

Robust order book; Demand environment continues to remain healthy

Arihant Capital values your support in the Asiamoney Brokers Poll 2022 for Institutional Team. We request your ballot

ASIAMONEY

Click Here

CMP: INR 3,265

Rating: Accumulate

Target Price: INR 3,720

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) | 11,94,625 |
| 52w H/L (INR) | 4,406/ 3,023 |
| Avg Yearly Vol (in 000') | 2605 |

Shareholding Pattern %

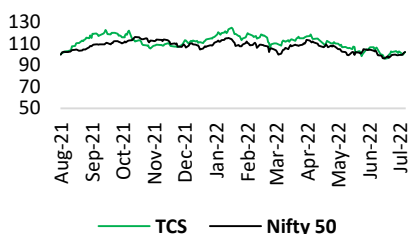
(As on June, 2022)

| | |
|-----------------|-------|
| Promoters | 72.30 |
| FII | 14.15 |
| DII | 7.85 |
| Public & Others | 5.70 |

Stock Performance (%)

| | 1m | 3m | 12m |
|-------|------|-------|-----|
| TCS | -4.0 | -11.4 | 0.2 |
| Nifty | -0.8 | -8.7 | 3.1 |

TCS Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

Revenue in USD term slightly above estimate: The company USD revenue growth +10.2% YoY/1.3% QoQ to \$6,780 mn against our estimate \$6,769 mn. Reported revenue of INR (up 4.3% QoQ/16.2% YoY). The growth was broad-based led by strong performance in Retail and CPG (25.1%), Communications & Media (+19.6%), Manufacturing vertical (+16.4%), Technology & services (16.4%), BFSI (13.9%) and Regional Markets & Others (9.8%).

Pressure on margins in the short-term: EBIT margin was down 186bps QoQ/242bpsYoY at 23.1% against our estimates of 23.75% due to annual salary increase, the elevated cost of managing the talent churn and gradually normalizing travel expenses. The company did onsite salary hike was around 4-5% and much higher for senior level impacted margins to the tune of 150 bps.

Strong Order book at \$8.2 bn and Book to Bill at 1.2x: The company's deal booking of \$8.2bn and robust deal pipeline offers strong near-term visibility led by strong growth across all the segment. 2 deals won with over \$400 Mn. BFSI won \$2.6 Bn, Retail segment won \$1.2 Bn. Geography wise company won \$4.5 bn. Few clients have highlighted macro uncertainties in Europe but should not impact tech spend.

Geography: Among major markets, North America led with +19.1% growth; Continental Europe grew +12.1% and UK grew +12.6%. In emerging markets, India grew +20.8%, Asia Pacific grew +6.2%, Latin America grew +21.6%, and Middle East & Africa grew 3.2%.

Tech spends expected to remain precedence despite cost inflation: Management mentioned that tech budgets are on high prioritized against other spends in this high inflationary environment as technology is essential to navigate through challenges of supply chain rebalancing, achieving sustainability, resilience and agility. Therefore, if economy slows down, tech spend may get affected.

Outlook & Valuation: TCS USD revenue slightly above our estimate in Q1FY23, The company's deal booking of \$8.2bn and robust deal pipeline offers strong near-term visibility led by strong growth across all the segment and clients continue to spend on digital services. We believe the demand environment to remain strong over the medium term. However, we remain constructive on TCS from medium to long term with its ability to engage with large clients (TCV \$8.2bn). At a CMP of INR 3,265, TCS is trading at a P/E of ~25x to its FY24E EPS of ~INR133. **We value TCS at a PE of 28x to its FY24E EPS of ~INR 133 and maintain our target price of INR 3,720 per share. We upgraded our rating to Accumulate from Neutral earlier.**

| Particulars (INR Cr) | FY21 | FY22 | FY23E | FY24E |
|----------------------|----------|----------|----------|----------|
| Revenues (US\$ mn) | 22,174 | 25,707 | 28,320 | 31,541 |
| Net Sales | 1,64,177 | 1,91,754 | 2,12,734 | 2,41,207 |
| EBIT | 42,481 | 48,453 | 52,737 | 60,495 |
| Net profit | 32,430 | 38,327 | 42,153 | 48,629 |
| EPS (INR) | 87 | 104 | 115 | 133 |
| PE (x) | 37.65 | 31.51 | 28.35 | 24.57 |
| EBIT Margin | 25.88% | 25.27% | 24.79% | 25.08% |
| ROE | 37.23% | 42.66% | 36.14% | 32.44% |
| ROCE | 36.63% | 40.12% | 33.91% | 30.27% |

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

Q1FY23 - Quarterly Performance (Consolidated)

(in INR Cr)

| Consolidated Income Statement INR Cr | Q1FY23 | Q4FY22 | Q1FY22 | Q-o-Q | Y-o-Y |
|--------------------------------------|--------|--------|--------|---------|---------|
| Revenue (Mn USD) | 6,780 | 6,696 | 6,154 | 1.3% | 10.2% |
| Net Revenue | 52,758 | 50,591 | 45,411 | 4.3% | 16.2% |
| Employee Costs | 30,327 | 28,353 | 25,649 | 7.0% | 18.2% |
| Other Operating Expenses | 9,015 | 8,393 | 7,099 | 7.4% | 27.0% |
| Depreciation | 1,230 | 1,217 | 1,075 | 1.1% | 14.4% |
| EBIT | 12,186 | 12,628 | 11,588 | -3.5% | 5.2% |
| EBIT margin % | 23.1% | 25.0% | 25.5% | -186bps | -242bps |
| Other Income | 789 | 981 | 721 | -19.6% | 9.4% |
| Finance Costs | 199 | 245 | 146 | -18.8% | 36.3% |
| PBT | 12,776 | 13,364 | 12,163 | -4.4% | 5.0% |
| Tax Expense | 3,257 | 3,405 | 3,132 | -4.3% | 4.0% |
| Effective Tax Rate % | 25.5% | 25.5% | 25.8% | 1bps | -26bps |
| Reported PAT | 9,519 | 9,959 | 9,031 | -4.4% | 5.4% |
| MI & Associates | -41 | -33 | -23 | | |
| Consolidated PAT | 9,478 | 9,926 | 9,008 | -4.5% | 5.2% |
| PAT Margin % | 18.0% | 19.6% | 19.8% | -166bps | -187bps |
| EPS (INR) | 25.9 | 26.9 | 24.4 | 0.0% | 10.3% |

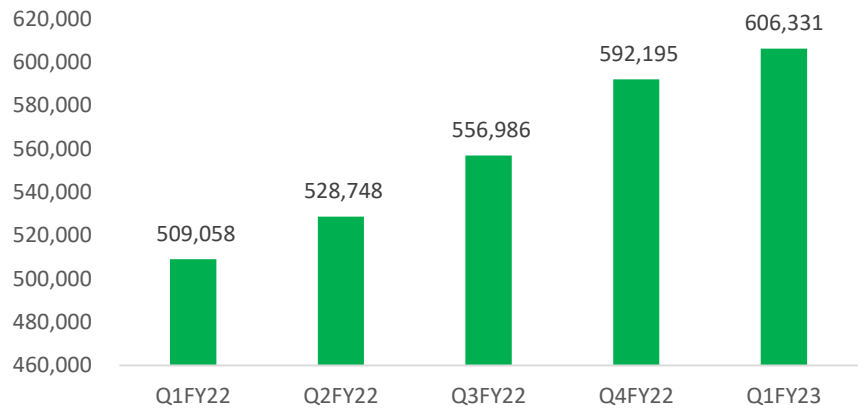
Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Q1FY23 – Key Concall Highlights

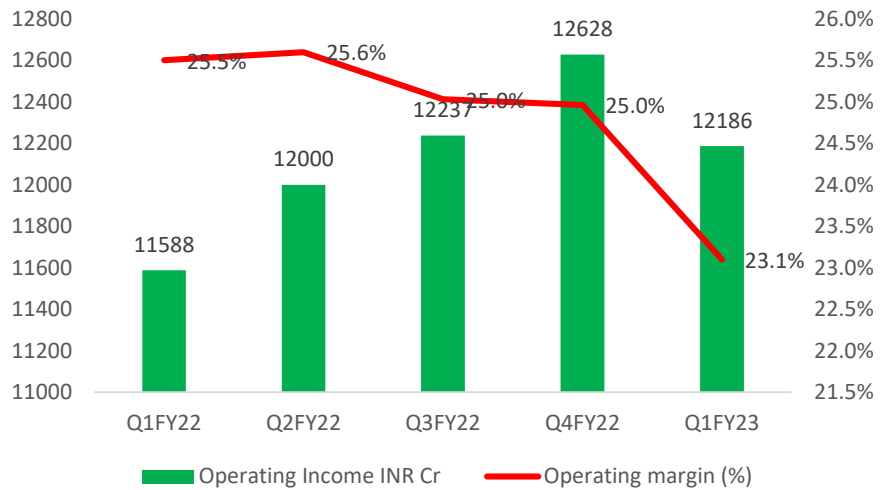
- The company, wage hike and increase in travel related cost and supply side constraints led to dip in EBIT margin in the quarter.
- The company expects operating margin to improve sequentially over coming quarters and touch around 25% by Q4FY23.
- The company demand environment remains strong backed by twin engine of deals related to Optimization and Growth and Transformation projects.
- The company, more clients are looking to leverage next generation technologies for enterprise wide transformation.
- Clients are looking to reduce the number of service providers; i.e vendor consolidation and it should benefit TCS.
- Deal booking of \$8.2bn and robust deal pipeline offers strong near term visibility.
- Even in the current macro situation, the company is not seeing any budget deferment by clients.
- Sub contract cost has been high over last few quarters due to high attrition. The company expects LTM attrition to come down after Q2FY23.
- The company's target to hire 40k freshers for FY23 remains intact.
- TCS, newer deals are seeing some price increase.
- Management, has high confidence in the demand outlook in the US than in the European markets.
- The company did onsite salary hike was around 4-5%.

Total Employee Base

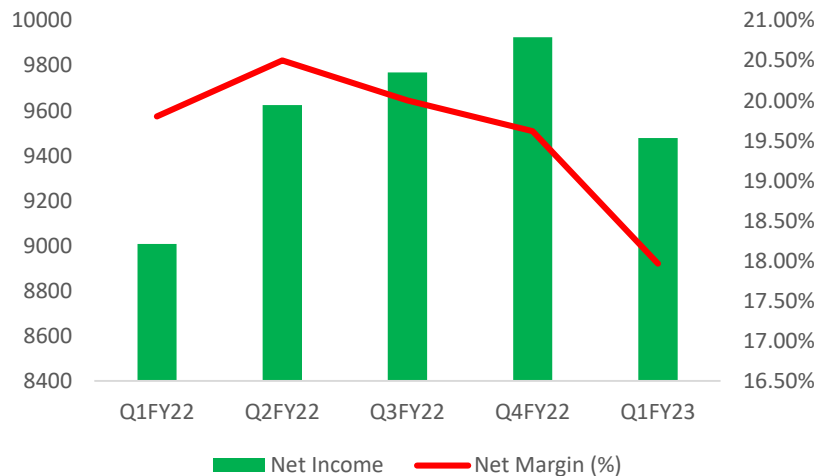
- **Attrition** IT services attrition continued to climb, reaching 19.7% (LTM), IT services.



- TCS's management hopes to improve margins sequentially and aims to come closer to Q4FY22 exit rate (of 25%) as main annual hit is taken during the quarter.



- longer-term cost structures and relative competitiveness remain unchanged, and position to well to continue on the profitable growth trajectory



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

Key Financials

| Income Statement (INR Cr) | | | | |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Year End-March | FY21 | FY22 | FY23E | FY24E |
| Revenues (US\$ mn) | 22,174 | 25,707 | 28,320 | 31,541 |
| <i>Change (%)</i> | 0.6% | 15.9% | 10.2% | 11.4% |
| Revenues | 1,64,177 | 1,91,754 | 2,12,734 | 2,41,207 |
| <i>Change (%)</i> | 4.6% | 16.8% | 10.9% | 13.4% |
| Employee costs | 91,814 | 1,07,554 | 1,19,982 | 1,35,559 |
| Operation and other expenses | 1,17,631 | 1,38,697 | 1,55,296 | 1,75,961 |
| Total Operating Expenses | 2,09,445 | 2,46,251 | 2,75,278 | 3,11,519 |
| Depreciation | 4,065 | 4,604 | 4,702 | 4,752 |
| EBIT | 42481 | 48453 | 52737 | 60495 |
| Interest | 637 | 784 | 792 | 793 |
| Other Income | 3,134 | 4,018 | 4,420 | 5,304 |
| PBT | 44,978 | 51,687 | 56,364 | 65,006 |
| Exceptional Items | 1,218 | 0 | 0 | 0 |
| PBT after exceptional Items | 43,760 | 51,687 | 56,364 | 65,006 |
| Tax | 11,198 | 13,238 | 14,091 | 16,251 |
| <i>Rate (%)</i> | 24.9% | 25.6% | 25.0% | 25.0% |
| PAT | 32,562 | 38,449 | 42,273 | 48,754 |
| Non-controlling interest | -132 | -122 | -120 | -125 |
| Consolidated PAT | 32,430 | 38,327 | 42,153 | 48,629 |
| <i>PAT Margin (%)</i> | 19.8% | 20.1% | 19.9% | 20.2% |

| Balance Sheet (INR Cr) | | | | |
|------------------------------|---------------|---------------|-----------------|-----------------|
| Year End-March | FY21 | FY22 | FY23E | FY24E |
| Sources of Funds | | | | |
| Share Capital | 370 | 366 | 366 | 366 |
| Reserves & Surplus | 86,063 | 88,773 | 1,15,554 | 1,48,812 |
| Non controlling interest | 675 | 707 | 707 | 707 |
| Total Equity | 87,108 | 89,846 | 1,16,627 | 1,49,885 |
| Deferred Tax Liability (Net) | 767 | 590 | 590 | 590 |
| Capital Employed | 96,604 | 99,163 | 1,26,007 | 1,59,349 |
| Application of Funds | | | | |
| Gross Block | 28,658 | 30,567 | 32,606 | 34,781 |
| Less: Depreciation | 17,548 | 19,793 | 22,158 | 24,653 |
| Net Block | 11,110 | 10,774 | 10,448 | 10,128 |
| CWIP | 926 | 1,205 | 1,205 | 1,205 |
| Financial Assets | 9,319 | 10,478 | 10,545 | 10,825 |
| Investments | 213 | 223 | 247 | 281 |
| Inventories | 8 | 20 | 21 | 30 |
| Sundry debtors | 36,662 | 41,810 | 40,644 | 45,313 |
| Cash and bank | 9,329 | 18,221 | 40,005 | 67,614 |
| Other Current Assets | 24,121 | 17,997 | 22,244 | 24,113 |
| Total Current assets | 99,280 | 1,08,310 | 1,36,487 | 1,75,136 |
| Total Current liabilities | 34,155 | 42,351 | 43,449 | 48,750 |
| Net Current assets | 65,125 | 65,959 | 93,037 | 1,26,386 |
| Capital Employed | 96,604 | 99,163 | 1,26,007 | 1,59,349 |

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

Key Financials

| Key Ratios | | | | |
|---------------------------|-------|-------|-------|-------|
| Year End-March | FY21 | FY22 | FY23E | FY24E |
| Per share (INR) | | | | |
| EPS | 86.7 | 103.6 | 115.2 | 132.9 |
| BVPS | 226 | 235 | 245 | 319 |
| Valuation (x) | | | | |
| P/E | 37.7 | 31.5 | 28.3 | 24.6 |
| P/BV | 13.9 | 13.3 | 10.2 | 8.0 |
| Return ratio (%) | | | | |
| EBITDA Margin | 28.4% | 27.7% | 27.0% | 27.1% |
| EBIT Margin | 25.9% | 25.3% | 24.8% | 25.1% |
| PAT Margin | 19.8% | 20.1% | 19.9% | 20.2% |
| ROE | 37.2% | 42.7% | 36.1% | 32.4% |
| ROCE | 36.6% | 40.1% | 33.9% | 30.3% |
| Leverage Ratio (%) | | | | |
| Total D/E | 0.1 | 0.1 | 0.1 | 0.1 |
| Turnover Ratios | | | | |
| Asset Turnover (x) | 15.0 | 18.1 | 20.7 | 23.8 |
| Inventory Days | 2 | 6 | 6 | 6 |
| Receivable Days | 81 | 70 | 70 | 69 |

| Cash Flow Statement (INR Cr) | | | | |
|--|----------------|----------------|----------------|----------------|
| Year End-March | FY21 | FY22 | FY23E | FY24E |
| Profit for the Year | 32,562 | 38,449 | 42,273 | 48,754 |
| Depreciation | 4,065 | 4,604 | 4,702 | 4,752 |
| Finance Costs | 637 | 784 | 792 | 793 |
| Operating Profit before WC Changes | 47,031 | 54,204 | 61,858 | 54,299 |
| Operating Profit after WC Changes | 47,894 | 51,435 | 61,634 | 64,050 |
| Direct Taxes Paid & Exceptional Items | -9,092 | -11,486 | -14,091 | -16,251 |
| Cash Flow from Operating Activities | 38,802 | 39,949 | 47,543 | 47,799 |
| Cash Flow from Investing Activities | -8,129 | -897 | -2,445 | -2,608 |
| Cash Flow from Financing Activities | -32,634 | -33,581 | -17,581 | -17,582 |
| Net Change in Cash & Cash Equivalents | -1,961 | 5,471 | 27,517 | 27,609 |
| Opening Cash & Cash Equivalents | 8,646 | 6,858 | 12,488 | 40,005 |
| Closing Cash & Cash Equivalents | 6858 | 12488 | 40,005 | 67614 |

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

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

| Head Office | Registered Office |
|---|--|
| #1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880 | Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199 |

| 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% |

| Research Analyst Registration No. | Contact | Website | Email Id |
|--------------------------------------|-------------------------|--|--|
| INH000002764 | SMS: 'Arihant' to 56677 | www.arihantcapital.com | research@arihantcapital.com |

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880