

CMP: INR 1,970

Rating: Accumulate

Target Price: INR 2,220

Stock Info	
BSE	500209
NSE	INFY
Bloomberg	INFO IN
Reuters	INFO.BO
Sector	Computers-Software
Face Value (INR)	5
Equity Capital (INR Cr)	2,072
Mkt Cap (INR Cr)	8,17,765
52w H/L (INR)	1,991 / 1,352
Avg Yearly Vol (in 000')	7023

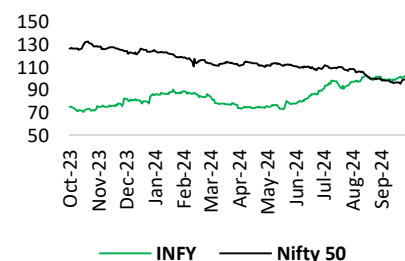
Shareholding Pattern %

(As on June, 2024)

Promoters	14.43
FII	33.28
DII	37.76
Public & Others	14.53

Stock Performance (%)	1m	3m	12m
INFY	0.8	14.02	36.4
Nifty	24.9	0.56	24.9

INFY Vs Nifty



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Infosys (INFY) reported Overall Decent set of Nos; FY25 revenue guidance revised to 3.75%-4.50% (From 3-4%); Margin guidance retained at 20%-22%. CC of 3.1% QoQ/3.3% YoY. Dollar-term Revenue growth 3.8% QoQ/3.7% YoY to \$4,894 mn above our estimate of \$4,848 mn. Reported revenue of INR 40,986 Cr (+4.3% QoQ/+5.1% YoY) below our estimate of INR 41,661 Cr. Vertical and geo performance: Financial (+2.3% QoQ YoY), retail (-9.6% YoY), communication (+7% YoY) & Manufacturing (+12.3% YoY). North America (-2.7%) while Europe (+15.5%) & India (+16% YoY) in CC term. EBIT margin was up 2bps QoQ/ down by 12bps YoY at 21.1% against our estimates of 21.2%. Attrition improved by 20bps QoQ to 12.9%. Headcount added 2,456 (first increase in seven quarters) ;Utilization ex-trainee improved by 60 bps QoQ to 85.9%. TCV of large deal wins was \$2.4 billion, 41% being net new. Offshore revenue mix was down 20 bps QoQ to 75.9%.Active number of clients increased by 3 QoQ to 1870.

Strong TCV led by increased in discretionary spending's: the company closed 21 large deals with TCV of \$2.4 bn. 41% of this was net new. Vertical wise signed seven deals in financial services, three each in communication, manufacturing and others, two in retail and one each in EURS and High Tech and Life Sciences. Region wise, signed 12 large deals in America, five in Europe, three in India and one in ROW. H1large deal win stood at 55 deals with TCV of \$6.5 billion and 51% of that is net new.

Traction in BFS segments: Verticals financial services saw continued growth momentum in Q2 with fraction in cost optimization through large outsourcing and transformation opportunities. The company saw discretionary spend uptick in capital markets, mortgages and cards and payments. Deal wins in Q2FY25 were strong which coupled with expanding pipeline of small deals gives them visibility for future growth.

Valuations

Infosys delivered decent results, raising its FY25 revenue growth outlook to 3.75-4.75% from 3-4%, while maintaining margin guidance at 20-22% in the near term. The company sees continued momentum in volumes and financial services, with an increase in smaller deals contributing to the upward revision of guidance. The large deal pipeline remains strong, focusing on cost reduction, consolidation, and automation. In H2 FY25, wage hikes will be effective from January 1, 2025, implemented in two phases. The majority of employees will receive wage hikes in January. Project Maximus aims to enhance margins in the medium term. Stable pricing persists; the US financial services sector, particularly in cards, payments, and capital markets, shows signs of recovery, while most high-tech clients remain cautious due to geopolitical tensions. As a result, growth estimates for FY25E-FY27E have been increased by 0.9% and 2.3%, respectively, with a projected margin of 21.5%/21.9%/22.4% for FY25E/FY26E/FY27E. **We value Infosys at a PE of 27x its FY27E EPS of INR 82.2 with the target price of INR 2,220 per share (earlier TP in INR 1,990 per share). We maintain our Accumulate rating on the stock.**

Exhibit 1: Financial (Consolidated)

Y/E March (INR. In Cr)	FY24	FY25E	FY26E	FY27E
Revenues (US\$ mn)	18,562	19,429	20,571	22,373
Net Revenue	153,670	164,720	177,005	191,272
EBIT	31,747	35,415	38,764	42,845
EBIT Margin (%)	20.7%	21.5%	21.9%	22.4%
Net Profit	26,233	28,090	30,852	34,059
EPS (INR)	63.3	67.9	74.5	82.2
P/E (x)	31.1	29.0	26.4	24.0
ROCE	23.0%	24.2%	24.5%	24.6%

Source: Arihant Research, Company Filings

Exhibit 2: Q2FY25 - Quarterly Performance (Consolidated)

INR Cr (Consolidated)	Q2FY25	Q1FY25	Q2FY24	Q-o-Q	Y-o-Y
Revenue (Mn USD)	4,894	4,714	4,718	3.8%	3.7%
Net Revenue	40,986	39,315	38,994	4.3%	5.1%
Cost of Sales	28,474	27,177	27,031	4.8%	5.3%
Gross Profit	12,512	12,138	11,963	3.1%	4.6%
S&M and Admin. Expenses	3,863	3,850	3,689	0.3%	4.7%
EBIT	8,649	8,288	8,274	4.4%	4.5%
EBIT margin %	21.1%	21.1%	21.2%	2bps	-12bps
Other Income	604	733	494	-17.6%	22.3%
PBT	9,253	9,021	8,768	2.6%	5.5%
Tax Expense	2,737	2,647	2,553	3.4%	7.2%
Effective tax rate %	29.6%	29.3%	29.1%	24bps	46bps
Reported PAT	6,516	6,374	6,215	2.2%	4.8%
MI & Associates	-10	-6	-3		
Consolidated PAT	6,506	6,368	6,212	2.2%	4.7%
Adj PAT Margin %	15.9%	16.2%	15.9%	-2.0%	-0.4%
EPS (INR)	15.7	15.4	15.0	2.0%	4.8%

Source: Arianth Research, Company Filings

Q2FY25 Concall Highlights

- In US Financial Services saw discretionary spends increasing particularly in capital markets, cards and payments discretionary spend is stable and strong.
- **Segments:** Financial services continued to grow in Q2. Retail sector continues to be impacted by economic and political uncertainties. Cost takeout, efficiency and consolidation are key priorities for clients. Consumer spend in the upcoming holiday season will be a lead indicator for future spend decisions.
- **Communication sector** outlook is challenging with clients primarily focused on cost reduction and making their investment profitable. Discretionary spend for OEMs are expected to remain under pressure. Cost optimization vendor consolidation are on the top priorities with clients open to innovate solutions and asking for AI to amplify productivity. Political conflicts and higher interest rate continues to influence spending patterns causing clients to focus on cost optimization on initiatives.
- **Energy:** Strong growth in verticals, especially in energy sector.
- **Cloud:** there is significant traction in cloud programs with many companies adopting the Cloud and AI strategy. competencies in energy transition space, human experience and industry clouds and proactive client pitches have helped build strong pipelines. Growth in manufacturing was strong partially contributed by intact acquisition. Europe automotive sector has been, has seen recent challenges while discretionary spend remains under pressure. The company has seen increased benefits of vendor consolidation. See opportunities around supply chain optimization, cloud, ERP, smart factory and connected devices across various sub particles.
- Continue to see slowness in automotive sector in Europe. Inorganic contribution from in-tech was 0.8% within Europe for manufacturing in Q2.
- With strong performance in Q2 company has revised full year guidance to 3.75% to 4.5% vs 3-4% as started earlier.
- Margin guidance of 20-22% was maintained for FY25E. Aspiration to improve the margins over the mid term.
- More focus is on cost-takeout within retail, hitech & telco; discretionary spend is constraint within these verticals.

Q2FY25 Concall Highlights

- **Furlough:** The Q3 and Q4 will have regular seasonality in terms of furloughs, in terms of lower working day and calendar.
- **Large deal pipeline** continues to be robust and smaller deal <\$50 Mn grown more than double digit; pivoted more towards cost efficiency rather than transformational deals. Q3FY25 pipeline has increase in term of smaller deal size.
- US Fed rate cuts, lower inflation indicating better spends by financial services clients.
- **Multi agent** framework and set of agent doing full work. It difficult to generate much deeper capability set. Lock in productivity.
- **Gen AI:** Having good discussions with clients on small language models. Working on various industry apps for small language models. There almost every large deal, or significant deal even has some generative AI component related to productivity. Seeing huge amount of opportunity in GenAI.
- **Cobolt:** The company had very strong partnerships with the three big public cloud players. Alos the company had a very strong private cloud offering, which have expanded. had a set of offerings on SaaS providers, the range of them. So that was an ecosystem which for enterprises was already in motion and company was already playing on that and Cobalt brought all of it together. In generative AI for the enterprise, it's a start in terms of how it will be adopted. Several use cases, some of them with some good traction with clients, but the method of adoption.
- **Topaz:** The company has created a generative AI platform. Which can be rolled out across a large organization and then the individuals in the organization start to build out their own GenAI applications on that, INFY is building a small language model. The company has a multi agent framework where the agents are doing a set of agents are doing full solutions to certain business processes, or certain functions.
- Outlook for Japan, West Asia markets good.
- No change in the large deals outlook.
- Working on difference applications for various industries with small language models.
- Continue to maintain that fresher addition will be in the range of 15,000-20,000 in FY25E.
- First quarter of net headcount addition.
- Overall pricing environment has remained stable.
- Number of less than \$50mn deals have also increase which also led to upgrade in guidance.
- Margin walkthrough: +80bps from project maximus, +10bps from currency movement which got offset by - 30bps on account of acquisition and -60bps amid variable pay.
- **Wage hikes** will be in given Q4 in a phased manner from January onwards. Some will be given in January and some will be given in April.
- Seeing good traction in Japan and Middle East even though they are small in size.
- Subcontractors has reduced led by Maximus project. Tailwinds from Project Maximus will continue.
- See huge opportunities within GenAI, thus recruiting will continue within GenAI.

Exhibit 3: Revenue in line with the estimate in Q2FY25

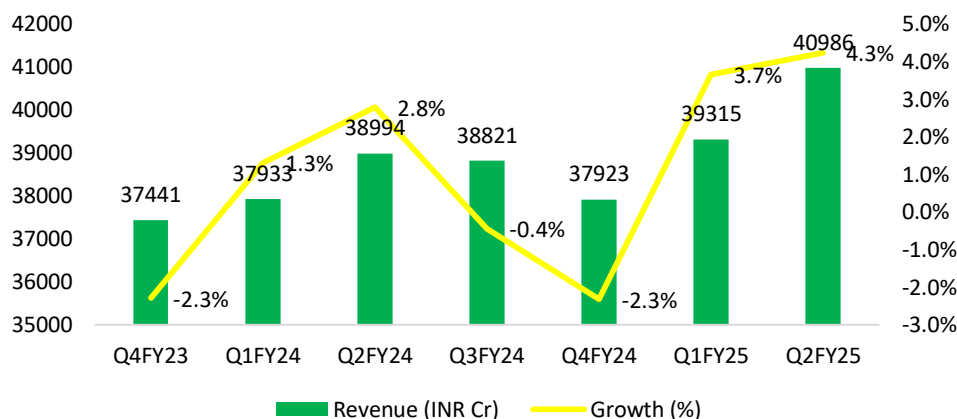


Exhibit 4: FY25 revenue guidance revised to 3.75%-4.50% (From 3-4%)

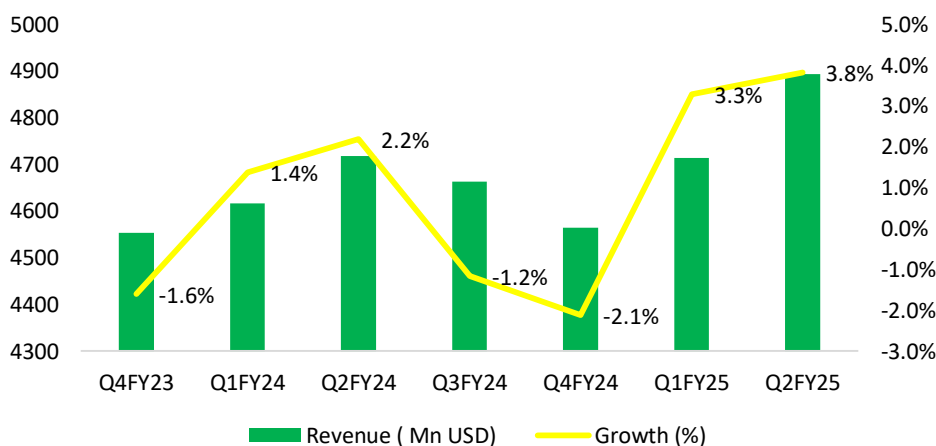
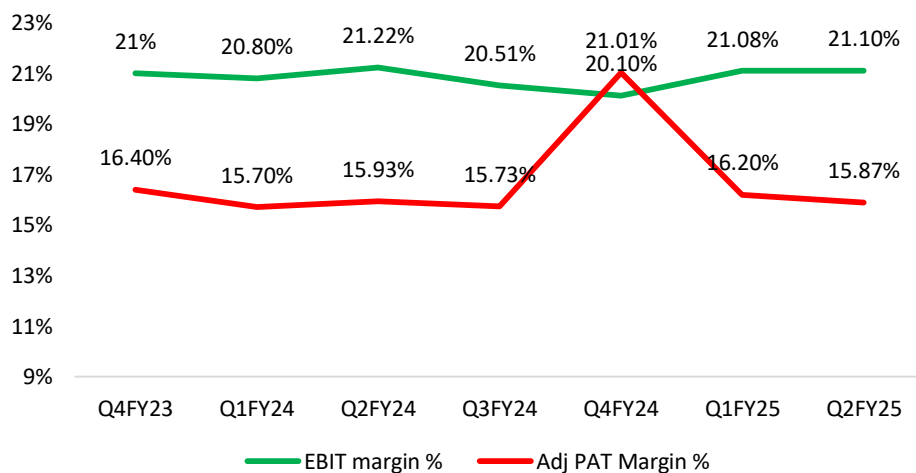


Exhibit :5 Maintained Operating margin of 20%-22% led by cost optimization



Source: Arihant Research, Company Filings

Exhibit 6: Operating Metrics

Employee Metrics	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Employees, period end					
Total Employees (Consolidated)	328,764	322,663	317,240	315,332	317,788
S/W professionals	310,375	304,590	299,814	298,123	300,774
Sales & Support	18,389	18,073	17,426	17,209	17,014
Women employees (%)	39.40%	39.30%	39.30%	39.20%	39.00%
Voluntary Attrition % (Annualized - IT Services)	14.60%	12.90%	12.60%	12.70%	12.90%
Effort (IT Services and Consulting)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Onsite-Offshore Effort Split					
Onsite	24.6%	24.4%	24.2%	23.9%	24.1%
Offshore	75.4%	75.6%	75.8%	76.1%	75.9%
Utilization measures					
Including trainees	80.4%	81.7%	82.0%	83.9%	84.3%
Excluding trainees	81.8%	82.7%	83.5%	85.3%	85.9%
Revenues by client geography	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
North America	61.1%	59.0%	59.6%	58.9%	57.4%
Europe	26.5%	28.2%	28.6%	28.4%	29.8%
ROW	9.6%	10.4%	9.6%	9.6%	9.7%
India	2.8%	2.4%	2.2%	3.1%	3.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Revenues by Business segments	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Financial Services	27.50%	27.80%	26.40%	27.50%	27.20%
Retail	15.20%	14.60%	14.30%	13.80%	13.30%
Communication	11.40%	11.40%	12.30%	12.10%	11.90%
Energy, Utilities, Resources and Services	12.70%	13.20%	13.40%	13.30%	13.50%
Manufacturing	14.30%	14.90%	14.70%	14.70%	15.70%
Hi Tech	7.80%	7.70%	8.70%	8.00%	8.00%
Life Sciences	7.80%	7.60%	7.30%	7.30%	7.30%
Others	3.30%	2.80%	2.90%	3.30%	3.10%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Client Data	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Number of Clients					
Active	1884	1872	1882	1867	1870
Added during the period (gross)	100	88	98	87	86
Number of mn dollar clients*					
\$1 mn	951	944	959	987	985
\$10 mn	312	308	315	309	307
\$50 mn	80	82	83	84	86
\$100 mn	39	40	40	40	41
Client contribution to revenues					
Top 5 clients	13.30%	13.40%	13.60%	13.50%	13.70%
Top 10 clients	19.90%	20.00%	20.40%	20.90%	20.90%
Top 25 clients	34.10%	33.70%	34.30%	34.90%	34.70%
Days Sales Outstanding	67	72	71	72	73

Source: Arianth Research, Company Filings

Key Financials

Profit & Loss Statement (Consolidated)

Particulars (INR Cr)	FY24	FY25E	FY26E	FY27E
Revenues (US\$ mn)	18,562	19,429	20,571	22,373
Growth (%)	2.1%	4.7%	5.9%	8.8%
Income	153,670	164,720	177,005	191,272
Growth (%)	4.7%	7.2%	7.5%	8.1%
Software development expenses	107,413	111,186	119,479	128,344
Gross Profit	46,257	53,534	57,527	62,929
Sales and development expenses	6,973	9,554	9,735	10,329
General and administrative expenses	7,537	8,565	9,027	9,755
EBIT	31,747	35,415	38,764	42,845
EBIT Margin (%)	20.66%	21.50%	21.90%	22.40%
Finance Cost (Lease expense)	470	215	216	217
Other Income	4,711	3,130	3,540	3,825
Provision for investment/ Shares profit / (Loss)				
PBT	35,988	38,330	42,088	46,453
Tax	9,740	10,157	11,153	12,310
PAT	26,248	28,172	30,935	34,143
Adjusted PAT	26,233	28,090	30,852	34,059
Growth (%)	8.9%	7.1%	9.8%	10.4%
Adjusted EPS	63.3	67.9	74.5	82.2

Balance Sheet (Consolidated)

Particulars (INR Cr)	FY24	FY25E	FY26E	FY27E
Shareholder's Funds				
Share Capital	2,071	2,070	2,070	2,071
Reserves & Surplus	86,390	94,850	105,817	119,735
Net Worth	88,461	96,920	107,887	121,806
Total Non Current Liabilities	10,559	8,575	8,737	8,925
Total Current Liabilities	38,794	40,555	41,357	43,523
Total Liabilities	137,814	146,050	157,980	174,255
Net Block	21,070	27,066	33,509	40,471
Capital Work-in-Progress	293	293	293	293
Total Non Current Assets	48,382	54,930	60,663	66,978
Cash and bank balance	14,786	20,293	22,495	24,748
Total Current Assets	89,432	91,120	97,317	107,277
Total Assets	137,814	146,050	157,980	174,255

Source: Arihant Research, Company Filings

Key Financials

Cash Flow Statement (Consolidated)

Particulars (INR Cr)	FY23	FY24	FY25E	FY26E	FY27E
PAT	24,108	26,248	28,172	30,935	34,143
Add:- Depreciation & Others	4,225	4,678	3,294	3,540	3,825
Change in Working Capital	-6,344	-5,082	6,213	2,454	6,857
Cash generated from operations	31,261	34,441	39,211	38,371	46,178
Taxes paid	-8,794	-9,231	-10,157	-11,153	-12,310
Cash flow from operating activities	22,467	25,210	29,054	27,217	33,868
Purchase of FA and Capex	-2,579	-2,201	-5,996	-6,443	-6,962
Others	1,370.00	- 2,808.00	- 35.12	- 33.12	- 31.12
Cash flow from investing activities	-1,209	-5,009	-6,031	-6,476	-6,993
Other fin. Activities	-	-	-	-	-
Dividend paid, including div. tax	-13,631	-14,692	-23,094	-23,394	-23,694
Cash flow from financing activities	-26,695	-17,504	-17,432	-18,455	-24,537
Exchange Fluctuations	138	-84	-84	-84	-84
Net Cash Flow	-5,437	2,697	5,591	2,286	2,337
Opening Cash balance	17,472	12,173	14,786	20,293	22,495
Closing Cash balance	12,173	14,786	20,293	22,495	24,748

Key Ratios (Consolidated)

Particulars	FY23	FY24	FY25E	FY26E	FY27E
EPS (INR)	58.2	63.3	67.9	74.5	82.2
Book Value	183.2	213.6	234.1	260.6	294.1
DPS	17.5	46.0	50.0	50.0	50.0
Payout %	57%	56%	82%	76%	69%
Dividend Yield %	1.2	2.3	2.5	2.5	2.5
P/E	24.4	31.1	29.0	26.4	24.0
EBIT Margin (%)	21.1%	20.7%	21.5%	21.9%	22.4%
EBIT Margin	18.2%	17.6%	19.5%	19.9%	20.4%
PBT Margin	22.7%	23.4%	23.3%	23.8%	24.3%
Adjusted PAT Margin	16.4%	17.1%	17.1%	17.4%	17.8%
Debt/Equity	0.1	0.1	0.1	0.1	0.1
Current Ratio	1.8	2.3	2.2	2.4	2.5
ROE	31.8%	29.7%	29.0%	28.6%	28.0%
ROCE	24.6%	23.0%	24.2%	24.5%	24.6%

Source: Arianth Research, Company Filings

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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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