

Infosys | Takeaways from UK NDR

We hosted Jayesh Sanghrajka, Dy. CFO, and Sandeep Mahindroo, Head IR, for investor meetings in the UK. Management highlighted that near term growth is likely to be muted; however, strong deal bookings in 1H FY24 should support growth in FY25. Management is confident about long-term growth prospects and sees Gen-AI as net positive. Despite the recent senior management churn, Infosys remains confident on execution. We maintain BUY with PT of Rs1,650.

No pick up in demand environment: Management highlighted that demand environment remains weak with clients holding back discretionary IT spends. While deal pipeline continues to be healthy, this is being led mostly by cost-takeout deals. Management pointed out that in some cases, the same clients have decided to go slow on discretionary spending and have accelerated spend on cost-takeout initiatives.

Growth to be under pressure in near term: Management highlighted that growth may be muted in the near term as reflected by its implied 2H FY24 growth guidance of -2% to 0% CQGR. However, strong bookings in 1H FY24 are likely to ramp up from end-4Q which will support growth in FY25. Infosys is still in early stages of discussion with clients on their CY24 budget outlook and will get a better sense towards Jan/Feb 2024.

Longer term growth runway intact: Infosys remains confident on its long-term growth prospects due to three key reasons. Firstly, large part of tech spending is still in-sourced which provides scope to outsource more. Secondly, cloud adoption remains low and continues to see healthy traction. Infosys' investments positions it well to leverage this demand. Thirdly, Infosys' focus on digital and large deals should support continued market share gains.

Generative AI to be net positive: Infosys highlighted that client discussions are moving towards how GenAI can be used and Infosys is working on 100+ proof-of-concepts. While Infosys expects some services in BPM/testing to see deflation as Gen-AI is adopted they believe Gen-AI will also drive implementation opportunities such as structuring data, cloud migration and training/implementing LLMs and will be net positive just like cloud & enterprise applications in the previous tech cycles.

Focus on margin expansion: While margins are likely to be under pressure in near term due to wage hike in Nov-23 and ramp-up of cost takeout deals, management is focused on driving up margins from FY25. This should be supported by receding supply side challenges and falling attrition.

Confident of execution despite management churn: Infosys highlighted that they have seen a handful of senior level (SVP and above) exits out of the 100+ SVPs within the firm. However, the company remains confident of execution as every leader has been replaced by a tenured internal candidate which limits leadership vacuum. Moreover, management highlighted that Infosys' growth and strong deal wins over the past six months suggests that execution remains steady despite management churn.

(FY Mar)	2023A	2024E	2025E	2026E
Rev. (B)	1,467.7	1,547.8	1,699.4	1,860.4
EBITDA (B)	351.3	364.1	405.1	450.2
EV/EBITDA	16.6x	16.0x	14.4x	13.0x
EBIT (B)	309.1	316.8	355.1	396.6

COMPANY UPDATE

RATING	BUY
PRICE	INR1,488.60 [*]
PRICE TARGET % TO PT	INR1,650 +11%
52W HIGH-LOW	INR1,620.00 - INR1,215.45
FLOAT (%) ADV MM (USD)	85.4% 82.49
MARKET CAP	INR6.2T \$73.8B
TICKER	INFO IN
[*] Prior trading day's closing price unless otherwise noted.	

TICKER	INFY
PRICE	\$17.41 [*]
PRICE TARGET % TO PT	\$19.80 +14%

	CHANGE TO JEF		JEF vs CONS	
	2024	2025	2024	2025
REV	NA	NA	NA	NA
EPS	NA	NA	NA	NA

2024 (INR)	Q1	Q2	Q3	Q4	FY
EPS	-	-	-	-	59.00
PREV					

Akshat Agarwal, CFA * | Equity Analyst

+91 22 4224 6133 | akshat.agarwal@jefferies.com

Ankur Pant, CFA * | Equity Associate

+91 22 4224 6114 | apant@jefferies.com

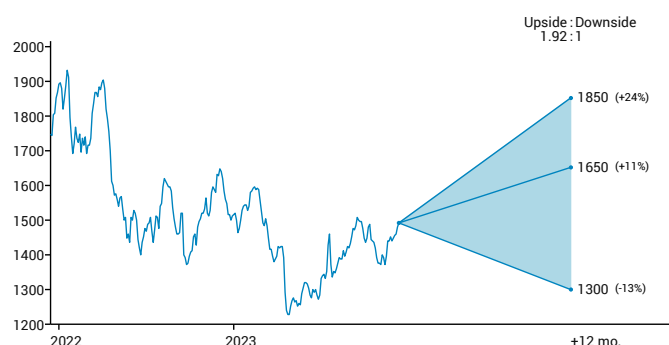
The Long View: Infosys

Investment Thesis / Where We Differ

While growth is subdued in FY24, Infosys is well positioned as a strong play on recovery in IT spends, and we expect industry leading revenue growth for the company over FY24-26E

Valuations seem reasonable given limited downside risks and strong growth uptick from next year.

Risk/Reward - 12 Month View



Base Case, INR1650, +11%

- Revenue growth CAGR of 6.3% YoYcc over FY23-26E
- INR-USD of 82.7/84/85 in FY24/25/26E
- EBIT margin to reach 21%+ by FY26E
- FY24/25/26E EPS of Rs 59/67/76
- Price target of Rs1,650, based on 23x 12m fwd EPS

Upside Scenario, INR1850, +24%

- Revenue growth CAGR of 7.5% YoYcc over FY23-26E
- EBIT margin rises to 22% levels by FY26E, helped by better cost management
- FY24/25/26E EPS of Rs61/72/83
- PT of Rs1,850, based on 24x 12m fwd EPS

Downside Scenario, INR1300, -13%

- A stronger or prolonged recessionary environment leading to a cut in IT spending
- Revenue growth CAGR of 5% YoYcc over FY23-25E
- EBIT margin to be ~20-21% levels by FY26E
- FY24/25/26E EPS of Rs 57/62/68
- PT of Rs1,300 based on 20x 12m fwd EPS

Sustainability Matters

Top Material Issue(s): Data Security, Customer privacy, Employee engagement, Energy management

Company Target(s): **1)** Already Carbon neutral, Infosys aims at maintaining carbon neutrality across Scope 1,2,3 emissions every year and also reduce Scope 1 and 2 GHG emissions by 75% by 2030. **2)** Maintaining 100% wastewater recycling every year and ensuring zero waste to landfill **3)** Extending digital skills to 10m+ people, including employees, client's workforce, teachers and communities by 2025. **4)** Creating a gender diverse workforce with 45% women **5)** Adopting leading data privacy standards.

Qs to Mgmt: **1)** How does Infosys ensure that it meets the highest quality of data security and privacy standards? What are the challenges for a company on this front? **2)** What are some of the steps that the company is taking to promote women representation especially in the middle and senior management? **3)** What are the steps that taken to reduce emissions and what are the cost implications of these investments? **4)** List some initiatives to ensure strong learning, reskilling and upskilling opportunities for its employees?

Catalysts

- Higher-than-expected revenue growth
- Higher-than-expected margins
- Gain in market share
- Better-than-expected growth/margin guidance
- Favorable currency movement

Exhibit 1 - Infosys is trading in-line with its 5-year average valuation

Infosys: 1-yr fwd PE

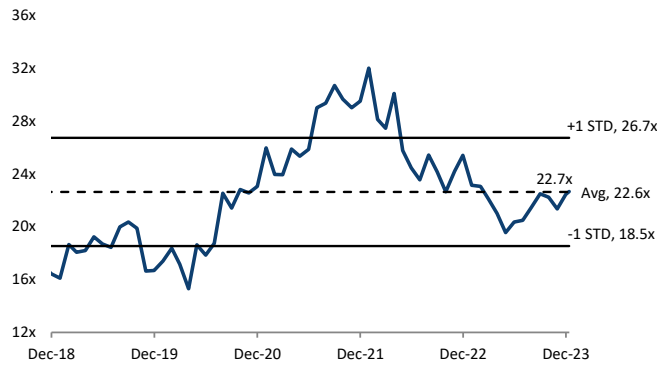


Exhibit 3 - Infosys' earnings yield spread vs bond yield is near +1 sd levels

Spread between 10-yr bond yields and earning yield

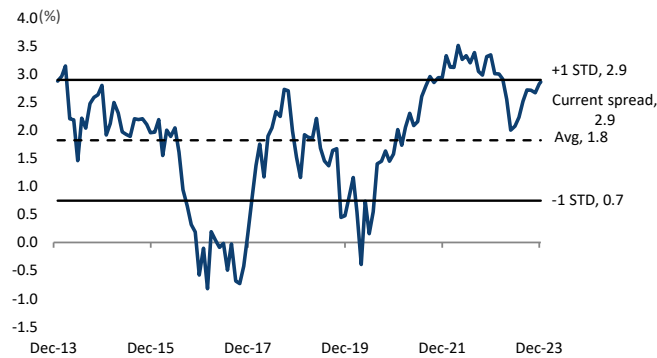


Exhibit 5 - Infosys seems fairly valued vs peers in context of its EPS growth

FY23 PE vs FY23-25 EPS Growth

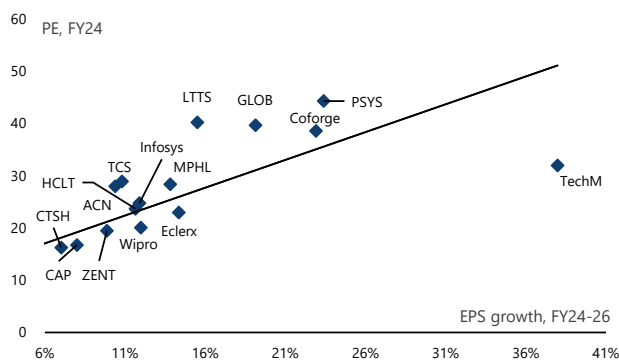


Exhibit 2 - Infosys is trading slightly above its 5-year PEG

PEG valuation trends

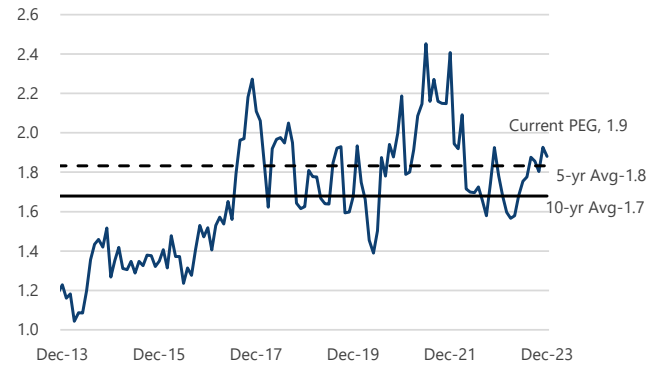


Exhibit 4 - Infosys is trading at 15% discount to TCS broadly in-line with 10-year average discount of 15%

Infosys' PE valuation discount to TCS

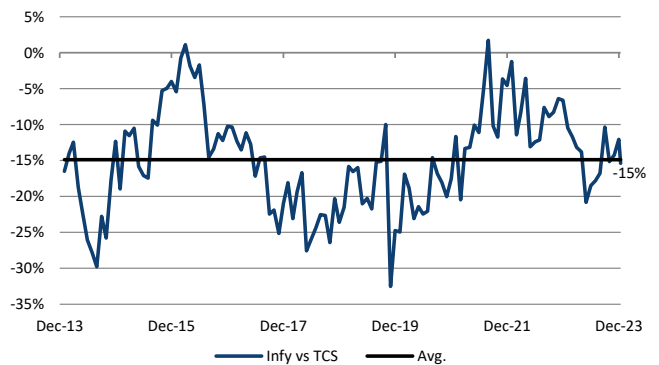


Exhibit 6 - Infosys's PEG ratio is lower than sector average and at a 23% discount to TCS

PEG ratio

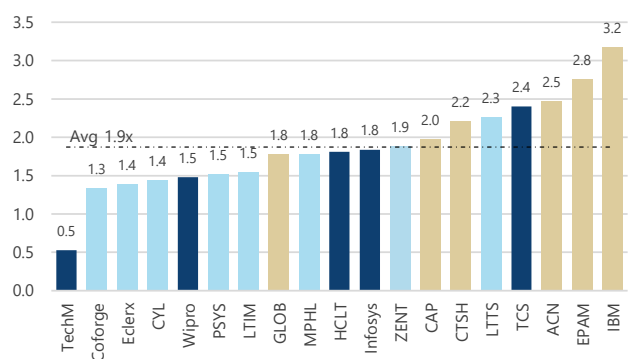


Exhibit 7 - Infosys: Jefferies vs Consensus estimates

Rs m	Jefferies			Consensus			JeFe vs Consensus (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	1,547,800	1,699,427	1,860,441	1,543,719	1,675,790	1,837,170	0.3	1.4	1.3
EBIT	316,832	355,052	396,575	322,714	358,299	396,416	(1.8)	(0.9)	0.0
EBIT Margin (%)	20.5	20.9	21.3	20.9	21.4	22	-44bps	-49bps	-26bps
PAT	244,167	278,238	313,901	247,452	280,139	310,661	(1.3)	(0.7)	1.0
EPS	59	67	76	60	68	75	(1.1)	(0.3)	1.6

Source: Company data, Jefferies estimates

Exhibit 8 - Recommendation Summary

	Rec.	Market Cap	CMP	Target	Target PE	Upside	PE (x)			EPS Cagr- FY23-26	EV/Sales (x)			US\$ Sales Cagr- FY23-26
		(US\$bn)	(Rs)	(Rs)	(x)	(%)	FY24	FY25	FY26	(%)	FY24	FY25	FY26	(%)
TCS	HOLD	161	3,672	3,690	24	0	28.7	26.2	23.7	10	5.4	4.9	4.5	6.5
Infosys	BUY	73	1,476	1,650	24	12	25.0	21.9	19.5	10	3.9	3.5	3.2	6.3
HCL Tech	HOLD	45	1,375	1,240	18	(10)	23.9	21.2	18.8	10	3.2	3.0	2.7	6.7
Wipro	UPF	26	422	345	15	(18)	21.2	19.2	17.4	5	2.3	2.2	2.0	1.5
TechM	UPF	14	1,226	910	16	(26)	37.2	23.8	19.6	4	2.3	2.1	2.0	1.6
Coforge	BUY	4	5,857	6,580	30	12	39.8	31.4	25.4	20	4.0	3.4	2.9	14.1
LTIMindtree	HOLD	20	5,758	5,575	25	(3)	34.4	28.1	23.9	17	4.5	4.0	3.5	10.8
Newgen	BUY	1.18	1,403	1,275	35	(9)	42.7	34.0	26.7	30	7.7	6.2	5.0	22.8

Source: Company data, Bloomberg, Jefferies estimates

Exhibit 9 - Valuation matrix

	Ticker	Currency	Price	Rating	PT	Upside	MCAP	Turnover	FY23-26		EV/Sales			P/E		Div. Yield		ROE	
							(US\$bn)	(US\$m)	Sales Cagr	EPS Cagr	FY24	FY25	FY26	FY24	FY25	FY26	FY24	FY25	FY26
Large Indian IT services firms																			
TCS	TCS IN	Rs	3,672	Hold	3,690	0%	161	84	6.5	10.4	5.4	4.9	4.5	28.7	26.2	23.7	3.3	48.3	49.1
Infosys	INFO IN	Rs	1,476	Buy	1,650	12%	73	93	6.3	9.6	3.9	3.5	3.2	25.0	21.9	19.5	2.8	30.3	28.6
HCL Tech	HCLT IN	Rs	1,375	Hold	1,240	-10%	45	36	6.7	10.1	3.2	3.0	2.7	23.9	21.2	18.8	4.2	23.5	25.2
Wipro	WPRO IN	Rs	422	UPF	345	-18%	26	25	1.5	5.4	2.3	2.2	2.0	21.2	19.2	17.4	2.6	13.8	14.3
TechM	TECHM IN	Rs	1,226	UPF	910	-26%	14	30	1.6	4.4	2.3	2.1	2.0	37.2	23.8	19.6	4.1	10.1	15.4
LTIMindtree	LTIM IN	Rs	5,758	Hold	5,575	-3%	20.4	21	10.8	17.4	4.5	4.0	3.5	34.4	28.1	23.9	1.2	27.0	27.3
Average									5.6	9.4	4.0	3.7	3.4	26.8	23.6	21.2	3.1	31.0	31.9
Mid-size Indian IT services firms																			
Mphasis	MPHL IN	Rs	2,433	NC	NA		5.5	12	6.1	8.4	3.3	2.9	2.6	28.4	24.6	21.9	2.5	21.7	22.5
Tata Elxsi	TELX IN	Rs	8,902	NC	NA		6.6	14	14.4	13.3	15.1	13.0	11.1	69.8	59.6	50.5	0.9	34.8	34.5
L&T Technology Services	LTTS IN	Rs	4,948	NC	NA		6.3	9	14.2	14.0	5.3	4.6	4.1	40.3	35.0	30.2	1.1	24.7	24.3
Persistent	PSYS IN	Rs	6,527	NC	NA		6.0	37	15.1	23.0	5.1	4.4	3.8	44.3	35.5	29.1	1.0	27.3	27.8
Coforge	COFORGE IN	Rs	5,857	Buy	6,580	12%	4.3	23	14.1	20.0	4.0	3.4	2.9	39.8	31.4	25.4	1.4	26.5	28.8
KPIT Tech	KPITTECH IN	Rs	1,433	NC	NA		4.7	21	25.8	34.9	8.2	6.8	5.6	68.4	53.5	41.4	0.6	30.9	31.5
Cyient	CYL IN	Rs	1,974	NC	NA		2.6	11	13.1	26.0	3.1	2.7	2.4	28.6	24.3	21.0	2.1	21.4	22.4
BirlaSoft	BSOFT IN	Rs	664	NC	NA		2.2	16	10.9	34.7	3.2	2.9	2.5	32.0	27.0	22.7	1.0	22.4	22.6
eClerx	ECLX IN	Rs	2,478	NC	NA		1.5	5	9.7	12.7	3.9	3.5	3.2	22.9	19.9	17.5	0.1	26.7	26.2
Average									12.7	17.4	4.9	4.3	3.8	40.3	33.8	28.7	1.1	24.3	25.5
Global Peers																			
IBM	IBM US	US\$	164	NC	NA		149	612	3.4	79.6	3.2	3.1	2.9	17.2	16.5	15.5	4.2	32.6	33.0
Accenture	ACN US	US\$	342	Hold	298	-13%	228	604	6.3	11.0	3.3	3.1	2.9	28.0	25.6	23.0	1.6	27.8	28.2
Coq nizant	CTSH US	US\$	72	Hold	70	-2%	36	218	2.6	4.5	1.8	1.8	1.7	16.3	15.5	14.2	1.8	16.6	16.7
Capgemini	CAP FP	EUR	190	Buy	210	11%	36	62	5.0	14.2	1.7	1.6	1.5	16.7	15.8	14.4	1.9	17.9	17.9
Atos	ATO FP	EUR	6	NC	NA		1	10	(0.7)	n/m	0.4	0.4	0.4	n/m	3.1	2.1	0.0	6.6	8.2
Endava	DAVA US	USD	67	NC	NA		4	21	6.9	11.5	4.7	4.7	4.0	31.2	41.3	29.6	0.0	14.5	18.6
EPAM	EPAM US	USD	275	Buy	295	7%	16	105	5.0	19.1	3.0	2.9	2.5	26.6	26.0	22.2	0.0	16.3	16.3
Globant	GLOB US	USD	227	Buy	235	3%	10	76	18.6	31.8	4.6	3.9	3.3	39.7	34.1	28.0	0.0	14.5	15.1
Average									4.5	38.2	2.8	2.7	2.5	21.6	20.1	18.3	2.2	25.3	25.6

Source: Company data, Bloomberg, Jefferies estimates

Exhibit 10 - Infosys: Financial Summary

Rs m	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
P&L								
USDINR	70.1	71.0	74.1	74.6	80.6	82.7	84.0	85.0
Revenue (US\$m)	11,799	12,781	13,562	16,310	18,212	18,715	20,231	21,888
Revenue	826,760	907,910	1,004,730	1,216,410	1,467,670	1,547,800	1,699,427	1,860,441
EBITDA	208,890	222,680	278,900	314,920	351,310	364,091	405,099	450,232
EBIT	188,790	193,740	246,220	280,150	309,060	316,832	355,052	396,575
PBT (Reported)	210,410	220,080	266,280	301,100	333,220	338,183	383,238	432,245
PAT (Reported)	154,050	165,950	193,510	221,110	240,950	244,167	278,238	313,901
PAT (Recurring)	159,330	165,950	193,510	221,110	240,950	244,167	278,238	313,901
Recurring EPS	36.7	39.0	45.6	52.5	57.6	59.0	67.3	75.9
Balance Sheet								
Networth	649,480	654,500	763,510	753,500	754,070	855,781	972,700	1,108,737
Minority interest	580	3,940	4,310	3,860	3,880	3,920	4,040	4,160
Gross debt	0	0	0	0	0	0	0	0
Lease liabilities	0	46,330	53,250	54,740	82,990	91,270	103,250	115,710
Current liabilities	186,380	202,370	231,270	327,310	379,440	371,557	410,765	454,255
Other liabilities	10,940	20,540	31,520	39,440	37,780	36,620	36,620	36,620
Total Liabilities	847,380	927,680	1,083,860	1,178,850	1,258,160	1,359,148	1,527,376	1,719,482
PPE+ROU	133,560	178,670	184,170	184,020	206,750	194,952	182,473	169,362
Receivables	202,010	256,080	274,150	352,070	421,620	439,929	486,353	537,846
Cash and Investments	308,290	274,410	389,190	377,960	316,510	407,769	527,241	664,672
Goodwill	35,400	52,860	60,790	61,950	72,480	72,400	72,400	72,400
Intangible assets	6,910	19,000	20,720	17,070	17,490	17,373	21,526	25,998
Other assets	161,210	146,660	154,840	185,780	223,310	226,724	237,383	249,205
Total assets	847,380	927,680	1,083,860	1,178,850	1,258,160	1,359,148	1,527,376	1,719,482
Cash Flow Statement								
CFO	158,440	185,570	241,270	249,640	230,220	259,668	282,345	312,183
CFI	(15,770)	(17,930)	(83,590)	(74,950)	(17,640)	(4,573)	4,279	9,679
Capex	(24,450)	(33,070)	(21,070)	(21,610)	(25,790)	(26,614)	(29,740)	(32,558)
Acquisitions	(7,740)	(18,660)	(13,790)	(530)	(9,700)	(590)	0	0
CFF	(145,120)	(175,910)	(97,860)	(246,420)	(266,950)	(161,936)	(167,152)	(184,431)
FCFE	131,790	135,900	209,610	233,690	201,590	246,835	280,791	315,296
Growth								
US\$ revenue growth (%YoY)	7.9	8.3	6.1	20.3	11.7	2.8	8.1	8.2
Revenue growth (%YoYcc)	9.0	9.8	5.0	19.7	15.4	2.5	8.5	8.2
Revenue growth (Organic %YoYcc)	8.9	8.1	4.0	19.3	15.0	2.4	8.5	8.2
INR Revenue growth (%YoY)	17.2	9.8	10.7	21.1	20.7	5.5	9.8	9.5
EBITDA Growth (%YoY)	9.9	6.6	25.2	12.9	11.6	3.6	11.3	11.1
EBIT Growth (%YoY)	10.1	2.6	27.1	13.8	10.3	2.5	12.1	11.7
PAT Grwoth (%YoY)	(3.9)	7.7	16.6	14.3	9.0	1.3	14.0	12.8
Recurring EPS growth (%YoY)	9.5	6.3	17.0	15.2	9.7	2.4	14.0	12.8
Margin								
EBITDA Margin (%)	25.3	24.5	27.8	25.9	23.9	23.5	23.8	24.2
EBIT Margin (%)	22.8	21.3	24.5	23.0	21.1	20.5	20.9	21.3
Reported PAT Margin (%)	18.6	18.3	19.3	18.2	16.4	15.8	16.4	16.9
Return ratios								
ROE	23.7	25.5	27.3	29.2	32.0	30.3	28.6	28.3
ROA	18.7	18.7	19.3	19.6	19.8	18.7	18.2	18.3
ROIC	41.2	40.4	47.1	54.4	54.5	51.2	57.4	64.3
ROCE	40.0	36.5	39.3	44.0	43.2	40.1	43.8	48.0
Per share								
EPS	36.7	39.0	45.6	52.5	57.6	59.0	67.3	75.9
DPS	22.2	17.5	27.0	31.0	34.0	37.0	41.0	45.0
BPS	154.3	155.5	184.6	182.2	182.3	206.9	235.2	268.0
FCF/share	31.5	32.5	50.1	56.5	48.7	59.7	67.9	76.2
Valuation								
PE	40.3	37.9	32.4	28.1	25.6	25.0	21.9	19.4
PB	9.6	9.5	8.0	8.1	8.1	7.1	6.3	5.5
P/sales	7.5	6.8	6.1	5.1	4.2	4.0	3.6	3.3
P/FCF	46.8	45.4	29.4	26.1	30.3	24.7	21.7	19.4
FCF yield	2.1	2.2	3.4	3.8	3.3	4.0	4.6	5.2
Dividend yield	1.5	1.2	1.8	2.1	2.3	2.5	2.8	3.0

Source: Company data, Jefferies estimates

Company Description

Infosys

Founded in 1981 and headquartered in Bangalore (India), Infosys is a leading provider of offshore-centric consulting and IT services. Using a global delivery model, Infosys offers IT solutions both from client locations and its own offshore facilities, primarily in India. Infosys's worldwide headcount currently stands at approximately 345,000 employees.

Company Valuation/Risks

Infosys

Our price target of Rs1,650 is based on 23x 12m fwd EPS. Key risks include weaker revenue growth, lower margin, unfavorable currency, and corporate action.

For Important Disclosure information on companies recommended in this report, please visit our website at <https://javatar.bluematrix.com/sellside/Disclosures.action> or call 212.284.2300.

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(Article 3(1)e and Article 7 of MAR)

Recommendation Published December 12, 2023 , 11:12 ET.

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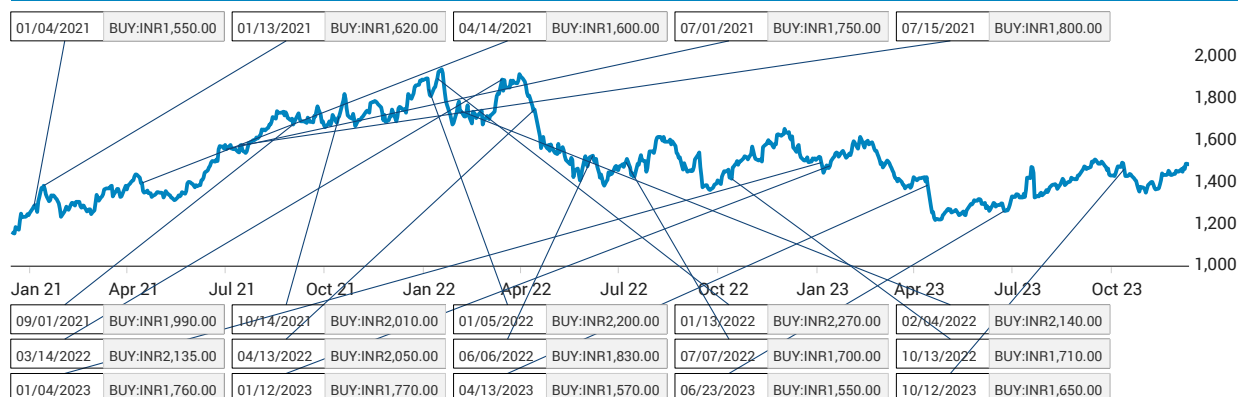
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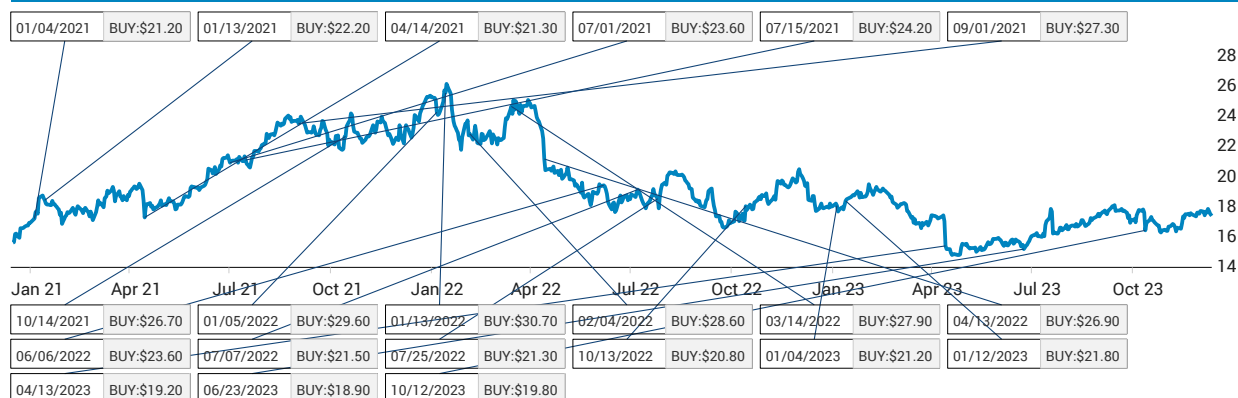
Other Companies Mentioned in This Report

- Accenture plc (ACN: \$342.31, HOLD)
- ATOSS Software AG (AOF GR: €217.50, HOLD)
- Capgemini (CAP FP: €192.90, BUY)
- Coforge Limited (COFORGE IN: INR5,866.90, BUY)
- Cognizant Technology Solutions Corp. (CTSH: \$71.68, HOLD)
- EPAM Systems (EPAM: \$275.12, BUY)
- Globant (GLOB: \$227.20, BUY)
- HCL Technologies (HCLT IN: INR1,374.80, HOLD)
- Infosys (INFO IN: INR1,488.60, BUY)
- Infosys (INFY: \$17.41, BUY)
- LTIMindtree (LTIM IN: INR5,772.20, HOLD)
- Newgen Software Technologies Limited (NEWGEN IN: INR1,419.90, BUY)
- Tata Consultancy Services (TCS IN: INR3,642.20, HOLD)
- Tech Mahindra (TECHM IN: INR1,232.90, UNDERPERFORM)
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- Wipro (WIT: \$4.95, UNDERPERFORM)

Rating and Price Target History for: Infosys (INFO IN) as of 12-11-2023



Rating and Price Target History for: Infosys (INFY) as of 12-11-2023



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	Count		Percent		IB Serv./Past12 Mos.		JIL Mkt Serv./Past12 Mos.	
BUY	1935	58.53%	320	16.54%	115	5.94%		
HOLD	1210	36.60%	109	9.01%	17	1.40%		
UNDERPERFORM	161	4.87%	4	2.48%	2	1.24%		

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