

# HSIE Results Daily

## Contents

### Results Reviews

- Tata Consultancy Services:** Tata Consultancy Services (TCS) delivered in-line revenue growth and stronger operating performance in Q3. Key positives for TCS included (1) growth visibility from mega deals (Q3/Q4 sequential improvement from BSNL deal and JLR deal) and deal market-share gains vs. Accenture outsourcing, offsetting the impact of leakage in the renewals, (2) commentary on recovery in Europe geography and BFSI vertical (sequential growth even in Q3 adj. for impact of large program completion), supported by 16% YoY in BFSI total contract value for 9MFY24, vendor consolidation deals + sequential improvement in qualified pipeline and strongest book-to-bill in Retail & CPG vertical in over a year, and (3) margin improvement and continued scope for improvement aided by declining attrition (within comfort range), sub-con optimization and higher scope for utilisation (13% growth in learning hours). Our TP of INR 4,040 is based on 26x FY26E EPS (5Y/10Y average at 26x and 23x).
- Infosys:** Infosys (INFO) delivered in-line performance (above consensus) while underperforming TCS sequentially and for FY24E growth. The cut/narrowed guidance implies only marginal growth at the top-end in Q4 despite the benefit from the Liberty Global deal ramp-up and normalization of the McCamish impact. The relative weakness is emanating from (1) a higher mix of discretionary services in INFO's portfolio with slower activity on digital programs, a steep decline in Top 11-25 accounts and pressure on renewals (sub-USD 1bn large deal renewal TCV as compared to USD 1.5bn quarterly average), (2) extended furlough impact in Q4 & increased competition from captives, and (3) attrition in senior management to competition. Revenue guidance for FY24E was tweaked to 1.5 to 2% CC (1 to 2.5% earlier) and margin guidance was maintained. The improving trajectory beyond FY24 is premised on (1) benefits from project 'Maximus' driving margin improvement – utilisation, pricing, pyramid, delivery efficiency, (2) new deal wins around cost optimization, SAP cloud, and (3) relative strength in manufacturing and E&U verticals (28% of revenue). Near-term upside potential is capped especially if macro recovery is protracted. Maintain ADD on INFO with TP of 1,515 based on 20x FY26E EPS.

HSIE Research Team

hdfcsec-research@hdfcsec.com

# Tata Consultancy Services

## Path to recovery

Tata Consultancy Services (TCS) delivered in-line revenue growth and stronger operating performance in Q3. Key positives for TCS included (1) growth visibility from mega deals (Q3/Q4 sequential improvement from BSNL deal and JLR deal) and deal market-share gains vs. Accenture outsourcing, offsetting the impact of leakage in the renewals, (2) commentary on recovery in Europe geography and BFSI vertical (sequential growth even in Q3 adj. for impact of large program completion), supported by 16% YoY in BFSI total contract value for 9MFY24, vendor consolidation deals + sequential improvement in qualified pipeline and strongest book-to-bill in Retail & CPG vertical in over a year, and (3) margin improvement and continued scope for improvement aided by declining attrition (within comfort range), sub-con optimization and higher scope for utilisation (13% growth in learning hours). Our TP of INR 4,040 is based on 26x FY26E EPS (5Y/10Y average at 26x and 23x).

- Q3FY24 highlights:** (1) TCS' revenue print stood at USD 7,281mn, +1% QoQ CC (1% QoQ CC estimate), which was the strongest sequential performance in the last four quarters perhaps indicating that the peak drawdown in renewals is behind. (2) Deal bookings were lower at USD 8.1bn as compared to USD 11.2bn in Q2 (included USD 1bn TCV each from BSNL/JLR deals) comprising NorthAm TCV at USD 4.2bn, BFSI TCV at USD 2.6bn and Retail & CPG TCV at USD 1.5bn. (3) Vertical commentary was stronger in Manufacturing, Life sciences and Healthcare as compared to BFSI and Hi-Tech. (4) EBITM at 25% (adj. for non-recurring legal settlement) was up 75bps based on sub-con reduction, better productivity and realization, which offset the impact of furlough and third-party software and license (linked to BSNL deal).
- Outlook:** We have factored Q4 growth at 0.8% and FY24/25/26E growth at 4.1%, 6.4% and 8.3% (implying 2% CQGR in FY25/26E). EBITM factored at 24.5/25.5/25.5% for FY24/25/26E respectively, translating to an EPS CAGR of 10% over FY24-26E.

### Quarterly financial summary

YE March (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Revenue (USD mn)	7,281	7,075	2.9	7,210	1.0	25,707	27,927	29,058	30,909	33,483
Net Sales	605.83	582.29	4.0	596.92	1.5	1,917.54	2,254.58	2,405.89	2,596.35	2,846.10
EBIT	151.54	142.84	6.1	144.83	4.6	484.53	542.37	590.42	662.22	725.03
APAT	117.85	108.46	8.7	113.42	3.9	383.27	421.47	463.55	513.76	562.23
Diluted EPS (INR)	32.6	30.0	8.7	31.3	3.9	105.9	116.5	128.1	142.0	155.4
P/E (x)						35.3	32.1	29.2	26.3	24.0
EV / EBITDA (x)						24.4	22.0	20.4	18.3	16.7
RoE (%)						43.7	46.9	51.9	56.8	59.0

Source: Company, HSIE Research, Consolidated Financials

### Change in estimates

YE March (INR bn)	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
Revenue (USD mn)	29,074	29,058	(0.1)	31,138	30,909	(0.7)	33,546	33,483	(0.2)
Revenue	2,407.11	2,405.89	(0.1)	2,615.56	2,596.35	(0.7)	2,851.38	2,846.10	(0.2)
EBIT	583.51	590.42	1.2	661.70	662.22	0.1	726.23	725.03	(0.2)
EBIT margin (%)	24.2	24.5	30bps	25.3	25.5	21bps	25.5	25.5	0bps
APAT	458.73	463.55	1.1	515.40	513.76	(0.3)	562.20	562.23	0.0
EPS (INR)	126.8	128.1	1.1	142.5	142.0	(0.3)	155.4	155.4	0.0

Source: Company, HSIE Research

## ADD

CMP (as on 11 Jan 2024)	INR 3,736
Target Price	INR 4,040
NIFTY	21,647

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 3,975	INR 4,040
	FY25E	FY26E
EPS %	-0.3	-0.0

### KEY STOCK DATA

Bloomberg code	TCS IN
No. of Shares (mn)	3,659
MCap (INR bn) / (\$ mn)	13,669/167,136
6m avg traded value (INR mn)	7,326
52 Week high / low	INR 3,929/3,070

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	3.5	14.2	14.5
Relative (%)	(4.4)	4.9	(4.8)

### SHAREHOLDING PATTERN (%)

	Jun-23	Sep-23
Promoters	72.30	72.30
FIs & Local MFs	9.85	10.06
FPIs	12.46	12.47
Public & Others	5.39	5.17
Pledged Shares	0.35	0.35

Source : BSE

Pledged shares as % of total shares

### Apurva Prasad

apurva.prasad@hdfcsec.com  
+91-22-6171-7327

### Amit Chandra

amit.chandra@hdfcsec.com  
+91-22-6171-7345

### Vinesh Vala

vinesh.vala@hdfcsec.com  
+91-22-6171-7332

# Infosys

## Near-term upside capped

Infosys (INFO) delivered in-line performance (above consensus) while underperforming TCS sequentially and for FY24E growth. The cut/narrowed guidance implies only marginal growth at the top-end in Q4 despite the benefit from the Liberty Global deal ramp-up and normalization of the McCamish impact. The relative weakness is emanating from (1) a higher mix of discretionary services in INFO's portfolio with slower activity on digital programs, a steep decline in Top 11-25 accounts and pressure on renewals (sub-USD 1bn large deal renewal TCV as compared to USD 1.5bn quarterly average), (2) extended furlough impact in Q4 & increased competition from captives, and (3) attrition in senior management to competition. Revenue guidance for FY24E was tweaked to 1.5 to 2% CC (1 to 2.5% earlier) and margin guidance was maintained. The improving trajectory beyond FY24 is premised on (1) benefits from project 'Maximus' driving margin improvement – utilisation, pricing, pyramid, delivery efficiency, (2) new deal wins around cost optimization, SAP cloud, and (3) relative strength in manufacturing and E&U verticals (28% of revenue). Near-term upside potential is capped especially if macro recovery is protracted. Maintain ADD on INFO with TP of 1,515 based on 20x FY26E EPS.

- Q3FY24 highlights:** (1) INFO posted revenue growth of -1% QoQ/YoY CC (in line with HSIE estimates) at USD 4,663mn, impacted by furloughs and seasonality. (2) Within verticals, BFSI, communication and hi-tech lagged while manufacturing and life-sciences verticals outperformed. (3) INFO booked 23 large deals with a total contract value of USD 3.2bn (71% being net-new component), which included one mega-deal. There were 8 deals in the manufacturing vertical, 6 deals in financial services, 4 deals in E&U, 2 deals each in retail & communication and 1 deal in others vertical. (5) EBITM declined by -71bps QoQ at 20.5% (in-line) impacted by -70bps wage hike, -60bps cybersecurity incident offset by +50bps efficiency optimization & +10bps FX tailwind. However, margin guidance of 20-22% for FY24E was maintained (despite growth guidance cut over the last three quarters). (6) INFO will have a full-quarter wage hike impact in Q4FY24E as a margin headwind.
- Outlook:** We have factored INFO's USD revenue growth at 2.6/6.1/8.0% for FY24/25/26E, implying 0.7% growth in Q4 and 2.3%/1.8% CQGR for FY25/26E. EBITM factored at 21.0/22.0/22.0% for FY24/25/26E, translating into an EPS CAGR of 13% over FY24-26E. INFO trades at 22x and 20x FY25/26E valuations, which is a ~18% discount to TCS' valuations (at a historical average valuation discount).

### Quarterly financial summary

YE March (INR bn)	Q3 FY24	Q3 FY23	YoY (%)	Q2 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Revenue (USD mn)	4,663	4,659	0.1	4,718	(1.2)	16,310	18,212	18,692	19,841	21,430
Net Revenue	388.21	383.18	1.3	389.94	(0.4)	1,216.41	1,467.67	1,547.11	1,666.67	1,821.59
EBIT	79.61	82.42	(3.4)	82.74	(3.8)	280.15	309.06	325.23	366.41	399.88
APAT	61.13	65.86	(7.2)	62.15	(1.6)	221.11	240.95	246.97	287.71	313.81
Diluted EPS (INR)	14.8	15.9	(7.2)	15.0	(1.6)	53.4	58.2	59.6	69.4	75.7
P/E (x)						28.0	25.7	25.1	21.5	19.7
EV / EBITDA (x)						18.5	16.8	15.8	14.1	12.9
RoE (%)						29.2	32.0	31.7	34.6	35.1

Source: Company, HSIE Research, Consolidated Financials

### Change in Estimates

YE March (INR bn)	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
Revenue (USD mn)	18,685	18,692	0.0	19,800	19,841	0.2	21,385	21,430	0.2
Revenue	1,546.25	1,547.11	0.1	1,663.21	1,666.67	0.2	1,817.69	1,821.59	0.2
EBIT	324.89	325.23	0.1	365.71	366.41	0.2	399.10	399.88	0.2
EBIT margin (%)	21.0	21.0	1bps	22.0	22.0	0bps	22.0	22.0	0bps
APAT	246.14	246.97	0.3	287.18	287.71	0.2	313.24	313.81	0.2
EPS (INR)	59.4	59.6	0.3	69.3	69.4	0.2	75.6	75.7	0.2

Source: Company, HSIE Research

## ADD

CMP (as on 11 Jan 2024) INR 1,494

Target Price INR 1,515

NIFTY 21,647

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,515	INR 1,515
EPS %	FY25E	FY26E
	+0.2	+0.2

### KEY STOCK DATA

Bloomberg code	INFO IN
No. of Shares (mn)	4,150
MCap (INR bn) / (\$ mn)	6,202/75,832
6m avg traded value (INR mn)	9,258
52 Week high / low	INR 1,620/1,185

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(0.0)	10.8	1.6
Relative (%)	(7.9)	1.5	(17.8)

### SHAREHOLDING PATTERN (%)

	Jun-23	Sep-23
Promoters	14.94	14.89
FIs & Local MFs	32.77	33.37
FPIs	34.44	33.59
Public & Others	17.85	18.15
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

### Apurva Prasad

apurva.prasad@hdfcsec.com

+91-22-6171-7327

### Amit Chandra

amit.chandra@hdfcsec.com

+91-22-6171-7345

### Vinesh Vala

vinesh.vala@hdfcsec.com

+91-22-6171-7332

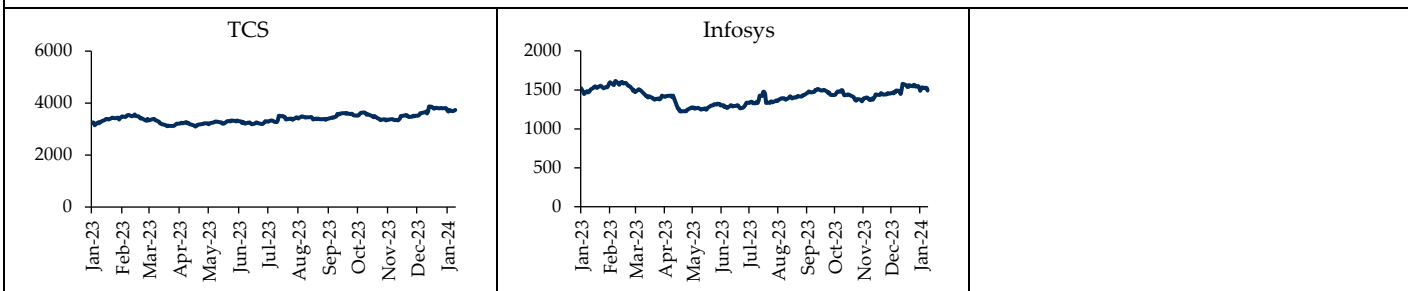
**Rating Criteria**

BUY: >+15% return potential  
 ADD: +5% to +15% return potential  
 REDUCE: -10% to +5% return potential  
 SELL: > 10% Downside return potential

**Disclosure:**

Analyst	Company Covered	Qualification	Any holding in the stock
Apurva Prasad	Tata Consultancy Services, Infosys	MBA	NO
Amit Chandra	Tata Consultancy Services, Infosys	MBA	NO
Vinesh Vala	Tata Consultancy Services, Infosys	MBA	NO

**1 Yr Price movement**



## Disclosure:

Authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. does not have any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate does have/does not have any material conflict of interest.

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

## Disclaimer:

This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction. If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.

This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report. As regards the associates of HSL please refer the website.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from t date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: [complianceofficer@hdfcsec.com](mailto:complianceofficer@hdfcsec.com) Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

## HDFC securities

### Institutional Equities

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 [www.hdfcsec.com](http://www.hdfcsec.com)