Infosys

14 October 2022

Reuters: INFY.BO; Bloomberg: INFO IN

2QFY23 Result Update

In line quarter, more sectors impacted by macro issues

While Infosys' (INFY) 2QFY23 CC QoQ revenue growth at 4% was a tad softer than our 4.5% estimate, EBIT margin was a little ahead. There was broad-based growth. With macro concerns swirling, INFY has done well to reduce uncertainty by tightening the guidance range on both revenue and margins. CC revenue growth guidance for FY23 has moved from 14%-16% earlier to 15%-16%. The EBIT margin guidance has been changed to 21%-22% from 21%-23%. INFY has announced Rs93bn stock buyback through the open market route. Regarding the macro weakness, it seems to have impacted more sectors beyond Mortgage and Retail that it spoke about on the 1QFY23 call. It has now impacted Hi-Tech and Telecom. Hi-Tech was called out by Wipro too, but Telecom is being mentioned for the first time by any player in this slowdown. Just as we heard from its other Tier-1 peers, there seems to be pre-ponderance of work coming on the cost optimization side, both in the extant work as well as in the pipeline. Pipeline was also indicated as strong, but we suspect that it is burgeoning due to slower decision making by clients and the larger deal sizes on the cost optimization side due to their longer tenors. While INFY did not elaborate much on FY24, it stated that discretionary spending is being selectively cut. While FY23 consensus expectations will be stable after multiple quarters of cuts due to disappointing margins, we believe there is a lot of divergence in views on FY24. We believe that our estimates are at the lower end of the street estimates as we are assuming a low single-digit growth impact from both lower volume as well as some price compression. We expect tighter IT spending by customers due to a significantly weaker corporate revenue/profit picture amid a likely mild recession in 2023 in the US (our base case). Large deal TCV at US$2.7bn was the highest in the last 7 quarters and the performance seems akin to that of Accenture and HCLT in the most recent quarters. We wonder if this is the 'budget flush' of CY22 or part of the 'spend-it-or-lose-it' phenomenon before we move into a more difficult CY23. 54% of TCV was net new. TTM net new TCV was down 43% and could weigh down on growth in FY24. INFY seems to be gaining market share even in FY23 among its Tier-1 Indian peers except for HCLT. Also, just as in FY22, when third-party items had added ~150bps to growth – based on our understanding – 1HFY23 seems to have added another 150bps. Post 1QFY23, we have broadly maintained our operating numbers, but EPS numbers are marginally lower. Due to the buyback, 'other income' goes down in FY24 and beyond, countered partially by lower outstanding equity shares. We maintain our 'SELL' rating on INFY with a lowered target price (TP) of Rs1,153, valuing it at 17.9x on Sept'24E EPS (10% discount to TCS target PE multiple).

Demand environment: According to INFY, while the overall demand environment continues to be healthy, as reflected in broad-based growth and a robust large deal pipeline, there are some signs of cautious behavior by clients due to macro concerns. Apart from some slowdown in the mortgage segment of BFSI and the Retail industry, which was the case in 1QFY23 as well, there are emerging concerns in Hi-tech and Telecom industry as well in the form of reduced spends towards discretionary programs. There have also been some delays in deal closures although there have been no project cancellations in the quarter.

SELL

Sector: Information Technology

CMP: Rs1,420

Target Price: Rs1,153

Downside: 19%

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Key Data

Current Shares O/S (mn)	4,207.8
Mkt Cap (Rsbn/US$bn)	6,338.3/77
52 Wk H / L (Rs)	1,954/1,355
Daily Vol. (3M NSE Avg.)	6,751,628

Price Performance (%)

	1 M	6 M	1 Yr
Infosys	2.1	(13.9)	(12.2)
Nifty Index	(5.5)	(2.6)	(7.2)

Source: Bloomberg

Y/E Mar (Rsmn)	2QFY22	1QFY23	2QFY23	YoY (%)	QoQ (%)	2QFY23E	Dev(%)
Net Sales (USD mn)	**3,998**	**4,444**	**4,555**	***13.9***	***2.5***	**4,551**	***0.1***
Net Sales	**296,020**	**344,700**	**365,380**	***23.4***	***6.0***	**363,788**	***0.4***
Software Development Expenses	198,060	243,690	254,120	*28.3*	*4.3*	250,418	*1.5*
% of Sales	*66.9*	*70.7*	*69.5*	-	-	*68.8*	-
Gross Margin	*97960*	*101010*	*111260*	*13.6*	*10.1*	*113371*	*(1.9)*
% of Sales	*33.1*	*29.3*	*30.5*	-	-	*31.2*	-
SG&A	28,240	31,870	32,530	*15.2*	*2.1*	36,379	*(10.6)*
% of Sales	*9.5*	*9.2*	*8.9*	-	-	*10.0*	-
EBIT	**69,720**	**69,140**	**78,730**	***12.9***	***13.9***	**76,992**	***2.3***
EBIT Margin (%)	*23.6*	*20.1*	*21.5*	-	-	*21.2*	-
Other Income	5,240	6,760	5,840	*11.5*	*(13.6)*	6,628	*(11.9)*
PBT	**74,480**	**75,340**	**83,910**	*12.7*	*11.4*	**83,060**	***1.0***
Provision for Tax	20,200	21,720	23,650	*17.1*	*8.9*	22,426	*5.5*
Effective Tax Rate	*27.1*	*28.8*	*28.2*	-	-	*27.0*	-
PAT (adjusted)	**54,280**	**53,620**	**60,260**	***11.0***	***12.4***	**60,634**	***(0.6)***
Exceptional items	**0**	**0**	**0**	**-**	-	**0**	**-**
Minority Interest	**70**	**20**	**50**	**-**	-	**0**	**-**
PAT (reported)	**54,210**	**53,600**	**60,210**	***11.1***	***12.3***	**60,634**	***(0.7)***
NPM (%)	***18.3***	***15.5***	***16.5***	**-**	**-**	***16.7***	**-**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Key financials

Y/E March (Rsbn)	FY22	FY23E	FY24E	FY25E	FY26E
Revenue (Rsbn)	1216	1458	1543	1798	2010
YoY Growth (%)	21.1	19.9	5.9	16.5	11.8
EBIT (Rsbn)	280	311	330	378	423
EBIT (%)	*23.0*	*21.3*	*21.4*	*21.1*	*21.1*
Adj. PAT(Rsbn)	221	241	247	284	319
YoY Growth (%)	*14.3*	*8.9*	*2.4*	*15.2*	*12.2*
FDEPS-Adjusted (Rs)	52.4	57.6	59.8	68.9	77.4
ROE (%)	*29.0*	*34.0*	*35.4*	*36.6*	*36.8*
Pre - Tax ROCE (%)	*39.2*	*47.1*	*48.9*	*50.6*	*50.9*
Pre Tax ROIC (%)	*47.0*	*49.3*	*50.0*	*53.7*	*56.2*
P/E (x)	27.1	24.6	23.7	20.6	18.4
P/BV (x)	7.9	8.9	8.0	7.1	6.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in our estimates

Infosys	New				Old				% Change			
Change in estimates	FY23E	FY24E	FY25E	FY26E	FY23E	FY24E	FY25E	FY26E	FY23E	FY24E	FY25E	FY26E
INR/USD	80.0	81.8	83.6	86.0	79.5	81.8	83.6	86.0	*0.6*	*0.0*	*0.0*	*0.0*
USD Revenue (USD mn)	18,315	18,864	21,502	23,373	18,380	18,872	21,519	23,402	*(0.4)*	*(0.0)*	*(0.1)*	*(0.1)*
USD Revenue Growth (%)	*12.3*	*3.0*	*14.0*	*8.7*	*12.7*	*2.7*	*14.0*	*8.7*	-	-	-	-
Revenue (Rsbn)	1458	1543	1798	2010	1462	1544	1799	2013	*(0.3)*	*(0.0)*	*(0.1)*	*(0.1)*
EBIT (Rsbn)	311	330	378	423	312	332	380	426	*(0.3)*	*(0.4)*	*(0.4)*	*(0.6)*
EBIT Margin (%)	*21.3*	*21.4*	*21.1*	*21.1*	*21.3*	*21.5*	*21.1*	*21.2*	-	-	-	-
PAT Adjusted (Rsbn)	241	247	284	319	243	258	296	333	*(0.7)*	*(4.3)*	*(4.1)*	*(4.2)*
FDEPS-Adjusted (Rs)	57.6	59.8	68.9	77.4	57.8	61.4	70.5	79.3	*(0.3)*	*(2.6)*	*(2.3)*	*(2.4)*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Vertical-based YoY growth in 2QFY23

Verticals	Contribution to Revenue (%)	Reported (YoY)	CC (YoY)
Financial Services	30.50	7.60	11.50
Retail	14.20	10.60	15.40
Communication	12.30	13.30	18.40
Energy, Retail, Resources & Services	12.30	18.60	24.30
Manufacturing	12.80	34.00	45.00
Hi-Tech	8.20	9.20	9.90
Life Sciences	6.70	7.60	10.30
Others	3.00	44.30	56.60
Total	100.00	13.90	18.80

Source: Nirmal Bang Institutional Equities Research

Exhibit 4: Geography-based YoY growth in 2QFY23

Geographies	Contribution to Revenue	Reported (YoY)	CC (YoY)
North America	62.5	15.00	15.60
Europe	24.7	13.80	28.50
India	2.9	28.50	36.40
ROW	9.9	4.70	11.90
Total	**100.0**	13.90	18.80

Source: Nirmal Bang Institutional Equities Research

Our view on the Indian IT services sector: We had downgraded our view on the Indian IT Services sector to UW on a 12-month basis through a report on 10th April, 2022 (Positive surprises likely low in FY23; Tier-2 risky) and cut target prices further through our notes on 19th May, 2022 (Customer stress shows up), 8th July, 2022 (Negatives not in price) and 10 October, 2022 (Growth expectations too high). We advocate that investors use the likely 1HFY23 strength to pare positions if overweight, especially in expensive Tier-2 set. Nifty IT index advanced by ~144% from 1st Jan, 2020 till 31st March, 2022 while Nifty was up 44% (Nifty Bank was up by only 13%!). This massive outperformance of Nifty IT was on the back of pandemic-driven Digital Transformation (DT) services-based earnings acceleration and significant multiple expansion on unprecedented monetary stimulus in the US/Europe. DT high tide over the last 24 months has lifted all boats (including weak ones). However, accelerated normalization of monetary policy in the US raises probabilities of a hard landing there and consequently high probability of negative surprises on the fundamental side over the next 12-18 months. We believe consensus is underestimating growth and margin risks in FY24. While DT services will continue to remain a key theme for the next several years, we believe that 'willingness-to-spend' will be constrained by 'ability-to-spend' as enterprise customers battle earnings pressure from commodity and wage inflation, supply chain challenges, reduced consumer spending power, higher interest rates and likely below-trend growth in western developed economies. This, in our view, will mean that the current peak corporate profits of S&P 500 are unlikely to sustain. We also believe that the broader enterprise customer profit picture might look worse in the west. Beyond FY23, we see customers shifting from the current democratic 'skills/capability' focused vendor model to a more discriminating one based on 'ability-to-deliver' (1) cost take outs and (2) business model changes - in that order. It is here that one will see divergence in growth and valuation from what seems a tight homogeneous bunch currently, with Tier-2 set being given significant benefit of doubt (by us too). Incrementally, risks are to the downside from both valuation as well as fundamental perspective. We favour Tier-1 IT companies vs Tier-2.

While the chances of a near term Fed pivot (due to likely financial/economic stress rather than lower inflation) and the consequent risk-assets run-up are fair, we persist with our 'UW' stance on the Indian IT Services sector. This is because: (1) we believe that a conclusive Fed pivot is likely only when US inflation falls to ~2%, which we think is unlikely in the next six months. Financial stress/accident related stopping/easing of current hawkish monetary policy could induce a short-term rally that may not be sustainable (2) consensus earnings estimates for FY24/FY25 continue to be too high and seem to implicitly assume a soft-landing of the US economy while probability of a recession (shallow/deep) has risen significantly in the last six months. The latter could lead to pressure on business volume and pricing. We are explicitly pricing in a shallow recession (3) even if one were to ignore the next 12–18-month earnings/valuation volatility and take a 5-year view, we believe that starting valuations are expensive and can at best deliver high single-digit stock returns for TCS/Infosys, as we believe that structural revenue/earnings growth are being overestimated by the street. We believe that revenue/earnings growth over a 5-year period (FY23-FY28) will be 100-200bps higher than the FY15-FY20 period (~7%), whereas peers believe it will be 300-500bps higher. *Ceteris Paribus,* this has valuation/return implications. In our base case of a shallow recession in the US in CY23, we are expecting low single-digit USD revenue growth for Tier-1 IT companies in FY24. In our new estimates for FY24, we are assuming some pricing compression as well as some compensation cost increase (neither had been assumed in the previous numbers). We continue to have a 'Sell' rating on all stocks under our coverage. Despite having EPS estimates lower than the street, we suspect they could still see downsides if there is a deep recession in the US. Our "V" shaped recovery estimate in FY25 USD revenue and earnings is predicated on the expectation that US inflation will ease off to 2% by the end of CY23 and the Fed will be able to not only cut interest rates, but possibly also announce some unconventional stimulus measures. We believe there are downside risks to that assumption.

We continue to maintain TCS as our industry valuation benchmark: We are valuing TCS at target 12-month forward PE of 19.9x on FY24E EPS, which represents 1SD below the last 5-year mean. Target multiples for others are at a discount to TCS. If one were to look back in history, our Target PE multiples are not overly pessimistic as PE multiples of many Tier-1 IT stocks, including that of TCS and Infosys, had reached single-digit levels during GFC.

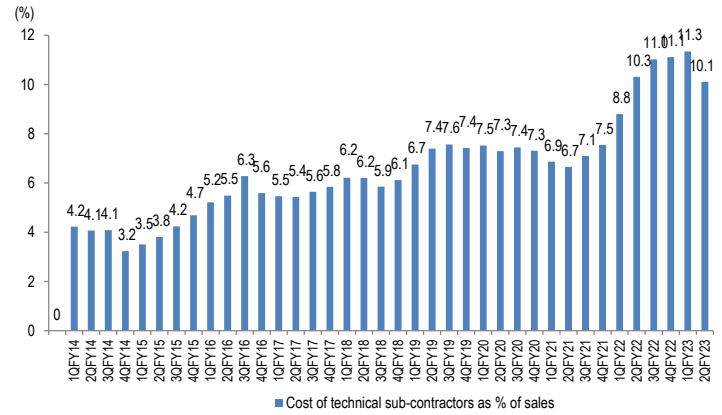
Tier-2 could face significant risks in the new environment: We fear that the Indian Tier-2 set would suffer more because of vendor consolidation under the pressured profit picture for customers, a less diversified revenue mix (client, service line, vertical), which could throw up negative growth surprises, and a larger exposure to non-Global 1000 clientele, whose profits are more vulnerable in the current macro environment. Indian Tier-2 IT is now at a PE premium of ~30% to Tier-1 (from peak of ~60% in November 2021) from a discount of 14% on 1st Jan, 2020, that too on elevated earnings. This premium reflects expectations of big positive earnings growth gap between Tier-2 and Tier-1 IT companies over FY21-FY24 and improving return ratios. We don't think this level of growth gap will sustain much beyond FY24. The high PE multiples are also reflection of market's view that some Tier-2 IT companies will become US$5-10bn enterprises in the next 10-20 years. Once the 'Digital' high tide recedes, it remains to be seen which of the current Tier-2 set will continue to show promise. In the initial phase of any new tech cycle, customers tend to be open to new vendors, but as the cycle matures (post FY24 in our view), vendors that have scale – Tier-1 - tend to do better. We think customers are looking for revolutionary transformation, which Tier-1 companies with multi-vertical exposure and deeper domain/technology skills are best placed to deliver.

2QFY23 result highlights

- **Growth below estimates in 2QFY23:** INFY's reported revenue of US$4,555mn reflected a growth of 4% QoQ (against our estimate of 4.5%) and 18.8% YoY in CC terms. Growth was largely driven by strong demand for both transformational deals as well as cost optimization deals. Growth was broad-based across sectors, service lines and geographies, with double-digit growth in all business segments, except HI-Tech, supported by continued momentum in large deal wins as INFY continued to gain market share on the back of strong digital and cloud capabilities. Digital business grew by 31.2% YoY and contributed 61.8% to the overall revenue while the Core business grew by 3% YoY in CC terms.
- **Guidance tightened; Revenue upped at the lower end while EBIT margin to come in at the lower end of the guided band**: A strong 1HFY23 performance of 20%+ growth in CC terms and robust large deal signings in 2QFY23 give INFY management confidence to change the revenue growth guidance from 14%-16% earlier to 15%-16% despite emerging concerns about the macro-economy. The operating margin guidance for FY23 has been changed to 21%-22% from 21%-23%, which will be at the lower end of the range as indicated by the company. 1HFY23 growth was strong, but 2H will be impacted due to seasonality issues like furloughs and macro-economic issues.
- **Double-digit growth across all business segments and geographies; Manufacturing continues to lead**: INFY reported double-digit growth in all its business segments, led by Manufacturing, which grew by 45% YoY in CC terms, with clients across Engineering, IoT, Supply Chain, Cloud ERP and Digital Transformation areas. This was followed by Energy & Utilities, which grew by 24.3% YoY; Communications grew by 18.4% YoY, Retail grew by 15.4% YoY, Hi-tech grew by 9.9% YoY and Life Sciences grew by 10.3% YoY. The largest contributor, BFSI, grew by 11.5% YoY, as some pockets like the mortgage sub-vertical got impacted due to the challenging macro environment. In terms of geographies, North America grew by 15.6% YoY, Europe surprisingly grew by 28.5% YoY, India grew by 36.4% YoY and ROW grew by 11.9% YoY. The company has seen good traction in the European market over the last few quarters, but remains vigilant of the macro environment for 2HFY23. INFY is very bullish on the Indian market and is looking to work with the government and private business on digital transformation (eg GST), where the government is seeing healthy growth in collections.
- **Demand environment:** While the overall demand environment continues to be healthy, as reflected in broad-based growth and robust large deal pipeline, there are some signs of cautious behavior by clients due to macro concerns. Apart from some slowdown in the mortgage segment of BFSI and the Retail industry, which was the case in 1QFY23 as well, there are emerging concerns in Hi-tech and Telecom industry as well in the form of reduced spends towards discretionary programs. There have also been some delays in deal closures although there have been no project cancellations in the quarter.
- **Margins healthy for 2QFY23; will peak for FY23:** EBIT margin for 2QFY23 stood at 21.5%, beating our above-consensus estimate of 21.2% and increasing by 140bps QoQ. This was because of cost efficiencies (90bps), optimization in large deals, automation, onsite:offshore mix, lower subcontractor costs (120bps), currency benefits (70bps) and improved pricing. These benefits were offset by headwinds from cross-currency impact (90bps), lower utilization (40bps) and compensation increases (40bps). 1HFY23 operating margin stood at 20.7% and in view of the full-year guidance of 21-22%, INFY believes there will not be any further QoQ improvement over 2QFY23 margin as overall full-year margin will be at the bottom end of the guided range.
- **Pricing conversations continue:** Pricing conversations are continuing with the clients depending on the types of contracts & clauses and the company has been successful in reducing the discounts given earlier. Clients also understand this as they too are seeing impacts of high attrition and wage inflation. The company is following the approach of showing value to the customer from its services and trying to use the COLA clauses to push for price increases. There may be no immediate impact, but INFY believes that over the long haul, better pricing is on the cards and will continue the client conversations going forward.
- **Digital contribution continues to rise:** The share of Digital in overall revenue increased to 61.8% in 2QFY23 with continued growth momentum of 31.2% YoY in CC terms. Core services also saw growth acceleration, growing by 3% YoY. It was led by industry-leading automation capabilities and reflected interest among clients towards cost optimization programs, which translated into a large deal pipeline with strong focus on cost reduction programs. The company usually does not share revenue from Cloud, but mentioned it crossed US$1bn in cloud revenue in 2QFY23 (22% of total revenue in the quarter), driven by industry-leading Cobalt capabilties.

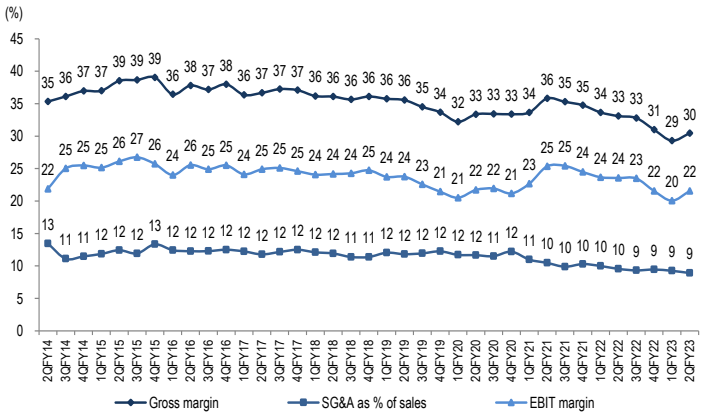
- **Strong deal wins for 2QFY23**: INFY recorded TCV of US$2.7bn (54% net new) in 2QFY23 (up 26% YoY and 59% QoQ), with 27 large deals. This is the highest large deals value seen in the last 7 quarters. Five large deals were won in the BFSI sector, 4 each in Retail, Communication, Energy Uutility Resources & Services and High-tech, 3 in Manufacturing, 2 in Life Sciences and 1 in the Others vertical. Region-wise, 18 large deals were won in America, 6 in Europe, 1 in India and 2 in the ROW. The BFSI segment continued to be strong, backed by large deal wins, account expansion and new account opening.
- **Specifics about the deal pipeline**: INFY continues to see an acceleration in cloud adoption in the BFSI sector along with cloud migration, cloud management and other cloud-related platform deals. In Retail, focus is on digital consumer engagement, supply chain transformation initiatives, legacy modernization and new in-store capabilities. In Communications, the order pipeline and deal conversions are healthy, but cost pressures are expected from the client side with impact on budgets, especially for traditional services due to macro-economic concerns. The company is putting more emphasis within the pipeline on actively looking at automation.
- **Strong client mining:** The company saw a strong YoY increase in client count across revenue buckets. The number of US$50mn clients increased by 15 to 77 while the number of US$100mn clients increased by 4 to 39 and the number of US$300mn clients increased to 5. Top 25 client contribution to revenue declined from 36.3% in 1QFY23 to 35.3% in 2QFY23, but the management maintained this is not a cause of concern and would be the result of cross-currency headwinds mainly impacting the European currency basket.
- **Fighting attrition and declining utilization as hiring continues to remain aggressive:** INFY reported voluntary LTM attrition rate at 27.1% vs 28.4% in 1QFY23 and 20.1% in 2QFY22. Net employee utilization rate (excluding trainees) declined by 100bps QoQ from 77.6% in 1QFY23 to 76.6% in 2QFY23, owing to the influx of freshers after their training period. The company hired 10,000+ net employees for 2QFY23 after two consecutive quarters of 20,000+ net addition, taking the employee base to 345,218. The company is on track to beat the guidance of hiring 50,000 freshers in FY23 after record hiring of 84,000 in FY22. Attrition has now been decreasing for the past three quarters, and quarterly annualized voluntary attrition declined further by 2.5% in 2QFY23. The company expects to further reduce attrition in the coming quarters. INFY also believes that there is significant scope for improvement in utilization and that it is more comfortable being closer to the 85% level utilisation, excluding trainees (currently at 83.6%).
- **Share buy-back and dividend:** In line with its stated capital allocation policy of returning 85% of FCF to shareholders over a 5-year period, the Board has announced a share buyback of Rs93bn or US$1.13bn besides an interim dividend of Rs16.5/share. The buyback of equity shares will be through the open market route post approval of shareholders at a maximum buyback price of Rs1,850.
- **Cash position:** The balance sheet continues to remain strong and debt-free with consolidated cash & investments at US$4.8bn at the end of the quarter. FCF for the quarter was US$589mn (79% of net profit). FCF generation is typically low in 2QFY23 due to higher tax payout in both India and the US. DSO increased by 2 days QoQ to 65, reflecting higher billing done during the quarter.
- **Moonlighting and return to office:** The company has made its stance clear that it does not support dual employment and some such cases have been detected over the last 12 months. It has let go off these employees. It remains flexible with respect to the 'return to office' trend, but has seen good traction week on week, with 45,000 employees across India present in office last week. There will be some discretion given to employees on this, and where specific client or project requirements arise, employees would be expected to be present.

Exhibit 5: Sub-contractor charges decrease ~120 bps QoQ



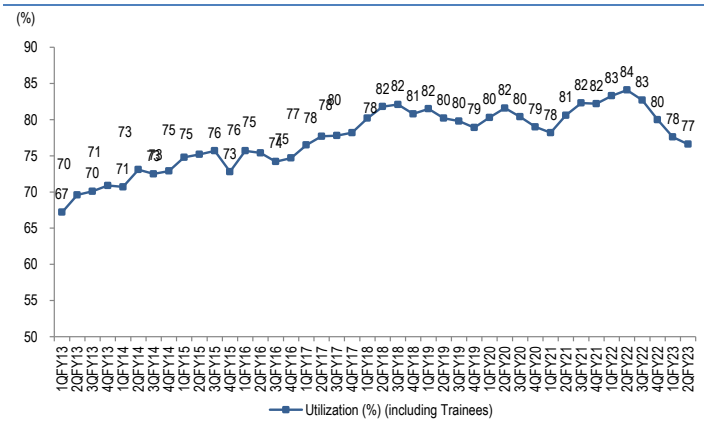
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit6: EBIT margin increased by ~140bpsQoQ



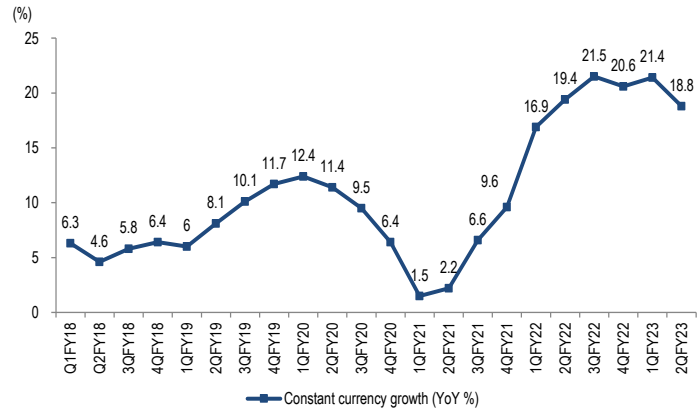
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Utilization declined by 100bps QoQ



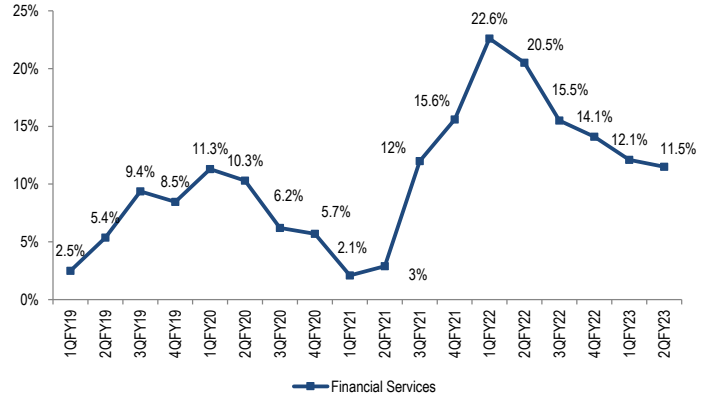
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: YoY revenue growth for the company (CC terms)



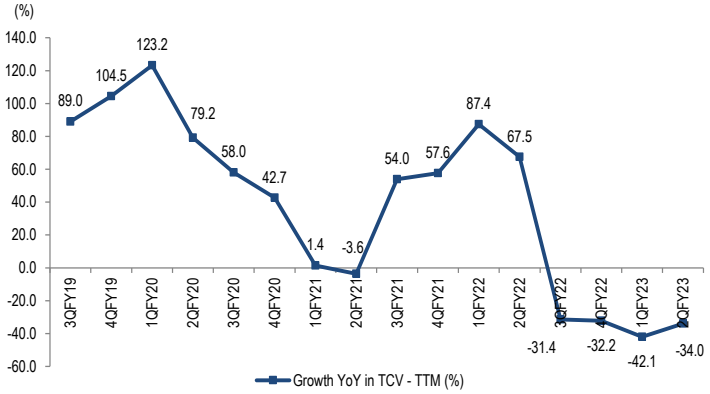
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: YoY revenue growth for the BFSI vertical (CC terms)



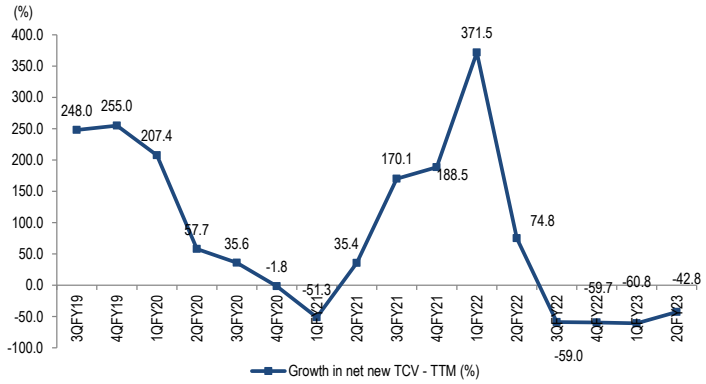
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Growth in large deal TCV – TTM (%)



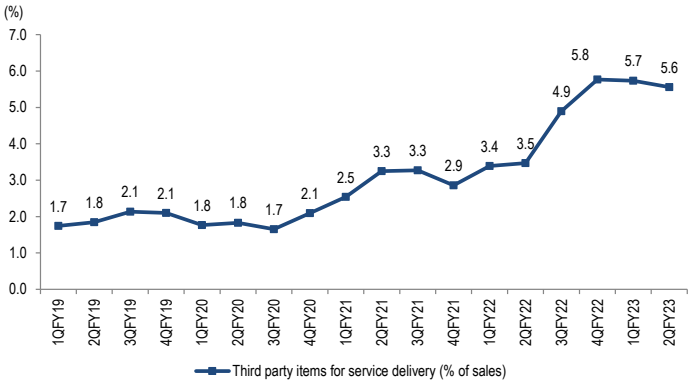
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Growth in Net new large deal TCV – TTM (%)



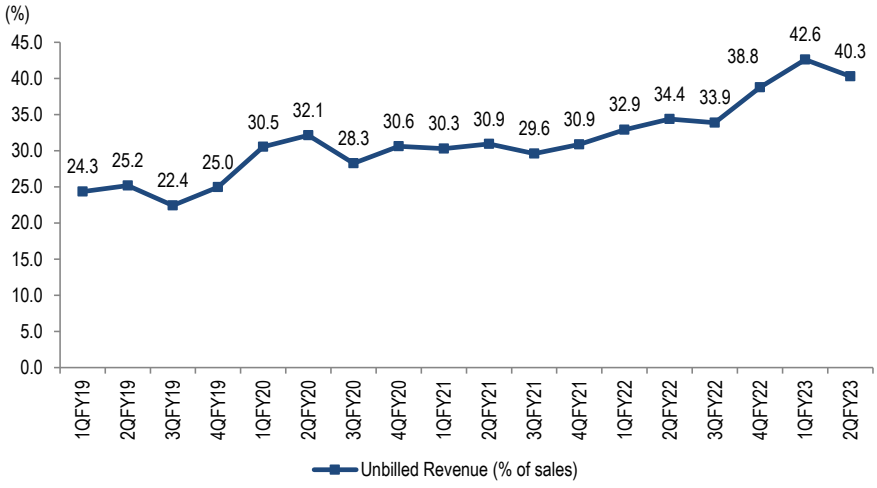
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Trends in third party items for service delivery (as % of quarterly revenue)



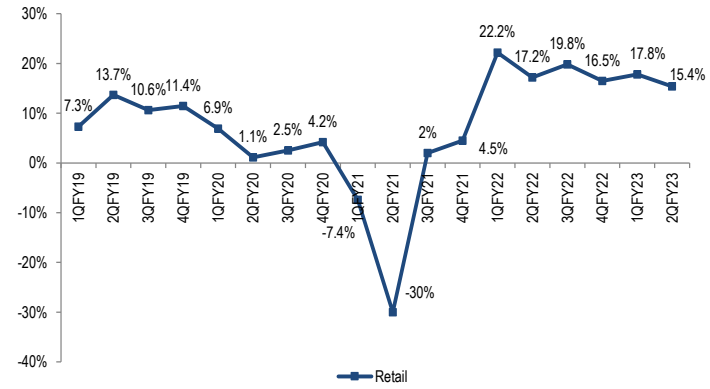
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Trends in Unbilled revenue (as % of quarterly revenue)



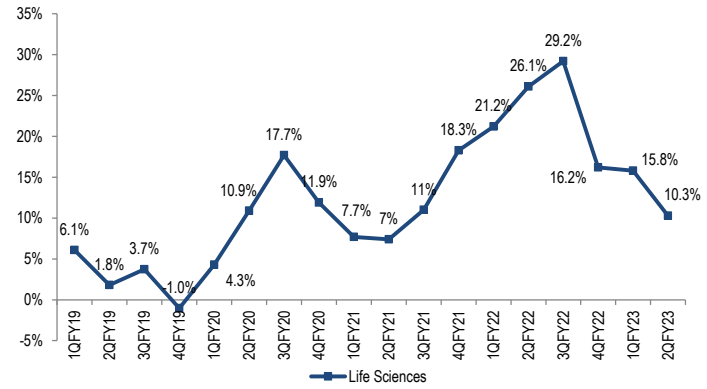
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: YoY revenue growth (CC terms) for retail vertical



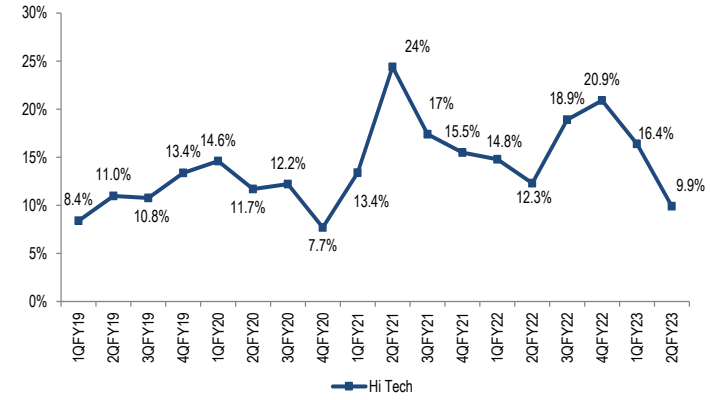
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: YoY revenue growth (CC terms) for Life sciences vertical



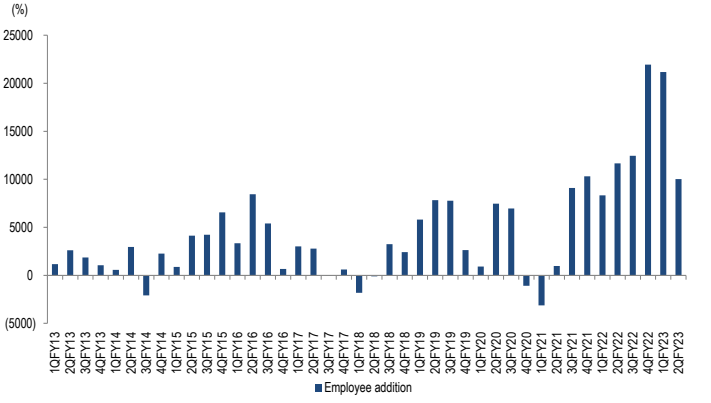
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: YoY revenue growth (CC terms) for Hi Tech vertical



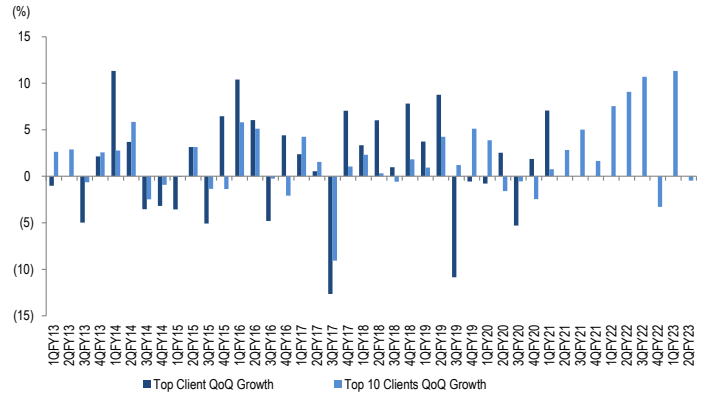
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Net employee addition weakens QoQ



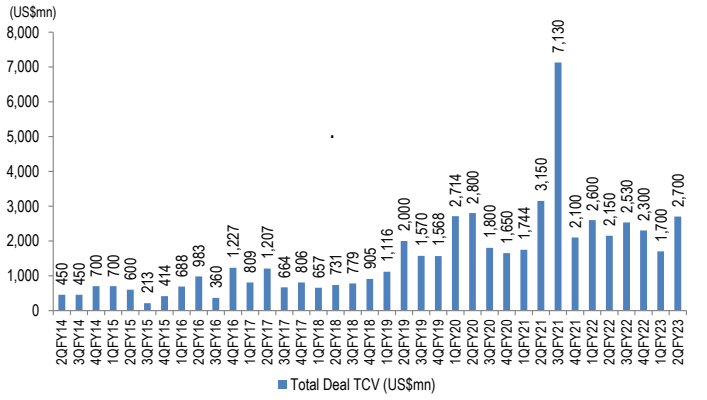
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Revenue from Top 10 clients decreased QoQ



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19: TCV highest in the last 7 quarters



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 20: Quarterly snapshot

Year to 31 March(Rsmn)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23
INR/USD	75.8	74.2	73.7	72.8	73.8	74.0	75.0	75.4	77.5	82.0
USD Revenue (USD mn)	**3121**	**3312**	**3516**	**3613**	**3782**	**3998**	**4250**	**4280**	**4444**	**4555**
INR Revenue	236,650	245,700	259,270	263,110	278,960	296,020	318,670	322,760	344,700	365,380
Gross margin	79,620	87,990	91,500	91,470	93,900	97,960	104,520	100,040	101,010	111,260
SGA	25,970	25,710	25,610	27,070	27,870	28,240	29,680	30,480	31,870	32,530
EBIT	53,650	62,280	65,890	64,400	66,030	69,720	74,840	69,560	69,140	78,730
Other income	4,750	5,700	6,110	5,450	6,220	5,240	5,120	6,370	6,760	5,840
PBT	57,920	67,500	71,510	69,350	71,760	74,480	79,430	75,430	75,340	83,910
Tax	15,200	18,920	19,360	18,570	19,750	20,200	21,210	18,480	21,720	23,650
PAT-Adjusted	42,330	48,450	51,970	50,760	51,950	54,210	58,090	56,860	53,600	60,210
Shares Outstanding (basic)	4,241	4,242	4,243	4,244	4,246	4,210	4,191	4,192	4,194	4,195
EPS Adjusted (Rs)	10.0	11.4	12.2	12.0	12.2	12.9	13.9	13.6	12.8	14.4
YoY Growth (%)										
USD Revenue	(0.3)	3.2	8.4	13.0	21.2	20.7	20.9	18.5	17.5	13.9
INR Revenue	8.5	8.6	12.3	13.1	17.9	20.5	22.9	22.7	23.6	23.4
Gross profit	13.4	16.5	18.5	17.8	17.9	11.3	14.2	9.4	7.6	13.6
EBIT	20.0	26.8	30.1	30.7	23.1	11.9	13.6	8.0	4.7	12.9
Net profit	11.5	20.6	16.6	17.5	22.7	11.9	11.8	12.0	3.2	11.1
QoQ Growth (%)										
USD Revenue	(2.4)	6.1	6.2	2.8	4.7	5.7	6.3	0.7	3.8	2.5
INR Revenue	1.7	3.8	5.5	1.5	6.0	6.1	7.7	1.3	6.8	6.0
EBIT	8.9	16.1	5.8	(2.3)	2.5	5.6	7.3	(7.1)	(0.6)	13.9
Net profit	(2.0)	14.5	7.3	(2.3)	2.3	4.4	7.2	(2.1)	(5.7)	12.3
Margins (%)										
Gross margin	33.6	35.8	35.3	34.8	33.7	33.1	32.8	31.0	29.3	30.5
SGA	11.0	10.5	9.9	10.3	10.0	9.5	9.3	9.4	9.2	8.9
EBIT	22.7	25.3	25.4	24.5	23.7	23.6	23.5	21.6	20.1	21.5
PAT	17.9	19.7	20.0	19.3	18.6	18.3	18.2	17.6	15.5	16.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 21: Key metrics**

Key Metrics	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23
P and L (Rsmn)														
Revenue	218,030	226,290	230,920	232,670	236,650	245,700	259,270	263,110	278,960	296,020	318,670	322,760	344,700	365,380
EBITDA	44,710	49,120	50,640	49,270	53,650	62,280	65,890	64,400	66,030	69,720	74,840	69,560	69,140	78,730
PAT	37,980	40,190	44,570	43,210	42,330	48,450	51,970	50,760	51,950	54,210	58,090	56,860	53,600	60,210
Vertical Mix (%)														
Manufacturing	17.3	17.7	17.9	18.0	18.2	18.2	17.5	17.7	18.0	19.4	19.4	20.0	20.3	21.0
Insurance Finance and Banking	31.4	31.9	31.5	31.3	31.5	32.0	33.1	33.0	33.0	32.3	31.5	31.3	30.6	30.5
Telecom	13.8	13.1	13.0	13.0	13.4	12.6	12.4	12.0	12.2	12.4	12.5	12.8	13.0	12.3
Retailing & CPG	15.8	15.2	15.3	15.5	14.3	14.9	14.7	14.8	15.0	14.6	14.5	14.3	14.5	14.2
Others (utilities, logistic, transportation,etc)	15.6	15.7	15.6	15.8	15.9	15.5	15.2	15.7	15.0	14.2	14.6	15.0	15.1	15.3
Life Sciences	6.1	6.4	6.7	6.4	6.7	6.8	7.1	6.8	6.8	7.1	7.5	6.6	6.5	6.7
Geographic Mix (%)														
North America	61.6	61.4	61.3	61.6	61.5	60.7	61.6	61.6	61.7	61.9	61.8	61.4	61.8	62.5
Europe	23.6	24.1	24.4	24.4	24.0	24.3	24.0	24.4	24.2	24.8	24.9	25.2	25.0	24.7
India	2.3	2.7	2.8	2.6	2.9	3.0	2.6	3.0	2.9	2.6	3.0	3.2	2.6	2.9
Rest of the world	12.5	11.8	11.5	11.4	11.6	12.0	11.8	11.0	11.2	10.7	10.3	10.2	10.6	9.9
Utilization (%) (including Trainees)	80	82	80	79	78	81	82	82	83	84	83	80	78	77
Utilization (%) (Excluding Trainees)	83	85	84	84	81	84	86	88	89	89	89	87	85	84
Effort Mix														
Onsite	28.7	28.2	27.7	27.6	28	26.1	25.2	24.3	24.1	23.6	23.8	24	24.3	24.4
Offshore	71.3	71.8	72.3	72.4	72	73.9	74.8	75.7	75.9	76.4	76.2	76	75.7	75.6
Clients Concentration (%)														
Top client	3.2	3.2	3.0	3.1	3.4	NA	NA	NA	NA	NA	NA	NA	NA	NA
Top 5 clients	-	-	-	-	11.8	11.3	10.8	10.9	11.3	11.4	12.0	11.8	13.0	12.6
Top 10 clients	20.0	19.2	18.9	18.7	19.3	18.7	18.5	18.3	18.8	19.4	20.2	19.4	20.8	20.2
Number of Client														
$1m	680	693	705	718	729	745	761	779	805	841	854	853	877	895
$10m	228	228	232	234	236	242	246	252	264	270	274	275	278	281
$50m+	59	61	61	61	60	60	60	59	59	62	64	64	69	77
$100m	27	27	28	28	25	30	29	32	34	35	37	38	38	39
Employees	229,029	236,486	243,454	242,371	239,233	240,208	249,312	259,619	267,953	279,617	292,067	314,015	335,186	345,218
Net addition	906	7,457	6,968	-1,083	-3,138	975	9,104	10,307	8,334	11,664	12,450	21,948	21,171	10,032
Attrition (consolidated)(%)	23.4	21.7	19.6	20.7	11.7	7.8	10.0	15.2	13.9	20.1	25.5	27.7	28.4	27.1
Attrition (annualized standalone)(%)	21.5%	19.40%	17.60%	18.20%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Profit and Loss Statement (in mn USD)														
Revenue	3,131	3,210	3,243	3,197	3,121	3,312	3,516	3,613	3,782	3,998	4,250	4,280	4,444	4,555
EBIT	642	696	711	674	708	840	893	884	896	941	998	920	888	979
PAT	546	572	627	592	564	655	707	697	705	734	776	753	689	749
Productivity Metrics														
Per Capita (Annualised)														
Revenue	54,688	54,295	53,287	52,762	52,180	55,152	56,411	55,666	56,458	57,193	58,207	54,521	53,033	52,778
EBIT	11,217	11,773	11,686	11,123	11,834	13,988	14,327	13,620	13,375	13,461	13,669	11,720	10,597	11,344
PAT	9,541	9,675	10,306	9,770	9,427	10,907	11,343	10,739	10,524	10,500	10,629	9,593	8,222	8,679
QoQ Growth(In USD terms)														
Revenue	2%	3%	1%	-1%	-2%	6%	6%	3%	5%	6%	6%	1%	4%	2%
EBIT	-2%	8%	2%	-5%	5%	19%	6%	-1%	1%	5%	6%	-8%	-3%	10%
PAT	-6%	5%	10%	-6%	-5%	16%	8%	-1%	1%	4%	6%	-3%	-9%	9%

***Note: Starting 1QFY19, Infosys has reclassified a number of parameters and therefore the data is not strictly comparable across quarters*

****Note: LTM number and not comparable across quarters*

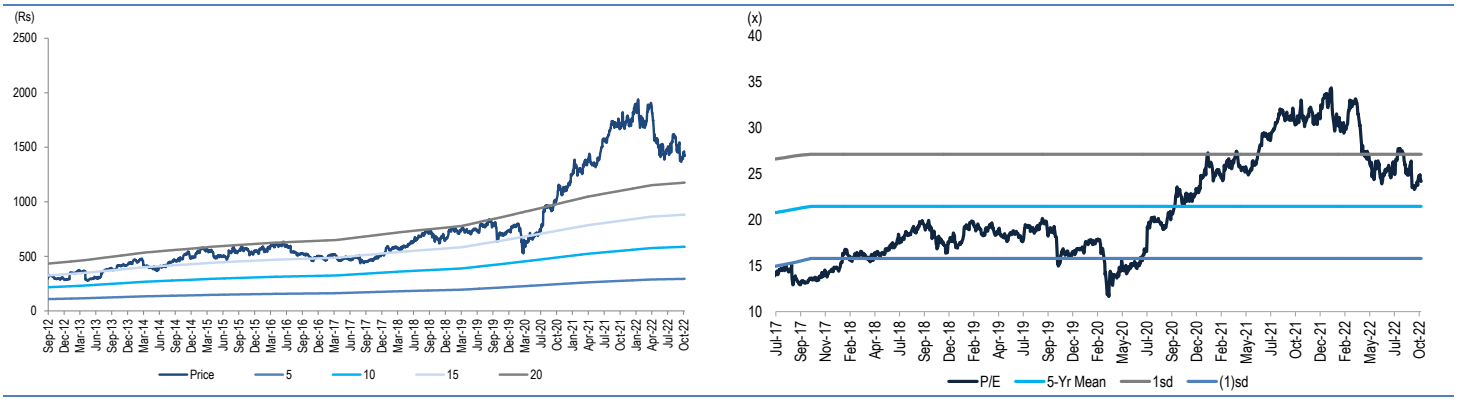
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 22: Constant currency YoY growth metrics

	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23
Constant currency growth (YoY %)	**11.4**	**9.5**	**6.4**	**1.5**	**2.2**	**6.6**	**9.6**	**16.9**	**19.4**	**21.5**	**20.6**	**21.4**	**18.8**
By Geography													
North America	11.9%	10.1%	5.5%	0.0%	1.9	8.8	12.3	21.1	23.1	21.4	18.5	18.4	15.6
Europe	14.6%	12.0%	9.6%	4.4%	0.6	1.3	5.1	12.2	19.6	27.2	28.3	33.2	28.5
India	17.9%	18.4%	22.3%	32.8%	20.4	4.3	30.8	20.7	4.2	40.1	29.5	5.8	36.4
ROW	1.9%	0.2%	1.8%	-2.0%	3.7	6.1	-0.9	4.9	4.7	6.7	13.9	17.8	11.9
By Vertical	**2QFY20**	**3QFY20**	**4QFY20**	**1QFY21**	**2QFY21**	**3QFY21**	**4QFY21**	**1QFY22**	**2QFY22**	**3QFY22**	**4QFY22**	**1QFY23**	**2QFY23**
Financial Services	10.3%	6.2%	5.7%	2.1%	3%	12%	15.6%	22.6%	20.5%	15.5%	14.1%	12.1%	11.5%
Retail	1.1%	2.5%	4.2%	-7.4%	-30%	2%	4.5%	22.2%	17.2%	19.8%	16.5%	17.8%	15.4%
Communication	19.2%	20.6%	3.1%	-0.7%	-2%	1%	-0.8%	4.6%	16.6%	22.2%	29.2%	30.0%	18.4%
Energy, Utilities, Resources and Services	19.1%	8.9%	7.3%	-0.2%	-4%	5%	4.9%	10.5%	14.6%	13.6%	17.8%	24.6%	24.3%
Manufacturing	16.9%	11.8%	7.4%	0.3%	-8%	-4%	3.4%	18.5%	42.5%	48.4%	50.6%	55.2%	45.0%
Hi Tech	11.7%	12.2%	7.7%	13.4%	24%	17%	15.5%	14.8%	12.3%	18.9%	20.9%	16.4%	9.9%
Life Sciences	10.9%	17.7%	11.9%	7.7%	7%	11%	18.3%	21.2%	26.1%	29.2%	16.2%	15.8%	10.3%
Others	0.3%	11.5%	21.1%	24.4%	25%	3%	25.8%	10.2%	-9.6%	36.0%	7.3%	15.4%	56.6%
Constant currency growth (QoQ %)	**3.3**	**1**	**-0.8**	**-2**	**4**	**5.3**	**2**	**4.8**	**6.3**	**7**	**1.2**	**5.5**	**4**

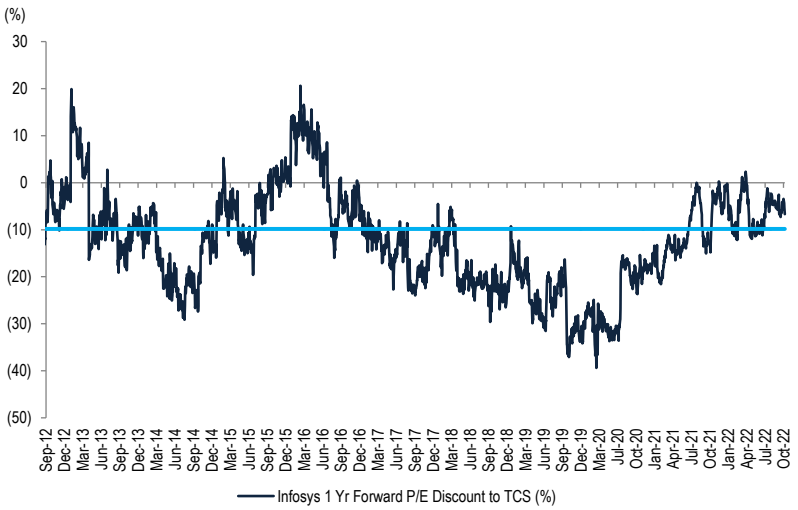
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 23: P/E multiple charts



Source: Company,Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 24: Infosys' one-year forward P/E discount to TCS



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Financials

Exhibit 25: Income statement

Y/E March (Rsbn)	FY22	FY23E	FY24E	FY25E	FY26E
Average INR/USD	**74.5**	**80.0**	**81.8**	**83.6**	**86.0**
Net Sales (USD mn)	**16,310**	**18,315**	**18,864**	**21,502**	**23,373**
-Growth (%)	***20.3***	***12.3***	***3.0***	***14.0***	***8.7***
Net Sales	1,216	1,458	1,543	1,798	2,010
-Growth (%)	*21.1*	*19.9*	*5.9*	*16.5*	*11.8*
Direct Costs	820	1,008	1,056	1,230	1,376
Gross Margin	**396**	**450**	**488**	**567**	**635**
% of sales	***32.6***	***30.9***	***31.6***	***31.6***	***31.6***
SG& A	116	139	157	189	211
% of sales	*9.6*	*9.5*	*10.2*	*10.5*	*10.5*
EBIT	**280**	**311**	**330**	**378**	**423**
% of sales	***23.0***	***21.3***	***21.4***	***21.1***	***21.1***
Other income (net)	23	28	16	20	23
PBT	301	336	343	396	444
-PBT margin (%)	*24.8*	*23.1*	*22.3*	*22.0*	*22.1*
Provision for tax	80	95	97	112	125
Effective tax rate (%)	*26.4*	*28.3*	*28.2*	*28.2*	*28.2*
Net profit (adjusted)	**221**	**241**	**247**	**284**	**319**
-Growth (%)	*14.3*	*8.9*	*2.4*	*15.2*	*12.2*
-Net profit margin (%)	*18.2*	*16.5*	*16.0*	*15.8*	*15.9*
Shares Outstanding (Basic)	4,192	4,117	4,117	4,117	4,117

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 26: Cash flow

Y/E March (Rsbn)	FY22	FY23E	FY24E	FY25E	FY26E
EBIT	280	311	330	378	423
(Inc.)/dec. in working capital	(4)	(27)	(16)	(57)	(22)
Cash flow from operations	277	284	314	321	402
Other Income	23	28	16	20	23
Depreciation & Amortisation	35	39	40	47	52
Financial Expenses	(2)	(3)	(3)	(3)	(3)
Tax Paid	(80)	(95)	(97)	(112)	(125)
Dividends Paid	(130)	(133)	(173)	(199)	(223)
Net Cash from Operations	**122**	**121**	**98**	**75**	**126**
Capital Expenditure	(32)	(50)	(49)	(56)	(62)
Net Cash after Capex	91	71	49	19	64
Inc./(Dec.) in Debt	-	-	-	-	-
(Inc.)/Dec. in Investments	(61)	(21)	0	0	0
Share Issue/(Share Buyback)	(111)	(113)	0	0	0
Cash from Financial Activities	(173)	(135)	0	0	0
Others	10	(82)	0	0	0
Opening Cash	247	175	29	78	97
Closing Cash	175	29	78	97	161
Change in Cash	(72)	(146)	49	19	64

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 27: Balance sheet

Y/E March (Rsbn)	FY22	FY23E	FY24E	FY25E	FY26E
Equity capital	21.0	21.0	21.0	21.0	21.0
Reserves & surplus	736	640	714	799	894
Net worth	757	661	735	820	915
Deferred tax liability	12	11	11	11	11
Other liabilities	28	29	29	29	29
Lease Liabilities	46	56	56	56	56
Total liabilities and Equity	**843**	**756**	**830**	**915**	**1,011**
Goodwill	62	69	69	69	69
Other intangible assets	17	18	18	18	18
Net block	136	138	147	156	165
Investments	203	217	217	217	217
Deferred tax asset - net	12	14	14	14	14
Other non-current assets	86	92	97	109	115
Unbilled revenue	125	150	161	191	204
Derivative financial instrument	1	1	1	1	1
Other current assets	86	93	100	118	127
Income tax assets-current	1	-	-	-	-
Debtors	227	258	276	337	361
Cash & bank balance	175	29	78	97	161
Right-of-use Assets	48	56	56	56	56
Total current assets	663	588	672	801	911
Total current liabilities	336	380	402	468	497
Net current assets	327	208	269	333	413
Total assets	**843**	**756**	**830**	**915**	**1,011**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 28: Key ratios

Y/E March	FY22	FY23E	FY24E	FY25E	FY26E
Per Share (Rs)					
EPS-Adjusted	52.5	57.7	59.9	69.0	77.5
FDEPS-Adjusted	52.4	57.6	59.8	68.9	77.4
Dividend Per Share	31.0	31.9	41.9	48.3	54.2
Dividend Yield (%)	2.2	2.2	3.0	3.4	3.8
Book Value	181	160	178	199	222
Dividend Payout Ratio (incl DT)	59	55	70	70	70
Return ratios (%)					
RoE	29.0	34.0	35.4	36.6	36.8
Pre Tax RoCE	39.2	47.1	48.9	50.6	50.9
Pre Tax ROIC	47.0	49.3	50.0	53.7	56.2
Turnover Ratios					
Asset Turnover Ratio	1.0	1.3	1.3	1.3	1.3
Debtor Days (incl. unbilled Rev)	104	101	102	106	101
Working Capital Cycle Days	31	30	31	36	35
Valuation ratios (x)					
PER	27.1	24.6	23.7	20.6	18.4
P/BV	7.9	8.9	8.0	7.1	6.4
EV/EBTDA	19.0	17.6	16.4	14.3	12.6
EV/Sales	4.9	4.2	3.9	3.4	3.0
M-cap/Sales	5.1	4.2	4.0	3.4	3.1

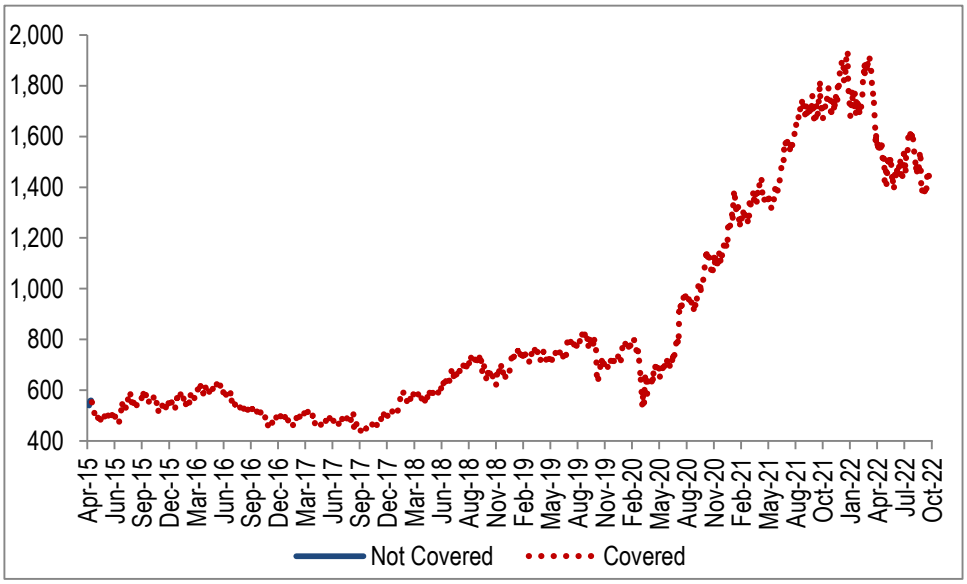
Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
13 April 2015	Accumulate	2,229	2,147
27 April 2015	Sell	1,995	1,823
4 June 2015	Sell	2,032	1,823
22 July 2015**	Accumulate	1,116	1,189
7 September 2015	Accumulate	1,074	1,189
14 September 2015	Accumulate	1,091	1,189
13 October 2015	Accumulate	1,122	1,194
8 January 2016	Under Review	1,063	-
14 January 2016	Under Review	1,133	-
14 March 2016	Sell	1,141	1,002
15 April 2016	Sell	1,173	1,010
9 June 2016	Sell	1,238	1,010
18 July 2016	Sell	1,072	988
29 August 2016	Sell	1,020	970
17 October 2016	Sell	1,027	964
10 January 2017	Sell	970	920
16 January 2017	Sell	975	910
14 February 2017	Sell	985	926
15 April 2017	Sell	931	887
15 May 2017	Sell	964	887
21 June 2017	Sell	944	844
17 July 2017	Sell	972	846
21 August 2017	Sell	923	794
28 August 2017	Sell	912	836
11 September 2017	Sell	884	836
28 September 2017	Sell	906	833
25 October 2017	Sell	924	873
26 December 2017	Under Review	1,039	-
15 January 2018	Under Review	1,079	-
17 March 2018	Accumulate	1,170	1,154
14 April 2018	Accumulate	1,171	1,157
24 April 2018	Accumulate	1,188	1,157
3 July 2018	Accumulate	1,307	1,314
14 July 2018	Accumulate	1,317	1,328
5 October 2018**	Accumulate	711	752
17 October 2018	Accumulate	695	756
27 December 2018	Accumulate	644	688
7 January 2019	Sell	661	620
14 January 2019	Sell	684	603
19 March 2019	Sell	710	620
15 April 2019	Sell	748	601
27 June 2019	Sell	739	601
15 July 2019	Sell	727	596
23 September 2019	Sell	765	607
14 October 2019	Sell	815	625
22 October 2019	Sell	768	625
8 November 2019	Sell	708	625
2 January 2020	Under Review	737	-
13 January 2020	Under Review	740	-
31 March 2020	Sell	654	550
21 April 2020	Sell	653	543
9 July 2020	Under Review	775	-
16 July 2020	Under Review	834	-
6 September 2020	Accumulate	919	1,027
28 September 2020	Accumulate	1,011	1,096
15 October 2020	Accumulate	1,137	1,218
12 November 2020	Accumulate	1,123	1,218
29 December 2020	Accumulate	1,240	1,325
14 January 2021	Accumulate	1,387	1,446
15 April 2021	Accumulate	1,397	1,411
5 July 2021	Accumulate	1,579	1,667
15 July 2021	Accumulate	1,575	1,614
22 September 2021	Accumulate	1,718	1,689
14 October 2021	Accumulate	1,709	1,779
20 December 2021	Accumulate	1,821	1,958
13 January 2022	Accumulate	1,877	2,046
8 April 2022	Sell	1,811	1,653
15 April 2022	Sell	1,749	1,584
19 May 2022	Sell	1,509	1,283
2 June 2022	Sell	1,478	1,283
8 July 2022	Sell	1,498	1,172
25 July 2022	Sell	1,506	1,142
7 October 2022	Sell	1,451	1,182
14 October 2022	Sell	1,420	1,153

** Post 1:1 bonus issue of equity shares

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

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