

Deal wins to drive growth in FY22

CMP: Rs 3,105

Rating: Neutral

Target Price: Rs 3,084

Stock Info

BSE	532540
NSE	TCS
Bloomberg	TCS IN
Reuters	TCS.BO
Sector	IT
Face Value (INR)	1
Equity Capital (INR Cr)	370
Mkt Cap (INR Cr)	11,48,850
52w H/L (INR)	3,354/ 1,675
Avg Yearly Vol (in 000')	3,974

Shareholding Pattern %

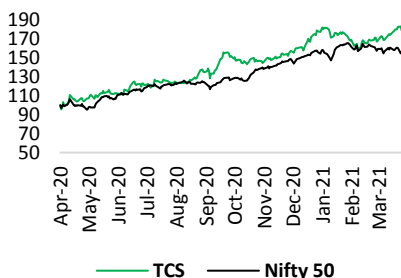
(As on Mar, 2021)

Promoters	72.19
FII	15.62
DII	7.82
Public & Others	4.37

Stock Performance (%)

	3m	6m	12m
TCS	-1.7	9.8	76.4
Nifty	-0.4	21.5	61.2

TCS Vs Nifty



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TCS has reported consolidated revenue of INR 43,705 Cr, +9.4% YoY/4.0% QoQ in Q4FY21. Consolidated EBIT stood at INR 11,734 Cr, up by 17.0% YoY/4.9% QoQ. On the margins front, EBIT margin improved by 2685bps YoY/23bps QoQ to 26.8%, due to strong growth across all verticals. Consolidated PAT saw a rise of 14.9% YoY to INR 9,246 Cr vs 8,049 cr in Q4FY20. Constant Currency revenue growth: +4.2% QoQ, +5.9% YoY. EPS at INR 24.97 in Q4FY21 vs 21.5 in Q4FY20 respectively.

Q4FY21 Segment Highlights

Industries: All verticals showed good sequential growth, but a couple continue to lag prior year level – BFSI (+7% QoQ, +13.3% YoY), Retail and CPG (+4% QoQ, -0.9% YoY), Life Sciences and Healthcare (+3.8% QoQ, +19.3% YoY), Manufacturing (+3.9% QoQ, +1.3% YoY), Technology & Services (+2.8% QoQ, +3.9% YoY) and Communications & Media (+1.8% QoQ, -4% YoY). On a full year basis, Life Sciences and Healthcare (+17.1%), BFSI (+2.4%) and Technology & Services (+0.2%) showed growth while the rest continue to be below prior year levels.

Markets: Growth was led by major markets – Continental Europe (+8.5% QoQ, +11.7% YoY), North America (+3.9% QoQ, +5.9% YoY), and UK (+3.4% QoQ, +1% YoY). Other markets grew well: Middle East & Africa (+4.2% QoQ, +10.6% YoY), India (+2.8% QoQ, +11.2% YoY), Latin America (+2.5% QoQ, +1.5% YoY), and Asia Pacific (+1% QoQ, +1.5% YoY). On a full year basis, with the exception of Continental Europe which grew +5.5%, all other markets continue to be in negative territory compared to the prior year.

Services: Consulting & Services Integration: Growth and transformation services, driven by clients continuing on their multi-horizon transformation journeys, saw strong demand. Advisory and Design services continue to gain traction across business stakeholders. There was robust growth across the board, led by Cloud Platform Services, Enterprise Application services, Cyber Security & Analytics.

Outlook & Valuation

TCS in the near term on relative expensive valuations to Infosys. Also we have factored in double- digit growth for the company in FY22E. However, remain constructive on TCS from medium to long term with its ability to engage with large clients for their large transformation programs.

At CMP of INR 3,105, TCS currently trades at FY23 P/E of 27x., We value TCS at PE of 27x to its FY23E EPS of INR 114, which yields a target price of INR 3,084 per share. **We downgrade our rating to Neutral from HOLD earlier.**

Particulars (INR Cr)	FY20	FY21	FY22E	FY23E
Revenues (US\$ mn)	22031	22174	24806	26486
Net Sales	156949	164177	190002	205972
EBITDA	42109	46546	53581	58084
Net profit	32340	32430	38950	42262
EPS (Rs)	86.2	86.7	105.3	114.2
PE (x)	36	36	29	27
EBITDA Margin	27%	28%	28%	28%
PAT Margin	21%	20%	21%	21%
ROE	38%	37%	42%	43%
ROCE	35%	37%	40%	41%

Source: Arihant Research, Company Filings, Acc Equity, Bloomberg

Q4 FY21 - Quarterly Performance (Consolidated)

(in INR Cr)

Consolidated Income Statement INR Cr	Q4FY21	Q3FY21	Q4FY20	Q-o-Q	Y-o-Y
Net Revenue	43,705	42,015	39,946	4.0%	9.4%
Employee Costs	23,625	23,431	22,051	0.8%	7.1%
Other Operating Expenses	7,279	6,376	6,919	14.2%	5.2%
Depreciation	1,067	1,024	951	4.2%	12.2%
EBIT	11,734	11,184	10,025	4.9%	17.0%
EBIT margin %	26.8%	26.6%	25.1%	23bps	2685bps
Other Income	931	691	738	34.7%	26.2%
Finance Costs	138	183	251	-24.6%	-45.0%
Exceptional Items	-	-		NA	NA
PBT	12,527	11,692	10,512	7.1%	19.2%
Tax Expense	3,245	2,965	2,419	9.4%	34.1%
Effective Tax Rate %	25.9%	25.4%	23.0%	54bps	289bps
Reported PAT	9,282	8,727	8,093	6.4%	14.7%
MI & Associates	-36	-26	-44		
Consolidated PAT	9,246	8,701	8,049	6.3%	14.9%
PAT Margin %	21.2%	20.7%	20.1%	45bps	101bps
EPS (Rs)	25.0	23.2	21.5	7.7%	16.4%

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Q4 FY21 – Key Concall Highlights

- TCS reported the highest ever TCV at USD9.2b in 4QFY21. Of this, USD3.9b/USD1.4b was in BFSI/Retail, while North America reported USD4.2b. The company had many wins around Digital transformation, with Cloud migration at the core of it. TCS has a strong order book and pipeline, which will result in strong growth momentum in FY22.
- Margin expanded despite an increase in subcontracting expenses, which was more on the tactical side. The management remains confident of managing supply constraints in the longer term, given its ability to train employees in Digital skills. It alluded that supply-side constraints in the short term may lead to higher subcontracting expenses.
- Employee addition of 19.8k was at a fresh record high, with attrition at 7.2% (record low). The management expects attrition to increase as growth returns to the industry. In terms of salary hikes, the management stated that it would be on the same level as previous hikes.
- Within BFSI, growth was led by large deals. The company is excited to participate in small but Digital transformation engagements. CPG and Retail witnessed strong sequential growth despite weakness in some sectors.
- The Products and Platforms segment of the company continues to do well. It added 50 customers in FY21, bringing the total to 200. TCS BaNCS had 19 wins, with the platform attracting new Digital Banks.
- Large deals have started coming in. Moreover, smaller deal volumes have become larger. These small deals have a faster conversion and run down.
- In terms of salary hikes, the management stated that it would be on the same level as previous hikes.
- Like last year, campus hiring will be the same in FY22 as well. TCS will also hire people from the market.
- The management's focus would be to enable people to work from anywhere.

Key Financials

Income Statement (INR Cr)				
Year End-March	FY20	FY21	FY22E	FY23E
Revenues (US\$ mn)	22,031	22,174	24,806	26,486
Revenues	1,56,949	1,64,177	1,90,002	2,05,972
<i>Change (%)</i>	5.3%	0.6%	11.9%	6.8%
Employee costs	85,952	91,814	1,06,401	1,15,344
Operation and other expenses	1,14,840	1,17,631	1,36,421	1,47,888
Total Operating Expenses	2,00,792	2,09,445	2,42,822	2,63,232
EBITDA	42,109	46,546	53,581	58,084
Depreciation	3,529	4,065	4,186	4,103
EBIT	38580	42481	49394	53981
Interest	924	637	650	663
Other Income	4,592	3,134	3,197	3,261
PBT	42,248	44,978	51,941	56,579
Exceptional Items	0	1,218	0	0
PBT after exceptional Items	42,248	43,760	51,941	56,579
Tax	9,801	11,198	12,881	14,201
<i>Rate (%)</i>	23.2%	24.9%	24.8%	25.1%
PAT	32,447	32,562	39,060	42,378
Non-controlling interest	-107	-132	-110	-116
Consolidated PAT	32,340	32,430	38,950	42,262
<i>PAT Margin (%)</i>	20.7%	19.8%	20.6%	20.6%

Balance Sheet (INR Cr)				
Year End-March	FY20	FY21	FY22E	FY23E
Sources of Funds				
Share Capital	375	370	370	370
Reserves & Surplus	83,751	86,063	90,973	97,345
Non controlling interest	623	675	675	675
Total Equity	84,749	87,108	92,018	98,390
Defered Tax Liability (Net)	779	767	767	767
Capital Employed	93,839	96,604	1,01,558	1,07,957
Application of Funds				
Gross Block	26,444	28,658	30,809	33,121
Less: Depreciation	15,503	17,548	19,793	22,324
Net Block	10,941	11,110	11,016	10,797
CWIP	906	926	926	926
Financial Assets	8,612	9,319	8,000	8,157
Investments	216	213	247	267
Inventories	5	8	8	9
Sundry debtors	36,264	36,662	41,644	45,145
Cash and bank	9,666	9,329	8,373	7,539
Other Current Assets	18,162	24,121	24,240	25,313
Total Current assets	90,237	99,280	1,08,012	1,14,589
Total Current liabilities	27,060	34,155	36,553	36,690
Net Current assets	63,177	65,125	71,459	77,899
Capital Employed	93,839	96,604	1,01,558	1,07,957

Key Ratios				
Year End-March	FY20	FY21	FY22E	FY23E
Per share (INR)				
EPS	86.2	86.7	105.3	114.2
BVPS	226	226	235	249
Valuation (x)				
P/E	36.0	35.8	29.5	27.2
P/BV	13.8	13.2	12.5	11.7
Return ratio (%)				
EBIDTA Margin	26.8%	28.4%	28.2%	28.2%
PAT Margin	20.7%	19.8%	20.6%	20.6%
ROE	38.2%	37.2%	42.3%	43.0%
ROCE	35.0%	36.6%	40.4%	41.1%
Leverage Ratio (%)				
Total D/E	0.1	0.1	0.1	0.1
Turnover Ratios				
Asset Turnover (x)	14.2	14.8	17.4	19.1
Inventory Days	1	2	2	2
Receivable Days	80	81	80	80

Cash Flow Statement (INR Cr)				
Year End-March	FY20	FY21	FY22E	FY23E
Profit for the Year	32,447	32,562	39,060	42,378
Depreciation	3,529	4,065	4,186	4,103
Finance Costs	924	637	650	663
Operating Profit before WC Changes	42,882	47,031	60,085	64,666
Operating Profit after WC Changes	38,215	47,894	65,933	67,229
Direct Taxes Paid & Exceptional Items	-5,846	-9,092	-12,881	-14,201
Cash Flow from Operating Activities	32,369	38,802	53,052	53,027
Cash Flow from Investing Activities	8,565	-8,129	-11,555	-9,679
Cash Flow from Financing Activities	-39,915	-32,634	-40,155	-44,355
Net Change in Cash & Cash Equivalents	1,019	-1,961	1,342	-1,007
Opening Cash & Cash Equivalents	7,224	8,646	6,858	8,373
Closing Cash & Cash Equivalents	8646	6858	8373	7539

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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