

# HSIE Results Daily

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# Tata Consultancy Services

## Soft quarter; recovery beyond Q1

TCS delivered a soft quarter, impacted by weakness in NorthAm geography (>1% impact on overall revenue estimated) on higher exposure in the BFSI vertical and the ensuing headwinds. Margins were flat sequentially but are expected to improve as growth revives (post Q1) and the cost of delivery normalises. Positive markers for the company include (1) relative improvement in continental Europe geography (15% of revenue) with strong bookings in the USD 50mn+ TCV; (2) continued momentum in UK geography (16% of revenue) posting 5% QoQ CC, which is likely to continue with increased thrust on vendor consolidation (scale leadership), cost optimisation and automation; (3) global leadership in hyperscaler partnership (116k cloud certifications up 90% YoY), which will support recovery in G&T deals over the medium term; and (4) scope for cost optimisation (cost of delivery still 200bps higher than pre-covid). CEO transition timelines moving earlier as well as pent-up elements from deal deferrals can provide a positive catalyst for H2FY24E. Our TP of INR 3,610 is based on 26x Dec'24E EPS with an EPS CAGR of 11% over FY23-25E; we maintain ADD.

- **Q4FY23 highlights:** (1) TCS' revenue at USD 7,195mn was up 0.6% QoQ CC (1% estimate) and 10.7% YoY CC clocking 13.7% CC in FY23. (2) UK and continental Europe led the sequential growth while NorthAm declined 0.8% QoQ impacted by the BFSI vertical (including SVB impact) and Retail & CPG vertical. (3) Positive management commentary on qualified pipeline (more deals in USD 50-100mn TCV segment). (4) Deal bookings of USD 10bn TCV in Q4 included USD 3.1bn from BFSI, USD 1.3bn from Retail & CPG vertical and USD 5bn from NorthAm geography; total TCV adjusted for mega deals were higher in FY23 vs. FY22. (5) EBITM was flat at 24.5% (25% estimate), impacted by higher onsite cost offset by lower sub-contracting and attrition.
- **Outlook:** We expect revenue growth to moderate from 15.4/13.7% CC in FY22/23 to 6.5/7.5% CC in FY24/25E. EBITM factored in at 24.8/25% for FY24/25E. 11% EPS CAGR, RoCE >45%, FCF yield >4.5% and payout yield of ~4% will support valuations (currently at 25x/23x FY24/25E as compared to 5Y average of 26x and ranging from 19x to 34x).

### Quarterly financial summary

YE March (INR bn)	Q4 FY23	Q4 FY22	YoY (%)	Q3 FY23	QoQ (%)	FY21	FY22	FY23	FY24E	FY25E
Revenue (USD mn)	7,195	6,696	7.5	7,075	1.7	22,174	25,707	27,927	29,828	32,035
Net Sales	591.62	505.91	16.9	582.29	1.6	1,641.77	1,917.54	2,254.58	2,475.70	2,690.96
EBIT	144.88	126.28	14.7	142.84	1.4	424.81	484.53	542.37	613.05	672.52
APAT	113.92	99.26	14.8	108.46	5.0	333.56	383.27	421.47	478.59	517.06
Diluted EPS (INR)	31.1	27.1	14.8	29.6	5.0	91.2	104.7	115.2	130.8	141.3
P/E (x)						35.6	30.9	28.1	24.8	22.9
EV / EBITDA (x)						24.4	21.3	19.2	17.0	15.5
RoE (%)						39.1	43.7	46.9	52.2	54.9

Source: Company, HSIE Research, Consolidated Financials

### Change in estimates

YE March (INR bn)	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %
Revenue (USD mn)	29,948	29,828	(0.4)	32,206	32,035	(0.5)
Revenue	2,485.70	2,475.70	(0.4)	2,705.30	2,690.96	(0.5)
EBIT	620.97	613.05	(1.3)	675.32	672.52	(0.4)
EBIT margin (%)	25.0	24.8	-22bps	25.0	25.0	3bps
APAT	483.04	478.59	(0.9)	520.17	517.06	(0.6)
EPS (INR)	132.0	130.8	(0.9)	142.2	141.3	(0.6)

Source: Company, HSIE Research

## ADD

CMP (as on 12 Apr 2023)	INR 3,242
Target Price	INR 3,610
NIFTY	17,812

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 3,640	INR 3,610
	FY24E	FY25E
EPS %	-0.9	-0.6

### KEY STOCK DATA

Bloomberg code	TCS IN
No. of Shares (mn)	3,659
MCap (INR bn) / (\$ mn)	11,861/1,44,504
6m avg traded value (INR mn)	6,084
52 Week high / low	INR 3,665/2,868

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(0.8)	6.7	(10.4)
Relative (%)	(1.5)	1.9	(13.5)

### SHAREHOLDING PATTERN (%)

	Sep-22	Dec-22
Promoters	72.30	72.30
FIs & Local MFs	8.53	8.83
FPIs	13.05	13.15
Public & Others	6.12	5.72
Pledged Shares	0.35	0.35

Source : BSE

Pledged shares as % of total shares

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**Rating Criteria**

BUY: &gt;+15% return potential

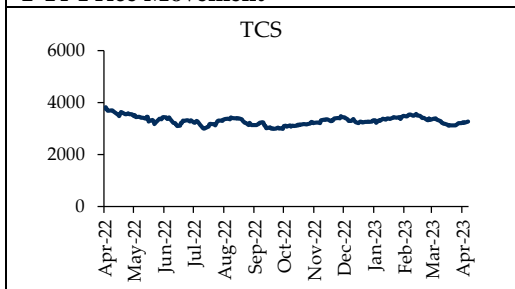
ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: &gt; 10% Downside return potential

**Disclosure:**

Analyst	Company Covered	Qualification	Any holding in the stock
Apurva Prasad	Tata Consultancy Services	MBA	NO
Amit Chandra	Tata Consultancy Services	MBA	NO
Vinesh Vala	Tata Consultancy Services	MBA	NO

**1 Yr Price Movement**

**Disclosure:**

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