

# HSIE Results Daily

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- **Infosys:** Infosys' (INFO IN) Q4 was sub-par, but we remain confident on the company's prospects of growth leadership within tier-1 IT. A modest implied growth rate in digital services (relative to historical trends) will maintain INFO's track record of overshooting the initial revenue guidance (13-15% CC for FY23E). The near-term margin trajectory is directed at investments in order to scale the cloud offering; it has ramifications on growth acceleration and the resultant operating leverage. INFO's key drivers include: (1) accelerated net-new large deal wins (H2FY22 at USD 2.2bn as compared to USD 1.6bn in H1FY22) that provide near-term growth visibility; (2) strong digital practice, with USD 10bn+ revenue rate (41% growth in FY22) and pedigree in large client mining (13 added to USD 100mn+ clients as compared to 14 additions for TCS over FY19-22); (3) highest-ever quarterly net addition of ~22k and hiring momentum (FY22 net adds similar to cumulative of FY19-21) that is indicative of demand; and (4) expected recovery in life science vertical. Maintain BUY on INFO valuing the company at INR 2,140, based on 30x FY24E EPS.

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# Infosys

## Growth leadership to continue

Infosys' (INFO IN) Q4 was sub-par, **but we remain confident on the company's prospects of growth leadership within tier-1 IT**. A modest implied growth rate in digital services (relative to historical trends) will maintain INFO's track record of overshooting the initial revenue guidance (13-15% CC for FY23E). The near-term margin trajectory is directed at investments in order to scale the cloud offering; it has ramifications on growth acceleration and the resultant operating leverage. INFO's key drivers include: (1) accelerated net-new large deal wins (H2FY22 at USD 2.2bn as compared to USD 1.6bn in H1FY22) that provide near-term growth visibility; (2) strong digital practice, with USD 10bn+ revenue rate (41% growth in FY22) and pedigree in large client mining (13 added to USD 100mn+ clients as compared to 14 additions for TCS over FY19-22); (3) highest-ever quarterly net addition of ~22k and hiring momentum (FY22 net adds similar to cumulative of FY19-21) that is indicative of demand; and (4) expected recovery in life science vertical. Maintain BUY on INFO valuing the company at INR 2,140, based on 30x FY24E EPS.

- Q4FY22 highlights:** (1) INFO reported muted USD revenue growth of +1.2% QoQ CC and +20.6% YoY CC, impacted partially by client contractual situation (deferral impact 0.9% est.) and seasonality. Growth was led by digital revenue growing at +1.9/36.2% QoQ/YoY while core services declined 1% QoQ. (2) EBITM declined 193bps QoQ to 21.6%, impacted by lower working days, realisation and client contract impact (-160bps), lower utilisation (-60bps), and higher visa cost and sub-con (-100bps). (3) LTM attrition moved higher to 27.7% (+220bps QoQ); however, quarterly annualised rate declined by 5%. (4) Wage hike effective Apr 2022 will dent the margins in Q1FY23. (5) Net headcount addition was ~22k in Q4 (8% QoQ vs. 6% QoQ for TCS) and the company plans to add >50k fresher in FY23E. (6) Sub-contracting cost increased in Q4 by 2% QoQ, as compared to 6% QoQ for TCS and sub-con (11.1% of revenue in Q4) is expected to moderate ahead as supply crunch normalises.
- Outlook:** We have factored in USD revenue growth of 15.0/12.5% for FY23/24E, with a CQGR of 3.4/2.9% for FY23/24E. EBITM is factored in at 22.5/23.0% for FY23/24E, which is towards the upper end of its guidance (21-23% for FY23E). The current valuation is 24.5x FY24E (~11% discount to TCS vs. ~15% historical discount), with FY22-24E EPS CAGR at 16%.

### Quarterly financial summary

| YE March (INR bn) | 4Q FY22 | 4Q FY21 | YoY (%) | 3Q FY22 | QoQ (%) | FY20   | FY21     | FY22     | FY23E    | FY24E    |
|-------------------|---------|---------|---------|---------|---------|--------|----------|----------|----------|----------|
| Revenue (USD mn)  | 4,280   | 3,613   | 18.5    | 4,250   | 0.7     | 12,781 | 13,562   | 16,310   | 18,754   | 21,100   |
| Net Revenue       | 322.76  | 263.11  | 22.7    | 318.67  | 1.3     | 907.91 | 1,004.73 | 1,216.41 | 1,425.33 | 1,624.69 |
| EBIT              | 69.56   | 64.40   | 8.0     | 74.84   | (7.1)   | 193.74 | 246.22   | 280.15   | 320.82   | 373.44   |
| APAT              | 56.86   | 50.76   | 12.0    | 58.09   | (2.1)   | 164.04 | 193.51   | 221.11   | 259.79   | 299.88   |
| Diluted EPS (INR) | 13.5    | 12.1    | 12.0    | 13.8    | (2.1)   | 39.1   | 46.1     | 52.6     | 61.9     | 71.4     |
| P/E (x)           |         |         |         |         |         | 44.8   | 37.9     | 33.2     | 28.3     | 24.5     |
| EV / EBITDA (x)   |         |         |         |         |         | 32.1   | 25.2     | 22.5     | 19.4     | 16.6     |
| RoE (%)           |         |         |         |         |         | 25.2   | 27.3     | 29.2     | 32.9     | 34.5     |

Source: Company, HSIE Research, Consolidated Financials

### Change in Estimates

| YE March (INR bn) | FY23E Old | FY23E Revised | Change % | FY24E Old | FY24E Revised | Change % |
|-------------------|-----------|---------------|----------|-----------|---------------|----------|
| Revenue (USD mn)  | 18,919    | 18,754        | (0.9)    | 21,289    | 21,100        | (0.9)    |
| Revenue           | 1437.81   | 1425.33       | (0.9)    | 1639.26   | 1624.69       | (0.9)    |
| EBIT              | 331.32    | 320.82        | (3.2)    | 385.15    | 373.44        | (3.0)    |
| EBIT margin (%)   | 23.0      | 22.5          | -53bps   | 23.5      | 23.0          | -51bps   |
| APAT              | 265.45    | 259.79        | (2.1)    | 307.37    | 299.88        | (2.4)    |
| EPS (INR)         | 64.1      | 61.9          | (3.5)    | 74.2      | 71.4          | (3.8)    |

Source: Company, HSIE Research

## BUY

|                         |           |
|-------------------------|-----------|
| CMP (as on 13 Apr 2022) | INR 1,749 |
| Target Price            | INR 2,140 |
| NIFTY                   | 17,476    |

| KEY CHANGES  | OLD       | NEW       |
|--------------|-----------|-----------|
| Rating       | BUY       | BUY       |
| Price Target | INR 2,230 | INR 2,140 |
| EPS %        | FY23E     | FY24E     |
|              | -3.5      | -3.8      |

### KEY STOCK DATA

|                              |                 |
|------------------------------|-----------------|
| Bloomberg code               | INFO IN         |
| No. of Shares (mn)           | 4,207           |
| MCap (INR bn) / (\$ mn)      | 7,356/98,846    |
| 6m avg traded value (INR mn) | 11,910          |
| 52 Week high / low           | INR 1,954/1,311 |

### STOCK PERFORMANCE (%)

|              | 3M    | 6M  | 12M  |
|--------------|-------|-----|------|
| Absolute (%) | (7.8) | 2.3 | 25.2 |
| Relative (%) | (3.1) | 7.1 | 5.0  |

### SHAREHOLDING PATTERN (%)

|                 | Sep-21 | Dec-21 |
|-----------------|--------|--------|
| Promoters       | 13.12  | 13.12  |
| FIs & Local MFs | 15.65  | 16.31  |
| FPIs            | 33.46  | 33.17  |
| Public & Others | 37.77  | 37.40  |
| Pledged Shares  | 0.00   | 0.00   |

Source : BSE

Pledged shares as % of total shares

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**Rating Criteria**

BUY: &gt;+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: &gt; 10% Downside return potential

**Disclosure:**

| <b>Analyst</b> | <b>Company Covered</b> | <b>Qualification</b> | <b>Any holding in the stock</b> |
|----------------|------------------------|----------------------|---------------------------------|
| Apurva Prasad  | Infosys                | MBA                  | NO                              |
| Amit Chandra   | Infosys                | MBA                  | NO                              |
| Vinesh Vala    | Infosys                | MBA                  | NO                              |

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