

Strong Quarter

12th April 2019

CMP: Rs.2014
Target Price: Rs.2225
Recommendation: **HOLD**

Stock Info

BSE Group	A
BSE Code	532540
NSE Symbol	TCS
Bloomberg	TCS.IN
Reuters	TCS.BO
BSE Sensex	38,767
NSE Nifty	11,643

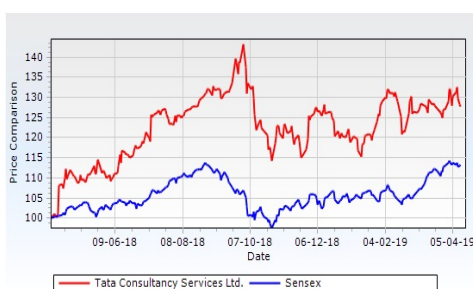
Market Info

Market Capital	Rs.755636
Equity Capital	Rs.375 cr
Weekly Avg. Trading Vol.	3,484,630
52 Wk High/ Low	2273/1508
Face Value	Rs.1

Shareholding Pattern(%) March (2019)

Promoters	72.05
Domestic Institutions	6.73
Foreign Institutions	15.80
Public & Others	5.42

Price VS Sensex Chart



Q4 FY 19 Performance Highlights

- INR Revenue of Rs 38,010 Cr, grew 1.8% QoQ and 18.5% YoY.
- USD Revenue of \$ 5397Mn, grew 8.5% YoY.
- Constant currency revenue grew by 2.4% QoQ and 12.7% YoY.

Profit

- Operating Income stood at Rs 9537 cr. Operating Margin stood at 25.1%. vs 25.6% QoQ mainly due to increase in other operating expenses
- Net Profit stood at 8152 cr, Net Margin stood at 21.5%.

FY19 Client Addition:

- Clients \$100M+ 6% YoY, \$50M+ up by 2% YoY, & \$20M+ up by 8% YoY

People:

- Net addition of 6,356 associates, closing headcount: 424,285
- LTM attrition stood at 11.3% vs 11.3 % Qoq in IT services.

Post Result Conference Call Highlights

- TCS maintained EBIT margin guidance at 26-28% for FY20E
- \$6.2bn TCV signed during the quarter and totalling \$21.9bn TCV for FY19 which offers strong revenue visibility for FY20E
- Strong double digit growth seen across geographies led by UK grew 21% YoY, Europe, 17.5% YoY, NA 9.9% YoY, Asia pacific 11.5% YoY, India 11% YoY in cc terms.
- The company acquired W12 studios, London for a sum of Rs 66 Cr (7mn GBP)

Outlook

TCS is seeing faster growth from Europe and has good relations with customers in Europe, which will help them achieve better growth as compared to US region. We believe TCS can deliver industry-leading growth and have positive view on the stock. At CMP of Rs 2014, the stock is trading at a P/E of 19.5x its FY20E earnings. We have valued TCS at a P/E of 23x its FY20E EPS of Rs 96.7 to arrive at Target Price of **Rs 2225**. We have a **Hold** rating on the stock.

Financial Snapshot

Y/E March (Rs. In Cr)	FY18	FY19E	FY20E
Net Revenue	123104	146463	157352
Growth %	4%	19%	7%
EBIDTA	32516	39506	44059
EBIDTA Margin	26%	27%	28%
Net Profit	25880	31562	36317
Growth %	-2%	22%	15%
EPS	67.6	84.1	96.7
P/E	27.9	22.5	19.5
ROE	30.4%	35.3%	32.4%

Quarterly Results

Particulars (Rs. Cr)	Q4FY19	Q4FY18	Q3FY19	YoY	QoQ
Income From operations	38,010	32,075	37,338	18.5%	1.8%
Expenses					
Employee benefit expenses	20,179	17,183	19,994	17.4%	0.9%
Gross profit	17,831	14,892	17,344	19.7%	2.8%
Gross margins	46.9%	46.4%	46.5%	48.3	46.0
Fees to external consultants	3,062	2,407	2,962	27.2%	3.4%
cost of equipment and software licenses	595	533	540	11.6%	10.2%
Depreciation and amortization expenses	537	505	519	6.3%	3.5%
Other operating expenses	4,100	3,300	3,759	24.2%	9.1%
Total Expenses	28,473	23,928	27,774	19.0%	2.5%
EBIT	9,537	8,147	9,564	17.1%	-0.3%
EBIT margin	25.1%	25.4%	25.6%	-30.9	-52.4
Other income	1,193	994	1,163	20.0%	2.6%
Profit before finance cost and tax	10,730	9,141	10,727	17.4%	0.0%
Finance cost	28	12	16	133.3%	75.0%
Profit Before Tax	10,702	9,129	10,711	17.2%	-0.1%
Tax	2,550	2204	2590	15.7%	-1.5%
Net Profit	8,152	6,925	8,121	17.7%	0.4%
Tax rate%	24%	24%	24%	-1.3%	-1.5%
Less: minority interest	26	21	16	23.8%	62.5%
PAT after minority interest	8,126	6,904	8,105	17.7%	0.3%
EPS	21.7	18.4	21.6	17.7%	0.3%

Source: Company, Arihant Capital

Segment revenues (Rs Cr)	Q4FY19	Q4FY18	Q3FY19	YoY	QoQ
Banking, Financial Services and Insurance	15,104	12,430	14,722	21.5%	2.6%
Manufacturing	4,059	3,576	3,958	13.5%	2.6%
Retail and Consumer Business	6,461	5,567	6,449	16.1%	0.2%
Communication, Media and Technology	6,096	5,451	6,090	11.8%	0.1%
Others	6,290	5,051	6,119	24.5%	2.8%
Total revenues	38,010	32,075	37,338	18.5%	1.8%

Source: Company, Arihant Capital

Segment results (Rs Cr)	Q4FY19	Q4FY18	Q3FY19	YoY	QoQ
Banking, Financial Services and Insurance	4,284	3,371	4,021	27.1%	6.5%
Manufacturing	1,005	1,042	1,162	-3.6%	-13.5%
Retail and Consumer Business	1,787	1,509	1,726	18.4%	3.5%
Communication, Media and Technology	1,703	1,590	1,665	7.1%	2.3%
Others	1,283	1,128	1,497	13.7%	-14.3%
Total	10,062	8,640	10,071	16.5%	-0.1%
Less: Unallocable expenses	553	505	523	9.5%	5.7%
Operating income	9,509	8,135	9,548	16.9%	-0.4%
Other income	1,193	994	1,163	20.0%	2.6%
Profit before Tax	10,702	9,129	10,711	17.4%	0.0%

Source: Company, Arihant Capital

Segment margins (% of total revenues)	Q4FY19	Q4FY18	Q3FY19	YoY bps	QoQ bps
Banking, Financial Services and Insurance	28.4%	27.1%	27.3%	124	105
Manufacturing	24.8%	29.1%	29.4%	-438	-460
Retail and Consumer Business	27.7%	27.1%	26.8%	55	89
Communication, Media and Technology	27.9%	29.2%	27.3%	-123	60
Others	20.4%	22.3%	24.5%	-193	-407

Source: Company, Arihant Capital

Profit and Loss statement (consolidated)

Particulars (Rs. In Crore)	FY18	FY19	FY20E
Information technology services	123104	146463	157352
Total	123104	146463	157352
Employee costs	66396	78246	83397
Operation and other expenses	24192	28711	29897
Total Operating Expenses	90588	106957	113294
EBIDTA	32516	39506	44059
EBIDTA Margin	26.4%	27.0%	28.0%
Depreciation	2014	2056	2518
EBIT	30502	37450	41541
Interest	52	198	41
Other Income	3642	4311	5665
PBT	34092	41563	47165
Tax	8212	10001	10848
PAT	25880	31562	36317
Growth (%)	-1.8%	22.0%	15.1%
EPS	68	84	97

Cash Flow Statement (consolidated)

Particulars (Rs. In Crore)	FY18	FY19	FY20E
Profit After taxes	25880	31562	36317
Add:- Depreciation	2014	2056	2518
Change in Working Capital	4782	5566	5979
Cash generated from operations	32676	39184	44814
Taxes paid	-7609	-10001	-10848
Net cash flow from operating Activities	25067	29183	33966
Purchase of fixed assets	-1862	-2048	-2253
Others	4748	-6586	-17692
Net cash flow from investing ADtivities	2886	-8634	-19945
Dividend paid, including dividend tax	-10760	-12625	-14527
Other	-16125	-16036	-76
Net cash used in financing Activities	-26885	-28661	-14603
Net Cash Flow	1068	1889	10267
Opening Cash balance	3597	4883	6609
Exchange rate difference	218	452	-163
Closing Cash balance	4883	7224	16712

Balance Sheet (consolidated)

Particulars (Rs. In Crore)	FY18	FY19	FY20E
Shareholder's funds			
Share Capital	383	375	375
Reserves & Surplus	84745	89071	111860
Total	85128	89446	112236
Minority Interest	402	453	350
Total Non Current Liabilities	2938	2736	2745
Total Current Liabilities	17828	22084	20055
Total Liabilities	106296	114720	135385
Net Block	10216	10411	15735
Capital Work-in-Progress	1541	963	6734
Goodwill on consolidation	1757	1700	2245
Total Non Current Assets	25072	22812	25093
Cash and bank balance	4883	7224	16712
Total Current Assets	81224	91908	110290
Total Assets	106296	114720	135385

Source: Company, Arihant Capital

Key Ratios (consolidated)

Particulars	FY18	FY19	FY20E
EPS	67.6	84.1	96.7
Book Value	435	457	573
DPS	50	50	50
Payout %	74	59	52
Dividend Yield %	2.6	2.6	2.6
P/E	29.8	24.0	20.8
EBIDTA Margin	26%	27%	28%
PBT Margin	28%	28%	30%
PAT Margin	21%	22%	23%
Debt/Equity	0.0	0.0	0.0
Current Ratio	4.56	4.16	5.50
ROE	30.4	35.3	32.4

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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%

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