

CMP: INR 3,924

Rating: Accumulate

Target Price: INR 4,419

Stock Info

BSE	532540
NSE	TCS
Bloomberg	TCS IN
Reuters	TCS.BO
Sector	IT
Face Value (INR)	1
Equity Capital (INR Cr)	362
Mkt Cap (INR Cr)	14,13,008
52w H/L (INR)	4,255/ 3,273
Avg Yearly Vol (in 000')	2,242

Shareholding Pattern %

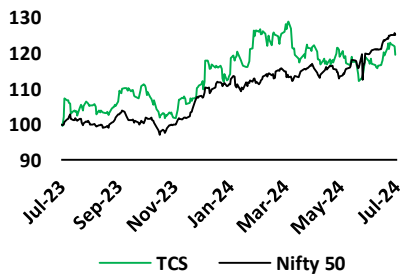
(As on March, 2024)

Promoters	71.77
FII	12.7
DII	10.6
Public & Others	4.93

Stock Performance (%)

	1m	3m	12m
TCS	1.3%	-2.4%	19.2%
NIFTY	4.2%	7.9%	25.1%

TCS Vs Nifty



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Tata Consultancy Services (TCS) Results better than expected; Margin in line and modest deal wins. Revenues growth of 2.2% in cc term, which is above expectation of 1.6% QoQ. Constant currency (CC) revenue growth is up 4.4% YoY. USD Revenue growth +3.9% YoY/+1.9% QoQ to \$7,505 mn slightly above our estimate of \$ 7,455 mn driven by Emerging Markets, led by India (+61.8% YoY). Reported revenue of INR (up 2.25% QoQ/5.4% YoY) to INR 62,613 Cr above our estimates INR 62,198 Cr led by strong deal wins and growth in Manufacturing (+9.4%), Energy, Resources & Utilities (+5.7%), and Life Sciences & Healthcare (+4.0%).EBIT margin was down 133bps QoQ/+150 bps YoY at 24.66 % above our estimates of 24.49%. Consolidated PAT stood at INR 12,040 Cr, up by 8.7% YoY/-3.17% QoQ largely in-line with our estimate of INR 12,104 Cr. Order book TCV at \$8.3 Bn; North America TCV at \$4.6 Bn; BFSI TCV at \$2.7 Bn, Consumer Business TCV at \$1.1 Bn. Clients \$100M+ up by 3 ; \$50M+ up by 3 ; \$10M+ up by 18 & \$1M+ up by 42 YoY. Headcount: 606,998; Addition by 5,452 QoQ despite lower attrition. LTM IT Services attrition rate slightly down 40 bps to 12.1%. The company also announced a final dividend of INR 10 per share

Investment Rationale

Client spending trends emphasize business transformation through supply chain modernization, sustainability, enhanced customer and employee experiences, technology modernization, cloud data analytics, and Gen AI initiatives. BFSI clients are increasingly investing in integrated cloud and AI models to mitigate legacy risks and enhance customer engagement. Amid economic uncertainty, there's a strategic focus on realizing returns from 5G investments before scaling broader initiatives. Future investments are poised for tech stack modernization, leveraging automation, network intelligence, and virtualization to drive operational efficiencies. Current priorities include cost optimization, vendor consolidation, and integrated operations, driving sequential growth after five quarters.

Decent addition in clients: During Q1FY25,added 3 clients YoY in the 100 Mn+ band bringing the total to 63. 3 clients were added in 50 Mn bands taking the total to 144 in 20 Mn band bringing the total to 318 more clients in the 10 Mn brand taking the total to 486. 20 more clients in 5 Mn band aid taking the total to 697 and 42 more clients in the 1 Mn+ band bringing the total to 1310.

Outlook & Valuation: The company exceeded expectations in Q1FY25 on 2.2% QoQ CC growth, expressing optimism about emerging demand trends and detecting signs of good demand in specific verticals. The catalyst for this development is attributed to growing confidence in the macro environment. The deal pipeline remains strong, although deal bookings were lower for Q1FY25 due to timing issues. FY25 is expected to outperform FY24 in terms of revenue growth, driven by broader-based growth across verticals. The margin recovery in 2HFY25 will likely be driven by continued workforce optimization toward freshers and platforms. We expect our growth estimates for FY24-FY27E 6.6% in USD terms and a margin of 25.1%/25.3%/25.5% for FY25E/FY26E/FY27E. We value TCS at a PE of 25x its FY27E EPS of INR 176.7, resulting in a revised target price of INR 4,419 per share (Earlier TP;4,318 per share).We upgrade our rating to an Accumulate from Hold earlier on the stock.

Exhibit 1: Q1FY25 - Performance (Consolidated)

Particulars (INR Cr)	FY23	FY24	FY25E	FY26E	FY27E
Revenues (US\$ mn)	27,927	29,080	31,026	33,341	35,214
Net Sales	2,25,458	2,40,893	2,57,405	2,82,014	3,01,811
EBIT	54,237	59,311	64,560	71,311	77,053
EBIT Margin	24.06%	24.62%	25.08%	25.29%	25.53%
Net profit	42,147	45,908	51,704	58,026	63,982
EPS (INR)	115	129	143	160	177
ROE	46.21%	50.27%	53.88%	56.17%	57.55%
ROCE	44.60%	48.19%	50.19%	51.49%	51.70%
PE (x)	34.06	30.44	27.47	24.48	22.20

Exhibit 2: Q1FY25 - Quarterly Performance (Consolidated)

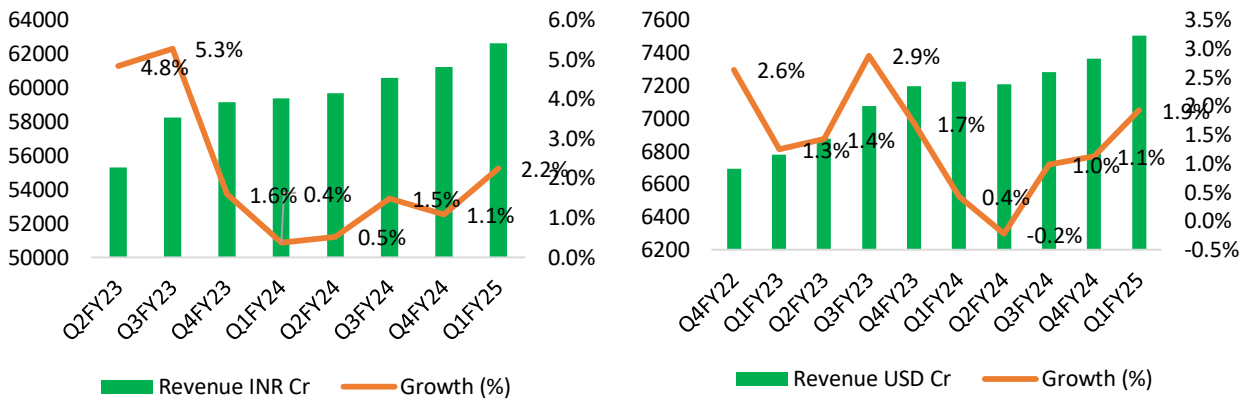
Consolidated Income Statement (INR Cr)	Q1FY25	Q4FY24	Q1FY24	Q-o-Q	Y-o-Y
Revenue (Mn USD)	7,505	7,363	7,226	1.93%	3.9%
Net Revenue	62,613	61,237	59,381	2.25%	5.4%
Employee Costs	36,416	35,138	35,148	3.64%	3.6%
Other Operating Expenses	9,535	8,935	9,235	6.72%	3.2%
Depreciation	1,220	1,246	1,243	-2.09%	-1.9%
EBIT	15,442	15,918	13,755	-2.99%	12.3%
EBIT margin %	24.66%	25.99%	23.2%	-133bps	150bps
Other Income	962	1,157	1,397	-16.85%	-31.1%
Finance Costs	173	226	163	-23.45%	6.1%
Exceptional Items	-	-	-		
PBT	16,231	16,849	14,989	-3.67%	8.3%
Tax Expense	4,126	4,347	3,869	-5.08%	6.6%
Effective Tax Rate %	25.4%	25.8%	25.8%	-38bps	-39bps
Reported PAT	12,105	12,502	11,120	-3.18%	8.9%
MI & Associates	-65	-68	-46	-4.41%	41.3%
Consolidated PAT	12,040	12,434	11,074	-3.17%	8.7%
PAT Margin %	19.2%	20.3%	18.6%	-108bps	58bps
EPS (INR)	33.3	34.7	30.3	-4.09%	10.0%

Source: Arian Research, Company Filings

Q1FY25 Conference Call Highlights

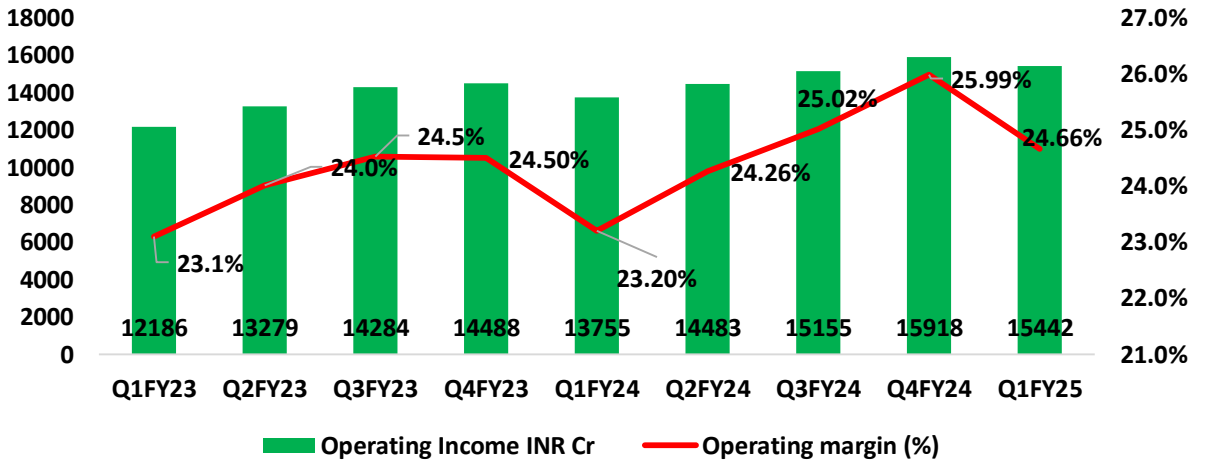
- FY25 will be better than FY24 in terms of revenue growth, led by growth being more broad-based across verticals. No material change in the demand environment compared to Q4FY24
- Discretionary spending's: Clients are now balancing transformation priorities for business resilience and innovation, with near-term tech spend focusing on new partnerships, security, and data governance, while long-term spending will increase on cloud and AI integration to mitigate legacy system risks and enhance customer experience.
- Client Matrix: In Q1FY25, added 3 clients YoY in the 100 Mn+ band bringing the total to 63. 3 clients were added in 50 Mn bands taking the total to 144 in 20 Mn band bringing the total to 318 more clients in the 10 Mn band taking the total to 486. 20 more clients in 5 Mn band aid taking the total to 697 and 42 more clients in the 1 Mn+ band bringing the total to 1310.
- Wage hike had 170 bps adverse impact on EBIT margin, partly offset by higher utilization, lower subcon cost and higher operational efficiency
- Subcon cost has largely bottomed out and will stay at similar level.
- Cost optimization remains the top customer priority including vendor consolidation and operating model transformation.
- Except Communication, all verticals returned to sequential growth
- Deal pipeline remains strong and deal booking was lower for the quarter due to timing issues.
- Generative AI related projects continue to hold significant clients' mind share. It has around \$1.5bn of AI and Gen AI related pipeline.
- Pricing is broadly stable at portfolio level.
- Added 11k Trainees during the quarter and would continue to recalibrate hiring as per demand environment. Employee attrition has reached comfortable levels
- Geography: The UK market led growth with a 6% increase, driven by resilient IT services spending, which is expected to continue growing. European clients are focusing on sustainability initiatives and regulatory compliance. North America returned to sequential growth after five quarters, although it declined 1.1% YoY. The company remains focused on improving market share across industries, services, and geographies by delivering superior capabilities.
- Positive Trends in Cybersecurity: Continuous growth in cybersecurity services, focusing on network security and cloud security. Digital transformation projects, such as with ING Belgium, indicate a strong capability in modernizing and streamlining operations for clients.
- Positive Indicators in Book-to-Bill Ratio: A trending book-to-bill ratio indicates potential growth, serving as a lead indicator for future performance.

Exhibit 3: Strong growth and above expectation



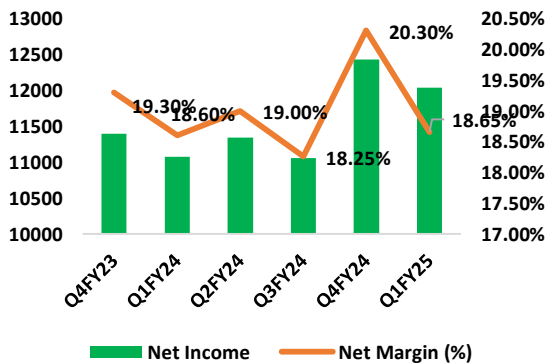
Source: Arianth Research, Company Filings

Exhibit 4: Margin expansion driven by cost optimization and reduced discretionary expenses.



Source: Arianth Research, Company Filings

Exhibit 5: Trend of Net margin sequentially



Source: Arianth Research, Company Filings

Exhibit 6: Total Employee Base has increased by 0.9% QoQ

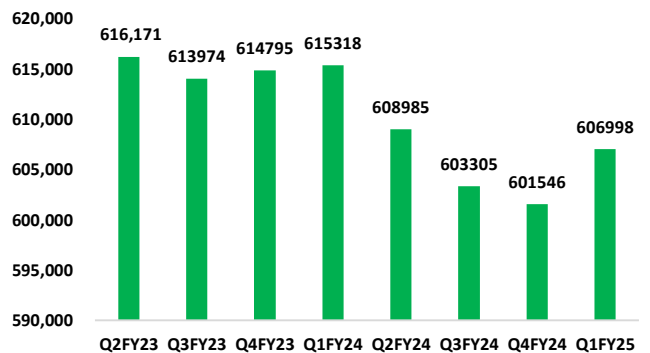


Exhibit 7: Operating Metrics

	Q1FY24	Q2FY24	Q3FY24	Q4FY24	FY24E	Q1FY25
Revenue Distribution by Geography - New Classification						
Americas	54.0%	53.7%	52.7%	52.0%	55.2%	51.4%
North America	52.0%	51.7%	50.6%	50.0%	53.4%	49.5%
Latin America *	2.0%	2.0%	2.1%	2.0%	1.8%	1.9%
Europe	31.3%	31.4%	31.4%	31.4%	29.9%	31.3%
UK	16.4%	16.5%	16.4%	16.8%	15.0%	16.9%
Continental Europe	14.9%	14.9%	15.0%	14.6%	14.9%	14.4%
India	4.9%	4.9%	6.1%	6.7%	5.0%	7.5%
Asia Pacific	7.8%	7.8%	7.8%	7.8%	8.0%	7.8%
MEA	2.0%	2.2%	2.0%	2.1%	1.9%	2.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Revenue Distribution by Industry Domain					
BFSI	32.5%	32.6%	31.7%	31.3%	30.9%
Consumer Business	16.1%	15.9%	15.7%	15.7%	15.4%
Communication & Media	7.0%	6.9%	6.7%	6.6%	6.2%
Manufacturing	8.3%	8.5%	8.6%	8.8%	8.8%
Life Science & Healthcare	11.0%	10.9%	10.9%	10.9%	11.0%
Energy & Utilities	5.5%	5.6%	5.7%	5.6%	5.6%
Technology & Services	8.6%	8.6%	8.4%	8.2%	8.1%
Regional Markets & Others	11.0%	11.0%	12.3%	12.9%	14.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Currency Mix (% of Revenue)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
USD	56.92%	56.92%	56.37%	54.94%	53.96%	53.96%	51.94%	51.50%
GBP	12.29%	12.29%	12.69%	13.56%	14.34%	14.34%	14.67%	14.63%
EUR	10.31%	10.31%	10.64%	11.07%	11.12%	11.12%	11.18%	11.02%
OTHERS	20.48%	20.48%	20.30%	20.43%	20.58%	20.58%	22.21%	22.85%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Average Realized Rates in INR	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
USD	80.42	80.42	82.3	82.23	82.79	83.21	83.16	83.43
GBP	92.46	92.46	98.05	100.4	103.81	104.24	105.13	105.43
EUR	79.86	79.86	85.06	88.44	89.53	90.06	90.07	89.71
Clients Contribution - New Classification	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
USD 1 mn clients *	1210	1217	1217	1241	1272	1272	1294	1310
USD 5 mn clients *	650	658	658	665	688	688	693	697
USD 10 mn clients *	455	456	456	461	483	483	487	486
USD 20 mn clients *	283	290	290	291	292	292	301	300
USD 50 mn clients *	124	130	130	133	137	137	139	140
USD 100 mn clients *	59	59	59	60	61	61	62	63
* Last Twelve Months' services revenues; includes clients in India								
TCS EMPLOYEE METRICS	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Total Headcount	616171	613974	614795	615318	608985	603305	601546	606998
Number of Nationalities of associates								
% of Women associates	35.80%	35.70%	35.70%	35.70%	35.80%	35.70%	35.60%	35.50%

Source: Arianth Research, Company Filings

Key Financials

Income Statement (INR Cr)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Revenues (US\$ mn)	27,927	29,080	31,026	33,341	35,214
<i>Change (%)</i>	8.6%	4.1%	6.7%	7.5%	5.6%
Revenues	2,25,458	2,40,893	2,57,405	2,82,014	3,01,811
<i>Change (%)</i>	17.6%	6.8%	6.9%	9.6%	7.0%
Employee costs	1,27,522	1,40,131	1,45,177	1,59,338	1,70,523
Operation and other expenses	1,66,199	1,76,597	1,87,777	2,05,729	2,20,171
Total Operating Expenses	2,93,721	3,16,728	3,32,954	3,65,067	3,90,694
Depreciation	5,022	4,985	5,068	4,974	4,587
EBIT	54237	59311	64560	71311	77053
EBIT Margin (%)	24.1%	24.6%	25.1%	25.3%	25.5%
Interest	779	778	779	780	780
Other Income	3,449	4,422	5,749	7,473	9,715
PBT	56,907	62,955	69,530	78,004	85,988
Exceptional Items	-	958.00	-	-	-
PBT after exceptional Items	56,907	61,997	69,530	78,004	85,988
Tax	14,604	15,898	17,661	19,813	21,841
<i>Rate (%)</i>	25.0%	25.8%	25.4%	25.4%	25.4%
PAT	42,303	46,099	51,869	58,191	64,147
Non-controlling interest	-156	-191	-165	-165	-165
Consolidated PAT	42,147	45,908	51,704	58,026	63,982
<i>PAT Margin (%)</i>	18.8%	19.1%	20.2%	20.6%	21.3%

Balance Sheet (INR Cr)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds					
Share Capital	366	362	362	362	362
Reserves & Surplus	90,058	90,127	94,771	1,02,118	1,09,989
Non controlling interest	782	830	830	830	830.00
Total Equity	91,206	91,319	95,963	1,03,310	1,11,181
Deferred Tax Liability (Net)	792	977	977	977	977
Capital Employed	1,00,093	1,00,345	1,05,014	1,12,398	1,20,300
Application of Funds					
Gross Block	32,344	35,969	40,671	45,654	51,249
Less: Depreciation	22,114	26,593	31,621	37,224	43,475
Net Block	10,230	9,376	9,050	8,430	7,774
CWIP	1,234	1,564	1,564	1,564	1,564
Financial Assets	11,366	12,016	10,705	10,924	11,100
Investments	266	281	300	329	352
Inventories	28	28	26	29	31
Sundry debtors	49,954	53,577	55,007	60,266	64,497
Cash and bank	11,032	13,286	15,405	13,342	26,165
Other Current Assets	12,359	14,612	17,544	19,914	21,700
Total Current assets	1,10,270	1,12,984	1,21,622	1,30,405	1,51,834
Total Current liabilities	43,558	46,104	48,974	49,988	52,423
Net Current assets	66,712	66,880	72,648	80,417	99,410
Capital Employed	1,00,093	1,00,345	1,05,014	1,12,398	1,20,300

Source: Arian Research, Company filings

Key Financials

Cash Flow Statement (INR Cr)

Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Profit for the Year	42,303	46,099	51,869	58,191	64,147
Depreciation	5,022	4,985	5,068	4,974	4,587
Finance Costs	779	778	779	780	780
Operating Profit before WC Changes	59,148	63,709	71,817	80,198	87,795
Operating Profit after WC Changes	54,931	56,827	75,378	85,793	93,837
Direct Taxes Paid & Exceptional Items	-12,966	-12,489	-17,661	-19,813	-21,841
Cash Flow from Operating Activities	41,965	44,338	57,718	65,980	71,996
Cash Flow from Investing Activities	39	6,026	-1,795	-14,889	-587
Cash Flow from Financing Activities	-47,878	-48,536	-49,534	-53,155	-58,585
Net Change in Cash & Cash Equivalents	-5,874	1,828	6,389	-2,064	12,823
Opening Cash & Cash Equivalents	12,488	7,123	9,016	15,405	13,342
Closing Cash & Cash Equivalents	7,123	9016	15405	13342	26165

Key Ratios

Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Per share (INR)					
EPS	115.2	128.9	142.8	160.3	176.7
BVPS	245	249	265	285	307
Valuation (x)					
P/E	34.1	30.4	27.5	24.5	22.2
P/BV	15.7	15.6	14.8	13.7	12.8
Return ratio (%)					
EBITDA Margin	26.3%	26.7%	26.3%	26.7%	27.1%
EBIT Margin	24.1%	24.6%	25.1%	25.3%	25.5%
PAT Margin	18.8%	19.1%	20.2%	20.6%	21.3%
ROE	46.2%	50.3%	53.9%	56.2%	57.5%
ROCE	44.6%	48.2%	50.2%	51.5%	51.7%
Leverage Ratio (%)					
Total D/E	0.1	0.1	0.1	0.1	0.1
Turnover Ratios					
Asset Turnover (x)	23.0	26.1	29.5	34.8	38.8
Inventory Days	5	5	5	5	5
Receivable Days	74	78	78	78	78

Source: Arianth Research, Company Filings

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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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