

Outlook Continues to be Positive Backed By Execution Prowess

Tata Consultancy Services Ltd (TCS) reported a 3.2% revenue growth QoQ in Q2FY22 in Rs terms which was below our expectations. The company's revenues stood at Rs 46,867 Cr, up 16.8% YoY and 3.2% QoQ. While its operating profit stood at Rs 12,000 Cr, the company's Operating Margins expanded 10bps QoQ to 25.6%, led by its superior execution in the quarter. The management commentary on the verticals BFSI, Hi-tech Media, Life Sciences, and Retail was positive and it expects TCS to report double-digit growth in FY22. Deal-wins for the quarter continued strong and across verticals, and stood at \$7.6 Bn, reporting a growth of 17% YoY. Q2FY22 deal wins were driven by traction in small and medium-sized deals with the maximum deal size standing at \$400 Mn. The sales cycle and execution of smaller deals continues to be faster.

We recommend a HOLD rating on the stock and assign a 30x P/E multiple to its FY24E earnings of Rs 135.2/share to arrive at a TP of Rs 4,110/share, implying an upside of 4% from CMP. .

Healthy broad-based growth

The majority of the verticals delivered encouraging growth during the quarter. Life Sciences & Healthcare grew by 19% YoY, BFSI by 17% YoY, Manufacturing by 21.7% YoY, and Technological Services by 14.8% YoY. Furthermore, Communication & Media grew by 15.6% YoY while Regional Markets & Others, too, improved by 6% YoY. Moving forward, a positive growth trend is expected to continue backed by strong traction and deal pipeline in the forthcoming quarters.

On a geographical front, North America (51% of revenue) improved by 17.4% YoY, Europe (32% of revenue) grew by 15.6% YoY, and India business grew by 20.1% YoY. The company recorded a Free Cash Flow of Rs 9,220 Cr in Q2FY22.

Outlook & Valuation

From a long term perspective, we believe TCS has built a resilient business structure through multiple long-term contracts it has won from the world's leading brands. With the growth in volumes and efficient execution, the company is expected to regain its operating margins at the desired level of 26%-27%. However, probable delays in the ramp-up in the won deals remain a key risk to the company's operating performance. **We recommend a HOLD rating on the stock and assign a 30x P/E multiple to its FY24E earnings of Rs 135.2/share to arrive at a TP of Rs 4,110/share, implying an upside of 4% from CMP.**

Key Financials (Consolidated)

(Rs Cr)	FY21	FY22	FY23E	FY24E
Net Sales	1,56,949	1,64,177	1,90,779	2,21,771
EBIDTA	42,110	46,546	52,349	60,459
Net Profit	32,340	33,215	37,927	43,218
EPS (Rs)	86.2	89.3	101.0	115.6
PER (x)	13.0	12.0	11.0	11.0
EV/EBIDTA (x)	18.6	25.0	21.0	18.0
P/BV (x)	13.1	12.7	10.9	9.3
ROE (%)	37%	38%	39%	39%

Source: Company, Axis Research

(CMP as of Oct 08, 2021)

CMP (Rs)	3,935
Upside /(Downside (%))	4%
High/Low (Rs)	3,990/2,600
Market cap (Cr)	Rs 14,55,687
Avg. daily vol. (6m) Shrs.	14,17,591
No. of shares (Cr)	369.9

Shareholding (%)

	Mar-21	Jun-21	Sep-21
Promoter	72.2	72.2	72.2
FII's	15.6	15.4	15.4
MFs / UTI	2.9	3.0	3.1
Banks / FI's	0.0	0.0	0.0
Others	9.3	9.4	9.3

Financial & Valuations

Y/E Mar (Rs. Cr)	FY22	FY23E	FY24E
Net Sales	1,64,177	1,90,779	2,21,771
EBITDA	46,546	52,349	60,459
Net Profit	33,215	37,927	43,218
EPS (Rs)	89.3	101.0	115.6
PER (x)	12.0	11.0	11.0
EV/EBITDA (x)	25.0	21.0	18.0
P/BV (x)	12.7	10.9	9.3
RoE (%)	38%	39%	39%

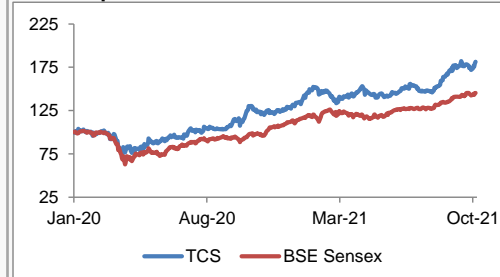
ESG disclosure Score**

Environmental Disclosure	11.0
Social Disclosure Score	28.0
Governance Disclosure Score	45.0
Total ESG Disclosure Score	23.0

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly, and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: Capitaline, Axis Securities

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Key Investment Arguments

- 1) TCS management noted that the BFSI is witnessing robust demand in public Cloud Space. Most of its customers have a public Cloud strategy or are experimenting with the technology, implying wider acceptance of the technology. Moreover, no client has significantly shifted its workloads to Cloud, indicating low penetration. A scenario of high acceptance and low penetration is expected to set the tone for the strong momentum in the BFSI space over the next two years.
- 2) The US Retail had good recovery followed by Europe and UK. Retailers continued spending to enhance customer experience by providing a seamless experience across channels, optimizing fulfilment costs, and providing value-added services.
- 3) The company added 19,960 employees during the quarter and the management said the hiring will continue to be healthy moving forward in line with the robust demand trajectory. Although the attrition rate grew to 11.2%, the management assured that it will not have a major impact on its ongoing projects. Furthermore, we believe the company has been managing its all expenses prudently.
- 4) The management is watchful of the emerging situation and remains optimistic about the opportunities in the company's core markets and verticals. TCS is well-positioned and operating diligently to participate aggressively in the identified opportunities.

On the inorganic growth, the management commented that it continues to sharply focus on making the right investments to power its expansion in the growth and transformation opportunity while sustaining industry-leading profitability.

- 5) TCS board has declared a dividend of Rs. 7 / share.

Revenue Distribution by Geography - New Classification

	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22
Americas							
North America	1.8%	51.4%	49.9%	49.1%	48.6%	49.4%	50.3%
Latin America *	1.8%	1.7%	1.7%	1.7%	1.6%	1.6%	1.6%
Europe	31.2%	30.9%	32.2%	31.9%	32.8%	33.0%	32.0%
UK	16.0%	15.3%	16.6%	15.7%	16.0%	16.3%	16.10%
Continental Europe	15.2%	15.6%	15.6%	16.2%	16.8%	16.7%	15.9%
India	5.5%	4.3%	5.0%	5.6%	5.6%	4.6%	5.1%
Asia Pacific	9.3%	9.8%	9.7%	9.7%	9.4%	9.3%	9.0%
MEA	1.9%	1.9%	1.6%	2.0%	1.6%	2.1%	2.0%

Source: Company, Axis Research

Revenue Distribution by Industry Domain

	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22
BFSI	29.7%	31.4%	31.9%	31.3%	32.2%	32.5%	32.4%
Retail & CPG	15.4%	14.0%	14.6%	14.5%	14.5%	14.8%	15.0%
Communication & Media	7.2%	7.0%	6.5%	6.6%	6.5%	6.4%	10.0%
Manufacturing	10.1%	9.7%	9.4%	9.6%	9.6%	9.8%	9.9%
Life Science & Healthcare	8.8%	9.6%	9.8%	9.8%	9.7%	10.2%	8.8%
Technology & Services	8.7%	9.1%	8.9%	8.6%	8.4%	8.6%	6.5%
Regional Markets & Others	20.1%	19.2%	18.9%	19.6%	19.1%	17.7%	17.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company, Axis Research

Client Parameters

	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22
USD 1 Mn clients *	1072	1066	1076	1077	1096	1118	1138
USD 5 Mn clients *	565	564	565	565	569	586	609
USD 10 Mn clients *	391	382	386	386	387	405	417
USD 20 Mn clients *	240	230	228	229	228	241	247
USD 50 Mn clients *	105	100	97	97	101	105	117
USD 100 Mn clients *	49	48	49	48	48	50	54

Source: Company, Axis Research

Client Parameters

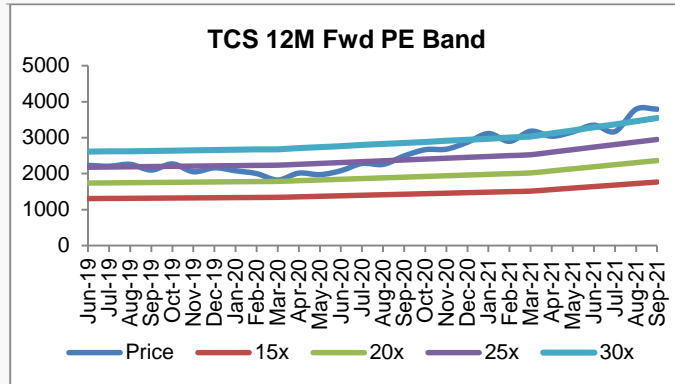
	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22
Total Headcount	4,48,464	4,43,676	4,53,540	4,69,261	4,88,649	5,09,058	5,28,748
Net Addition	1,789	(4,788)	9,864	15,721	19,388	20,409	19,690
Attrition (%)	12.1%	11.1%	8.9%	7.6%	7.2%	8.6%	11.2%

Source: Company, Axis Research

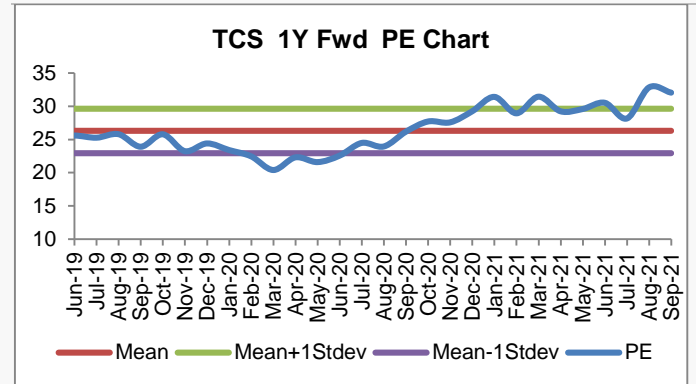
Valuation & Outlook

Strong macro-economic conditions, superior execution, and judicious investment in capabilities have enabled TCS to build an excellent track record of delivering profitable growth in a tough environment. This reaffirms our confidence in the management's ability to deliver in the longer term. **We recommend a HOLD rating on TCS with a target price of Rs 4,110/share with an upside potential of 4% from current levels.**

TCS 12M Fwd PE Band



TCS 1Y Fwd PE Chart



Source: Company, Axis Securities

Result Update
(Rs Cr)

Y/E March	Q2FY22	Q1FY22	Q2FY21	% change (YoY)	% change (QoQ)
Total Revenue	46,867	45,411	40,135	17%	3%
Total Cost of Sales	27,922	27,080	23,715		
Gross Profit	18,945	18,331	16,420	15%	3%
Margin (%)	40%	40%	41%	-49	6
SG &A	6,945	6,743	5,905		
Total Operating Expenses	6,945	6,743	5,905		
Operating Income	12,000	11,588	10,515	14%	4%
Margin(%)	25.6%	25.5%	26%	-59	9
Total Other Income/(Expense)	969	575	740		
Income Before Income Taxes	12,969	12,163	11,255		
Total Taxes	3,316	3,132	2,793		
ETR (%)	26%	26%	25%	75	-18
Net Profit After Taxes	9,653	9,031	8,462	14%	7%
Non Controlling Interest	29	23	29		
Net Income After Extraordinary Items	9,624	9,008	8,433	14%	7%
Margin(%)	21%	20%	21%	-48	70
EPS	26.02	24.35	22.48	16%	7%

Source: Company, Axis Securities

Financials (Consolidated)
Profit & Loss
(Rs Cr)

Y/E March	FY21	FY22	FY23E	FY24E
Net sales	1,64,177	1,90,779	2,21,771	2,56,940
Growth, %	5%	16%	16%	16%
Other income	2,497	3,816	4,435	5,139
Total income	16,667	19,459	22,621	26,208
Employee expenses	91,814	1,06,686	1,21,422	1,39,031
Other Operating expenses	45,685	31,745	39,891	47,534
EBITDA	46,546	52,349	60,459	70,375
Growth, %	11%	12%	15%	16%
Margin, %	26%	27%	27%	27%
Depreciation	4,065	4,901	5,449	5,865
EBIT	44,978	51,263	59,445	69,649
Growth, %	5%	14%	16%	17%
Margin, %	27%	27%	27%	27%
Interest paid	198	100	90	81
Pre-tax profit	44,978	51,163	59,355	69,568
Tax provided	11,458	13,236	15,934	18,811
Profit after tax	33,520	37,927	43,422	50,758
Net Profit	33,215	37,927	43,218	49,512
Growth, %	3%	14%	14%	15%
Net Profit (adjusted)	33,215	37,927	43,218	49,512

Source: Company, Axis Securities

Balance Sheet
(Rs Cr)

Y/E March	FY21	FY22	FY23E	FY24E
Cash & bank	9,120	55,917	72,295	91,082
Debtors	30,079	37,530	43,627	50,546
Other current assets	29,160	29,160	29,160	29,160
Total current assets	99,280	1,55,286	1,79,115	2,06,358
Goodwill and Intangible Assets	3,948	1,800	1,800	1,800
Net fixed assets	13,118	7,987	5,200	2,418
CWIP	963	963	963	963
Other Non current assets	213	213	213	213
Total Non Current Assets	3,360	2,847	2,568	2,290
	0	0	0	0
Total assets	1,32,881	1,83,756	2,04,798	2,29,260
	0	0	0	0
Creditors	7,860	7,565	8,815	10,195
Provisions	6,150	6,150	6,150	6,150
Total current liabilities	34,155	32,127	35,775	39,908
Other liabilities	320	350	350	350
Paid-up capital	370	370	370	370
Reserves & surplus	82,745	97,899	1,15,250	1,35,536
Total equity & liabilities	1,32,881	1,83,756	2,04,798	2,29,260

Source: Company, Axis Securities

Cash Flow
(Rs Cr)

Y/E March	FY21	FY22	FY23E	FY24E
Pre-tax profit	44,978	51,163	59,355	69,568
Depreciation	4,065	4,901	5,449	5,865
Chg in working capital	(2,279)	(11,236)	(3,804)	(4,323)
Total tax paid	11,458	13,236	15,934	18,811
Cash flow from operating activities	38,802	44,828	61,000	71,110
Capital expenditure	(54,462)	2,289	2,661	3,083
Cash flow from investing activities	(8,219)	(38,256)	(44,622)	(52,323)
Dividend (incl. tax)	20,033	22,731	26,027	30,429
Cash flow from financing activities	(32,364)	(1,339)	(1,339)	(1,339)
Net chg in cash	(1,961)	6,572	16,378	18,787

Source: Company, Axis Securities

Ratio Analysis
(%)

Y/E March	FY21	FY22	FY23E	FY24E
Per Share data				
EPS (INR)	89.3	101.0	115.6	135.2
Growth, %	4%	13%	15%	17%
Book NAV/share (INR)	236.0	276.4	322.6	376.7
FDEPS (INR)	42	46	46	46
CEPS (INR)	99.8	114.0	130.1	150.8
CFPS (INR)	37.34	47.34	53.67	61.47
DPS (INR)	38	75	75	75
Return ratios				
Return on assets (%)	26%	25%	21%	21%
Return on equity (%)	38%	39%	39%	39%
Return on capital employed (%)	36%	37%	36%	36%
Turnover ratios				
Asset turnover (x)	10.1	9.9	9.8	9.8
Sales/Total assets (x)	1.2	1.3	1.3	1.3
Receivables Days	68.0	68.0	68.0	68.0
Cash conversion cycle	35	90	95	95
Valuation				
PER (x)	33.6	29.7	26.0	22.2
Price/Book (x)	12.7	10.9	9.3	8.0
Dividend Yeild	1.9	2.4	2.1	2.1
EV/EBITDA (x)	25.0	21.0	18.0	18.0

Source: Company, Axis Securities

Tata Consultancy Services Price Chart and Recommendation History



Date	Reco	TP	Research
22-Jan-20	HOLD	2,290	Result Update
10-Jul-20	HOLD	2,365	Result Update
08-Oct-20	HOLD	3,100	Result Update
11-Jan-21	BUY	3,550	Result Update
12-Apr-21	BUY	3,721	Pick of the week
13-Apr-21	BUY	3,560	Result Update
31-May-21	BUY	3,560	AAA
09-Jul-21	HOLD	3,560	Result Update
11-Oct-21	HOLD	4,100	Result Update

Source: Axis Securities

About the analyst

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