

IT
January 09, 2023

TCS

Q3FY23 Result Update

CMP	3320
Sensex	60747

Stock Statistics

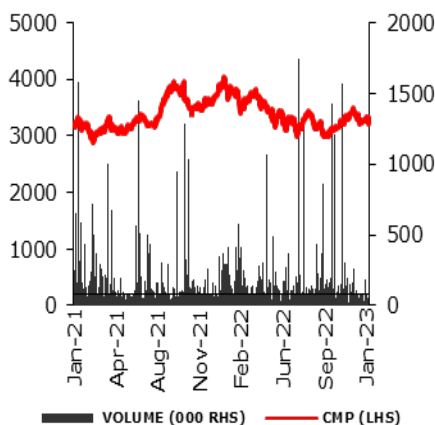
Reuters code	TCS.BO
Bloomberg code	TCS IN

Equity Cap (INR cr)	366
Face Value (INR)	1
INR / USD	81.8
Market cap (INR cr)	12,14,695
Market cap (USD bn)	148
52 Wk High/Low (INR)	4046/2926

Shareholding Pattern (%) – Sep'22

Promoter	72.3
Foreign Institutional Investor	13.3
MF / FI / UTI / Banks	8.6
Public & Others	5.5
Bodies Corporate	0.3

2 yr Price and Volume Chart



Analyst

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Resilience maintained despite being a quarter of furloughs

TCS has reported Top-line growth of 2.9% in USD terms to US\$7075mn led by 2.2% CC growth. The International revenues grew 2.9% qoq to US\$6714mn led by strong growth in Latin America. Even N. America and Europe reported strong growth qoq. Domestic revenues were also up 2.9% qoq. It was only EMEA which registered de-growth of 2.5% qoq. **In INR terms the Top-line grew strong by 5.3% qoq to Rs58,229cr as average INR rate depreciated by 2.3% qoq to 82.3 v/s USD rate during Q3.**

Growth was broad-based amongst verticals and led by 7.3% and 3.9% qoq respective growth in Regional markets and Lifesciences. Manufacturing also grew 2.9% qoq.

TCS witnessed total TCV of US\$7.8bn in Q3FY23 (v/s US\$8.1bn TCV wins in Q2FY23), which though is down 3.7% qoq but still is a big size of TCV win amidst of severe global macro-economic challenges. TCV includes US\$2.5bn deal win from BFSI, US\$1.2bn from Retail vertical & US\$4.2bn from N America. This we believe is quite positive data point and moreover **Mgmt. has guided that both the medium and large deal pipeline remains strong with qualified deal pipeline being robust. Its only matter of time that the current qualified robust pipeline actually gets converted into real TCV in coming quarters amidst the current global macro-economic headwinds.**

EBIT margin was up 50bps qoq to 24.5% in Q3FY23 led by 75bps qoq benefit from currency and 30bps qoq from execution led by improved realization and better utilization that helped offset one off higher third-party costs.

Other Income was down 46% qoq to Rs520cr led by higher Forex Loss of Rs460cr due to Revaluation Losses on Overseas Liabilities (v/s Forex Gain of Rs164cr in Q2). Moreover, Interest and Depreciation costs were also up qoq. However, led by strong operational performance TCS has reported 4% qoq increase in PAT to Rs10,846cr in Q3FY23.

Key Financials (IND AS Consolidated)				
Y/E March (Rs cr)	FY2021	FY2022	FY2023E	FY2024E
Net Sales	1,64,177	1,91,754	2,25,786	2,42,944
% chg	4.6	16.8	17.7	7.6
Net Profit	32,430	38,327	42,751	47,566
% chg	0.3	18.2	11.5	11.3
EBIT Margin (%)	25.9	25.3	24.4	25.0
FDEPS (Rs)	86.7	103.6	116.8	130.0
P/E (x)	29.1	33.8	28.4	25.5
P/BV (x)	10.7	14.3	12.0	10.8
RoE (%)	37.2	42.7	42.1	42.3
RoCE (%)	34.1	35.9	36.9	36.7
EV/Sales (x)	5.6	6.5	5.2	4.8
EV/EBITDA (x)	19.6	23.7	19.5	17.6
Net Debt/Equity	(0.4)	(0.5)	(0.5)	(0.5)

Source: Company & Anvil Research

Quarterly Financial Statement

Q3FY23 Consolidated Financial Performance (IND AS)								
Y/E March (Rs cr)	Q3FY23	Q2FY23	% chg (qoq)	Q3FY22	% chg (yoy)	9MFY23	9MFY22	% chg
Net Revenues	58,229	55,309	5.3	48,885	19.1	1,66,296	1,41,163	17.8
Employee Benefit Expenses	32,467	31,041	4.6	27,168	19.5	93,835	79,201	18.5
Cost of Equipment & Software Licences	643	401	60.3	432	48.8	1,261	903	39.6
Gross Profit	25,119	23,867	5.2	21,285	18.0	71,200	61,059	16.6
SG&A Expenses	9,566	9,351	2.3	7,852	21.8	27,715	21,847	26.9
EBITDA	15,553	14,516	7.1	13,433	15.8	43,485	39,212	10.9
Other Income	520	965	(46.1)	1,205	(56.8)	2,274	3,037	(25.1)
Finance Costs	160	148	8.1	251	(36.3)	507	539	(5.9)
Depreciation	1,269	1,237	2.6	1,196	6.1	3,736	3,387	10.3
Provision towards legal claim (One-time)			-		-			-
PBT	14,644	14,096	3.9	13,191	11.0	41,516	38,323	8.3
Tax	3,761	3,631	3.6	3,385	11.1	10,649	9,833	8.3
Minority Interest	37	34	8.8	37	0.0	112	89	25.8
Net Income	10,846	10,431	4.0	9,769	11.0	30,755	28,401	8.3
Diluted EPS (Rs)	29.6	28.5	4.0	26.4	12.2	84.1	76.8	9.5
Gross Profit Margin (%)	43.1	43.2	(0.0)	43.5	(0.4)	42.8	43.3	(0.4)
EBITDA Margin (%)	26.7	26.2	0.5	27.5	(0.8)	26.1	27.8	(1.6)
EBIT Margin (%)	24.5	24.0	0.5	25.0	(0.5)	23.9	25.4	(1.5)
Net Profit Margin (%)	18.6	18.9	(0.2)	20.0	(1.4)	18.5	20.1	(1.6)
Tax rate (%)	25.7	25.8	(0.1)	25.7	0.0	25.7	25.7	(0.0)

Source: Company and Anvil Research

Key Operational Matrix

	Q3FY23	Q2FY23	Q3FY22	Q3FY23	Q2FY23	Q3FY22	% chg	% chg
New Vertical Split	% total	% total	% total	(\$ mn)	(\$ mn)	(\$ mn)	(qoq)	(yoy)
BFSI	31.5%	31.9%	32.0%	2,229	2,194	2,088	1.6	6.8
Retail & CPG	15.7%	15.9%	15.1%	1,111	1,093	985	1.6	12.8
Communication & Media	6.6%	6.7%	6.7%	467	461	437	1.3	6.8
Manufacturing	9.9%	9.9%	9.9%	700	681	646	2.9	8.4
Life Sciences & Healthcare	10.3%	10.2%	9.9%	729	701	646	3.9	12.8
Technologies & Services	8.9%	9.0%	8.7%	630	619	568	1.7	10.9
Regional Mkts. & Others	17.1%	16.4%	17.7%	1,210	1,128	1,155	7.3	4.8
Revenues (In US\$mn)	100.0%	100.0%	100.0%	7,075	6,877	6,524	2.9	8.4
Revenues (In INR cr)				58,229	55,309	48,885	5.3	19.1

Source: Company and Anvil Research

Clients status & additions	Q3FY23	Q2FY23	Q3FY22	chg qoq	chg yoy
> US\$ 1mn	1217	1210	1175	7	42
> US\$ 5mn	658	650	619	8	39
> US\$ 10mn	456	455	426	1	30
> US\$ 20mn	290	283	255	7	35
> US\$ 50mn	130	124	118	6	12
> US\$ 100mn	59	59	58	0	1

Source: Company and Anvil Research

Geographical Split	Q3FY23 % total	Q2FY23 % total	Q3FY22 % total	Q3FY23 (\$ mn)	Q2FY23 (\$ mn)	Q3FY22 (\$ mn)	% chg (qoq)	% chg (yoy)
Americas								
North America	53.7%	54.3%	50.7%	3,799	3,734	3,308	1.7	14.9
Latin America	1.8%	1.7%	1.7%	127	117	111	8.9	14.8
Total	55.5%	56.0%	52.4%	3,927	3,851	3,419	2.0	14.9
Europe								
UK	14.9%	14.5%	15.6%	1,054	997	1,018	5.7	3.6
Continental Europe	14.8%	14.5%	16.0%	1,047	997	1,044	5.0	0.3
Total	29.7%	29.0%	31.6%	2,101	1,994	2,062	5.4	1.9
Emerging Markets								
India	5.1%	5.1%	5.5%	361	351	359	2.9	0.6
Asia Pacific	7.9%	8.0%	8.6%	559	550	561	1.6	(0.4)
MEA	1.8%	1.9%	1.9%	127	131	124	(2.5)	2.7
Total	14.8%	15.0%	16.0%	1,047	1,032	1,044	1.5	0.3
Revenues (In US\$mn)	100.0%	100.0%	100.0%	7,075	6,877	6,524	2.9	8.4
Revenues (In INR cr)				58,229	55,309	48,885	5.3	19.1

Source: Company and Anvil Research

Outlook

- **Overall demand scenario has not changed significantly. But it will take another 2-3 months to get more colour on how budgets would shape up.**
- **Demand trend in N. America remains vibrant as clients there are supportive with reasonable caution. In UK, TCS is finding resonance with clients there and gaining significant market share. However, in Europe clients' decisions are still getting impacted by challenges there and so TCS will closely monitor Europe.**
- **N America and UK constitute two-third of TCS revenues and three-fourth of its Profits. TCS doesn't see any structural challenges in N, America (there its only delayed decisions). In UK, customer and industries are ready to spends on structural infrastructure related transformation spends like in Telecom area.**
- **TCS had earlier expected macro-economic challenges to impact Manufacturing vertical, but that has not played out as it has continued to hold out strong in 9MFY23.**
- **BFSI is also doing well except Insurance which is slightly weaker but not bad. Data localisation, large scale payment restructuring kind of spends were seen in BFSI in Q3FY23, nothing negative was there to call out v/s usual Q3. BFSI tech spends continues to hold up in large Cloud areas. Mortgage area there is some weakness and reduction in spends by Banks could happen in terms of their exposure to Mortgage. However, in Wealth Mgmt. area under BFSI spends are happening on bringing in lot of innovation and automation.**

- **Some banks are doing pilots on Metaverse; however, it will take some more time to for Metaverse to get productive for Indian Banks. Indian Banks as of now are spending on Cloud, Automation, Analytics and how to improve value of the available data. Outcome delivered to market through Digital Core Banking is at prominence for Indian Banks.**
- **Retail sales volumes are strong but their profitability is impacted as all cost cannot be transferred to customers. So, Retail vertical is in good shape except for cost structures.**
- **Deal momentum and pipeline looks very good. Qualified pipeline has gone up both the medium as well as large deal pipeline.**
- **Tech spends continues to stay intact as everybody continues to do Cloud investments. Clients looking at Cloud 2.0, Horizon2 & 3 spends and how ML and AI can be further evolved, all of which gives feel good factor to the Mgmt. Lot of investments have gone in Cloud area but lot of efficiencies are yet to be realized from these Cloud spends, which will continue to grow in near future.**
- **TCS customer universe includes large Enterprises, for whom Cloud commitment is one way street as there is major architectural shift going on and migrating clients workloads to cloud is what everyone is doing . However there the first 25% of initial work is happened and now on TCS will be doing more contextual work on balance 75% of transformation. Today TCS drives the largest Cloud consumptions for one of the Top 2 Hyperscalers, hence Cloud for TCS will continue to grow as a service line.**
- **Pricing varies case to case basis but it will continue to remain margin lever as new deals are coming at new and higher price points. Plus, digital transformation deals have advantage on pricing, while cost optimization deals come at lower pricing.**
- **Vendor consolidation, Cost Optimization opportunities, business transformation are types of deals TCS is expects to win during FY24 which would be more balanced year in terms of nature of demand.**
- **TCS Product & Platform(P&P) offerings are growing strong irrespective of growth in headcounts. Thus, TCS will keep hiring people, training them, integrating them and execute each of the projects on services side where it will drive productive through contextual knowledge which it aims to grow further. As well as it will stay quite focused on how to further improve P&P value chain and margins. Most of the P&P products are being charged on SAAS basis thereby resulting in better margins.**
- **As transformation program starts hitting core Enterprise it requires strong contextual knowledge and capability to deliver on such programs. So full spectrum organizations like TCS will be able to deliver with differentiated capabilities and competitiveness. Hence TCS is better placed and Customers are consolidating spends with TCS then its competitors which is likely to result in market share gains.**

- Consolidated headcount stood at 6,13,974, which is a net qoq reduction of 2197 employees in Q3. 7000 freshers' engineers were hired in Q3FY23. TCS had made significant investment in fresher talents in last few years and further also invested on making these freshers more productive. So that's why there is headcount reduction in Q3FY23. But this wasn't due to any demand challenges. LTM Attrition eased up slightly by 20bps qoq to 21.3%. Attrition is expected to come down further in coming quarters.
- TCS had significantly invested in building capacities in last few years and that investment hit its productive capacity as it hired significantly ahead of revenue growth in FY21, which it balanced out in FY22. But now it will be normalizing its hiring. It expects 125000-150000 gross hiring every year with normal attrition rate as part of its long-term plan.
- Moreover, every year TCS hires ~40000 freshers from campus that will not change plus it will also hire laterals going head.
- TCS has applied for total 7134 Patents an increase of 738 patent yoy. The company has been so far granted total 2694 patents. Thus, the company aims to lay more focus on R&D and has dedicated pool of 7000 researchers for wide scale adoption of R&D work to create right enabling infrastructure in future.
- TCS has declared interim dividend of Rs75/share in Q3FY23 (v/s Rs8/share in Q2), which includes Rs65/share as Special dividend. Cash & Bank balance stood at Rs10,294cr, up 40% qoq in Q3FY23.

Thus, we expect TCS to report Top-line growth of 17.7% yoy in INR terms (growth of 8.7% in USD terms), PAT uptick of 11.5% yoy and EPS of Rs117 in FY23E. For FY24E we expect TCS to report Top-line growth of 7.6% yoy in INR terms (growth of 6% in USD terms), PAT uptick of 11.3% yoy and EPS of Rs130.

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%	3.4%
Pricing growth	-1.1%	3.3%	-0.5%	-0.8%	-1.5%	-3.2%	2.7%
USD/INR impact	-3.9%	8.6%	1.8%	4.0%	0.6%	8.3%	1.6%
Revenues growth (in INR)	4.4%	19.0%	7.2%	4.6%	16.8%	17.7%	7.6%
Revenues growth (in USD)	8.6%	9.6%	5.3%	0.6%	15.9%	8.7%	6.0%

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	2,25,786	2,42,944
Other income	3,642	4,311	4,592	3,134	4,018	3,342	3,834
Total income	1,26,746	1,50,774	1,61,541	1,67,311	1,95,772	2,29,128	2,46,777
Cost of revenue	69,096	80,516	87,857	93,276	1,08,717	1,32,282	1,41,466
SG&A	21,492	26,441	26,983	24,355	29,980	33,474	35,715
Cost of sales	90,588	1,06,957	1,14,840	1,17,631	1,38,697	1,65,755	1,77,181
PBIDT	32,516	39,506	42,109	46,546	53,057	60,031	65,762
Interest, net	52	198	924	637	784	677	630
PBDT	36,106	43,619	45,777	49,043	56,291	62,696	68,966
Depreciation	2,014	2,056	3,529	4,065	4,604	5,029	4,919
Profit before tax	34,092	41,563	42,248	44,978	51,687	57,667	64,047
Provision for tax	8,212	10,001	9,801	11,198	13,238	14,768	16,332
Profit after tax	25,880	31,562	32,447	33,780	38,449	42,900	47,715
Minority interest/extraordinary	(54)	(90)	(107)	(1,350)	(122)	(149)	(149)
Adjusted PAT	25,826	31,472	32,340	32,430	38,327	42,751	47,566

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	1,01,173	1,12,047
Net worth	85,530	89,899	84,749	87,108	89,846	1,01,539	1,12,413
Short term Debt	181	-	1,268	1,292	1,450	1,460	1,470
Long term Debt	54	44	6,906	6,503	6,368	6,168	5,968
Total Debt	235	44	8,174	7,795	7,818	7,628	7,438
Employee benefit obligation	290	330	417	749	677	557	557
Deferred Income tax Liab. (net of Deferred tax asse	(2,279)	(1,614)	(2,049)	(3,164)	(3,118)	(2,218)	(1,718)
Provisions	26	-	-	-	-	-	-
Other Financial Liabilities	1,398	1,544	988	1,477	1,682	1,632	1,632
Capital Employed	85,200	90,203	92,279	93,965	96,905	1,09,138	1,20,322
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	1,505	2,005
Goodwill and other intangible assets	1,757	1,879	1,993	2,278	2,888	2,723	2,778
Investments (Long-term)	301	239	216	213	223	288	338
Other non-current assets	8,071	6,664	13,778	13,021	14,406	14,376	14,366
Total Non-current Assets	21,623	20,156	27,834	27,548	29,496	29,021	28,566
Sundry debtors	24,943	27,346	30,532	30,079	34,074	41,074	44,974
Cash & bank	42,868	41,939	35,806	38,489	48,483	53,681	65,010
Unbilled revenues	6,686	5,157	5,732	6,583	7,736	8,736	9,736
Loans, Other Financial and current assets	6,701	17,679	18,162	24,121	17,997	19,297	20,297
Inventories	26	10	5	8	20	30	40
Sundry creditors	5,094	6,292	6,740	7,860	8,045	12,045	15,045
Other current liabilities	12,553	15,792	19,052	25,003	32,856	30,656	33,256
Net current assets	63,577	70,047	64,445	66,417	67,409	80,117	91,756
Capital Deployed	85,200	90,203	92,279	93,965	96,905	1,09,138	1,20,322

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	17.7	7.6
EBITDA	0.6	21.5	6.6	10.5	14.0	13.1	9.5
PAT	-1.8	21.9	2.8	0.3	18.2	11.5	11.3
Profitability Ratios (%)							
EBIT margins	24.8	25.6	24.6	25.9	25.3	24.4	25.0
PAT margins	21.0	21.5	20.6	19.8	20.0	18.9	19.6
ROCE	30.2	33.9	33.2	34.1	35.9	36.9	36.7
ROIC	57.1	61.3	54.4	60.0	79.2	77.6	86.3
ROA	25.2	28.2	28.1	27.0	28.3	28.6	28.6
ROE	30.2	35.0	38.2	37.2	42.7	42.1	42.3
Valuation Ratio (x)							
P/E (on FDEPS)	19.4	23.0	24.6	29.1	33.8	28.4	25.5
P/CEPS	18.0	21.6	22.2	25.9	30.2	25.4	23.1
P/BV	5.8	8.0	9.4	10.7	14.3	12.0	10.8
Dividend yield (%)	1.8	1.6	4.0	0.9	1.0	3.0	3.0
EV/Sales	3.7	4.7	4.9	5.6	6.5	5.2	4.8
EV/EBITDA	14.1	17.2	18.3	19.6	23.7	19.5	17.6
EV / Total Assets	4.5	6.1	6.5	7.2	9.1	7.7	6.9
Per Share Data (Rs)							
EPS (Basic)	134.2	83.1	86.2	86.7	103.6	116.8	130.0
EPS (fully diluted)	134.2	83.1	86.2	86.7	103.6	116.8	130.0
Cash EPS	144.7	88.5	95.6	97.6	116.1	130.6	143.5
DPS	48.2	30.0	85.0	23.3	36.2	101.0	100.0
Book Value per share	447.8	239.7	226.0	235.4	245.5	277.4	307.1
Dupont Analysis							
EBIT margin (a)	27.7	28.5	27.5	27.8	27.4	25.8	26.6
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	1.5	1.4
ROA (a*b*c)	25.2	28.2	28.1	27.0	28.3	28.6	28.6
Net Profit AT/Total Assets (a1)	25.1	28.0	27.4	25.6	27.8	28.2	28.2
Total Assets/Stockholders' Equity (b1)	1.2	1.2	1.4	1.5	1.5	1.5	1.5
ROE (a1*b1)	30.2	35.0	38.2	37.2	42.7	42.1	42.3
Liquidity ratios (x)							
Debtors days	71	65	67	67	61	61	65
Creditors days	20	19	21	23	21	22	28
Working capital cycle (ex-cash) (days)	61	61	66	63	45	37	40
Leverage ratios (x)							
Gross debt to equity	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Net debt to equity	(0.5)	(0.5)	(0.3)	(0.4)	(0.5)	(0.5)	(0.5)
Net debt to EBITDA	(1.3)	(1.1)	(0.7)	(0.7)	(0.8)	(0.8)	(0.9)
Interest Coverage	656.6	210.9	46.7	71.6	66.9	86.2	102.7

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

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