

## Digitalization to drive the growth

14<sup>th</sup> October, 2016

**CMP:** Rs.2,328  
**Target Price:** Rs.2,584  
**Recommendation:** HOLD

### Stock Info

BSE Group	A
BSE Code	532540
NSE Symbol	TCS
Bloomberg	TCS.IN
Reuters	TCS.BO
BSE Sensex	27,643
NSE Nifty	8,573

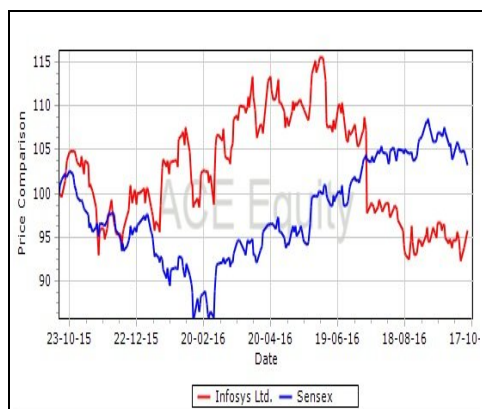
### Market Info

Market Capital	Rs.496,607,cr
Equity Capital	Rs.197.0cr
Avg. Trading Vol.	11,47,350
52 Wk High/ Low	2740/2119
Face Value	Rs.1

### Shareholding Pattern (%) 1<sup>st</sup> June (2016)

Promoters	73.3
Domestic Institutions	5.1
Foreign Institutions	17.0
Public & Others	4.6

Price VS Sensex Chart



#### ■ Dollar Revenue increased by 0.3% QoQ, and 5.2% YoY:

TCS has delivered a steady set of numbers with a top line increased by 0.3% qoq to \$4,374 mn. Rupee revenues decreased by -0.1% qoq to Rs. 29,284 cr. LTM attrition down further QoQ to 11.9% in IT services. Digital revenues at 16.2% in Q2 were driven by demand for business agility. Operating Income stood at Rs7617 crore; Growth of 3.6% Y-o-Y and 3.7% Q-o-Q. Operating Margin stood at 26%.

#### ■ Segmental share remains fairly stable:

Revenue mix among verticals more or less remained stable with BFSI and Retail & Distribution segments contributing 40.5% and 14.1% to the top line. Manufacturing segment's share in total revenues was marginally decreased to 9.8% from 10.4%. Major geographical share remained more or less stable with share of North America, UK and Continental Europe at 52.7%, 16.4% and 10.8% respectively.

#### ■ Operating profits:

Company has recorded an operating profit of Rs 7,617 cr. EBIT margin during the quarter stood at 26.00% vs 25.07% QoQ. EBITDA margin during the quarter stood at 27.70% vs 26.74%. PAT reported during the quarter was at 6,603 cr.

#### ■ Key Wins in Digital Services and Solutions in Q2

- A large North American manufacturing company selected TCS TAP platform to transform its payable business processes.
- TCS Advanced Drug Discovery platform was chosen by a leading global medical device for end-to-end Pharmacovigilance services.
- A large retailer in North America has engaged TCS in managing and transforming their entire IT operations.
- Engaged by an APAC bank as a design consultant for providing its customers with a rich, unified experience across multiple channels.

#### ■ Concerns about global exposure in Q2

- There is still weakness in Diligenta and Japan is worrisome as both continued to pull down revenue growth.
- The company has characterised customer outlook as one marked by 'abundant caution', with some holding back of discretionary spending-particularly BFSI vertical in the US, resulting in sequential loss of momentum.

#### ■ Outlook:

We believe TCS will improve its performance with consistent client wins and cautious about global scenario. We are optimistic on company's transformation on digital platform. We have valued stock at P/E(x) of 17x to its FY18E earnings and have arrived at fair value of Rs 2,584 per share. We have 'HOLD' rating on the stock.

#### ■ Financials:

Y/E March (Rs. In Crore)	FY15	FY16	FY17E	FY18E
Net Revenue	94648	108646	127362	146466
Growth %	16%	15%	17%	10%
EBIDTA	24482	30590	36355	37484
EBIDTA Margin	26%	28%	29%	28%
Net Profit	19852	24292	27250	29859
Growth %	4%	22%	12%	10%
EPS	101	123	139	152
P/E	23.9	20.4	18.0	16.4
ROE	39.2	37.2	39.2	35.0



## Quarterly Results:

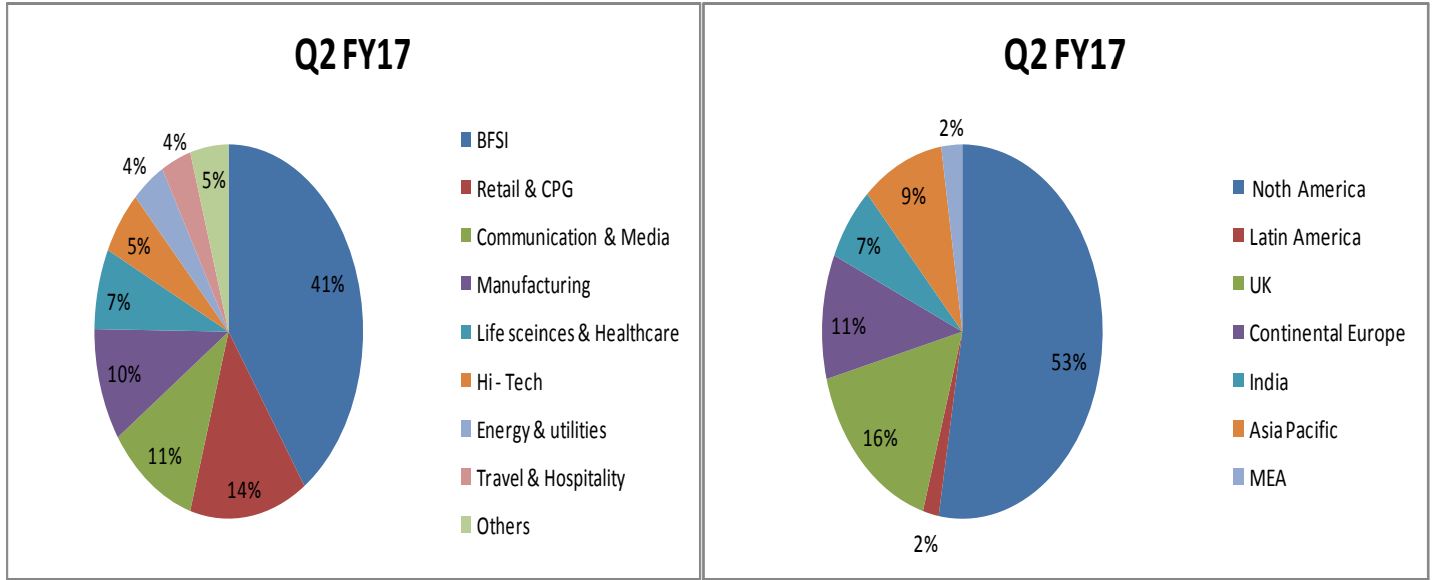
Particulars (Rs. Cr)	Q2FY17	Q1FY17	QoQ%	Q2FY16	YoY%
Information technology and consultancy services	29284	29305	-0.1%	27165	8%
Total Income	29284	29305	-0.1%	27165	8%
Employee cost	15280	15374	-0.6%	13623	12%
Gross Profit	14004	13931	0.5%	13542	3%
Gross Margin%	47.8%	47.5%		50%	
Other expenses	5891	6094	-3.3%	5720	3%
EBITDA	8113	7837	3.5%	7822	4%
EBITDA Margin	27.7%	26.7%		29%	
Depreciation	496	490	1.2%	469	6%
EBIT	7617	7347	3.7%	7353	4%
EBIT Margin	26.0%	25.07%		27%	
Interest	5	12	-58.3%	8	-38%
Other Income	1057	975	8.4%	683	55%
PBT	8669	8310	4.3%	8028	8%
Tax paid	2066	1992		1935	
Effective tax rate%	24%	24%		24%	
Net Profit	6603	6318	4.5%	6093	8%
EPS	33.51	32.06	4.5%	30.92	8%

Source: Company data, Arihant Research



**Break-up of Markets**

**Domain Break-up**



**Currency Mix and Average Realized Rates in INR**

	Average Rates		% of Revenue	
	Q1FY17	Q2FY17	Q1FY17	Q2FY17
USD	67.18	66.95	56.47%	56.92%
GBP	95.46	87.77	13.02%	12.00%
EUR	75.24	74.78	7.96%	8.16%
Others			22.55%	22.92%
<b>Total</b>			<b>100%</b>	<b>100%</b>



Profit and Loss statement				
Particulars (Rs. In Crore)	FY15	FY16	FY17E	FY18E
Information technology services	94648	108646	123957	133873
<b>Total</b>	<b>94648</b>	<b>108646</b>	<b>127362</b>	146466
Employee costs	38701	41769	46368	49533
Operation and other expenses	31466	36287	44638	46856
Total Operating Expenses	70167	78056	91006	96389
<b>EBIDTA</b>	<b>24482</b>	<b>30590</b>	<b>36355</b>	37484
EBIDTA Margin	25.9%	28.2%	28.5%	28%
Depreciation	1799	1948	1995	2410
EBIT	22683	28642	34360	35075
Interest	104	20	32	35
Other Income	3230	3054	3677	4016
<b>PBT</b>	<b>26298</b>	<b>31676</b>	<b>38006</b>	39056
Tax	6239	7301	8654	8983
Minority Interest & other	208	83	202	214
<b>PAT</b>	<b>19852</b>	<b>24292</b>	<b>27250</b>	29859
Growth (%)	4%	22%	12%	10%
EPS	101.4	123.3	139.1	152

Cash Flow Statement				
Particulars (Rs. In Crore)	FY15	FY16	FY17E	FY18E
<b>Profit before taxes</b>	26298	31676	38006	39056
Add:- Depreciation	1309	1948	1995	2410
Change in Working Capital	747	-6592	-13445	11386
Cash generated from operations	26851	26968	26385	30080
Taxes paid	-7482	-7301	-8654	-8983
Net cash flow from operating activities	19667	17732	17832	21097
Purchase of fixed assets	-2949	-2338	-2378	-990
Others	210	818	1018	898
Net cash flow from investing activities	-1701	-2128	-1560	-1888
<b>Dividend paid, including dividend tax</b>	<b>-17020</b>	<b>-10425</b>	<b>-11908</b>	-14000
Other	-8210	-7500	-7900	-7600
<b>Net cash used in financing activities</b>	<b>-17168</b>	<b>-18635</b>	<b>-19408</b>	-21600
Net Cash Flow	500	-1096	-3236	6592
<b>Opening Cash balance</b>	<b>14442</b>	<b>18556</b>	<b>6785</b>	18948
Closing Cash balance	18556	6785	18948	25540

Balance Sheet				
Particulars (Rs. In Crore)	FY15	FY16	FY17E	FY18E
Shareholder's funds				
Share Capital	196	197	197	197
Reserves & Surplus	50439	65164	69299	85159
<b>Total</b>	<b>50635</b>	<b>65361</b>	<b>69497</b>	85356
Minority Interest	1128	502	472	350
Total Non Current Liabilities	1580	1546	1640	1707
Total Current Liabilities	20318	21976	14894	15364
<b>Total Liabilities</b>	<b>73661</b>	<b>89384</b>	<b>86503</b>	<b>102777</b>
Net Block	9545	9156	9720	10710
Capital Work-in-Progress	2766	3241	3561	4268
Goodwill on consolidation	2093	1901	1656	1707
Total Non Current Assets	24848	26317	25576	29995
Cash and bank balance	18556	6785	18948	25540
Total Current Assets	48813	63067	60927	72782
<b>Total Assets</b>	<b>73661</b>	<b>89384</b>	<b>86503</b>	<b>102777</b>

Key Ratios				
Particulars	FY15	FY16	FY17E	FY18E
EPS	101.4	123.3	139.1	152.5
Book Value	258.7	331.7	355.1	435.8
DPS	79	46	52	52
Payout %	78	37	37	34
Dividend Yield %	3.2	1.9	2.1	2.1
P/E	23.9	20.4	18.0	16.4
EBIDTA Margin	26%	28%	29%	28%
PBT Margin	28%	29%	30%	27%
PAT Margin	21%	22%	22%	22%
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	2.40	2.87	4.09	4.74
ROE	39.2	37.2	39.2	35.0

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**Stock Rating Scale**

	<b>Absolute Return</b>
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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