B&K

1QFY26 Result Update

Infosys

Strong topline performance offset by slightly underwhelming guidance

23 July 2025

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Infosys

Strong topline performance offset by slightly underwhelming guidance

CMP (Rs): 1,575	Market cap. (Rs bn): 6,541	Target price (Rs): 1,902	Maintain BUY

Performance summary/What stood out

- Infosys (INFO) reported strong topline growth of 2.6% QoQ cc (40 bps inorganic), ahead of our/consensus estimates of 1.5% QoQ cc. EBIT margin of 20.8%, down 10 bps QoQ was in line with estimates. Large deal wins of US$ 3.8 bn were strong and the highest in the last four quarters, aided by a mega deal. FY26 revenue guidance was revised to 1-3% (from 0-3% earlier); this now also factors in 40 bps of inorganic acquisition and implies a CQGR of -0.4% to +1%, indicating a soft near-term outlook. On an organic basis, the upper end of the prior guidance has been lowered due to continued uncertainty. The lower end of the guidance assumes heightened uncertainty, while the upper end assumes a steady environment. FY26 EBIT margin guidance was maintained at 20-22%.

Outlook and Valuation

- INFO is well-positioned to execute complex deals, given its robust capabilities and extensive partnership ecosystem. The company has a well-proven track record in both vendor consolidation and digital transformation deals. Despite weakness in the discretionary spending environment, its resilient business model should be able to absorb any downturn. While the company reported strong topline growth, the revised guidance saw only the lower end of the guidance raised, as uncertainty persists. We believe the company will further revise its guidance in the next quarter as macro clarity emerges. We maintain Buy with an unchanged target price of Rs 1,902. INFO is our preferred pick in large caps.

What has changed in estimates

- Despite the stronger than estimated topline, we broadly maintain our revenue estimates for FY26/27 (<0.5% change), as revised guidance indicates a soft near-term outlook. Our margin estimates are also unchanged leading to similar EPS (<0.5% change).

Financial highlights (Consolidated)

(Rs mn)	1QFY25	1QFY26	YoY (%)	4QFY25	QoQ (%)
Net sales	393,150	422,790	7.5	409,250	3.3
EBITDA	94,370	99,430	5.4	98,740	0.7
EBITDA margin (%)	24.0	23.5	(49 bps)	24.1	(61 bps)
Other income	7,330	9,370	27.8	10,880	(13.9)
Interest	–	–	–	–	–
Depreciation	(11,490)	(11,400)	(0.8)	(12,990)	(12.2)
PBT	90,210	97,400	8.0	96,630	0.8
Tax	(26,470)	(28,160)	6.4	(26,250)	7.3
Reported PAT	63,680	69,210	8.7	70,330	(1.6)
Adjusted PAT	63,680	69,210	8.7	70,330	(1.6)
Adjusted EPS (Rs)	15.4	16.7	8.7	17.0	(1.6)

Key variables

	Improvement on (%)	
	B&K est.	Consensus
Net sales	1.3	1.3
EBITDA	0.5	0.3
Adjusted PAT	2.9	2.2

Valuations	FY25	FY26E	FY27E
P/E (x)	24.4	22.9	20.6
P/B (x)	6.8	6.3	5.9
EV/EBITDA (x)	14.0	13.0	11.7
Key Ratio			
RoE (%)	28.9	28.7	29.6
Liquidity Ratio			
Net D/E (x)	(0.4)	(0.4)	(0.5)

Detailed highlights

P&L and Key metrics

- 1QFY26 revenue grew by 4.5% QoQ (2.6% grew in cc including 40 bps inorganic contribution) to US$ 4,941 mn *(against our/consensus estimates of 1.5% QoQ cc growth). TCS revenue had declined by 3.3% QoQ cc (TCS international revenue declined by 0.5% QoQ cc), Wipro IT Services had declined by 2% QoQ cc, HCL Tech had declined by 0.8% QoQ cc and Tech Mahindra declined by 1.4% QoQ cc.*
- EBIT margin came in at 20.8%, down by 10 bps QoQ *(versus our/consensus estimates of 20.8%/20.9%).* The EBIT margin was negatively impacted by wage hikes for the senior management and higher variable payout (100 bps), currency headwinds (30 bps), increased sales investments (20 bps), partially offset by benefits from better realisation and seasonality (70 bps), absence of impairment from previous quarter (40 bps) and lower third party cost (20 bps). *TCS EBIT margin was up 30 bps QoQ to 24.5%, Wipro IT Services EBIT margin had declined by 20 bps QoQ to 17.3%, HCL Tech IT Services EBIT margin had declined by 160 bps QoQ to 15.6% and Tech Mahindra EBIT margin was up 50 bps QoQ to 11.1%.*
- **For FY26, the company has revised its revenue guidance to 1-3% revenue growth, raising the lower end of earlier guidance of 0-3%, this includes 40 bps contribution from inorganic acquisition.**
- For 1QFY26, the company reported large deal TCV of US$ 3.8 bn; up 44% QoQ and down 7.1% YoY. This included a mega deal in the Financial Services vertical.
- **Geography-wise performance (growth in YoY cc terms):** North America up by 0.4% YoY (declined by 0.4% in 4QFY25), Europe up by 12.3% YoY (up by 15% in 4QFY25), India declined by 1% YoY (up by 43.7% in 4QFY25), RoW grew by 0.4% YoY (down by 2.2% in 4QFY25).
- **Vertical-wise performance (growth in YoY cc terms):** Financial Services: up by 5.6% (up by 12.6% in 4QFY25), Retail up by 0.4% YoY (down by 2.6% in 4QFY25), Communications was up by 4% YoY (flat in 4QFY25), EURS up by 6.4% YoY (up by 1.5% in 4QFY25), Manufacturing up by 12.2% YoY (up by 14% in 4QFY25), Hi-Tech up by 1.7% YoY (down by 1.1% in 4QFY25), Life Sciences down by 7.9% YoY (down by 3.4% in 4QFY25) and Others down by 15.3% YoY (down by 2.8% in 4QFY25).
- **Client contribution:** US$ 1 mn+: 1,011 (up 19 QoQ); US$ 10 mn+: 317 (up 8 QoQ); US$ 50 mn+: 85 (flat QoQ) and US$ 100 mn+: 41 (up 2 QoQ).
- Net headcount stood at 323,788, up 210 on a QoQ basis. LTM attrition was 14.4%, up 30 bps QoQ.
- Utilisation (including trainees) for the quarter was 82.7%, up 80 bps QoQ and excluding trainees was 85.2%, up 30 bps QoQ.
- Total active clients decreased by 8 during the quarter and stood at 1,861.

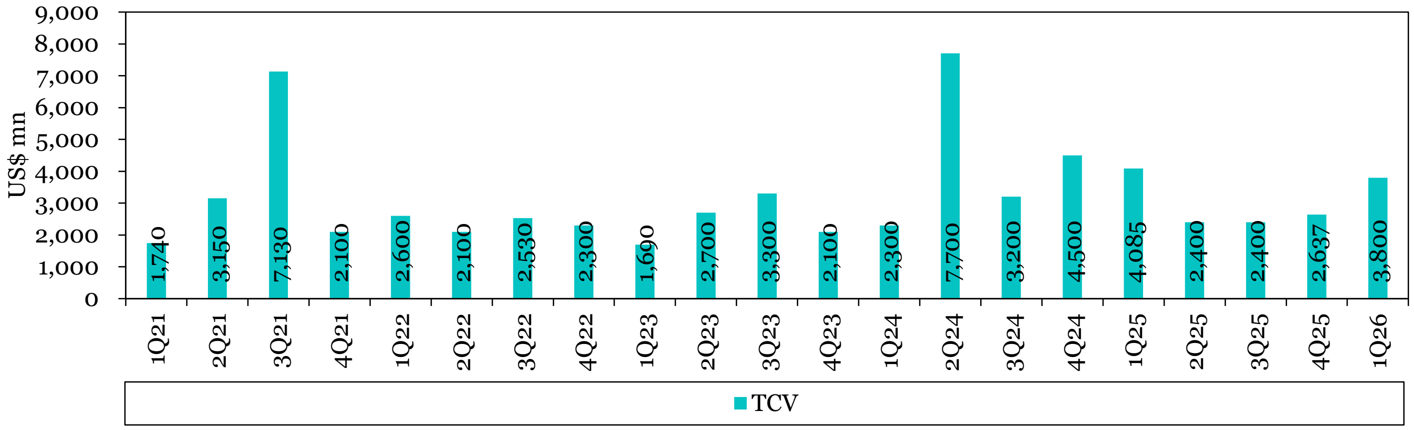
Balance Sheet

- DSO increased by 1 day to 70 days in 1QFY26 from 69 days in 4QFY26.
- FCF during the quarter stood at US$ 884 mn versus US$ 892 mn in 4QFY25, FCF/PAT stood at 109.3% versus 109.6% in 4QFY26 and the company has guided for more than 100% FCF/PAT conversion for FY26.

Changes in estimates

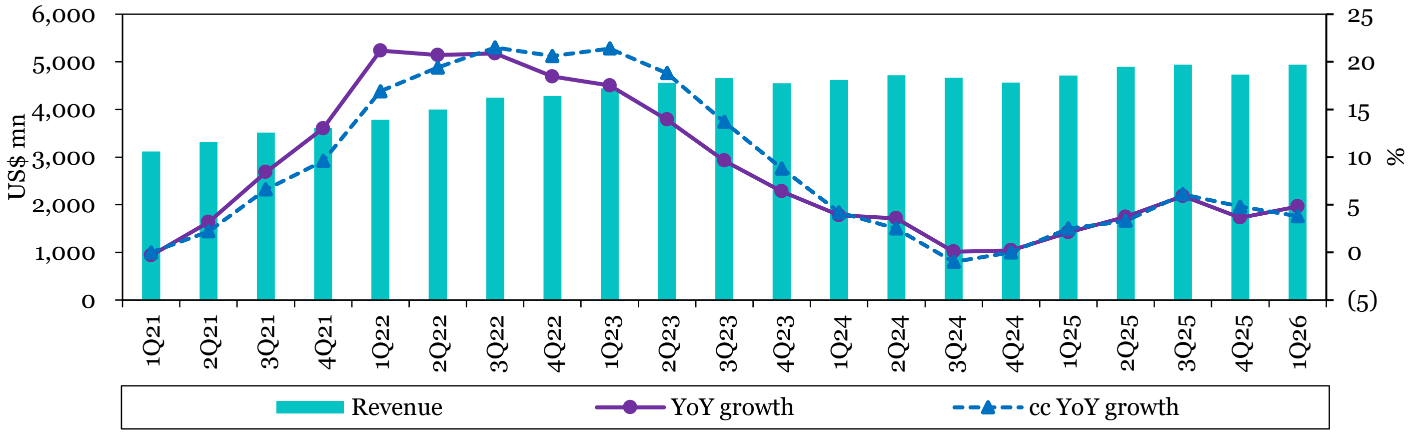
(Rs mn)	Old		New		Change (%)	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Sales (US$ mn)	19,975	21,124	20,017	21,130	0.2	0.0
Sales	1,733,905	1,880,072	1,737,396	1,880,595	0.2	0.0
EBITDA	417,051	460,157	417,107	460,286	0.0	0.0
EBITDA margin (%)	24.1	24.5	24.0	24.5	(5) bps	0 bps
EBIT	366,768	407,515	367,584	407,629	0.2	0.0
EBIT margin (%)	21.2	21.7	21.2	21.7	0 bps	0 bps
Adjusted PAT	283,596	315,832	285,277	315,921	0.6	0.0
PAT margin (%)	16.4	16.8	16.4	16.8	6 bps	0 bps
Adjusted EPS (Rs)	68.3	76.1	68.7	76.1	0.6	0.0

Large deal TCV strong at US$ 3.8 bn



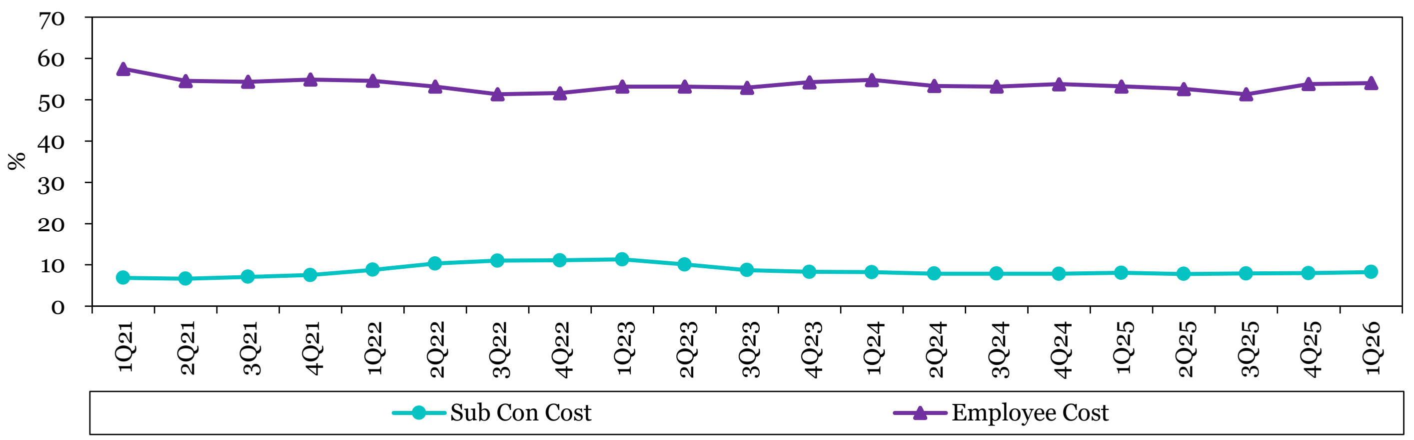
Source: Company, B&K Research

Revenue growth strong



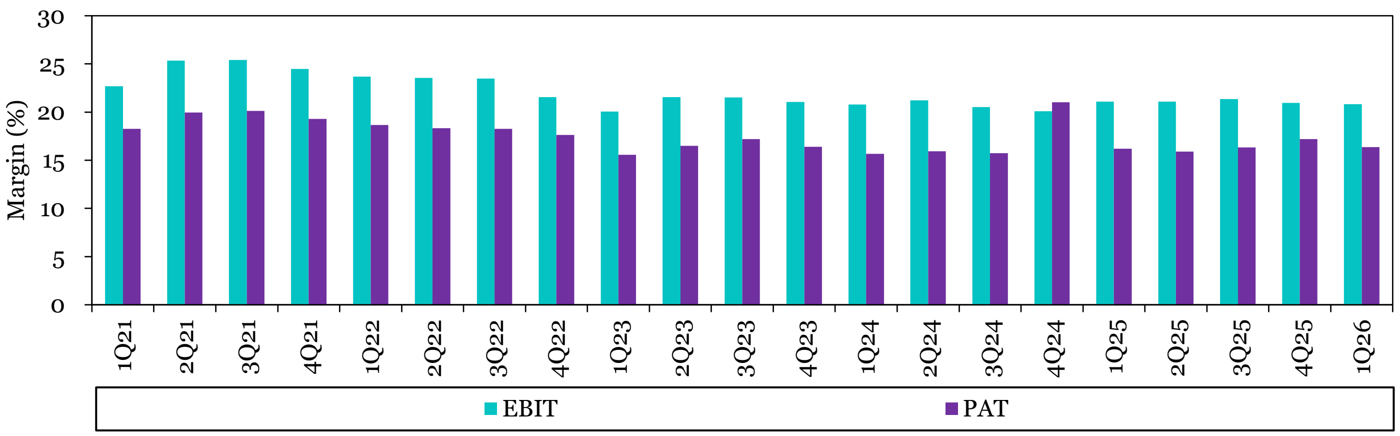
Source: Company, B&K Research

Employees cost higher on account of wage hike



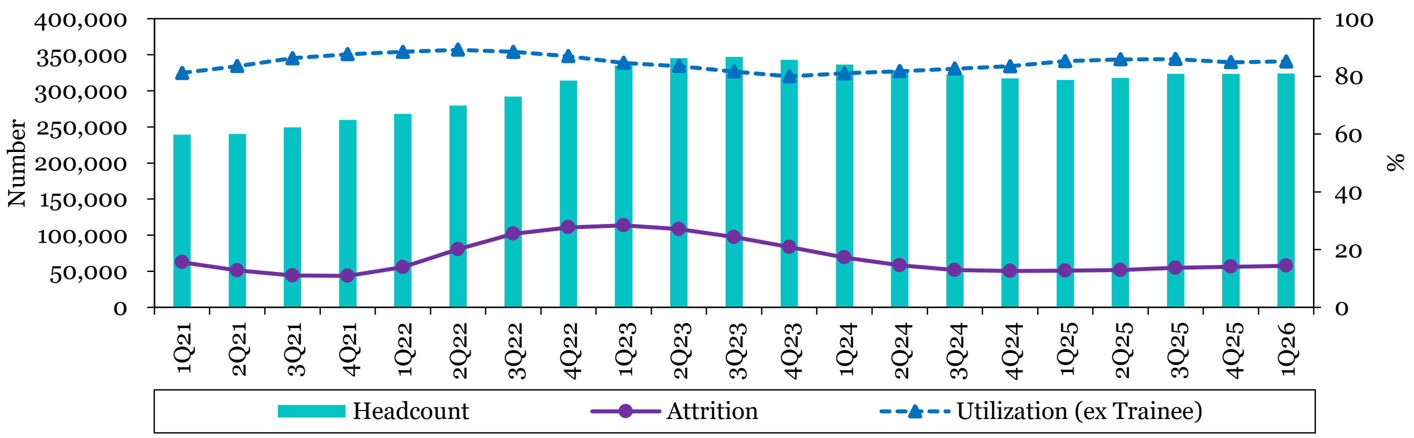
Source: Company, B&K Research

EBIT margin impacted due to wage hike and increased sales investments



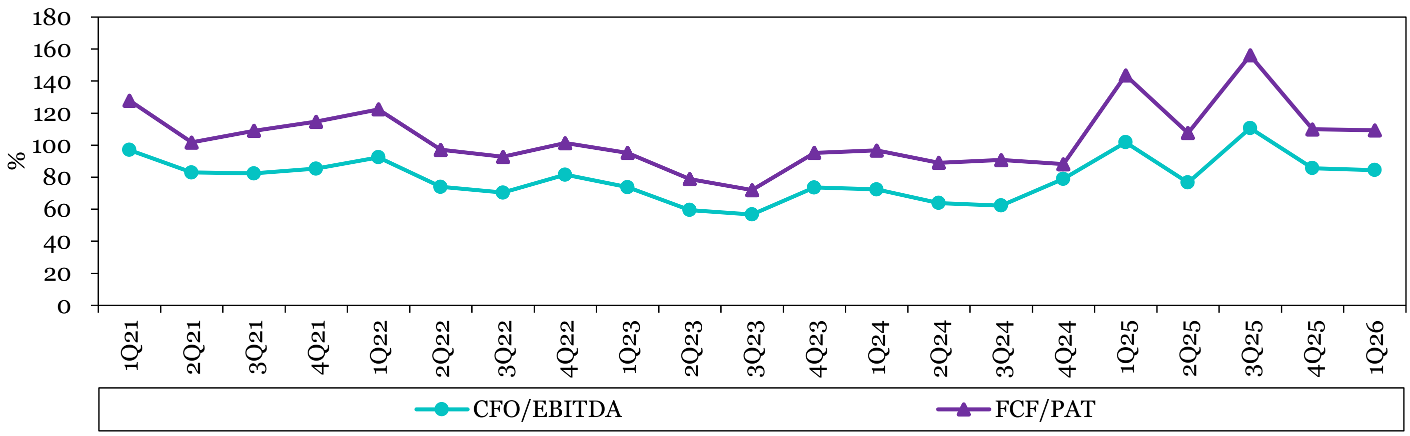
Source: Company, B&K Research

Headcount inched up marginally, utilisation higher



Source: Company, B&K Research

Healthy cash flow generation



Source: Company, B&K Research

Earnings call Highlights

Demand environment

- 1Q performance remained steady; however, the broader business environment continues to be uncertain due to unresolved tariff issues and ongoing geopolitical tensions.
- Clients are exhibiting caution in discretionary spending, leading to elongated decision-making cycles.
- Near-term visibility remains intact, with expectations of a stronger 1H relative to 2H, driven by typical seasonality patterns.
- The macro environment remains largely unchanged, with elevated tariff issues and persistent geopolitical tensions continuing to pose challenges.

Revenue/Margin performance

- The company reported a strong start to FY26. Growth was broad-based with large five industry groups and large geographies growing YoY in constant currency.
- Revenue grew by 2.6% QoQ and 3.8% YoY in constant currency, supported by healthy execution across key segments.
- Growth was driven by leadership in Enterprise AI and increased client preference for vendor consolidation.
- Europe continues to present a strong growth opportunity, supported by past strategic investments that have enabled wins in large and mega deals, including consolidation-led engagements; additionally, increasing openness towards outsourcing in the region is further aiding momentum.
- Operating margin for 1Q stood at 20.8%, down 20 bps QoQ. Margin was impacted by 100 bps headwind from compensation increases for senior management and higher variable pay, 30 bps from adverse currency movement and 20 bps from increased sales investments. These were partially offset by 70 bps tailwind from improved realisation aided by Maximus and seasonality, 40 bps from lower amortisation of intangibles and 20 bps from reduced third-party costs.

Deal wins/Pipeline

- Large deal wins remained strong with 28 deals totaling US$ 3.8 bn in TCV, of which 55% was net new; this includes over US$ 1 bn from vendor consolidation deals, featuring one mega deal with one of the world's largest banks.
- Deal momentum remained strong across verticals, with 9 deals signed in Communications, 6 in Energy Utilities Resources & Services (EURS), 5 in Manufacturing, 4 in Financial Services and 2 each in Hi-Tech and Retail.
- Regionally, 20 deals were signed in the Americas, followed by six in Europe and two in the Rest of the World.
- Overall pipeline remains strong with new opportunities in vendor consolidations, cost optimisation and simplification.

Guidance

- FY26 revenue growth guidance has been revised to 1-3% in cc, while margin guidance remains unchanged at 20-22%.
- The lower end of the revenue guidance is retained, reflecting continued macroeconomic uncertainty and cautious client behaviour around discretionary spending and decision-making delays.
- Management believes that the upper end of the guidance in revenue number is based on more stable demand environment with less macroeconomic uncertainty.
- A reduction in third-party revenues is expected to support margin expansion, with management anticipating further sequential improvement from the current 20.8% level.

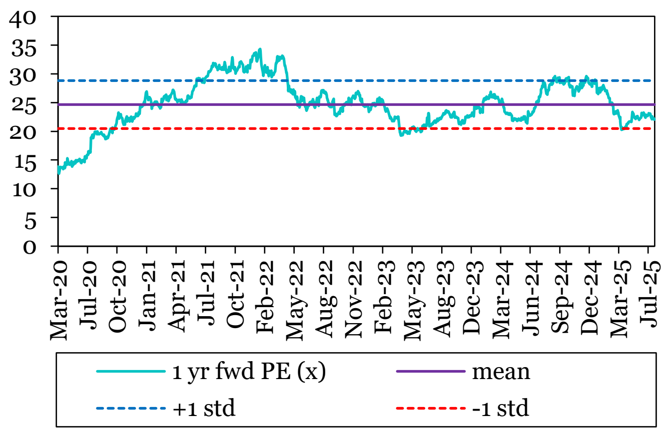
Vertical performance/Outlook

- **Financial Services:** Financial Services witnessed healthy momentum in the US this quarter, led by transformation opportunities in capital markets, commercial banking and wealth management. Agentic AI is driving initiatives across KYC, onboarding, and portfolio management, with the company now serving as the preferred AI partner for 10 of the top 20 clients, supporting scaled deployments beyond PoCs.
- **Retail:** In retail, tariff-related uncertainties have led to subdued spending in key markets, with supply chain disruptions and tighter procurement. Budget constraints and extended decision cycles are driving a slowdown in discretionary spending, though the deal pipeline remains healthy.
- **Manufacturing:** The Manufacturing segment continues to face headwinds in automotive, industrials and Europe due to delayed decision-making and subdued discretionary spending. Clients are reassessing supply chains amid tariff uncertainties. The pipeline remains healthy, driven by cost takeout initiatives and emerging opportunities.
- **EURS:** In the Energy sector, oil price volatility is driving clients to consolidate vendors for cost efficiency. Utilities are undergoing transformation driven by renewables, smart grids and evolving sustainability regulations, while Services clients remain cautious with both capex and opex spending.
- **Communications:** Communications vertical continues to face growth headwinds and elevated operating costs amid macroeconomic and geopolitical volatility; clients are prioritising cost optimisation, vendor consolidation and AI-led 5G monetisation, though RoI concerns are delaying fresh investments.
- **Hi-Tech:** Clients in Hi-Tech remain cautious due to macro headwinds and geopolitical tensions leading to cost pressures and budget cuts.

AI/Gen AI

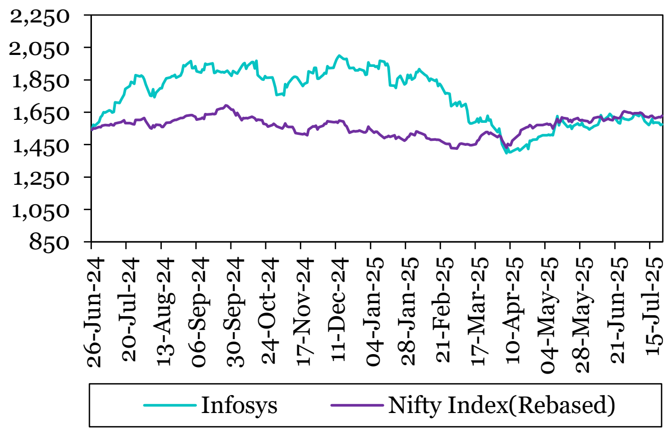
- The company has developed 300 AI agents across operations and IT functions.
- While certain areas have yielded strong productivity gains, others are emerging as potential revenue growth opportunities.
- Productivity benefits are being shared between the company and clients.
- AI adoption is gaining momentum across multiple verticals, particularly in financial services, with nearly half of top clients positioning the company as its strategic AI partner.
- Both horizontal and vertical AI agents are enabling faster decision-making, enhancing customer experience, and improving operational efficiency.

One-year forward PE



Source: B&K Research

Relative performance



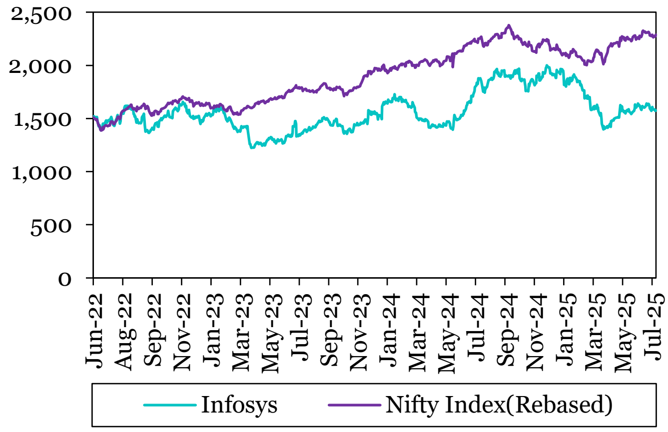
Source: B&K Research

Major shareholders (%)

	Dec-24	Mar-25	Change
Promoters	13.1	13.1	0.0
GOI	0.0	0.0	0.0
FIIs	39.9	40.2	0.3
MFs	18.1	18.3	0.1
BFSI's	16.6	16.2	(0.4)
Public & Others	12.3	12.3	(0.1)
Pledge	0.0	0.0	0.0

Source: B&K Research

Relative to Sensex 3 Years



Source: B&K Research

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Financial Summary (Consolidated)

Income Statement

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E
Net sales	**1,536,710**	**1,629,900**	**1,737,396**	**1,880,595**
Growth (%)	*4.7*	*6.1*	*6.6*	*8.2*
Raw material	(1,027,360)	(1,085,350)	(1,158,582)	(1,252,936)
Gross profit	**509,350**	**544,550**	**578,815**	**627,659**
Employee cost	–	–	–	–
Other expenditure	(145,100)	(152,200)	(161,707)	(167,373)
Other operating income	–	–	–	–
EBITDA	**364,250**	**392,350**	**417,107**	**460,286**
Growth (%)	*3.7*	*7.7*	*6.3*	*10.4*
Depreciation	(46,780)	(48,110)	(49,524)	(52,657)
Other income	42,420	31,830	34,348	37,612
EBIT	**317,470**	**344,240**	**367,584**	**407,629**
Finance cost	–	–	–	–
Exceptional income/(expense)	–	–	–	–
Profit before tax	**359,890**	**376,070**	**401,931**	**445,241**
Tax (current + deferred)	(97,410)	(108,570)	(116,474)	(129,120)
Profit/(loss) for the year	**262,480**	**267,500**	**285,457**	**316,121**
P/L of JV/A, minority interest	(100)	(370)	(180)	(200)
Reported profit/(loss)	**262,380**	**267,130**	**285,277**	**315,921**
Adjusted net profit/(loss)	**262,380**	**267,130**	**285,277**	**315,921**

Balance Sheet

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E
Share Capital	20,710	20,730	20,730	20,730
Reserves & surplus	863,900	941,300	1,007,009	1,082,669
Shareholders' funds	**884,610**	**962,030**	**1,027,739**	**1,103,399**
Minority interest	–	–	–	–
Long-term borrowings	–	–	–	–
Other non-current liabilities	105,590	98,500	98,736	98,974
Total non-current liab.	**105,590**	**98,500**	**98,736**	**98,974**
Short-term borrowings	–	–	–	–
Trade payables	39,560	41,640	45,804	50,384
Other current liabilities	348,380	386,860	426,423	443,975
Total current liabilities	**387,940**	**428,500**	**472,227**	**494,360**
Total (Equity & Liab.)	**1,378,140**	**1,489,030**	**1,598,701**	**1,696,732**
Fixed assets (net block)	142,150	155,660	160,883	166,290
Non-current investments	-	-	-	-
Other non-current assets	341,670	362,380	372,291	382,697
Non-current assets	**483,820**	**518,040**	**533,174**	**548,987**
Cash and cash equivalents	147,860	244,550	317,561	380,966
Inventories	–	–	–	–
Trade receivables	429,610	440,090	455,889	468,861
Other current assets	316,850	286,350	292,077	297,919
Current assets	**894,320**	**970,990**	**1,065,527**	**1,147,745**
Total (Assets)	**1,378,140**	**1,489,030**	**1,598,701**	**1,696,732**

Cash Flow

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E
Profit before tax	359,890	376,070	401,931	445,241
Depreciation	46,780	48,110	49,524	52,657
Change in working capital	(103,240)	56,250	24,697	5,867
Total tax paid	(83,760)	(115,830)	(117,028)	(129,702)
Others	–	–	–	–
CF from operations (a)	**219,670**	**364,600**	**359,124**	**374,063**
Capital expenditure	(33,510)	(61,620)	(54,747)	(58,064)
Change in investments	(60,060)	4,330	(2,496)	(2,546)
Others	44,900	13,860	(9,357)	(9,824)
CF from investing (b)	**(48,670)**	**(43,430)**	**(66,599)**	**(70,435)**
Free cash flow	**186,160**	**302,980**	**304,377**	**315,999**
Equity raised/(repaid)	4,870	6,320	–	–
Debt raised/(repaid)	–	–	–	–
Dividend (excl. tax)	(146,920)	(198,794)	(219,569)	(240,261)
Others	(2,820)	(32,006)	56	38
CF from financing (c)	**(144,870)**	**(224,480)**	**(219,513)**	**(240,223)**
Net change in cash (a+b+c)	**26,130**	**96,690**	**73,011**	**63,405**

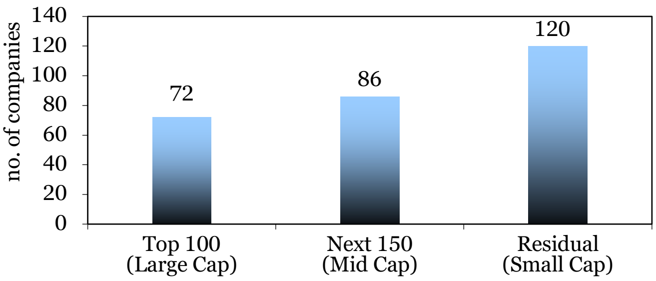
Key Ratios

Y/E Mar (%)	FY24	FY25	FY26E	FY27E
Adjusted EPS (Rs)	63.4	64.5	68.9	76.3
Growth	*10.0*	*1.7*	*6.8*	*10.7*
Book NAV/share (Rs)	213.8	232.3	248.2	266.4
Dividend payout ratio	56.0	74.4	77.0	76.1
Gross margin	33.1	33.4	33.3	33.4
EBITDA margin	23.7	24.1	24.0	24.5
EBIT margin	20.7	21.1	21.2	21.7
Tax rate	27.1	28.9	29.0	29.0
RoCE	34.2	33.6	33.6	35.0
RoE	31.9	28.9	28.7	29.6
RoIC (post-tax)	37.3	39.8	44.6	49.4
Net debt/equity (x)	(0.3)	(0.4)	(0.4)	(0.5)
Net debt/EBITDA (x)	(0.8)	(0.9)	(1.1)	(1.1)
Fixed asset turnover (x)	1.2	1.1	1.1	1.1
Net working capital days	120.3	121.5	124.6	126.8

Valuations

Y/E (x)	FY24	FY25	FY26E	FY27E
P/E	24.8	24.4	22.9	20.6
P/B	7.4	6.8	6.3	5.9
Dividend yield (%)	225.5	304.9	336.7	368.4
OCF yield (%)	3.4	5.6	5.5	5.7
EV/EBITDA	16.3	14.0	13.0	11.7
EV/Sales	3.9	3.4	3.1	2.9

B&K Universe Profile – by AMFI Definition



B&K Investment Ratings

	LARGE CAP (Market Cap > US$ 2 bn)	MID & SMALL CAP (Market Cap < US$ 2 bn)
BUY	>+15%	>+20%
HOLD	+15% to -10 %	+20% to -15 %
SELL	<-10%	<-15%

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