

CMP: INR 4,001

Rating: Hold

Target Price: INR 4,318

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)	14,47,344
52w H/L (INR)	4,254/ 3,070
Avg Yearly Vol (in 000')	2,335

Shareholding Pattern %

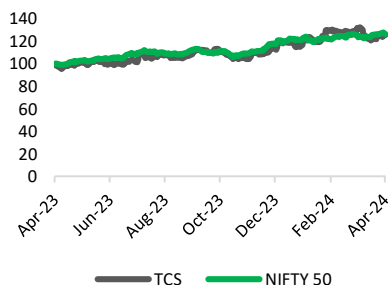
(As on Dec, 2023)

Promoters	72.41
FII	12.46
DII	9.98
Public & Others	5.15

Stock Performance (%)

	1m	3m	12m
TCS	-3.6%	3.5%	25.6%
NIFTY	2.3%	2.8%	26.4%

TCS Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114837

Tata Consultancy Services (TCS) Beat estimates; decent deal wins. Constant currency (CC) revenue growth is up 2.2% YoY. USD Revenue growth +2.3% YoY/+1.13% QoQ to \$7,363 mn against our estimate of \$7,386 mn driven by UK (+10.1%) and Regional Markets (+19.8%). Reported revenue of INR (up 1.08% QoQ/3.5% YoY) to INR 61,237 Cr against our estimates INR 61,371 Cr led by strong deal wins and growth in Energy, Resources and Utilities (+12.6%), Manufacturing (+7.3%), and Life Sciences & Healthcare (+4.8%). EBIT margin was up 98 bps QoQ/151bpsYoY at 25.99% above our estimates of 25.61% led cost optimization strategies include adjusting wages to normal levels and enhancing variable salary components. Consolidated PAT stood at INR 12,502 Cr, up by 9.3% YoY/12.66% QoQ above our estimate of INR 12,101 Cr. Order book TCV at \$13.2 Bn vs 8.1 bn in Q3FY24; North America TCV at \$5.7 Bn; BFSI TCV at \$4.1 Bn, Consumer Business TCV at \$1.6 Bn. Clients metrics, +USD50mn clients increased by (+6 YoY) to 139 against 133 & +USD100mn clients increased by (+2 YoY) to 62 against 60. Headcount: 601,546 against 603,305 Q3FY24; Reduced by 1759 QoQ despite lower attrition. LTM IT Services attrition rate improved by 12.5% vs 13.3% in Q3FY24. The company also announced a final dividend of INR 28 per share.

Investment Rationale

Strong deal wins: In Q4, the order book increased to \$13.2 bn, marking a remarkable 63% increase QoQ, driven by a significant mega deal. The annual order book reached an impressive \$42.7 bn, showcasing a solid 25% growth, highlighting the enduring momentum in deal-making. Within Q4 FY24, BFSI TCV amounted to \$4.1 bn, while retail TCV stood at \$1.6 bn, both demonstrating substantial growth. Notably, North America reported a TCV of \$5.7 bn, representing a notable 36% increase in QoQ. Key sectors such as BFSI, Retail, and North America saw TCV figures of \$12.7 bn, \$5.8 bn, and \$19.6 bn, respectively. Additionally, TCS extended its partnership with Aviva for 15 years and initiated a strategic collaboration with Toyota Motor North America for comprehensive IT transformation.

Decent addition in clients: During Q4FY24, gained 2 new clients in the \$100M+ category (totaling 62), 6 in the \$50M+ (139 total), and 10 in the \$20M+ (301 total). Also added 26 clients in the \$10M+ (487 total), 28 in the \$5M+ (693 total), and 53 in the \$1M+ (1,241 total). Clients prioritize cost reduction, agility, security, and resilience amid a challenging macro environment.

Outlook & Valuation: The company exceeded expectations in Q4FY24, 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 in North America as reported a TCV of \$5.7 bn, representing a notable 36% increase in QoQ. Key sectors such as BFSI, Retail, and North America saw TCV figures of \$12.7 bn, \$5.8 bn, and \$19.6 bn, respectively. **Due to the strong Q4 performance and emerging green shoots in demand and observes signs of pent-up demand in specific verticals our growth estimates for FY24-FY26E 6% in USD terms and a margin of 24.9%/25.3%/25.5% for FY25E/FY26E/FY27E. We value TCS at a PE of 25x its FY27E EPS of INR 172.7, resulting in a revised target price of INR 4,318 per share (Earlier TP;3,997 per share).We maintain our Hold rating on the stock.**

Exhibit 1: Q4FY24 - Performance (Consolidated)

Particulars (INR Cr)	FY23	FY24	FY25E	FY26E	FY27E
Revenues (US\$ mn)	27,927	29,080	30,816	32,784	34,794
Net Sales	2,25,458	2,40,893	2,56,496	2,80,427	2,96,279
EBIT	54,237	59,311	63,786	70,882	75,557
EBIT Margin	24.06%	24.62%	24.87%	25.28%	25.50%
Net profit	42,147	45,908	50,852	57,396	62,528
EPS (INR)	115	129	140	159	173
ROE	46.21%	50.27%	53.47%	56.37%	57.77%
ROCE	44.60%	48.19%	49.76%	51.65%	51.79%
PE (x)	34.73	31.04	28.48	25.23	23.16

Exhibit 2: Q4FY24 - Quarterly Performance (Consolidated)

Consolidated Income Statement (INR Cr)	Q4FY24	Q3FY24	Q4FY23	Q-o-Q	Y-o-Y
Revenue (Mn USD)	7,363	7,281	7,195	1.13%	2.3%
Net Revenue	61,237	60,583	59,162	1.08%	3.5%
Employee Costs	35,138	34,722	33,687	1.20%	4.3%
Other Operating Expenses	8,935	9,473	9,701	-5.68%	-7.9%
Depreciation	1,246	1,233	1,286	1.05%	-3.1%
EBIT	15,918	15,155	14,488	5.03%	9.9%
EBIT margin %	25.99%	25.02%	24.49%	98bps	151bps
Other Income	1,157	862	1,175	34.22%	-1.5%
Finance Costs	226	230	272	-1.74%	-16.9%
Exceptional Items	-	958	-		
PBT	16,849	14,829	15,391	13.62%	9.5%
Tax Expense	4,347	3,732	3,955	16.48%	9.9%
Effective Tax Rate %	25.8%	25.2%	25.7%	63bps	10bps
Reported PAT	12,502	11,097	11,436	12.66%	9.3%
MI & Associates	-68	-39	-44	74.36%	54.5%
Consolidated PAT	12,434	11,058	11,392	12.44%	9.1%
PAT Margin %	20.3%	18.3%	19.3%	205bps	105bps
EPS (INR)	34.7	30.3	31.1	14.56%	11.4%

Source: Arianth Research, Company Filings

Q4FY24 Conference Call Highlights

FY25 should be better than FY24 as visibility has improved.

Clients discretionary technology spending remains subdued, posing a challenge to near-term revenue growth.

Margin drivers such as enhancing the employee structure, adjusting pricing, and optimizing resource usage can support Operating margins, with FY25 trajectory expected to maintain 26%-28% range.

The management would hike employee wages during April, which would affect the operating margins for Q1 FY25. However, going ahead, the margin trajectory would improve due to optimized sub-contracting costs which has bottomed out, better price realization, higher utilization as well as a healthy pyramid structure.

In Q4 FY2024, the BFSI vertical recorded a TCV of \$4.1 bn, with the insurance sector showing positive growth across all markets.

TCS has installed 10,000 towers out of a total of 100,000 for BSNL, with plans to upgrade to 5G and offer maintenance, potentially expanding to other telecom operators.

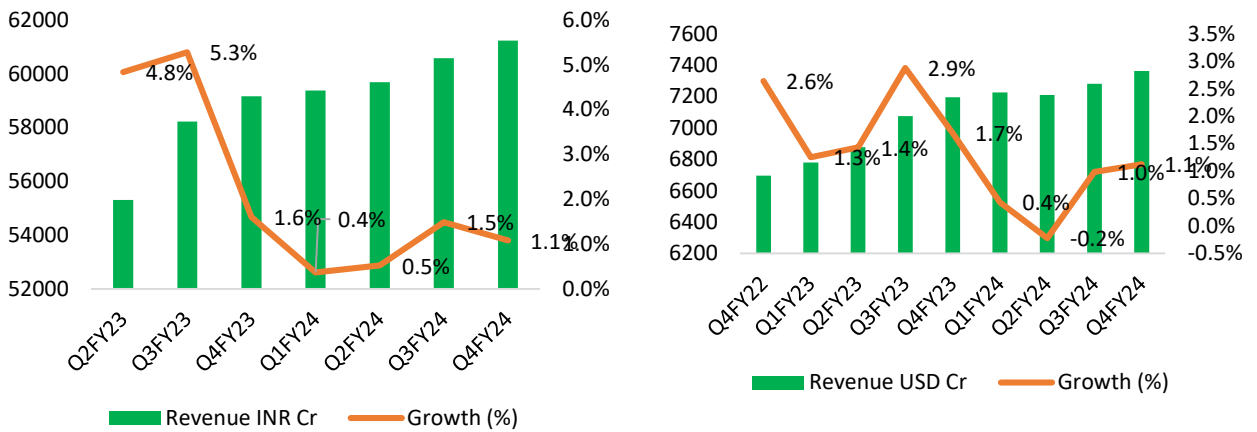
Areas like Customer Experience, Cloud Transformation, ERP modernization, Security, AI and Gen AI would play an important role in driving the medium-term growth.

BFSI and Consumer Business showcased pent-up demand and the management has started witnessing green shoots for the same which would drive the medium to longer term growth outlook. In the near term, client spending still remains key for the growth trajectory to move ahead.

The management remains positive about opportunities regarding Gen AI as well as AI and digital adoption going ahead.

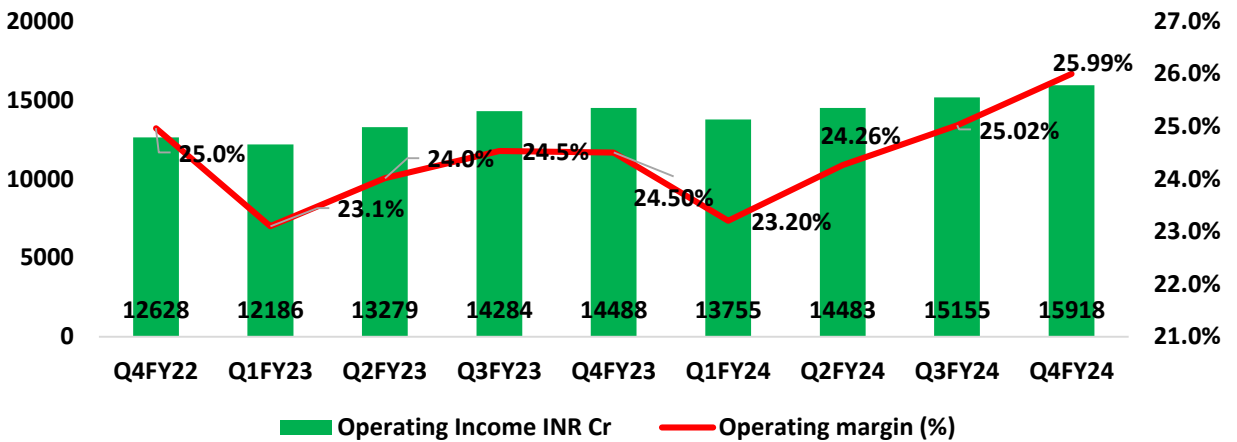
Strong growth was led by multiple transformation programs and demand for next generation solutions across connected plants, connected services and intelligent product engineering for the IoT & DE (Digital Engineering) segment. Key services leading the growth were Factory of the Future, Electric Vehicles & Software Defined vehicles, and Medical Devices Engineering.

Exhibit 3: Strong upbeat overall



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

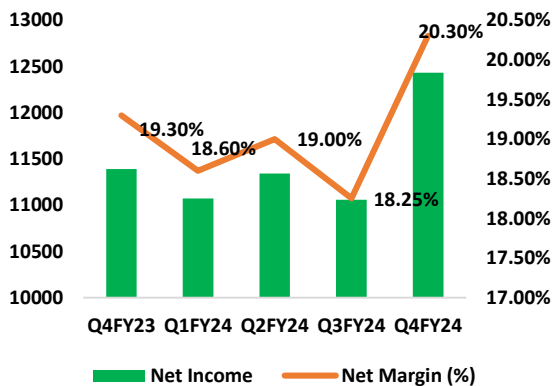
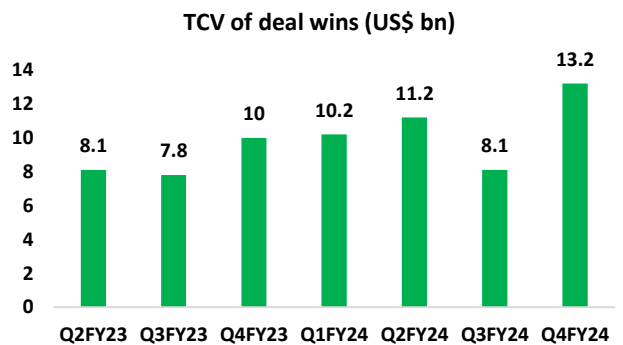


Exhibit 6: Strong deal wins



Source: Arianth Research, Company Filings

Exhibit 7: Operating Metrics

TCS OPERATING METRICS	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Revenue Distribution by Geography - New Classification					
Americas	54.2%	54.0%	53.7%	52.7%	52.0%
North America	52.4%	52.0%	51.7%	50.6%	50.0%
Latin America *	1.8%	2.0%	2.0%	2.1%	2.0%
Europe	30.8%	31.3%	31.4%	31.4%	31.4%
UK	15.7%	16.4%	16.5%	16.4%	16.8%
Continental Europe	15.1%	14.9%	14.9%	15.0%	14.6%
India	5.0%	4.9%	4.9%	6.1%	6.7%
Asia Pacific	8.0%	7.8%	7.8%	7.8%	7.8%
MEA	2.0%	2.0%	2.2%	2.0%	2.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Revenue Distribution by Industry Domain	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
BFSI	32.9%	32.5%	32.6%	31.7%	31.3%
Consumer Business	16.0%	16.1%	15.9%	15.7%	15.7%
Communication & Media	7.1%	7.0%	6.9%	6.7%	6.6%
Manufacturing	8.2%	8.3%	8.5%	8.6%	8.8%
Life Science & Healthcare	10.9%	11.0%	10.9%	10.9%	10.9%
Energy & Utilities	5.4%	5.5%	5.6%	5.7%	5.6%
Technology & Services	8.9%	8.6%	8.6%	8.4%	8.2%
Regional Markets & Others	10.6%	11.0%	11.0%	12.3%	12.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Currency Mix (% of Revenue)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
USD	56.92%	56.92%	56.37%	54.94%	53.96%	53.96%	51.94%
GBP	12.29%	12.29%	12.69%	13.56%	14.34%	14.34%	14.67%
EUR	10.31%	10.31%	10.64%	11.07%	11.12%	11.12%	11.18%
OTHERS	20.48%	20.48%	20.30%	20.43%	20.58%	20.58%	22.21%
Total	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
USD	80.42	80.42	82.3	82.23	82.79	83.21	83.16
GBP	92.46	92.46	98.05	100.4	103.81	104.24	105.13
EUR	79.86	79.86	85.06	88.44	89.53	90.06	90.07

Clients Contribution - New Classification	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
USD 1 mn clients *	1210	1217	1217	1241	1272	1272	1294
USD 5 mn clients *	650	658	658	665	688	688	693
USD 10 mn clients *	455	456	456	461	483	483	487
USD 20 mn clients *	283	290	290	291	292	292	301
USD 50 mn clients *	124	130	130	133	137	137	139
USD 100 mn clients *	59	59	59	60	61	61	62

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

TCS EMPLOYEE METRICS	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Total Headcount	616171	613974	614795	615318	608985	603305	601546
Number of Nationalities of associates							
% of Women associates	35.80%	35.70%	35.70%	35.70%	35.80%	35.70%	35.60%

Source: Arian Research, Company Filings

Key Financials

Income Statement (INR Cr)						
Year End-March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenues (US\$ mn)	25,707	27,927	29,080	30,816	32,784	34,794
<i>Change (%)</i>	15.9%	8.6%	4.1%	6.0%	6.4%	6.1%
Revenues	1,91,754	2,25,458	2,40,893	2,56,496	2,80,427	2,96,279
<i>Change (%)</i>	16.8%	17.6%	6.8%	6.5%	9.3%	5.7%
Employee costs	1,07,554	1,27,522	1,40,131	1,44,920	1,58,441	1,67,398
Operation and other expenses	1,38,697	1,66,199	1,76,597	1,87,370	2,04,571	2,16,136
Total Operating Expenses	2,46,251	2,93,721	3,16,728	3,32,291	3,63,013	3,83,533
Depreciation	4,604	5,022	4,985	5,339	4,974	4,587
EBIT	48453	54237	59311	63786	70882	75557
EBIT Margin (%)	25.3%	24.1%	24.6%	24.9%	25.3%	25.5%
Interest	784	779	778	779	780	780
Other Income	4,018	3,449	4,422	5,749	7,473	9,715
PBT	51,687	56,907	62,955	68,756	77,575	84,491
Exceptional Items	-	-	958.00	-	-	-
PBT after exceptional Items	51,687	56,907	61,997	68,756	77,575	84,491
Tax	13,238	14,604	15,898	17,739	20,014	21,799
<i>Rate (%)</i>	25.6%	25.0%	25.8%	25.8%	25.8%	25.8%
PAT	38,449	42,303	46,099	51,017	57,561	62,693
Non-controlling interest	-122	-156	-191	-165	-165	-165
Consolidated PAT	38,327	42,147	45,908	50,852	57,396	62,528
<i>PAT Margin (%)</i>	20.1%	18.8%	19.1%	19.9%	20.5%	21.2%

Balance Sheet (INR Cr)						
Year End-March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds						
Share Capital	366	366	362	362	362	362
Reserves & Surplus	88,773	90,058	90,127	93,919	1,00,635	1,07,052
Non controlling interest	707	782	830	830	830	830.00
Total Equity	89,846	91,206	91,319	95,111	1,01,827	1,08,244
Deferred Tax Liability (Net)	590	792	977	977	977	977
Capital Employed	99,163	1,00,093	1,00,345	1,04,161	1,10,913	1,17,354
Application of Funds						
Gross Block	30,300	32,344	35,969	40,671	45,654	51,249
Less: Depreciation	19,526	22,114	26,593	31,621	37,224	43,475
Net Block	10,774	10,230	9,376	9,050	8,430	7,774
CWIP	1,205	1,234	1,564	1,564	1,564	1,564
Financial Assets	10,478	11,366	12,016	10,696	10,909	11,051
Investments	223	266	281	299	327	346
Inventories	20	28	28	26	29	30
Sundry debtors	41,810	49,954	53,577	54,813	59,927	63,314
Cash and bank	18,221	11,032	13,286	14,526	11,676	21,734
Other Current Assets	17,997	12,359	14,612	17,518	19,824	21,387
Total Current assets	1,08,310	1,10,270	1,12,984	1,20,404	1,28,103	1,45,185
Total Current liabilities	42,351	43,558	46,104	48,869	49,871	51,837
Net Current assets	65,959	66,712	66,880	71,534	78,231	93,349
Capital Employed	99,163	1,00,093	1,00,345	1,04,161	1,10,913	1,17,354

Source: Arihant Research, Company Filings

Key Financials

Cash Flow Statement (INR Cr)

Year End-March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Profit for the Year	38,449	42,303	46,099	51,017	57,561	62,693
Depreciation	4,604	5,022	4,985	5,339	4,974	4,587
Finance Costs	784	779	778	779	780	780
Operating Profit before WC Changes	54,204	59,148	63,709	71,314	79,769	86,299
Operating Profit after WC Changes	51,435	54,931	56,827	74,578	85,208	91,030
Direct Taxes Paid & Exceptional Items	-11,486	-12,966	-12,489	-17,739	-20,014	-21,799
Cash Flow from Operating Activities	39,949	41,965	44,338	56,839	65,193	69,231
Cash Flow from Investing Activities	-897	39	6,026	-1,795	-14,889	-587
Cash Flow from Financing Activities	-33,581	-47,878	-48,536	-49,534	-53,155	-58,585
Net Change in Cash & Cash Equivalents	5,471	-5,874	1,828	5,510	-2,850	10,058
Opening Cash & Cash Equivalents	6,858	12,488	7,123	9,016	14,526	11,676
Closing Cash & Cash Equivalents	12488	7,123	9016	14526	11676	21734

Key Ratios

Year End-March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Per share (INR)						
EPS	103.6	115.2	128.9	140.5	158.6	172.7
BVPS	235	245	249	263	281	299
Valuation (x)						
P/E	38.6	34.7	31.0	28.5	25.2	23.2
P/BV	16.3	16.1	15.9	15.2	14.2	13.4
Return ratio (%)						
EBITDA Margin	27.7%	26.3%	26.7%	26.3%	26.7%	27.0%
EBIT Margin	25.3%	24.1%	24.6%	24.9%	25.3%	25.5%
PAT Margin	20.1%	18.8%	19.1%	19.9%	20.5%	21.2%
ROE	42.7%	46.2%	50.3%	53.5%	56.4%	57.8%
ROCE	40.1%	44.6%	48.2%	49.8%	51.7%	51.8%
Leverage Ratio (%)						
Total D/E	0.1	0.1	0.1	0.1	0.1	0.1
Turnover Ratios						
Asset Turnover (x)	18.3	23.0	26.1	29.3	34.6	38.1
Inventory Days	6	5	5	5	5	5
Receivable Days	75	74	78	78	78	78

Source: Arian Research, Company filings

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park
 Building No. 10, 1st 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

Websitewww.arihantcapital.com**Email Id**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