

IT Sector April 13, 2023

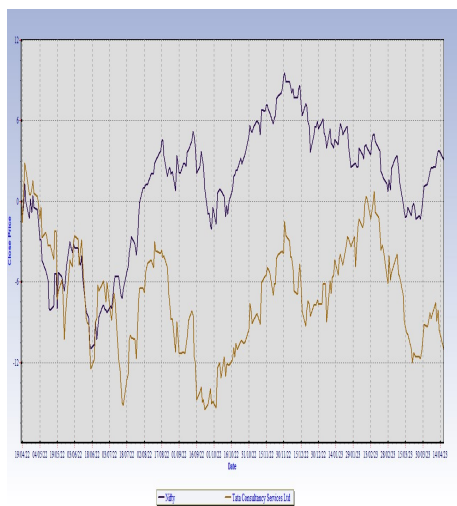
CMP	3190
Sensex	60431

Stock Statistics

Reuters code	TCS.BO
Bloomberg code	TCS IN
Equity Cap (INR cr)	366
Face Value (INR)	1
INR / USD	82.1
Market cap (INR cr)	11,67,183
Market cap (USD bn)	142
52 Wk High/Low (INR)	3643/2926

Shareholding Pattern (%) – Dec'22

Promoter	72.3
Foreign Institutional Investor	13.1
MF / FI / UTI / Banks	9.3
Public & Others	5.0
Bodies & Corporate	0.3



TCS Stock Update

Q4FY23 Results

TCS maintained good resilience with strong TCV wins

- TCS has reported Top-line growth of 2.9% in USD terms to US\$7195mn, which comprises of 0.6% qoq CC growth and 1.1% cross-currency tailwind.
- In INR terms Top-line was Rs59162cr up 1.6% qoq. So basically, it was degrowth of 0.8% qoq in N America in Q4 as well 0.3% qoq degrowth in India which restricted further growth in Topline. UK grew strong by 7.2% qoq and C. Europe by 3.8% qoq. Amongst verticals growth was broad-based and led by Regional mkts up 4.1% qoq as well Lifesciences which was up 2.7% qoq. BFSI & Manufacturing grew 1.4% and 1.7% respectively.
- EBIT margin was flat qoq to 24.5% in Q4FY23 as supply side challenges are getting resolved, dependence on sub-contractors cost coming down as well as led by other operating leverages. TCS has exited FY23 with EBIT margin of 24.1%, which it expects can improve in FY24 by bringing in more labor arbitrage efficiencies in costs.
- ETR has increased in FY23 v/s in FY22 as more of TCS facilities came out of SEZ.
- Other Income was up 151% qoq to Rs903cr despite of increase in Finance cost, which helped the PAT to rise by 5% qoq to Rs11392cr.
- TCS witnessed total TCV of US\$10bn in Q4FY23 (v/s US\$7.8bn TCV wins in Q3FY23) up 28% qoq. It includes US\$5bn win from N. America (v/s \$4.2bn in Q3), US\$3bn win from BFSI vertical (v/s \$2.5bn in Q3) and US\$1.3bn win from Retail vertical (v/s \$1.2bn in Q3). TCV is less lumpy as there are more medium to small size many deals of US\$50-100mn size giving predictable revenue visibility going forward, which is quite positive unlike very long-term deals, which might get delayed or paused due to unpredictable macro-economic challenges globally.
- TCV stands at \$34.1bn for FY23 down 1.4% yoy, which is quite positive unlike most of its peers despite of weaker macro-economic situation globally.
- Within TCS Products & Platforms; Ignou saw 5 new clients adds and 2 clients went Live. TCS continued its Automation investments in AI Ops like AI&ML, Analytics, Cloud Infrastructure etc. TCS Life-science new platform Advance Drugs platform is doing well. TCS, Omni store had one go live, Hobbs had 1 new win and 1 go live.
- Consolidated headcount stood at 6,14,795, which is a net qoq addition of 821 employees in Q4. LTM Attrition eased up by 120bps qoq to 20.1%. TCS onboarded 44,000 freshers over FY23 and would honour all offer letters. Every year TCS hires ~40000 freshers from campus that will not change plus it will also hire laterals going head.
- TCS continued to investment in organic talent to deliver better client outcomes. It also received certifications from large Cloud Hyperscalers.
- TCS has declared Final Dividend of Rs24/share, which comes to total dividend of Rs115/share for FY23, which includes Rs65/share as Special dividend given in Q3FY23.

Quarterly Financial Statement

Q4FY23 Consolidated Financial Performance (IND AS)								
Y/E March (Rs cr)	Q4FY23	Q3FY23	chg (qoq)	Q4FY22	chg (yoy)	FY23	FY22	% chg
Net Revenues	59,162	58,229	1.6	50,591	16.9	2,25,458	1,91,754	17.6
Employee Benefit Expenses	33,687	32,467	3.8	28,353	18.8	1,27,522	1,07,554	18.6
Cost of Equipment & Software Licences	620	643	(3.6)	260	138.5	1,881	1,163	61.7
Gross Profit	24,855	25,119	(1.1)	21,978	13.1	96,055	83,037	15.7
SG&A Expenses	9,081	9,566	(5.1)	8,133	11.7	36,796	29,980	22.7
EBITDA	15,774	15,553	1.4	13,845	13.9	59,259	53,057	11.7
Other Income	1,175	520	126.0	981	19.8	3,449	4,018	(14.2)
Finance Costs	272	160	70.0	245	11.0	779	784	(0.6)
Depreciation	1,286	1,269	1.3	1,217	5.7	5,022	4,604	9.1
Provision towards legal claim (One-time)	-	-	-	-	-	-	-	-
PBT	15,391	14,644	5.1	13,364	15.2	56,907	51,687	10.1
Tax	3,955	3,761	5.2	3,405	16.2	14,604	13,238	10.3
Minority Interest	44	37	18.9	33	33.3	156	122	27.9
Net Income	11,392	10,846	5.0	9,926	14.8	42,147	38,327	10.0
Diluted EPS (Rs)	31.1	29.6	5.1	26.9	16.0	115.2	103.6	11.2
Gross Profit Margin (%)	42.0	43.1	(1.1)	43.4	(1.4)	42.6	43.3	(0.7)
EBITDA Margin (%)	26.7	26.7	(0.0)	27.4	(0.7)	26.3	27.7	(1.4)
EBIT Margin (%)	24.5	24.5	(0.0)	25.0	(0.5)	24.1	25.3	(1.2)
Net Profit Margin (%)	19.3	18.6	0.6	19.6	(0.4)	18.7	20.0	(1.3)
Tax rate (%)	25.7	25.7	0.0	25.5	0.2	25.7	25.6	0.1

Source: Company and Anvil Research

Key Operational Matrix

Geographical Split	Q4FY23 % total	Q3FY23 % total	Q4FY22 % total	Q4FY23 (\$ mn)	Q3FY23 (\$ mn)	Q4FY22 (\$ mn)	% chg (qoq)	% chg (yoy)
Americas								
North America	52.4%	53.7%	51.6%	3,770	3,799	3,455	(0.8)	9.1
Latin America	1.8%	1.8%	1.7%	130	127	114	1.7	13.8
Total	54.2%	55.5%	53.3%	3,900	3,927	3,569	(0.7)	9.3
Europe								
UK	15.7%	14.9%	15.6%	1,130	1,054	1,045	7.2	8.1
Continental Europe	15.1%	14.8%	15.5%	1,086	1,047	1,038	3.8	4.7
Total	30.8%	29.7%	31.1%	2,216	2,101	2,082	5.5	6.4
Emerging Markets								
India	5.0%	5.1%	5.1%	360	361	341	(0.3)	5.3
Asia Pacific	8.0%	7.9%	8.5%	576	559	569	3.0	1.1
MEA	2.0%	1.8%	2.0%	144	127	134	13.0	7.5
Total	15.0%	14.8%	15.6%	1,079	1,047	1,045	3.1	3.3
Revenues (In US\$mn)	100.0%	100.0%	100.0%	7,195	7,075	6,696	1.7	7.5
Revenues (In INR cr)				59,162	58,229	50,591	1.6	16.9

Source: Company and Anvil Research

New Vertical Split	Q4FY23 % total	Q3FY23 % total	Q4FY22 % total	Q4FY23 (\$ mn)	Q3FY23 (\$ mn)	Q4FY22 (\$ mn)	% chg (qoq)	% chg (yoy)
BFSI	31.4%	31.5%	31.7%	2,259	2,229	2,123	1.4	6.4
Retail & CPG	15.6%	15.7%	15.3%	1,122	1,111	1,024	1.0	9.6
Communication & Media	6.5%	6.6%	6.9%	468	467	462	0.2	1.2
Manufacturing	9.9%	9.9%	10.0%	712	700	670	1.7	6.4
Life Sciences & Healthcare	10.4%	10.3%	10.1%	748	729	676	2.7	10.6
Technologies & Services	8.7%	8.9%	8.7%	626	630	583	(0.6)	7.5
Regional Mkts. & Others	17.5%	17.1%	17.3%	1,259	1,210	1,158	4.1	8.7
Revenues (In US\$mn)	100.0%	100.0%	100.0%	7,195	7,075	6,696	1.7	7.5
Revenues (In INR cr)				59,162	58,229	50,591	1.6	16.9

Source: Company and Anvil Research

Clients status & additions	Q4FY23	Q3FY23	Q4FY22	chg qoq	chg yoy
> US\$ 1mn	1241	1217	1182	24	59
> US\$ 5mn	665	658	638	7	27
> US\$ 10mn	461	456	439	5	22
> US\$ 20mn	291	290	268	1	23
> US\$ 50mn	133	130	120	3	13
> US\$ 100mn	60	59	58	1	2

Source: Company and Anvil Research

Outlook

- **K Krithivasan will take over as CEO & MD role from 1st June 2023. Leadership change with new CEO Krithivasan in place doesn't mean strategy change (there could be little tweak but major strategy as set by Rajesh will continue).**
- **Clients stay focused on Cost optimization opportunities and continued vendor consolidation.**
- **TCS continued to deploy contextual knowledge from Cognix platform to deliver intelligent automation outcomes for Clients.**
- **Modernization and migration to Cloud continued be key area of client spends and TCS saw good deal wins there as its part of entire Ecosystem of Hyperscaler partners.**
- **Q4 was soft coz there are still global macro-economic uncertainties that are not completely resolved. Though Q4 TCV includes small and short tenure deals, but within that also there could be chances of discretionary projects that can get cancelled if the macro-uncertainties aggravate further. Hence TCS Mgmt. refrained from giving any specific ques for Q1FY24 and FY24 growth as of now.**
- **Though some softness was seen in BFSI during Q4, however Cloud migration spends therein continued with TCS leveraging on its strong domain knowledge. TCS signed one mega BFSI deal in Q4FY23. Also, a large European Bank partnered with TCS.**
- **In Generative AI TCS has been doing some pilots internally and it has the potential to live upto the expectation that every human area can be technology driven using it. Generative AI is one out of many areas created using AI&ML that can act as Automation tools to come out with different tech outcomes.**

- **UK market is getting reconciled to cost takeout spends as well as massive movement to Cloud by Enterprises to stay agile is helping out growth there.**
- **Europe is complex specially within BFSI. But Europe is not cautious across verticals only in some verticals In Europe decision making is slow but pipeline is strong, so decision making has started improving from Q4FY23**
- **Though TCV win in US was strong in Q4, however discretionary projects are getting differed, but slowdown in deal flow was not immediate in Q4. As macro environment and customer sentiments started getting incrementally negative discretionary projects by clients got paused but costs related to these couldn't be rolled back, hence impacted margins in Q4.**
- **N. America Travel & Hospitality and overall regions too doing well but N. America Retail is not doing well**

Valuations

Thus, on account of macro-economic uncertainties we expect TCS would register Top-line growth of 6.9% yoy in INR terms (Growth of 5.6% yoy in USD terms), PAT increase of 8.5% yoy and EPS of Rs125 in FY24E. For FY25E however we expect recovery in macro-economic variants globally resulting in strong demand recovery leading to Top-line growth of 7.2% yoy (Growth of 8.5% yoy in USD terms), PAT increase of 11.2% yoy and EPS of Rs139. Thus, the stock currently trades at 25.5x FY24E EPS and at 23x FY25E EPS.

P&L (Rs cr)	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	1,56,949	1,64,177	1,91,754	2,25,458	2,41,046	2,58,471
Other income	4,592	3,134	4,018	3,449	4,108	4,474
Total income	1,61,541	1,67,311	1,95,772	2,28,907	2,45,155	2,62,945
Cost of revenue	87,857	93,276	1,08,717	1,29,403	1,41,204	1,49,951
SG&A	26,983	24,355	29,980	36,796	35,916	38,107
Cost of sales	1,14,840	1,17,631	1,38,697	1,66,199	1,77,120	1,88,058
PBIDT	42,109	46,546	53,057	59,259	63,926	70,413
Interest, net	924	637	784	779	1,054	890
PBDT	45,777	49,043	56,291	61,929	66,981	73,997
Depreciation	3,529	4,065	4,604	5,022	5,200	5,277
Profit before tax	42,248	44,978	51,687	56,907	61,780	68,720
Provision for tax	9,801	11,198	13,238	14,604	15,878	17,661
Profit after tax	32,447	33,780	38,449	42,303	45,903	51,059
Minority interest/extraordinary	(107)	(1,350)	(122)	(156)	(176)	(210)
Adjusted PAT	32,340	32,430	38,327	42,147	45,727	50,849

Source: Company and Anvil Research; IND AS Format

Balance Sheet (Rs cr)	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity capital	375	370	366	366	366	366
Reserve & Surplus	84,374	86,738	89,480	90,840	1,00,084	1,03,475
Net worth	84,749	87,108	89,846	91,206	1,00,450	1,03,841
Short term Debt	1,268	1,292	1,450	1,485	1,495	1,505
Long term Debt	6,906	6,503	6,368	6,203	6,203	6,003
Total Debt	8,174	7,795	7,818	7,688	7,698	7,508
Employee benefit obligation	417	749	677	536	536	536
Deferred Income tax Liab. (net of Deferr	(2,049)	(3,164)	(3,118)	(2,515)	(2,015)	(1,515)
Provisions	-	-	-	-	-	-
Other Financial Liabilities	988	1,477	1,682	1,356	1,156	1,156
Capital Employed	92,279	93,965	96,905	98,271	1,07,825	1,11,526
Gross block	26,444	28,658	30,300	32,344	34,078	36,318
Accumulated depreciation	15,503	17,548	19,526	22,114	24,314	27,114
Net block	10,941	11,110	10,774	10,230	9,764	9,204
Capital WIP& Capital advances	906	926	1,205	1,234	1,234	1,234
Goodwill and other intangible assets	1,993	2,278	2,888	2,725	2,675	2,725
Investments (Long-term)	216	213	223	266	316	366
Other non-current assets	13,778	13,021	14,406	15,619	16,219	16,819
Total Non-current Assets	27,834	27,548	29,496	30,074	30,208	30,348
Sundry debtors	30,532	30,079	34,074	41,049	50,049	52,049
Cash & bank	35,806	38,489	48,483	47,929	51,739	54,690
Unbilled revenues	5,732	6,583	7,736	8,905	9,905	10,905
Loans, Other Financial and current asset:	18,162	24,121	17,997	12,359	11,859	13,359
Inventories	5	8	20	28	38	48
Sundry creditors	6,740	7,860	8,045	10,515	12,515	14,515
Other current liabilities	19,052	25,003	32,856	31,558	33,458	35,358
Net current assets	64,445	66,417	67,409	68,197	77,617	81,178
Capital Deployed	92,279	93,965	96,905	98,271	1,07,825	1,11,526

Source: Company and Anvil Research; IND AS Format

Key Ratios Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E
Absolute Growth (%)						
Revenue	7.2	4.6	16.8	17.6	6.9	7.2
EBITDA	6.6	10.5	14.0	11.7	7.9	10.1
PAT	2.8	0.3	18.2	10.0	8.5	11.2
Profitability Ratios (%)						
EBIT margins	24.6	25.9	25.3	24.1	24.4	25.2
PAT margins	20.6	19.8	20.0	18.7	19.0	19.7
ROCE	33.2	34.1	35.9	39.4	38.9	41.1
ROIC	54.4	60.0	79.2	84.7	81.7	89.4
ROA	28.1	27.0	28.3	30.6	30.4	32.0
ROE	38.2	37.2	42.7	46.2	45.5	49.0
Valuation Ratio (x)						
P/E (on FDEPS)	24.6	29.1	33.8	27.7	25.5	23.0
P/CEPS	22.2	25.9	30.2	24.7	22.9	20.8
P/BV	9.4	10.7	14.3	12.8	11.6	11.2
Dividend yield (%)	4.0	0.9	1.0	3.6	3.1	4.1
EV/Sales	4.9	5.6	6.6	5.0	4.7	4.3
EV/EBITDA	18.3	19.6	23.7	19.0	17.6	15.9
EV / Total Assets	6.5	7.2	9.1	8.0	7.3	6.9
Per Share Data (Rs)						
EPS (Basic)	86.2	86.7	103.6	115.2	125.0	139.0
EPS (fully diluted)	86.2	86.7	103.6	115.2	125.0	139.0
Cash EPS	95.6	97.6	116.1	128.9	139.2	153.4
DPS	85.0	23.3	36.2	115.0	100.0	130.0
Book Value per share	226.0	235.4	245.5	249.2	274.5	283.7
Dupont Analysis						
EBIT margin (a)	27.5	27.8	27.4	25.6	26.1	26.9
Tax retention ratio (b)	0.8	0.8	0.7	0.7	0.7	0.7
Assets Turnover ©	1.3	1.3	1.4	1.6	1.6	1.6
ROA (a*b*c)	28.1	27.0	28.3	30.6	30.4	32.0
Net Profit AT/Total Assets (a1)	27.4	25.6	27.8	30.0	29.7	31.5
Total Assets/Stockholders' Equity (b1)	1.4	1.5	1.5	1.5	1.5	1.6
ROE (a1*b1)	38.2	37.2	42.7	46.2	45.5	49.0
Liquidity ratios (x)						
Debtors days	67	67	61	61	69	72
Creditors days	21	23	21	20	24	26
Working capital cycle (ex-cash) (days)	66	63	45	32	35	37
Leverage ratios (x)						
Gross debt to equity	0.1	0.1	0.1	0.1	0.1	0.1
Net debt to equity	(0.3)	(0.4)	(0.5)	(0.4)	(0.4)	(0.5)
Net debt to EBITDA	(0.7)	(0.7)	(0.8)	(0.7)	(0.7)	(0.7)
Interest Coverage	46.7	71.6	66.9	74.1	59.6	78.2

Source: Company and Anvil Research

Anvil Share & Stock Broking Pvt Ltd is registered as below:

SEBI Regn No.:- U67120MH1997PTC109640

Cash Segment – BSE Regn No. – INB011209950

NSE Regn No. – INB231046831

F&O Segment - BSE Regn No. – INF011209950

NSE Regn No. – INF231046831

Under SEBI (Research Analyst) Regulations, 2014 – INH000000818

This report is intended for distribution to institutional investors. Recipients who are not institutional investors should seek advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents.

Analyst Certification – The views expressed in this research report accurately reflect the personal views of the analyst about the subject securities or issues and no part of the compensation of the research analyst was, is or will be directly or indirectly related to the specific recommendations and views expressed by research analyst in this report. The research analysts, strategists or research associates principally responsible for preparation of most research receive compensation based upon various factors including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

DISCLAIMER:

We, **Anvil Share & Stock Broking Pvt Ltd**, **our Analysts** & **our Associates** hereby solemnly declare & disclose that we:

- Do not have any financial interest of any nature in the company referred in this research report.
- Do not individually or collectively hold 1% or more of the securities of the company referred in this research report.
- Do not have any other material conflict of interest in the company referred in this research report.
- Do not act as a market maker in securities of the company referred in this research report.
- Do not have any directorships or other material relationships with the company referred in this Research report.
- Do not have any personal interests in the securities of the company referred in this research report.
- Do not have any past significant relationships with the company referred in this research report, Including Investment Banking or other advisory assignments or relationships.

This is not an Exchange traded product and the Anvil Share and Stock Broking Pvt Ltd is acting as distributor of Research. All disputes with respect to the distribution of research would not have access to Exchange investor redresses forum or Arbitration mechanism.