

Q3-FY23 Result Update

- ❑ The revenue from operations of the company increased by 20.2% year-on-year to ₹383,180 million on consolidated basis. In Constant currency, revenue increased by 13.7% YoY led by digital offerings which grew by 21.7% YoY. Revenue from core offerings increased by 2.4%. Revenue from digital offerings constituted 62.9% of the total revenue and the balance 37.1% from core offerings. The company achieved large deals in Q3, totaling \$3.3 billion highest in the last eight seven quarters, 36% of this is net new.
- ❑ Business segment wise, the company reported healthy revenue growth. Financial Services, Retail, Communication, Energy Utilities, Manufacturing, Hi-Tech, Life sciences & Other verticals which grew YoY by 5.5%, 12.7%, 12.7%, 25.9%, 36.8%, 10.4%, 5.0% & 8.1% respectively in constant currency. Europe is more affected than the US. Some areas such as mortgages and investment banking, financial services industry, Telco, high tech and retail are more impacted and that is leading to delays and decision making and uncertainty in spending in these areas.
- ❑ Operating margin stood at 21.5% this quarter i.e. there are tailwinds of approximately 30 basis points due to benefit from rupee depreciation and cost currency, offset by lower benefit from revenue hedges. 70 basis points from lower costs optimization including your sub contraction. This was off set by headwinds of 30 basis points from higher SG&A and the balance 80 basis points due to severe weakness in operating parameters.
- ❑ On profitability front, the EBITDA from operations for the quarter improved by 11.7% year-on-year at ₹93,670 million with a margin of 24.4%. The company achieved the reported PAT of ₹65,860 million, a growth of 13.1% year-on-year with a net margin of 17.2% translating into EPS of ₹15.72 per share. Employee attrition decreased to 24.3% this quarter as compare to 27.1% previous quarter.
- ❑ We continue to remain positive on Infosys, a leader in next-generation digital service and consulting. Though company see some caution due to mortgage issue in financial services, caution in hi-tech and telecom but it continuous to gain market share in cloud and digital business, reduction in employee attrition rate from the past 3 quarters and large deal wins. We recommend **HOLD** rating on the stock with a revised target price of **₹1725 per share**, implying 28x FY24E P/E.

Key takeaways from Concall

- ❑ Infosys reported a strong TCV numbers of \$3.3 bn with the highest-ever 32 large deals, 36% of which is net new. There is strong focus on cost optimization and vendor consolidation. Manufacturing, energy and utilities is seeing strong deal pipeline in the areas of IOT, cloud ERP and digital transformation.
- ❑ There are strong opportunities in vendor consolidation, where clients are looking to consolidate vendors to 1-3 from current 6-7 vendors. Their end to end capabilities and global scale make them the preferred choice as client look at consolidating because of which management has revised its revenue guidance to 16% to 16.5% in CC terms (from 15% to 16%) in FY23, despite macro headwinds.
- ❑ Quarterly annualized attrition was down by over 6% in 3QFY23, taking quarterly attrition below the 20% mark. LTM attrition is expected to further drop going forward.
- ❑ As per management, company sees strong traction on large deal wins and have seen more and more sort of relevant connect with clients on the cost efficiency and optimization team and a good traction of cobalt and digital transformation.

Financials:

| (In ₹ mn) | Q3 FY23 | Q2 FY23 | Q3 FY22 | Chg BPS | 9M-FY23 | 9M-FY22 | Chg BPS |
|----------------------|---------------|---------------|---------------|--------------|-----------------|-----------------|-------------|
| Net Sales | 3,83,180 | 3,65,380 | 3,18,670 | 20.2% | 10,93,260 | 8,93,650 | 22.3% |
| Operating Expense | 2,89,510 | 2,76,360 | 2,34,840 | 23.3% | 8,31,930 | 6,57,190 | 26.6% |
| EBITDA | 93,670 | 89,020 | 83,830 | 11.7% | 2,61,330 | 2,36,460 | 10.5% |
| Other Income | 7,690 | 5,840 | 5,120 | | 20,290 | 16,580 | |
| Depreciation | 11,250 | 10,290 | 8,990 | | 31,040 | 25,870 | |
| EBIT | 90,110 | 84,570 | 79,960 | 12.7% | 2,50,580 | 2,27,170 | 10.3% |
| Interest | 800 | 660 | 530 | | 2,020 | 1,500 | |
| PBT | 89,310 | 83,910 | 79,430 | 12.4% | 2,48,560 | 2,25,670 | 10.1% |
| Tax | 23,450 | 23,650 | 21,210 | | 68,820 | 61,160 | |
| PAT | 65,860 | 60,260 | 58,220 | 13.1% | 1,79,740 | 1,64,510 | 9.3% |
| Minority /Other Adj. | | (50) | (130) | | (70) | (260) | |
| Consolidated PAT | 65,860 | 60,210 | 58,090 | 13.4% | 1,79,670 | 1,64,250 | 9.4% |

| Margins | Q3 FY23 | Q2 FY23 | Q3 FY22 | Chng BPS | 9M-FY23 | 9M-FY22 | Chg BPS |
|--------------------|---------|---------|---------|----------|---------|---------|---------|
| Operating Margin % | 24.4% | 24.3% | 26.3% | -186 | 23.9% | 26.5% | -256 |
| Net Margin % | 17.2% | 16.4% | 18.2% | -104 | 16.4% | 18.4% | -197 |



Consolidated Financials:

| (In ₹ mn) | FY-21 | FY-22 | FY-23E | FY-24E |
|--------------------|-----------|-----------|-----------|-----------|
| Net Sales | 10,04,720 | 12,16,410 | 14,11,036 | 16,22,691 |
| Operating Expense | 7,29,290 | 9,01,500 | 11,14,975 | 12,58,522 |
| EBITDA | 2,75,430 | 3,14,910 | 2,96,060 | 3,64,169 |
| Other Income | 25,470 | 22,950 | 26,622 | 30,615 |
| Depreciation | 32,670 | 34,760 | 39,079 | 44,940 |
| EBIT | 2,68,230 | 3,03,100 | 2,83,604 | 3,49,844 |
| Interest | 1,950 | 2,000 | 2,000 | 2,000 |
| PBT | 2,66,280 | 3,01,100 | 2,81,604 | 3,47,844 |
| Tax | 72,050 | 79,640 | 74,483 | 92,004 |
| Minority Interest | (720) | (360) | - | - |
| PAT | 1,93,510 | 2,21,100 | 2,07,120 | 2,55,840 |
| Margins | FY-21 | FY-22 | FY-23E | FY-24E |
| Sales Growth % | 10.7% | 21.1% | 16.0% | 15.0% |
| Operating Margin % | 27.4% | 25.9% | 21.0% | 22.4% |
| Net Margin % | 19.3% | 18.2% | 14.7% | 15.8% |

| (In ₹ mn) | FY-21 | FY-22 | FY-23E | FY-24E |
|-----------------------------|------------------|------------------|------------------|------------------|
| Liabilities | | | | |
| Equity Share Capital | 24,960 | 27,040 | 27,040 | 27,040 |
| Reserves & Surplus | 7,38,550 | 7,26,460 | 9,33,580 | 11,89,421 |
| Total Shareholder's Funds | 7,63,510 | 7,53,500 | 9,60,620 | 12,16,461 |
| Minority Interest | 4,310 | 3,860 | 3,860 | 3,860 |
| Long-Term Liabilities | - | - | - | - |
| Other Long-term Liabilities | 68,640 | 73,900 | 73,900 | 73,900 |
| Deferred Tax Liability | (2,230) | (560) | (560) | (560) |
| Short-term Liabilities | 2,38,650 | 3,36,030 | 3,89,795 | 4,48,264 |
| Total | 10,72,880 | 11,66,730 | 14,27,615 | 17,41,926 |
| Assets | | | | |
| Net Fixed Assets | 2,64,270 | 2,62,160 | 2,79,184 | 3,10,394 |
| Long-Term L&A | 75,910 | 81,010 | 81,010 | 81,010 |
| Non Current Investments | 1,18,630 | 1,36,510 | 1,36,510 | 1,36,510 |
| Other Non-Current Assets | 6,740 | 15,200 | 15,200 | 15,200 |
| Current Asset | 6,07,330 | 6,71,850 | 9,15,711 | 11,98,812 |
| Total | 10,72,880 | 11,66,730 | 14,27,615 | 17,41,926 |
| Key Ratios | FY-21 | FY-22 | FY-23E | FY-24E |
| EPS (₹) | 46.0 | 52.5 | 49.2 | 60.8 |
| P/E (x) | 33.2 | 29.0 | 31.0 | 25.1 |
| P/B (x) | 8.4 | 8.5 | 6.7 | 5.3 |
| ROE | 25.3% | 29.3% | 21.6% | 21.0% |

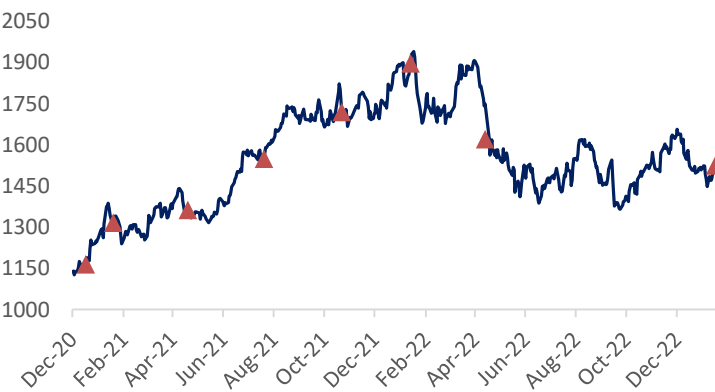
Source: Company, Anand Rathi Research

Key Risks:

- ☐ US H1-B Visa Regulations.
- ☐ Foreign Currency Fluctuations.
- ☐ Employee Attrition.

Rating and Target Price history:

INFY’s rating history & price chart



INFY’s rating details

| Date | Rating | Target Price (₹) | Share Price (₹) |
|-----------|--------|------------------|-----------------|
| 19-Jan-21 | Buy | 1450 | 1317 |
| 19-Apr-21 | Buy | 1510 | 1363 |
| 17-Jul-21 | Buy | 1800 | 1550 |
| 23-Oct-21 | Buy | 2000 | 1720 |
| 13-Jan-22 | Buy | 2230 | 1897 |
| 18-Apr-22 | Buy | 2000 | 1621 |
| 02-Aug-22 | Buy | 1800 | 1544 |
| 16-Jan-23 | HOLD | 1,7245 | 1,525 |

Source: Bloomberg, Anand Rathi Research
NOTE: Prices are as on 16 January 2023 close.

Source: Bloomberg, Anand Rathi Research



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| Ratings Guide (12 months) | Buy | Hold | Sell |
|----------------------------|-----|---------|-----------|
| Large Caps (>₹300Bn.) | 15% | 5%-10% | Below 5% |
| Mid/Small Caps (<₹300 Bn.) | 20% | 10%-15% | Below 10% |

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