

NOT RATED**INFOSYS**

| IT Services

| 18 October 2024

Broadly inline quarter: Revenue guidance and TCV underwhelm

- **Broad-based growth with European auto the only weak spot. Discretionary spending still restricted to US financial services.**
- **Large deal TCV down 68% YoY and 41% QoQ. Smaller deals (sub-US\$50mn in Infosys context) pipeline picked up QoQ in double digits**
- **Expect consensus FY25 EPS to not materially change post 2QFY25. Will be initiating coverage soon.**

Girish Pai

research@bobcaps.in

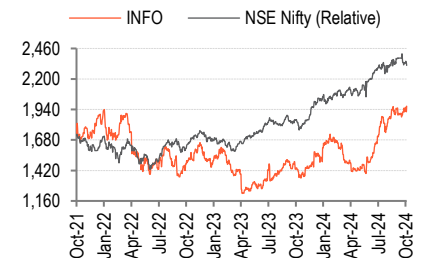
Broadly in line quarter: QoQ revenue growth in CC of 3.1% versus our estimate of 3.4%. Organic growth was 2.4% as 80bps came from the in-tech acquisition. EBIT margin was flat QoQ at 21.1% with project maximus and currency contributing 80bps and 10bps respectively. However, those were offset by 60bps from higher variable compensation and 30bps from higher M&A amortization. On a QoQ basis it was broad-based growth with European auto the only under performer. The non BFSI verticals were stable.

| | |
|------------------|-------------------|
| Ticker/Price | INFO IN/Rs 1,968 |
| Market cap | US\$ 97.0bn |
| Free float | 87% |
| 3M ADV | US\$ 145.0mn |
| 52wk high/low | Rs 1,991/Rs 1,352 |
| Promoter/FPI/DII | 14%/33%/38% |

Source: NSE | Price as of 17 Oct 2024

Revenue guidance and TCV fall short: The street was anticipating at least a 100bps increase in FY25 CC YoY revenue growth guidance (it was raised by 75bps to 3.75%-4.75%). At mid-point it implies a flattish CQGR in the next 2 quarters. It talked about a softer 2H compared to 1H including normal furloughs in 3Q. Also, we were expecting US\$3-5bn in TCV for large deals. However, the number came in at US\$2.4bn (41% net new). This has pulled down both the TTM TCV number and the TTM Net New TCV number significantly (see Figures 6 and 7).

Stock performance



Source: NSE

Small sized deals seem to be higher in number. Infosys stated that sub-US\$50mn deals in the pipeline had grown in double digits QoQ. However, it did not say that TCV was getting converted into revenue faster or discretionary spending had become broad based. It stated that this was just one data point and needed to see if this situation sustained.

Salary hike got pushed back, net addition of employees: Unlike in FY24 when the salary hike was effected in November 2023, in FY25 the junior employees will get their hike starting 1 January 2025 and the rest will get it on 1 April 2025. It did not indicate the quantum of the hikes and the likely impact on margins. Infosys added employees for the first time in 2QFY25 after six quarters.

Expects modest discretionary spend in BFS to continue: In most other sectors Infosys indicated that it remains constrained and at similar levels as that seen in previous quarters.



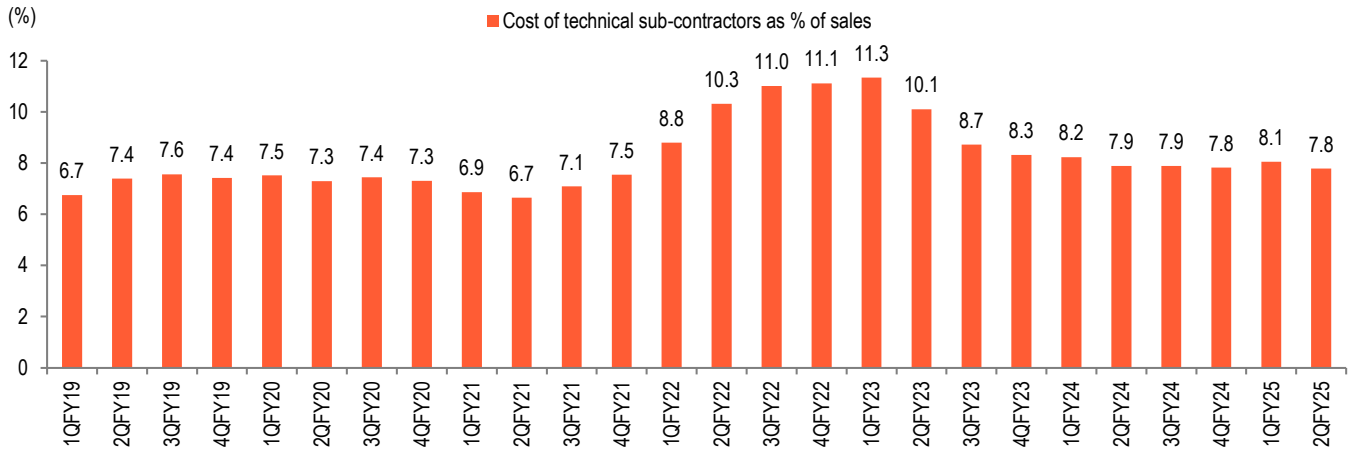
- The increase in guidance by 75bps QoQ has been driven by a better-than-expected performance in 2Q, expected momentum in volumes and in financial services and increase in smaller deals in the pipeline.
- On the weak large deal TCV, Infosys indicated that it has to do with lumpiness of deals and that deals shift quarter to quarter, but nothing has materially changed on the large deal front in the market. However, unlike previous quarters it is seeing a greater number of sub-US\$50m deals.
- Sees good traction on the discretionary spending front in financial services, whether it's capital markets, mortgages, cards and payments.
- Besides demand environment, one of the other reasons for pushing back the wage hike was the increase in variable compensation given out in 2QFY25
- Gen AI work today is more productivity oriented and not so much transformation oriented

Fig 1 – Quarterly results: Comparison of actuals with estimates

| Y/E Mar (Rsmn) | 2QFY24 | 1QFY25 | 2QFY25 | YoY (%) | QoQ (%) | 2QFY25 | Dev (%) |
|-------------------------------|----------|----------|----------|---------|---------|----------|---------|
| Net Sales (US\$ mn) | 4,718 | 4,714 | 4,894 | 3.7 | 3.8 | 4,908 | (0.3) |
| Net Sales | 3,89,940 | 3,93,150 | 4,09,860 | 5.1 | 4.3 | 4,11,270 | (0.3) |
| Software Development Expenses | 2,70,310 | 2,71,770 | 2,84,740 | 5.3 | 4.8 | 2,83,995 | 0.3 |
| % of Sales | 69.3 | 69.1 | 69.5 | | | 69.1 | |
| Gross Margin | 119,630 | 121,380 | 125,120 | 4.6 | 3.1 | 127,275 | (1.7) |
| % of Sales | 30.7 | 30.9 | 30.5 | | | 30.9 | |
| SG&A | 36,890 | 38,500 | 38,630 | 4.7 | 0.3 | 39,136 | (1.3) |
| % of Sales | 9.5 | 9.8 | 9.4 | | | 9.5 | |
| EBIT | 82,740 | 82,880 | 86,490 | 4.5 | 4.4 | 88,140 | (1.9) |
| EBIT Margin (%) | 21.2 | 21.1 | 21.1 | | | 21.4 | |
| Other Income | 6,320 | 8,380 | 7,120 | 12.7 | (15.0) | 7,558 | (5.8) |
| PBT | 87,680 | 90,210 | 92,530 | 5.5 | 2.6 | 94,498 | (2.1) |
| Provision for Tax | 25,530 | 26,470 | 27,370 | 7.2 | 3.4 | 25,987 | 5.3 |
| Effective Tax Rate | 29.1 | 29.3 | 29.6 | | | 27.5 | |
| PAT (adjusted) | 62,150 | 63,740 | 65,160 | 4.8 | 2.2 | 68,511 | (4.9) |
| Exceptional items | 0 | 0 | 0 | | | 0 | |
| Minority Interest | 30 | 60 | 100 | | | 0 | |
| PAT (reported) | 62,120 | 63,680 | 65,060 | 4.7 | 2.2 | 68,511 | (5.0) |
| NPM (%) | 15.9 | 16.2 | 15.9 | | | 16.7 | |

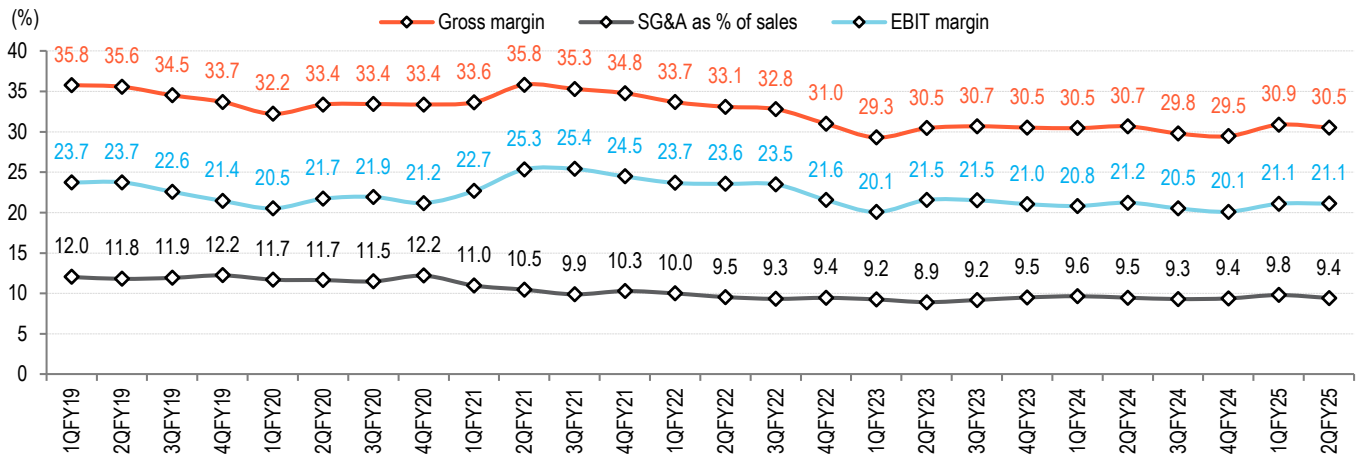
Source: Company, BOBCAPS Research

Fig 2 – Sub-contractor charges trend



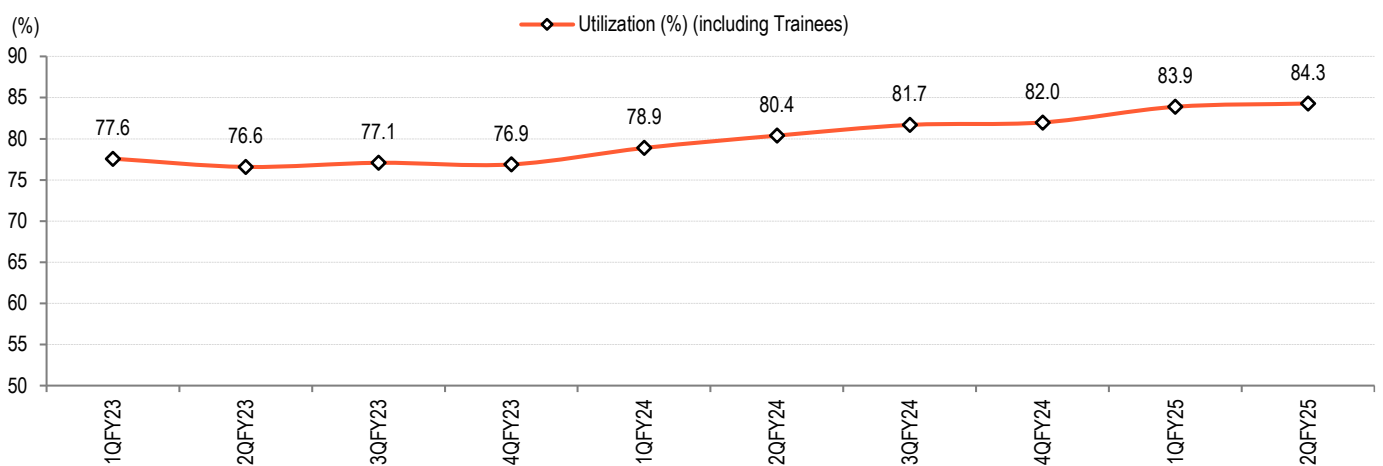
Source: Company, BOBCAPS Research

Fig 3 – Gross Margin, SG&A and EBIT margin (as % of sales)



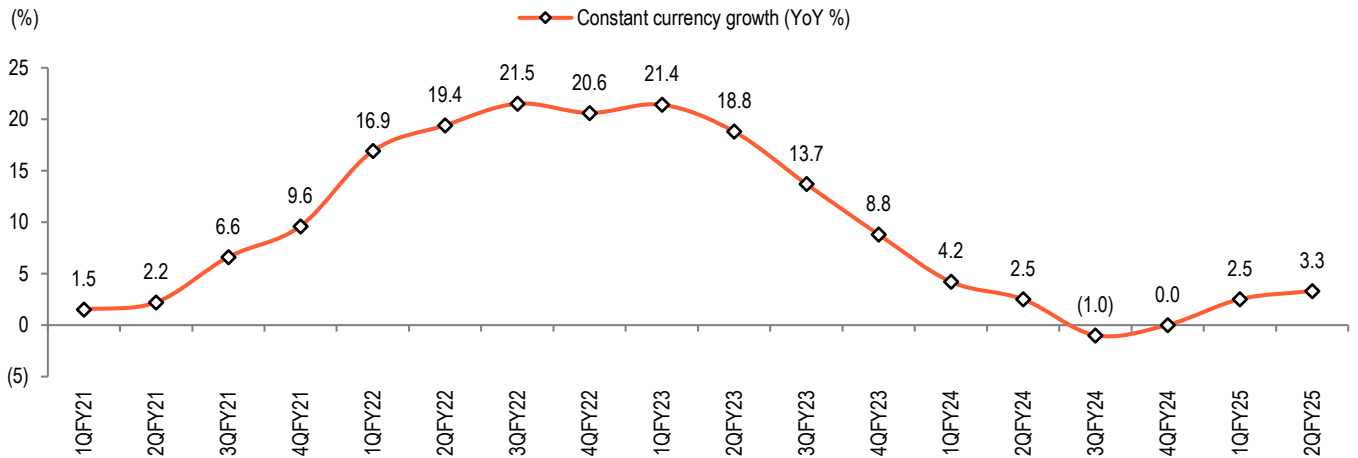
Source: Company, BOBCAPS Research

Fig 4 – Utilisation on a QoQ basis – currently at the highest level



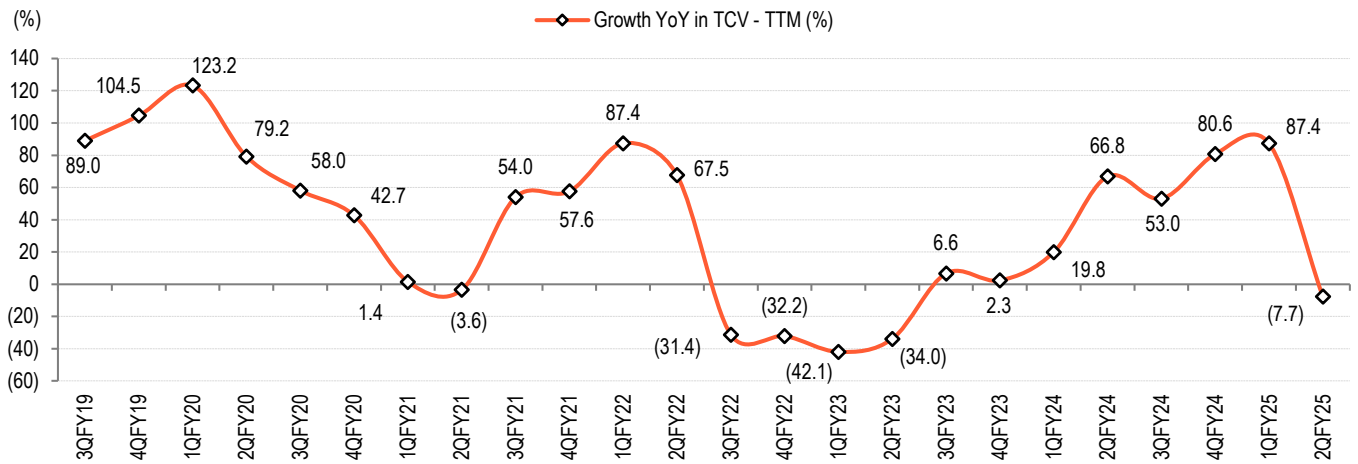
Source: Company, BOBCAPS Research

Fig 5 – Revenue Growth YoY (CC terms)



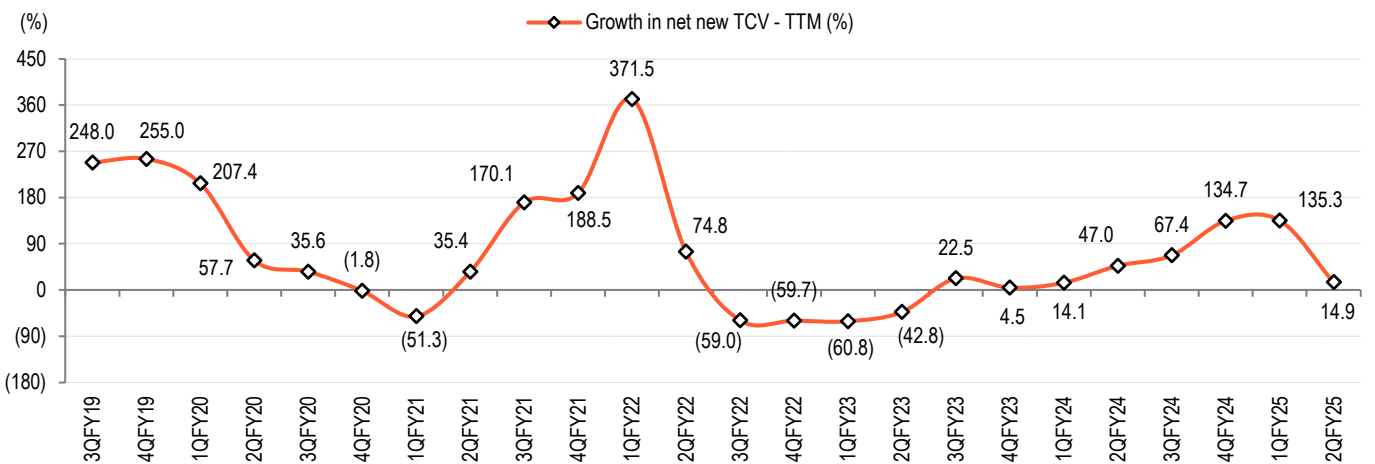
Source: Company, BOBCAPS Research

Fig 6 – Large deal TCV growth – TTM (%)



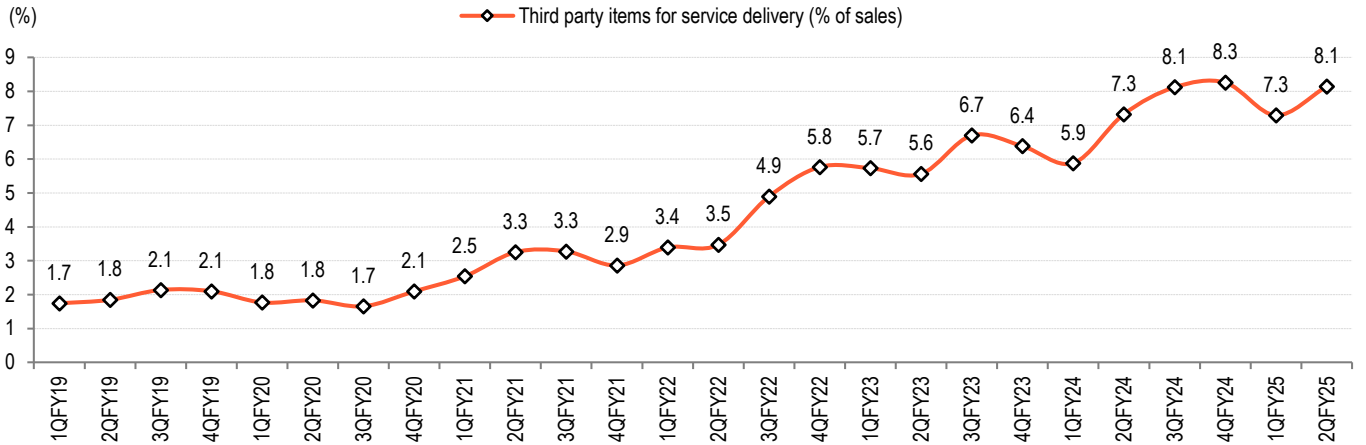
Source: Company, BOBCAPS Research

Fig 7 – Growth in Net New large deal TCV – TTM (%)



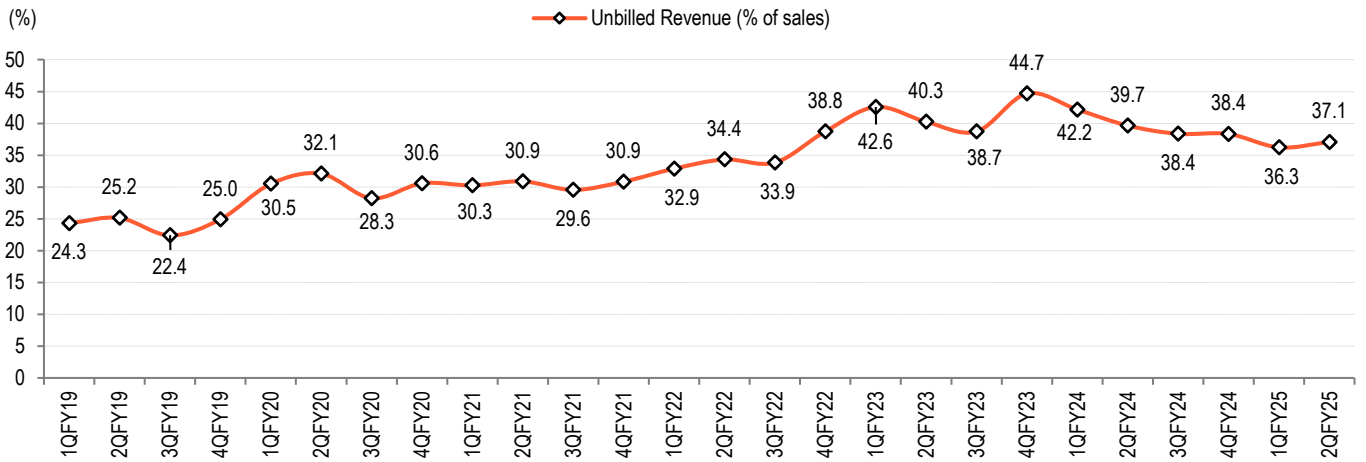
Source: Company, BOBCAPS Research

Fig 8 – Trends in third party items for service delivery (as % of quarterly revenue)



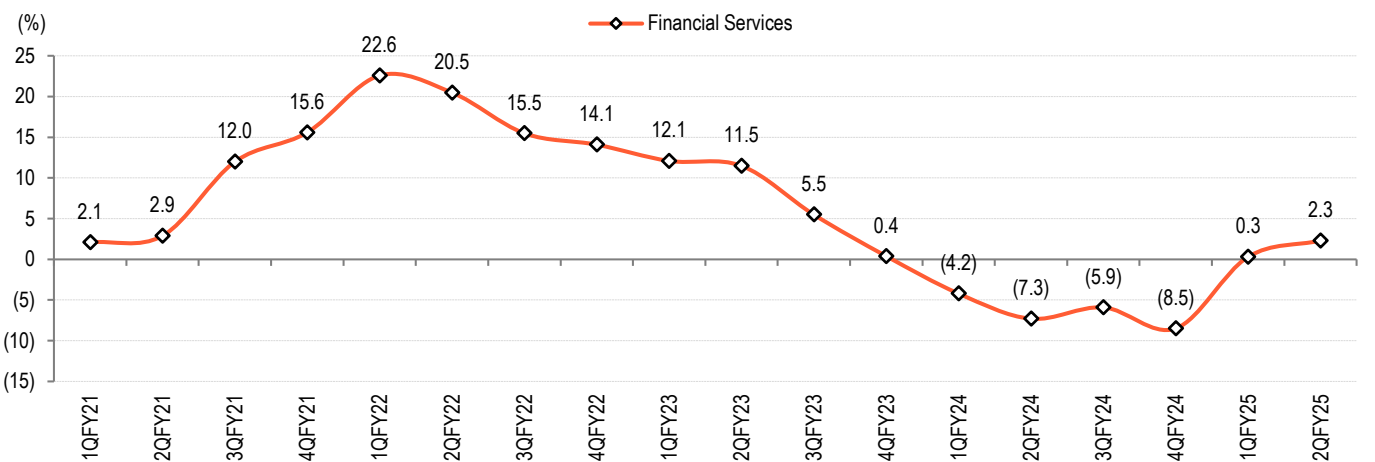
Source: Company, BOBCAPS Research

Fig 9 – Trends in unbilled revenue (as % of quarterly revenue)



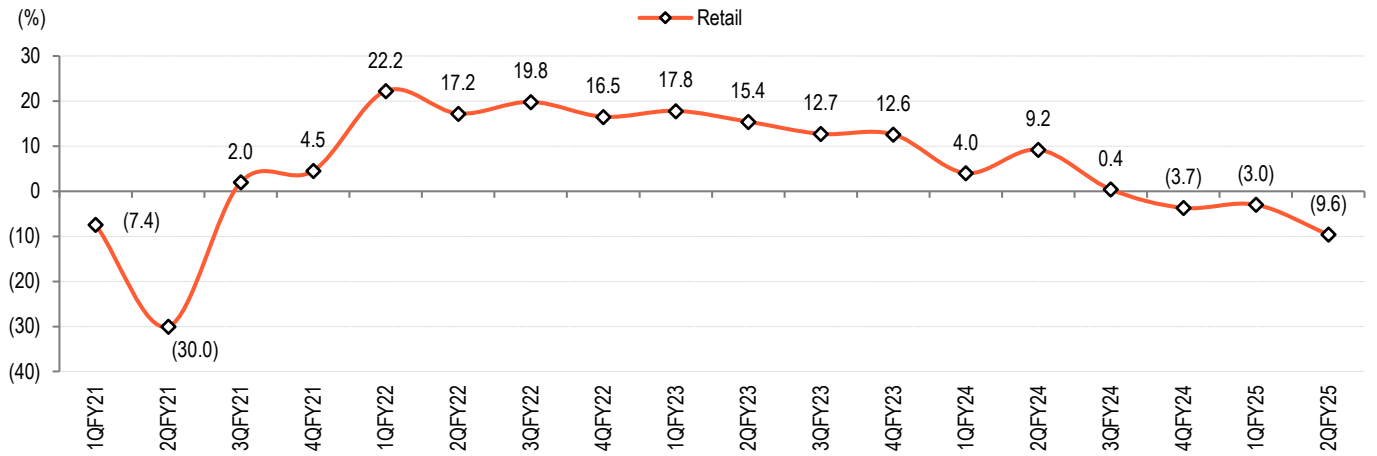
Source: Company, BOBCAPS Research

Fig 10 – YoY Revenue growth for the BFSI vertical (CC terms)



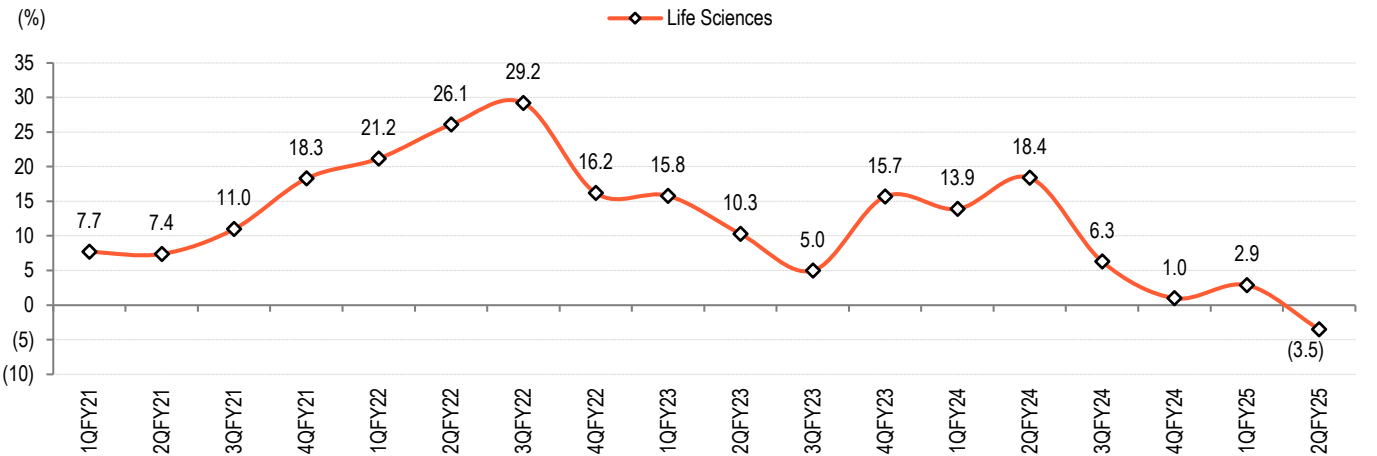
Source: Company, BOBCAPS Research

Fig 11 – YoY Revenue growth for the Retail vertical (CC terms)



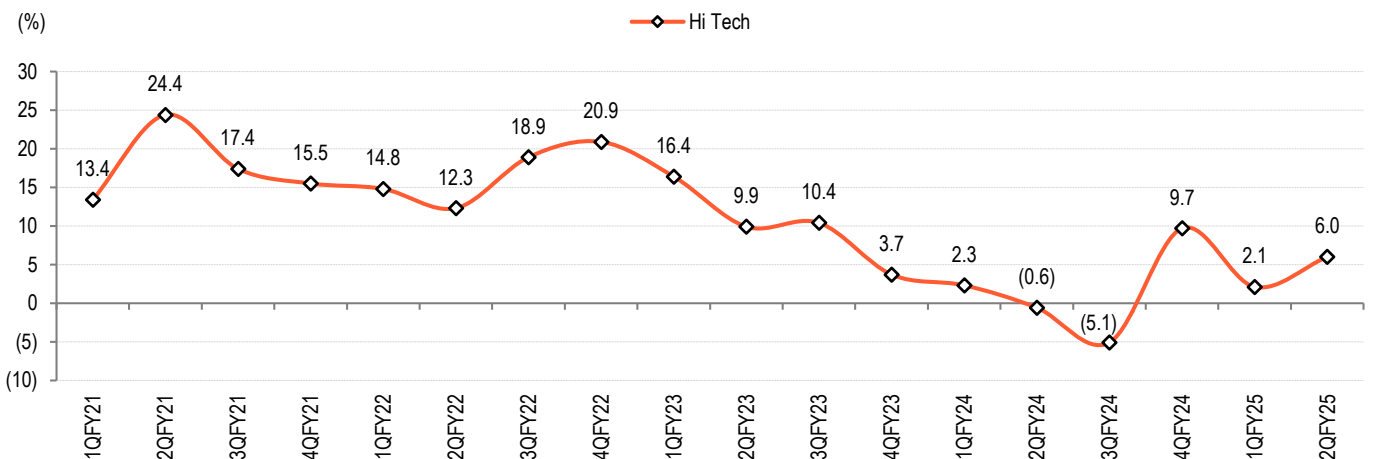
Source: Company, BOBCAPS Research

Fig 12 – YoY Revenue growth for the Life Sciences vertical (CC terms)



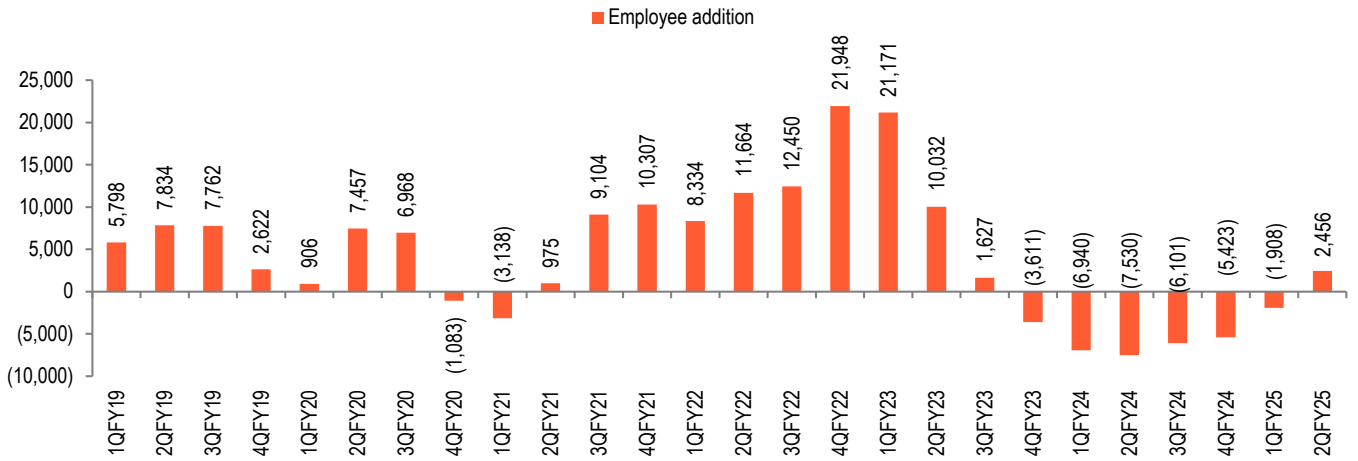
Source: Company, BOBCAPS Research

Fig 13 – YoY revenue growth for the Hi-tech vertical (CC terms)



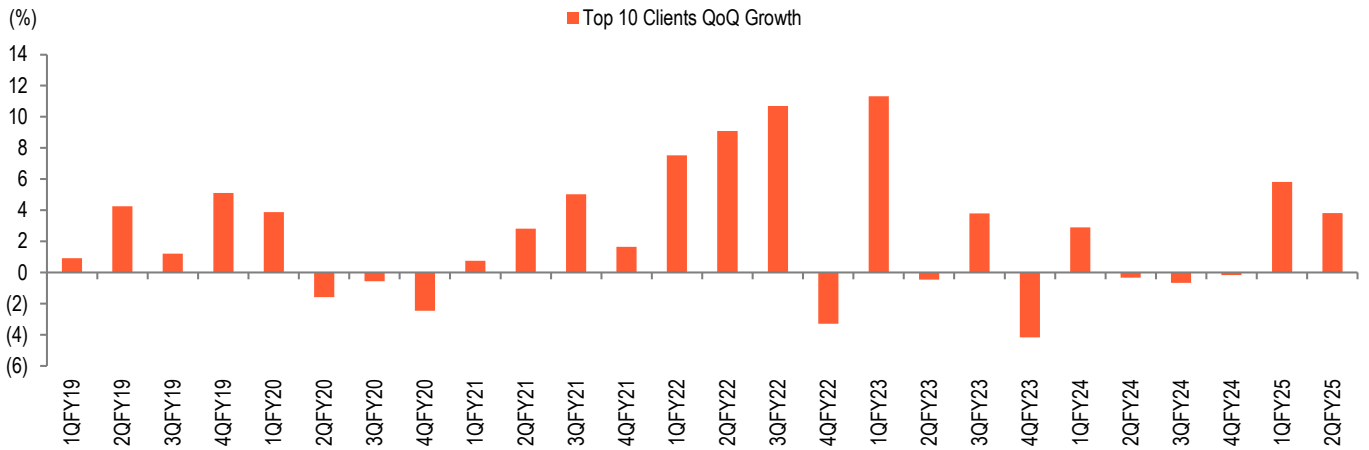
Source: Company, BOBCAPS Research

Fig 14 – Net Employee Addition



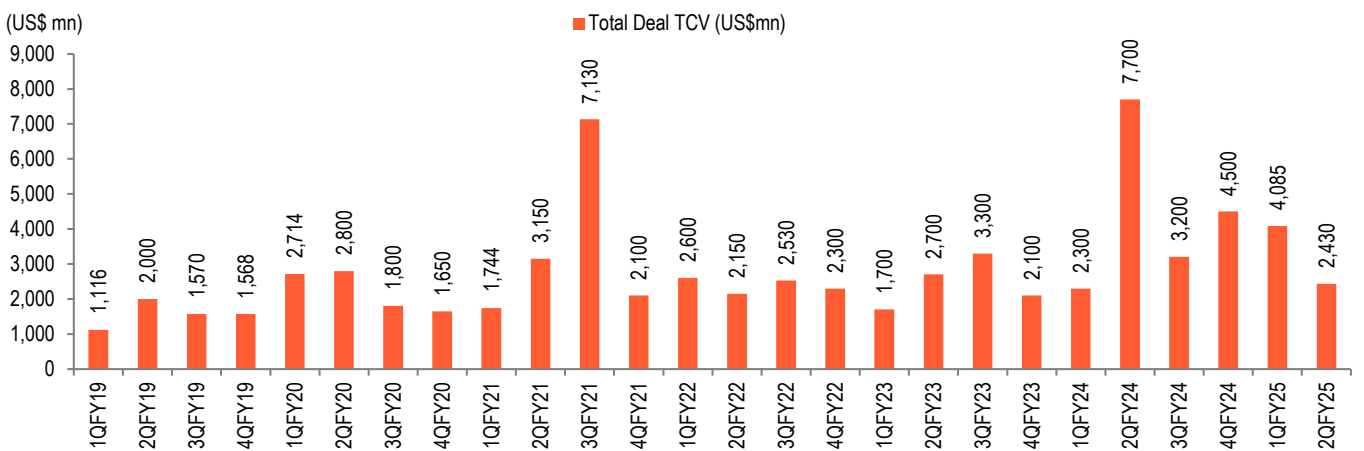
Source: Company, BOBCAPS Research

Fig 15 – Revenue trend from Top 10 clients



Source: Company, BOBCAPS Research

Fig 16 – TCV trend



Source: Company, BOBCAPS Research

Fig 17 – Quarterly Snapshot

| Year to 31 March (Rs mn) | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| INR/US\$ | 77.5 | 82.0 | 82.0 | 82.0 | 82.0 | 82.5 | 83.0 | 83.4 | 83.4 | 83.8 |
| US\$ Revenue (US\$ mn) | 4,444 | 4,555 | 4,659 | 4,554 | 4,617 | 4,718 | 4,663 | 4,564 | 4,714 | 4,894 |
| INR Revenue | 3,44,700 | 3,65,380 | 3,83,180 | 3,74,410 | 3,79,330 | 3,89,940 | 3,88,210 | 3,79,230 | 3,93,150 | 4,09,860 |
| Gross margin | 1,01,010 | 1,11,260 | 1,17,570 | 1,14,300 | 1,15,510 | 1,19,630 | 1,15,680 | 1,11,750 | 1,21,380 | 1,25,120 |
| SGA | 31,870 | 32,530 | 35,150 | 35,530 | 36,600 | 36,890 | 36,070 | 35,540 | 38,500 | 38,630 |
| EBIT | 69,140 | 78,730 | 82,420 | 78,770 | 78,910 | 82,740 | 79,610 | 76,210 | 82,880 | 86,490 |
| Other income | 6,760 | 5,840 | 7,690 | 6,710 | 5,610 | 6,320 | 7,890 | 27,290 | 8,380 | 7,120 |
| PBT | 75,340 | 83,910 | 89,310 | 84,660 | 83,620 | 87,680 | 86,190 | 1,02,400 | 90,210 | 92,530 |
| Tax | 21,720 | 23,650 | 23,450 | 23,320 | 24,170 | 25,530 | 25,060 | 22,650 | 26,470 | 27,370 |
| PAT-Adjusted | 53,600 | 60,210 | 65,860 | 61,280 | 59,450 | 62,120 | 61,060 | 79,690 | 63,680 | 65,060 |
| Shares Outstanding (basic) | 4,194 | 4,195 | 4,191 | 4,144 | 4,137 | 4,139 | 4,139 | 4,139 | 4,140 | 4,142 |
| EPS Adjusted (Rs) | 12.8 | 14.4 | 15.7 | 14.8 | 14.4 | 15.0 | 14.8 | 19.3 | 15.4 | 15.7 |
| YoY Growth (%) | | | | | | | | | | |
| US\$ Revenue | 17.5 | 13.9 | 9.6 | 6.4 | 3.9 | 3.6 | 0.1 | 0.2 | 2.1 | 3.7 |
| INR Revenue | 23.6 | 23.4 | 20.2 | 16.0 | 10.0 | 6.7 | 1.3 | 1.3 | 3.6 | 5.1 |
| Gross profit | 7.6 | 13.6 | 12.5 | 14.3 | 14.4 | 7.5 | (1.6) | (2.2) | 5.1 | 4.6 |
| EBIT | 4.7 | 12.9 | 10.1 | 13.2 | 14.1 | 5.1 | (3.4) | (3.2) | 5.0 | 4.5 |
| Net profit | 3.2 | 11.1 | 13.4 | 7.8 | 10.9 | 3.2 | (7.3) | 30.0 | 7.1 | 4.7 |
| QoQ Growth (%) | | | | | | | | | | |
| US\$ Revenue | 3.8 | 2.5 | 2.3 | (2.3) | 1.4 | 2.2 | (1.2) | (2.1) | 3.3 | 3.8 |
| INR Revenue | 6.8 | 6.0 | 4.9 | (2.3) | 1.3 | 2.8 | (0.4) | (2.3) | 3.7 | 4.3 |
| EBIT | (0.6) | 13.9 | 4.7 | (4.4) | 0.2 | 4.9 | (3.8) | (4.3) | 8.8 | 4.4 |
| Net profit | (5.7) | 12.3 | 9.4 | (7.0) | (3.0) | 4.5 | (1.7) | 30.5 | (20.1) | 2.2 |
| Margins (%) | | | | | | | | | | |
| Gross margin | 29.3 | 30.5 | 30.7 | 30.5 | 30.5 | 30.7 | 29.8 | 29.5 | 30.9 | 30.5 |
| SGA | 9.2 | 8.9 | 9.2 | 9.5 | 9.6 | 9.5 | 9.3 | 9.4 | 9.8 | 9.4 |
| EBIT | 20.1 | 21.5 | 21.5 | 21.0 | 20.8 | 21.2 | 20.5 | 20.1 | 21.1 | 21.1 |
| PAT | 15.5 | 16.5 | 17.2 | 16.4 | 15.7 | 15.9 | 15.7 | 21.0 | 16.2 | 15.9 |

Source: Company, BOBCAPS Research

Fig 18 – Key Metrics

| Key Metrics | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 |
|--|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| P and L (Rs mn) | | | | | | | | | | |
| Revenue | 3,44,700 | 3,65,380 | 3,83,180 | 3,74,410 | 3,79,330 | 3,89,940 | 3,88,210 | 3,79,230 | 3,93,150 | 4,09,860 |
| EBITDA | 69,140 | 78,730 | 82,420 | 78,770 | 78,910 | 82,740 | 79,610 | 76,210 | 82,880 | 86,490 |
| PAT | 53,600 | 60,210 | 65,860 | 61,280 | 59,450 | 62,120 | 61,060 | 79,690 | 63,680 | 65,060 |
| Vertical Mix (%) | | | | | | | | | | |
| Manufacturing | 20.3 | 21.0 | 21.4 | 21.5 | 22.2 | 22.1 | 22.6 | 23.4 | 22.7 | 23.7 |
| Insurance Finance and Banking | 30.6 | 30.5 | 29.3 | 28.9 | 28.1 | 27.5 | 27.8 | 26.4 | 27.5 | 27.2 |
| Telecom | 13.0 | 12.3 | 12.3 | 11.8 | 11.7 | 11.4 | 11.4 | 12.3 | 12.1 | 11.9 |
| Retailing & CPG | 14.5 | 14.2 | 14.3 | 14.8 | 14.5 | 15.2 | 14.6 | 14.3 | 13.8 | 13.3 |
| Others (utilities, logistic, transportation,etc) | 15.1 | 15.3 | 15.7 | 15.8 | 16.3 | 16.0 | 16.1 | 16.3 | 16.6 | 16.6 |
| Life Sciences | 6.5 | 6.7 | 7.0 | 7.2 | 7.2 | 7.8 | 7.6 | 7.3 | 7.3 | 7.3 |
| Geographic Mix (%) | | | | | | | | | | |
| North America | 61.8 | 62.5 | 62.0 | 61.0 | 60.8 | 61.1 | 59.0 | 59.6 | 58.9 | 57.4 |
| Europe | 25.0 | 24.7 | 25.8 | 27.0 | 26.8 | 26.5 | 28.2 | 28.6 | 28.4 | 29.8 |
| India | 2.6 | 2.9 | 2.4 | 2.6 | 9.7 | 9.6 | 10.4 | 9.6 | 9.6 | 9.7 |
| Rest of the world | 10.6 | 9.9 | 9.8 | 9.4 | 2.7 | 2.8 | 2.4 | 2.2 | 3.1 | 3.1 |
| Utilization (%) (including Trainees) | 77.6 | 76.6 | 77.1 | 76.9 | 78.9 | 80.4 | 81.7 | 82.0 | 83.9 | 84.3 |
| Utilization (%) (Excluding Trainees) | 84.7 | 83.6 | 81.7 | 80.0 | 81.1 | 81.8 | 82.7 | 83.5 | 85.3 | 85.9 |
| Effort Mix (%) | | | | | | | | | | |
| Onsite | 24.3 | 24.4 | 24.5 | 24.6 | 24.7 | 24.6 | 24.4 | 24.2 | 23.9 | 24.1 |
| Offshore | 75.7 | 75.6 | 75.5 | 75.4 | 75.3 | 75.4 | 75.6 | 75.8 | 76.1 | 75.9 |
| Clients Concentration (%) | | | | | | | | | | |
| Top 5 clients | 13.0 | 12.6 | 13.1 | 13.0 | 13.4 | 13.3 | 13.4 | 13.6 | 13.5 | 13.7 |
| Top 10 clients | 20.8 | 20.2 | 20.5 | 20.1 | 20.4 | 19.9 | 20.0 | 20.4 | 20.9 | 20.9 |
| Number of Client | | | | | | | | | | |
| \$1m+ | 877 | 895 | 912 | 922 | 940 | 951 | 944 | 959 | 987 | 985 |
| \$10m+ | 278 | 281 | 294 | 298 | 312 | 312 | 308 | 315 | 309 | 307 |
| \$50m+ | 69 | 77 | 79 | 75 | 79 | 80 | 82 | 83 | 84 | 86 |
| \$100m+ | 38 | 39 | 38 | 40 | 38 | 39 | 40 | 40 | 40 | 41 |
| Employees | 3,35,186 | 3,45,218 | 3,46,845 | 3,43,234 | 3,36,294 | 3,28,764 | 3,22,663 | 3,17,240 | 3,15,332 | 3,17,788 |
| Net addition | 21,171 | 10,032 | 1,627 | (3,611) | (6,940) | (7,530) | (6,101) | (5,423) | (1,908) | 2,456 |
| Attrition (consolidated)(%) | 28.4 | 27.1 | 24.3 | 20.9 | 17.3 | 14.6 | 12.9 | 12.6 | 12.7 | 12.9 |
| Profit and Loss Statement (US\$ mn) | | | | | | | | | | |
| Revenue | 4,444 | 4,555 | 4,659 | 4,554 | 4,617 | 4,718 | 4,663 | 4,564 | 4,714 | 4,894 |
| EBIT | 888 | 979 | 1,001 | 957 | 961 | 1,000 | 956 | 917 | 994 | 1,033 |
| PAT | 689 | 749 | 800 | 745 | 724 | 751 | 734 | 959 | 764 | 778 |
| Productivity Metrics | | | | | | | | | | |
| Per Capita (Annualised) | | | | | | | | | | |
| Revenue | 53,033 | 52,778 | 53,730 | 53,072 | 54,916 | 57,403 | 57,806 | 57,546 | 59,797 | 61,601 |
| EBIT | 10,597 | 11,344 | 11,544 | 11,153 | 11,430 | 12,167 | 11,851 | 11,562 | 12,609 | 13,002 |
| PAT | 8,222 | 8,679 | 9,226 | 8,682 | 8,612 | 9,137 | 9,099 | 12,092 | 9,691 | 9,793 |
| Direct and Opex cost per capita | 42,436 | 41,435 | 42,186 | 41,919 | 43,486 | 45,236 | 45,955 | 45,984 | 47,188 | 48,598 |
| QoQ Growth % (In US\$ terms) | | | | | | | | | | |
| Revenue | 4 | 2 | 2 | (2) | 1 | 2 | (1) | (2) | 3 | 4 |
| EBIT | (3) | 10 | 2 | (4) | 0 | 4 | (4) | (4) | 8 | 4 |
| PAT | (9) | 9 | 7 | (7) | (3) | 4 | (2) | 31 | (20) | 2 |

Source: Company, BOBCAPS Research

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SELL – Expected return <-6%

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