

Tata Consultancy Services

09 October, 2021

Reuters: TCS.BO; Bloomberg: TCS IN

Tepid 2Q; Is peak of 'compressed transformation' behind us?

TCS delivered 4% QoQ CC revenue growth (our estimate: 4.5%) and EBIT margin of 25.6% (60bps below est.) in 2QFY22. PAT was supported by a higher-than-expected forex gain. Significantly higher-than-expected cross currency headwind (110bps vs our expectation of ~70bps) led to 2.9% QoQ growth in USD terms. Talent costs, cross currency impact and investments seem to have eaten into the anticipated margin increase. TCV was optically down ~12% YoY but was up 25% adjusted for one mega deal. With mega deals largely missing for the industry in the last 2-3 quarters (will likely comeback in 2022-23), this situation could play out for Infosys too after a great FY21 on lumpy deals like Daimler and Vanguard. Despite 2QFY22 miss and a likely muted 2HFY22 (due to seasonality), TCS will deliver close to mid-teens growth in FY22, post which we think growth could slow to very low double-digit in FY22-FY24. A higher growth plateau than seen in FY15-FY20 due to higher tech intensity in customers' businesses. But, the latest performance by both TCS and Accenture ([Peaking growth](#)) make us believe that the 'compressed transformation' peak is over and customers will be much more calibrated in their spending from here on. We believe that with its strong products & platforms portfolio, its machine first delivery approach to cut spends in legacy operations/IT services and significant investments in its contextual talent program will make TCS stand out. A key monitorable in the near term will be TCV in 2HFY22, especially as there were a few mega deals in the base period for TCS. On the margin front, we are more sanguine as we believe that the cost pressures will peak in FY22 and will ease off in FY23, especially due to pyramid restructuring (78,000 fresher hires expected in FY22, about double the number in FY21 and a number much higher than guided for 3 months back). While subcontractor cost pressure could continue for a while as TCS focuses on capturing demand, it will likely come off in FY23 as travel to US/Europe resumes from India. Besides this, we think TCS will be able to manage higher margins in FY23 on the back of (1) talent-on-the cloud program, an internal gig-worker program that increases utilization (2) significant usage of automation and platforms (3) a delivery mix which will still remain offshore focused. Besides, expanding footprint in the growth and transformation work would give it greater pricing power. TCS continues to sound confident, not only about FY22 but also about the medium term (based on its 3-wave theory). We have pared our estimates a tad post the tepid 2QFY22, but have penciled in ~14% USD growth in FY22 and ~10% in FY23. TCS' high TTM book/bill ratio of 1.3x supports our growth outlook. We maintain our target PE multiple at 30.6x (+2SD to 5-year mean) and retain our 'Accumulate' rating with a target price (TP) of Rs3,772. We think multiples can remain elevated when all indications are for 'stronger for longer' (relative to FY15-FY20 timeframe) and interest rates globally are low; we will re-evaluate if we get data otherwise. We hold TCS as industry benchmark for valuation. We believe growth gap with Infosys, which was large at ~600bps in FY21, will reduce in FY22 and FY23.

Growth and transformation (G&T) theme will drive growth: This is relatively a new area for TCS where it is making small strides but where it is in a position to dislodge some of the consulting incumbents. Unlike the strategy of the incumbents where TCS says they bring in relatively standard solutions, TCS thinks that it is able to create differentiation by working closely with clients, participating increasingly in upstream, experimenting with new risk taking models, using its research and innovation capabilities, usage of contextual champions, etc. M&A, divestiture and customer experience are a few areas that it is focused on. TCS CEO in a recent media interview stated that it would like to take the G&T business, which is apparently 5% of revenue currently to 50% by 2030, which we believe is a very ambitious goal. We believe this does bring in some level of pricing power as the incumbents are currently at extremely high levels.

Y/E Mar (Rsmn)	2QFY21	1QFY22	2QFY22	YoY(%)	QoQ (%)	2QFY22E	Deviation (%)
Net Sales (USD mn)	5,424	6,154	6,333	16.8	2.9	6,383	(0.8)
Net Sales	401,350	454,110	468,670	16.8	3.2	473,724	(1.1)
Software Expenses	237,150	270,800	279,220	17.7	3.1	280,619	(0.5)
% of Sales	59.1	59.6	59.6	-	-	59.2	-
Gross Margin	164,200	183,310	189,450	15.4	3.3	193,105	(1.9)
% of Sales	40.9	40.4	40.4	-	-	40.8	-
Operating Expenses	59,050	67,430	69,450	17.6	3.0	69,183	0.4
% of Sales	14.7	14.8	14.8	-	-	14.6	-
EBIT	105,150	115,880	120,000	14.1	3.6	123,921	(3.2)
EBIT Margin (%)	26.2	25.5	25.6	-	-	26.2	-
Other Income	7,400	5,750	9,690	30.9	68.5	6,227	55.6
PBT	112,550	121,630	129,690	15.2	6.6	130,148	(0.4)
Provision for Tax	27,930	31,320	33,160	18.7	5.9	33,188	(0.1)
Effective Tax Rate	24.8	25.8	25.6	-	-	25.5	-
Minority share in Profit / Loss	290	230	290	0.0	26.1	230	26.1
PAT (Reported)	84,330	90,080	96,240	14.1	6.8	96,731	(0.5)
NPM (%)	21.0	19.8	20.5	-	-	20.4	-

Source: Company, Nirmal Bang Institutional Equities Research

ACCUMULATE

Sector: Information Technology

CMP: Rs3,936

Target Price: Rs3,772

Downside: 4%

Girish Pai

Head of Research

girish.pai@nirmalbang.com

+91-22-6273 8017

Key Data

Current Shares O/S (mn)	3,699.1
Mkt Cap (Rsbn/US\$bn)	14,558.2/194.1
52 Wk H / L (Rs)	3,990/2,600
Daily Vol. (3M NSE Avg.)	2,518,348

Price Performance (%)

	1 M	6 M	1 Yr
TCS	3.8	18.5	39.9
Nifty Index	3.0	20.6	50.2

Source: Bloomberg

Exhibit 1: Key financials

Y/E March (Rsbn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue (Rsbn)	1,569	1,642	1,892	2,132	2,351
YoY Growth %	7.2	4.6	15.2	12.7	10.3
EBIT (Rsbn)	386	425	479	554	611
% of sales	24.6	25.9	25.3	26.0	26.0
PAT (Rsbn)	323	334	378	435	477
YoY Growth %	2.8	3.2	13.2	15.0	9.8
FDEPS (Rs)	86.2	89.3	102.2	117.5	129.0
ROE (%)	36.6	38.4	39.1	40.6	42.4
Pre Tax ROCE (%)	35.1	36.5	37.0	39.3	41.0
Pre Tax ROIC (%)	55.5	54.9	56.4	59.7	60.2
P/E (x)	45.7	44.1	38.5	33.5	30.5
P/BV (x)	17.2	16.3	14.0	13.2	12.6

Source: Company, Nirmal Bang Institutional Equities Research. Note: Excludes the one-off provisioning for Epic Systems

Exhibit 2: Change in our estimates

Change in estimates	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
INR/USD	74.6	76.5	77.0	74.7	76.5	77.0	(0.1)	-	-
USD Revenue (USD mn)	25,344	27,866	30,530	25,592	28,297	31,003	(1.0)	(1.5)	(1.5)
Revenue (Rsbn)	1,892	2,132	2,351	1,912	2,165	2,387	(1.0)	(1.5)	(1.5)
EBIT (Rsbn)	479	554	611	495	567	625	(3.3)	(2.2)	(2.2)
EBIT Margin (%)	25.3	26.0	26.0	25.9	26.2	26.2	-	-	-
PAT (Rsbn)	378	435	477	385	439	483	(1.8)	(1.0)	(1.2)
FDEPS (Rs)	102.2	117.5	129.0	104.0	118.7	130.5	(1.8)	(1.0)	(1.2)

Source: Company, Nirmal Bang Institutional Equities Research. Note: Excludes the one-off provisioning for Epic Systems

Exhibit 3: Vertical-based USD QoQ and YoY revenue growth in 2QFY22

Verticals	Contribution to Revenue (%)	Growth-QoQ(%)	Growth-YoY(%)	Growth-YoY(%) in CC
BFSI	32.4	2.6%	18.6%	17.0%
Manufacturing	9.9	4.0%	23.0%	21.7%
Communication and Media	6.5	4.5%	16.8%	15.6%
Life Science and Healthcare	10.0	0.9%	19.1%	19.0%
Retail and CPG	15.0	4.3%	20.0%	18.4%
Technology and Services	8.8	5.3%	15.4%	14.8%
Regional Market & Others	17.4	1.2%	7.5%	6.4%
Total	100.00	2.9%	16.8%	15.5%

*Retail and CPG includes Travel and Hospitality because of reclassification and hence does not reflect the actual growth

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Geography- based USD QoQ and YoY revenue growth in 1QFY22

Geographies	Contribution to Revenue	Growth-QoQ(%)	Growth-YoY(%)	Growth-YoY(%) in CC
North America	50.3	4.8%	17.7%	17.40%
Latin America	1.6	2.9%	9.9%	15.20%
UK	16.1	1.6%	21.3%	15.60%
Europe	15.9	-2.0%	13.9%	13.50%
India	5.1	14.1%	19.1%	20.10%
APAC	9.0	-0.4%	8.3%	7.60%
MEA	2.0	-2.0%	22.9%	13.80%
Total	100.0	2.9%	16.8%	15.50%

Source: Company, Nirmal Bang Institutional Equities Research

Our view on the Indian IT services sector: Through our sector update of 6th Sept, 2020 ([Rising monetary and digital tides lifting most boats](#)), we had upgraded our view to 'neutral' on the IT sector from a 'cautious' one held for the last many years on the back of both higher earnings and higher target PE multiples. We subsequently raised our target prices in our notes on 28th Sept, 2020 ([Medium term commentary turning more positive](#)), 28th Dec. 2020 ([Looks stronger near term](#)) and post 3QFY21 and 4QFY21 results. We also released a more exhaustive update on 5th July, 2021 ([Improving visibility into FY23](#)). The earnings uplift (~2x of the growth seen during FY15-FY20) is coming from expectation of 400-600bps pick-up in organic revenue growth over FY21-FY24 against the one seen during FY15-FY20 (6-8% in USD terms), along with an improvement in margins. The revenue acceleration is coming from increased spending on Digital by clients and a move towards greater outsourcing (driven by lack of internal talent). This spending will likely be compressed in a short period of time – 24-36 months. The demand uplift is more widespread than seen in the past and is a 'rising-tide-lifting-most boats' kind of situation. Reasons for change in customer behaviour, in our view, are: (1) Strong need for digital transformation, not only to structurally cut costs, but also to improve resiliency in operations, deliver contact-less consumer, employee and supplier experiences, driven by the nature of the pandemic. Based on the commentary from customers, software companies and IT services vendors, we believe that digital demand has been pulled forward from the future. (2) Quick and unprecedented 'whatever-it-takes' monetary and fiscal actions in the US and Europe that likely eliminated tail risks to economic recovery and reduced risk aversion among corporates. These monetary conditions could last, we believe, for at least 12 more months more, if not longer. The changed view on margins has been driven by business model changes that the pandemic has induced, which we think are structurally positive and quite a few of them would last in the longer term as well. These involve higher offshoring, higher utilisation, lower subcontractor cost (longer term) and structurally lower travel & marketing costs. We see accelerated employee pyramid reshaping that could control cost increases. We see WFH/WFA expanding the talent pool in a material way in the long term, especially through greater number of >30 year old women remaining in the workforce and greater usage of gig worker platforms, reducing pressure on costs

Higher PE multiples may sustain: Driven by (1) an upward shift in revenue and earnings growth trajectory (2) lower interest rates globally and domestically (3) valuation exuberance (irrational!?) in the enterprise technology space in the US. While there is a growth spike in FY22 after a modest dip in FY21 (lower than anticipated), we see organic revenue growth in FY23 being lower than FY22, but still in the 'double digit' space. We think 'at least' a high single digit growth is likely in the couple of years beyond FY23. We should see greater divergence of growth among players beyond FY23 as growth moderates.

Why not a sell: (1) We see earnings acceleration over FY21-FY24 due to faster revenue growth and a higher margin trajectory. (2) Current exuberance (irrational!?) in enterprise tech valuations in the US likely rubbing off on Indian IT services. (3) a situation where double-digit/high single digit revenue growth could stretch beyond FY23. (4) lower for longer interest rates – at least for the next 12 months globally - could keep PE multiples elevated.

Why not a buy: (1) PE multiples are already at 10–12-year highs and partly/fully reflect turnaround in fundamentals over FY21-FY24. (2) Adverse impact on US customers from higher corporate taxation if US President Joe Biden has his way. (3) Likely slower organic growth in the medium term as spends are pulled forward. Growth could settle into mid-single digit territory in USD terms beyond a point. (4) A likely deflation in enterprise tech valuations in the US, especially if there is an earlier-than-expected and sharp increase in interest rates by the Fed as it sees high inflation in the US being far more embedded and not transitory as it sees currently. (5) a wider basket of investment choices in India as many more sectors participate in the growth story from here on compared to the past.

Valuation and stock calls: TCS continues to be our sector benchmark as it is best positioned in the industry. We have benchmarked all other coverage companies with respect to TCS and given subjective discounts to its Target PE multiple based on our assessment of risks, sustainability of earnings growth and return ratios. While historically, we have not liked mid-tier IT companies due to their significant client, geographic and vertical concentration risks and weaker capabilities, we believe they could be beneficiaries in the next 12-24 months of robust demand. We believe vendor consolidation risks are lower due to this. We also think that some of them are undergoing a structural change for the better under new managements, which could set them up for better growth, margins and PE multiples. But, we believe the uniformly strong growth seen across both large-sized and mid-sized IT players is probably a 12-24 month phenomenon and there is likely to be greater dispersion after that and our valuation discounts to TCS partly reflect that.

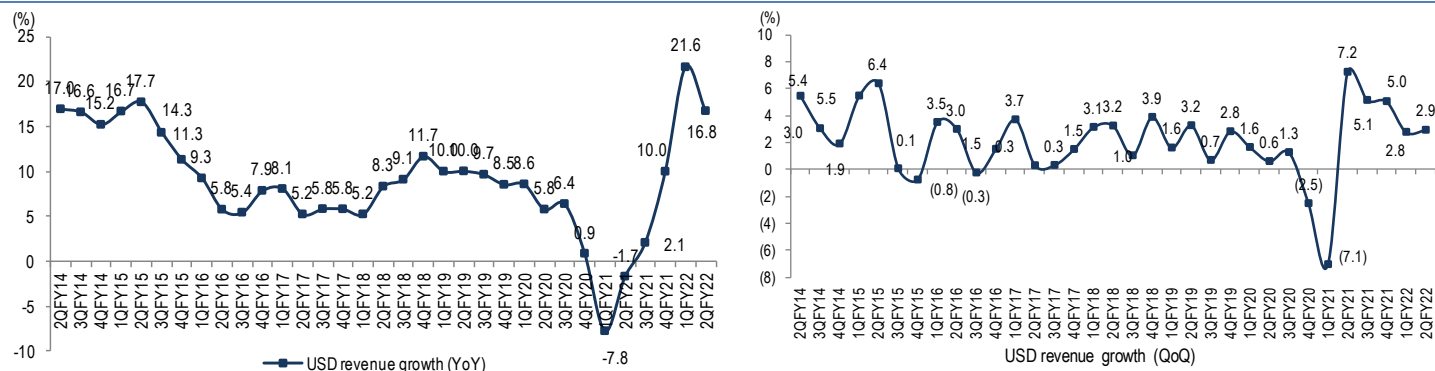
2QFY22 Analyst Call Highlights

- Phenomenal growth in India but soft quarter for Continental Europe:** Revenue at US\$6,333mn grew by 2.9% QoQ (16.8% YoY). The revenue growth on CC basis was 15.5% YoY and 4% QoQ. INR revenue grew by 16.8% YoY and 3.2% QoQ. Double digit growth was seen across all segments, driven by three broad trends i.e., increased outsourcing, investment in building a digital core and growth & transformation agendas of clients. While India market grew by 14.1% QoQ, Continental Europe declined by 2% QoQ.
- All verticals showed growth. Retail QoQ growth moderates:** All verticals showed strong double-digit CC growth YoY, led by Manufacturing (21.7%), followed by Life Sciences & Health Care (19%), Retail & CPG (18.4%), BFSI (17%), Communication & Media (15.6%) and Technology & Services (14.8%). An important milestone of US\$2bn quarterly run-rate was achieved for BFSI services alone, making TCS one of the largest providers of IT Consulting services & solutions in the BFSI industry globally. Growth in BFSI is on the back of large insurance deal wins. Manufacturing has had a sharp growth due to increasing demand within the auto industry, specifically the EV segment. On a QoQ USD basis, most verticals showed decent growth while Retail showed moderation, but after multiple quarters of above company growth.
- Geography-wise, India bounces back:** YoY revenue growth in CC terms was seen across all markets, led by North America (17.4%), UK (15.6%) and Continental Europe (13.5%). Among the regional markets, growth was led by India (20.1%), followed by Latin America (15.2%), Middle East & Africa (13.8%) and Asia Pacific (7.6%). The rebound in India (14% QoQ growth after a ~16% QoQ decline in 1QFY22) was driven by demand in the insurance sector, banks in need of digital transformation, enhancement of payment infrastructure by the RBI and newly launched services to help market infrastructure institutions such as exchanges and depositories. Europe is expected to get better post vaccination drives. Demand from BFSI in North America is strong and expected to continue. Continental Europe growth was indicated to have slowed down across verticals, driven by multiple factors (1) a large project came to an end (2) customers offshored more due to supply-side challenges that led to value compression (3) there were some issues surrounding demand too in this geography in some verticals.
- Strong deal wins and sustainable demand environment:** Similar to 1QFY22, the nature of deal wins had a wide spectrum with no mega deals but a mixed bag of large, mid and small sized deals, driven by digital transformation agenda. Total deal wins stood at US\$7.6bn and if we remove the one mega deal reported in 2QFY21, this represents a 25% expansion on like-to-like TCV. On a reported basis, TCV was down ~12%. BFSI deals stood at US\$2.1bn while Retail had a strong order inflow of US\$1.2bn. North America deals stood at US\$3.9bn.
- Improvement in margins QoQ (but lower than estimated) but YoY decline:** EBIT margin stood at 25.6%, lower than our estimate and increasing by 10bps QoQ (decreasing by 60bps YoY), driven by industry level inflationary headwinds. Net margin came in at 20.5%, in line with our estimate, increasing by 70bps QoQ and decreasing by 50bps YoY. The lower than expected margins were because of (1) negative currency impact (2) increase in sub-contractor expenses. TCS hinted that there could be some short term pressure on margins from the supply side. We have therefore lowered our estimates on the margin front for 2HFY22.
- Opportunities in Aerospace industry:** With the ongoing process of takeover of Air India by Tata Sons, TCS believes that it has a great opportunity to help in reviving the airline. Being one of the leading service providers to airlines globally, TCS has an experience of providing new-age systems to the industry. TCS believes that the airline industry has shown remarkable resilience through the crisis and that the industry is likely to return to normalcy 12-18 months ahead of expectations.
- Continuing momentum and success of Ignio:** Ignio, the cognitive automation software of TCS signed up 22 new customers and 8 go-lives. Ignio has helped one of the largest mid-western consumer banks of USA in reducing downtime of critical applications besides significantly improving operational resilience.
- Continuing momentum in collections and cash flows:** DSO stood at 67 in USD terms, up 2 days compared to 1QFY22. Net cash flow from operations was Rs99.45bn, leading to cash conversion of 103.3%. Free cash flow was Rs92.9bn.
- Multi-Horizon cloud transformation in the future:** TCS mentioned that there have been large number of deals around Horizon 1 initiatives, some of which are also progressing to Horizon 2, using native capabilities of the cloud to transform core activities, driving superior business outcomes and paving the way for innovative business models. Horizon 1 is the enabler towards architectural shifts to higher Horizons and once the migration starts, it unlocks more possibilities and triggers new investment. TCS states that Horizon 1 deals are

multi-year deals and more consumption driven while Horizon 2 deals are more complex project-based deals. Horizon 1 deals start small and then may convert into Horizon 2 and/or Horizon 3 deals. Hence, it is difficult to break out value difference.

- **TCS continues to make investments in research and innovation.** The company has applied for 6,169 patents, including 180 applied during 2QFY22 and has been granted 2,100 patents.
- **Attrition rate rises significantly QoQ but still shy of its highest number:** TCS reported LTM attrition rate of 11.9%, which is higher than 1QFY22 (8.6%) and 2QFY21 (8.9%), but continues to be the lowest in the industry. TCS stated that it will closely monitor the situation in the next few quarters, and continue to hire best talents across the country to add to their pool of highly trained digital talent. We believe that TCS is feeling the heat of talent hoarding that Accenture has been indulging in for the last 6 months and will likely continue to do so over the next quarter or two.
- **Back to workplace towards year-end with 25x25 vision:** TCS states that 70% of its total employees have been fully vaccinated while 95% of the workforce has received at least one dose. Senior management, client and delivery executives are being encouraged to join office. TCS plans to bring back 80-85% its workforce to the workplace gradually by the end of the year, ensuring hybrid model and desired level of flexibility.
- **TCS to add 2x freshers in FY23 compared to FY22:** The company's ability to attract and retain talent at scale and its continued investments in organic talent development has enabled it to fulfill much of the incremental demand in newer technologies. Employees logged over 14.3mn learning hours in 2QFY22. Over 496,000 employees have been trained in agile methods and over 417,000 employees have been trained in multiple new technologies. With a foresight to continue hiring in large numbers, TCS has already on-boarded 43,000 fresh engineers in 1HFY22. It was indicated that TCS would hire another 35,000 freshers in 2HFY22, taking the total to ~78,000 for the whole of FY22.

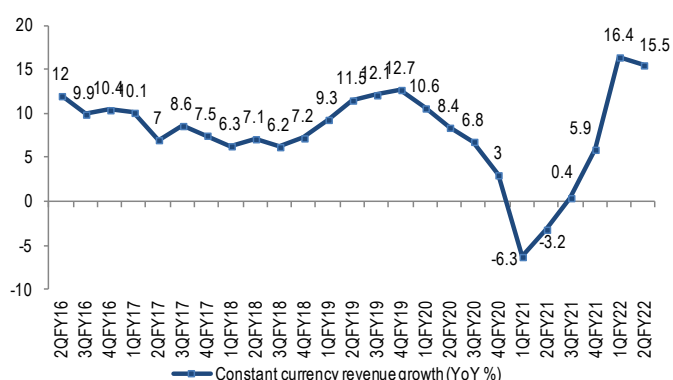
Exhibit 5: USD revenue growth rate declines YoY but improves marginally QoQ



Source: Company, Nirmal Bang Institutional Equities Research

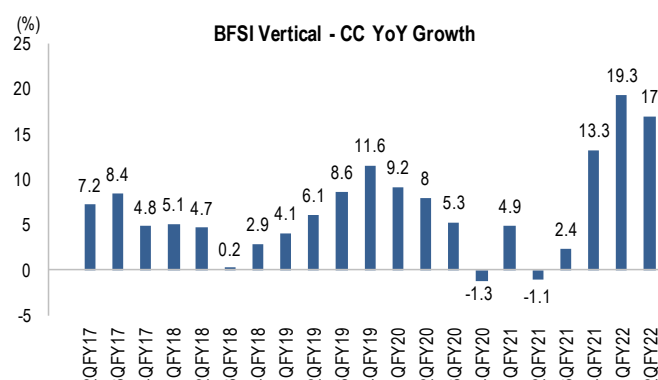
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: CC YoY revenue declines



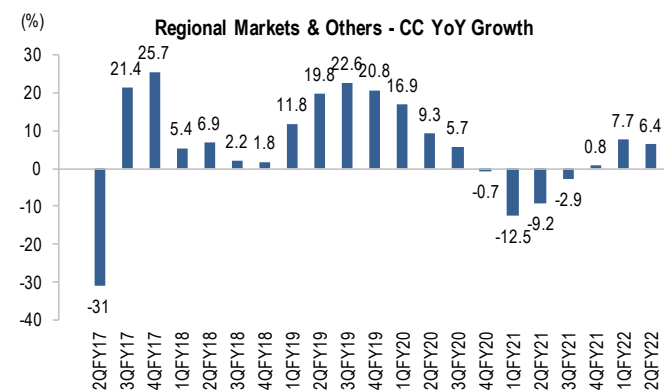
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: CC YoY of BFSI vertical



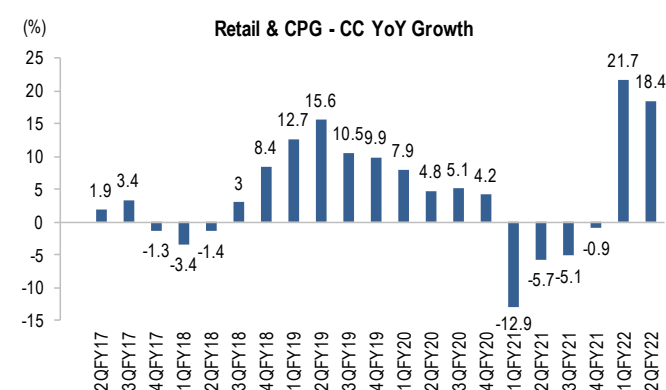
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: CC YoY Regional Markets and others

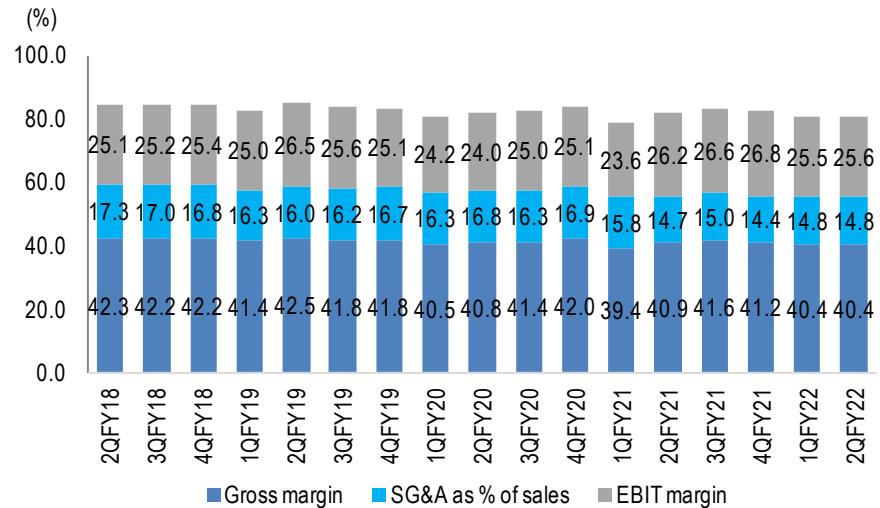


Source: Company, Nirmal Bang Institutional Equities Research

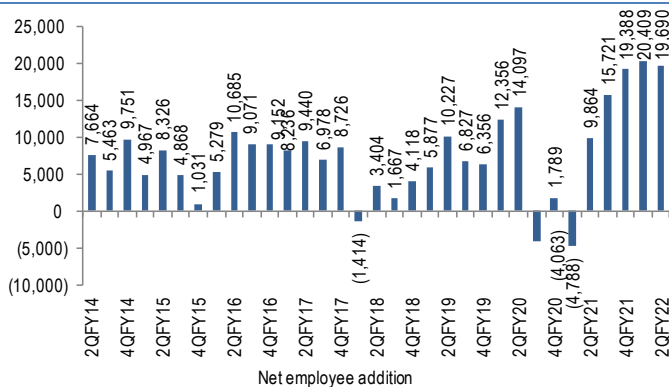
Exhibit 9: CC YoY Retail and CPG vertical



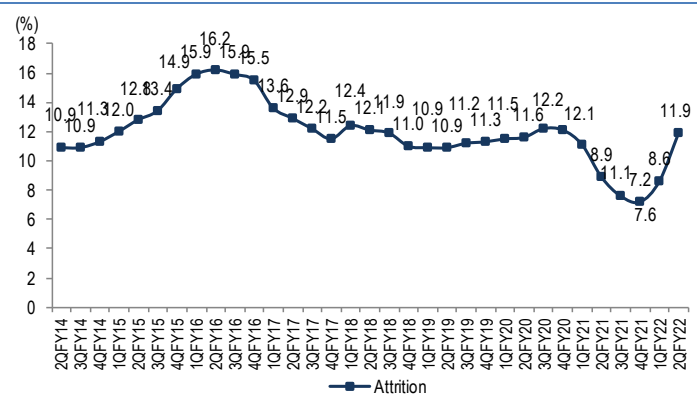
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Gross, EBIT margin and SGA picture


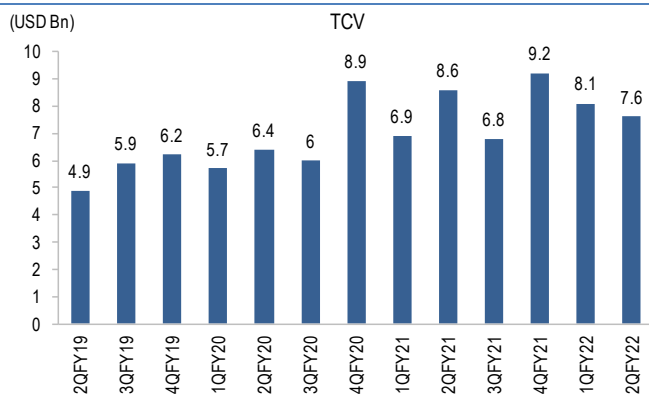
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Net employee addition at almost the peak


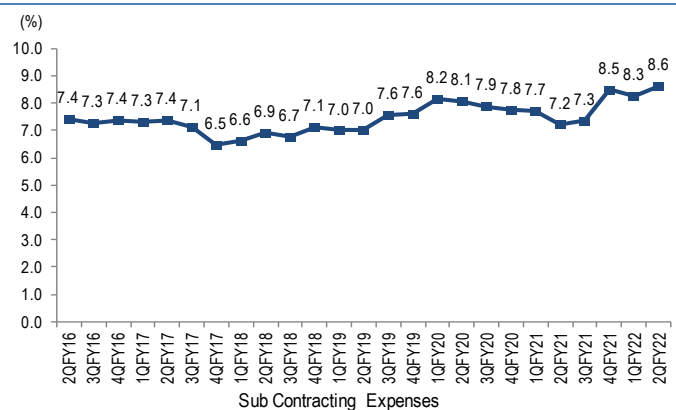
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Attrition rate moves up significantly QoQ


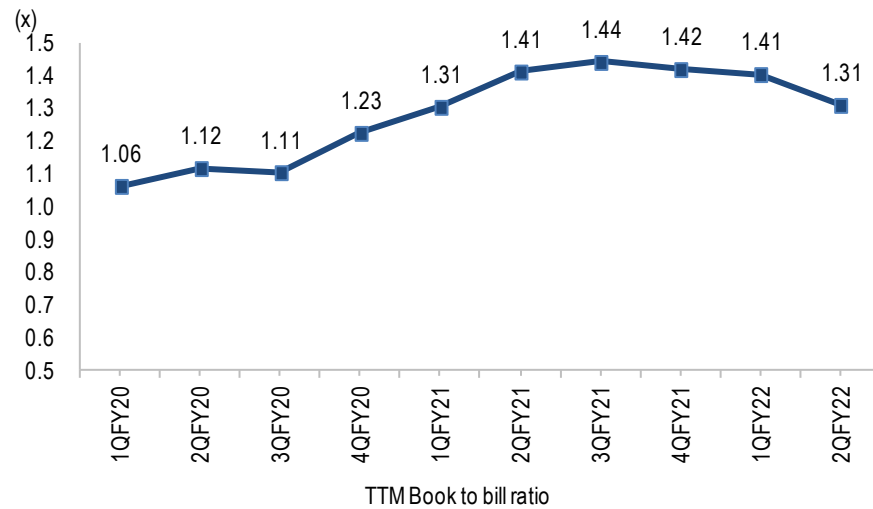
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Quarterly TCV– declines YoY 12% but up 25% Ex-mega deals


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Subcontractor charges remain elevated


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: TTM Book/Bill ratio declines


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Quarterly snapshot

Year to 31 March	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22
INR/USD	67.8	70.0	72.2	70.4	69.6	70.6	71.4	72.3	75.8	74.0	73.7	73.0	73.8	74.0
Revenue (in USDmn)	5051	5215	5250	5397	5485	5517	5586	5444	5059	5424	5702	5989	6154	6333
(Rsmn)														
Revenue	342,610	368,540	373,380	380,100	381,720	389,770	398,540	399,460	383,220	401,350	420,150	437,050	454,110	468,670
Gross margin	141,780	156,540	156,030	158,700	154,510	159,140	164,850	167,770	151,080	164,200	174,880	180,230	183,310	189,450
EBIT	85,780	97,710	95,640	95,370	92,200	93,610	99,740	100,250	90,480	105,150	111,840	117,340	115,880	120,000
Other income	12,080	5,930	11,470	11,650	14,180	11,680	5,950	4,870	4,560	7,400	5,080	7,930	5,750	9,690
PBT	97,860	103,640	107,110	107,020	106,380	105,290	105,690	105,120	95,040	112,550	116,920	125,270	121,630	129,690
Tax	24,240	24,370	25,900	25,500	24,850	24,710	24,260	24,190	24,550	27,930	29,650	32,450	31,320	33,160
PAT	73,400	79,010	81,050	81,260	81,310	80,420	81,180	80,490	70,080	84,330	87,010	92,460	90,080	96,240
Number of shares	3,829	3,829	3,752	3,752	3,752	3,752	3,752	3,752	3,752	3,752	3,752	3,703	3,699	3,699
EPS	19.2	20.6	21.6	21.7	21.7	21.4	21.6	21.5	18.7	22.5	23.2	25.0	24.4	26.0
YoY Growth														
USD Revenue	10.0	10.0	9.7	8.5	8.6	5.8	6.4	0.9	-7.8	-1.7	2.1	10.0	21.6	16.8
INR Revenues	15.8	20.7	20.8	18.5	11.4	5.8	6.7	5.1	0.4	3.0	5.4	9.4	18.5	16.8
Gross profit	15.3	21.1	19.6	17.1	9.0	1.7	5.7	5.7	-2.2	3.2	6.1	7.4	21.3	15.4
EBIT	24.1	27.6	22.9	17.1	7.5	-4.2	4.3	5.1	-1.9	12.3	12.1	17.0	28.1	14.1
Net profit	23.5	22.6	24.1	17.7	10.8	1.8	0.2	-0.9	-13.8	4.9	7.2	14.9	28.5	14.1
QoQ Growth														
USD Revenues	1.59	3.2	0.7	2.8	1.6	0.6	1.3	(2.5)	(7.1)	7.2	5.1	5.0	2.8	2.9
INR Revenues	6.8	7.6	1.3	1.8	0.4	2.1	2.3	0.2	(4.1)	4.7	4.7	4.0	3.9	3.2
EBIT	5.3	13.9	(2.1)	(0.3)	(3.3)	1.5	6.5	0.5	(9.7)	16.2	6.4	4.9	(1.2)	3.6
Net profit	6.3	7.6	2.6	0.3	0.1	(1.1)	0.9	(0.8)	(12.9)	20.3	3.2	6.3	(2.6)	6.8
Margins (%)														
Gross margin	41.4	42.5	41.8	41.8	40.5	40.8	41.4	42.0	39.4	40.9	41.6	41.2	40.4	40.4
EBIT	25.0	26.5	25.6	25.1	24.2	24.0	25.0	25.1	23.6	26.2	26.6	26.8	25.5	25.6
PAT	21.4	21.4	21.7	21.4	21.3	20.6	20.4	20.1	18.3	21.0	20.7	21.2	19.8	20.5
SGA	16.3	16.0	16.2	16.7	16.3	16.8	16.3	16.9	15.8	14.7	15.0	14.4	14.8	14.8

Source: Company, Nirmal Bang Institutional Equities Research. Note: Excludes the one-off provisioning for Epic Systems

Exhibit 17: Key metrics

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22
P and L (Rs mn)														
Revenue	342,610	368,540	373,380	380,100	381,720	389,770	398,540	399,460	383,220	401,350	420,150	437,050	454,110	468,670
EBITDA	85,780	97,710	95,640	95,370	92,200	93,610	99,740	100,250	90,480	105,150	111,840	117,340	115,880	120,000
PAT	73,400	79,010	81,050	81,260	81,310	80,420	81,180	80,490	70,080	84,330	87,010	92,460	90,080	96,240
Vertical Mix (%)														
BFSI	31.1	31.2	30.8	30.9	30.8	31.0	30.4	29.7	31.5	31.9	31.3	32.2	32.5	32.4
Manufacturing	10.2	9.8	9.8	9.6	9.8	9.8	10.0	10.1	9.7	9.4	9.6	9.6	9.8	9.9
Communication and Media	7.1	6.8	6.9	6.8	6.9	7.0	7.0	7.2	6.9	6.5	6.6	6.5	6.4	6.5
Life Sciences	7.3	7.5	7.6	7.7	7.9	8.1	8.3	8.8	9.6	9.8	9.8	9.7	10.2	10.0
Retail & Distribution	15.4	15.4	15.5	15.1	15.0	14.8	15.2	15.4	14.0	14.6	14.5	14.5	14.8	15.0
Hi-Tech	9.0	8.9	8.7	8.6	8.8	8.7	8.4	8.7	9.1	8.9	8.6	8.4	8.6	8.8
Travel and hospitality	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Energy And Utility	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	19.9	20.4	20.7	21.3	20.8	20.6	20.7	20.1	19.2	18.9	19.6	19.1	17.7	17.4
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Geographic Mix (%)														
North America	51.0	51.1	51.2	50.7	50.6	50.6	50.1	50.3	51.4	49.9	49.1	48.6	49.4	50.3
UK	15.5	15.6	15.5	15.9	15.8	15.6	15.9	16.0	15.3	15.5	15.7	16.0	16.3	16.1
Europe	14.0	14.0	14.1	14.1	14.3	14.6	14.9	15.2	15.6	16.3	16.2	16.8	16.7	15.9
India	5.8	5.6	5.7	5.8	6.0	5.7	5.7	5.5	4.3	5.0	5.6	5.6	4.6	5.1
APAC	9.6	9.6	9.4	9.5	9.4	9.4	9.3	9.3	9.8	9.7	9.7	9.4	9.3	9.0
Ibero America	1.9	2.1	2.0	2.0	1.8	1.9	1.9	1.8	1.7	1.7	1.7	1.6	1.6	1.6
MEA	2.2	2.1	2.1	2.0	2.1	2.2	2.2	1.9	1.9	1.9	2.0	2.0	2.1	2.0
	100.0	100.1	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Number of Client														
\$100mn +	40	44	45	44	44	47	47	49	48	49	48	48	50	54
\$50mn +	97	98	99	99	100	101	102	105	100	97	97	101	105	114
Employee Number	400,875	411,102	417,929	424,285	436,641	450,738	446,675	448,464	443,676	453,540	469,261	488,649	509,058	528,748
Net Addition	5,877	10,227	6,827	6,356	12,356	14,097	(4,063)	1,789	(4,788)	9,864	15,721	19,388	20,409	19,690
Attrition (%)	10.9	10.9	11.2	11.3	11.5	11.6	12.2	12.1	11.1	8.9	7.6	7.2	8.6	11.9

Source: Company, Nirmal Bang Institutional Equities Research. Note: Excludes the one-off provisioning for Epic Systems

Exhibit 18: QoQ and YoY growth on various parameters for TCS

(in US\$)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22
QoQ Growth (%)														
Revenue	1.6	3.2	0.7	2.8	1.6	0.6	1.3	-2.5	-7.1	7.2	5.1	5.0	2.8	2.9
Geographical Data														
Americas	3.2	3.4	0.9	1.8	1.4	0.6	0.3	(2.2)	(5.0)	4.1	3.4	4.0	4.4	4.8
UK	3.6	3.9	0.0	5.5	1.0	(0.7)	3.2	(1.9)	(11.1)	8.6	6.5	7.0	4.7	1.6
Europe	0.2	3.2	1.4	2.8	3.1	2.7	3.3	(0.6)	(4.6)	12.0	4.5	8.9	2.1	(2.0)
India	(5.0)	(0.3)	2.5	4.6	5.1	(4.4)	1.3	(6.0)	(27.3)	24.7	17.7	5.0	(15.6)	14.1
APAC	0.5	3.2	(1.4)	3.9	0.6	0.6	0.2	(2.5)	(2.1)	6.1	5.1	1.8	1.7	(0.4)
Ibero America	(3.5)	14.1	(4.1)	2.8	(8.5)	6.2	1.3	(7.7)	(12.2)	7.2	5.1	(1.1)	2.8	2.9
MEA	(10.6)	(1.4)	0.7	(2.1)	6.7	5.4	1.3	(15.8)	(7.1)	7.2	10.7	5.0	7.9	(2.0)
Verticals														
BFSI	0.3	3.6	(0.6)	3.1	1.3	1.2	(0.7)	(4.8)	(1.4)	8.6	3.1	8.1	3.7	2.6
Manufacturing	40.0	(0.8)	0.7	0.7	3.7	0.6	3.3	(1.6)	(10.8)	3.9	7.4	5.0	4.9	4.0
Communication and Media	(2.5)	(1.1)	2.2	1.3	3.1	2.0	1.3	0.2	(10.9)	1.0	6.7	3.4	1.2	4.5
Life Science & Healthcare	3.0	6.1	2.0	4.2	4.3	3.1	3.8	3.3	1.4	9.4	5.1	4.0	8.1	0.9
Retail and distribution	27.2	3.2	1.3	0.1	1.0	(0.8)	4.0	(1.3)	(15.5)	11.8	4.4	5.0	4.9	4.3
Hi-Tech (Now Technology Services)	17.2	2.1	(1.6)	1.6	-	-	-	-	-	-	-	-	-	-
Travel and hospitality	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Energy and Utilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Regional Market & Others	14.9	5.8	2.2	5.8	(0.8)	(0.4)	1.7	(5.4)	(11.2)	5.5	9.0	2.4	(4.8)	1.2
YoY Growth (%)														
Revenue	10.0	10.0	9.7	8.5	8.6	5.8	6.4	0.9	(7.8)	(1.7)	2.1	10.0	21.6	16.8
Geographical Data														
Americas	6.9	8.3	8.0	9.6	7.7	4.8	4.1	0.1	(6.3)	(3.0)	0.0	6.3	16.9	17.7
UK	22.7	22.6	20.6	13.5	10.7	5.8	9.1	1.5	(10.7)	(2.3)	0.8	10.0	29.6	21.3
Europe	23.2	15.0	14.5	7.8	10.9	10.3	12.4	8.7	0.6	9.8	11.0	21.6	30.2	13.9
India	(8.8)	(2.2)	(0.8)	1.5	12.3	7.7	6.4	(4.3)	(33.9)	(13.8)	0.3	12.0	30.1	19.1
APAC	11.2	7.8	8.5	6.3	6.3	3.6	5.3	(1.3)	(3.8)	1.5	6.5	11.2	15.4	8.3
Ibero America	(0.5)	5.0	(0.3)	8.5	2.9	(4.3)	1.1	(9.2)	(12.9)	(12.0)	(8.7)	(2.2)	14.5	9.9
MEA	(3.2)	(3.7)	(4.0)	(13.2)	3.7	10.8	11.5	(4.2)	(16.6)	(15.1)	(7.2)	15.8	34.4	22.9
Verticals														
BFSI	4.0	4.0	5.2	6.5	7.5	5.1	5.0	(3.0)	(5.7)	1.2	5.1	19.3	25.5	18.6
Manufacturing	49.6	43.8	41.4	40.8	4.3	5.8	8.6	6.1	(8.7)	(5.7)	(2.0)	4.6	22.9	23.0
Communication and Media	7.0	2.5	2.3	(0.3)	5.5	8.9	7.9	6.8	(7.8)	(8.7)	(3.8)	(0.7)	12.8	16.8
Life Science & Healthcare	13.1	14.6	14.2	16.1	17.5	14.3	16.2	15.3	12.1	18.9	20.5	21.3	29.2	19.1
Retail and distribution	38.9	42.4	36.0	33.3	5.8	1.7	4.3	2.9	(13.9)	(3.0)	(2.6)	3.6	28.6	20.0
Hi-Tech	25.3	20.9	19.3	19.7	6.2	3.4	2.7	2.0	(4.6)	0.6	4.5	6.2	15.0	15.4
Travel and hospitality	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Energy and Utilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Regional Market & Others	24.4	32.1	35.1	31.4	13.5	6.8	6.4	(4.8)	(14.9)	(9.8)	(3.3)	4.5	12.1	7.5

Source: Nirmal Bang Institutional Equities Research

Financials

Exhibit 19: Income statement

Y/E March (Rsbn)	FY20	FY21	FY22E	FY23E	FY24E
Average INR/USD	71.0	74.1	74.6	76.5	77.0
Net Sales (USD mn)	22,032	22,174	25,344	27,866	30,530
-Growth (%)	5.4	0.6	14.3	10.0	9.6
Net Sales	1,569	1,642	1,892	2,132	2,351
-Growth (%)	7.2	4.6	15.2	12.7	10.3
Cost of Sales & Services	923	971	1,134	1,266	1,397
Gross Margin	646	670	758	866	953
% of sales	41.2	40.8	40.1	40.6	40.6
SG&A	260	246	279	312	342
% of sales	16.6	15.0	14.8	14.6	14.6
EBIT	386	425	479	554	611
EBIT Margin (%)	24.6	25.9	25.3	26.0	26.0
Other income (net)	37	25	31	31	31
PBT	422	450	509	585	642
-PBT margin (%)	26.9	27.4	26.9	27.4	27.3
Provision for tax	98	115	130	149	164
Effective tax rate (%)	23.2	25.5	25.6	25.5	25.5
Minority Interest	1	1	1	1	1
Net profit	323	334	378	435	477
-Growth (%)	2.8	3.2	13.2	15.0	9.8
-Net profit margin (%)	20.6	20.3	20.0	20.4	20.3
Average Shares outstanding-	3,752	3,728	3,699	3,699	3,699

Source: Company, Nirmal Bang Institutional Equities Research;

Note: Excludes the one-off provisioning for Epic Systems

Exhibit 21: Balance sheet

Y/E March (Rsbn)	FY20	FY21	FY22E	FY23E	FY24E
Equity capital	3.8	3.7	3.7	3.7	3.7
Reserves & surplus	844	889	1,037	1,095	1,150
Net worth	847	892	1,041	1,099	1,154
Minority Interest	-	-	-	-	-
Other liabilities	22	30	29	33	36
Total loans	-	-	-	-	-
Lease Liabilities	82	78	82	82	82
Total liabilities	951	1,000	1,152	1,213	1,272
Goodwill	20	44	44	44	44
Net block (incl. CWIP)	118	121	121	147	174
Investments	2	2	2	2	2
Deferred tax asset - net	28	39	39	44	48
Other non-current assets	54	42	56	58	61
Right of use asset	80	76	80	80	80
Other current assets	443	535	611	625	637
Debtors	367	370	444	501	551
Cash & bank balance	86	69	52	42	42
Bank deposits	10	30	32	31	21
Total current assets	906	1,003	1,140	1,199	1,251
Total current liabilities	258	329	329	361	389
Net current assets	648	675	811	838	863
Total assets	951	1,000	1,152	1,213	1,272

Source: Company, Nirmal Bang Institutional Equities Research

Note: Excludes the one-off provisioning for Epic Systems

Exhibit 20: Cash flow

Y/E March (Rsbn)	FY20	FY21	FY22E	FY23E	FY24E
EBIT	386	425	479	554	611
(Inc.)/dec. in working capital	75	11	(65)	(43)	(38)
Cash flow from operations	461	436	413	512	573
Other income	37	25	31	31	31
Depreciation & amortisation	35	41	44	50	60
Financial expenses	-	-	-	-	-
Tax paid	(98)	(115)	(130)	(149)	(164)
Dividends paid	(330)	(171)	(241)	(455)	(508)
Net cash from operations	105	216	117	(12)	(8)
Capital expenditure	(19)	(22)	(24)	(28)	(30)
Net cash after capex	86	193	93	(40)	(38)
Inc.)/(dec.) in debt	(1)	-	-	-	-
(Inc.)/dec. in investments	30	(30)	(95)	-	-
Equity issue/(Share Buyback)	-	(192)	-	-	-
Cash from financial activities	29	(222)	(95)	-	-
Others	(145)	30	(12)	29	28
Opening cash	127	97	98	84	73
Closing cash	96	98	84	73	63
Change in cash	(30)	1	(14)	(11)	(10)

Source: Company, Nirmal Bang Institutional Equities Research.

Note: Excludes the one-off provisioning for Epic Systems

Exhibit 22: Key ratios

Y/E March	FY20	FY21	FY22E	FY23E	FY24E
Per Share (Rs)					
EPS	86.2	89.3	102.2	117.5	129.0
FDEPS	86.2	89.3	102.2	117.5	129.0
Dividend Per Share	73.0	38.1	54.0	102.0	114.0
Dividend Yield (%)	1.9	1.0	1.4	2.6	2.9
Book Value	229	241	282	297	312
Dividend Payout Ratio (incl DT)	84.7	42.5	52.8	86.8	88.4
Return ratios (%)					
RoE	36.6	38.4	39.1	40.6	42.4
Pre Tax RoCE	35.1	36.5	37.0	39.3	41.0
Pre Tax ROIC	55.5	54.9	56.4	59.7	60.2
Turnover Ratios					
Asset Turnover Ratio	1.3	1.2	1.3	1.4	1.4
Debtor Days (incl. unbilled Rev)	85	82	86	86	86
Working Capital Cycle Days	49	46	50	51	51
Valuation ratios (x)					
PER	45.7	44.1	38.5	33.5	30.5
P/BV	17.2	16.3	14.0	13.2	12.6
EV/EBTDA	34.4	31.1	27.7	24.0	21.6
EV/Sales	9.2	8.8	7.7	6.8	6.2
M-cap/Sales	9.3	8.9	7.7	6.8	6.2

Source: Company, Nirmal Bang Institutional Equities Research.

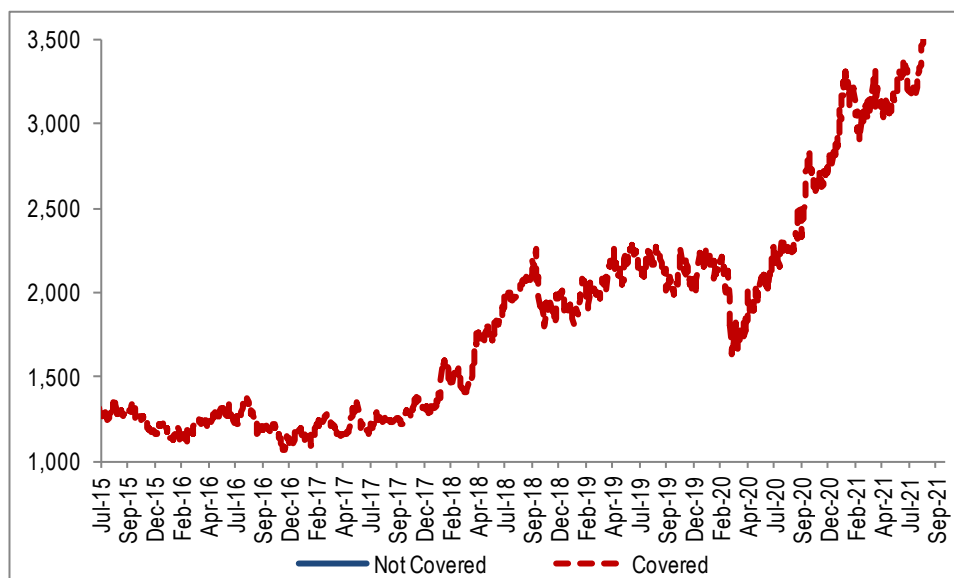
Note: Excludes the one-off provisioning for Epic Systems

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
17 April 2015	Sell	2,574	2,325
10 July 2015	Sell	2,529	2,173
9 September 2015	Sell	2,540	2,173
5 October 2015	Sell	2,641	2,217
14 October 2015	Sell	2,599	2,248
8 January 2016	Under Review	2,398	-
13 January 2016	Under Review	2,327	-
14 March 2016	Sell	2,360	2,055
20 April 2016	Sell	2,520	2,089
15 July 2016	Sell	2,521	2,075
14 September 2016	Sell	2,359	2,041
14 October 2016	Sell	2,329	2,073
10 January 2017	Sell	2,304	1,952
13 January 2017	Sell	2,344	1,956
14 February 2017	Sell	2,414	1,983
21 February 2017	Sell	2,502	1,983
2 March 2017	Sell	2,477	1,983
19 April 2017	Sell	2,309	1,996
21 June 2017	Sell	2,443	1,923
14 July 2017	Sell	2,446	1,930
28 September 2017	Sell	2,475	1,908
13 October 2017	Sell	2,548	1,913
26 December 2017	Under Review	2,647	-
12 January 2018	Under Review	2,792	-
17 March 2018	Accumulate	2,829	3,155
20 April 2018	Accumulate	3,191	3,176
26 June 2018*	Accumulate	1,818	1,812
11 July 2018	Accumulate	1,876	1,862
05 October 2018	Accumulate	2,063	2,145
12 October 2018	Accumulate	1,980	2,120
27 December 2018	Sell	1,892	1,712
7 January 2019	Sell	1,877	1,533
11 January 2019	Sell	1,883	1,545
18 March 2019	Sell	2,040	1,607
19 March 2019	Sell	2,023	1,607
15 April 2019	Sell	2,015	1,614
10 July 2019	Sell	2,120	1,601
23 September 2019	Sell	2,020	1,615
10 October 2019	Sell	2,004	1,593
2 January 2020	Under Review	2,170	-
20 January 2020	Under Review	2,220	-
30 March 2020	Sell	1,850	1,393
17 April 2020	Sell	1,716	1,393
10 July 2020	Under Review	2,204	-
6 September 2020	Accumulate	2,289	2,381
28 September 2020	Accumulate	2,422	2,537
8 October 2020	Accumulate	2,736	2,809
29 December 2020	Accumulate	2,929	3,001
10 January 2021	Accumulate	3,121	3,157
13 April 2021	Accumulate	3,247	3,165
5 July 2021	Accumulate	3,325	3,664
9 July 2021	Accumulate	3,259	3,662
22 September 2021	Accumulate	3863	3813
09 October 2021	Accumulate	3936	3772

* Post 1:1 Bonus

Rating track graph



DISCLOSURES

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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

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Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
Nr. Peninsula Corporate Park,
Lower Parel (W), Mumbai-400013.
Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010