

Raised FY23 revenue guidance while maintaining margin outlook

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CMP: INR 1,506

Rating: Accumulate

Target Price: INR 1,728

Stock Info

BSE	500209
NSE	INFY
Bloomberg	INFO IN
Reuters	INFO.BO
Sector	Computers-Software
Face Value (INR)	5
Equity Capital (INR Cr)	2,098
Mkt Cap (INR Cr)	6,34,993
52w H/L (INR)	1954 / 1367
Avg Yearly Vol (in 000')	5,896

Shareholding Pattern %

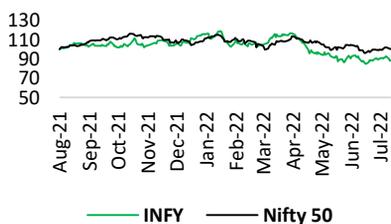
(As on June, 2022)

Promoters	13.11
FII	31.72
DII	18.87
Public & Others	36.30

Stock Performance (%)

	1m	3m	12m
INFY	4.6	-3.4	-5.1
Nifty	6.1	-1.6	5.1

INFY Vs Nifty



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Infosys (INFY) increased FY23 revenue guidance to 14%-16% from 13-15%: Reported revenue of \$ 4,444Mn (up 3.8% QoQ/17.5%YoY in USD terms) against our estimate of \$4,425 Mn. Delivered a robust performance in Q1 with YoY growth at 21.4% and sequential growth at 5.5% in constant currency. Reported revenue of INR 34,470 Cr up 6.8% QoQ/ 23.6% YoY against our estimate of INR 34,033Cr. The growth was led by Digital which accounted for 61.0% of overall revenues, growing at 37.5% in the CC term.

Miss in Margin: EBIT margin was down 149bps QoQ/-361bpsYoY at 20.1% below our estimates of 20.76% due to wage hikes and Subcon. The company expects the margin to broadly improve QoQ over the next 3 quarters going ahead and that should lead to achieving a lower range of 21-23% EBIT margin band.

Strong employee and healthy deal momentum: Net hiring was strong at 21,171. Utilization (excluding trainees) down to 84.7% (vs 87.0% in Q4FY22 and 88.5% in Q1FY22). This is a reflection of company enhance recruitment capabilities, solid brand and deeper penetration into various talent markets. Cobalt cloud capability continues to be market-leading. The company has 360 technology and domain solutions, five of assets have over 50 clients each the company has 150 industry-focused solutions, 20 Infosys Living Labs ,50 experimentation playgrounds and 60,000 knowledge assets. While, Sustained healthy deal momentum Large deal TCv of \$1.7 bn vs \$2.6 Bn in Q1FY22 (vs \$2.3 Bn in Q4FY22).

Valuations

The company has upgraded the guidance for revenue growth to 14%-16% from 13%-15% for FY23 in cc terms led by decent growth in across the segment and a healthy deal pipeline. However, maintaining its EBIT margin guidance range to 21-23% for FY23 led to supply-side challenges. The company's fresher hiring will continue to remain elevated for FY23, indicating a better tech demand cycle, which is positive for the company medium term.

This coupled with the recent correction in prices prompt us to upgrade the stock from Neutral to Accumulate with a revised target price of INR 1,728 per share (PE of 25x on FY24E EPS).

Y/E March (INR. In Cr)	FY21	FY22	FY23E	FY24E
Revenues (US\$ mn)	13,561	16,310	19,074	21,562
Net Revenue	100,472	121,641	137,343	155,422
EBIT	21,355	24,539	28,293	32,483
EBIT Margin(%)	21.3%	20.2%	20.6%	20.9%
Net Profit	19,351	22,110	25,301	29,002
EPS (INR)	45.6	52.7	60.3	69.1
P/E (x)	39.8	28.6	25.0	21.8

Source: Arihant Research, Company Filings,

Q1FY23 - Quarterly Performance (Consolidated)

INR Cr (Consolidated)	Q1FY23	Q4FY22	Q1FY22	Q-o-Q	Y-o-Y
Revenue (Mn USD)	4,444	4,280	3,782	3.8%	17.5%
Net Revenue	34,470	32,276	27,896	6.8%	23.6%
Cost of Sales	24,369	22,272	18,506	9.4%	31.7%
Gross Profit	10,101	10,004	9,390	1.0%	7.6%
S&M and Admin. Expenses	3,187	3,048	2,787	4.6%	14.4%
EBIT	6,914	6,956	6,603	-0.6%	4.7%
EBIT margin %	20.1%	21.6%	23.7%	-149bps	-361bps
Other Income	620	587	573	5.6%	8.2%
PBT	7,534	7,543	7,176	-0.1%	5.0%
Tax Expense	2,172	1,848	1,975	17.5%	10.0%
Effective tax rate %	28.8%	24.5%	27.5%	433bps	433bps
Reported PAT	5,362	5,695	5,201	-5.8%	3.1%
MI & Associates	-2	-9	-6	-77.8%	-66.7%
Consolidated PAT	5,360	5,686	5,195	-5.7%	3.2%
<i>Adj PAT Margin %</i>	<i>15.5%</i>	<i>17.6%</i>	<i>18.6%</i>	<i>-11.7%</i>	<i>-16.5%</i>
EPS (INR)	12.8	13.6	12.2	-5.8%	4.4%

Source: Arianth Research, Company Filings

Q1FY23 Concall Highlights

- Excellent start of the year with the growth of 21.4% YoY/5.5% QoQ CC Revenue growth. The company continues to gain market share with Cobalt cloud capability and differentiated digital value proposition driving a significant pipeline of opportunity for the company. Premium Online retail leverage cobalt in Europe to embark cloud and enhance the tougher experience and improve security experience.
- The company continue keep a close watch in macro environment situation- It has seen some signs of softness in areas like mortgages and Retail, where there has been some slowdown in decision making process.
- Growth continues to be strong across the vertical and strong pipeline.US geography grew by 18.4% and Europe grew by 33.3% this indicates healthy demand industry leading capability.
- Digital Revenues grew by 37.5% in cc and contribute total revenue of 61%. Cloud work to grow faster within the cloud.
- Margin: The company expects the margin to broadly improve QoQ over the next 3 quarters going ahead and that should lead to achieving a lower range of 21-23% EBIT margin band. It aims to use all operating margin levers such as improving employee pyramid, better utilization, and a price increase to support margin for FY23.
- Order book: The company signed 19 deals with a large deal total TCv for the quarter was \$1.7bn comprised of 50% net new deal. Utilization (Excluding trainees) at 84.7% for Q1FY23.
- Wage hike: The company has completed a wage hike for mid-level employees with effect from April FY22 and a salary hike for certain senior-level staff would take place from July FY22.
- Travel: Infosys expects expenses related to travel to normalize going ahead.
- Subcon: The company's hiring plans is on track, the Subcon cost as % of revenue should moderate going ahead.
- Price: It has been in active discussion with clients for price increases.
- Attritions: Attrition has started moderating, as quarterly attrition for Q1FY23 has been below the LTM attrition.
- Increase of Client: There has been increasing in the number of clients across revenue buckets led by strong client mining efforts.
- The pipeline remains strong across deal sizes and the demand environment gives them the confidence to increase Revenue growth guidance for FY23.

Exhibit 1: Business Mix; All business segments and major recorded double-digit growth with manufacturing, communications, and sure along with Europe region recording 25%plus growth.

strong employee editions of over 21,000 to caterto the growth opportunities ahead.

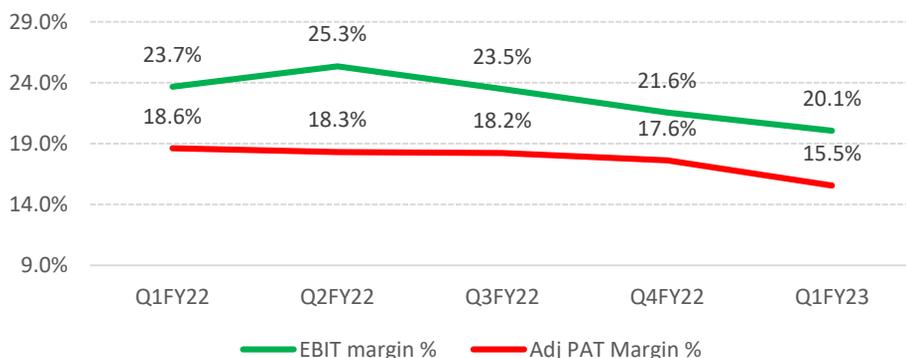
Margin headwinds of 1.6% due to salary increases, 0.4% could drop in utilization as create capacity for future,0.3% due to increases in sub concert party in other cost. These were off set These are all set by Kelvin 0.5% increase in activity from higher working days.

Client metrics are strong with increase in client counts across revenue bucket compared to the previous year.

DSO days decreased to 63 (vs 67 days in Q4FY22 and 70 days in 1FY222)

Employee Metrics	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Employees, period end					
Total Employees (Consolidated)	2,67,953	2,79,617	2,92,067	3,14,015	3,35,186
S/W professionals	2,53,493	2,64,918	2,76,942	2,97,859	3,18,447
Sales & Support	14,460	14,699	15,125	16,156	16,739
Women employees (%)	38.8%	38.8%	25.5%	39.6%	28.4%
Revenue per Employee - Consolidated (In US \$ K)	57	57	58	58	57
Voluntary Attrition % (Annualized - IT Services)	13.9%	20.1%	25.5%	27.7%	28.4%
Effort (IT Services and Consulting)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Onsite-Offshore Effort Split					
Onsite	24.1%	23.6%	23.8%	24.0%	24.3%
Offshore	75.9%	76.4%	76.2%	76.0%	75.7%
Utilization measures					
Including trainees	83.3%	84.1%	82.7%	80.0%	77.6%
Excluding trainees	88.5%	89.2%	88.5%	87.0%	84.7%
Revenues by client geography	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
North America	61.7%	61.9%	61.8%	61.4%	61.8%
Europe	24.2%	24.8%	24.9%	25.2%	25.0%
ROW	11.2%	2.6%	10.3%	10.2%	10.6%
India	2.9%	10.7%	3.0%	3.2%	2.6%
Total	100.0%	100.0%	100.0%	100.0%	100%
Revenues by Business segments	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Financial Services	33.0%	32.30%	31.50%	31.30%	30.60%
Retail	15.0%	14.60%	14.50%	14.30%	14.50%
Communication	12.2%	12.40%	12.50%	12.80%	13.00%
Energy, Utilities, Resources and Servcies	12.1%	11.80%	11.70%	12.00%	12.40%
Manufacturing	9.7%	10.90%	11.30%	11.80%	12.10%
Hi Tech	8.3%	8.50%	8.10%	8.20%	8.20%
Life Sciences	6.8%	7.10%	7.50%	6.60%	6.50%
Others	2.9%	2.40%	2.90%	3.00%	2.70%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Client Data	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Number of Clients					
Active	1659	1714	1738	1741	1778
Added during the period (gross)	113	117	111	110	106
Number of mn dollar clients*					
\$1 mn	805	841	854	853	877
\$10 mn	264	270	274	275	278
\$50 mn	59	62	64	64	69
\$100 mn	34	35	37	38	39
Client contribution to revenues	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Top 5 clients	11.30%	11.40%	12.00%	11.80%	13.00%
Top 10 clients	18.80%	19.40%	20.20%	19.40%	20.80%
Top 25 clients	34.40%	35.40%	35.90%	35.40%	36.30%
Days Sales Outstanding	70	66	71	67	63

Exhibit 2: Decline in margins due to continued supply side challenges, higher travel costs and Subcon.



Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Financials

Profit & Loss Statement (Consolidated)				
Particulars (INR Cr)	FY21	FY22	FY23E	FY24E
	13,561		19,074	21,562
Revenues (US\$ mn)		16,310		
Growth (%)	6%	20.3%	16.9%	13.0%
Income	100,472	121,641.0	137,343	155,422
Growth (%)	10.7%	21.1%	12.9%	13.2%
Software development expenses	65,413	81,998.0	92,569	104,288
	35,059		44,774	51,134
Gross Profit		39,643		
Sales and development expenses	4,627		6,455	7,460
General and administrative expenses	5,810	5,156.0	6,592	7,305
	24,622		31,726	36,369
EBITDA		28,015		
EBITDA Margin (%)	24.5%	23.03%	23.10%	23.40%
	21,355		28,293	32,483
EBIT		24,539		
EBIT Margin (%)	21%	20.2%	20.6%	20.9%
Finance Cost (Lease expense)	195	200.0	175	176
	2,201		2,747	3,108
Other Income		2,295.0		
PBT	26,628	30,110	34,298	39,301
Tax	7,205	7,964	8,918	10,218
PAT	19,423	22,146	25,381	29,083
Adjusted PAT	19,351	22,110	25,301	29,002
Growth (%)	16.6%	14.3%	14.4%	14.6%
Adjusted EPS	46	53	60	69

Balance Sheet (Consolidated)				
Particulars (INR Cr)	FY21	FY22	FY23E	FY24E
Shareholder's Funds				
Share Capital	2,124	2,098	2,098	2,098
Reserves & Surplus	74,658	73,638	89,266	108,466
Net Worth	76,782	75,736	91,364	110,564
Total Non Current Liabilities				
	7,739	8,546	6,950	7,259
Total Current Liabilities				
	23,865	33,603	36,012	37,884
Total Liabilities	108,386	117,885	134,326	155,707
Net Block				
	20,711	20,977	25,976	31,634
Capital Work-in-Progress				
	922	416	416	416
Total Non Current Assets				
	47,653	50,700	54,586	59,556
Cash and bank balance				
	24,714	17,472	33,079	43,915
Total Current Assets				
	60,733	67,185	79,740	96,151
Total Assets	108,386	117,885	134,326	155,707

Cash Flow Statement (Consolidated)				
Particulars (INR Cr)	FY21	FY22	FY23E	FY24E
PAT	19,423	22,146	25,381	29,083
Add:- Depreciation & Others	3,267	3,476	3,434	3,886
Change in Working Capital	768	-1,424	8,897	2,230
Cash generated from operations	29,613	31,497	39,343	36,662
Taxes paid	-6,389	-7,612	-8,918	-10,218
Cash flow from operating activities	23,224	23,885	30,426	26,443
Purchase of FA and Capex	-2,107	-2,161	-4,999	-5,657
Others	-5,349	-4,255	-	-
Cash flow from investing activities	-7,456	-6,416	-4,999	-5,657
Other fin. Activities	0	0	0	0
Dividend paid, including div. tax	-9,117	-12,652	-9,673	-9,802
Cash flow from financing activities	-9,786	-24,642	-9,750	-9,881
Exchange Fluctuations	83	-69	-69	-69
Net Cash Flow	5,982	-7,173	15,676	10,905
Opening Cash balance	18,649	24,714	17,472	33,079
Closing Cash balance	24,714	17,472	33,079	43,915

Key Ratios (Consolidated)				
Particulars	FY21	FY22	FY23E	FY24E
EPS (INR)	45.6	52.7	60.3	69.1
Book Value	180.7	180.5	217.7	263.5
DPS	21.5	21.5	21.5	21.5
Payout %	47%	57%	38%	34%
Dividend Yield %	1.2	1.4	1.4	1.4
P/E	39.8	28.6	25.0	21.8
EBITDA Margin (%)	24.5%	23.0%	23.1%	23.4%
EBIT Margin	21.3%	20.2%	20.6%	20.9%
PBT Margin	26.5%	24.8%	25.0%	25.3%
Adjusted PAT Margin	19.3%	18.2%	18.4%	18.7%
Debt/Equity	0.1	0.1	0.1	0.1
Current Ratio	2.5	2.0	2.2	2.5
ROE	25.2%	29.2%	27.7%	26.2%
ROCE	22.7%	23.8%	23.6%	23.4%

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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