

April 12, 2023

RESULT REPORT Q4 FY23 | Information Technology

Tata Consultancy Services

Slight miss on operating performance; Deal booking robust at \$10bn

Result Synopsis

Tata Consultancy Services(TCS) reported operating performance that was slightly below estimates. It reported USD revenue growth of 1.7% QoQ, which had around 100bps of cross currency tailwind in the quarter; while INR reported growth was 1.6% QoQ. The revenue growth was led by strong performance in Retail and CPG vertical(up 22.9% YoY). EBIT margin was flat QoQ at 24.5% as potential margin tailwind on account of falling attrition and improving pyramid got offset by higher onsite cost. LTM attrition was down 120bps QoQ to 20.1%.

The long term demand story remains intact led by cloud adoption and data analytics across enterprises. However, clients remain cautious and are taking longer time for decision making and are slowing down discretionary IT projects and this would result in lower revenue growth in FY24. The operating margin is expected to improve in FY24 by 50-70bps YoY led by improving employee pyramid and falling employee attrition. We estimate revenue CAGR of 11.0% over FY23-25E with average EBIT margin of 25.2%. We rollover to FY25E estimates and maintain our ADD on the stock with revised target price of Rs 3,676/share at 25x on FY25E EPS. The stock trades at PER of 24.8x/22.1x on FY24E/FY25E EPS.

Result Highlights

- Reported revenue of Rs 591.6bn, up 1.6% QoQ in INR terms (up 1.7% in USD terms). The cc growth was 0.6% QoQ (10.7% YoY).
- The revenue growth was led by robust performance in verticals such as Retail and CPG (up 13.0% YoY), Life Sciences & Healthcare (up 12.3% YoY), Technology and Services (up 9.2% YoY).
- EBIT margin remained flat QoQ at 24.5% (down 4 bps).
- Deal booking was strong as it reported TCV of \$10.0bn for the quarter that included a mega deal. (vs \$7.8bn in Q3FY23). North America TCV at \$5 Bn; BFSI TCV at \$3 Bn, Retail TCV at \$1.3 Bn.
- Net headcount addition was 821 employees in the quarter and closed at 614,795 employees. LTM attrition decreased by 120 bps QoQ to 20.1%.
- Declared final dividend of Rs 24/ share.

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	5,91,620	5,94,901	5,95,220	-0.6%	-0.6%
EBITDA	1,57,730	1,63,598	1,61,400	-3.6%	-2.3%
EBITDA Margin (%)	26.66%	27.50%	27.12%	-84 bps	-46 bps
Adjusted PAT	1,14,360	1,15,866	1,15,570	-1.3%	-1.0%

Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 3,242
Target Price	: Rs 3,676
Potential Return	: +13.4%

Stock data (as on April 12, 2023)

Nifty	17,812
52 Week h/l (Rs)	3665 / 2868
Market cap (Rs/USD mn)	11759460 / 143443
Outstanding Shares (mn)	3,659
6m Avg t/o (Rs mn):	6,107
Div yield (%):	1.3
Bloomberg code:	TCS IN
NSE code:	TCS

Stock performance



Shareholding pattern (As of Dec'22 end)

Promoter	72.3%
FII+DII	22.3%
Others	5.5%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	3,676	3,536

Δ in earnings estimates

	FY23	FY24E	FY25E
EPS (New)	113.9	131.0	147.0
EPS (Old)	112.6	131.9	147
% change	1.2%	-0.7%	0.0%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Net Revenue	22,54,580	24,87,192	27,75,793
YoY Growth	17.6%	10.3%	11.6%
EBIDTA	5,92,600	6,84,209	7,68,895
YoY Growth	11.7%	15.5%	12.4%
PAT	4,21,470	4,84,472	5,43,852
YoY Growth	10.0%	14.9%	12.3%
ROE	46.9%	49.1%	46.2%
EPS	114	131	147
P/E	28.5	24.8	22.1
BV	244	289	346
P/BV	13.3	11.2	9.4

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Exhibit 2: Quarterly snapshot Console: Operating margin was flat sequentially

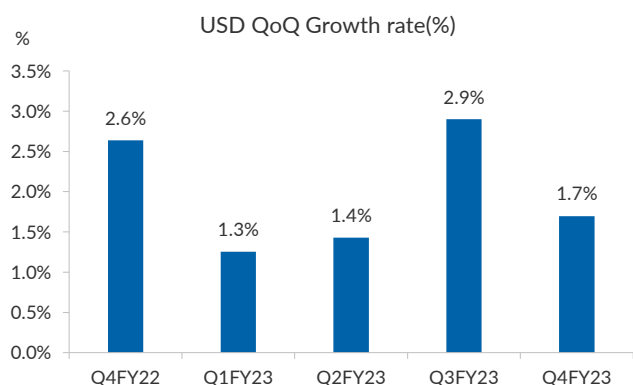
Particulars	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	yoy%	qoq %	FY23	FY22	yoy%
Sales (\$ mn)	6,696	6,780	6,877	7,075	7,195	7.5	1.7	27,927	25,704	8.6
Sales(Rs mn)	5,05,910	5,27,580	5,53,090	5,82,290	5,91,620	16.9	1.6	22,54,580	19,17,540	17.6
EBITDA	1,38,450	1,34,170	1,45,160	1,55,540	1,57,730	13.9	1.4	5,92,600	5,30,570	11.7
EBITDA %	27.4	25.4	26.2	26.7	26.7	-71 bps	-5 bps	26.3	27.7	-139 bps
Depreciation	12,170	12,310	12,370	12,700	12,850	5.6	1.2	50,230	46,040	9.1
EBIT	1,26,280	1,21,860	1,32,790	1,42,840	1,44,880	14.7	1.4	5,42,370	4,84,530	11.9
EBIT Margin %	25.0	23.1	24.0	24.5	24.5	-47 bps	-4 bps	24.1	25.3	-121 bps
Other income	7,360	5,900	8,170	3,600	9,030	22.7	150.8	26,700	32,340	-17.4
PBT	1,33,640	1,27,760	1,40,960	1,46,440	1,53,910	15.2	5.1	5,69,070	5,16,870	10.1
Tax	34,050	32,570	36,310	37,610	39,550	16.2	5.2	1,46,040	1,32,380	10.3
PAT	99,590	95,190	1,04,650	1,08,830	1,14,360	14.8	5.1	4,23,030	3,84,490	10.0
Minority Interest	-330	-410	-340	-370	-440	33.3	18.9	-1,560	-1,220	27.9
PAT	99,260	94,780	1,04,310	1,08,460	1,13,920	14.8	5.0	4,21,470	3,83,270	10.0
NPM (%)	19.6	18.0	18.9	18.6	19.3	-36 bps	63 bps	18.7	20.0	-129 bps

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

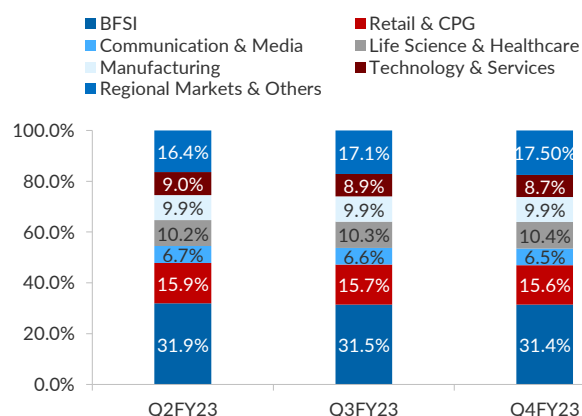
- FY23 witnessed broadbased growth across verticals. Retail & CPG grew by 19%, Communications and Media grew by 14%, BFSI grew by 11% and Manufacturing grew by 13%.
- Increased caution witnessed across markets due to weak macroeconomic situation. Deal flow showed slight acceleration in European Market.
- Operating Margins were impacted due to supply side challenges (up 1.3% QoQ) and increase in Employee Travel Cost (up 0.3% QoQ). Benefits from improving supply side situation and improving employee pyramid got offset by higher onsite cost.
- Total Dividend disbursed during FY23 was Rs. 115/- per share and Rs 45,602 crores was payout for shareholders for FY23
- Hiring is expected to be moderate going ahead. 44,000 freshers were hired during FY23. Quarterly annualised Attrition was down 400 bps QoQ.
- Change in Management team will not bring any major change in strategy; only some minor tweaking would be done.
- No reduction in deal velocity. Deal Pipeline remains healthy across markets but there is a little delay in decision making process.

Exhibit 3: Q4FY23 Revenue Growth was muted on concerns on near term demand environment



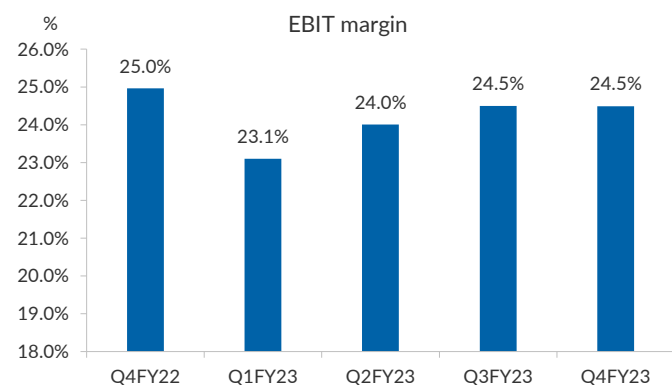
Source: Company, YES Sec

Exhibit 4: Revenue growth was led by Retail & CPG vertical and Life Science and Healthcare vertical



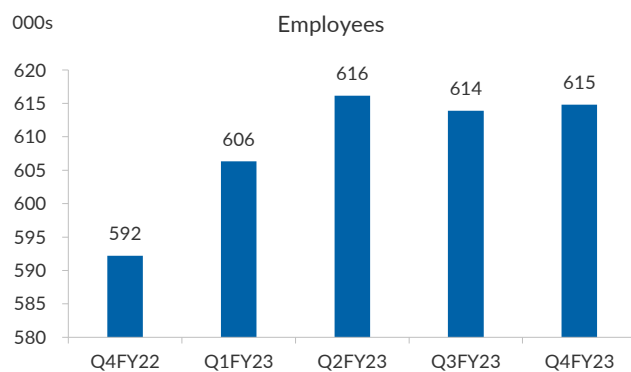
Source: Company, YES Sec

Exhibit 5: EBIT margin remained flat for the quarter



Source: Company, YES Sec

Exhibit 6: Slowdown in employee addition is visible



Source: Company, YES Sec

FINANCIALS

Exhibit 7: Balance Sheet

Y/e March 31 (Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Share capital	3,750	3,750	3,700	3,660	3,660	3,660	3,660
Reserves & surplus	9,11,810	8,37,510	8,60,630	8,87,730	9,00,580	10,66,940	12,77,884
Shareholders' funds	9,15,560	8,41,260	8,64,330	8,91,390	9,04,240	10,70,600	12,81,544
Non-current liabilities	29,600	90,900	94,960	93,170	88,870	91,878	95,247
Long-term borrowings	440	69,060	65,030	63,680	62,030	62,030	62,030
Other non-current liabilities	29,160	21,840	29,930	29,490	26,840	29,848	33,217
Current liabilities	2,20,840	2,70,600	3,41,550	4,23,510	4,35,580	3,83,720	3,61,728
ST borrowings, Curr maturity	180	12,680	12,920	14,500	14,850	14,850	14,850
Other current liabilities	2,20,660	2,57,920	3,28,630	4,09,010	4,20,730	3,68,870	3,46,878
Total (Equity and Liabilities)	11,70,530	12,08,990	13,07,590	14,15,140	14,36,510	15,55,778	17,49,859
Non-current assets	2,49,220	3,06,620	3,14,790	3,32,040	3,33,810	3,40,294	3,41,709
Fixed assets (Net block)	1,18,290	2,01,240	2,01,490	2,07,160	1,98,910	1,93,556	1,81,403
Non-current Investments	2,390	2,160	2,130	2,230	2,660	2,926	3,219
Other non-current assets	1,28,540	1,03,220	1,11,170	1,22,650	1,32,240	1,43,812	1,57,087
Current assets	9,21,310	9,02,370	9,92,800	10,83,100	11,02,700	12,15,484	14,08,150
Cash & current investment	4,17,430	3,58,060	3,84,890	4,84,830	4,79,290	5,23,420	6,46,101
Other current assets	5,03,880	5,44,310	6,07,910	5,98,270	6,23,410	6,92,064	7,62,050
Total (Assets)	11,70,530	12,08,990	13,07,590	14,15,140	14,36,510	15,55,778	17,49,859

Source: Company, YES Sec

Exhibit 8: Income Statement

Y/e March 31 (Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	14,64,630	15,69,490	16,41,770	19,17,540	22,54,580	24,87,192	27,75,793
Operating expenses	(10,69,580)	(11,48,390)	(11,88,490)	(13,86,970)	(16,61,980)	(18,02,983)	(20,06,898)
EBITDA	3,95,050	4,21,100	4,53,280	5,30,570	5,92,600	6,84,209	7,68,895
Depreciation	(20,550)	(35,300)	(40,650)	(46,040)	(50,230)	(58,961)	(65,802)
EBIT	3,74,500	3,85,800	4,12,630	4,84,530	5,42,370	6,25,249	7,03,092
Other income	41,130	36,680	24,970	32,340	26,700	29,689	31,829
Profit before tax	4,15,630	4,22,480	4,37,600	5,16,870	5,69,070	6,54,938	7,34,921
Tax (current + deferred)	(1,00,010)	(98,010)	(1,11,980)	(1,32,380)	(1,46,040)	(1,68,706)	(1,89,309)
Reported Profit / (Loss)	3,14,720	3,23,400	3,24,300	3,83,270	4,21,470	4,84,472	5,43,852
Adjusted net profit	3,14,720	3,23,400	3,24,300	3,83,270	4,21,470	4,84,472	5,43,852

Source: Company, YES Sec

Exhibit 9: Cash Flow Statement

Y/e March 31 (Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	4,15,630	4,22,480	4,37,600	5,16,870	5,69,070	6,54,938	7,34,921
Depreciation	20,550	35,300	40,650	46,040	50,230	58,961	65,802
Change in working capital	(86,250)	(13,620)	(18,200)	73,240	(27,660)	(47,308)	(71,734)
Total tax paid	(80,920)	(92,150)	(97,820)	(1,15,140)	(1,25,770)	(2,42,111)	(2,09,704)
Cash flow from oper. (a)	2,69,010	3,52,010	3,62,230	5,21,010	4,65,870	4,24,479	5,19,286
Capital expenditure	(22,720)	(1,18,250)	(40,900)	(51,710)	(41,980)	(53,607)	(53,649)
Change in investments	33,060	73,820	(44,680)	(43,740)	(48,540)	(3,956)	(4,019)
Others	15,770	6,040	3,960	(13,820)	(12,890)	(10,580)	(12,253)
Cash flow from inv. (b)	26,110	(38,390)	(81,620)	(1,09,270)	(1,03,410)	(68,143)	(69,921)
Free cash flow (a+b)	2,95,120	3,13,620	2,80,610	4,11,740	3,62,460	3,56,336	4,49,364
Equity raised/(repaid)	1,840	-	(50)	(40)	-	-	-
Debt raised/(repaid)	(1,850)	81,120	(3,790)	230	(1,300)	-	-
Dividend (incl. tax)	(1,14,240)	(3,73,640)	(1,08,500)	(1,33,170)	(4,13,470)	(3,18,112)	(3,32,908)
Others	(1,57,460)	(6,881)	(1,86,150)	(2,22,460)	(1,340)	2,216	2,498
Cash flow from fin. (c)	(2,71,710)	(2,99,400)	(2,98,490)	(3,55,440)	(4,16,110)	(3,15,896)	(3,30,410)
Net chg in cash (a+b+c)	23,410	14,220	(17,880)	56,300	(53,650)	40,440	1,18,954

Source: Company, YES Sec

Exhibit 10: Ratio Analysis

Y/e March 31	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Growth(%)							
Revenue Growth	19.0	7.2	4.6	16.8	17.6	10.3	11.6
EBITDA Growth	21.5	6.6	7.6	17.1	11.7	15.5	12.4
EBIT Growth	22.8	3.0	7.0	17.4	11.9	15.3	12.5
Net Profit Growth	21.9	2.8	0.3	18.2	10.0	14.9	12.3
Profitability Ratios(%)							
EBITDA Margin	27.0	26.8	27.6	27.7	26.3	27.5	27.7
EBIT margin	25.6	24.6	25.1	25.3	24.1	25.1	25.3
Net Profit margin	21.5	20.6	19.8	20.0	18.7	19.5	19.6
RoA	33.2	32.4	32.8	35.6	38.0	41.8	42.5
RoE	35.2	36.8	38.0	43.7	46.9	49.1	46.2
RoCE	40.3	40.6	42.8	48.8	53.6	56.8	54.3
Liquidity Ratios							
Net debt/Equity (x)	(0.5)	(0.3)	(0.4)	(0.5)	(0.4)	(0.4)	(0.4)
Current ratio (x)	4.2	3.3	2.9	2.6	2.5	3.2	3.9
Quick ratio (x)	4.2	3.3	2.9	2.6	2.5	3.2	3.9
Valuation Ratios							
PER(x)	NA	37.2	44.4	32.0	28.5	24.8	22.1
PCE(x)	NA	33.5	39.5	28.6	25.4	22.1	19.7
Price/Book(x)	NA	14.3	16.7	13.8	13.3	11.2	9.4
EV/EBITDA(x)	NA	27.9	31.1	22.4	19.6	16.9	14.9

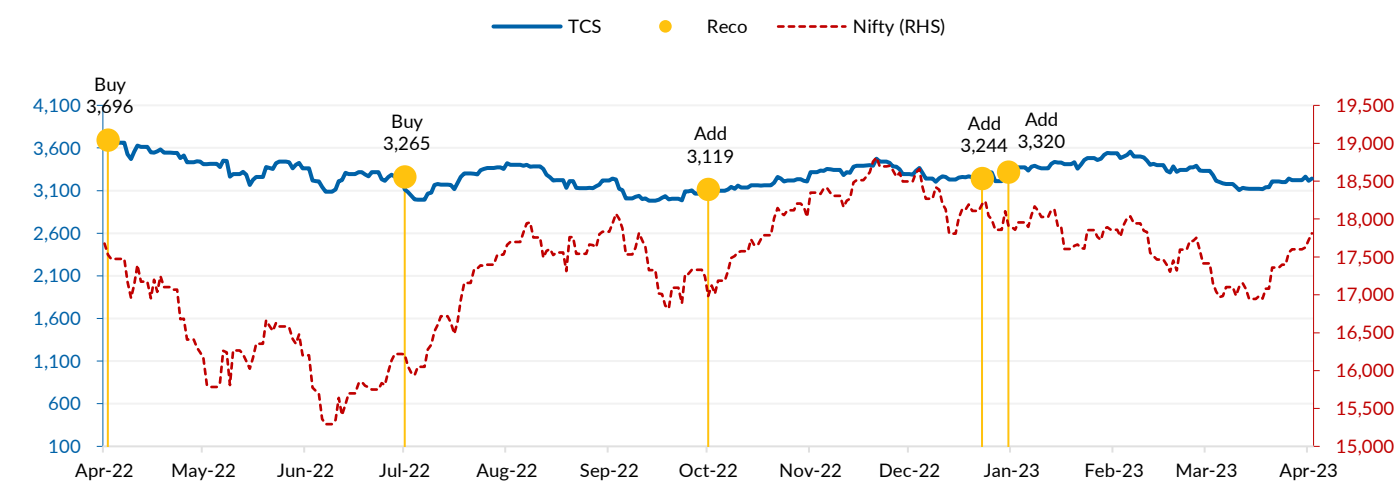
Source: Company, YES Sec

Exhibit 11: Dupont Analysis

Dupont Analysis	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net margin(%)	21.5	20.6	19.8	20.0	18.7	19.5	19.6
Asset turnover (x)	1.3	1.3	1.3	1.4	1.6	1.7	1.7
Leverage factor (x)	1.3	1.4	1.5	1.6	1.6	1.5	1.4
Return on Equity(%)	35.2	36.8	38.0	43.7	46.9	49.1	46.2

Source: Company, YES Sec

Recommendation Tracker



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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

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