



**Strong Digital Demand!!**

13<sup>th</sup> January, 2016

**CMP:** Rs.2,263  
**Target Price:** Rs.2,432  
**Recommendation:** **HOLD**

**Stock Info**

BSE Group	A
BSE Code	532540
NSE Symbol	TCS
Bloomberg	TCS.IN
Reuters	TCS.BO
BSE Sensex	27,335
NSE Nifty	8,398

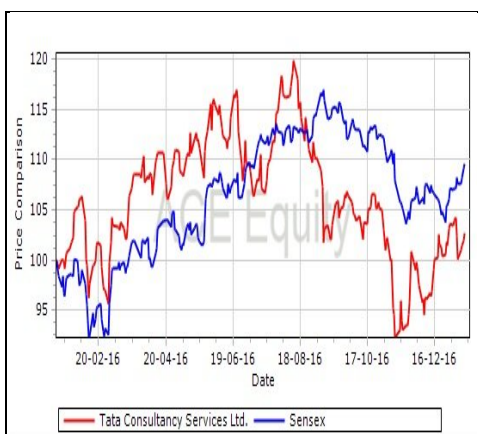
**Market Info**

Market Capital	Rs.445,346,cr
Equity Capital	Rs.197.0cr
Avg. Trading Vol.	11,80,500
52 Wk High/ Low	2740/2119
Face Value	Rs.1

**Shareholding Pattern (%) SEPT (2017)**

Promoters	73.3
Domestic Institutions	5.7
Foreign Institutions	17.0
Public & Others	4.0

**Price VS Sensex Chart**



■ **Dollar Revenue increased by 0.3% QoQ, and 5.8% YoY:**

TCS has delivered a steady set of numbers with increase in revenue by 0.3% qoq to \$4,387 mn. Rupee revenues increased by 1.5% qoq to Rs. 29,735 cr. LTM attrition down further QoQ to 11.3% in IT services. Digital revenues at 13.7% in Q3 were driven by demand for business agility. Operating Income stood at Rs7,733 crore; Growth of 6.3% Y-o-Y and 1.5% Q-o-Q. Operating Margin stood at 27.7%.

■ **Segmental share remains fairly stable:**

Revenue mix among verticals more or less remained stable with BFSI and Retail & Distribution segments contributing 40.4% and 13.5% to the top line. Manufacturing segment's share in total revenues was marginally decreased to 10.6% from 10.7%. Major geographical share remained more or less stable with share of North America, UK and Continental Europe at 55.0%, 13.3% and 11.1% respectively.

■ **Operating profits:**

Company's account receivables improved by five days, coming down from 80 days to 75 days in dollar terms, which is the lowest in the last five years. This resulted in net cash flow from operations of INR 79.5 billion, which is 26.8% of revenues, and 117.4% of net income. Free cash flow was at INR75.5 billion crossing \$1 billion milestone on a quarterly basis for the first time in company's history. Company has recorded an operating profit of Rs 7,733 cr. EBIT margin during the quarter stood constant at 26.01% vs 26.01% QoQ. EBITDA margin during the quarter stood constant at 27.70% vs 27.70%. PAT reported during the quarter was at 6,814 cr.

■ **Key Wins in Digital Services and Solutions in Q3**

- Selected by a leading North American Utilities company to transform their customer experience through a state-of-the-art digital customer engagement platform across all channels.
- Engaged by North America based investment service firm for a consulting engagement to define an end-to-end strategy for predicting commercial loan performance using machine learning.
- Selected by a European multinational pharmaceutical company to empower employees digitally as a part of initiative to reimagine the workplace.

■ **Outlook:**

We believe that incoming up Rajesh gopinath as CEO will drive the TCS to new way and company 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 16x to its FY18E earnings and have arrived at fair value of Rs 2,432 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	35155	37484
EBIDTA Margin	26%	28%	27.6%	28%
Net Profit	19852	24292	27034	29859
Growth %	4%	22%	11%	10%
EPS	101	123	137	152
P/E	23.9	20.4	16.5	14.8
ROE	39.2	37.2	38.9	35.0



## Quarterly Results:

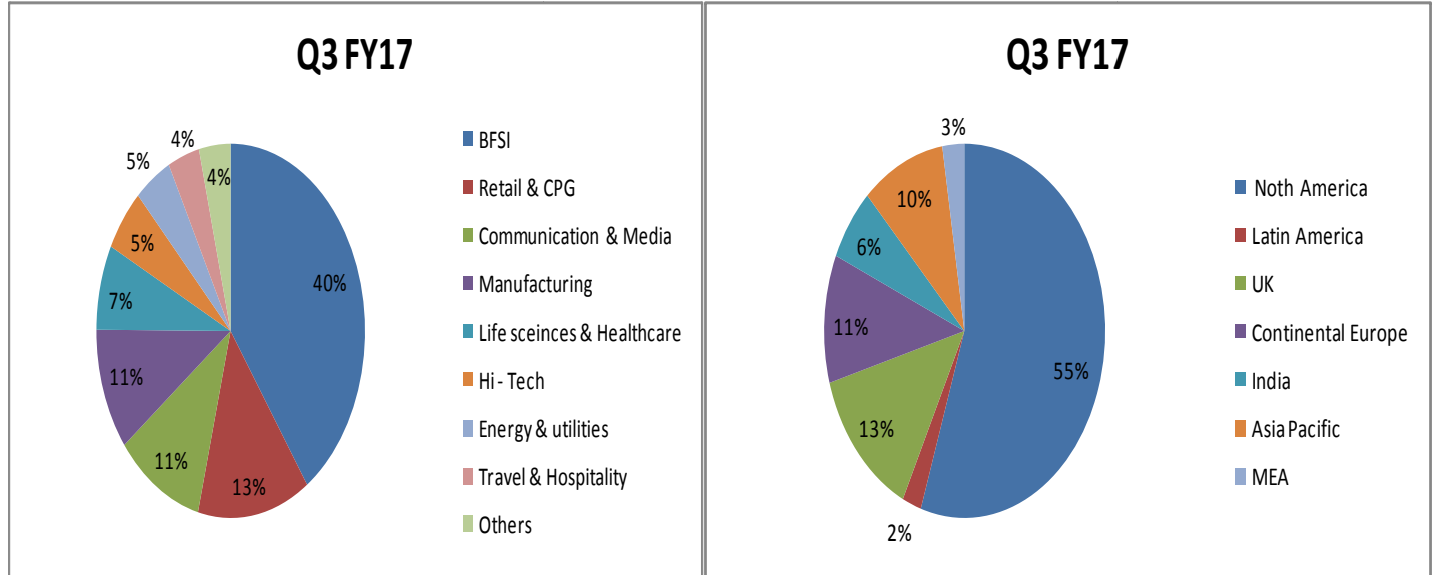
Particulars (Rs. Cr)	Q3FY17	Q2FY17	QoQ%	Q3FY16	YoY%
Information technology and consultancy services	29735	29284	1.54%	27364	9%
Total Income	29735	29284		27364	
Employee cost	15275	15280		14011	
Gross Profit	14460	14004		13353	
Gross Margin%	48.6%	47.8%		49%	
Other expenses	6231	5891		5606	
EBITDA	8229	8113	1.43%	7747	6%
EBITDA Margin	27.7%	27.7%		28%	
Depreciation	496	496		471	
EBIT	7733	7617	1.52%	7276	6%
EBIT Margin	26.01%	26.01%		27%	
Interest	7	5	40.00%	8	-13%
Other Income	1192	1057		707	
PBT	8918	8669	2.87%	7975	12%
Tax paid	2104	2066		1850	
Effective tax rate%	24%	24%		23%	
Net Profit	6814	6603		6125	
EPS	34.58	33.51	3.20%	31.09	11%

Source: Company data, Arihant Research



**Break-up of Markets**

**Domain Break-up**



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

	Average Rates		% of Revenue	
	Q2FY17	Q3FY17	Q2FY17	Q3FY17
USD	66.95	67.78	56.92%	58.21%
GBP	87.77	83.79	12.00%	11.40%
EUR	74.78	72.18	8.16%	7.92%
Others			22.92%	22.47%
<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>	<b>146466</b>
Employee costs	38701	41769	46368	49533
Operation and other expenses	31466	36287	45838	46856
Total Operating Expenses	70167	78056	92206	96389
<b>EBIDTA</b>	<b>24482</b>	<b>30590</b>	<b>35155</b>	<b>37484</b>
EBIDTA Margin	25.9%	28.2%	27.6%	28%
Depreciation	1799	1948	1995	2410
<b>EBIT</b>	<b>22683</b>	<b>28642</b>	<b>33160</b>	<b>35075</b>
Interest	104	20	32	35
Other Income	3230	3054	3677	4016
<b>PBT</b>	<b>26298</b>	<b>31676</b>	<b>36806</b>	<b>39056</b>
Tax	6239	7301	9569	8983
Minority Interest & other	208	83	202	214
<b>PAT</b>	<b>19852</b>	<b>24292</b>	<b>27034</b>	<b>29859</b>
Growth (%)	4%	22%	11%	10%
<b>EPS</b>	<b>101.4</b>	<b>123.3</b>	<b>137.2</b>	<b>152</b>

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

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>	<b>85356</b>
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	137.2	152.5
Book Value	258.7	331.7	355.1	435.8
DPS	79	46	52	52
Payout %	78	37	38	34
Dividend Yield %	3.2	1.9	2.1	2.1
P/E	23.9	20.4	16.5	14.8
EBIDTA Margin	26%	28%	28%	28%
PBT Margin	28%	29%	29%	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	38.9	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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