

**CMP: INR 3,260**

**Rating: Accumulate**

**Target Price: INR 3,679**

**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)	11,94,680
52w H/L (INR)	3,575/ 2,926
Avg Yearly Vol (in 000')	1,916

**Shareholding Pattern %**

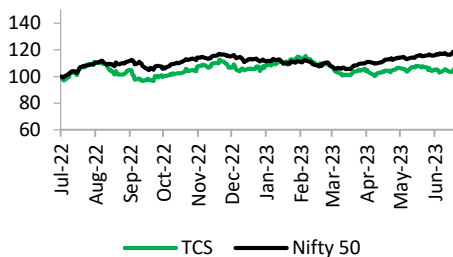
(As on Mar, 2023)

Promoters	72.30
FII	12.72
DII	9.58
Public & Others	5.41

**Stock Performance (%)**

	3m	6m	12m
TCS	0.3%	-0.4%	6.1%
NIFTY	9.8%	8.0%	20.5%

**TCS Vs Nifty**



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Tata Consultancy Services (TCS) faced macroeconomic challenges, resulting in lower-than-expected revenue growth. Near-term uncertainty is evident through clients' month-to-month decision-making and project reprioritization. Key client priorities encompass cost optimization, vendor consolidation, and integrated operations. Despite weaknesses in certain sectors, TCS maintains optimism for the long term, driven by emerging technologies and a strong order book.

Constant currency (CC) revenue growth is up 7% YoY & flat QoQ. Dollar-term Revenue growth +6.6% YoY/0.4% QoQ to \$7,226 mn against our estimate of \$7,235 mn driven by UK (Growth of 16.1% YoY). Reported revenue of INR (up 0.4% QoQ/12.6% YoY) to INR 59,381 Cr against estimates INR 59,506. The growth was broad-based in line led by growth in Life Sciences and Healthcare which grew 10.1% and the Manufacturing vertical which grew 9.4%. BFSI grew 3%, Retail and CPG grew 5.3%, Technology & Services grew 4.4% while Communications & Media grew 0.5%. Major markets, the United Kingdom led with 16.1% growth; North America grew 4.6% and Continental Europe grew 3.4%. In emerging markets, Middle East & Africa grew 15.2%, India grew 14%, Latin America grew 13.5%, and Asia Pacific grew 4.7%.

**EBIT margin in line with estimate:** EBIT margin was down 132bps QoQ/+7bpsYoY at 23.2% against our estimates of 23.42%. This result was in line with our expectations of 23.42%, mainly due to a 200bps impact from the hike. However, this negative impact was offset by improved efficiencies.

**Decent order book led by mega deal wins:** As expected, the company's order book had a satisfactory value of \$10.2 bn, excluding BSNL. Notably, the company secured two contracts in the UK public sector, one from Teachers Pension Fund and another from NEST, as well as one from Standard Life BAC. This achievement reestablished the company's dominance in the UK life and pensions market. NEST sought a comprehensive evaluation from PricewaterhouseCoopers to determine if there were competing entities capable of meeting their technical requirements in the short-term, specifically within the next 12 months. In terms of specific order book figures, BFSI TCS accounted for \$3 billion, while the retail sector stood at \$1.2 bn. Additionally, the value of deals signed in North America by TCS amounted to \$5.2 bn. Given the strong pipeline, we anticipate that the company will maintain its momentum in securing further deals.

**Driving Transformation with Gen AI: Enhancing Productivity and Customer Interactions:** Gen AI has transformative potential, improving productivity and customer interactions. With over 50 proof of concepts and pilots, and a strong pipeline of 100+ opportunities, the company is actively exploring Gen 2 AI applications. The company expertise in AIML, advanced analytics, and holistic enterprise-wide approach drive impactful solutions and successful data modernization efforts.

**Outlook & Valuation:** The company's USD revenue in Q1FY24 did not meet our expectations, but TCS's achieved \$10 bn in deal wins over two quarters. Despite the impact of the current sentiment on client spending, we remain optimistic about TCS's future prospects in the medium to long term. This optimism is fueled by TCS's ability to successfully engage with large clients and the presence of a robust pipeline of opportunities. Clients prioritize essential projects and cost optimization. The company achieved an operating margin of 23.2% and plans to hire 40,000 employees over four quarters. Manufacturing and essential retail sectors show growth, while luxury and specialty retail experience decline. The company added new clients while cautious client spending persists due to macroeconomic uncertainties. Our analysis indicates a USD revenue CAGR growth of 7% over FY23-FY26E and a margin of 24.3%/24.7%/25% for FY24E/FY25E/FY26E. **We value TCS at a PE of 22x its FY26E EPS of INR 167, resulting in a revised target price of INR 3,679 per share. We maintain an Accumulate rating on the stock.**

**Exhibit:1 Financial Performance**

Particulars (INR Cr)	FY23	FY24E	FY25E	FY26E
Revenues (US\$ mn)	27,927	29,997	32,611	34,434
Net Sales	2,25,458	2,44,268	2,81,782	3,05,929
EBIT	54,237	59,053	69,479	76,595
EBIT Margin	24.06%	24.18%	24.66%	25.04%
Net profit	42,147	46,684	55,124	61,207
EPS ( INR)	115	128	151	167
PE (x)	28.30	25.56	21.64	19.49

Source: Arihant Research, Company Filings.

## Exhibit 2: Q1FY24 - Quarterly Performance (Consolidated)

Consolidated Income Statement (INR Cr)	Q1FY24	Q4FY23	Q1FY23	Q-o-Q	Y-o-Y
Revenue (Mn USD)	7,226	7,195	6,780	0.4%	6.6%
Net Revenue	59,381	59,162	52,758	0.4%	12.6%
Employee Costs	35,148	33,687	30,327	4.3%	15.9%
Other Operating Expenses	9,235	9,701	9,015	-4.8%	2.4%
Depreciation	1,243	1,286	1,230	-3.3%	1.1%
EBIT	13,755	14,488	12,186	-5.1%	12.9%
EBIT margin %	23.2%	24.5%	23.1%	-132bps	7bps
Other Income	1,397	1,175	789	18.9%	77.1%
Finance Costs	163	272	199	-40.1%	-18.1%
Exceptional Items	-	-	-	-	-
PBT	14,989	15,391	12,776	-2.6%	17.3%
Tax Expense	3,869	3,955	3,257	-2.2%	18.8%
Effective Tax Rate %	25.8%	25.7%	25.5%	12bps	32bps
Reported PAT	11,120	11,436	9,519	-2.8%	16.8%
MI & Associates	-46	-44	-41	4.5%	12.2%
Consolidated PAT	11,074	11,392	9,478	-2.8%	16.8%
PAT Margin %	18.6%	19.3%	18.0%	-61bps	68bps
EPS (INR)	30.3	31.1	25.9	-2.8%	16.8%

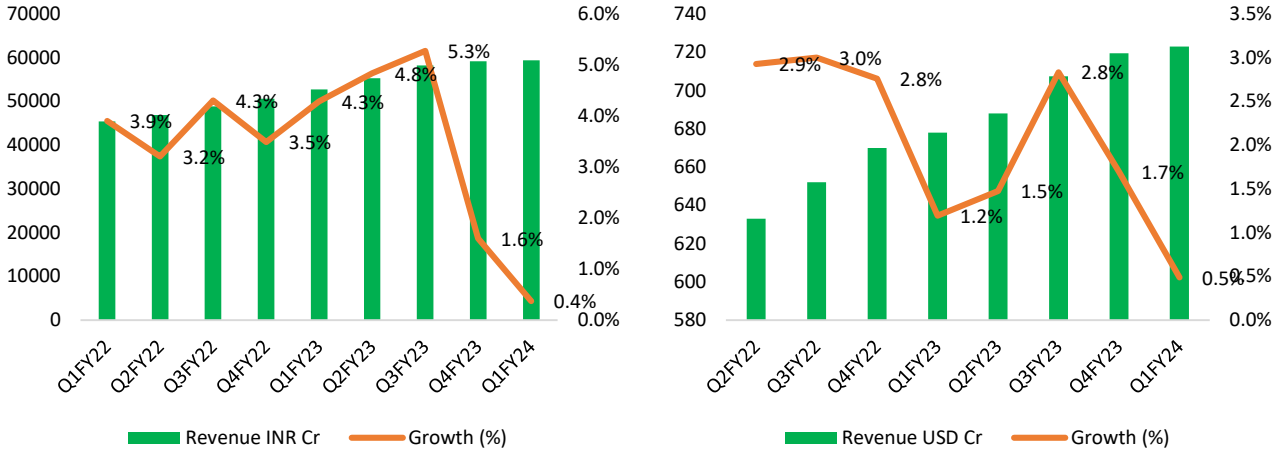
Source: Arianth Research, Company Filings

#### Q1FY24 Conference Call Highlights

The company's management maintains a positive long-term outlook based on their analysis of the order book. However, they acknowledge the presence of uncertainty in the near term as clients adopt a month-to-month approach in their decision-making. Clients are actively reevaluating and reprioritizing projects, focusing on those deemed essential for their businesses and with faster return on investment (ROI). Key priorities for clients include cost optimization, vendor consolidation, and integrated operations. Although the growth is affected by weaknesses in North America, Europe, and BFSI sectors, there has been notable growth in the UK, life sciences, and manufacturing industries. Looking ahead, the company remains cautious in the near term but optimistic for the long term, driven by the demand for emerging technologies like Generative AI and the presence of a strong order book.

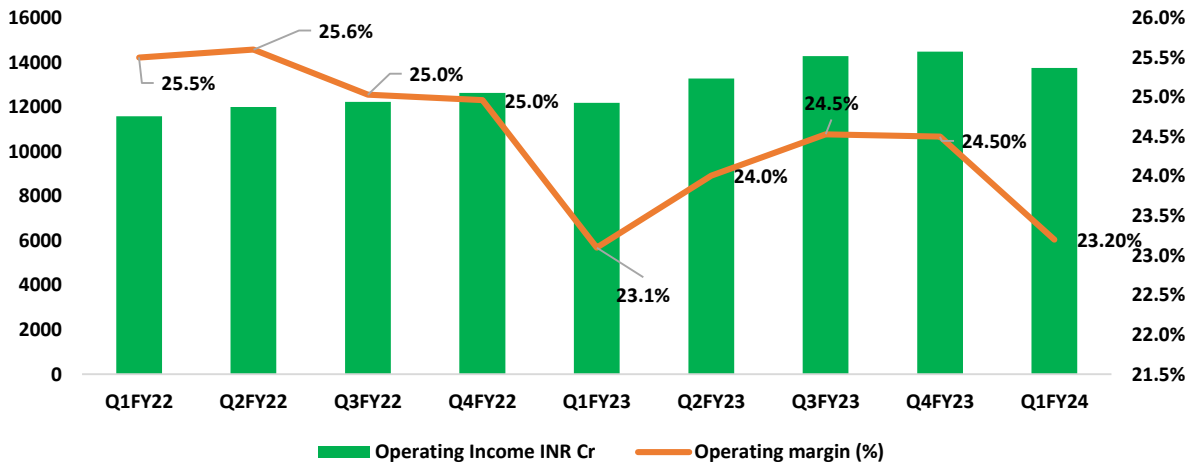
- **Margin:** Through operational efficiencies and reduced reliance on subcontractors, the company managed to alleviate some of the impact and achieved an operating margin of 23.2%. The subcon costs are back to the Pre Covid levels and the margins should be clawed back as they move through the year. **The Management aspires to get to a margin band of 26-28%.**
- **Employee:** ~70% of TCS employees will receive full variable pay, and exceptional performers received a raise of 12-15% during the FY23 compensation review. Although there have been delays in onboarding new hires, TCS is committed to honoring all offers. Hiring has slowed down, resulting in a net addition of 523 employees in Q1FY24 as TCS adjusts to project delays and an uncertain macro environment. To accommodate these challenges, TCS plans to distribute employee additions evenly over the next four quarters, while still aiming to hire a total of 40,000 employees. TCS also boasts a significant workforce of over 50,000 employees focused on AI ML solutions and 148,000 employees certified in hyperscaler cloud technologies, positioning them as leaders in the industry.
- **Demand:** The demand for IT services is expected to remain subdued in the near future. Clients are primarily interested in cost optimization, vendor consolidation, and integrated operations due to the uncertain macroeconomic outlook.
- **Segment:** The manufacturing sector is showing growth due to low base effect and increasing demand, especially in the automotive industry. However, sustainability depends on the overall economy. Essential retail is performing well, but there is a decline in demand for luxury and specialty retail segments.
- **Attrition:** Improved attrition rate was recorded at 17.8%, compared to 21.1% in Q4FY23.
- **DSO:** Sequentially, receivables remained flat at 65 days sales outstanding (DSO) in dollar terms.
- **Client:** In Q1, the company added one additional client in the \$100 mn revenue band, bringing the total to 16. There was an increase of 13 clients in the \$15 mn revenue band, totaling 137 clients. Moreover, there were 24 new clients in the \$20 mn and above revenue band, totaling 296 clients. The \$10 mn revenue band witnessed an addition of 22 clients, totaling 468 clients. Furthermore, there were 27 new clients in the \$5 mn and above revenue band, totaling 677 clients. Lastly, 72 more clients were added in the \$1 mn and above revenue band, bringing the total to 1,258 clients.
- NGS highlighted in his statement that macroeconomic uncertainties have made clients more cautious. Clients are adopting a month-on-month approach, resulting in limited visibility regarding future spending even within their own organizations. While larger transformation programs like cloud migration continue as planned, smaller programs are being scrutinized. Projects are being reprioritized to focus on those deemed business-critical with faster ROI realization.

Exhibit 3: Flat revenue growth in INR and USD term QoQ Exhibit 4: The Revenue



Source: Arihant Research, Company Filings

Exhibit 4: Operating margin of 23.2% reflects the 200-bps impact of this hike, offset through improved efficiencies



Source: Arihant Research, Company Filings

Exhibit 5: Trend of Net margin sequentially

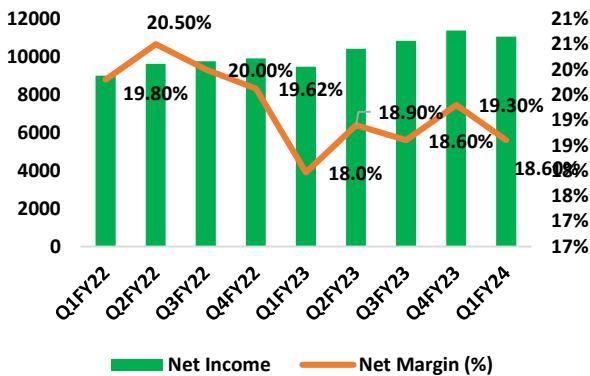
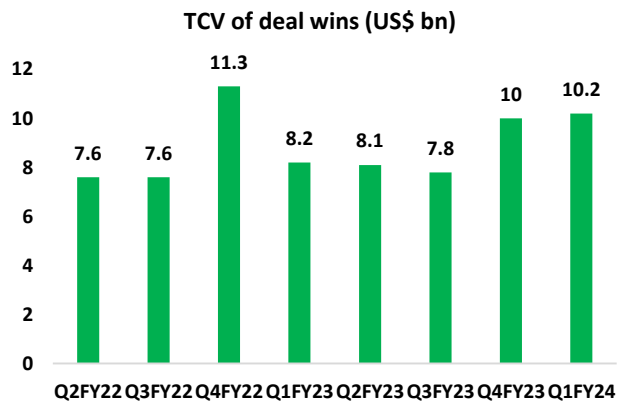


Exhibit 6: Stood at \$10.2 bn with a book-to-bill ratio of 1.4x



Source: Arihant Research, Company Filings

**Exhibit 7: Operating Metrics**

TCS OPERATING METRICS	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
<b>Revenue Distribution by Geography - New Classification</b>					
Americas	55.0%	56.0%	55.5%	54.2%	54.0%
North America	53.2%	54.3%	53.7%	52.4%	52.0%
Latin America *	1.8%	1.7%	1.8%	1.8%	2.0%
Europe	30.1%	29.0%	29.7%	30.8%	31.3%
UK	14.9%	14.5%	14.9%	15.7%	16.4%
Continental Europe	15.2%	14.5%	14.8%	15.1%	14.9%
India	4.8%	5.1%	5.1%	5.0%	4.9%
Asia Pacific	8.3%	8.0%	7.9%	8.0%	7.8%
MEA	1.8%	1.9%	1.8%	2.0%	2.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
* Reclassified based on location of contracts, as is done in other regions					
<b>Revenue Distribution by Industry Domain</b>					
BFSI	32.1%	31.9%	31.5%	31.4%	31.0%
Retail & CPG	15.9%	15.9%	15.7%	15.6%	15.7%
Communication & Media	6.8%	6.7%	6.6%	6.5%	6.4%
Manufacturing	9.9%	9.9%	9.9%	9.9%	10.2%
Life Science & Healthcare	10.1%	10.2%	10.3%	10.4%	10.5%
Technology & Services	8.8%	9.0%	8.9%	8.7%	8.6%
Regional Markets & Others	16.4%	16.4%	17.1%	17.5%	17.6%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Currency Mix ( % of Revenue )</b>					
USD	55.59%	56.92%	56.37%	54.94%	54.42%
GBP	12.76%	12.29%	12.69%	13.56%	14.19%
EUR	11.03%	10.31%	10.64%	11.07%	10.99%
OTHERS	20.62%	20.48%	20.30%	20.43%	20.39%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Average Realized Rates in INR</b>					
USD	77.81	80.42	82.3	82.23	82.18
GBP	96.68	92.46	98.05	100.4	103.06
EUR	82.38	79.86	85.06	88.44	89.53
<b>Clients Contribution - New Classification</b>					
USD 1 mn clients *	1196	1210	1217	1241	1268
USD 5 mn clients *	650	650	658	665	677
USD 10 mn clients *	446	455	456	461	468
USD 20 mn clients *	272	283	290	291	296
USD 50 mn clients *	124	124	130	133	137
USD 100 mn clients *	59	59	59	60	60
* Last Twelve Months' services revenues; includes clients in India					
<b>TCS EMPLOYEE METRICS</b>					
<b>Total Headcount</b>	6,06,331	6,16,171	6,13,974	6,14,795	6,15,318
<b>Number of Nationalities of associates</b>					
<b>% of Women associates</b>	35.5%	35.7%	35.7%	35.7%	35.8%
<b>YoY CC Revenue Growth by Geography</b>					
North America	19.1%	17.6%	15.4%	9.6%	4.6%
Latin America	21.6%	19.0%	14.6%	15.1%	13.5%
UK	12.6%	14.8%	15.4%	17.0%	16.1%
Continental Europe	12.1%	14.1%	9.7%	8.4%	3.4%
India	20.8%	16.7%	9.1%	7.5%	4.7%
Asia Pacific	6.2%	7.0%	9.5%	13.4%	14.0%
MEA	3.2%	8.2%	8.6%	11.3%	15.2%
<b>Total</b>	<b>15.5%</b>	<b>15.4%</b>	<b>13.5%</b>	<b>10.7%</b>	<b>7.0%</b>
<b>YoY CC Revenue Growth by Industry Domain</b>					
BFSI	13.90%	13.10%	11.10%	9.10%	3.00%
Retail & CPG	25.10%	22.90%	18.70%	13.00%	5.30%
Communication & Media	19.60%	18.70%	13.50%	5.30%	0.50%
Manufacturing	16.40%	14.50%	12.50%	9.10%	9.40%
Life Science & Healthcare	11.90%	14.50%	14.40%	12.30%	10.10%
Technology & Services	16.40%	15.90%	13.60%	9.20%	4.40%
Regional Markets & Others	9.80%	13.10%	13.30%	14.60%	16.90%
<b>Grand Total</b>	<b>15.5%</b>	<b>15.4%</b>	<b>13.5%</b>	<b>10.7%</b>	<b>7.0%</b>

Source: Arianth Research, Company Filings

## Key Financials

Income Statement (INR Cr)					
Year End-March	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenues (US\$ mn)</b>	25,707	27,927	29,997	32,611	34,434
<i>Change (%)</i>	15.9%	8.6%	7.4%	8.7%	5.6%
<b>Revenues</b>	1,91,754	2,25,458	2,44,268	2,81,782	3,05,929
<i>Change (%)</i>	16.8%	17.6%	8.3%	15.4%	8.6%
Employee costs	1,07,554	1,27,522	1,37,767	1,59,207	1,72,850
<b>Operation and other expenses</b>	<b>1,38,697</b>	<b>1,66,199</b>	<b>1,78,682</b>	<b>2,05,842</b>	<b>2,23,175</b>
Total Operating Expenses	2,46,251	2,93,721	3,16,449	3,65,048	3,96,025
Depreciation	4,604	5,022	6,533	6,462	6,159
<b>EBIT</b>	<b>48453</b>	<b>54237</b>	<b>59053</b>	<b>69479</b>	<b>76595</b>
<b>EBIT Margin (%)</b>	<b>25.3%</b>	<b>24.1%</b>	<b>24.2%</b>	<b>24.7%</b>	<b>25.0%</b>
Interest	784	779	780	781	781
Other Income	4,018	3,449	4,139	4,967	5,960
<b>PBT</b>	<b>51,687</b>	<b>56,907</b>	<b>62,412</b>	<b>73,665</b>	<b>81,774</b>
Exceptional Items	-	-	-	-	-
<b>PBT after exceptional Items</b>	<b>51,687</b>	<b>56,907</b>	<b>62,412</b>	<b>73,665</b>	<b>81,774</b>
Tax	13,238	14,604	15,603	18,416	20,443
<i>Rate (%)</i>	25.6%	25.0%	25.0%	25.0%	25.0%
<b>PAT</b>	<b>38,449</b>	<b>42,303</b>	<b>46,809</b>	<b>55,248</b>	<b>61,330</b>
<b>Non-controlling interest</b>	<b>-122</b>	<b>-156</b>	<b>-125</b>	<b>-124</b>	<b>-123</b>
<b>Consolidated PAT</b>	<b>38,327</b>	<b>42,147</b>	<b>46,684</b>	<b>55,124</b>	<b>61,207</b>
<i>PAT Margin (%)</i>	20.1%	18.8%	19.2%	19.6%	20.0%

Balance Sheet (INR Cr)					
Year End-March	FY22	FY23	FY24E	FY25E	FY26E
<b>Sources of Funds</b>					
Share Capital	366	366	366	366	366
Reserves & Surplus	88,773	90,058	94,652	1,07,687	1,26,804
Non controlling interest	707	782	0	0	0
<b>Total Equity</b>	<b>89,846</b>	<b>91,206</b>	<b>95,018</b>	<b>1,08,053</b>	<b>1,27,170</b>
Deferred Tax Liability (Net)	590	792	792	792	792
<b>Capital Employed</b>	<b>99,163</b>	<b>1,00,093</b>	<b>1,03,935</b>	<b>1,17,028</b>	<b>1,36,183</b>
<b>Application of Funds</b>					
Gross Block	30,300	32,344	36,307	38,680	41,208
Less: Depreciation	19,526	22,114	24,847	27,728	30,770
Net Block	10,774	10,230	11,461	10,952	10,439
CWIP	1,205	1,234	1,234	1,234	1,234
Financial Assets	10,478	11,366	10,734	11,068	11,283
Investments	223	266	288	332	361
<b>Inventories</b>	<b>20</b>	<b>28</b>	<b>25</b>	<b>29</b>	<b>31</b>
<b>Sundry debtors</b>	<b>41,810</b>	<b>49,954</b>	<b>48,534</b>	<b>54,040</b>	<b>59,509</b>
Cash and bank	18,221	11,032	11,600	21,790	33,436
Other Current Assets	17,997	12,359	13,126	8,911	7,346
Total Current assets	1,08,310	1,10,270	1,13,260	1,30,885	1,50,389
Total Current liabilities	42,351	43,558	43,328	47,729	47,808
Net Current assets	<b>65,959</b>	<b>66,712</b>	<b>69,933</b>	<b>83,157</b>	<b>1,02,582</b>
<b>Capital Employed</b>	<b>99,163</b>	<b>1,00,093</b>	<b>1,03,935</b>	<b>1,17,028</b>	<b>1,36,183</b>

Source: Arianth Research, Company Filings

## Key Financials

## Cash Flow Statement (INR Cr)

Year End-March	FY22	FY23	FY24E	FY25E	FY26E
Profit for the Year	38,449	42,303	46,809	55,248	61,330
Depreciation	4,604	5,022	6,533	6,462	6,159
Finance Costs	784	779	780	781	781
<b>Operating Profit before WC Changes</b>	<b>54,204</b>	<b>59,148</b>	<b>66,165</b>	<b>77,347</b>	<b>85,163</b>
Operating Profit after WC Changes	51,435	54,931	64,471	87,175	90,655
Direct Taxes Paid & Exceptional Items	-11,486	-12,966	-15,603	-18,416	-20,443
<b>Cash Flow from Operating Activities</b>	<b>39,949</b>	<b>41,965</b>	<b>48,868</b>	<b>68,758</b>	<b>70,212</b>
<b>Cash Flow from Investing Activities</b>	<b>-897</b>	<b>39</b>	<b>39</b>	<b>-14,138</b>	<b>-14,135</b>
<b>Cash Flow from Financing Activities</b>	<b>-33,581</b>	<b>-47,878</b>	<b>-44,430</b>	<b>-44,431</b>	<b>-44,431</b>
Net Change in Cash & Cash Equivalents	5,471	-5,874	4,477	10,190	11,646
Opening Cash & Cash Equivalents	6,858	12,488	7,123	11,600	21,790
Closing Cash & Cash Equivalents	12488	7,123	11600	21790	33436

## Key Ratios

Year End-March	FY22	FY23	FY24E	FY25E	FY26E
<b>Per share (INR)</b>					
EPS	103.6	115.2	127.6	150.6	167.2
BVPS	235	245	249	295	347
<b>Valuation (x)</b>					
P/E	31.3	28.1	25.4	21.5	19.4
P/BV	13.2	13.0	12.5	11.0	9.3
<b>Return ratio (%)</b>					
EBITDA Margin	27.7%	26.3%	26.9%	26.3%	26.9%
EBIT Margin	25.3%	24.1%	24.2%	24.7%	25.0%
PAT Margin	20.1%	18.8%	19.2%	19.6%	20.0%
ROE	42.7%	46.2%	49.1%	51.0%	48.1%
ROCE	40.1%	44.6%	46.6%	48.2%	45.2%
<b>Leverage Ratio (%)</b>					
Total D/E	0.1	0.1	0.1	0.1	0.1
<b>Turnover Ratios</b>					
Asset Turnover (x)	18.3	20.8	21.8	26.3	29.3
Inventory Days	6	5	5	5	5
Receivable Days	75	74	73	70	71

Source: Arian Research, Company filings

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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%

**Absolute Return****Research Analyst  
Registration No.**

INH000002764

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