

**CMP: INR 3,610**

**Rating: Hold**

**Target Price: INR 3,928**

**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)	13,20,990
52w H/L (INR)	3,650/ 1,925
Avg Yearly Vol (in 000')	2,076

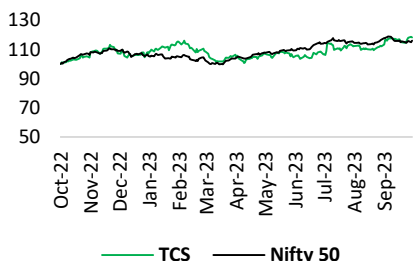
**Shareholding Pattern %**

(As on Mar, 2023)

Promoters	72.30
FII	12.46
DII	9.75
Public & Others	5.49

Stock Performance (%)	1m	3m	12m
TCS	3.7%	10.3%	17.6%
NIFTY	1.9%	1.9%	16.6%

**TCS Vs Nifty**



Abhishek Jain  
abhishek.jain@arihantcapital.com  
022 67114851

Jyoti Singh  
jyoti.singh@arihantcapital.com  
022 67114837

Tata Consultancy Services (TCS) missed its top-line expectations but exceeded margin forecasts. The company continues to win large deals and delivering the desired margins, with plans to onboard 40k fresher. Constant currency (CC) revenue growth is up 2.8% YoY. Dollar-term Revenue growth +4.8% YoY/-0.22% QoQ to \$7,210 mn against our estimate of \$7,330 mn driven by MEA & UK (CC Growth of 15.9% & 10.7% YoY) Reported revenue of INR (up 0.5% QoQ/7.9% YoY) to INR 59,692 Cr against estimates INR 60,400 Cr. Energy, Resources, and Utilities led with 14.8% growth, while Technology & Services saw the largest decline at -2.2%. (The revenue fell below our expectations due to a slower-than-anticipated ramp-up). The revenue for the new project is on track with the planned figures, and the customer is seeking cost optimization. EBIT margin was up 110 bps QoQ/+25bpsYoY at 24.3% against our estimates of 24.17%. Margin was in line with our expectations due to absence of wage hikes, which were implemented in the first quarter. The company's announcement of a buyback worth INR 17,000 crore at INR 4,150 per share aligns well with our expectations.

**Investment Rationale**

**Decent order book led by mega deal wins:** The company continues to shift spending priorities from discretionary areas to focus on cost optimization, driving substantial momentum in large outsourcing deals, vendor consolidation, and operational model transformations. In Q2, they achieved a strong order book of \$11.2 bn, the second-highest in their history, with a book-to-bill ratio of 1.6. Notably, the BFSI sector had a robust TCV of \$3 bn, and the consumer business order book reached \$1.4 bn. The North American region contributed significantly with deals worth \$4.5 bn, including two mega deals - BSNL and JLR - each with a TCV of approximately \$1 billion. The BSNL deal, in particular, underscores their unique capabilities, involving the rollout of a modern 4G and 5G mobile communication infrastructure across India, encompassing 100,000 telecom sites with comprehensive supply, planning, design, installation, commissioning, and network optimization to meet 3GPP standards.

**Driving Transformation with Gen AI: Enhancing Productivity and Customer Interactions:** Gen AI has transformative potential, improving productivity and customer interactions. TCS Cosmic serves as a significant differentiator, accelerating operational transformation by incorporating AI, machine learning, and Gen AI to drive enhanced business outcomes. In Q2, the company secured six major deals centered around operating model transformations with TCS Cosmic as a core component. Additionally, TCS is attracting first-time outsourcers, such as the British Council, enabling them to improve service quality and customer experience through domain expertise and innovative platforms.

**Outlook & Valuation:** The company's USD revenue in Q1FY24 did not meet our expectations, but TCS's achieved \$11.2 bn in deal wins. 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 24.3%. The BFSI, Tech, and Communication sectors exhibited signs of a slowdown, while growth was primarily driven by robust performance in the Healthcare and Manufacturing sectors. The company added new clients while cautious client spending persists due to macroeconomic uncertainties. **Due to the soft Q2 growth and caution about North American and European markets, our growth estimates for FY24E and FY25E have been lowered by 1.0% and 1.3%, respectively, with an anticipated 6.4% growth for FY26E in USD terms and a margin of 24.2%/24.5%/24.9% for FY24E/FY25E/FY26E. We value TCS at a PE of 25x its FY26E EPS of INR 157.1, resulting in a revised target price of INR 3,928 per share (Earlier TP;3,679 per share).We downgrade our rating from an Accumulate to Hold on the stock.**

## Exhibit 2: Q2FY24 - Quarterly Performance (Consolidated)

Consolidated Income Statement (INR Cr)	Q2FY24	Q1FY24	Q2FY23	Q-o-Q	Y-o-Y
<b>Revenue (Mn USD)</b>	7,210	7,226	6,877	-0.22%	4.8%
<b>Net Revenue</b>	59,692	59,381	55,309	0.5%	7.9%
Employee Costs	35,123	35,148	31,041	-0.1%	13.2%
Other Operating Expenses	8,823	9,235	9,752	-4.5%	-9.5%
Depreciation	1,263	1,243	1,237	1.6%	2.1%
<b>EBIT</b>	14,483	13,755	13,279	5.3%	9.1%
<b>EBIT margin %</b>	24.3%	23.2%	24.0%	110bps	25bps
Other Income	1,006	1,397	965	-28.0%	4.2%
Finance Costs	159	163	148	-2.5%	7.4%
Exceptional Items	-	-	-	-	-
<b>PBT</b>	15,330	14,989	14,096	2.3%	8.8%
Tax Expense	3,950	3,869	3,631	2.1%	8.8%
Effective Tax Rate %	25.8%	25.8%	25.8%	-5bps	1bps
<b>Reported PAT</b>	11,380	11,120	10,465	2.3%	8.7%
MI & Associates	-38	-46	-34	-17.4%	11.8%
<b>Consolidated PAT</b>	11,342	11,074	10,431	2.4%	8.7%
<b>PAT Margin %</b>	19.0%	18.6%	18.9%	35bps	14bps
<b>EPS (INR)</b>	31.0	30.3	28.5	2.4%	8.7%

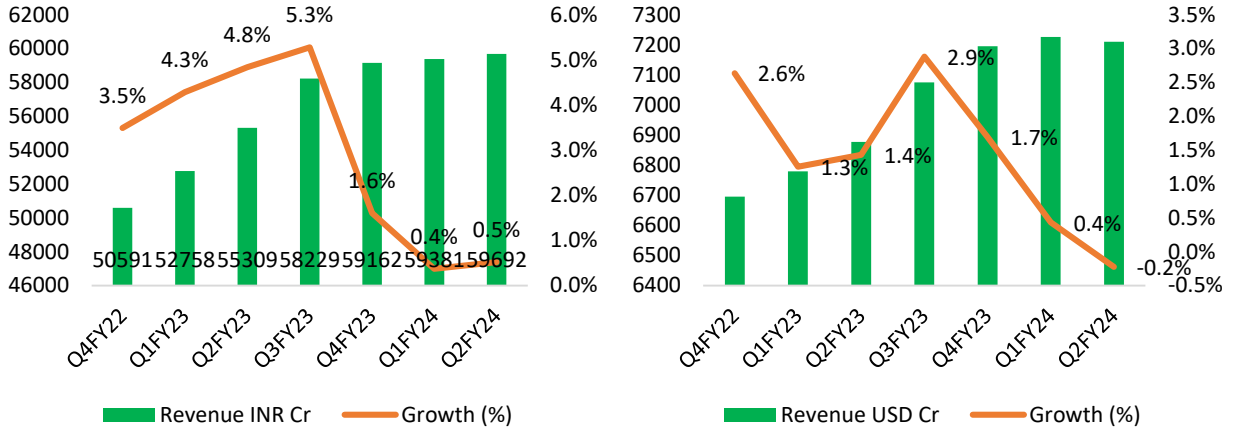
Source: Arianth Research, Company Filings

**Q2FY24 Conference Call Highlights**

The second half of FY24 is expected to be in line with the H1FY24, as there is limited visibility regarding macroeconomic conditions.

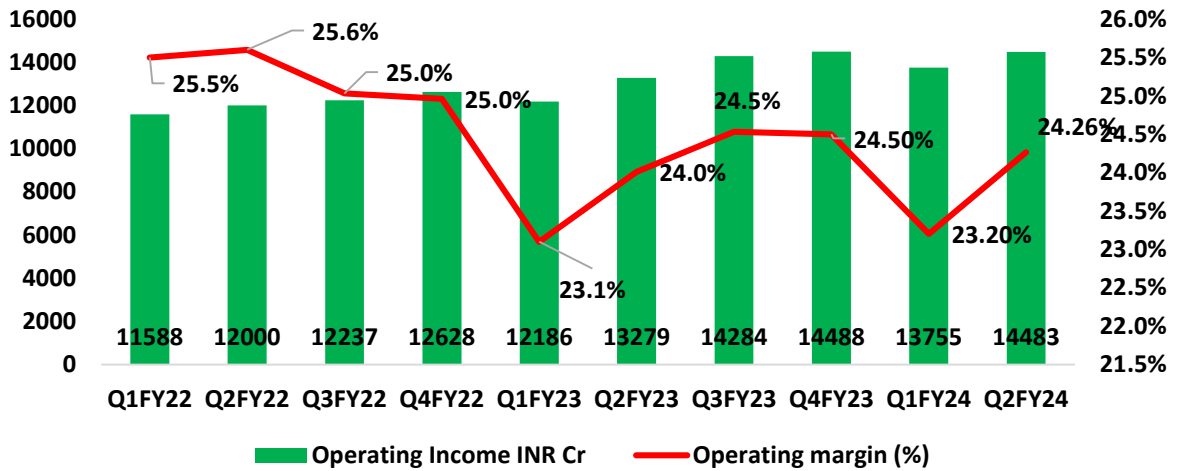
- In the past, the quarterly total for deal signings typically fell within the \$7 billion to \$8 billion range. However, over the last three quarters, deal signings have exceeded the \$10 billion milestone.
- The BFSI, Tech, and Communication sectors exhibited signs of a slowdown, while growth was primarily driven by robust performance in the Healthcare and Manufacturing sectors.
- The Book to Bill Ratio for the quarter was 1.6 times, which is an increase compared to 1.4 times in Q1FY24.
- The deal pipeline continues to be robust and includes a diverse range of deals, such as Generative AI agreements, in addition to the typical cost reduction agreements, vendor consolidation deals, and so on.
- The EBIT margin increased to 24.3%, with a QoQ growth of 110bps, driven by disciplined execution and expense optimization. Additionally, a 35bps gain from reducing discretionary expenses was achieved, even as infrastructure investments continued.
- LTM attrition rate for the quarter was 14.9%, which is close to the typical historical range of 11% to 14%. It's anticipated that the attrition rate might decrease further in the H2FY24.
- Clients in North America and European markets continue to exercise caution.
- Some of the potential applications for Generative AI encompass virtual shopping assistance, architectural layout design for construction projects, and improving packaging and product management within the supply chain.
- The retail sector has experienced a slowdown for nearly three consecutive quarters, and there are no immediate indications of a rapid recovery.
- The ACV has stayed within its typical historical range, suggesting that there has been no extension in contract duration.
- The BSNL deal within the communication sector is anticipated to have lower profit margins and is expected to be finalized within an 18-month timeframe. The TCV for this deal is ~\$1 bn or more.
- Accounts receivable was flat sequentially at 65 days' sales outstanding in dollar terms.
- In Q2, TCS Bank's insurance platform achieved strong momentum, including four new wins and two successful implementations. Notably, a major South African financial institution completed a massive migration of 4 mn policies, marking a significant achievement in the industry's history.

Exhibit 3: The revenue fell below our expectations due to a slower-than-anticipated ramp-up



Source: Arihant Research, Company Filings

Exhibit 4: EBIT margin reached 24.3%, up 110bps sequentially, driven by cost optimization and reduced discretionary expenses.



Source: Arihant Research, Company Filings

Exhibit 5: Trend of Net margin sequentially

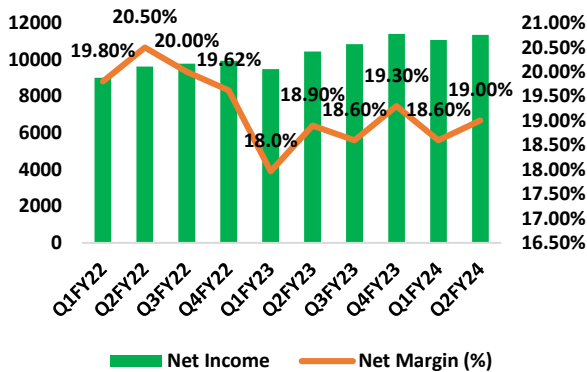


Exhibit 6: Stood at \$11.2 bn with a book-to-bill ratio of 1.6x



Source: Arihant Research, Company Filings

**Exhibit 7: Operating Metrics**

TCS Bank's insurance platform saw robust Q2 performance, including significant migration and two go-lives, while successfully transitioning a global financial institution's 4 mn policies to TCS Banks for insurance.

In terms of geographic markets, the company observes a high level of caution in North America and continental Europe, with minimal growth (0.1% and 1.3%, respectively). However, they are experiencing strong momentum in the UK, with significant market growth of 10.7%

The company demonstrates a consistent growth in the number of clients across all revenue categories.

TCS OPERATING METRICS	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Y-o-Y CC Growth
<b>Revenue Distribution by Industry Domain</b>						
BFSI	33.60%	33.10%	32.90%	31.00%	32.60%	-0.50%
Consumer Business	16.10%	16.00%	16.00%	16.10%	15.90%	1.00%
Life Science & Healthcare	10.70%	10.80%	10.90%	11.00%	10.90%	5.00%
Technology & Services	9.10%	9.00%	8.90%	8.70%	8.60%	-2.20%
Manufacturing	8.20%	8.20%	8.20%	8.30%	8.50%	5.80%
Communication & Media	7.30%	7.20%	7.10%	7.00%	6.90%	-2.20%
Energy, Resources and Utilities	5.00%	5.20%	5.40%	5.50%	5.60%	14.80%
Regional Markets & Others	10.00%	10.50%	10.60%	10.90%	11.00%	14.30%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

\*Revenues from APAC ex-Japan, Middle East and Africa, Energy and Resources, which were hitherto reported under Regional Markets and Others, have now been included in the respective industry verticals.

TCS OPERATING METRICS	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
<b>Revenue Distribution by Geography - New Classification</b>						
Americas	55.00%	56.00%	55.50%	54.20%	54.30%	53.70%
North America	53.20%	54.30%	53.70%	52.40%	52.00%	51.70%
Latin America *	1.80%	1.70%	1.80%	1.80%	2.00%	2.00%
Europe	30.10%	29.00%	29.70%	30.80%	31.30%	31.40%
UK	14.90%	14.50%	14.90%	15.70%	16.40%	16.50%
Continental Europe	15.20%	14.50%	14.80%	15.10%	14.90%	14.90%
India	4.80%	5.10%	5.10%	5.00%	4.90%	4.90%
Asia Pacific	8.30%	8.00%	7.90%	8.00%	7.80%	7.80%
MEA	1.80%	1.90%	1.80%	2.00%	2.00%	2.20%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

Currency Mix ( % of Revenue )	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Y-o-Y CC Growth
USD	55.59%	56.92%	56.37%	54.94%	54.42%	53.96%
GBP	12.76%	12.29%	12.69%	13.56%	14.19%	14.34%
EUR	11.03%	10.31%	10.64%	11.07%	10.99%	11.12%
OTHERS	20.62%	20.48%	20.30%	20.43%	20.39%	20.58%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
<b>Average Realized Rates in INR</b>						
USD	77.81	80.42	82.3	82.23	82.18	82.79
GBP	96.68	92.46	98.05	100.4	103.06	103.81
EUR	82.38	79.86	85.06	88.44	89.53	89.53
<b>Clients Contribution - New Classification</b>						
USD 1 mn clients *	1196	1210	1217	1241	1268	1272
USD 5 mn clients *	650	650	658	665	677	688
USD 10 mn clients *	446	455	456	461	468	483
USD 20 mn clients *	272	283	290	291	296	292
USD 50 mn clients *	124	124	130	133	137	137
USD 100 mn clients *	59	59	59	60	60	61

\* Last Twelve Months' services revenues; includes clients in India

TCS EMPLOYEE METRICS	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Y-o-Y CC Growth
<b>Total Headcount</b>	6,06,331	6,16,171	6,13,974	6,14,795	6,15,318	6,08,985
<b>Number of Nationalities of associates</b>						
<b>% of Women associates</b>	35.50%	35.70%	35.70%	35.70%	35.80%	35.80%

The company has over 100,000 Gen AI-ready employees today, and they are now investing in deepening their expertise further on with exciting new technology. LTA attrition in IT services was at 14.9%, down 2.9% sequentially, close to the historical range of 11% to 14%.

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	29,730	31,923	33,962
<i>Change (%)</i>	15.9%	8.6%	6.5%	7.4%	6.4%
<b>Revenues</b>	191,754	225,458	244,081	266,249	290,954
<i>Change (%)</i>	16.8%	17.6%	8.3%	9.1%	9.3%
Employee costs	107,554	127,522	137,661	150,431	164,389
<b>Operation and other expenses</b>	<b>138,697</b>	<b>166,199</b>	<b>178,545</b>	<b>194,495</b>	<b>212,251</b>
Total Operating Expenses	246,251	293,721	316,206	344,925	376,640
Depreciation	4,604	5,022	6,533	6,462	6,159
<b>EBIT</b>	<b>48453</b>	<b>54237</b>	<b>59003</b>	<b>65292</b>	<b>72544</b>
<b>EBIT Margin (%)</b>	<b>25.3%</b>	<b>24.1%</b>	<b>24.2%</b>	<b>24.5%</b>	<b>24.9%</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>62,362</b>	<b>69,478</b>	<b>77,723</b>
Exceptional Items	-	-	-	-	-
<b>PBT after exceptional Items</b>	<b>51,687</b>	<b>56,907</b>	<b>62,362</b>	<b>69,478</b>	<b>77,723</b>
Tax	13,238	14,604	16,089	17,925	20,052
<i>Rate (%)</i>	25.6%	25.0%	25.8%	25.8%	25.8%
<b>PAT</b>	<b>38,449</b>	<b>42,303</b>	<b>46,273</b>	<b>51,553</b>	<b>57,670</b>
<b>Non-controlling interest</b>	<b>-122</b>	<b>-156</b>	<b>-165</b>	<b>-165</b>	<b>-165</b>
<b>Consolidated PAT</b>	<b>38,327</b>	<b>42,147</b>	<b>46,108</b>	<b>51,388</b>	<b>57,505</b>
<i>PAT Margin (%)</i>	20.1%	18.8%	19.0%	19.4%	19.8%

## Balance Sheet (INR Cr)

Year End-March	FY22	FY23	FY24E	FY25E	FY26E
<b>Sources of Funds</b>					
Share Capital	366	366	362	362	362
Reserves & Surplus	88,773	90,058	94,076	103,374	118,789
Non controlling interest	707	782	-	-	-
<b>Total Equity</b>	<b>89,846</b>	<b>91,206</b>	<b>94,438</b>	<b>103,735</b>	<b>119,151</b>
Deferred Tax Liability (Net)	590	792	792	792	792
<b>Capital Employed</b>	<b>99,163</b>	<b>100,093</b>	<b>103,358</b>	<b>112,690</b>	<b>128,144</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	10,761	10,923	11,186
Investments	223	266	288	314	343
<b>Inventories</b>	<b>20</b>	<b>28</b>	<b>25</b>	<b>27</b>	<b>30</b>
<b>Sundry debtors</b>	<b>41,810</b>	<b>49,954</b>	<b>48,549</b>	<b>55,482</b>	<b>60,821</b>
Cash and bank	18,221	11,032	10,998	17,248	26,259
Other Current Assets	17,997	12,359	13,118	8,566	7,116
Total Current assets	108,310	110,270	112,634	124,896	141,842
Total Current liabilities	42,351	43,558	43,306	45,913	47,184
Net Current assets	<b>65,959</b>	<b>66,712</b>	<b>69,329</b>	<b>78,982</b>	<b>94,657</b>
<b>Capital Employed</b>	<b>99,163</b>	<b>100,093</b>	<b>103,358</b>	<b>112,690</b>	<b>128,144</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	46,273	51,553	57,670
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>66,114</b>	<b>73,161</b>	<b>81,112</b>
Operating Profit after WC Changes	51,435	54,931	64,413	82,647	87,666
Direct Taxes Paid & Exceptional Items	(11,486)	(12,966)	(16,089)	(17,925)	(20,052)
<b>Cash Flow from Operating Activities</b>	<b>39,949</b>	<b>41,965</b>	<b>48,324</b>	<b>64,722</b>	<b>67,613</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>(44,488)</b>	<b>(44,335)</b>	<b>(44,468)</b>
Net Change in Cash & Cash Equivalents	5,471	(5,874)	3,875	6,249	9,011
Opening Cash & Cash Equivalents	6,858	12,488	7,123	10,998	17,248
Closing Cash & Cash Equivalents	12488	7,123	10998	17248	26259

## Key Ratios

Year End-March	FY22	FY23	FY24E	FY25E	FY26E
<b>Per share (INR)</b>					
EPS	103.6	115.2	126.0	140.4	157.1
BVPS	235	245	249	283	326
<b>Valuation (x)</b>					
P/E	34.8	31.3	28.7	25.7	23.0
P/BV	14.7	14.5	14.0	12.7	11.1
<b>Return ratio (%)</b>					
EBITDA Margin	27.7%	26.3%	26.9%	26.3%	26.9%
EBIT Margin	25.3%	24.1%	24.2%	24.5%	24.9%
PAT Margin	20.1%	18.8%	19.0%	19.4%	19.8%
ROE	42.7%	46.2%	48.8%	49.5%	48.3%
ROCE	40.1%	44.6%	46.4%	46.7%	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	24.9	27.9
Inventory Days	6	5	5	5	5
Receivable Days	75	74	73	76	76

Source: Aриhant Research, Company filings

**Arihant Research Desk**Email: [research@arihantcapital.com](mailto:research@arihantcapital.com)

Tel. : 022-42254800

**Head Office**

#1011, Solitaire Corporate Park  
 Building No. 10, 1<sup>st</sup> Floor  
 Andheri Ghatkopar Link Road  
 Chakala, Andheri (E)  
 Mumbai – 400093  
 Tel: (91-22) 42254800  
 Fax: (91-22) 42254880

**Registered Office**

Arihant House  
 E-5 Ratlam Kothi  
 Indore - 452003, (M.P.)  
 Tel: (91-731) 3016100  
 Fax: (91-731) 3016199

**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

**Contact**

SMS: 'Arihant' to 56677

**Website**[www.arihantcapital.com](http://www.arihantcapital.com)**Email Id**[research@arihantcapital.com](mailto:research@arihantcapital.com)

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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