

**CMP: INR 3,936**

**Rating: Hold**

**Target Price: INR 4,170**

**Stock Info**

BSE	532540
NSE	TCS
Bloomberg	TCS IN
Reuters	TCS.BO
Sector	IT
Face Value (INR)	1
Equity Capital (INR Cr)	370
Mkt Cap (INR Cr)	1,203,282
52w H/L (INR)	3,990/ 2,600
Avg Yearly Vol (in 000')	2,993

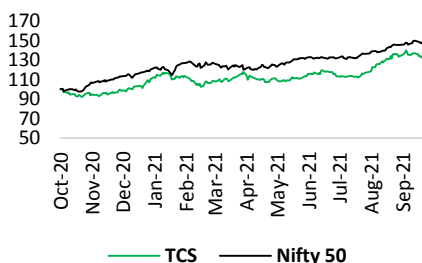
**Shareholding Pattern %**

(As on June, 2021)

Promoters	72.19
FII	15.43
DII	7.97
Public & Others	4.41

Stock Performance (%)	1m	3m	12m
TCS	4.32	20.8	39.3
Nifty	3.10	13.7	51.1

**TCS Vs Nifty**



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- TCS has reported Q2FY22 numbers below our estimate on all fronts.
- Constant Currency Revenue growth +16.8% YoY/2.9% QoQ to (Mn USD) 6,333 against our estimate 6,357 (Mn USD).
- TCS has reported consolidated revenue of INR 46,867 Cr, +16.8% YoY/3.2% QoQ in Q2FY22 against our estimate of INR 47,359 cr.
- Consolidated EBIT stood at INR 12,000 Cr, up by 14.1% YoY/3.6% QoQ against our estimate of INR 12,541 Cr.
- On the margins front, EBIT margin contracted by 59bps YoY/ expanded 9bps QoQ to 25.6% against our estimate of 26.5%.
- TCS reported lowest attrition rate in the industry at 11.9%.
- Consolidated PAT stood at INR 9,624 Cr, up by 28.7% YoY/6.8% QoQ against our estimate of INR 9,869 Cr.
- Deal:** Deal booking remained strong at \$7.6bn(down 6.6% QoQ).
- Industries:** All verticals showed good annual growth. Growth continued to be led by the Manufacturing vertical with 21.7% YoY growth, Life Sciences and Healthcare with 19% growth, Retail and CPG segment with 18.4 % and BFSI with 17% growth supported the topline during the Q2 FY22.
- Geography:** The growth was led by North America that grew by 17.4% compared to the Q1 FY21. UK business has grown 15.6% and Continental Europe grew 13.5%.
- Clients:** TCS has added five new clients in the \$100 million-plus category, taking the total to 54 now, and there was an addition of 17 new clients in the \$50 million-plus band where now it has 114 clients.

**Outlook & Valuation**

TCS missed operating performance in second consecutive quarter and expensive valuations will weigh on the performance of the stock. We believe demand environment to remain strong over medium term. However, We remain constructive on TCS from medium to long term with its ability to engage with large clients (TCV \$7.6bn) for their large transformation programs. At a CMP of INR 3,936, TCS is trading at P/E of 29.2x to its FY24E EPS of INR 134.5.

**We value TCS at PE of 31x to its FY24E EPS of INR 134.5, which yields a target price of INR 4170 per share. We maintain our rating to Hold.**

Particulars (INR Cr)	FY20	FY21	FY22E	FY23E	FY24E
Revenues (US\$ mn)	22031	22174	25729	28916	32296
Net Sales	156949	164177	190557	218795	241428
EBIT	38580	42481	49709	56099	63102
Net profit	32340	32430	38666	43685	49768
EPS ( INR)	86.2	86.7	104.5	118.1	134.5
PE (x)	44.27	44.01	36.52	33.34	29.26
EBIT Margin	24.58%	25.88%	26.09%	25.64%	26.14%
PAT Margin	20.67%	19.83%	20.35%	20.02%	20.66%
ROE	38.16%	37.23%	40.20%	39.62%	38.16%
ROCE	34.96%	36.63%	38.51%	37.90%	36.04%

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

## Q2 FY22 - Quarterly Performance (Consolidated)

(in INR Cr )

Consolidated Income Statement INR Cr	Q2FY22	Q1FY22	Q2FY21	Q-o-Q	Y-o-Y
Revenue (CC Terms) (Mn USD)	6,333	6,154	5,424	2.9%	16.8%
Net Revenue	46,867	45,411	40,135	3.2%	16.8%
Employee Costs	26,384	25,649	22,665	2.9%	16.4%
Other Operating Expenses	7,367	7,099	5,957	3.8%	23.7%
Depreciation	1,116	1,075	998	3.8%	11.8%
EBIT	12,000	11,588	10,515	3.6%	14.1%
EBIT margin %	25.60%	25.52%	26.2%	9bps	-59bps
Other Income	1,111	721	914	54.1%	21.6%
Finance Costs	142	146	174	-2.7%	-18.4%
Exceptional Items	-	-	1,218	NA	NA
PBT	12,969	12,163	10,037	6.6%	29.2%
Tax Expense	3,316	3,132	2,533	5.9%	30.9%
Effective Tax Rate %	25.6%	25.8%	25.2%	-18bps	33bps
Reported PAT	9,653	9,031	7,504	6.9%	28.6%
MI & Associates	-29	-23	-29		
Consolidated PAT	9,624	9,008	7,475	6.8%	28.7%
PAT Margin %	20.5%	19.8%	18.6%	70bps	191bps
EPS (INR)	26.0	24.4	19.9	6.9%	30.6%

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

## Q2 FY22 – Key Concall Highlights

- **Demand:** The company demand environment continues to strong as excluding one mega deal of Q2FY21, the deal win rose 25% YoY. The management expects the demand environment to remain strong over medium term.
- **Supply:** Supply side shortages led to greater use of subcontracting which along with unfavorable currency (others excluding dollar) movements restricted margins.
- **Margin:** The company was able to maintain margin in this supply constrained environment(also had cross-currency headwind ) with focus on operational efficiency. Risks to margin remain over next two quarters in this supply environment.
- **Hiring:** Expect hiring to remain elevated over next 2-3 quarters. Higher fresher intake has helped to manage the supply issue over last 2 quarters.
- **Investment:** Would continue to invest across domains to tap on growth opportunities.
- **Pricing Environment:** Pricing at the portfolio level remains stable , though the legacy business continues to have pricing pressure.
- **Geographically,** the growth was led by North America; while Europe had a soft quarter but no structural change and see good outsourcing opportunity and new deal signings are higher than before. A very large program has come to an end which had an impact.
- **Segment:** BFSI has touched \$2bn of quarterly revenue rate in the quarter; while in terms of verticals, Manufacturing had leading growth, around 20%YoY.
- TCS participating in the automotive revolution by working with all major auto OEMs for autonomous vehicles, BMS, cloud based connected cars, etc.

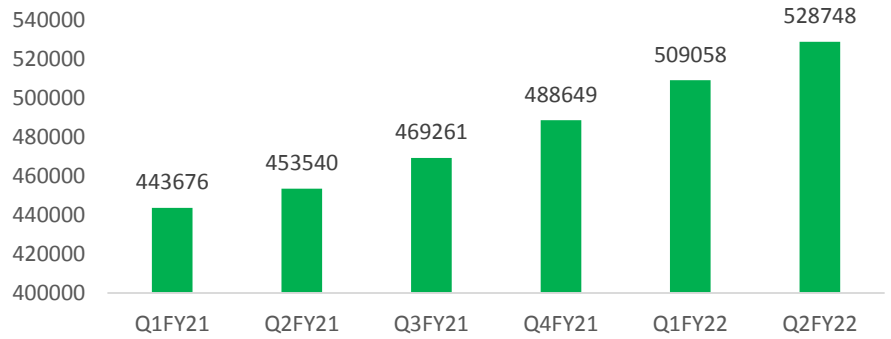
### Total Employee Base

**Attrition**

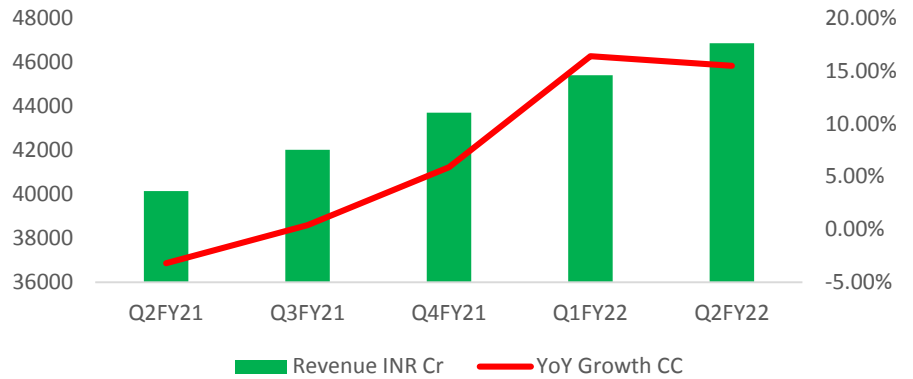
- 11.9%(LTM), IT Services

**Diversity:**

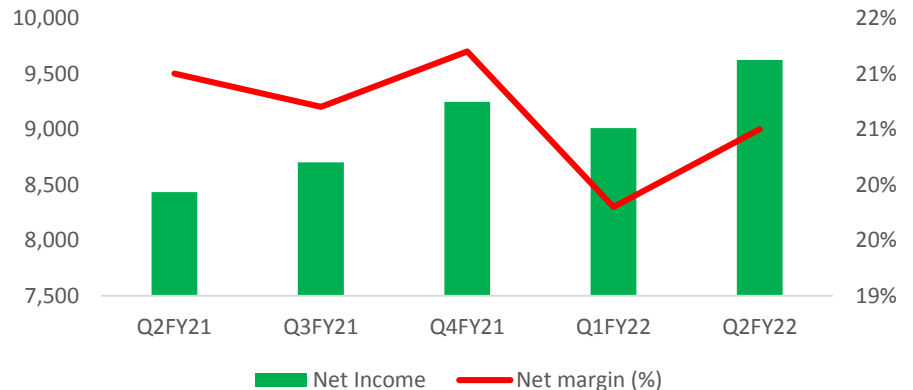
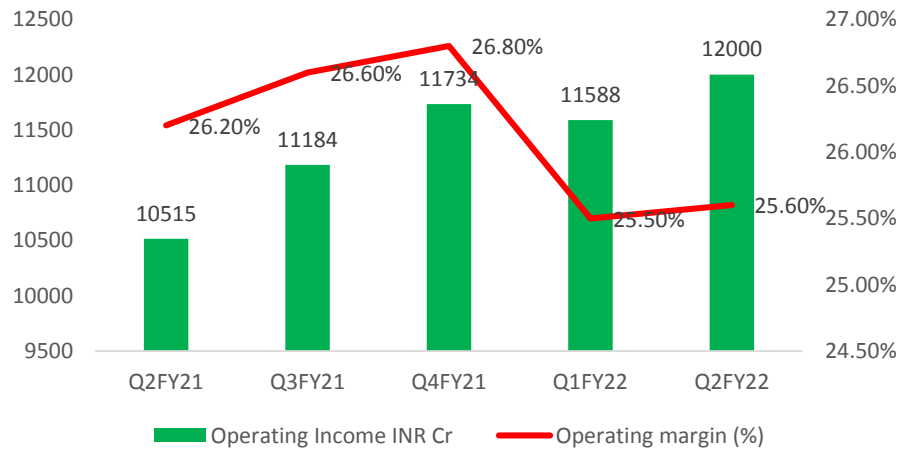
- Women employees: 36.2%
- Nationalities: 157



Revenue missed our estimates due to softness of Continental Europe business APAC, EMEA



Management expects supply-side challenges to persist for the next 2-3 quarters, which would weigh on margins in H2 even though normalization of salary hikes and revenue growth-led operating leverage may drive margin expansion.



Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

## Key Financials

Income Statement (INR Cr)					
Year End-March	FY20	FY21	FY22E	FY23E	FY24E
<b>Revenues (US\$ mn)</b>	22,031	22,174	25,729	28,916	32,296
Change (%)	5.3%	0.6%	16.0%	12.4%	11.7%
<b>Revenues</b>	156,949	164,177	190,557	218,795	241,428
Change (%)	7.2%	4.6%	16.1%	14.8%	10.3%
Employee costs	85,952	91,814	106,903	122,963	134,717
<b>Operation and other expenses</b>	<b>114,840</b>	<b>117,631</b>	<b>138,154</b>	<b>159,611</b>	<b>175,156</b>
Total Operating Expenses	200,792	209,445	245,056	282,574	309,873
<b>EBITDA</b>	<b>42,109</b>	<b>46,546</b>	<b>52,403</b>	<b>59,184</b>	<b>66,272</b>
Depreciation	3,529	4,065	2,694	3,086	3,170
<b>EBIT</b>	<b>38580</b>	<b>42481</b>	<b>49709</b>	<b>56099</b>	<b>63102</b>
Interest	924	637	638	640	641
Other Income	4,592	3,134	2,977	3,335	4,502
<b>PBT</b>	<b>42,248</b>	<b>44,978</b>	<b>52,048</b>	<b>58,794</b>	<b>66,963</b>
Exceptional Items	0	1,218	0	0	0
<b>PBT after exceptional Items</b>	<b>42,248</b>	<b>43,760</b>	<b>52,048</b>	<b>58,794</b>	<b>66,963</b>
Tax	9,801	11,198	13,272	14,992	17,075
Rate (%)	23.2%	24.9%	25.5%	25.5%	25.5%
<b>PAT</b>	<b>32,447</b>	<b>32,562</b>	<b>38,776</b>	<b>43,801</b>	<b>49,887</b>
<b>Non-controlling interest</b>	<b>-107</b>	<b>-132</b>	<b>-110</b>	<b>-116</b>	<b>-119</b>
<b>Consolidated PAT</b>	<b>32,340</b>	<b>32,430</b>	<b>38,666</b>	<b>43,685</b>	<b>49,768</b>
PAT Margin (%)	20.7%	19.8%	20.3%	20.0%	20.7%

Balance Sheet (INR Cr)					
Year End-March	FY20	FY21	FY22E	FY23E	FY24E
<b>Sources of Funds</b>					
Share Capital	375	370	370	370	370
Reserves & Surplus	83,751	86,063	95,129	109,214	129,382
Non controlling interest	623	675	675	675	676
<b>Total Equity</b>	<b>84,749</b>	<b>87,108</b>	<b>96,174</b>	<b>110,259</b>	<b>130,428</b>
Deferred Tax Liability (Net)	779	767	767	767	767
<b>Capital Employed</b>	<b>93,839</b>	<b>96,604</b>	<b>105,715</b>	<b>119,848</b>	<b>140,056</b>
<b>Application of Funds</b>					
Gross Block	26,444	28,658	30,570	32,609	34,785
Less: Depreciation	15,503	17,548	19,793	22,324	25,180
Net Block	10,941	11,110	10,777	10,285	9,605
CWIP	906	926	926	926	926
Financial Assets	8,612	9,319	8,005	8,283	8,505
Investments	216	213	247	284	313
<b>Inventories</b>	<b>5</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>
<b>Sundry debtors</b>	<b>36,264</b>	<b>36,662</b>	<b>42,288</b>	<b>46,157</b>	<b>50,931</b>
Cash and bank	9,666	9,329	12,030	16,584	29,623
Other Current Assets	18,162	24,121	24,300	26,228	27,638
Total Current assets	90,237	99,280	112,472	127,837	151,082
Total Current liabilities	27,060	34,155	36,623	37,677	40,286
Net Current assets	<b>63,177</b>	<b>65,125</b>	<b>75,848</b>	<b>90,160</b>	<b>110,795</b>
<b>Capital Employed</b>	<b>93,839</b>	<b>96,604</b>	<b>105,715</b>	<b>119,848</b>	<b>140,056</b>

Cash Flow Statement (INR Cr)					
Year End-March	FY20	FY21	FY22E	FY23E	FY24E
Profit for the Year	32,447	32,562	38,776	43,801	49,887
Adjustments:					
Depreciation	3,529	4,065	2,694	3,086	3,170
Finance Costs	924	637	638	640	641
<b>Operating Profit before WC Changes</b>	<b>42,882</b>	<b>47,031</b>	<b>58,687</b>	<b>65,824</b>	<b>74,086</b>
Operating Profit after WC Changes	<b>38,215</b>	<b>47,894</b>	<b>65,189</b>	<b>68,820</b>	<b>80,059</b>
Direct Taxes Paid & Exceptional Items	(5,846)	(9,092)	(13,272)	(14,992)	(17,075)
<b>Cash Flow from Operating Activities</b>	<b>32,369</b>	<b>38,802</b>	<b>51,917</b>	<b>53,828</b>	<b>62,983</b>
<b>Cash Flow from Investing Activities</b>	<b>8,565</b>	<b>(8,129)</b>	<b>(11,415)</b>	<b>(11,585)</b>	<b>(10,402)</b>
<b>Cash Flow from Financing Activities</b>	<b>(39,915)</b>	<b>(32,634)</b>	<b>(35,503)</b>	<b>(37,861)</b>	<b>(39,716)</b>
Net Change in Cash & Cash Equivalents	1,019	(1,961)	4,999	4,382	12,866
Opening Cash & Cash Equivalents	7,224	8,646	6,858	12,030	16,584
Closing Cash & Cash Equivalents	8646	6858	12030	16584	29623

Key Ratios					
Year End-March	FY20	FY21	FY22E	FY23E	FY24E
<b>Per share (INR)</b>					
EPS	86.2	86.7	104.5	118.1	134.5
BVPS	226	226	235	260	298
<b>Valuation (x)</b>					
P/E	44.3	44.0	36.5	33.3	29.3
P/BV	16.9	16.2	14.7	13.2	11.2
<b>Return ratio (%)</b>					
EBIDTA Margin	26.83%	28.35%	27.50%	27.05%	27.45%
EBIT Margin	24.6%	25.9%	26.1%	25.6%	26.1%
PAT Margin	20.7%	19.8%	20.3%	20.0%	20.7%
ROE	38.2%	37.2%	40.2%	39.6%	38.2%
ROCE	35.0%	36.6%	38.5%	37.9%	36.0%
<b>Leverage Ratio (%)</b>					
Total D/E	0.1	0.1	0.1	0.1	0.1
<b>Turnover Ratios</b>					
Asset Turnover (x)	14.2	15.0	18.1	22.0	25.1
Inventory Days	1	2	2	2	2
Receivable Days	80	81	81	77	77

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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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% to -12%
SELL	<-12%

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