

CMP: INR 3,342

Rating: Accumulate

Target Price: INR 3,629

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)	12,14,695
52w H/L (INR)	3,739/ 2,926
Avg Yearly Vol (in 000')	2,076

Shareholding Pattern %

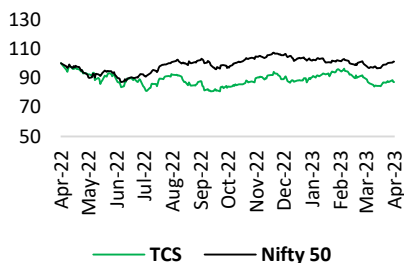
(As on Dec, 2022)

Promoters	72.30
FII	12.94
DII	9.20
Public & Others	5.56

Stock Performance (%)

	1m	3m	12m
TCS	-3.3	3.4	-12.7
Nifty	1.9	-0.6	1.2

TCS Vs Nifty



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Tata Consultancy Services (TCS) recorded revenue growth that was slightly lower than anticipated, primarily due to macroeconomic issues: Constant currency (CC) revenue growth is up 10.7% YoY & 0.6% QoQ. Dollar-term Revenue growth +7.5% YoY/1.7% QoQ to \$7,195 mn against our estimate of \$7,184 mn due to driven by UK (Growth of 17% QoQ/15% YoY in CC term. Reported revenue of INR (up 1.6% QoQ/16.9% YoY) to INR INR 59,162 Cr against estimates INR 59,385. The growth was broad-based led by solid performance in Retail and CPG (+19.7% YoY/13% QoQ in CC), Life Sciences & Healthcare (+13.3% YoY/12.3% QoQ in CC), Communications & Media (+14% YoY/5.3% QoQ in CC), Manufacturing vertical (+13% YoY/9.1% QoQ), BFSI (11.8% YoY/9.1% QoQ in CC)-There has been delay in spending from BFSI client due to macroeconomic concerns.

Higher employee expenses led to a steady margin: EBIT margin was down 4bps QoQ/-47bpsYoY at 24.5% against our estimates of 25%. The slight decline in margin was due to higher onsite manpower expenses. The company closing a headcount 614,795 in Q4FY23 with net addition 821 employees. The company's LTM attrition at 20.1% against 21.3% Q3FY23 in IT Services. Attrition is expected to fall further in the coming quarters.

Robust order book led by mega deal wins: The company's order book was strong, as anticipated, with a total value of \$10bn, which included a mega-deal. For the entire FY23, the order book amounted to \$34.1bn. The North American region accounted for a TCV of \$5bn, while BFSI and Retail sectors contributed TCVs of \$3bn and \$1.3bn, respectively. The demand trend revealed an increase in operating model transformation deals, as the company signed 29 large deals that involved both business and IT operations in FY23, compared to 18 in the previous year. The company also witnessed a continuing trend of vendor consolidation and multiservice deals.

Outlook & Valuation: TCS's USD revenue in Q4FY23 fell slightly short of our expectations, but the company set a new record with a deal booking of \$10bn. Despite the current sentiment affecting client spending, we are optimistic about TCS's prospects in the medium to long term due to its ability to engage with large clients and the strong demand environment. While clients are being cautious with their spending, there have not been any significant budget cuts. Moreover, TCS's order book reaching an all-time high of \$10bn suggests a positive outlook for the IT sector. TCS has also managed to reduce attrition rates and optimize operational costs, further strengthening its position. Our analysis indicates a USD revenue CAGR growth of 8% over FY23-FY25E and a margin of 24.3%/24.7% for FY24E/FY25E. **We value TCS at a PE of 24x its FY25E EPS of INR 150.6, resulting in a revised target price of INR 3,629 per share (previous TP: INR 3,725 per share). We maintain an Accumulate rating on the stock.**

Exhibit:1 Financial Performance

Particulars (INR Cr)	FY22	FY23E	FY24E	FY25E
Revenues (US\$ mn)	25,707	27,927	29,997	32,611
Net Sales	191,754	2,25,458	2,44,268	2,81,782
EBIT	48,453	54,237	59,252	69,473
EBIT Margin	25.27%	24.06%	24.26%	24.65%
Net profit	38,327	42,147	46,833	55,120
EPS (INR)	103.6	115.2	128.0	150.6
ROE	42.66%	46.21%	49.21%	50.94%
ROCE	40.12%	44.60%	46.70%	48.16%
PE (x)	32.04	28.14	25.34	21.53

Source: Arihant Research, Company Filings,

Exhibit 2: Q4FY23 - Quarterly Performance (Consolidated)

Consolidated Income Statement (INR Cr)	Q4FY23	Q3FY23	Q4FY22	Q-o-Q	Y-o-Y
Revenue (Mn USD)	7,195	7,075	6,696	1.7%	7.5%
Net Revenue	59,162	58,229	50,591	1.6%	16.9%
Employee Costs	33,687	32,467	28,353	3.8%	18.8%
Other Operating Expenses	9,701	10,209	8,393	-5.0%	15.6%
Depreciation	1,286	1,269	1,217	1.3%	5.7%
EBIT	14,488	14,284	12,628	1.4%	14.7%
EBIT margin %	24.5%	24.5%	25.0%	-4bps	-47bps
Other Income	1,175	520	981	126.0%	19.8%
Finance Costs	272	160	245	70.0%	11.0%
Exceptional Items	-	-	-	-	-
PBT	15,391	14,644	13,364	5.1%	15.2%
Tax Expense	3,955	3,761	3,405	5.2%	16.2%
Effective Tax Rate %	25.7%	25.7%	25.5%	1bps	0.9%
Reported PAT	11,436	10,883	9,959	5.1%	14.8%
MI & Associates	-44	-37	-33		
Consolidated PAT	11,392	10,846	9,926	5.0%	14.8%
PAT Margin %	19.3%	18.6%	19.6%	63bps	-36bps
EPS (INR)	31.1	29.6	26.9	5.1%	16.0%

Source: Arianth Research, Company Filings

Q4FY23 Conference Call Highlights

- Operating Margins for Q4FY23 were at 24.5%, which was flat on a sequential basis due to supply-side challenges. The benefit of efficiencies and currency gains were flattened out by higher on-site costs. The operating margin for FY23 stood at 24.1% a decline of 1.2% on a YoY basis. An increase in annual wage and supply-side issues were the major headwinds for margin depletion.
- Employee additions for Q4 stood at 851 and 2600 for the complete year, resulting in a total headcount of 614,795. The LTM attrition in IT services was 20.1% in Q4 which is down 1.2% sequentially. Annualized attrition declined 4% sequentially and declined close to 10% from peak levels of Q2FY23.
- Growth for FY23 was led by Retail and CPG & communications in media which grew by 19.7% and 14% respectively during the year. The company witnessed headwinds in BFSI, Retail, and Technology Services Vertical during Q4FY23, particularly in Europe and US regions. Banking sector instability also added to the uncertainty and growth decelerated across verticals during the period.
- Geographical growth was led by North America where the revenue grew by 15.3% followed by UK and Continental Europe at 15% and 11% respectively. Emerging markets also witnessed growth for the company where Latin America grew by 17.3% and India's business grew by 14.6% over the year. The increased uncertainty and caution in Q4FY23 led to deceleration and caution across markets barring the European markets.
- Demand Scenario The uncertainty during Q4 has reduced the growth in regions of North America and Europe for new non-critical projects affecting the revenues for Q4FY23. Cost optimization and strategically important projects witnessed increased deal flows and pipeline replenishment. The company signed 29 large operating model transformation deals during FY23 compared to 18 in FY22.
- Orderbook for FY23 stands at a total TCV of USD 34.1bn and at USD 10bn for Q4 with an all-time high number of large deals. The BFSI TCV was USD 3.1bn during Q4 and the retail order book stood at USD 1.3bn. Deal Velocity is unchanged and the pipeline remains healthy but with increased caution in decision-making on the client side.
- Dividend disbursed during FY23 was INR. 115/- per share and INR 45,602 crores was the total payout for shareholders in FY23.

Exhibit 3: Steady margin during quarter

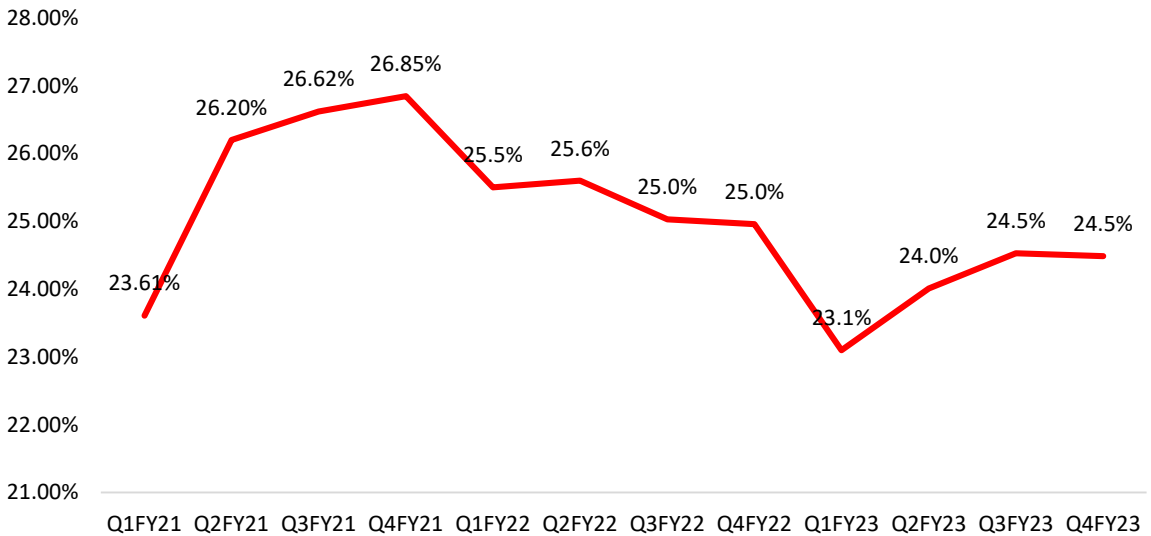


Exhibit 4: The Revenue was affected due to a pause on ongoing discretionary projects and the deferring new non-critical projects

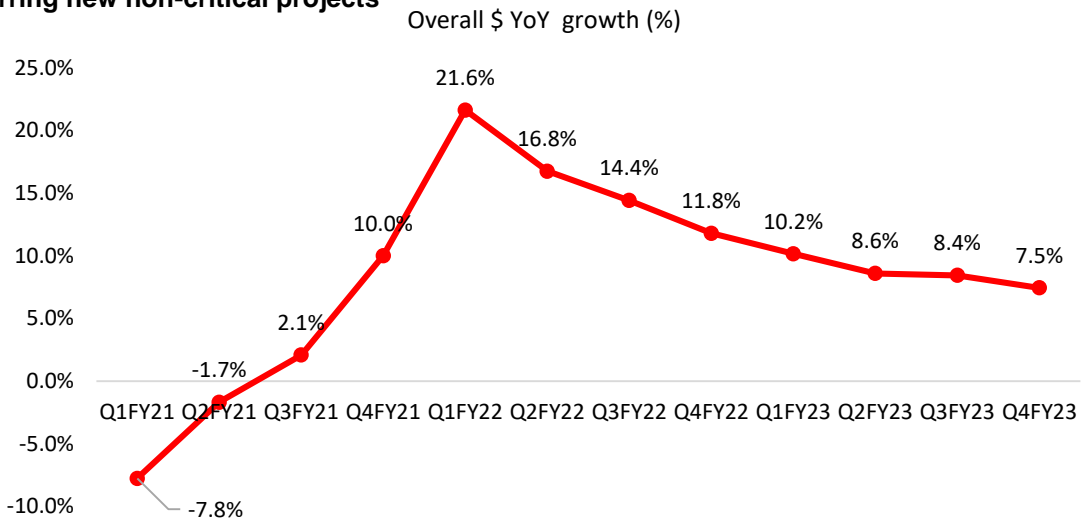
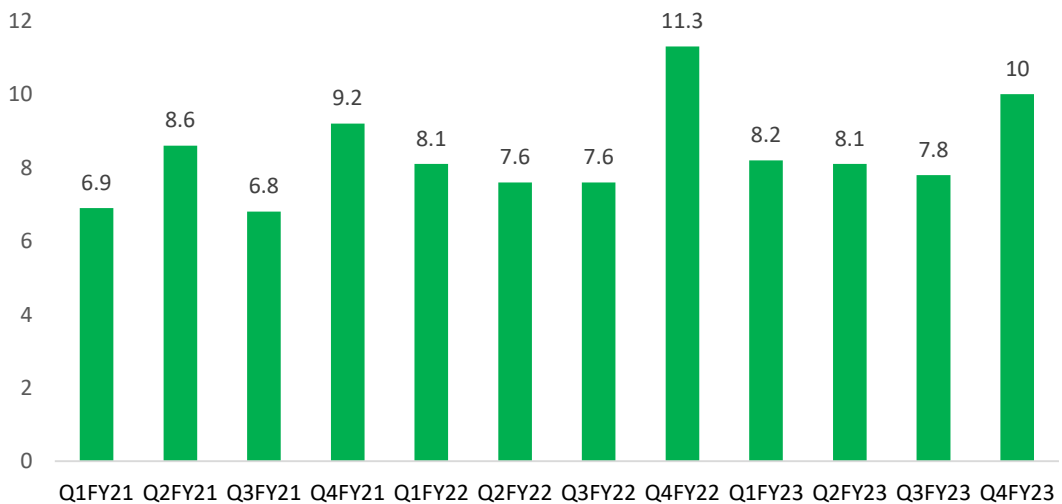


Exhibit 5: TCV of deal wins (US\$ bn) increased due to mega deal with Phoenix Group.



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

Key Financials

Income Statement (INR Cr)				
Year End-March	FY22	FY23	FY24E	FY25E
Revenues (US\$ mn)	25,707	27,927	29,997	32,611
<i>Change (%)</i>	15.9%	8.6%	7.4%	8.7%
Revenues	1,91,754	2,25,458	2,44,268	2,81,782
<i>Change (%)</i>	16.8%	17.6%	8.3%	15.4%
Employee costs	1,07,554	1,27,522	1,37,767	1,59,207
Operation and other expenses	1,38,697	1,66,199	1,78,682	2,06,405
Total Operating Expenses	2,46,251	2,93,721	3,16,449	3,65,612
Depreciation	4,604	5,022	6,334	5,904
EBIT	48453	54237	59252	69473
EBIT Margin (%)	25.3%	24.1%	24.3%	24.7%
Interest	784	779	780	781
Other Income	4,018	3,449	4,139	4,967
PBT	51,687	56,907	62,611	73,659
Exceptional Items	-	-	-	-
PBT after exceptional Items	51,687	56,907	62,611	73,659
Tax	13,238	14,604	15,653	18,415
<i>Rate (%)</i>	25.6%	25.0%	25.0%	25.0%
PAT	38,449	42,303	46,958	55,244
Non-controlling interest	-122	-156	-125	-124
Consolidated PAT	38,327	42,147	46,833	55,120
<i>PAT Margin (%)</i>	20.1%	18.8%	19.2%	19.6%

Source: Company, Arihant Research

Balance Sheet (INR Cr)				
Year End-March	FY22	FY23	FY24E	FY25E
Sources of Funds				
Share Capital	366	366	366	366
Reserves & Surplus	88,773	90,058	94,801	1,07,831
Non controlling interest	707	782	-	-
Total Equity	89,846	91,206	95,167	1,08,197
Deferred Tax Liability (Net)	590	792	792	792
Capital Employed	99,163	1,00,093	1,04,084	1,17,172
Application of Funds				
Gross Block	30,567	35,045	39,429	42,059
Less: Depreciation	19,793	24,815	28,316	32,052
Net Block	10,774	10,230	11,112	10,007
CWIP	1,205	1,234	1,234	1,234
Financial Assets	10,478	11,366	10,734	11,068
Investments	223	266	288	332
Inventories	20	27	25	29
Sundry debtors	41,810	49,954	48,534	54,040
Cash and bank	18,221	11,032	11,550	21,179
Other Current Assets	17,997	12,359	13,673	10,612
Total Current assets	1,08,310	1,10,269	1,13,758	1,31,975
Total Current liabilities	42,351	43,558	43,328	47,729
Net Current assets	65,959	66,711	70,430	84,246
Capital Employed	99,163	1,00,093	1,04,084	1,17,172

Source: Company, Arihant Research

Key Financials

Cash Flow Statement (INR Cr)				
Year End-March	FY22	FY23	FY24E	FY25E
Profit for the Year	38,449	42,303	46,958	55,244
Depreciation	4,604	5,022	6,334	5,904
Finance Costs	784	779	780	781
Operating Profit before WC Changes	54,204	59,148	66,165	76,783
Operating Profit after WC Changes	51,435	54,932	64,470	86,611
Direct Taxes Paid & Exceptional Items	-11,486	-12,966	-15,653	-18,415
Cash Flow from Operating Activities	39,949	41,966	48,817	68,196
Cash Flow from Investing Activities	-897	39	39	-14,138
Cash Flow from Financing Activities	-33,581	-47,878	-44,430	-44,431
Net Change in Cash & Cash Equivalents	5,471	-5,873	4,426	9,628
Opening Cash & Cash Equivalents	6,858	12,488	7,124	11,550
Closing Cash & Cash Equivalents	12488	7,124	11550	21179

Key Ratios				
Year End-March	FY22	FY23	FY24E	FY25E
Per share (INR)				
EPS	103.6	115.2	128.0	150.6
BVPS	235	245	249	296
Valuation (x)				
P/E	31.3	28.1	25.3	21.5
P/BV	13.2	13.0	12.5	11.0
Return ratio (%)				
EBITDA Margin	27.7%	26.3%	26.9%	26.3%
EBIT Margin	25.3%	24.1%	24.3%	24.7%
PAT Margin	20.1%	18.8%	19.2%	19.6%
ROE	42.7%	46.2%	49.2%	50.9%
ROCE	40.1%	44.6%	46.7%	48.2%
Leverage Ratio (%)				
Total D/E	0.1	0.1	0.1	0.1
Turnover Ratios				
Asset Turnover (x)	18.3	21.1	23.1	28.2
Inventory Days	6	5	5	5
Receivable Days	75	74	73	70

Source: Company, Aриhant Research

Source: Aриhant 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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