

**Strong deal wins and positive momentum in discretionary spending**

**CMP: INR 1,920**

**Rating: Accumulate**

**Target Price: INR 2,242**

Stock Info	
BSE	500209
NSE	INFY
Bloomberg	INFO IN
Reuters	INFO.BO
Sector	Computers-Software
Face Value (INR)	5
Equity Capital (INR Cr)	2,076
Mkt Cap (INR Cr)	7,98,066
52w H/L (INR)	2,007 / 1,359
Avg Yearly Vol (in 000')	6807

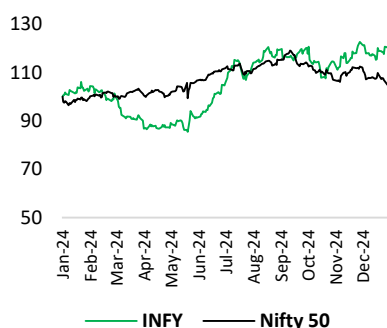
#### Shareholding Pattern %

(As on Sept, 2024)

Promoters	14.4
FII	33.3
DII	38.1
Public & Others	14.2

Stock Performance (%)	1m	3m	12m
INFY	(3.3)	0.00	17.6
Nifty	(5.5)	(6.6)	5.8

#### INFY Vs Nifty



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Infosys (INFY) reported Overall Good Nos; FY25 revenue guidance revised upward to 4.5%-5.0% (From 3.75%-4.50%); Margin guidance retained at 20%-22%. Growth in cc of 1.7% QoQ/6.1% YoY. Dollar-term Revenue growth 0.9% QoQ/5.9% YoY to \$4,939 mn above our estimate of \$4,880 mn. Reported revenue of INR 41,764 Cr (+1.9% QoQ/+7.6% YoY) above our estimate of INR 41,235 Cr. Vertical and geo performance: Financial (+6.1% YoY), retail (+0.1% YoY), communication (+4% YoY) & Manufacturing (+10.7% YoY) in cc respectively. North America (+4.8% YoY) while Europe (+12.2% YoY) & India (+40.1% YoY) in CC term while ROW de grew by -11.1% YoY in cc. EBIT margin was up 24bps QoQ/ +83bps YoY at 21.3% against our estimates of 21.5%. PAT of INR 6,806 Cr (+4.7% QoQ/+11.6% YoY) below our estimate of INR 6768 Cr. Attrition improved by 80bps QoQ to 13.7%. Headcount added 5591; Utilization ex-trainee improved by 10 bps QoQ to 86%. TCV of large deal wins was \$2.5 bn, with 63% net new growing at 57% sequentially Offshore revenue mix was up 10 bps QoQ to 76%. Active number of clients increased by 6 QoQ to 1876.

**Strong growth in large deal wins:** In Q3, the company secured \$2.5 bn in large deal TCV, with 63% coming from net new deals, representing a 57% increase from the previous quarter. YTD, large deal wins totaled 72 deals worth \$9 bn, with 55% of net new business. The 17 deals signed in Q3 spanned across financial services, communication, manufacturing, retail, URS, and high tech. Geographically, 11 deals were in America and 6 in Europe. The large deal pipeline has strengthened in Q3, with the 63% net new deal percentage indicating positive expansion with new and existing clients.

**Wage hike impact in Q4FY25:** The company will implement wage increases in two phases: the first starting January 1, 2024, and the second on April 1, 2024. In India, employees will see an average increase of 6-8%, while overseas employees will receive low single-digit hikes. Most employees will get compensation adjustments in Q4 (January-March 2024). Although the company expects some margin headwinds from the wage hikes, it anticipates offsets from reduced third-party costs and currency benefits.

#### Valuations

Infosys delivered strong Q3FY25, FY25 revenue guidance revised upward to 4.5%-5.0% (From 3.75%-4.50%) while maintaining margin guidance at 20%-22% in the near term. Financial services in the US are growing strongly in Q3, with improving discretionary spending in retail and CPG sectors, while the communications and hi-tech sectors remain challenged, with a clearer picture of client spending expected in April. The company will implement wage hikes in two phases, 6-8% in India and low single digits overseas, with offsets. As a result, growth estimates for FY25E-FY27E have been increased by 0.4% and 0.6%, 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 83 with the target price of INR 2,242 per share (earlier TP in INR 2,220 per share). We maintain our Accumulate rating on the stock.**

#### Exhibit 1: Financial (Consolidated)

Y/E March (INR. In Cr)	FY24	FY25E	FY26E	FY27E
<b>Revenues (US\$ mn)</b>	<b>18,562</b>	<b>19,514</b>	<b>20,776</b>	<b>22,595</b>
Net Revenue	1,53,670	1,66,390	1,78,776	1,93,164
EBIT	31,747	35,774	39,152	43,269
EBIT Margin (%)	20.7%	21.5%	21.9%	22.4%
Net Profit	26,233	28,377	31,163	34,399
EPS (INR)	63.3	68.5	75.3	83.0
P/E (x)	30.3	28.0	25.5	23.1
ROCE	23.0%	24.4%	24.7%	24.7%

Source: Arihant Research, Company Filings

## Exhibit 2: Q3FY25 - Quarterly Performance (Consolidated)

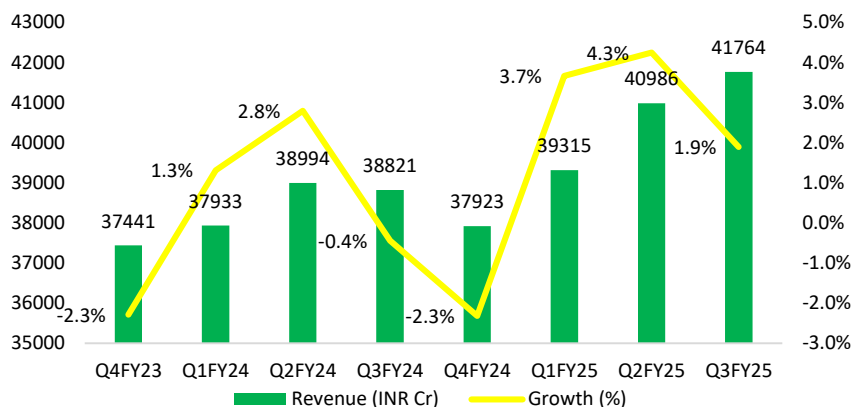
INR Cr (Consolidated)	Q3FY25	Q2FY25	Q3FY24	Q-o-Q	Y-o-Y
Revenue (Mn USD)	4,939	4,894	4,663	0.9%	5.9%
Net Revenue	41,764	40,986	38,821	1.9%	7.6%
Cost of Sales	29,120	28,474	27,253	2.3%	6.9%
Gross Profit	12,644	12,512	11,568	1.1%	9.3%
S&M and Admin. Expenses	3,732	3,863	3,607	-3.4%	3.5%
EBIT	8,912	8,649	7,961	3.0%	11.9%
EBIT margin %	21.3%	21.1%	20.5%	24bps	83bps
Other Income	758	604	658	25.5%	15.2%
PBT	9,670	9,253	8,619	4.5%	12.2%
Tax Expense	2,848	2,737	2,506	4.1%	13.6%
Effective tax rate %	29.5%	29.6%	29.1%	-13bps	38bps
Reported PAT	6,822	6,516	6,113	4.7%	11.6%
MI & Associates	-16	-10	-7		
Consolidated PAT	6,806	6,506	6,106	4.6%	11.5%
Adj PAT Margin %	16.3%	15.9%	15.7%	2.7%	3.6%
EPS (INR)	16.4	15.7	14.8	4.6%	11.3%

Source: Arianth Research, Company Filings

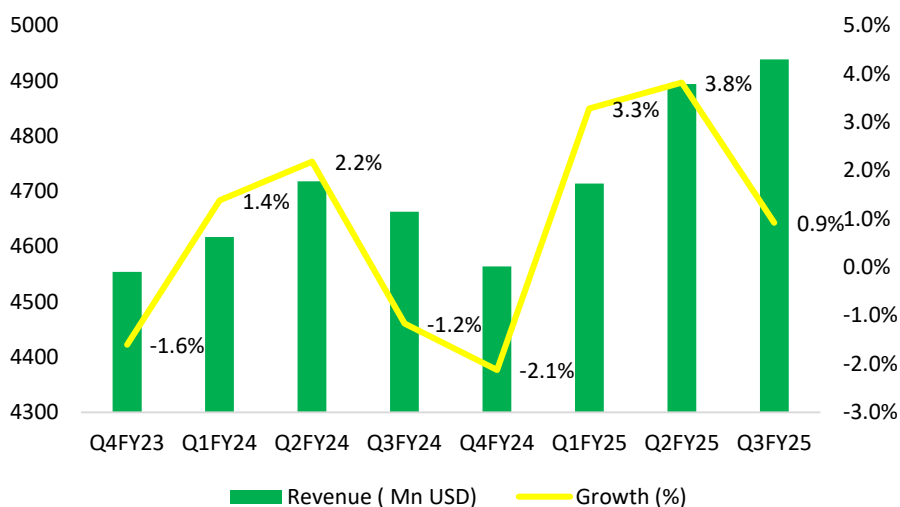
**Q3FY25 Concall Highlights**

- Financial services in the US are continuing to grow strongly in Q3, with Europe also showing signs of recovery.
- In the US, discretionary spending in the retail and CPG sectors is improving, with retail deals picking up due to stronger consumer sentiment and solid holiday sales, and the sector's deal pipeline remains strong. Meanwhile, the communications sector is still facing a volatile macroeconomic environment, leading to subdued discretionary spending, and the hi-tech sector continues to be weak. A clearer view of client spending is expected in April.
- Q4 is likely to experience seasonal effects, with a larger base in Q3 and fewer working days. However, there is positive momentum in cloud services and SAP S/4 HANA migrations.
- The demand trends in other industries remain steady.
- North America has returned to a positive growth trajectory after four consecutive quarters.
- The company is seeing good adoption of their Gen AI offerings, including Infosys Topaz, and has developed small language models and over 100 AI agents for various industries and functions.
- Margin breakdown: Currency fluctuations contribute 40 bps, Project Maximus adds 30 bps, and lower costs related to provisions for post-sales support and expected credit loss provisions provide an additional 20 bps, though these are offset by higher third-party costs. Headwinds include a 70 bps impact from furloughs and fewer working days, partially balanced by higher leave utilization and other factors.
- The pricing environment remains stable.
- YTD, there has been a 3.6% increase in pricing.
- The company is comfortable with an 83-85% utilization level for operations.
- Based on strong Q3 performance, the FY25E revenue guidance has been upgraded to 4.5-5% growth, up from the earlier range of 3.75-4.5% constant currency.
- Operating margin guidance remains at 20-22% for FY25E.
- Furloughs are expected to recover in the top 5 clients by Q4.
- In the US, financial services are seeing increased discretionary spending, especially in capital markets, mortgages, cards, and payments.
- Manufacturing, particularly in the automotive sector in Europe, continues to face challenges.
- The company plans to hire over 15,000 new graduates in FY25E and more than 20,000 in FY26E.
- The pipeline for smaller deals has remained stable, while the pipeline for larger deals has grown, contributing to an overall increase.
- Wage hikes: In India, wage increases will average 6%-8%, while overseas wage hikes will be in the low single digits. Most employees will receive compensation increases in Q4.

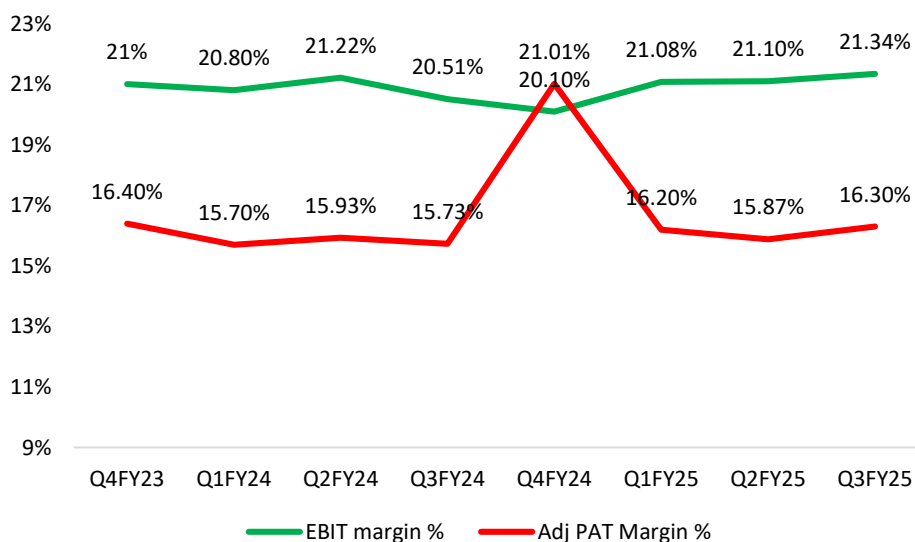
**Exhibit 3: Revenue above with our estimate in Q3FY25**



**Exhibit 4: FY25 revenue guidance revised to 4.5%-5.0% (From 3.75%-4.50%)**



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



Source: Arihant Research, Company Filings

## Exhibit 6: Operating Metrics

Metrics	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
<b>Employees, period end</b>					
<b>Total Employees (Consolidated)</b>	<b>322,663</b>	<b>317,240</b>	<b>315,332</b>	<b>317,788</b>	<b>323,379</b>
S/W professionals	304,590	299,814	298,123	300,774	306,528
Sales & Support	18,073	17,426	17,209	17,014	16,851
Women employees (%)	39.30%	39.30%	39.20%	39.00%	39.00%
<b>Voluntary Attrition % (Annualized - IT Services)</b>	<b>12.90%</b>	<b>12.60%</b>	<b>12.70%</b>	<b>12.90%</b>	<b>13.70%</b>
<b>Effort (IT Services and Consulting)</b>	<b>Q3FY24</b>	<b>Q4FY24</b>	<b>Q1FY25</b>	<b>Q2FY25</b>	<b>Q3FY25</b>
<b>Onsite-Offshore Effort Split</b>					
Onsite	24.4%	24.2%	23.9%	24.1%	24.0%
Offshore	75.6%	75.8%	76.1%	75.9%	76.0%
<b>Utilization measures</b>					
Including trainees	81.7%	82.0%	83.9%	84.3%	83.4%
Excluding trainees	82.7%	83.5%	85.3%	85.9%	86.0%
<b>Revenues by client geography</b>	<b>Q3FY24</b>	<b>Q4FY24</b>	<b>Q1FY25</b>	<b>Q2FY25</b>	<b>Q3FY25</b>
North America	59.0%	59.6%	58.9%	57.4%	58.4%
Europe	28.2%	28.6%	28.4%	29.8%	29.8%
ROW	10.4%	9.6%	9.6%	9.7%	8.7%
India	2.4%	2.2%	3.1%	3.1%	3.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Revenues by Business segments</b>	<b>Q3FY24</b>	<b>Q4FY24</b>	<b>Q1FY25</b>	<b>Q2FY25</b>	<b>Q3FY25</b>
Financial Services	27.80%	26.40%	27.50%	27.20%	27.80%
Retail	14.60%	14.30%	13.80%	13.30%	13.80%
Communication	11.40%	12.30%	12.10%	11.90%	11.20%
Energy, Utilities, Resources and Services	13.20%	13.40%	13.30%	13.50%	13.50%
Manufacturing	14.90%	14.70%	14.70%	15.70%	15.50%
Hi Tech	7.70%	8.70%	8.00%	8.00%	7.90%
Life Sciences	7.60%	7.30%	7.30%	7.30%	7.60%
Others	2.80%	2.90%	3.30%	3.10%	2.70%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Client Data</b>	<b>Q3FY24</b>	<b>Q4FY24</b>	<b>Q1FY25</b>	<b>Q2FY25</b>	<b>Q3FY25</b>
<b>Number of Clients</b>					
Active	1872	1882	1867	1870	1876
Added during the period (gross)	88	98	87	86	101
<b>Number of mn dollar clients*</b>					
\$1 mn	944	959	987	985	997
\$10 mn	308	315	309	307	301
\$50 mn	82	83	84	86	89
\$100 mn	40	40	40	41	41
<b>Client contribution to revenues</b>					
Top 5 clients	13.40%	13.60%	13.50%	13.70%	12.70%
Top 10 clients	20.00%	20.40%	20.90%	20.90%	19.90%
Top 25 clients	33.70%	34.30%	34.90%	34.70%	34.20%
Days Sales Outstanding	72	71	72	73	74
<b>Revenues (US\$ mn)</b>	<b>4,663</b>	<b>4,564</b>	<b>4,714</b>	<b>4,894</b>	<b>4,939</b>

Source: Arianth Research, Company Filings

## Key Financials

Profit & Loss Statement (Consolidated)				
Particulars (INR Cr)	FY24	FY25E	FY26E	FY27E
Revenues (US\$ mn)	18,562	19,514	20,776	22,595
Growth (%)	2.1%	5.1%	6.5%	8.8%
Income	1,53,670	1,66,390	1,78,776	1,93,164
Growth (%)	4.7%	8.3%	7.4%	8.0%
Software development expenses	1,07,413	1,12,313	1,20,674	1,29,613
Gross Profit	46,257	54,077	58,102	63,551
Sales and development expenses	6,973	9,651	9,833	10,431
General and administrative expenses	7,537	8,652	9,118	9,851
EBIT	31,747	35,774	39,152	43,269
EBIT Margin (%)	20.66%	21.50%	21.90%	22.40%
Finance Cost (Lease expense)	470	215	216	217
Other Income	4,711	3,161	3,576	3,863
Provision for investment/ Shares profit / (Loss)				
PBT	35,988	38,720	42,511	46,915
Tax	9,740	10,261	11,266	12,433
PAT	26,248	28,459	31,246	34,483
Adjusted PAT	26,233	28,377	31,163	34,399
Growth (%)	8.9%	8.2%	9.8%	10.4%
Adjusted EPS	63.3	68.5	75.3	83.0

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	95,137	1,06,415	1,20,673
Net Worth	88,461	97,207	1,08,485	1,22,744
Total Non Current Liabilities	10,559	8,597	8,760	8,950
Total Current Liabilities	38,794	40,780	41,509	43,778
Total Liabilities	1,37,814	1,46,584	1,58,754	1,75,473
Net Block	21,070	27,127	33,634	40,665
Capital Work-in-Progress	293	293	293	293
Total Non Current Assets	48,382	54,885	60,699	67,099
Cash and bank balance	14,786	19,990	22,948	24,884
Total Current Assets	89,432	91,700	98,056	1,08,374
Total Assets	1,37,814	1,46,584	1,58,754	1,75,473

Source: Arianth Research, Company Filings

## Key Financials

Cash Flow Statement (Consolidated)					
Particulars (INR Cr)	FY23	FY24	FY25E	FY26E	FY27E
<b>PAT</b>	<b>24,108</b>	<b>26,248</b>	<b>28,459</b>	<b>31,246</b>	<b>34,483</b>
Add:- Depreciation & Others	4,225	4,678	3,328	3,576	3,863
Change in Working Capital	-6,344	-5,082	6,935	1,745	7,590
Cash generated from operations	31,261	34,441	40,240	37,996	47,278
Taxes paid	-8,794	-9,231	-10,261	-11,266	-12,433
<b>Cash flow from operating activities</b>	<b>22,467</b>	<b>25,210</b>	<b>29,979</b>	<b>26,730</b>	<b>34,845</b>
Purchase of FA and Capex	-2,579	-2,201	-6,057	-6,507	-7,031
Others	1,370.00	- 2,808.00	- 35.12	- 33.12	- 31.12
<b>Cash flow from investing activities</b>	<b>-1,209</b>	<b>-5,009</b>	<b>-6,092</b>	<b>-6,541</b>	<b>-7,062</b>
Other fin. Activities	-	-	-	-	-
Dividend paid, including div. tax	-13,631	-14,692	-23,094	-23,394	-23,694
<b>Cash flow from financing activities</b>	<b>-26,695</b>	<b>-17,504</b>	<b>-18,599</b>	<b>-17,149</b>	<b>-25,762</b>
Exchange Fluctuations	138	-84	-84	-84	-84
<b>Net Cash Flow</b>	<b>-5,437</b>	<b>2,697</b>	<b>5,288</b>	<b>3,041</b>	<b>2,021</b>
Opening Cash balance	17,472	12,173	14,786	19,990	22,948
<b>Closing Cash balance</b>	<b>12,173</b>	<b>14,786</b>	<b>19,990</b>	<b>22,948</b>	<b>24,884</b>

Key Ratios (Consolidated)					
Particulars	FY23	FY24	FY25E	FY26E	FY27E
EPS (INR)	58.2	63.3	68.5	75.3	83.0
Book Value	183.2	213.6	234.8	262.0	296.3
DPS	17.5	46.0	50.0	50.0	50.0
Payout %	57%	56%	81%	75%	69%
Dividend Yield %	1.2	2.4	2.6	2.6	2.6
P/E	24.4	30.3	28.0	25.5	23.1
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%	29.2%	28.7%	28.0%
ROCE	24.6%	23.0%	24.4%	24.7%	24.7%

Source: Arianth Research, Company Filings

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BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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