

Reduce



DOLAT ANALYSIS & RESEARCH THEMES
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Establishing a Fulcrum for Growth; But Risks Acknowledged

TCS published their Annual Report for FY2022, where management listed their key achievements through FY2022 and shared outlook.

Management commentary: TCS' Chairman Mr. N Chandrasekaran mentioned that Digital transformation is now an integral part of the functioning of enterprises, governments and societies. Among a key-problem solving areas undertaken by TCS included aiding organizations to manage supply chain disruptions, using AI and predictive analytics.

Mindset Shift: M.D & CEO Rajesh Gopinathan reflected on mindset shift of clients from technology-led innovation to deal with pandemic challenges, towards fulfilling Growth and Transformation (G&T) needs. The no. of deals in G&T have seen steady expansion in order book, and this also reflected market share gain for TCS from legacy consulting organizations.

Sustainability Theme: This theme is gaining prominence, and TCS' offerings such as Clever Energy™, IP2™ and TCS Envirozone™ are aimed to reduce energy consumption, track green-house emissions, reduce carbon footprint, and promote recycling.

Deal Trends for FY2022: 3 trends drove deal wins across sizes – a) Spend on Innovation & Transformation leading to Business transformation (e.g. On-Prem to SaaS, Data modernization), b) Cloud Migration (new cloud-based digital core) and c) Outsourcing (free up resources, manage talent scarcity in digital, leaner organizations).

Caution: Concern on geo-political tensions in Europe does present a real threat, but TCS is positive that tech-led spends will be far more resilient.

View: TCS achieved a milestone of \$25bn in Rev in FY22, and has set its aspiration to achieve \$50bn by 2030 (implies 9% CAGR). Given its size, we admire TCS on delivering an average a high single digit growth over last 5 years as Tier-1 player, however, the disparate combination of high demand environment, resilience of digital, when read in context of talent/supply crunch, rising wage inflation (also for clients!), and must be considered amidst backdrop of various supply chain disruption from conflict in Europe, tightening liquidity from rate hike cycles in developed nations, and reduction of real GDP growth rates for CY22. We believe that maintaining current high growth traction under the current environment would be arduous. INR movement has been volatile, and a steadily depreciating INR can provide some comfort on margins, though we believe that achieving long term aspirational margin band of 26-28% could remain out of reach till macro uncertainty abates. Thus, accounting for the same we assign REDUCE rating with TP of Rs3470 valued at 28x FY24E earnings.

CMP	Rs 3,293
Target / Upside	Rs 3,470 / 5%
BSE Sensex	54,326
NSE Nifty	16,266

Scrip Details

Equity / FV	Rs 3,660mn / Rs 1
Market Cap	Rs 12,193bn
	US\$ 157.2bn

52-week High/Low	Rs 4,043/Rs 3,055
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Avg. Volume (no)	2,488,810
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NSE Symbol	TCS
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Bloomberg Code	TCS IN
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Shareholding Pattern Mar'22(%)

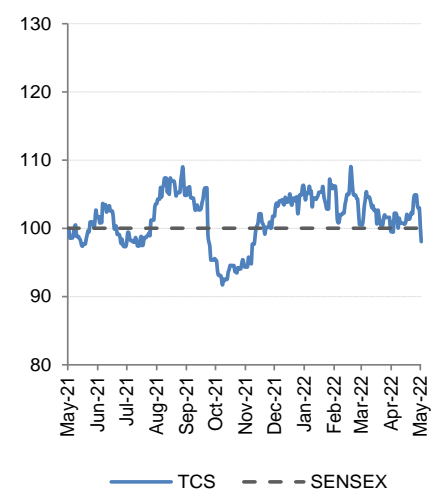
Promoters	72.1
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MF/Banks/FIs	8.0
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FIIIs	15.7
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Public / Others	4.2
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TCS Relative to Sensex



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Key Managerial Personnel

Particulars	Details																																												
Key Management Personnel	No Change																																												
Board of Directors	No Change																																												
Auditors	No Change (B S R & Co. LLP)																																												
Credit Ratings	AAA (Stable); Affirmed																																												
Pledged Shares	NA																																												
Macro-economic factors	Global growth is expected to moderate from 6.1% in 2021 to 3.6% in 2027, driven by withdrawal of monetary accommodation in major economies, continued supply side shortages and economic damage from the war in Ukraine.																																												
Share Holding Patterns	<table><tr><th>Sr. No.</th><th>Name of the shareholders</th><th>No. of shares held</th><th>Stake (%)</th></tr><tr><td>1</td><td>Tata Sons Private Limited</td><td>2,644,317,117</td><td>72.3</td></tr><tr><td>2</td><td>Life Insurance Corporation of India</td><td>135,144,680</td><td>3.7</td></tr><tr><td>3</td><td>SBI Mutual Fund</td><td>31,190,218</td><td>0.9</td></tr><tr><td>4</td><td>Invesco Developing Markets Fund</td><td>31,072,921</td><td>0.9</td></tr><tr><td>5</td><td>Axis Mutual Fund</td><td>23,505,274</td><td>0.6</td></tr><tr><td>6</td><td>NPS Trust</td><td>14,443,818</td><td>0.4</td></tr><tr><td>7</td><td>Vanguard Emerging Markets Stock</td><td>14,143,562</td><td>0.4</td></tr><tr><td>8</td><td>Government of Singapore</td><td>13,641,333</td><td>0.4</td></tr><tr><td>9</td><td>Vanguard Total International Stock</td><td>13,013,618</td><td>0.4</td></tr><tr><td>10</td><td>UTI Mutual Fund</td><td>11,688,173</td><td>0.3</td></tr></table>	Sr. No.	Name of the shareholders	No. of shares held	Stake (%)	1	Tata Sons Private Limited	2,644,317,117	72.3	2	Life Insurance Corporation of India	135,144,680	3.7	3	SBI Mutual Fund	31,190,218	0.9	4	Invesco Developing Markets Fund	31,072,921	0.9	5	Axis Mutual Fund	23,505,274	0.6	6	NPS Trust	14,443,818	0.4	7	Vanguard Emerging Markets Stock	14,143,562	0.4	8	Government of Singapore	13,641,333	0.4	9	Vanguard Total International Stock	13,013,618	0.4	10	UTI Mutual Fund	11,688,173	0.3
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Source: Company

Exhibit 1: Market Share - Global Market for IT and BPM Services \$ Bn

Particulars	FY12	FY22	CAGR %
Industry Size (\$Bn)	795	1,110	3.4%
TCS Size (\$Bn)	10.2	25.7	9.7%
TCS Market Share (%)	1.28	2.31	+103bps

Source: Company

Exhibit 2: Increase in Remuneration for KMP

Particulars (INR Mn)	Salary	Perquisites	Commission	Growth YoY
Rajesh Gopinathan	151	225	2,200	26.5
N Ganapathy Subramaniam	144	224	1,700	28.4
PAT Growth (FY22)				18.3

Source: Company

Exhibit 3: Director Remuneration

Name (Amount in INR Mn)	Commission	Sitting Fees
N Chandrasekaran	-	0.30
O P Bhatt	25.0	0.45
Aarthi Subramanian	-	0.33
Dr. Pradeep Kumar Khosla	22.5	0.36
Hanne Sorensen	22.5	0.36
Keki Mistry	25.0	0.51
Don Callahan	22.5	0.45
Total	117.5	2.76

Source: DART, Company, N Chandrasekaran, Chairman, has abstained from receiving commission from the Company, No payment is made towards commission to the Non-Executive Directors of the Company, who are in full time employment with any other Tata company.

MD&A Overview

New Organization Structure

Previously, TCS had been working in 3 dimensions as a business organization, viz., By Geography, by Industry Vertical and by Service lines, and has now added a fourth dimension – customer relationship stage. While customer acquisition will continue to be done by existing teams, customers have now been segmented by relationship Stage, and vested with three business groups:

- Relationship Incubation group (to manage new relationships, requiring differentiated approach),
- Enterprise Growth group (enterprises in high growth space), and
- Business Transformation Group (to manage large and mature relationships).

This added layer is aimed at a sharper customer focus, resulting in curated customer experiences, expected to enhance customer intimacy, facilitate cross-selling and up-selling, expand share of wallet and prepare the company for the journey ahead.

From Technology and Innovation

Innovation: New Areas of Research comprised of Sensing, Digital twins for social systems, AI, Deep learning, Quantum computing, generative design for materials, manufacturing and life sciences, and future of software development and sustainability.

Increased Product/Platform Availability: In FY21, TCS BaNCS™ suite in Financial services, TCS Optumera™ and TCS Omnistore™ in Retail, TCS HOBST™ in Telecom and TCS ADD™ in life sciences was made available on AWS last year, while TCS Aviana™ for travel customers followed suit this year. TCS' Cognitive Plant Operations Adviser (CPOA), an amalgamation of IP-based solutions for manufacturing was developed using Microsoft Azure Cloud capabilities. TCS MasterCraft™ is now on the Microsoft Azure Marketplace. TCS Clever Energy™, TCS Envirozone™ were launched on Microsoft's Azure IoT platform to help organizations gain insights into energy usage and reduce waste and emissions. Many of these products and platforms are available on Google Cloud as well.

Exhibit 4: R&D Expenditure

Expenditure on R&D & Innovation (Rs mn)	FY2022	FY2021
Total R&D Expenditure	22.420	19170
R&D as a % of Total Turnover	1.2%	1.2%

Source: Company

Financial Performance FY22

P&L Statement

- **Revenue Growth:** TCS' revenue grew 15.4% YoY in CC terms in FY 2022, led by accelerated spending on digital transformation initiatives, cloud adoption and increased outsourcing. Sales stood at \$25.7Bn, a USD growth of 15.9% YoY, while INR growth was 16.8%, reflecting a favorable 1.6% impact of exchange rate. Growth traction is much accelerated if compared for historical period wherein the Revenues has grown at a CAGR of 7.7% over FY16-22. We believe growth rates would moderate hereon on the back of macro concerns such as commodity price boom, rising enterprise costs, leading to re-prioritizing of I.T budgets.
- **Order Book:** FY22 TCV stood at \$34.6Bn, up 9.8% YoY. TCS also won 2 mega deals (\$1bn range) during FY22. Order-to-Revenue coverage stood at 1.35x of FY22 rev. BFSI TCV contribute 30%, while Retail was 18% of total TCV. Management commentary on deal pipeline is bullish, but expect deals to gravitate towards smaller sized deals.
- **Cost of Revenue and SG&A:** Talent/ supply side crunch led to increased salary and subcontractor costs. TCS saw net addition of 103K employees during FY22, totaling employee base to 592K. LTM attrition inched to 17.4% in Q4FY22, as compared to 7.2% in Q4FY21, reflecting industry wide talent shortage. TCS added about 103K freshers in FY22 to address this issue. Trend of higher subcontractor hiring has been visible over last 3 years, including pre-pandemic. We expect wage costs, subcontractor cost to remain elevated, and expect travel cost to also scale up, albeit may not be at FY19 levels (travel spends are down 55% of pre-pandemic levels) given TCS' Location Independent Agile™ delivery model.

Exhibit 5: Cost of Sales Trend

Revenue and Cost Trend (INR mn)	FY19	FY20	FY21	FY22	3-yr CAGR (%)
Revenue	14,64,630	15,69,490	16,41,770	19,17,540	9
Salaries, others & PF contribution	6,05,530	6,56,520	7,19,460	8,41,350	12
Payment to subcontractors	1,06,860	1,25,000	1,26,480	1,67,950	16
Cost of equipment & software licenses	22,700	19,050	14,620	11,630	(20)
Depreciation	16,490	26,870	30,850	35,680	29
Travel	23,340	22,910	8,830	12,940	(18)
Communication	9,840	12,320	14,340	15,370	16
Facility Exp/Rent	29,840	17,980	14,010	13,540	(23)
Other costs	36,980	42,570	42,790	47,750	9
Total Cost of Sales	8,51,580	9,23,220	9,71,380	11,46,210	10
As a % of Sales	58.1	58.8	59.2	59.8	

Source: Company

Exhibit 6: SG&A Cost Trend

SG&A Cost Trend	FY19	FY20	FY21	FY22	3-yr CAGR (%)
Salaries, others and PF contribution	1,76,920	2,03,000	1,98,680	2,34,190	10%
Fees to external consultant	6,440	4,370	5,690	6,150	-2%
Provision of doubtful debts	1,870	1,440	2,010	1,350	-10%
Depreciation	4,060	8,430	9,800	10,360	37%
Facility expenses	12,780	9,060	7,290	7,850	-15%
Travel	11,400	10,040	1,980	2,940	-36%
Communication	3,380	3,600	4,620	5,140	15%
Other Costs	17,640	12,100	17,890	8,460	-22%
Total SG&A Spend	2,34,490	2,52,040	2,47,960	2,76,440	6%

Source: Company

- **OPM and PAT:** EBIT /PAT margin stood at 25.3%/20% in FY22 vs. 25.1%/19.8%. For EBIT, annual increments, tactical interventions and higher subcontractor usage resulted in a headwind of 330bps, offset to some extent by operational efficiencies, improved realization and some currency support. TCS has set out an aspirational EBIT margin band of 26-28%, we believe this will be difficult to achieve for the foreseeable future, as cost structure will require a sea change of expense reduction.

Balance Sheet

- **Capex:** Organic capex for the year stood at Rs. 29.6Bn. The company did not announced any acquisition during the year.
- **Working Capital Management:** DSO days rose to 98 days in FY22 from 82 days in FY21 (DSO has averaged 83 days from FY19-21).
- **Capital Allocation:** For FY22, total dividend payout was Rs. 43 per share, totaling to a cash outflow of Rs 158.9Bn. Other than this payout company also concluded Buyback of Rs180bn. Resulting in a Total Shareholder payout for FY22 stood at Rs. 380.1Bn that amounts for Rs102% of FCF (~100% of PAT) for the year.

Cash Flow Statement

- Cash Flow Conversion: OCF to PAT conversion stood at 104% for the year as company achieved OCF of Rs400bn.
- The total cash and equivalents now stand at Rs480bn that implies cash per share of Rs.130. Company intends to use most of FCF proceed towards shareholder payouts.

Change in Estimates

Accounting for worsening commentary from Global 2000 corporates on weakening macros. We have further curtailed our FY24E estimates marginally to align with potential weakness in demand in H2FY23 resulting in cut in our Revenue/earnings growth estimates by 2% each.

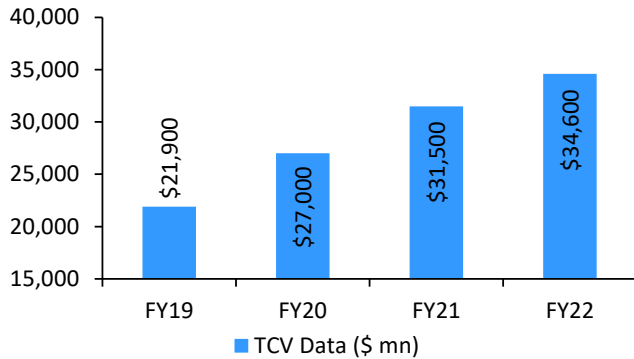
Exhibit 7: Change in estimates

Particulars (Rs mn)	FY22	FY23E			FY24E		
	Actual	Old	New	% change	Old	New	% Change
Revenues (US\$ mn)	25,707	28,926	28,926	0.0	32,122	31,463	(2.1)
YoY growth (%)	15.9	12.5	12.5	0 bps	11.0	8.8	(228 bps)
Revenues	1,917,540	2,184,278	2,184,278	0.0	2,457,700	2,422,671	(1.4)
EBIT	484,530	518,264	517,904	(0.1)	581,591	574,033	(1.3)
EBIT Margin (%)	25.3	23.7	23.7	(2 bps)	23.7	23.7	3 bps
Net profits	383,270	411,160	408,525	(0.6)	462,080	454,010	(1.7)
EPS (Rs)	103.6	112.4	111.6	(0.6)	126.3	124.1	(1.7)

Source: Company, DART

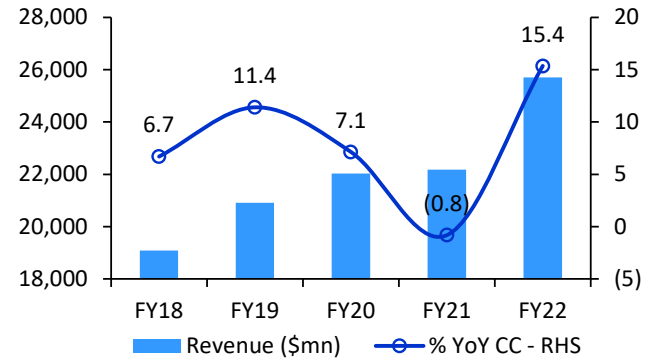
Charting the story

Exhibit 8: TCV Wins Indicate Multi-Year Visibility



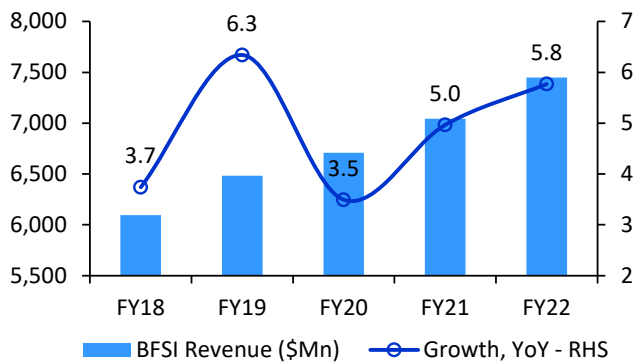
Source: Company, DART

Exhibit 9: U.S \$ CC Growth returned to double digits



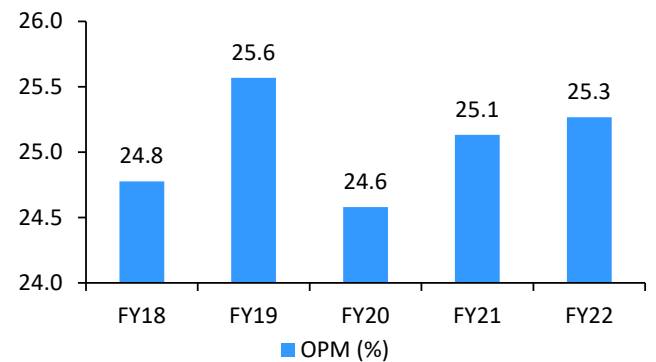
Source: Company, DART

Exhibit 10: BFSI Growth Steady Despite Pandemic



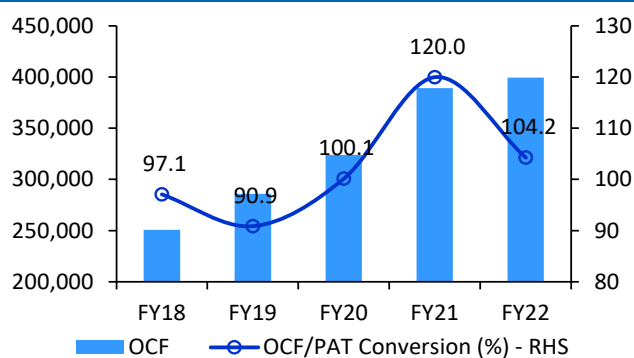
Source: Company, DART

Exhibit 11: EBIT Margin near 25% maintained



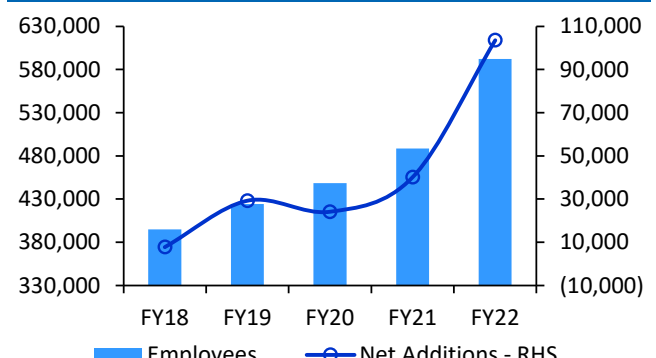
Source: Company, DART

Exhibit 12: OCF/PAT Conversion Remains High



Source: Company, DART

Exhibit 13: Record Employee Addition for FY21-22



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY21A	FY22A	FY23E	FY24E
Revenue	1,641,770	1,917,540	2,184,278	2,422,671
Total Expense	1,188,490	1,386,970	1,613,951	1,791,109
COGS	940,530	1,110,530	1,289,158	1,431,173
Employees Cost	0	0	0	0
Other expenses	247,960	276,440	324,794	359,937
EBIDTA	453,280	530,570	570,326	631,561
Depreciation	40,650	46,040	52,423	57,529
EBIT	412,630	484,530	517,904	574,033
Interest	6,370	7,840	9,340	8,590
Other Income	31,340	40,180	42,090	47,588
Exc. / E.O. items	0	0	0	0
EBT	437,600	516,870	550,654	613,031
Tax	111,980	132,380	140,684	158,171
RPAT	324,300	383,270	408,525	454,010
Minority Interest	1,320	1,220	1,445	850
Profit/Loss share of associates	0	0	0	0
APAT	324,300	383,270	408,525	454,010

Balance Sheet

(Rs Mn)	FY21A	FY22A	FY23E	FY24E
Sources of Funds				
Equity Capital	3,700	3,660	3,660	3,660
Minority Interest	6,750	7,070	8,515	9,365
Reserves & Surplus	860,630	887,730	940,620	1,164,110
Net Worth	864,330	891,390	944,280	1,167,770
Total Debt	0	0	0	0
Net Deferred Tax Liability	(31,640)	(31,180)	(31,922)	(32,678)
Total Capital Employed	839,440	867,280	920,873	1,144,457

Applications of Funds

Net Block	210,210	212,980	209,607	206,579
CWIP	9,260	12,050	11,550	11,050
Investments	26,840	59,560	59,560	59,560
Current Assets, Loans & Advances	1,021,970	1,093,470	1,200,324	1,467,461
Inventories	80	200	200	200
Receivables	369,900	420,100	493,502	540,452
Cash and Bank Balances	68,580	124,880	180,507	397,814
Loans and Advances	115,010	67,560	68,849	70,164
Other Current Assets	176,800	178,110	179,645	181,211
Less: Current Liabilities & Provisions	428,840	510,780	560,168	600,193
Payables	127,070	127,900	156,106	173,234
Other Current Liabilities	301,770	382,880	404,062	426,959
<i>sub total</i>				
Net Current Assets	593,130	582,690	640,156	867,268
Total Assets	839,440	867,280	920,873	1,144,457

E – Estimates

Important Ratios

Particulars	FY21A	FY22A	FY23E	FY24E
(A) Margins (%)				
Gross Profit Margin	42.7	42.1	41.0	40.9
EBIDTA Margin	27.6	27.7	26.1	26.1
EBIT Margin	25.1	25.3	23.7	23.7
Tax rate	25.6	25.6	25.5	25.8
Net Profit Margin	19.8	20.0	18.7	18.7
(B) As Percentage of Net Sales (%)				
COGS	57.3	57.9	59.0	59.1
Employee	0.0	0.0	0.0	0.0
Other	15.1	14.4	14.9	14.9
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	64.8	61.8	55.4	66.8
Inventory days	0	0	0	0
Debtors days	82	80	82	81
Average Cost of Debt				
Payable days	28	24	26	26
Working Capital days	132	111	107	131
FA T/O	7.8	9.0	10.4	11.7
(D) Measures of Investment				
AEPS (Rs)	87.6	103.6	111.6	124.1
CEPS (Rs)	98.6	116.1	126.0	139.8
DPS (Rs)	38.0	43.0	48.0	63.0
Dividend Payout (%)	43.4	41.5	43.0	50.8
BVPS (Rs)	233.4	240.7	255.0	315.4
RoANW (%)	38.0	43.7	44.5	43.0
RoACE (%)	39.8	46.0	46.9	44.9
RoAIC (%)	54.6	64.0	69.9	77.2
(E) Valuation Ratios				
CMP (Rs)	3293	3293	3293	3293
P/E	37.6	31.8	29.5	26.5
Mcap (Rs Mn)	12,193,463	12,193,463	12,193,463	12,193,463
MCap/ Sales	7.4	6.4	5.6	5.0
EV	11,833,283	11,765,963	11,735,336	11,518,030
EV/Sales	7.2	6.1	5.4	4.8
EV/EBITDA	26.1	22.2	20.6	18.2
P/BV	14.1	13.7	12.9	10.4
Dividend Yield (%)	1.2	1.3	1.5	1.9
(F) Growth Rate (%)				
Revenue	4.6	16.8	13.9	10.9
EBITDA	7.6	17.1	7.5	10.7
EBIT	7.0	17.4	6.9	10.8
PBT	3.6	18.1	6.5	11.3
APAT	0.3	18.2	6.6	11.1
EPS	1.6	18.3	7.8	11.1

Cash Flow

(Rs Mn)	FY21A	FY22A	FY23E	FY24E
CFO	389,020	399,490	400,617	461,978
CFI	(81,290)	(8,970)	9,200	(15,002)
CF	(326,340)	(335,810)	(354,189)	(229,670)
FCFF	357,630	369,880	352,067	407,978
Opening Cash	86,460	69,580	124,290	179,917
Closing Cash	69,580	124,290	179,917	397,224

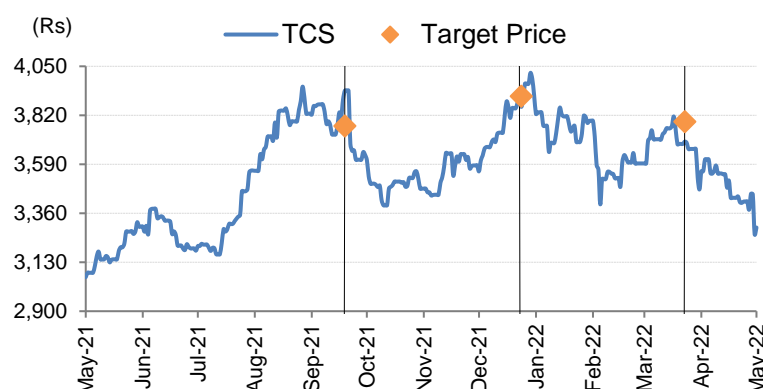
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



DART Team

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Analyst(s) Certification

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