

IT Sector July 12, 2023

CMP	3260
Sensex	65,393

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)	11,92,924
Market cap (USD bn)	145
52 Wk High/Low (INR)	3575/2926

Shareholding Pattern (%) – Mar'23

Promoter	72.3
Foreign Institutional Investor	12.9
MF / FI / UTI / Banks	9.6
Public & Others	4.9
Bodies & Corporate	0.3

Key Financials (IND AS Consolidated)				
Y/E March (Rs cr)	FY2022	FY2023	FY2024E	FY2025E
Net Sales	1,91,754	2,25,458	2,41,049	2,62,665
% chg	16.8	17.6	6.9	9.0
Net Profit	38,327	42,147	46,848	52,417
% chg	18.2	10.0	11.2	11.9
EBIT Margin (%)	25.3	24.1	24.4	25.1
FDEPS (Rs)	103.6	115.2	128.0	143.2
P/E (x)	33.8	28.3	25.5	22.8
P/BV (x)	14.3	13.1	11.8	11.2
RoE (%)	42.7	46.2	46.3	49.4
RoCE (%)	35.9	39.4	34.7	36.8
EV/Sales (x)	6.6	5.1	4.7	4.2
EV/EBITDA (x)	23.7	19.4	17.6	15.8
Net Debt/Equity	(0.5)	(0.4)	(0.7)	(0.7)

TCS Stock Update

Q1FY24 Results

Strong execution & continuation in strong TCV wins maintained

- TCS has reported Top-line growth of 0.4% in USD terms to US\$7226mn, which comprises of flat qoq CC growth and 0.4% cross-currency tailwind.
- In INR terms Top-line was up 0.4% qoq to Rs59381cr. So basically, it was degrowth of 0.3% qoq in N America and 1.6% qoq in Emerging markets in Q1, which restricted further growth in Topline. UK continued to grow by 4.9% qoq in reported terms (on back of 7.2% qoq growth in Q4), while C. Europe was down 0.9% qoq.
- Amongst verticals growth was led by Manufacturing, which was up 3.5% qoq, followed by 1.4% qoq growth in Lifesciences and 1.1% qoq growth in Retail & CPG. BFSI, Communications and Technology verticals de-grew qoq.
- TCS witnessed total TCV of US\$10.2bn in Q1FY24 (v/s US\$10bn TCV wins in Q4FY23) up 2% qoq, which is quite positive given the current weak macro-economic scenario. It includes US\$5.2bn win from N. America (v/s \$5bn in Q4), US\$3bn win from BFSI vertical (v/s \$3bn in Q4) and US\$1.2bn win from Retail vertical (v/s \$1.3bn in Q4). The Book to bill ratio of TCV win was 1.4x with 2 wins from Public Sector, 1 of this was Standard Life Insurance deal, which marks TCS entry in Insurance vertical in Europe.
- Good qoq client additions were seen from US\$1 to US\$50mn size accounts, whereas US\$100mn account remained flat qoq with 60 clients.
- EBIT margin was down 130bps qoq to 23.2% in Q1FY24 after considering 200bps qoq impact from Salary hikes, which to some extent got offset through improved efficiencies including reduced usage of sub-contractors. 8-10% hikes were given to high performers and 11-15% for exceptional performance in Q1.
- Other Income was up 37% qoq to Rs1,234cr as Investment Income was up 19% qoq and Finance cost declined by 40% qoq. This restricted further downside in PAT, which stood at Rs11074cr down 2.8% qoq.
- Consolidated headcount stood at 6,15,318, which is a net qoq addition of 523 employees in Q1. LTM Attrition continued to ease further by 230bps qoq to 17.8%. In H2FY24 LTM attrition is expected to go down further at its historical rates.
- 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. Return to office initiative is gaining space.
- TCS has declared Final Dividend of Rs9/share. Cash & Bank balance stood at Rs19,263cr, up 74.6% qoq in Q1FY24.

Quarterly Financial Statement

Q1FY24 Consolidated Financial Performance (IND AS)								
Y/E March (Rs cr)	Q1FY24	Q4FY23	% chg (qoq)	Q1FY23	% chg (yoy)	FY23	FY22	% chg
Net Revenues	59,381	59,162	0.4	52,758	12.6	2,25,458	1,91,754	17.6
Employee Benefit Expenses	35,148	33,687	4.3	30,327	15.9	1,27,522	1,07,554	18.6
Cost of Equipment & Software Licences	506	620	(18.4)	217	133.2	1,881	1,163	61.7
Gross Profit	23,727	24,855	(4.5)	22,214	6.8	96,055	83,037	15.7
SG&A Expenses	8,729	9,081	(3.9)	8,798	(0.8)	36,796	29,980	22.7
EBITDA	14,998	15,774	(4.9)	13,416	11.8	59,259	53,057	11.7
Other Income	1,397	1,175	18.9	789	77.1	3,449	4,018	(14.2)
Finance Costs	163	272	(40.1)	199	(18.1)	779	784	(0.6)
Depreciation	1,243	1,286	(3.3)	1,230	1.1	5,022	4,604	9.1
Provision towards legal claim (One-time)	-	-	-	-	-	-	-	-
PBT	14,989	15,391	(2.6)	12,776	17.3	56,907	51,687	10.1
Tax	3,869	3,955	(2.2)	3,257	18.8	14,604	13,238	10.3
Minority Interest	46	44	4.5	41	12.2	156	122	27.9
Net Income	11,074	11,392	(2.8)	9,478	16.8	42,147	38,327	10.0
Diluted EPS (Rs)	30.3	31.1	(2.8)	25.9	16.8	115.2	103.6	11.2
Gross Profit Margin (%)	40.0	42.0	(2.1)	42.1	(2.1)	42.6	43.3	(0.7)
EBITDA Margin (%)	25.3	26.7	(1.4)	25.4	(0.2)	26.3	27.7	(1.4)
EBIT Margin (%)	23.2	24.5	(1.32)	23.1	0.1	24.1	25.3	(1.2)
Net Profit Margin (%)	18.6	19.3	(0.6)	18.0	0.7	18.7	20.0	(1.3)
Tax rate (%)	25.8	25.7	0.1	25.5	0.3	25.7	25.6	0.1

Source: Company and Anvil Research

Key Operational Matrix

Geographical Split	Q1FY24 % total	Q4FY23 % total	Q1FY23 % total	Q1FY24 (\$ mn)	Q4FY23 (\$ mn)	Q1FY23 (\$ mn)	% chg (qoq)	% chg (yoy)
Americas								
North America	52.0%	52.4%	53.2%	3,758	3,770	3,607	(0.3)	4.2
Latin America	2.0%	1.8%	1.8%	145	130	122	11.6	18.4
Total	54.0%	54.2%	55.0%	3,902	3,900	3,729	0.1	4.6
Europe								
UK	16.4%	15.7%	14.9%	1,185	1,130	1,010	4.9	17.3
Continental Europe	14.9%	15.1%	15.2%	1,077	1,086	1,031	(0.9)	4.5
Total	31.3%	30.8%	30.1%	2,262	2,216	2,041	2.1	10.8
Emerging Markets								
India	4.9%	5.0%	4.8%	354	360	325	(1.6)	8.8
Asia Pacific	7.8%	8.0%	8.3%	564	576	563	(2.1)	0.2
MEA	2.0%	2.0%	1.8%	145	144	122	0.4	18.4
Total	14.7%	15.0%	14.9%	1,062	1,079	1,010	(1.6)	5.1
Revenues (In US\$m)	100.0%	100.0%	100.0%	7,226	7,195	6,780	0.4	6.6
Revenues (In INR cr)				59,381	59,162	52,758	0.4	12.6

Source: Company and Anvil Research

New Vertical Split	Q1FY24	Q4FY23	Q1FY23	Q1FY24	Q4FY23	Q1FY23	% chg	% chg
	% total	% total	% total	(\$ mn)	(\$ mn)	(\$ mn)	(qoq)	(yoy)
BFSI	31.0%	31.4%	32.1%	2,240	2,259	2,176	(0.8)	2.9
Retail & CPG	15.7%	15.6%	15.9%	1,134	1,122	1,078	1.1	5.2
Communication & Media	6.4%	6.5%	6.8%	462	468	461	(1.1)	0.3
Manufacturing	10.2%	9.9%	9.9%	737	712	671	3.5	9.8
Life Sciences & Healthcare	10.5%	10.4%	10.1%	759	748	685	1.4	10.8
Technologies & Services	8.6%	8.7%	8.8%	621	626	597	(0.7)	4.2
Regional Mkts. & Others	17.6%	17.5%	16.4%	1,272	1,259	1,112	1.0	14.4
Revenues (In US\$mn)	100.0%	100.0%	100.0%	7,226	7,195	6,780	0.4	6.6
Revenues (In INR cr)				59,381	59,162	52,758	0.4	12.6

Source: Company and Anvil Research

Clients status & additions	Q1FY24	Q4FY23	Q1FY23	chg qoq	chg yoy
> US\$ 1mn	1268	1241	1196	27	72
> US\$ 5mn	677	665	650	12	27
> US\$ 10mn	468	461	446	7	22
> US\$ 20mn	296	291	272	5	24
> US\$ 50mn	137	133	124	4	13
> US\$ 100mn	60	60	59	0	1

Source: Company and Anvil Research

Outlook

- **Product & Platforms had strong quarter. 37 new wins in IGNIO with 26 go lives in Q1. TCS BANCS had 7 new wins and 8 go lives with equally distributed deal wins across emerging markets and Banking and Insurance verticals. TCS Bancs Insurance saw 3 new wins as well as few go lives in Q1. 1 go live in Quartz and 2 go lives in Life science vertical on new drug development platform. TCS OmniStore saw 1 new win and 1 go live. TCS Hobs saw one new win and 1 go live. TCS ION had 22 new wins and 22 go lives. Mastercraft and Jile won 32 new clients in Q1.**
- **In Q1 TCS Cloud offerings further expanded across all 3 major Hyperscalers.**
- **Growing caution among clients in N America and Europe which started in Q4FY23 continued to stay in Q1FY24 as well.**
- **Banking crisis in N. America large Banks is largely behind and TCS does not see much concerns from these Banks. Demand is good and TCS is winning deals but clients are reviewing the deals cause if they are not getting better ROIs on their spends, they are pausing those deal conversions as far as short term goes. But demand for long term remains positive. Thus, there is review and reassessment of projects by Clients...but that is broad-based trend across industries and clients not just TCS specific.**
- **Cloud migration however continues under discretionary spends but some smaller discretionary spends are coming under scrutiny. Long term discretionary projects are coming on reduce base. Order book though strong, however client's interest is on cost optimization kind of deals in near term.**

- **In Q1, TCS saw clients investing in multi years programs for business growth and also saw strong transformation in operating models to drive efficiencies of client's businesses.**
- **TCS will be looking at talent, growth, faster delivery and better time to market and newer benchmark and productivity of new software's, which will emerge with usage of Gen AI, which will only increase the volume of work and that we only require more people in doing heavy lifting of this Gen AI model.**
- **Moreover, how to cost the embracement of Gen AI in clients business models will also be another opportunity in terms of providing various value propositions for Gen AI as everyone has seen how Cloud emergence started getting embraced by the Industry at its inception.**
- **TCS has multiple teams working on internal projects. There are 50 total Gen AI projects TCS is currently executing. Some are small and some large. If tech can predict the container space few months down the line than its boon for Shipping Industry, similarly predicting climate change with help Gen AI will also be very helpful.**
- **Gen AI promises more smaller tasks and TCS is using co-innovation work to improve productivity, content creation and innovation. For e.g. it is working with Logistics company helping significantly improve their productivity through Gen AI.**
- **Conversational services with help of Chat BOT will be used in Gen AI. Unlike traditional Chat BOT, Gen AI understands queries better and helps in reducing agent handling time and provides better client outcomes. TCS has launched advisory offerings for Enterprise adoptions of Gen AI for its clients and it also plans to create talent pool for Gen AI processes.**
- **TCS products like Optumera and IGNIO uses AI & ML for Gen AI related powered solutions. It has also received patent for the same leveraging contextual knowledge and using advance analytics to detect.**
- **TCS Data is advisory framework aligned for client's business goals.**
- **However, Gen AI as of now is not showing differentiated value feature in TCS contracts. But it is intelligent layer in overall architecture and industry is discussing on whether such architecture can be tweaked, whether how much can be developed in house and how much can be used for public at large. So discussions on Gen AI are similar to that of Public and Private Cloud consumptions when Cloud technology was evolving.**
- **Momentum today is similar to what TCS saw in March, so as of now TCS has refrained from giving any optimism for FY24 numbers. It is not yet ready to call that H2FY24 will be better than H1FY24. It will have to review Q2FY24 results for the same.**
- **TCS is building in house capabilities, seeking partnerships with large hyperscalers and training over 1 lakh employees on this new technology of Gen AI to roll out Enterprise-wide solutions on Gen AI for customers.**
- **The new projects do continue to ramp up in Q1 where there were onsite movements happening. But the impact on revenue growth in Q1 was from existing customers not new ones.**

- **There are large programs and system integrating opportunities the company is seeing. BSNL deal is not included in Q1 TCV. Platform deals if delivered on time can be charged at premium to clients, which can help increase margins.**
- **Manufacturing is doing well on low base and delayed demand pick up, hence demand there continues to be high. But can't say how long this demand last. Also, in Retail Essential Retail is doing well but Luxury Retail is not seeing pick up.**
- **Utilization and realizations would be some of the focused margin levers as company will strive to achieve its aspirational margin band. So, all efforts will be to improve margins for FY24.**

Valuations

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 11.2% yoy and EPS of Rs128 in FY24E. For FY25E however we expect recovery in macro-economic variants globally resulting in demand recovery leading to Top-line growth of 9% yoy (Growth of 10.3% yoy in USD terms), PAT increase of 11.9% yoy and EPS of Rs143. The stock currently trades at 25.5x FY24E EPS and at 22.8x FY25E EPS. Thus, we remain positive on TCS at current valuations with long term view.

P&L (Rs cr)	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	1,56,949	1,64,177	1,91,754	2,25,458	2,41,049	2,62,665
Other income	4,592	3,134	4,018	3,449	5,394	5,543
Total income	1,61,541	1,67,311	1,95,772	2,28,907	2,46,443	2,68,208
Cost of revenue	87,857	93,276	1,08,717	1,29,403	1,40,941	1,52,656
SG&A	26,983	24,355	29,980	36,796	36,463	39,162
Cost of sales	1,14,840	1,17,631	1,38,697	1,66,199	1,77,404	1,91,818
PBIDT	42,109	46,546	53,057	59,259	63,645	70,847
Interest, net	924	637	784	779	643	500
PBDT	45,777	49,043	56,291	61,929	68,396	75,890
Depreciation	3,529	4,065	4,604	5,022	4,888	4,790
Profit before tax	42,248	44,978	51,687	56,907	63,508	71,100
Provision for tax	9,801	11,198	13,238	14,604	16,484	18,486
Profit after tax	32,447	33,780	38,449	42,303	47,024	52,614
Minority interest/extraordinary	(107)	(1,350)	(122)	(156)	(176)	(197)
Adjusted PAT	32,340	32,430	38,327	42,147	46,848	52,417

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	1,00,892	1,05,834
Net worth	84,749	87,108	89,846	91,206	1,01,258	1,06,200
Short term Debt	1,268	1,292	1,450	1,485	1,435	1,385
Long term Debt	6,906	6,503	6,368	6,203	6,303	6,303
Total Debt	8,174	7,795	7,818	7,688	7,738	7,688
Employee benefit obligation	417	749	677	536	786	1,036
Deferred Income tax Liab. (net of Deferr	(2,049)	(3,164)	(3,118)	(2,515)	(2,315)	(2,015)
Provisions	-	-	-	-	-	-
Other Financial Liabilities	988	1,477	1,682	1,356	356	356
Capital Employed	92,279	93,965	96,905	98,271	1,07,823	1,13,265
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	1,484	1,784
Goodwill and other intangible assets	1,993	2,278	2,888	2,725	2,305	2,355
Investments (Long-term)	216	213	223	266	366	466
Other non-current assets	13,778	13,021	14,406	15,619	15,921	16,271
Total Non-current Assets	27,834	27,548	29,496	30,074	29,840	30,080
Sundry debtors	30,532	30,079	34,074	41,049	43,049	45,049
Cash & bank	35,806	38,489	48,483	47,929	77,800	84,492
Unbilled revenues	5,732	6,583	7,736	8,905	8,405	9,405
Loans, Other Financial and current assets	18,162	24,121	17,997	12,359	12,559	12,759
Inventories	5	8	20	28	43	53
Sundry creditors	6,740	7,860	8,045	10,515	10,615	10,715
Other current liabilities	19,052	25,003	32,856	31,558	53,258	57,858
Net current assets	64,445	66,417	67,409	68,197	77,983	83,185
Capital Deployed	92,279	93,965	96,905	98,271	1,07,823	1,13,265

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	9.0
EBITDA	6.6	10.5	14.0	11.7	7.4	11.3
PAT	2.8	0.3	18.2	10.0	11.2	11.9
Profitability Ratios (%)						
<i>EBIT margins</i>	24.6	25.9	25.3	24.1	24.4	25.1
<i>PAT margins</i>	20.6	19.8	20.0	18.7	19.4	20.0
ROCE	33.2	34.1	35.9	39.4	34.7	36.8
ROIC	54.4	60.0	79.2	84.7	157.0	185.0
ROA	28.1	27.0	28.3	30.6	27.7	29.1
ROE	38.2	37.2	42.7	46.2	46.3	49.4
Valuation Ratio (x)						
P/E (on FDEPS)	24.6	29.1	33.8	28.3	25.5	22.8
P/CEPS	22.2	25.9	30.2	25.3	23.1	20.9
P/BV	9.4	10.7	14.3	13.1	11.8	11.2
Dividend yield (%)	4.0	0.9	1.0	3.5	3.1	4.0
EV/Sales	4.9	5.6	6.6	5.1	4.7	4.2
EV/EBITDA	18.3	19.6	23.7	19.4	17.6	15.8
EV / Total Assets	6.5	7.2	9.1	8.2	6.5	6.1
Per Share Data (Rs)						
EPS (Basic)	86.2	86.7	103.6	115.2	128.0	143.2
EPS (fully diluted)	86.2	86.7	103.6	115.2	128.0	143.2
Cash EPS	95.6	97.6	116.1	128.9	141.4	156.3
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	276.7	290.2
Dupont Analysis						
EBIT margin (a)	27.5	27.8	27.4	25.6	26.6	27.3
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	1.4	1.4
ROA (a*b*c)	28.1	27.0	28.3	30.6	27.7	29.1
Net Profit AT/Total Assets (a1)	27.4	25.6	27.8	30.0	27.3	28.8
Total Assets/Stockholders' Equity (b1)	1.4	1.5	1.5	1.5	1.7	1.7
ROE (a1*b1)	38.2	37.2	42.7	46.2	46.3	49.4
Liquidity ratios (x)						
Debtors days	67	67	61	61	64	61
Creditors days	21	23	21	20	22	20
Working capital cycle (ex-cash) (days)	66	63	45	32	15	(1)
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)	(0.7)	(0.7)
Net debt to EBITDA	(0.7)	(0.7)	(0.8)	(0.7)	(1.1)	(1.1)
Interest Coverage	46.7	71.6	66.9	74.1	99.8	143.2

Source: Company and Anvil Research

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