

CMP: INR 3,320

Rating: Accumulate

Target Price: INR 3,725

Stock Info

BSE	532540
NSE	TCS
Bloomberg	TCS IN
Reuters	TCS.BO
Sector	IT
Face Value (INR)	1
Equity Capital (INR Cr)	366
Mkt Cap (INR Cr)	12,14,695
52w H/L (INR)	4,043/ 2,926
Avg Yearly Vol (in 000')	2,475

Shareholding Pattern %

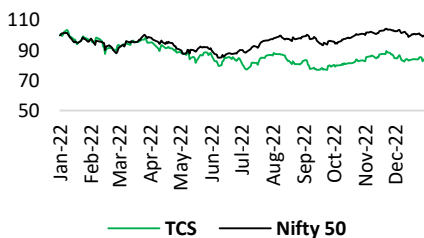
(As on Sep, 2022)

Promoters	72.30
FII	13.50
DII	8.36
Public & Others	5.84

Stock Performance (%)

	1m	3m	12m
TCS	-5.0	3.4	-15.6
Nifty	-2.2	4.4	1.5

TCS Vs Nifty



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Tata Consultancy Services (TCS) reported better than expected revenue growth in seasonally weak quarter: Constant currency (CC) revenue growth is up 13.5% YoY & 2.2% QoQ. Dollar-term Revenue growth +8.4% YoY/2.9% QoQ to \$7075 mn above our estimate of \$6,966 mn due to driven by North America (Growth of 15.4% in CC term to 53.7 against 50.7 in Q3FY22. Reported revenue of INR (up 5.3% QoQ/19.1% YoY) to INR INR 58,229 Cr above estimates INR 57,684 Cr. The growth was broad-based led by solid performance in Retail and CPG (+18.7% YoY/-1.3% QoQ in CC), Life Sciences & Healthcare (+14.4% YoY/+1% QoQ in CC), Communications & Media (+13% YoY/-1.5% QoQ In CC), Manufacturing vertical (+12.5% YoY in CC), BFSI (11.1% YoY/-1.3% In CC) and Regional Markets & Others (13.3% YoY/4.3% in CC).

Softening in attrition led to margin improvement : The company attrition at 21.3 % against 21.5 % has peaked, expect it to start ticking down. EBIT margin improved to 24.5% led by the 75bps from the currency benefits including utilization reduction in subcontracting cost of 30 bps which was offset by 50 bps headwinds due to higher third-party expenses and increasing return to normalcy cost. The hiring trend is expected to normalize moving forward. The hiring target for FY24 is benchmarked at 125,000 to 150,000 employees. Improved productivity, currency support, and abating supply-side challenges helped expand the margin in Q3FY23.

Product and platform continue to performed well ignio or Cognitive automation software signed 10 new customer and 7 new client With live during the Q3FY23. The business helped in mentoring system that ignio is gaining traction live over 2k store major auto retailer in Q3FY23.

Strong demand in Cloud Space: The company won serval Cloud transformational deals in Q3FY23 from Boston Scientific and it has expanded partnership with the UK headquartered International saving and investment firm to help and later transformed into cloud only organization by 2025 through a series of technology and business transformation initiatives.

Outlook & Valuation: TCS, USD revenue was above our estimate in Q3FY23. The company's deal booking of \$7.8bn was weak due to the impact of Geo-politics in Europe. We believe, the demand environment to be steady over the long term and overall demand has not changed significantly but to be fair, it would take a couple months to actually know the decision-making. However, we remain constructive on TCS from the medium to long term with its ability to engage with large clients. We have factored in USD revenue CAGR growth of ~9% over FY22-FY25E and Margin 24.5%/24.7%/24.8% each for FY23E/FY24E/FY25E. **We value TCS at a PE of 24x its FY25E EPS of INR 155 and increased the target price of INR 3,725 per share (earlier TP: INR 3,609 per share). We maintain our Accumulate rating on the stock.**

Exhibit:1 Financial Performance

Particulars (INR Cr)	FY22	FY23E	FY24E	FY25E
Revenues (US\$ mn)	25,707	28,019	30,381	33,029
Net Sales	191,754	224,455	251,365	283,118
EBIT	48,453	54,956	62,105	70,332
EBIT Margin	25.27%	24.48%	24.71%	24.84%
Net profit	38,327	43,818	49,837	56,803
EPS (INR)	104	120	136	155
ROE	42.66%	41.25%	38.75%	35.96%
ROCE	40.12%	38.81%	36.22%	33.40%
PE (x)	32.04	27.73	24.38	21.39

Source: Arihant Research, Company Filings,

Exhibit 2: Q3FY23 - Quarterly Performance (Consolidated)

Consolidated Income Statement (INR Cr)	Q3FY23	Q2FY23	Q3FY22	Q-o-Q	Y-o-Y
Revenue (Mn USD)	7,075	6,877	6,524	2.9%	8.4%
Net Revenue	58,229	55,309	48,885	5.3%	19.1%
Employee Costs	32,467	31,041	27,600	4.6%	17.6%
Other Operating Expenses	10,209	9,752	7,852	4.7%	30.0%
Depreciation	1,269	1,237	1,196	2.6%	6.1%
EBIT	14,284	13,279	12,237	7.6%	16.7%
EBIT margin %	24.5%	24.0%	25.03%	52bps	-50bps
Other Income	520	965	1,205	-46.1%	-56.8%
Finance Costs	160	148	251	8.1%	-36.3%
Exceptional Items	-	-	-	-	-
PBT	14,644	14,096	13,191	3.9%	11.0%
Tax Expense	3,761	3,631	3,385	3.6%	11.1%
Effective Tax Rate %	25.7%	25.8%	25.7%	-8bps	0.1%
Reported PAT	10,883	10,465	9,806	4.0%	11.0%
MI & Associates	-37	-34	-37	-	-
Consolidated PAT	10,846	10,431	9,769	4.0%	11.0%
PAT Margin %	18.6%	18.9%	20.0%	-23bps	-136bps
EPS (INR)	29.6	28.5	26.4	4.0%	12.2%

Q3FY23 – Key Concall Highlights

- BFSI Tech spends holding up, and Mortgage insurance showing some signs of weakness - capital markets, wealth ,and retirement segments still looks good to deliver growth.
- Cloud Transformation remains in strong demand and clients moving into execution stages. There has been some uptick in cost optimization related deals.
- **Margin** improved to 24.5% led by the 75bps from the currency benefits including utilization reduction in subcontracting cost of 30 bps which was offset by 50 bps headwinds due to higher third party expenses and increasing return to normalcy cost.
- **Cost:** Travel cost may increase on account of sales/ meetings related to travel as the situation getting normalized.
- **Attrition:** The company attrition at 21.3 % against 21.5 % has peaked, expect it to start ticking down. Hiring trend expected to normalize moving forward. Hiring target for FY24 benchmarked at 125,000 to 150,000 employees.
- **Demand:** North America continues to be demand supportive, in Europe decision making impacted due to Geo-politics, requires.
- Uptick in vendor consolidation witnessed by BFSI, Retail, Manufacturing and Telecom verticals.
- **DSO** up by 4 days to 66 days sequentially.
- **Segment wise Deal:** The company, BFSI vertical clocked TCV at \$2.5Bn, Retail vertical clocked TCV at \$1.2Bn, and North America witnessed TCV at \$4.2Bn during Q3FY23.
- **Wage:** On the wage front, the supply-side challenges are abating as the elevated expectations of salaries and retention expenses have come down
- **Dividend:** The company has announced an interim dividend of INR 8 per share and a special dividend of INR 67 per share. That translates to a total payout of more than INR 33K crore to shareholders, year-to-date.
- **Hybrid Model:** In a hybrid working model, TCS delivered many complex transformation programs tailored to the needs of the clients' ecosystem with speed and agility. The year also saw TCS embracing data, AI and ML holistically to disrupt and drive competitive advantage to the company clients' businesses. All these augur well for company's future.

Exhibit 3: Margin improved due to 75bps from the currency benefits including utilization reduction

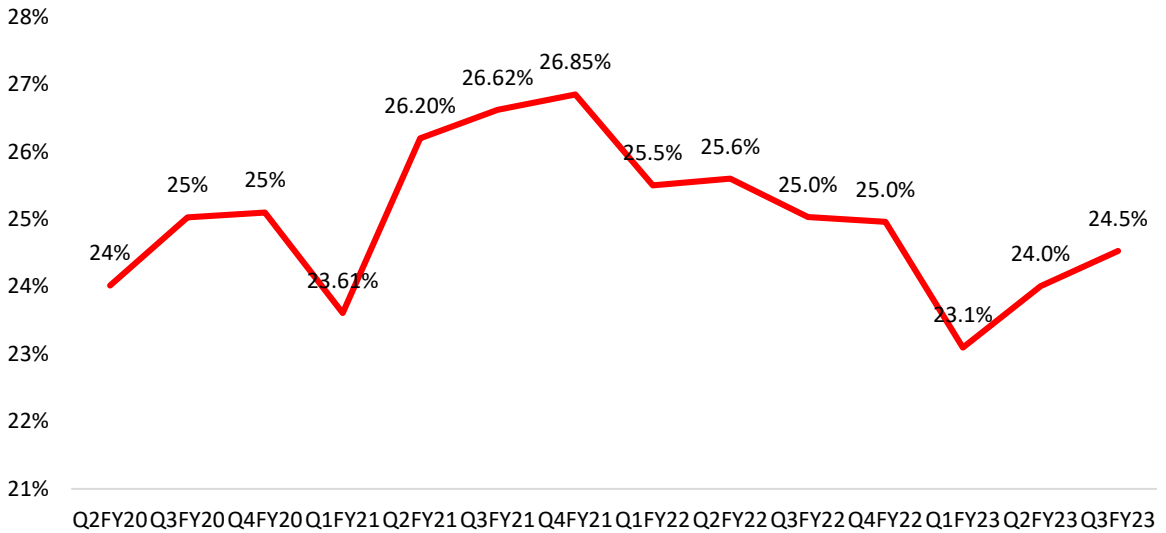


Exhibit 4: Steady revenue growth momentum due to Macro-economic concerns

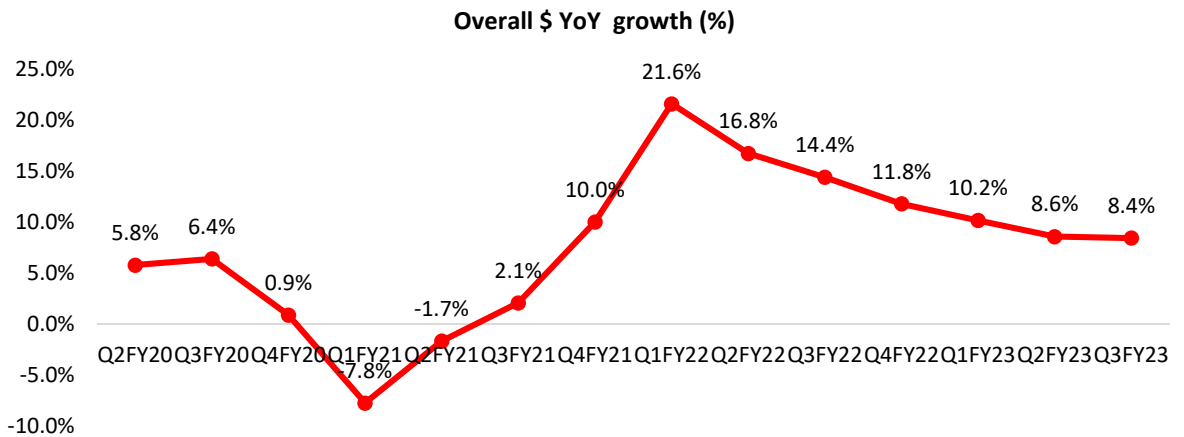
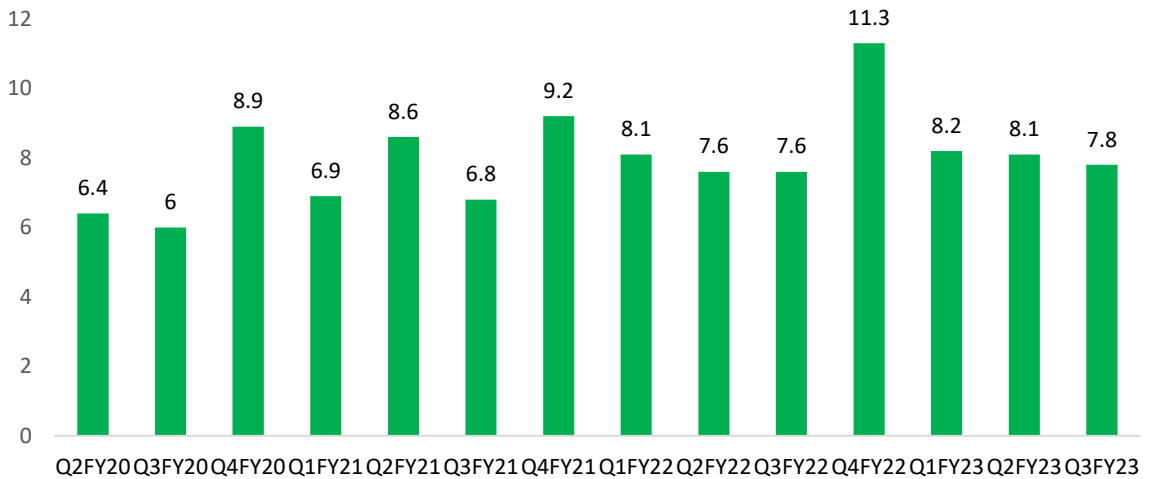


Exhibit 5: TCV of deal wins (US\$ bn) weakened due to Geo-politics



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

Key Financials

Income Statement (INR Cr)				
Year End-March	FY22	FY23E	FY24E	FY25E
Revenues (US\$ mn)	25,707	28,019	30,381	33,029
<i>Change (%)</i>	15.9%	9.0%	8.4%	8.7%
Revenues	191,754	224,455	251,365	283,118
<i>Change (%)</i>	16.8%	17.1%	12.0%	12.6%
Employee costs	107,554	127,266	141,770	159,961
Operation and other expenses	138,697	164,526	183,874	207,384
Total Operating Expenses	246,251	291,792	325,643	367,345
Depreciation	4,604	4,973	5,387	5,402
EBIT	48453	54956	62105	70332
EBIT Margin (%)	25.3%	24.5%	24.7%	24.8%
Interest	784	792	793	793
Other Income	4,018	4,420	5,304	6,365
PBT	51,687	58,584	66,616	75,903
Exceptional Items	-	-	-	-
PBT after exceptional Items	51,687	58,584	66,616	75,903
Tax	13,238	14,646	16,654	18,976
<i>Rate (%)</i>	25.6%	25.0%	25.0%	25.0%
PAT	38,449	43,938	49,962	56,927
Non-controlling interest	-122	-120	-125	-124
Consolidated PAT	38,327	43,818	49,837	56,803
<i>PAT Margin (%)</i>	20.1%	19.6%	19.9%	20.1%

Balance Sheet (INR Cr)				
Year End-March	FY22	FY23E	FY24E	FY25E
Sources of Funds				
Share Capital	366	366	366	366
Reserves & Surplus	88,773	105,141	127,528	156,881
Non controlling interest	707	707	707	707
Total Equity	89,846	106,214	128,601	157,954
Deferred Tax Liability (Net)	590	590	590	590
Capital Employed	99,163	115,633	138,100	167,549
Application of Funds				
Gross Block	30,567	31,841	33,966	36,232
Less: Depreciation	19,793	22,090	24,515	27,076
Net Block	10,774	9,751	9,451	9,156
CWIP	1,205	1,205	1,205	1,205
Financial Assets	10,478	10,453	10,692	10,975
Investments	223	261	292	329
Inventories	20	22	31	35
Sundry debtors	41,810	43,046	48,025	54,091
Cash and bank	18,221	35,098	51,040	72,485
Other Current Assets	17,997	15,557	17,022	18,016
Total Current assets	108,310	129,146	155,786	189,308
Total Current liabilities	42,351	45,708	49,850	53,947
Net Current assets	65,959	83,439	105,936	135,360
Capital Employed	99,163	115,633	138,100	167,549

Source: Arian Research, Company Filings

Key Financials

Cash Flow Statement (INR Cr)

Year End-March	FY22	FY23E	FY24E	FY25E
Profit for the Year	38,449	43,938	49,962	56,927
Depreciation	4,604	4,973	5,387	5,402
Finance Costs	784	792	793	793
Operating Profit before WC Changes	54,204	61,478	53,270	60,252
Operating Profit after WC Changes	51,435	66,979	63,336	71,329
Direct Taxes Paid & Exceptional Items	(11,486)	(14,646)	(16,654)	(18,976)
Cash Flow from Operating Activities	39,949	52,333	46,682	52,353
Cash Flow from Investing Activities	(897)	61	(955)	(1,122)
Cash Flow from Financing Activities	(33,581)	(29,784)	(29,785)	(29,785)
Net Change in Cash & Cash Equivalents	5,471	22,610	15,942	21,445
Opening Cash & Cash Equivalents	6,858	12,488	35,098	51,040
Closing Cash & Cash Equivalents	12488	35,098	51040	72485

Key Ratios

Year End-March	FY22	FY23E	FY24E	FY25E
Per share (INR)				
EPS	103.6	119.7	136.2	155.2
BVPS	235	245	290	432
Valuation (x)				
P/E	32.0	27.7	24.4	21.4
P/BV	13.5	11.4	9.4	7.7
Return ratio (%)				
EBITDA Margin	27.7%	26.7%	26.9%	26.7%
EBIT Margin	25.3%	24.5%	24.7%	24.8%
PAT Margin	20.1%	19.6%	19.9%	20.1%
ROE	42.7%	41.3%	38.8%	36.0%
ROCE	40.1%	38.8%	36.2%	33.4%
Leverage Ratio (%)				
Total D/E	0.1	0.1	0.1	0.1
Turnover Ratios				
Asset Turnover (x)	18.7	23.4	27.0	30.9
Inventory Days	6	6	6	6
Receivable Days	75	70	70	70

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

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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