 12450 | 54828 | -3661 | -6940 | -13631 | -5423 |
| Attrition (%) | 26% | 24% | 21% | 17% | 13% | 13% |

Source: Company, Axis Research

Total TCV (In \$Bn)

| | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 |
|---------------------|--------|--------|--------|--------|--------|--------|
| Total TCV (In \$Mn) | 2,553 | 3,300 | 2,100 | 2,300 | 3,241 | 4,454 |

Source: Company, Axis Research

Revenues by offering

| | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 |
|---|--------|--------|--------|--------|--------|--------|
| Financial Services | 29.30% | 28.90% | 28.10% | 32.30% | 27.80% | 26.40% |
| Retail | 14.30% | 14.80% | 14.50% | 14.60% | 14.60% | 14.30% |
| Communication | 12.30% | 11.80% | 11.70% | 12.40% | 11.40% | 12.30% |
| Energy, Utilities, Resources & Services | 13.00% | 12.90% | 12.90% | 11.80% | 13.20% | 13.40% |
| Manufacturing | 13.30% | 13.50% | 14.10% | 10.90% | 14.90% | 14.70% |
| Hi-Tech | 8.10% | 8.00% | 8.10% | 14.80% | 7.70% | 8.70% |
| Life Sciences | 7.00% | 7.2% | 7.20% | 7.10% | 7.60% | 7.30% |
| Others | 2.70% | 2.90% | 3.40% | 2.40% | 2.90% | 2.90% |

Source: Company, Axis Research

Revenues by offering

| | Q3FY22 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 |
|---------------|--------|--------|--------|--------|--------|--------|--------|
| North America | 21.40% | 62.00% | 61.00% | 60.80% | 61.00% | 59.00% | 59.60% |
| Europe | 27.80% | 25.80% | 27.00% | 26.80% | 24.80% | 28.20% | 28.60% |
| ROW | 6.40% | 9.80% | 9.40% | 9.70% | 10.60% | 10.40% | 9.60% |
| India | 40.10% | 2.40% | 2.60% | 2.70% | 2.40% | 2.40% | 2.20% |

Source: Company, Axis Research

Results Review
(Rs Cr)

| In Cr | Q4FY24 | Q3FY24 | Q4FY23 | % change (YoY) | % change (QoQ) |
|---|---------------|---------------|---------------|-------------------|-------------------|
| Total Revenue | 37,923 | 38,821 | 37,441 | 1% | -2% |
| Total Cost of Sales | 26,748 | 27,253 | 26,011 | | |
| Gross Profit | 11,175 | 11,568 | 11,430 | -2% | -3% |
| Margin(%) | 29% | 30% | 31% | (106) | (33) |
| S&M | 1,735 | 1,700 | 1,659 | | |
| Other Costs | 1,819 | 1,907 | 1,894 | | |
| Total Operating Expenses | 3,554 | 3,607 | 3,553 | | |
| Operating Income | 7,621 | 7,961 | 7,877 | -3% | -4% |
| Margin(%) | 20% | 21% | 21% | (94) | (41) |
| Total Other Income/(Expense) | 2619 | 658 | 589 | | |
| Income Before Income Taxes | 10,240 | 8,619 | 8,466 | | |
| Total Taxes | 2,265 | 2,506 | 2,332 | | |
| ETR (%) | 22% | 29% | 28% | (543) | (696) |
| Net Profit After Taxes | 7,975 | 6,113 | 6,134 | 30% | 30% |
| Non Controlling Interest | -1 | 7 | 6 | | |
| Net Income After Extraordinary Items | 7,976 | 6,106 | 6,128 | 30% | 31% |
| Margin(%) | 21% | 16% | 16% | 467 | 530 |
| EPS | 19.22 | 14.74 | 14.77 | 30% | 30% |

Source: Company, Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

| Y/E March | FY22 | FY23 | FY24 | FY25E | FY26E |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Net sales | 1,21,641 | 1,46,767 | 1,53,670 | 1,69,293 | 1,87,809 |
| Other operating income | 0 | 0 | 0 | 0 | 0 |
| Total income | 1,21,641 | 1,46,767 | 1,53,670 | 1,69,293 | 1,87,809 |
| Employee benefit Expenses | 63,986 | 78,359 | 82,620 | 92,265 | 1,02,356 |
| Cost of subcontractors | 12,606 | 14,062 | 12,232 | 12,697 | 14,086 |
| Travel Expenses | 827 | 1,525 | 1,759 | 846 | 939 |
| Cost of software packages | 6,811 | 10,902 | 13,515 | 14,559 | 16,152 |
| Communication Expenses | 611 | 713 | 677 | 677 | 751 |
| Consultancy Charges | 1,885 | 1,684 | 1,726 | 1,016 | 1,127 |
| Other expenses | 3,424 | 4,392 | 4,716 | 4,232 | 4,695 |
| Total Cost | 90,150 | 1,11,637 | 1,17,245 | 1,26,293 | 1,40,105 |
| EBITDA | 31,491 | 35,130 | 36,425 | 43,000 | 47,703 |
| Other income | 2,295 | 2,701 | 4,711 | 2,709 | 3,005 |
| PBIDT | 33,786 | 37,831 | 41,136 | 45,709 | 50,708 |
| Depreciation | 3,476 | 4,225 | 4,678 | 6,018 | 6,018 |
| Interest & Fin Chg. | 200 | 284 | 470 | 1,473 | 1,473 |
| Pre-tax profit | 30,110 | 33,322 | 35,988 | 38,219 | 43,218 |
| Tax provision | 7,964 | 9,214 | 9,740 | 9,343 | 10,570 |
| Profit after Tax | 22,146 | 24,108 | 26,248 | 28,876 | 32,648 |
| PAT after Comprehensive Income | 22,146 | 24,108 | 26,248 | 28,876 | 32,648 |

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

| Y/E March | FY22 | FY23 | FY24 | FY25E | FY26E |
|-------------------------|---------------|---------------|-----------------|-----------------|-----------------|
| Total assets | 84,697 | 86,917 | 1,03,228 | 1,27,081 | 1,53,905 |
| Net Block | 13,075 | 13,346 | 9,275 | 3,857 | (1,561) |
| CWIP | 2,123 | 2,037 | 363 | 363 | 363 |
| Investments | 35,918 | 39,840 | 35,064 | 37,381 | 39,930 |
| Wkg. cap. (excl cash) | 16,110 | 19,522 | 25,786 | 26,824 | 31,847 |
| Cash / Bank balance | 17,472 | 12,173 | 32,741 | 58,656 | 83,327 |
| Misc. Assets | (1) | (1) | (1) | (1) | (1) |
| Capital employed | 84,697 | 86,917 | 1,03,228 | 1,27,081 | 1,53,905 |
| Equity capital | 2,098 | 2,069 | 2,069 | 2,069 | 2,069 |
| Reserves | 75,351 | 75,408 | 86,301 | 98,284 | 1,11,833 |
| Minority Interests | 386 | 388 | 388 | 388 | 388 |
| Borrowings | 6,209 | 8,777 | 8,775 | 8,775 | 8,775 |
| Def Tax Liabilities | 2,337 | 2,058 | 2,058 | 2,058 | 2,058 |

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

| Y/E March | FY22 | FY23 | FY24 | FY25E | FY26E |
|-------------------------|----------------|---------------|---------------|---------------|---------------|
| Sources | (9,098) | 14,449 | 30,678 | 34,213 | 37,358 |
| Cash profit | 25,822 | 28,617 | 31,396 | 36,366 | 40,139 |
| (-) Dividends | 14,511 | 14,103 | 15,355 | 16,892 | 19,099 |
| Retained earnings | 11,311 | 14,514 | 16,041 | 19,474 | 21,039 |
| Issue of equity | (26) | (29) | - | - | - |
| Change in Oth. Reserves | (213) | 1,790 | 15,109 | 16,212 | 17,792 |
| Borrowings | 296 | 2,519 | (2) | - | - |
| Others | (20,466) | (4,345) | (470) | (1,473) | (1,473) |
| Applications | (9,098) | 14,449 | 30,678 | 34,213 | 37,358 |
| Capital expenditure | 2,295 | 5,480 | (1,767) | 1,671 | 1,778 |
| Investments | 5,574 | 2,436 | 2,705 | 2,975 | 3,272 |
| Net current assets | 5,239 | 5,369 | 9,173 | 3,653 | 7,637 |
| Change in cash | (22,206) | 1,164 | 20,568 | 25,915 | 24,671 |
| Closing cash | 17,109 | 17,109 | 17,109 | 17,109 | 17,109 |

Source: Company, Axis Securities

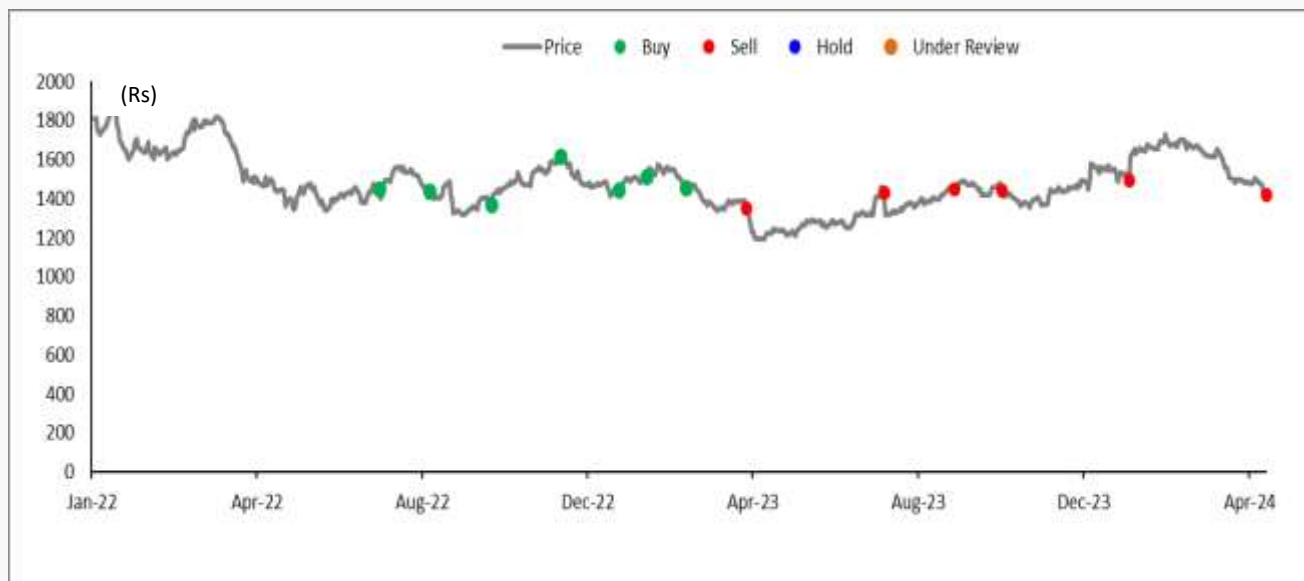
Ratio Analysis

(%)

| Y/E March | FY22 | FY23 | FY24E | FY25E | FY26E |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|
| Sales growth | 21.1 | 20.7 | 6.4 | 10.1 | 12 |
| OPM | 25.9 | 23.9 | 25.5 | 25.4 | 25.4 |
| Oper. profit growth | 12.9 | 11.6 | 13.2 | 9.8 | 12 |
| Depreciation / G. block | 10.4 | 9.6 | 8 | 7.5 | 7.5 |
| Effective interest rate (%) | 639 | 181.3 | -112.8 | -111.1 | -111.1 |
| | 10.8 | 12.2 | 38.2 | 58.3 | 58.3 |
| Net wkg.cap / Net sales | - | - | - | - | - |
| Net sales / Gr block (x) | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 |
| RoCE | 49% | 51% | 51% | 52% | 53% |
| Debt / equity (x) | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Effective tax rate | 0 | 0 | 0 | 0 | 0 |
| RoE | 26.4 | 27.7 | 25.6 | 24.4 | 24.5 |
| Payout ratio (Div/NP) | 27% | 29% | 30% | 29% | 29% |
| EPS (Rs.) | 52.5 | 57.6 | 63.9 | 70.3 | 80.3 |
| EPS Growth | 14.9 | 9.8 | 10.8 | 10 | 14.3 |
| CEPS (Rs.) | 60.7 | 67.7 | 76.7 | 84.6 | 94.7 |
| DPS (Rs.) | 29.9 | 28.8 | 31.9 | 35.1 | 40.2 |

Source: Company, Axis Securities

Infosys Price Chart and Recommendation History



| Date | Reco | TP | Research |
|-------------|------|-------|----------------|
| 13-Jan-22 | BUY | 2,140 | Result Update |
| 18-Apr-22 | BUY | 2,060 | Result Update |
| 15-Jun-22 | BUY | 1,850 | Result Update |
| 25-Jul-22 | BUY | 1,750 | Result Update |
| 01-Sep-22 | BUY | 1,750 | Event Update |
| 14-Oct-22 | BUY | 1,750 | Result Update |
| 01-Dec-22 | BUY | 1,900 | Top Picks |
| 01-Jan-23 | BUY | 1,900 | Top Picks |
| 13-Jan-23 | BUY | 1,800 | Result Update |
| 01-Feb-23 | BUY | 1,800 | Top Picks |
| 01-Mar-23 | BUY | 1,800 | Top Picks |
| 01-Apr-23 | BUY | 1,800 | Top Picks |
| 17-Apr-23 | SELL | 1,350 | Result Update |
| 21-Jul-23 | SELL | 1,300 | Result Update |
| 11-Sep-23 | SELL | 1,300 | Company Update |
| 13-Oct-23 | SELL | 1,300 | Result Update |
| 12-Jan-24 | SELL | 1,425 | Result Update |
| 19-April-24 | SELL | 1,280 | Result Update |

Source: Axis Securities

About the analyst



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