

IT

October 10, 2022

TCS

Q2FY23 Result Update

CMP	3121
Sensex	57991

Stock Statistics

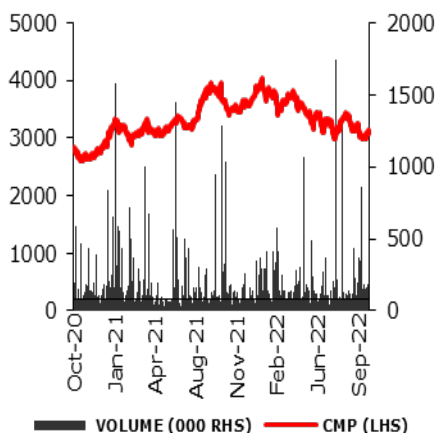
Reuters code	TCS.BO
Bloomberg code	TCS IN

Equity Cap (INR cr)	366
Face Value (INR)	1
INR / USD	82.4
Market cap (INR cr)	11,42,063
Market cap (USD bn)	139
52 Wk High/Low (INR)	4046/2926

Shareholding Pattern (%) – Jun'22

Promoter	72.3
Foreign Institutional Investor	13.7
MF / FI / UTI / Banks	8.3
Public & Others	5.3
Bodies Corporate	0.4

2 yr Price and Volume Chart



Analyst

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Strong TCV wins augurs well for near term growth visibility

TCS has reported Top-line growth of 1.4% qoq in USD terms to US\$6877mn. The International revenues grew only 1.1% qoq to US\$6526mn on account of de-growth in Europe as well as APAC markets. However, domestic revenues grew strong by 7.8% qoq to US\$351mn. **In INR terms Top-line grew 4.8% qoq to Rs55,309cr** (as avg. INR rate depreciated by 3.4% qoq to 80.4 v/s USD rate).

Amongst verticals Technology and Lifesciences grew strong by 3.7% and 2.4% qoq respectively. All other verticals grew slower. However, on yoy basis strong growth was witnessed in Retail vertical led by improved supply chain experiences, while in Communications it's been led by 5G spends. Growth in BFSI is been led by strong spending on Cloud, Data and Analytics.

Amongst geographies, North America grew strong by 3.5% qoq. Even India and MEA grew 8% and 7% qoq respectively on small base. On expected lines it was Europe which de-grew 2.3% qoq contributing 29% to Top-line in Q2.

TCS witnessed total TCV of US\$8.1bn in Q2FY23 (v/s US\$8.2bn TCV wins in Q1FY23), which though was lower qoq but still is a big size of TCV win amidst of severe global macro-economic challenges. **The US\$8.1bn TCV win in Q2 includes TCV of US\$2.3bn from BFSI vertical, US\$1.6bn from Retail vertical & US\$4.3bn in N America.** This we believe is quite positive data point giving surety of near-term strong revenue visibility as it is two quarters of back-to-back over US\$8bn TCV win.

EBIT margin was up 90bps qoq to 24% in Q2FY23 as salary hikes were done with in Q1FY23. Sharp fall in global currencies impacted growth and margins in Q2FY23. However, continued strong freshers hiring done in past, which got productive helped to contain overall costs led by increased facility expansion and travel expenses.

Other Income was up 22% qoq to Rs965cr led by higher Forex gains of Rs164cr (v/s Rs37cr in Q1) as well as higher investment income. Thus, led by good margin expansion and strong Other Income TCS has reported 10.1% qoq spike in PAT to Rs10,431cr in Q2FY23.

Key Financials (IND AS Consolidated)

Y/E March (Rs cr)	FY2021	FY2022	FY2023E	FY2024E
Net Sales	1,64,177	1,91,754	2,22,722	2,36,950
% chg	4.6	16.8	16.1	6.4
Net Profit	32,430	38,327	42,570	45,936
% chg	0.3	18.2	11.1	7.9
EBIT Margin (%)	25.9	25.3	24.5	24.9
FDEPS (Rs)	86.7	103.6	116.3	125.6
P/E (x)	29.1	33.8	26.8	24.9
P/BV (x)	10.7	14.3	9.8	7.9
RoE (%)	37.2	42.7	36.6	32.0
RoCE (%)	34.1	35.9	33.9	32.1
EV/Sales (x)	5.6	6.5	4.9	4.6
EV/EBITDA (x)	19.6	23.7	18.4	16.9
Net Debt/Equity	(0.4)	(0.5)	(0.4)	(0.4)

Source: Company & Anvil Research

Quarterly Financial Statement

Q2FY23 Consolidated Financial Performance (IND AS)								
Y/E March (Rs cr)	Q2FY23	Q1FY23	% chg (qoq)	Q2FY22	% chg (yoy)	H1FY23	H1FY22	% chg
Net Revenues	55,309	52,758	4.8	46,867	18.0	1,08,067	92,278	17.1
Employee Benefit Expenses	31,041	30,327	2.4	26,384	17.7	61,368	52,033	17.9
Cost of Equipment & Software Licences	401	217	84.8	213	88.3	618	471	31.2
Gross Profit	23,867	22,214	7.4	20,270	17.7	46,081	39,774	15.9
SG&A Expenses	9,351	8,798	6.3	7,154	30.7	18,149	13,995	29.7
EBITDA	14,516	13,416	8.2	13,116	10.7	27,932	25,779	8.4
Other Income	965	789	22.3	1,111	(13.1)	1,754	1,832	(4.3)
Finance Costs	148	199	(25.6)	142	4.2	347	288	20.5
Depreciation	1,237	1,230	0.6	1,116	10.8	2,467	2,191	12.6
Provision towards legal claim (One-time)			-	-	-			-
PBT	14,096	12,776	10.3	12,969	8.7	26,872	25,132	6.9
Tax	3,631	3,257	11.5	3,316	9.5	6,888	6,448	6.8
Minority Interest	34	41	(17.1)	29	17.2	75	52	44.2
Net Income	10,431	9,478	10.1	9,624	8.4	19,909	18,632	6.9
Diluted EPS (Rs)	28.5	25.9	10.1	26.0	9.6	54.4	50.4	8.0
Gross Profit Margin (%)	43.2	42.1	1.0	43.3	(0.1)	42.6	43.1	(0.5)
EBITDA Margin (%)	26.2	25.4	0.8	28.0	(1.7)	25.8	27.9	(2.1)
EBIT Margin (%)	24.0	23.1	0.9	25.6	(1.6)	23.6	25.6	(2.0)
Net Profit Margin (%)	18.9	18.0	0.9	20.5	(1.7)	18.4	20.2	(1.8)
Tax rate (%)	25.8	25.5	0.3	25.6	0.2	25.6	25.7	(0.0)

Source: Company and Anvil Research

Key Operational Matrix

	Q2FY23	Q1FY23	Q2FY22	Q2FY23	Q1FY23	Q2FY22	% chg	% chg
New Vertical Split	% total	% total	% total	(\$ mn)	(\$ mn)	(\$ mn)	(qoq)	(yoy)
BFSI	31.9%	32.1%	32.4%	2,194	2,176	2,052	0.8	6.9
Retail & CPG	15.9%	15.9%	15.0%	1,093	1,078	950	1.4	15.1
Communication & Media	6.7%	6.8%	6.5%	461	461	412	(0.1)	11.9
Manufacturing	9.9%	9.9%	9.9%	681	671	627	1.4	8.6
Life Sciences & Healthcare	10.2%	10.1%	10.0%	701	685	633	2.4	10.8
Technologies & Services	9.0%	8.8%	8.8%	619	597	557	3.7	11.1
Regional Mkts. & Others	16.4%	16.4%	17.4%	1,128	1,112	1,102	1.4	2.3
Revenues (In US\$mn)	100.0%	100.0%	100.0%	6,877	6,780	6,333	1.4	8.6
Revenues (In INR cr)				55,309	52,758	46,867	4.8	18.0

Source: Company and Anvil Research

Clients status & additions	Q2FY23	Q1FY23	Q2FY22	chg qoq	chg yoy
> US\$ 1mn	1210	1196	1138	14	72
> US\$ 5mn	650	650	609	0	41
> US\$ 10mn	455	446	417	9	38
> US\$ 20mn	283	272	247	11	36
> US\$ 50mn	124	124	114	0	10
> US\$ 100mn	59	59	54	0	5

Source: Company and Anvil Research

Geographical Split	Q2FY23 % total	Q1FY23 % total	Q2FY22 % total	Q2FY23 (\$ mn)	Q1FY23 (\$ mn)	Q2FY22 (\$ mn)	% chg (qoq)	% chg (yoy)
Americas								
North America	54.3%	53.2%	50.3%	3,734	3,607	3,185	3.5	17.2
Latin America	1.7%	1.8%	1.6%	117	122	101	(4.2)	15.4
Total	56.0%	55.0%	51.9%	3,851	3,729	3,287	3.3	17.2
Europe								
UK	14.5%	14.9%	16.1%	997	1,010	1,020	(1.3)	(2.2)
Continental Europe	14.5%	15.2%	15.9%	997	1,031	1,007	(3.2)	(1.0)
Total	29.0%	30.1%	32.0%	1,994	2,041	2,027	(2.3)	(1.6)
Emerging Markets								
India	5.1%	4.8%	5.1%	351	325	323	7.8	8.6
Asia Pacific	8.0%	8.3%	9.0%	550	563	570	(2.2)	(3.5)
MEA	1.9%	1.8%	2.0%	131	122	127	7.1	3.2
Total	15.0%	14.9%	16.1%	1,032	1,010	1,020	2.1	1.2
Revenues (In US\$mn)	100.0%	100.0%	100.0%	6,877	6,780	6,333	1.4	8.6
Revenues (In INR cr)				55,309	52,758	46,867	4.8	18.0

Source: Company and Anvil Research

Outlook

- Within Product & Platforms (P&P) TCS Ignou Cognitive Automation signed 4 new customers with 2 go lives. Ignou solutions also helps enhance customer experience in travel domain. Bancs product witnessed 4 new wins. Quartz Blockchain platform witnessed 2 new wins and 1 go lives. TCS Optimera had 2 go lives, while ION had 8 wins in Q2FY23.
- Within every opportunity in P&P, TCS will aim to get into SAAS based offering thereby moving away from License and AMC based old Product models. Now all TCS Products are available on Cloud platforms enabled by its partnerships with Hyperscalers. Margin levers in P&P depends on volume of SAAS transactions as there are no problems of too much product customization required, which will further help in improve P&P business.
- **Technology spend is at core both on growth, consolidation and optimization business agendas of clients. And TCS expects to stay benefitted from participating in this client spend cycle.**
- **TCS said there is no change in client spending so far, as demand in Q2FY23 continued to be strong even in C. Europe and UK. Deal closures in Q2 were also strong.**
- **However, clients are getting vigilant on spends and there could be some sporadic cases of delayed decision making in new deals. Thus, TCS will also continue to stay vigilant and very close to clients given the current economic volatility is concerned.**
- **Europe is in fairly volatile situation and Clients are expected to show regular seasonality across Europe in Q3 & Q4FY23. But as on date there are no serious shifts seen for Q3FY23. Neither is there any visibility of client budgets for FY24 as of now. But expectations of spends would be on downside than upside for FY24.**
- **US is not showing any particular concern till date, so TCS expects normalcy in worst case scenario and fairly strong environment in better scenario in terms of clients budgeting and spends for FY24 from US.**

- Operating model transformation (like vertical model or product shift operating model) as a demand driver is a very strong trend across various geographies. Also, adoption of Agile and Lean is seen quite common in these new models as part of Enterprise-wide operation model transformation. This would be seen as big part of clients spends and will stay strong in near as well as long term.
- TCS scale, depth of Cloud and relationship with large Hyperscalers has positioned it well to leverage on Cloud opportunities as Clients are still seeking help in accelerating their workloads further onto the Clouds. Thus, TCS Cloud orchestration services under its multiple Cloud platform are gaining momentum. Even Cloud architecture and to deliver richer customer experience is gaining momentum with advance Analytics at scale leveraging on TCS deep Cloud contextual knowledge.
- Value of deep contextual knowledge of client's technology landscape is helping TCS to be a trusted advisor on Client's technology spends. TCS deep domain knowledge is helping in Utility sector which is going through multi-level transformation.
- **Freshers onboarding is in line with total 35000 freshers onboarded in H1FY22 with 22000 freshers in Q2FY23 alone.**
- **TCS is significantly investing in headcount additions and will continue to hire more freshers and use this as an operational lever. The earlier freshers' hires will start getting productive yielding better RPP in coming quarters.**
- **Moreover, compensation expectations of new hires have started getting more realistic. So, in coming months Mgmt. expects supply side constraints to come under control resulting in slowing down of Attrition rate as well from next quarter.**
- **Sub-contractor costs are also trending downwards. It was up due to strong order flows, but with better visa approvals and availability TCS expects sub-contractor costs to trend downward going ahead.**
- **TCS would stay focus on further improving Utilization. Realization has already started improving as seen in Q2FY23. Plus, it will also focus on executions. All these will support margin improvement in coming quarters.**
- **Consolidated headcount stood at 6,16,171 with qoq net addition of 9,840 employees in Q2. Despite of leaner net additions revenue growth is comparatively strong, which suggest that the Utilization must have improved qoq. In Q2, TCSers clocked 11.7mn learning hours, resulting in the acquisition of 1.5mn competencies. However, LTM Attrition continued to stay up 180bps qoq to 21.5%.**
- **TCS has till date applied for 6,922 patents, including 170 applied during the quarter, and has been granted 2,560 patents.**
- **TCS has declared interim dividend of Rs8/share in Q2FY23 similar to that declared in Q1. Cash & Bank balance stood at Rs7,350cr, down 31% qoq in Q2FY23.**

Thus, we expect TCS to report Top-line growth of 16.1% yoy in INR terms (growth of 7.7% in USD terms), PAT uptick of 11% yoy and EPS of Rs116 in FY23E. For FY24E we expect TCS to report Top-line growth of 6.4% yoy in INR terms (growth of 6.2% in USD terms), PAT uptick of 7.9% yoy and EPS of Rs125.6.

Assumptions for Revenue projection (IND AS)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Volume growth	9.4%	7.2%	5.9%	1.3%	17.7%	12.6%	6.0%
Pricing growth	-1.1%	3.3%	-0.5%	-0.8%	-1.5%	-4.4%	0.1%
USD/INR impact	-3.9%	8.6%	1.8%	4.0%	0.6%	7.9%	0.2%
Revenues growth (in INR)	4.4%	19.0%	7.2%	4.6%	16.8%	16.1%	6.4%
Revenues growth (in USD)	8.6%	9.6%	5.3%	0.6%	15.9%	7.7%	6.2%

Source: Company and Anvil Research

P&L (Rs cr)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	1,23,104	1,46,463	1,56,949	1,64,177	1,91,754	2,22,722	2,36,950
Other income	3,642	4,311	4,592	3,134	4,018	3,537	3,593
Total income	1,26,746	1,50,774	1,61,541	1,67,311	1,95,772	2,26,259	2,40,543
Cost of revenue	69,096	80,516	87,857	93,276	1,08,717	1,30,477	1,38,687
SG&A	21,492	26,441	26,983	24,355	29,980	32,786	34,527
Cost of sales	90,588	1,06,957	1,14,840	1,17,631	1,38,697	1,63,264	1,73,213
PBIDT	32,516	39,506	42,109	46,546	53,057	59,458	63,737
Interest, net	52	198	924	637	784	647	600
PBDT	36,106	43,619	45,777	49,043	56,291	62,348	66,730
Depreciation	2,014	2,056	3,529	4,065	4,604	4,967	4,798
Profit before tax	34,092	41,563	42,248	44,978	51,687	57,381	61,932
Provision for tax	8,212	10,001	9,801	11,198	13,238	14,668	15,869
Profit after tax	25,880	31,562	32,447	33,780	38,449	42,713	46,063
Minority interest/extraordinary	(54)	(90)	(107)	(1,350)	(122)	(143)	(127)
Adjusted PAT	25,826	31,472	32,340	32,430	38,327	42,570	45,936

Source: Company and Anvil Research; Note: Financials in IND AS Format

Balance Sheet (Rs cr)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity capital	191	375	375	370	366	366	366
Reserve & Surplus	85,339	89,524	84,374	86,738	89,480	1,15,851	1,43,393
Net worth	85,530	89,899	84,749	87,108	89,846	1,16,217	1,43,759
Short term Debt	181	-	1,268	1,292	1,450	1,350	1,330
Long term Debt	54	44	6,906	6,503	6,368	5,468	5,268
Total Debt	235	44	8,174	7,795	7,818	6,818	6,598
Employee benefit obligation	290	330	417	749	677	477	507
Deferred Income tax Liab. (net of Deferred tax a	(2,279)	(1,614)	(2,049)	(3,164)	(3,118)	(1,118)	(118)
Provisions	26	-	-	-	-	-	-
Other Financial Liabilities	1,398	1,544	988	1,477	1,682	1,982	2,282
Capital Employed	85,200	90,203	92,279	93,965	96,905	1,24,376	1,53,028
Gross block	22,720	24,522	26,444	28,658	30,300	31,655	32,755
Accumulated depreciation	12,504	14,111	15,503	17,548	19,526	21,526	23,676
Net block	10,216	10,411	10,941	11,110	10,774	10,129	9,079
Capital WIP& Capital advances	1,278	963	906	926	1,205	2,005	3,005
Goodwill and other intangible assets	1,757	1,879	1,993	2,278	2,888	2,654	2,459
Investments (Long-term)	301	239	216	213	223	323	373
Other non-current assets	8,071	6,664	13,778	13,021	14,406	12,900	11,890
Total Non-current Assets	21,623	20,156	27,834	27,548	29,496	28,011	26,806
Sundry debtors	24,943	27,346	30,532	30,079	34,074	44,074	49,074
Cash & bank	42,868	41,939	35,806	38,489	48,483	55,819	68,666
Unbilled revenues	6,686	5,157	5,732	6,583	7,736	10,936	12,936
Loans, Other Financial and current assets	6,701	17,679	18,162	24,121	17,997	24,497	28,497
Inventories	26	10	5	8	20	40	50
Sundry creditors	5,094	6,292	6,740	7,860	8,045	13,045	8,045
Other current liabilities	12,553	15,792	19,052	25,003	32,856	25,956	24,956
Net current assets	63,577	70,047	64,445	66,417	67,409	96,365	1,26,222
Capital Deployed	85,200	90,203	92,279	93,965	96,905	1,24,376	1,53,028

Source: Company and Anvil Research; Note: Financials in IND AS Format

Key Ratios							
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Absolute Growth (%)							
Revenue	4.4	19.0	7.2	4.6	16.8	16.1	6.4
EBITDA	0.6	21.5	6.6	10.5	14.0	12.1	7.2
PAT	-1.8	21.9	2.8	0.3	18.2	11.1	7.9
Profitability Ratios (%)							
EBIT margins	24.8	25.6	24.6	25.9	25.3	24.5	24.9
PAT margins	21.0	21.5	20.6	19.8	20.0	19.1	19.4
ROCE	30.2	33.9	33.2	34.1	35.9	33.9	32.1
ROIC	57.1	61.3	54.4	60.0	79.2	61.5	53.5
ROA	25.2	28.2	28.1	27.0	28.3	26.4	25.0
ROE	30.2	35.0	38.2	37.2	42.7	36.6	32.0
Valuation Ratio (x)							
P/E (on FDEPS)	19.4	23.0	24.6	29.1	33.8	26.8	24.9
P/CEPS	18.0	21.6	22.2	25.9	30.2	24.0	22.5
P/BV	5.8	8.0	9.4	10.7	14.3	9.8	7.9
Dividend yield (%)	1.8	1.6	4.0	0.9	1.0	1.4	1.6
EV/Sales	3.7	4.7	4.9	5.6	6.5	4.9	4.6
EV/EBITDA	14.1	17.2	18.3	19.6	23.7	18.4	16.9
EV / Total Assets	4.5	6.1	6.5	7.2	9.1	6.7	5.8
Per Share Data (Rs)							
EPS (Basic)	134.2	83.1	86.2	86.7	103.6	116.3	125.6
EPS (fully diluted)	134.2	83.1	86.2	86.7	103.6	116.3	125.6
Cash EPS	144.7	88.5	95.6	97.6	116.1	129.9	138.7
DPS	48.2	30.0	85.0	23.3	36.2	44.0	50.0
Book Value per share	447.8	239.7	226.0	235.4	245.5	317.5	392.8
Dupont Analysis							
EBIT margin (a)	27.7	28.5	27.5	27.8	27.4	26.1	26.4
Tax retention ratio (b)	0.8	0.8	0.8	0.8	0.7	0.7	0.7
Assets Turnover ©	1.2	1.3	1.3	1.3	1.4	1.4	1.3
ROA (a*b*c)	25.2	28.2	28.1	27.0	28.3	26.4	25.0
Net Profit AT/Total Assets (a1)	25.1	28.0	27.4	25.6	27.8	26.1	24.7
Total Assets/Stockholders Equity (b1)	1.2	1.2	1.4	1.5	1.5	1.4	1.3
ROE (a1*b1)	30.2	35.0	38.2	37.2	42.7	36.6	32.0
Liquidity ratios (x)							
Debtors days	71	65	67	67	61	64	72
Creditors days	20	19	21	23	21	24	22
Working capital cycle (ex-cash) (days)	61	61	66	63	45	49	76
Leverage ratios (x)							
Gross debt to equity	0.0	0.0	0.1	0.1	0.1	0.1	0.0
Net debt to equity	(0.5)	(0.5)	(0.3)	(0.4)	(0.5)	(0.4)	(0.4)
Net debt to EBITDA	(1.3)	(1.1)	(0.7)	(0.7)	(0.8)	(0.8)	(1.0)
Interest Coverage	656.6	210.9	46.7	71.6	66.9	89.7	104.2

Source: Company and Anvil Research; Note: Financials in IND AS Format

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NSE Regn No. – INB231046831

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