

**CMP: INR 3,736**

**Rating: Hold**

**Target Price: INR 3,997**

**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)	13,58,861
52w H/L (INR)	3,928/ 3,070
Avg Yearly Vol (in 000')	1,883

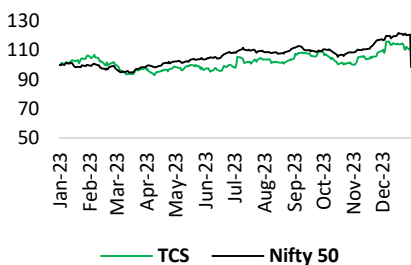
**Shareholding Pattern %**

(As on Dec, 2023)

Promoters	72.30
FII	12.47
DII	9.94
Public & Others	5.29

Stock Performance (%)	1m	3m	12m
TCS	2.3%	2.32%	12.9%
NIFTY	2.9%	9.1%	20.8%

**TCS Vs Nifty**



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Tata Consultancy Services (TCS) Beat estimate; decent deal wins. Constant currency (CC) revenue growth is up 1.7% YoY. USD Revenue growth +2.9% YoY/+0.98% QoQ to \$7,281 mn against our estimate of \$7,172 mn driven by Latin America (CC Growth of 13.2%YoY). Reported revenue of INR (up 1.49% QoQ/4% YoY) to INR 60,583 Cr above our estimates INR 59,732 Cr led by growth in Energy, Resources, and Utilities of 11.8% YoY in cc growth, Regional Markets & Others grow by 19.2% YoY cc growth, Life Sciences & Healthcare grow by 3.1% YoY and manufacture grow by 7% YoY cc growth. EBIT margin was up 75 bps QoQ/48bpsYoY at 25.0% above our estimates of 24.26%. Margin was above with our expectations. Consolidated PAT stood at INR 11,058 Cr, up by 2% YoY/-2.49% QoQ slightly below our estimate of INR 11,398 Cr. (Includes settlement of legal claim of INR 958 cr). Order book TCV at \$8.1 Bn vs 11.2 bn in Q2FY24 (Quarter average is ~USD 9.3bn); North America TCV at \$4.2 Bn; BFSI TCV at \$2.6 Bn, Consumer Business TCV at \$1.5 Bn. Clients' metrics, +USD50mn clients were flat. Headcount: 603,305, net addition of -5,680 associates during the quarter. LTM IT Services attrition rate at 13.3% vs 14.9% in Q2FY24. The company also announced an interim dividend of INR 9 and a special dividend of INR 18 per share

**Investment Rationale**

**Transformative Milestone: BSNL 4G and 5G Network Integration**

In Q3FY24, the company initiated the delivery of BSNL 4G and 5G network equipment and services, marking a project of national significance. Operating as a system integrator in collaboration with other OEMs, the company is strategically executing this venture. The transformative nature of the project and the solutions provided further solidify the company's reputation as a pivotal partner to BSNL and align with the Atma Nirbhar vision of the Government of India.

**Traction in deal wins:** The company's ability to in capitalizing on market opportunities is underscored by a robust TCV of \$8.1 bn and an impressive book-to-bill ratio of 1.1. Demonstrating a formidable deal momentum across various markets, the company has achieved strong double-digit growth in the last 12m TCV, indicative of the strengthening partnership with China.

**Outlook & Valuation:** The company exceeded expectations in Q3FY24, expressing optimism about emerging demand trends and detecting signs of pent-up demand in specific verticals. The catalyst for this materialization is attributed to growing confidence in the macro environment. With a margin target of 26%-28%, TCS emphasizes disciplined execution in its strategic approach. Strong demand drivers in areas such as operating model transformation, growth and transformation, customer and employee experience, supply chain transformations, sustainability, and generative AI. **Due to the decent Q3 performance and emerging green shoots in demand and observes signs of pent-up demand in specific verticals our growth estimates for FY23-FY26E 6.7% in USD terms and a margin of 24.3%/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 3,997 per share (Earlier TP;3,928 per share).We maintain our Hold rating on the stock.**

**Exhibit 1: Q3FY24 - Performance (Consolidated)**

Particulars (INR Cr)	FY23	FY24E	FY25E	FY26E
Revenues (US\$ mn)	27,927	29,730	31,923	33,962
Net Sales	2,25,458	2,44,081	2,66,249	2,90,954
EBIT	54,237	59,247	65,292	72,544
EBIT Margin	24.06%	24.27%	24.52%	24.93%
Net profit	42,147	46,289	51,905	58,509
EPS ( INR)	115	126	142	160
ROE	46.21%	48.92%	49.70%	48.41%
ROCE	44.60%	46.46%	46.58%	44.72%
PE (x)	32.43	29.54	26.34	23.37

## Exhibit 2: Q3FY24 - Quarterly Performance (Consolidated)

Consolidated Income Statement (INR Cr)	Q3FY24	Q2FY24	Q3FY23	Q-o-Q	Y-o-Y
<b>Revenue (Mn USD)</b>	7,281	7,210	7,075	0.98%	2.9%
<b>Net Revenue</b>	60,583	59,692	58,229	1.49%	4.0%
Employee Costs	34,722	35,123	32,467	-1.14%	6.9%
Other Operating Expenses	9,473	8,823	10,209	7.37%	-7.2%
Depreciation	1,233	1,263	1,269	-2.38%	-2.8%
<b>EBIT</b>	15,155	14,483	14,284	4.64%	6.1%
<b>EBIT margin %</b>	25.02%	24.3%	24.5%	75bps	48bps
Other Income	862	1,006	520	-14.31%	65.8%
Finance Costs	230	159	160	44.65%	43.8%
Exceptional Items	958	-	-		
<b>PBT</b>	14,829	15,330	14,644	-3.27%	1.3%
Tax Expense	3,732	3,950	3,761	-5.52%	-0.8%
Effective Tax Rate %	25.2%	25.8%	25.7%	-5bps	1bps
<b>Reported PAT</b>	11,097	11,380	10,883	-2.49%	2.0%
MI & Associates	-39	-38	-37	2.63%	5.4%
<b>Consolidated PAT</b>	11,058	11,342	10,846	-2.50%	2.0%
<b>PAT Margin %</b>	18.3%	19.0%	18.6%	35bps	14bps
<b>EPS (INR)</b>	30.3	31.0	29.6	-2.29%	2.2%

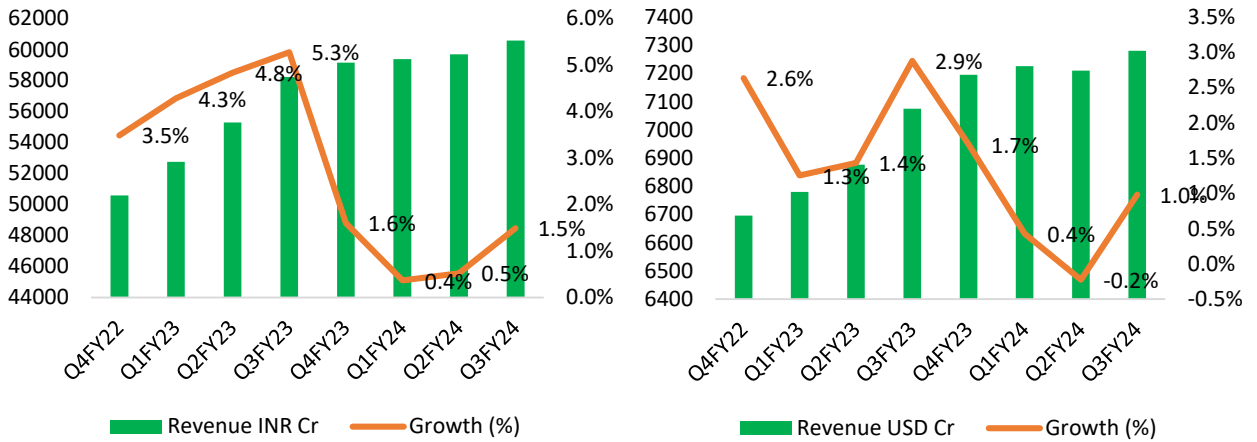
Source: Arianth Research, Company Filings

### Q3FY24 Conference Call Highlights

Targeting a margin range of 26% to 28%, the company emphasizes disciplined execution, operational excellence, and strategic use of levers like productivity, utilization, realization, pricing, and subcontractor cost optimization. Expressing optimism, the company notes emerging green shoots in demand and observes signs of pent-up demand in specific verticals. The catalyst for this materialization is expected to be a growing confidence in the macro environment.

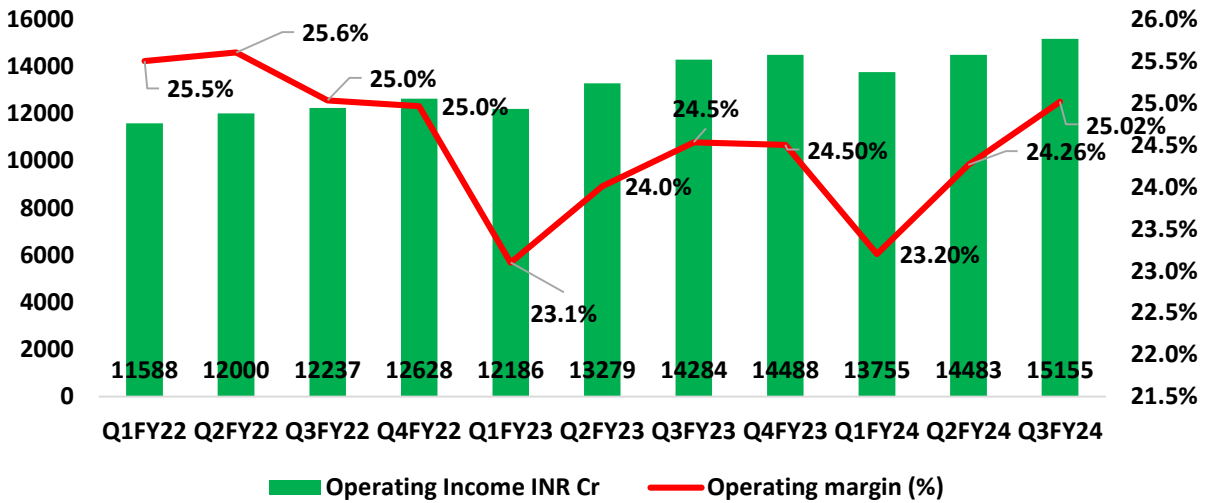
- BSNL 4G Deal Execution: Commenced the implementation of the BSNL 4G agreement during Q3FY24.
- Margin Improvement Factors: Margin enhancement, excluding one-time legal costs, attributed to reduced subcontractor expenses and other efficiency measures.
- Consistent Client Caution: Client behavior remains cautious, mirroring trends from Q2FY24, amid uncertainties in the macro environment.
- Stable Demand Environment: No significant changes in the demand environment over the last three months; anticipates increased tech spending as uncertainties subside.
- Portfolio-level pricing remains stable.
- Strategic Deal Wins: Utilizes strong domain knowledge and contextual understanding to drive successful deal acquisitions.
- Optimistic BFSI Outlook: Forecasts positive momentum in the BFSI vertical in the coming quarters.
- Performance in specific segments exhibited expansion in the energy, resources, and utilities, manufacturing, and life sciences and healthcare sectors, marked by robust growth in the markets of India, Middle East, Africa, and Latin America.

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



Source: Arihant Research, Company Filings

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



Source: Arihant Research, Company Filings

Exhibit 5: Trend of Net margin sequentially

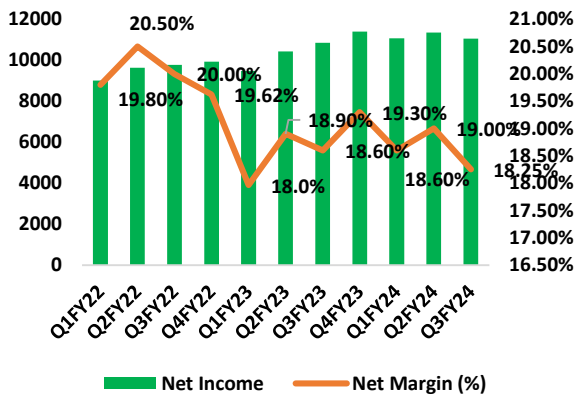
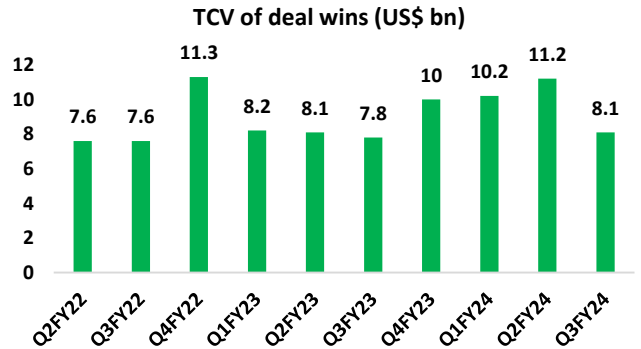


Exhibit 6: Stood at \$8.1 bn with a book-to-bill ratio of 1.1x



Source: Arihant Research, Company Filings

Exhibit 7: Operating Metrics

TCS OPERATING METRICS	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
<b>Revenue Distribution by Geography - New Classification</b>							
Americas	55.00%	56.00%	55.50%	54.20%	54.30%	53.70%	52.70%
North America	53.20%	54.30%	53.70%	52.40%	52.00%	51.70%	50.60%
Latin America *	1.80%	1.70%	1.80%	1.80%	2.00%	2.00%	2.10%
Europe	30.10%	29.00%	29.70%	30.80%	31.30%	31.40%	31.40%
UK	14.90%	14.50%	14.90%	15.70%	16.40%	16.50%	16.40%
Continental Europe	15.20%	14.50%	14.80%	15.10%	14.90%	14.90%	15.00%
India	4.80%	5.10%	5.10%	5.00%	4.90%	4.90%	6.10%
Asia Pacific	8.30%	8.00%	7.90%	8.00%	7.80%	7.80%	7.80%
MEA	1.80%	1.90%	1.80%	2.00%	2.00%	2.20%	2.00%
<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>100.00%</b>

TCS OPERATING METRICS	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Y-o-Y CC Growth
<b>Revenue Distribution by Industry Domain</b>							
BFSI	33.60%	33.10%	32.90%	31.00%	32.60%	31.70%	-0.30%
Consumer Business	16.10%	16.00%	16.00%	16.10%	15.90%	15.70%	-0.30%
Life Science & Healthcare	10.70%	10.80%	10.90%	11.00%	10.90%	10.90%	3.00%
Technology & Services	9.10%	9.00%	8.90%	8.70%	8.60%	8.40%	-5.00%
Manufacturing	8.20%	8.20%	8.20%	8.30%	8.50%	8.60%	7.00%
Communication & Media	7.30%	7.20%	7.10%	7.00%	6.90%	6.70%	-4.90%
Energy, Resources and Utilities	5.00%	5.20%	5.40%	5.50%	5.60%	5.70%	11.80%
Regional Markets & Others	10.00%	10.50%	10.60%	10.90%	11.00%	12.30%	19.20%
<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%</b>	<b>100.00%</b>

<b>Currency Mix ( % of Revenue )</b>							
USD	55.59%	56.92%	56.37%	54.94%	54.42%	53.96%	52.91%
GBP	12.76%	12.29%	12.69%	13.56%	14.19%	14.34%	14.35%
EUR	11.03%	10.31%	10.64%	11.07%	10.99%	11.12%	11.14%
OTHERS	20.62%	20.48%	20.30%	20.43%	20.39%	20.58%	21.60%
<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>100.00%</b>
<b>Average Realized Rates in INR</b>							
USD	77.81	80.42	82.3	82.23	82.18	82.79	83.21
GBP	96.68	92.46	98.05	100.4	103.06	103.81	104.24
EUR	82.38	79.86	85.06	88.44	89.53	89.53	90.06
<b>Clients Contribution - New Classification</b>							
USD 1 mn clients *	1196	1210	1217	1241	1268	1272	1288
USD 5 mn clients *	650	650	658	665	677	688	693
USD 10 mn clients *	446	455	456	461	468	483	480
USD 20 mn clients *	272	283	290	291	296	292	299
USD 50 mn clients *	124	124	130	133	137	137	137
USD 100 mn clients *	59	59	59	60	60	61	61
* 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	6,08,985	6,03,305
<b>Number of Nationalities of associates</b>							
<b>% of Women associates</b>	35.50%	35.70%	35.70%	35.70%	35.80%	35.80%	35.70%

Source: Arihant 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>	1,91,754	2,25,458	2,44,081	2,66,249	2,90,954
<i>Change (%)</i>	16.8%	17.6%	8.3%	9.1%	9.3%
Employee costs	1,07,554	1,27,522	1,37,417	1,50,431	1,64,389
<b>Operation and other expenses</b>	<b>1,38,697</b>	<b>1,66,199</b>	<b>1,78,301</b>	<b>1,94,495</b>	<b>2,12,251</b>
Total Operating Expenses	2,46,251	2,93,721	3,15,718	3,44,925	3,76,640
Depreciation	4,604	5,022	6,533	6,462	6,159
<b>EBIT</b>	<b>48453</b>	<b>54237</b>	<b>59247</b>	<b>65292</b>	<b>72544</b>
<b>EBIT Margin (%)</b>	<b>25.3%</b>	<b>24.1%</b>	<b>24.3%</b>	<b>24.5%</b>	<b>24.9%</b>
Interest	784	779	780	781	781
Other Income	4,018	3,449	4,139	5,380	6,995
<b>PBT</b>	<b>51,687</b>	<b>56,907</b>	<b>62,606</b>	<b>69,892</b>	<b>78,758</b>
Exceptional Items	-	-	-	-	-
<b>PBT after exceptional Items</b>	<b>51,687</b>	<b>56,907</b>	<b>62,606</b>	<b>69,892</b>	<b>78,758</b>
Tax	13,238	14,604	16,152	17,823	20,083
<i>Rate (%)</i>	25.6%	25.0%	25.8%	25.5%	25.5%
<b>PAT</b>	<b>38,449</b>	<b>42,303</b>	<b>46,454</b>	<b>52,070</b>	<b>58,674</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>46,289</b>	<b>51,905</b>	<b>58,509</b>
<i>PAT Margin (%)</i>	20.1%	18.8%	19.0%	19.6%	20.2%

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	94,257	1,04,071	1,20,491
Non controlling interest	707	782	-	-	-
<b>Total Equity</b>	<b>89,846</b>	<b>91,206</b>	<b>94,619</b>	<b>1,04,433</b>	<b>1,20,853</b>
Deferred Tax Liability (Net)	590	792	792	792	792
<b>Capital Employed</b>	<b>99,163</b>	<b>1,00,093</b>	<b>1,03,539</b>	<b>1,13,388</b>	<b>1,29,846</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	11,198	17,946	27,961
Other Current Assets	17,997	12,359	13,099	8,566	7,116
Total Current assets	1,08,310	1,10,270	1,12,816	1,25,593	1,43,544
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>69,510</b>	<b>79,680</b>	<b>96,359</b>
<b>Capital Employed</b>	<b>99,163</b>	<b>1,00,093</b>	<b>1,03,539</b>	<b>1,13,388</b>	<b>1,29,846</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	46,454	52,070	58,674
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>66,359</b>	<b>73,574</b>	<b>82,147</b>
Operating Profit after WC Changes	51,435	54,931	64,657	83,061	88,701
Direct Taxes Paid & Exceptional Items	-11,486	-12,966	-16,152	-17,823	-20,083
<b>Cash Flow from Operating Activities</b>	<b>39,949</b>	<b>41,965</b>	<b>48,505</b>	<b>65,239</b>	<b>68,617</b>
<b>Cash Flow from Investing Activities</b>	<b>-897</b>	<b>39</b>	<b>58</b>	<b>-14,156</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	4,075	6,748	10,015
Opening Cash & Cash Equivalents	6,858	12,488	7,123	11,198	17,946
Closing Cash & Cash Equivalents	12488	7,123	11198	17946	27961

Key Ratios					
Year End-March	FY22	FY23	FY24E	FY25E	FY26E
<b>Per share (INR)</b>					
EPS	103.6	115.2	126.5	141.8	159.9
BVPS	235	245	249	285	330
<b>Valuation (x)</b>					
P/E	36.1	32.4	29.5	26.3	23.4
P/BV	15.2	15.0	14.5	13.1	11.3
<b>Return ratio (%)</b>					
EBITDA Margin	27.7%	26.3%	27.0%	26.3%	27.0%
EBIT Margin	25.3%	24.1%	24.3%	24.5%	24.9%
PAT Margin	20.1%	18.8%	19.0%	19.6%	20.2%
ROE	42.7%	46.2%	48.9%	49.7%	48.4%
ROCE	40.1%	44.6%	46.5%	46.6%	44.7%
<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: Arianth 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  
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