

Digital demand at all-time high

11th Jan 2019

CMP:	Rs.1888
Target Price:	Rs.1995
Recommendation:	HOLD

Stock Info	
BSE Group	A
BSE Code	532540
NSE Symbol	TCS
Bloomberg	TCS.IN
Reuters	TCS.BO
BSE Sensex	36,106
NSE Nifty	108,21

Market Info	
Market Capital	Rs.708,375
Equity Capital	Rs.375 cr
6MAvg. Trading Vol.	2,919,573
52 Wk High/ Low	2273/1348
Face Value	Rs.1

Shareholding Pattern (%)	Dec (2018)
Promoters	72.05
Domestic Institutions	7.49
Foreign Institutions	16.05
Public & Others	4.41

Price VS Sensex Chart



Q3 FY 19 Highlights:

- INR Revenue of Rs 37,338 Cr, grew 1.4% QoQ and 21 % YoY.
- USD Revenue of \$ 5250 Mn, grew 0.6% QoQ and 9.7% YoY.
- Constant currency revenue grew by 1.8% QoQ and 12.1% YoY.

Profit:

- Operating Income stood at Rs 9564 cr. Operating Margin stood at 25.6%. vs 26.5% QoQ mainly due to increase in subcontracting cost.
- Net Profit stood at 8183 cr, Net Margin stood at 21.7%.

Client Addition:

- Clients \$100M+ up by 8, \$50M+ up by 5, & \$20M+ up by 8.

People:

- Net addition of 27,049 associates, closing headcount: 417,929.
- LTM attrition stood at 11.2% vs 10.9 % Qoq.

Con-call Highlights:

- Growth in digital revenue was the key driver for the growth in Q3 FY19.
- Digital revenue grew 50% YoY and now contributes 30% of the total revenue.
- Demand for digital is at all-time high.
- Accelerated growth was seen in BFSI up 23% YoY.
- Higher spending and investment by the banks has led to the acceleration in BFSI and its expected to increase.
- Order book closure was \$1Bn more than the last quarter.
- Pipeline is expanding in all the segments.
- TCS is participating in the demand and will invest to meet the demand.
- Artificial Intelligence, Automation and Blockchain have seen increase in demand.
- Online retailers are investing heavily to go digital which is a good sign for the industry.
- EBIT to be in the range of 26-28%.

Outlook:

A strong revenue growth of 12.1% in the December quarter on CC terms, is the highest in 14 quarters. Continued growth acceleration in key verticals and a very strong order book and deal pipeline helped in picking up the company's growth. Management is confident of maintaining the growth momentum in FY19 backed by strong order book. The management expects the digital revenue to grow in the upcoming quarters, and to be one of the key growth drivers. Management is confident of achieving a double digit growth in FY19.

TCS business has evolved faster than peers in the changing environment by building differentiated digital offerings and agile delivery capabilities.

We believe that TCS can deliver industry-leading growth and have valued TCS at PE of 21x of our FY20E EPS of Rs 95 and arrived at Target Price of **Rs 1995**. We have a **Hold** rating on the stock.

Financial Snapshot:

Y/E March (Rs. In Crore)	FY18	FY19E	FY20E
Net Revenue	123104	144154	154874
Growth %	4%	17%	7%
EBIDTA	32516	39354	43365
EBIDTA Margin	26%	27%	28%
Net Profit	25880	31828	35745
Growth %	-2%	23%	12%
EPS	68	85	95
P/E	27.9	22.3	19.8
ROE	30.4	33.6	29.3

Quarterly Results:

Particulars (Rs. Cr)	Q3FY19	Q2FY19	Q3 FY18	QoQ	YoY
Information technology and consultancy services	37,338	36,827	30904	1.4%	21%
Total Income	37,338	36,827	30904	1%	21%
Employee cost	19994	19525	16458	2%	21%
Gross Profit	17,344	17,302	14446	0%	20%
Gross Margin%	46.5%	47.0%	46.7%	-1%	-1%
Other expenses	7,261	7051	6159	3%	18%
EBITDA	10,083	10,251	8287	-2%	22%
EBITDA Margin	27.0%	27.8%	26.8%	-3%	1%
Depreciation	519	507	506	2%	3%
EBIT	9,564	9,744	7781	-2%	23%
EBIT Margin	25.6%	26.5%	25.2%	-3%	2%
Interest	16	137	6	-88%	167%
Other Income	1,225	1225	870	0%	41%
PBT	10,773	10,832	8645	-1%	25%
Tax paid	2,590	2437	2100	6%	23%
Effective tax rate%	0	22.5%	24.3%	7%	-1%
Net Profit	8,183	8,395	6545	-3%	25%
EPS	21.7	21.1	34.2	3%	-37%

Profit and Loss statement

Particulars (Rs. In Crore)	FY18	FY19E	FY20E
Information technology services	123104	144154	154874
Total	123104	144154	154874
Employee costs	66396	76690	82083
Operation and other expenses	24192	28110	29426
Total Operating Expenses	90588	104800	111509
EBIDTA	32516	39354	43365
EBIDTA Margin	26.4%	27.3%	28.0%
Depreciation	2014	2306	2478
EBIT	30502	37048	40887
Interest	52	37	40
Other Income	3642	4325	5575
PBT	34092	41335	46422
Tax	8212	9507	10677
PAT	25880	31828	35745
Growth (%)	-1.8%	23.0%	12.3%
EPS	68	85	95

Cash Flow Statement

Particulars (Rs. In Crore)	FY18	FY19E	FY20E
Profit After taxes	25880	31828	35745
Add:- Depreciation	2014	2306	2478
Change in Working Capital	4782	5478	5885
Cash generated from operations	32676	39612	44108
Taxes paid	-7609	-9507	-10677
Net cash flow from operating activities	25067	30105	33431
Purchase of fixed assets	-1862	-2048	-2253
Others	4748	-6586	-17692
Net cash flow from investing activities	2886	-8634	-19945
Dividend paid, including dividend tax	-10760	-12731	-14298
Other	-16125	-16036	-76
Net cash used in financing activities	-26885	-28767	-14374
Net Cash Flow	1068	2211	9789
Opening Cash balance	3597	4883	6931
Exchange Difference on transaction of Foreign Currency	218	-163	-163
Closing Cash balance	4883	6931	16557

Balance Sheet

Particulars (Rs. In Crore)	FY18	FY19E	FY20E
Shareholder's funds			
Share Capital	383	375	375
Reserves & Surplus	84745	103842	139587
Total	85128	104217	139962
Minority Interest	402	350	350
Total Non Current Liabilities	2938	3105	3299
Total Current Liabilities	17828	19801	25323
Total Liabilities	106296	127474	168934
Net Block	10216	11532	15487
Capital Work-in-Progress	1541	5211	8398
Goodwill on consolidation	1757	2084	2799
Total Non Current Assets	25072	37579	41337
Cash and bank balance	4883	6931	16557
Total Current Assets	81224	89895	127595
Total Assets	106296	127474	168934

Key Ratios

Particulars	FY18	FY19E	FY20E
EPS	67.6	84.8	95.2
Book Value	435	532	715
DPS	50	50	50
Payout %	74	59	53
Dividend Yield %	2.6	2.6	2.6
P/E	27.9	22.3	19.8
EBIDTA Margin	26%	27%	28%
PBT Margin	28%	29%	30%
PAT Margin	21%	22%	23%
Debt/Equity	0.0	0.0	0.0
Current Ratio	4.56	4.54	5.04
ROE	30.4	33.62	29.28

Arihant Research Desk**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**Absolute Return**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

**Research Analyst
Registration No.****INH000002764****Contact****SMS: 'Arihant' to 56677****Website**www.arihantcapital.com**Email Id**research@arihantcapital.com**Disclaimer:**

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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