

Tata Consultancy Services Limited



Tata Consultancy Services Limited. **Growth momentum to continue, aided by growth across verticals and large deal wins**

CMP INR 3,935	Target INR 4,256	Potential Upside 8%	Market Cap (INR Mn) INR 14,556,877	Recommendation ACCUMULATE	Sector Internet Software & Services
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Synopsis:

Tata Consultancy Services Ltd (TCS) Q2FY22 performance was slightly lower than with our estimate. Dollar Revenue was up 2.9% QoQ and in CC term grew by 15.5% YoY to USD 6,333mn (KRChoksey est. USD6,379mn). Rupee revenue grew by 2.9% QoQ to INR 4,68,670mn (KRChoksey est. INR 4,72,545Mn). Reported operating margin witnessed a meagre growth, up by 8bps to 25.6% QoQ backed by healthy deal wins (book-to-bill ratio is 1.2x similar to it's global peers). Reported Net profit grew by ~6.8% QoQ to INR 96,230mn (KRChoksey est. INR 95,536mn) with margin of 20.5% (up 69bps on QoQ basis) mainly due to higher net other income. TCS showed strength in its core business segment and has bagged higher mid-sized deals spread across verticals. Digital adoption, Agile, automation and cloud have multiyear tailwind and we expect the growth to continue on the back of strong demand environment to cloud shift, BFSI helped to pick up growth momentum in Europe, continued strong deal wins in Retail & CPG vertical and recent recovery in Manufacturing vertical. TCV grew by +25% YoY led by TCS CogniX excluding the mega deals. We expect to see the supply crunch (to stay in the near term yet industry best) along with discretionary spend will limit the margin expansion despite better operating leverage and higher pricing. The company declared a dividend of INR 7 per share. Our target price of INR 4,256 is based on 32x Mar-24E EPS with EPS CAGR of 13.7% over FY22-24E.

MARKET DATA

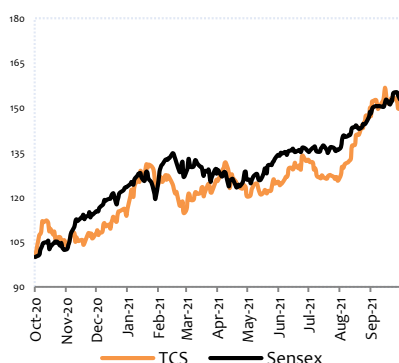
KEY FINANCIALS

Shares outs (Mn)	3935
Mkt Cap (INR Mn)	14,556,877
52 Wk H/L (INR)	3,935/2,600
Volume Avg (3m K)	2,385
Face Value (INR)	1
Bloomberg Code	TCS:IN

(INR Mn)	Q2FY22A	Q1FY22A	Q2FY21A	QoQ	YoY	KRChoksey Est.	Variance (%)
USD Revenue	6,333	6,154	5,424	2.9%	16.8%	6,379	-0.7%
Revenue	4,68,670	4,54,110	4,01,350	3.2%	16.8%	4,72,545	-0.8%
EBIT	1,19,990	1,15,890	1,05,150	3.5%	14.1%	1,22,754	-2.3%
PAT	96,230	90,090	87,220	6.8%	10.3%	95,536	0.7%
OPM (%)	25.6%	25.5%	26.2%	8bps	-60bps	26.0%	-37bps
NPM(%)	20.5%	19.8%	21.7%	69bps	-120bps	20.2%	32bps

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Robust growth across verticals led to the overall growth of the business

Tata consultancy services (TCS) Q2FY22 performance is marginally lower than our estimates. For Q2FY22, company reported dollar revenue growth of 16.8% YoY (up 2.9% QoQ) USD 6,333mn. In Rupee terms, revenue was up by 3.2%QoQ to INR 4,68,670mn. In constant currency terms, revenue growth was 15.5%YoY. For Q2FY22, the growth was led across verticals especially BFSI (up 17% CC YoY), Retail & CPG (up 18.4% CC YoY), Life Science & Healthcare (up 19% CC YoY) and Manufacturing (up 21.7% CC YoY) whereas Technology & Services, Communications & Media and Regional Markets & Other registered (CME) CC growth of 14.8%, 15.6% and 6.4% YoY respectively.

Strong deal wins to drive growth across geographies

Strong deal wins across segment and strong pipeline with improved qualification provides growth visibility in coming quarters. TCV in Q2 was at USD 7.6Bn (BFSI had a TCV of USD 2.1Bn, while retail had a very strong order book of USD 1.2Bn and TCV of deals signed in North America stood at USD 3.9Bn). BSFI quarterly run rate has crossed USD 2Bn (TCSBaNCS has won 5 new deals and 3 go-lives in Q2FY22) and Quartz blockchain platform has 2 new wins and 1 go-live in Q2, including a large custodian in UK. TCS MasterCraft (intelligent automation products for enterprise application development, modernization and delivery) has 22 new wins in Q2 and Jile (enterprise agile planning and delivery platform) saw 3 new wins. Growth was led by North America at 17.4%, U.K. grew 15.6% and Continental Europe grew 13.5% and India grew by 20.1% among the regional markets. TCS has successfully added clients especially in +USD 100Mn (5 Clients) and +USD 50Mn (17 Clients).

MARKET INFO

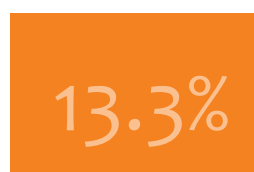
SENSEX	60,059
NIFTY	17,895

EBIT margin to sustain over 25%

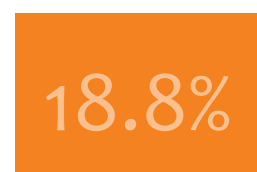
In Q2FY22, the company registered EBIT margin of 25.6% which is marginally lower by 6 bps QoQ. Supply side crunches and higher attrition has led to higher backfilling and greater subcontracting expense which was partially offset by stable growth in topline. The management expects to increase fresh hiring towards demand fulfillment and offsetting the near term attrition surge. During the quarter, TCS added almost 20,000 employees and expects similar additions in coming quarters as well.

SHARE HOLDING PATTERN (%)

Particulars	Sep-21	Jun-21	Mar-21
Promoters	72.2	72.2	72.2
FIIIs	15.4	15.4	15.5
DIIIs	7.9	8	7.9
Others	4.5	4.4	4.3
Total	100	100	100



Revenue CAGR between FY21 and FY23E



PAT CAGR between FY21 and FY23E

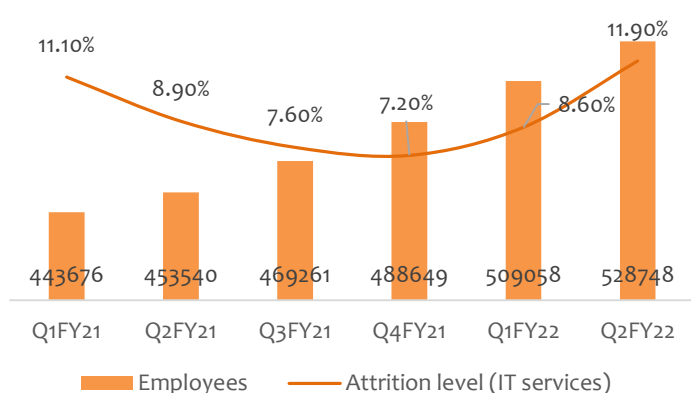
Tata Consultancy Services Limited.

Key Concall Highlights: (i) Overall value chain of technological spendings at the client level is increasing(ii) pipeline and/or TCV dealwins are a mix of low duration and medium to long duration deals (iii) Short-term volatility to cost base is coming from the attrition levels that you which should play out in the medium term.(iv) The demand environment is very strong and is likely to continue to be strong in the medium term(v) operating leverage playing out on the margins is mainly due to increased dependence on subcontractors, caused by the restrictions on travel and mobility of talent and will rationalize after the restrictions eases (vi) Management is investing and continue to invest across products, platforms, new services and new markets and the investment focus is on investing in Horizon 2, Horizon 3 kind of engagements (such as design thinking, developing new platforms) where company charges premium.

Valuation and view

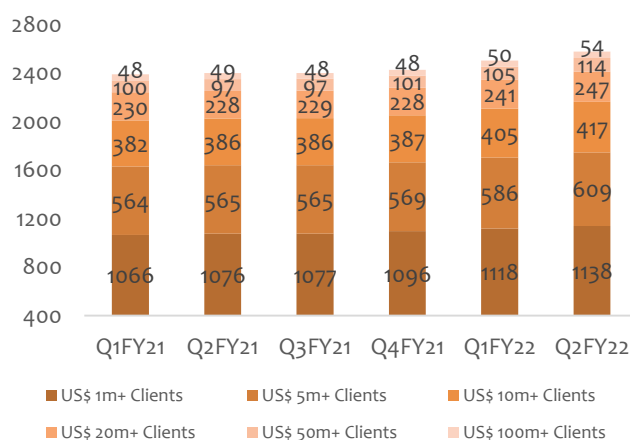
TCS is currently trading at a valuation with a P/E multiple of 32.7x/29.1x on FY23E/FY24E earnings. We expect strong deal momentum across verticals, ease in travel restrictions and continued investments in newer technologies such as product & platform which will help maintain the growth momentum in medium term future and hence we are assigning a P/E multiple of 32x to the FY24 estimated EPS of INR 135 to arrive at a target price of INR 4,256 per share (earlier target of INR 4,053), an upside of 8% over the CMP. Accordingly, we reiterate an “ACCUMULATE” rating to the stock.

Employee Base & Attrition



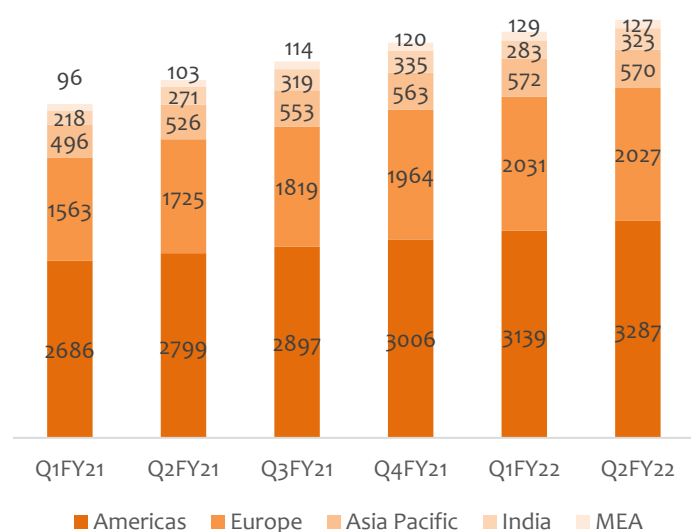
Source: Company, KRChoksey Research

Client Contribution



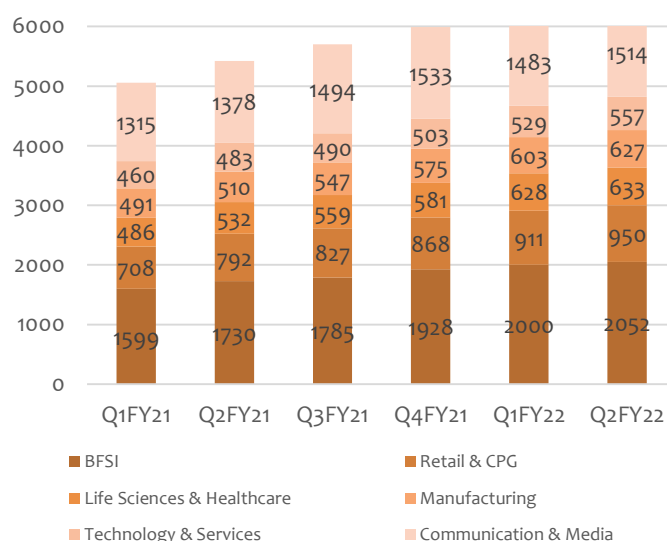
Source: Company, KRChoksey Research

Revenue by Geography (USD Mn)



Source: Company, KRChoksey Research

Vertical-wise Revenue Contribution (USD Mn)



Source: Company, KRChoksey Research

Tata Consultancy Services Limited.

KEY FINANCIALS

Exhibit 1: Balance Sheet

Particulars (INR Mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Property, Plant and Equipment	1,04,110	1,09,410	90,059	85,357	77,482	66,015
Right-of-use Asset	0	79940	79940	79940	79940	79940
CWIP	9,630	9,060	9,060	9,060	9,060	9,060
Goodwill	17,000	17,100	17,100	17,100	17,100	17,100
Intangible Assets	1,790	2,830	2,830	2,830	2,830	2,830
Investments	2,390	2,160	2,160	2,160	2,160	2,160
Other non-current tax assets	66730	52900	52900	52900	52900	52900
Other non current assets	26,470	33,220	33,220	33,220	33,220	33,220
Total non current assets	2,28,120	3,06,620	2,87,269	2,82,567	2,74,692	2,63,225
Unbilled Revenue	51570	57320	67286	77588	86415	95465
Investments	2,90,910	2,61,400	2,61,400	2,61,400	2,61,400	2,61,400
Trade receivables	2,73,460	3,05,320	3,14,000	3,62,078	4,03,269	4,45,504
Cash & equivalent	1,28,480	96,660	2,96,730	3,70,008	4,74,415	5,87,546
Other current assets	1,58,360	1,81,590	1,81,590	1,81,590	1,81,590	1,81,590
Current Tax Assets	18530	80	80	80	80	80
Total current assets	9,21,310	9,02,370	11,21,085	12,52,744	14,07,169	15,71,585
Total Assets	11,49,430	12,08,990	14,08,355	15,35,311	16,81,861	18,34,809
Equity Share Capital	3,750	3,750	3,750	3,750	3,750	3,750
Other Equity	8,90,710	8,37,510	10,53,378	11,60,691	12,89,590	14,42,827
Equity Attributable to Owners of the Company	8,94,460	8,41,260	10,57,128	11,64,441	12,93,340	14,46,577
Non controlling Interest	4,530	6,230	7,514	8,798	10,082	11,366
Total Equity	8,98,990	8,47,490	10,64,642	11,73,239	13,03,422	14,57,943
Long term Debts	440	69,060	62,154	55,939	50,345	45,310
Other Financial Liabilities	12,570	6,970	6,970	6,970	6,970	6,970
Employee benefit obligation	3,300	4,170	4,170	4,170	4,170	4,170
DTL	10420	7790	7790	7790	7790	7790
Other Non-Current Liabilities	2870	2910	2910	2910	2910	2910
Total non current liabilities	9,28,590	9,38,390	11,48,636	12,51,017	13,75,607	15,25,094
short term borrowing & leasing	0	12,680	12,680	12,680	12,680	12,680
Deferred Revenue	23,920	29,150	14,224	16,744	20,405	9,957
Trade Payables	62,920	67,400	64,279	75,018	81,740	88,661
Other Financial Liabilities	49,030	61,000	61,000	61,000	61,000	61,000
Other Current Liabilities	34,740	35,760	35,760	35,760	35,760	35,760
Employee benefit obligation	23,560	27,490	29,365	34,029	36,707	39,600
Current Tax Liabilities	26,670	37,120	42,411	49,064	57,962	62,058
Total Current Liabilities	2,20,840	2,70,600	2,59,719	2,84,294	3,06,255	3,09,716
Total liabilities	11,49,430	12,08,990	14,08,355	15,35,311	16,81,861	18,34,809

Source: Company, KRChoksey Research

Tata Consultancy Services Limited.

KEY FINANCIALS

Exhibit 2: Profit & Loss Statement

Particulars (INR Mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	14,64,630	15,69,490	16,41,770	18,93,150	21,08,523	23,29,348
Employee Cost	7,82,460	8,59,520	9,18,140	10,63,968	11,47,714	12,38,150
Other Cost	2,87,110	2,88,880	2,58,170	3,08,854	3,48,127	3,84,342
EBITDA	3,95,060	4,21,090	4,65,460	5,20,328	6,12,682	7,06,855
Depreciation	20,560	35,290	39,873	42,566	44,774	46,407
EBIT	3,74,500	3,85,800	4,25,587	4,77,762	5,67,908	6,60,448
Other income, net	43,110	45,920	31,340	42,047	51,884	55,795
Finance costs	1,980	9,240	6,370	5,720	5,112	3,826
Pre-tax Income	4,15,630	4,22,480	4,50,557	5,14,089	6,14,680	7,12,416
Income tax expense	1,00,010	98,010	1,11,980	1,29,545	1,53,041	1,63,856
Net profit Before MI	3,15,620	3,24,470	3,38,577	3,84,544	4,61,639	5,48,560
Minority Interest	900	1,070	1,284	1,284	1,284	1,284
Net profit Before MI	3,14,720	3,23,400	3,37,293	3,83,260	4,60,355	5,47,276
Diluted EPS (INR)	83.87	86.19	89.89	102.14	122.68	145.85
Shares in Million	3,752	3,752	3,752	3,752	3,752	3,752

Source: Company, KRChoksey Research

Exhibit 3: Free Cash Flow Analysis

Particulars (INR Mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Cash Generated From Operations	4,26,550	4,94,650	4,60,904	5,22,849	6,31,397	7,11,000
Net Cash Flow from/(used in) Investing Activities	-3,92,990	-5,14,140	-2,53,928	-4,43,356	-5,21,396	-5,92,835
Net Cash Flow from Financing Activities	-70	68,620	-6,906	-6,215	-5,594	-5,034
Net Inc/Dec in cash equivalents	33,490	49,130	2,00,070	73,278	1,04,407	1,13,131
Opening Balance	61,611	95,101	96,660	2,96,730	3,70,008	4,74,415
Closing Balance Cash and Cash Equivalents	95,101	1,44,231	2,96,730	3,70,008	4,74,415	5,87,546

Source: Company, KRChoksey Research

Exhibit 4: Ratio Analysis

Key Ratio	FY19	FY20	FY21	FY22E	FY23E	FY24E
EBIT Margin (%)	25.6%	24.6%	25.9%	25.2%	26.9%	28.4%
Tax rate (%)	24.1%	23.2%	24.9%	25.2%	24.9%	23.0%
Net Profit Margin (%)	21.5%	20.6%	20.5%	20.2%	21.8%	23.5%
RoE (%)	36.1%	37.3%	35.5%	34.5%	37.5%	39.9%
RoCE (%)	31.3%	31.7%	30.6%	29.8%	32.5%	35.1%
EV/EBITDA	28.6	27.1	24.1	21.4	18.0	15.4
EPS (INR per share)	83.9	86.2	89.9	102.1	122.7	145.8

Source: Company, KRChoksey Research

Tata Consultancy Services Limited.

Tata Consultancy Services				Rating Legend (Expected over a 12-month period)	
				Our Rating	Upside
Date	CMP (INR)	TP(INR)	Recommendation	Buy	More than 15%
08-Oct-21	3935	4256	ACCUMULATE	Accumulate	5% – 15%
25-Aug-21	3659	4053	ACCUMULATE	Hold	0 – 5%
				Reduce	-5% – 0
30-Jun-21	3345	3700	ACCUMULATE	Sell	Less than – 5%

ANALYST CERTIFICATION:

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KR Choksey Shares and Securities Pvt. Ltd

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.