

Robust order book; Demand environment continues to remain robust

CMP: INR 3,696

Rating: Neutral

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)	1,356,257
52w H/L (INR)	4,043/ 3,004
Avg Yearly Vol (in 000')	2,557

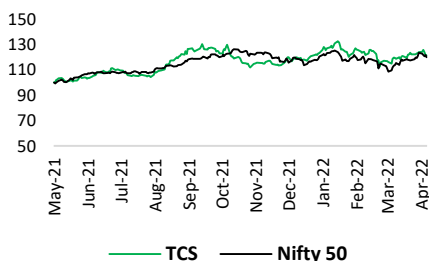
Shareholding Pattern %

(As on December, 2021)

Promoters	72.19
FII	15.37
DII	7.93
Public & Others	4.51

Stock Performance (%)	1m	3m	12m
TCS	2.0	-6.2	10.5
Nifty	6.3	-2.0	19.2

TCS Vs Nifty



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- TCS Q4FY22, Revenue in CC term slightly below estimate; EBIT margin in-line with estimate. Constant Currency Revenue growth +11.8% YoY/2.6% QoQ to \$6,696 Mn against our estimate \$6,720 Mn.
- Reported revenue of INR (up 3.5% QoQ/15.8% YoY) at INR 50,591 cr against our estimate INR 50,479 cr.
- EBIT margin was down 7bps QoQ/189bpsYoY at 25% in line with the estimates.
- The growth in revenue was broad-based led by strong performance in Retail and CPG (22.1%), Manufacturing vertical (+19%), and Communications & Media (+18.7%).
- Consolidated PAT stood at INR 9,806 Cr, up by 12.4% YoY/1.6% QoQ against our estimate of INR 9,899 Cr.
- All time high order book and headcount addition increase strength in demand
- \$11.3 Bn in Q4 Highest ever TCV, 2 mega deals signed in Q4 totalling \$1BLn.
- The demand continued to be strong during the quarter as well as the full year across all markets, industries, and services, with growth led by Cloud, Cyber Security, Enterprise Application Services, and IoT & Digital Engineering.
- Clients \$100M+ up by 10 ; \$50M+ up by 19 ; \$10M+ up by 52 & \$1M+ up by 86 YoY.
- Buyback FY22: INR 31,424 Cr of cash returned to shareholders through buybacks and dividends. Final Dividend per share (proposed) INR 22 per share. The company has mentioned that the incremental attrition has moderated at 17.4% vs 15.3%.

Outlook & Valuation: TCS in-line operating performance in Q4FY22, revenue rose in the seventh straight quarter on all-time high order book as 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 \$11.3bn) for their large transformation programs. At a CMP of INR 3,696, TCS is trading at a P/E of ~27x to its FY24E EPS of ~INR133. **We value TCS at a PE of 28x to its FY24E EPS of ~INR 133, which yields a target price of INR 3,720 per share. We downgrade our rating to Neutral from Hold earlier.**

Particulars (INR Cr)	FY21	FY22	FY23E	FY24E
Revenues (US\$ mn)	22,174	25,707	28,892	32,178
Net Sales	164,177	191,754	212,734	241,207
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)	41.52	34.74	31.26	27.09
EBIT Margin	25.88%	25.27%	24.79%	25.08%
PAT Margin	19.83%	20.05%	19.87%	20.21%

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

Q4FY22 - Quarterly Performance (Consolidated)

(in INR Cr)

Consolidated Income Statement INR Cr	Q4FY22	Q3FY22	Q4FY21	Q-o-Q	Y-o-Y
Revenue (CC Terms) (Mn USD)	6,696	6,524	5,989	2.6%	11.8%
Net Revenue	50,591	48,885	43,705	3.5%	15.8%
Employee Costs	28,353	27,600	23,625	2.7%	20.0%
Other Operating Expenses	8,393	7,852	7,279	6.9%	15.3%
Depreciation	1,217	1,196	1,067	1.8%	14.1%
EBIT	12,628	12,237	11,734	3.2%	7.6%
EBIT margin %	25.0%	25.03%	26.85%	-7bps	-189bps
Other Income	981	1,205	931	-18.6%	5.4%
Finance Costs	245	251	138	-2.4%	77.5%
Exceptional Items	-	-	-	NA	NA
PBT	13,364	13,191	12,527	1.3%	6.7%
Tax Expense	3,405	3,385	3,245	0.6%	4.9%
Effective Tax Rate %	25.5%	25.7%	25.9%	-18bps	-43bps
Reported PAT	9,959	9,806	9,282	1.6%	7.3%
MI & Associates	-33	-37	-36		
Consolidated PAT	9,926	9,769	9,246	1.6%	7.4%
PAT Margin %	19.6%	20.0%	21.2%	-36bps	-154bps
EPS (INR)	26.9	26.4	25.0	1.7%	7.5%

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

Q4FY22 – Key Concall Highlights

- **Order book:** The company recorded its highest-ever order book TCV (total contract value) of \$11.3 billion in Q4FY22 and the full-year order book stood at \$34.6 billion. The 2 mega deals of the quarter have a time horizon of 5-10 years.
- **Margin:** 26-28% EBIT margin band remains its target margin band. The company is expecting some volatility in operating margin in the near term due to supply-side pressure.
- **Demand:** The company demand environment is looking good as reflected in deal booking and TCS is better placed currently than at the same time last year. Creating 3 different groups to improve customer service for clients at different levels of relationship with TCS.
- **Client:** TCS in the \$100mn+ added the 10 client, \$50 mn+ added the 19 clients, \$20mn+ added the 40 clients and in \$10 mn+ added the 52 clients.
- **Utilisation:** There was a slight dip in utilization in the quarter due to higher fresher higher; utilization should improve going ahead.
- **Headcounts:** The company has added 35,209 headcounts on a net basis, the highest net addition in a Q4FY22. Employee headcount stood at 5,92,195 at the end of FY22, a net addition of 1,03,546 during the year, another all-time high. Women make up 35.6% of total employee strength. Improving the employee pyramid due to focus on fresher hiring would support the operating margin
- **Geography performance:** The company's broad-based growth led by North America grew 18.7% YoY, and the UK grew 13% YoY. Europe at 10.1% growth. Among emerging markets, Latin America grew (+20.6%), Middle East & Africa grew (+7.3%), India grew (7%), and the Asia Pacific grew (+5.5%). The portfolio and products of the company continue to do well in the market.
- **Segment:** Vertical side, all verticals grew in the mid to high teens. Largely growth was led by Retail and CPG (22.1%), Manufacturing vertical (+19%) and Communications & Media (+18.7%). Technology & Services grew (+18%) and Life Sciences and Healthcare grew (+16.4%) while BFSI grew (+12.9%). BFSI segment has crossed the \$10mn milestone.
- **Pricing:** In terms of pricing, for deal renewals, there is some uptick in pricing. While for fresh new deals, it depends on the competitive scenario for such deals.
- **DSO:** In Q4FY22, 64 days down by 3 days sequentially and 4 days on annual basis.

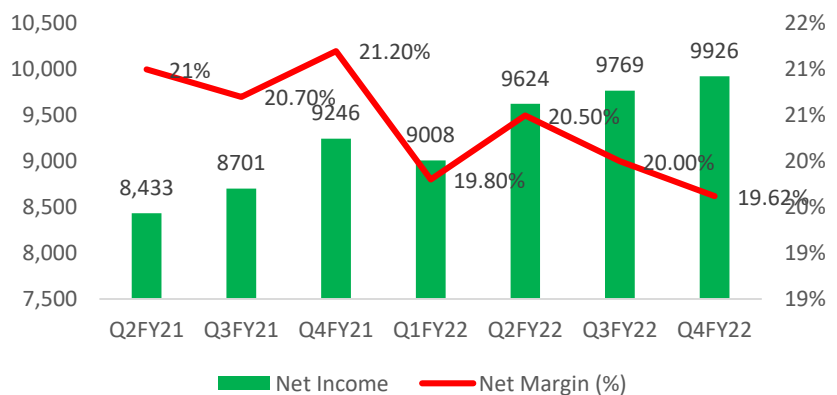
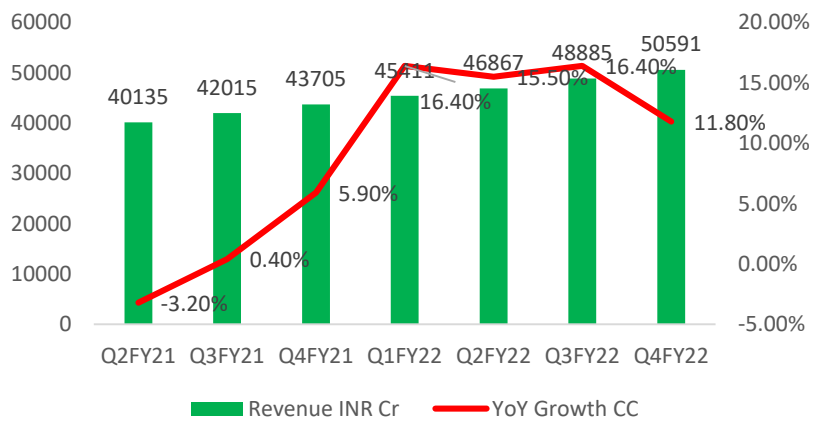
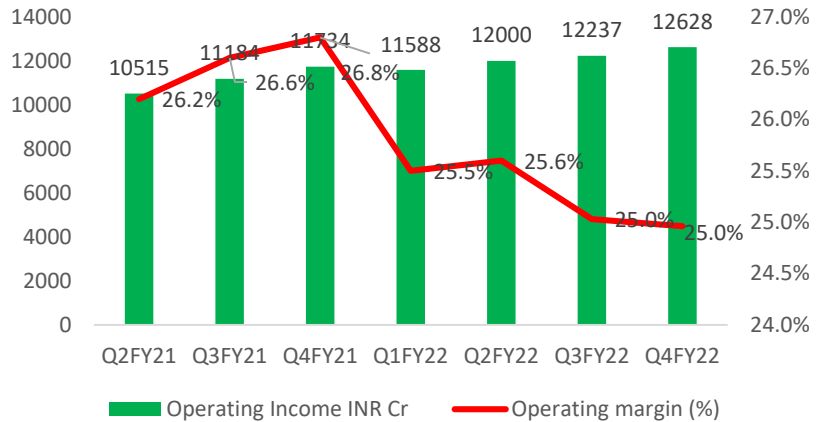
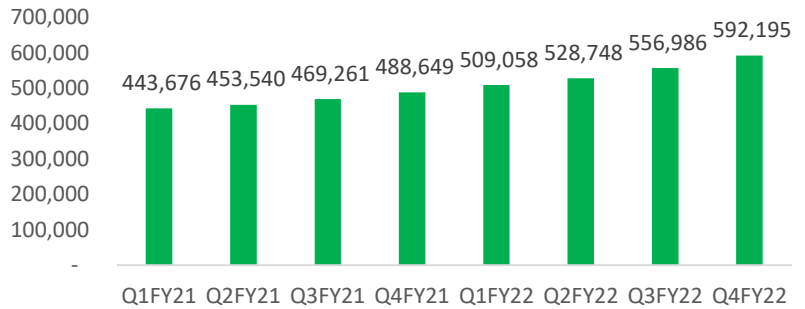
- **Attrition** IT services attrition continued to climb, reaching 17.4%. However, incremental attrition has moderated

- Margin at 25% down 7bps QoQ but still industry-leading. 26-28% EBIT margin band remains its target margin band. The company is expecting some volatility in operating margin in the near term due to supply-side pressure.

- Revenue of INR (up 3.5% QoQ/15.8% YoY). The growth was broad-based led by strong performance in Retail and CPG (22.1%), Manufacturing vertical (+19%), and Communications & Media (+18.7%).

- TCS Closes FY 22 with Highest Ever Incremental Revenue Addition and All-time High Order Book

Total Employee Base



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

Key Financials

Income Statement (INR Cr)					
Year End-March	FY20	FY21	FY22	FY23E	FY24E
Revenues (US\$ mn)	22,031	22,174	25,707	28,892	32,178
<i>Change (%)</i>	5.3%	0.6%	15.9%	12.4%	11.4%
Revenues	156,949	164,177	191,754	212,734	241,207
<i>Change (%)</i>	7.2%	4.6%	16.8%	10.9%	13.4%
Employee costs	85,952	91,814	107,554	119,982	135,559
Operation and other expenses	114,840	117,631	138,697	155,296	175,961
Total Operating Expenses	200,792	209,445	246,251	275,278	311,519
Depreciation	3,529	4,065	4,604	4,702	4,752
EBIT	38580	42481	48453	52737	60495
Interest	924	637	784	792	793
Other Income	4,592	3,134	4,018	4,420	5,304
PBT	42,248	44,978	51,687	56,364	65,006
Exceptional Items	0	1,218	0	0	0
PBT after exceptional Items	42,248	43,760	51,687	56,364	65,006
Tax	9,801	11,198	13,238	14,091	16,251
<i>Rate (%)</i>	23.2%	24.9%	25.6%	25.0%	25.0%
PAT	32,447	32,562	38,449	42,273	48,754
Non-controlling interest	-107	-132	-122	-120	-125
Consolidated PAT	32,340	32,430	38,327	42,153	48,629
<i>PAT Margin (%)</i>	20.7%	19.8%	20.1%	19.9%	20.2%

Balance Sheet (INR Cr)					
Year End-March	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds					
Share Capital	375	370	366	366	366
Reserves & Surplus	83,751	86,063	88,773	115,554	148,812
Non controlling interest	623	675	707	707	707
Total Equity	84,749	87,108	89,846	116,627	149,885
Deferred Tax Liability (Net)	779	767	590	590	590
Capital Employed	93,839	96,604	99,163	126,007	159,349
Application of Funds					
Gross Block	26,444	28,658	30,567	32,606	34,781
Less: Depreciation	15,503	17,548	19,793	22,158	24,653
Net Block	10,941	11,110	10,774	10,448	10,128
CWIP	906	926	1,205	1,205	1,205
Financial Assets	8,612	9,319	10,478	10,545	10,825
Investments	216	213	223	247	281
Inventories	5	8	20	21	30
Sundry debtors	36,264	36,662	41,810	40,644	45,313
Cash and bank	9,666	9,329	18,221	40,005	67,614
Other Current Assets	18,162	24,121	17,997	22,244	24,113
Total Current assets	90,237	99,280	108,310	136,487	175,136
Total Current liabilities	27,060	34,155	42,351	43,449	48,750
Net Current assets	63,177	65,125	65,959	93,037	126,386
Capital Employed	93,839	96,604	99,163	126,007	159,349

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

Key Financials

Cash Flow Statement (INR Cr)					
Year End-March	FY20	FY21	FY22	FY23E	FY24E
Profit for the Year	32,447	32,562	38,449	42,273	48,754
Depreciation	3,529	4,065	4,604	4,702	4,752
Finance Costs	924	637	784	792	793
Operating Profit before WC Changes	42,882	47,031	54,204	61,858	54,299
Operating Profit after WC Changes	38,215	47,894	51,435	61,634	64,050
Direct Taxes Paid & Exceptional Items	(5,846)	(9,092)	(11,486)	(14,091)	(16,251)
Cash Flow from Operating Activities	32,369	38,802	39,949	47,543	47,799
Cash Flow from Investing Activities	8,565	(8,129)	(897)	(2,445)	(2,608)
Cash Flow from Financing Activities	(39,915)	(32,634)	(33,581)	(17,581)	(17,582)
Net Change in Cash & Cash Equivalents	1,019	(1,961)	5,471	27,517	27,609
Opening Cash & Cash Equivalents	7,224	8,646	6,858	12,488	40,005
Closing Cash & Cash Equivalents	8646	6858	12488	40005	67614

Key Ratios					
Year End-March	FY20	FY21	FY22	FY23E	FY24E
Per share (INR)					
EPS	86.2	86.7	103.6	115.2	132.9
BVPS	226	226	235	245	319
Valuation (x)					
P/E	41.8	41.5	34.7	31.3	27.1
P/BV	15.9	15.3	14.7	11.3	8.8
Return ratio (%)					
EBITDA Margin	26.8%	28.4%	27.7%	27.0%	27.1%
EBIT Margin	24.6%	25.9%	25.3%	24.8%	25.1%
PAT Margin	20.7%	19.8%	20.1%	19.9%	20.2%
ROE	38.2%	37.2%	42.7%	36.1%	32.4%
ROCE	35.0%	36.6%	40.1%	33.9%	30.3%
Leverage Ratio (%)					
Total D/E	0.1	0.1	0.1	0.1	0.1
Turnover Ratios					
Asset Turnover (x)	14.2	15.0	18.1	20.7	23.8
Inventory Days	1	2	6	6	6
Receivable Days	80	81	70	70	69

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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