

IT Sector October 11, 2023

CMP	3610
Sensex	66,473

Stock Statistics

Reuters code	TCS.BO
Bloomberg code	TCS IN
Equity Cap (INR cr)	366
Face Value (INR)	1
INR / USD	83.2
Market cap (INR cr)	13,20,991
Market cap (USD bn)	159
52 Wk High/Low (INR)	3680/3053

Shareholding Pattern (%) – Jun'23

Promoter	72.3
Foreign Institutional Investor	12.7
MF / FI / UTI / Banks	9.9
Public & Others	4.9
Bodies & Corporate	0.2

Key Financials (IND AS Consolidated)				
Y/E March (Rs cr)	FY2022	FY2023	FY2024E	FY2025E
Net Sales	1,91,754	2,25,458	2,40,425	2,56,312
% chg	16.8	17.6	6.6	6.6
Net Profit	38,327	42,147	46,157	50,641
% chg	18.2	10.0	9.5	9.7
EBIT Margin (%)	25.3	24.1	24.3	24.8
FDEPS (Rs)	103.6	115.2	126.1	138.4
P/E (x)	33.8	28.7	28.6	26.1
P/BV (x)	14.3	13.2	16.0	19.5
RoE (%)	42.7	46.2	55.8	74.9
RoCE (%)	35.9	39.4	43.3	49.9
EV/Sales (x)	6.6	5.2	5.3	5.0
EV/EBITDA (x)	23.7	19.7	20.2	18.8
Net Debt/Equity	(0.5)	(0.4)	(0.4)	(0.5)

TCS Stock Update Q2FY24 Results

Despite of concerning macros TCS maintained strong TCV wins

- TCS has reported Top-line de-growth of 0.2% in USD terms to US\$7210mn, which comprises of 0.1% qoq CC growth. Growth affected by clients holding on discretionary spends and as 2 large projects got completed. In INR terms Top-line was up 0.5% qoq to Rs59692cr.
- Amongst geographies, only UK and MEA grew 0.4% and 9.8% qoq respectively. Others all de-grew qoq with US witnessing de-growth of 0.8% qoq. Amongst verticals growth continued to be led by Manufacturing, which was up 2.2% qoq, followed by 1.6% qoq growth in Energy & Utilities. BFSI remained flat, while rest of the verticals de-grew qoq.
- TCS witnessed total TCV of US\$11.2bn in Q2FY24 (v/s US10.2bn TCV wins in Q1FY24) up 10% qoq, which is quite positive given the current weak macro-economic scenario. The Book to bill ratio of TCV win improved from 1.4x in Q1 to 1.6x in Q2. TCV included two mega deals wins of JLR and BSNL each worth over \$1bn in TCV. TCV included US\$4.5bn win from America, \$3.03bn from BFSI and \$1.44bn from Consumer/Retail vertical.
- Good qoq client additions were seen in most of the client accounts with 1 qoq client addition even in US\$100mn account, which now exhibit 61 clients.
- EBIT margin improved 110bps qoq to 24.3% in Q2FY24 led by cost optimization initiatives undertaken resulting in improved Utilization, productivity mix and by containing the sub-contractors' costs.
- Other Income was down 28% qoq to Rs1,006cr. Thus, led by challenging macro environment leading to lower revenue conversion and dip in other income restricted PAT to increase by only 2.4% qoq to Rs11342cr in Q2.
- Consolidated headcount stood at 6,08,985 which is a net qoq reductions of 6333 employees in Q2. LTM Attrition continued to ease by 290bps qoq to 14.9%. TCS recalibrated gross hiring for better capacity utilization.
- TCS has declared Interim Dividend of Rs9/share and Board announces Buyback valued at Rs17,000cr at Rs4,150 per share (in line with TCS shareholder return policy of 80-100% of profits back to shareholders). Cash & Bank balance stood at Rs16,403cr, down 15% qoq in Q2FY24.
- TCS has applied for total 7665 Patents (218 applied in Q2). The company has been so far granted total 3153 patents (149 granted in Q2).

Quarterly Financial Statement

Q2FY24 Consolidated Financial Performance (IND AS)								
Y/E March (Rs cr)	Q2FY24	Q1FY24	% chg (qoq)	Q2FY23	% chg (yoy)	H1FY24	H1FY23	% chg
Net Revenues	59,692	59,381	0.5	55,309	7.9	1,19,073	1,08,067	10.2
Employee Benefit Expenses	35,123	35,148	(0.1)	31,041	13.2	70,271	61,368	14.5
Cost of Equipment & Software Licences	462	506	(8.7)	401	15.2	968	618	56.6
Gross Profit	24,107	23,727	1.6	23,867	1.0	47,834	46,081	3.8
SG&A Expenses	8,361	8,729	(4.2)	9,351	(10.6)	17,090	18,149	(5.8)
EBITDA	15,746	14,998	5.0	14,516	8.5	30,744	27,932	10.1
Other Income	1,006	1,397	(28.0)	965	4.2	2,403	1,754	37.0
Finance Costs	159	163	(2.5)	148	7.4	322	347	(7.2)
Depreciation	1,263	1,243	1.6	1,237	2.1	2,506	2,467	1.6
Provision towards legal claim (One-time)	-	-	-	-	-	-	-	-
PBT	15,330	14,989	2.3	14,096	8.8	30,319	26,872	12.8
Tax	3,950	3,869	2.1	3,631	8.8	7,819	6,888	13.5
Minority Interest	38	46	(17.4)	34	11.8	84	75	12.0
Net Income	11,342	11,074	2.4	10,431	8.7	22,416	19,909	12.6
Diluted EPS (Rs)	31.0	30.3	2.4	28.5	8.7	61.3	54.4	12.6
Gross Profit Margin (%)	40.4	40.0	0.4	43.2	(2.8)	40.2	42.6	(2.5)
EBITDA Margin (%)	26.4	25.3	1.1	26.2	0.1	25.8	25.8	(0.0)
EBIT Margin (%)	24.3	23.2	1.10	24.0	0.3	23.7	23.6	0.2
Net Profit Margin (%)	19.0	18.6	0.4	18.9	0.1	18.8	18.4	0.4
Tax rate (%)	25.8	25.8	(0.0)	25.8	0.0	25.8	25.6	0.2

Source: Company and Anvil Research

Key Operational Matrix

Geographical Split	Q2FY24 % total	Q1FY24 % total	Q2FY23 % total	Q2FY24 (\$ mn)	Q1FY24 (\$ mn)	Q2FY23 (\$ mn)	% chg (qoq)	% chg (yoy)
Americas								
North America	51.7%	52.0%	54.3%	3,728	3,758	3,734	(0.8)	(0.2)
Latin America	2.0%	2.0%	1.7%	144	145	117	(0.2)	23.3
Total	53.7%	54.0%	56.0%	3,872	3,902	3,851	(0.8)	0.5
Europe								
UK	16.5%	16.4%	14.5%	1,190	1,185	997	0.4	19.3
Continental Europe	14.9%	14.9%	14.5%	1,074	1,077	997	(0.2)	7.7
Total	31.4%	31.3%	29.0%	2,264	2,262	1,994	0.1	13.5
Emerging Markets								
India	4.9%	4.9%	5.1%	353	354	351	(0.2)	0.7
Asia Pacific	7.8%	7.8%	8.0%	562	564	550	(0.2)	2.2
MEA	2.2%	2.0%	1.9%	159	145	131	9.8	21.4
Total	14.9%	14.7%	15.0%	1,074	1,062	1,032	1.1	4.1
Revenues (In US\$m)	100.0%	100.0%	100.0%	7,210	7,226	6,877	(0.2)	4.8
Revenues (In INR cr)				59,692	59,381	55,309	0.5	7.9

Source: Company and Anvil Research

New Vertical Split	Q2FY24	Q1FY24	Q2FY23	Q2FY24	Q1FY24	Q2FY23	% chg	% chg
	% total	% total	% total	(\$ mn)	(\$ mn)	(\$ mn)	(qoq)	(yoy)
BFSI	32.6%	32.5%	33.6%	2,350	2,348	2,311	0.1	1.7
Retail & CPG	15.9%	16.1%	16.1%	1,146	1,163	1,107	(1.5)	3.5
Communication & Media	6.9%	7.0%	7.3%	497	506	502	(1.6)	(0.9)
Manufacturing	8.5%	8.3%	8.2%	613	600	564	2.2	8.7
Life Sciences & Healthcare	10.9%	11.0%	10.7%	786	795	736	(1.1)	6.8
Energy, Resources & Utilities	5.6%	5.5%	5.0%	404	397	344	1.6	17.4
Technologies & Services	8.6%	8.7%	9.1%	620	629	626	(1.4)	(0.9)
Regional Mkts. & Others	11.0%	10.9%	10.0%	793	788	688	0.7	15.3
Revenues (In US\$mn)	100.0%	100.0%	100.0%	7,210	7,226	6,877	(0.2)	4.8
Revenues (In INR cr)				59,692	59,381	55,309	0.5	7.9

Source: Company and Anvil Research

Clients status & additions	Q2FY24	Q1FY24	Q2FY23	chg qoq	chg yoy
> US\$ 1mn	1272	1268	1210	4	62
> US\$ 5mn	688	677	650	11	38
> US\$ 10mn	483	468	455	15	28
> US\$ 20mn	292	296	283	(4)	9
> US\$ 50mn	137	137	124	0	13
> US\$ 100mn	61	60	59	1	2

Source: Company and Anvil Research

Outlook

- **There is increase in reprioritization of large projects, moreover the new projects that are starting are according to the Mgmt. plans but in any given quarter there would be projects that are getting completed like 2 large projects got completed and new projects didn't compensate for the revenue lost from these projects in Q2FY24.**
- **The nature of deals that the company is winning are mix of vendor consolidation, cost optimization as well as even large transformation deals like JLR and BSNL.**
- **TCS has won US\$1bn TCV win from BSNL deal in Q2, which comprise of work around radioactive networks, network planning, cognitive network operations, network optimization etc. as it has developed those platforms for BSNL (however BSNL actual opportunity size can be quite huge) but as of now in next 12-18 months TCS will be doing supply installation, commissioning, design and optimization network, which is worth \$1bn of TCV and is small part of this huge deal. Later part of this deal if won by TCS going ahead will be optimization of networks in form of annual maintenance of this BSNL contract.**
- **The company continues to stay focused on multiple engagements and Consulting is part of every growth and transformation opportunity that comes its way.**

- Collectively the company stayed focused on costs initiatives that helped improve margins in Q2 and will focus to deliver better margins even ahead (despite margin headwinds from BSNL or any other deals if at all in near term). Improvement in Utilization, productivity mix and lower sub-contractors' costs will continue to stay key margin levers going ahead.
- Retail vertical was down 1.5% qoq and had tough Q2 as essential spending has come down and quite weak in Q2. So only when consumer spending picks up there will be pick up in Retail.
- Clients will look at forecasts in coming quarters in terms of macro environment and spending done by consumers and then will decide to increase their budgets or not. But Household savings in US has come down which has increased uncertainties as of now.
- Clients are looking for strong signs of economic recovery and currently even CY24 exhibits weaker signs of recovery.
- However, there is no major aberration as such to be called out negatively as yet for TCS. Clients want to invest more on technology but cost optimization is also the focused narrative given the current weak macro environment.
- Deal wins are more of Cost takeouts, ACV has remained same as before and Deal tenure has not significantly increased its more or less same.
- TCS has launched AI.Cloud business unit, which it has built on our award winning partnerships with all major Hyperscalers to deliver superior value to customers. As of now it is doing 250 Gen AI powered engagements for its clients. 1000 associates have been trained on Gen AI as of now and more will be trained going forward.
- Clients are investing in Gen AI to do small projects and proof of concepts as of now. TCS is doing cataloguing kind of R&D related work in Gen AI to test how that will create new demand opportunities as it believes Gen AI tech across various IT value chain will throw huge opportunities in future. Gen AI drives client conversations and embedding Gen AI is helping win large deals.
- **Mgmt. indicated revenue inflow should improve from H2FY24 in sync with the TCV closed in H1FY24.**

Valuations

On account of macro-economic uncertainties, we expect TCS would register Top-line growth of 6.6% yoy in INR terms (Growth of 4.1% yoy in USD terms), PAT increase of 9.5% yoy and EPS of Rs126 in FY24E. For FY25E however we expect recovery in macro-economic variants globally resulting in demand recovery leading to Top-line growth of 6.6% yoy (Growth of 7.1% yoy in USD terms), PAT increase of 9.7% yoy and EPS of Rs138.4. The stock currently trades at 28.6x FY24E EPS and at 26.1x FY25E EPS. We remain positive on TCS at current valuations but 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	2,40,425	2,56,312
Other income	4,592	3,134	4,018	3,449	4,702	5,838
Total income	1,61,541	1,67,311	1,95,772	2,28,907	2,45,127	2,62,150
Cost of revenue	87,857	93,276	1,08,717	1,29,403	1,39,754	1,48,973
SG&A	26,983	24,355	29,980	36,796	37,128	38,738
Cost of sales	1,14,840	1,17,631	1,38,697	1,66,199	1,76,881	1,87,711
PBIDT	42,109	46,546	53,057	59,259	63,544	68,600
Interest, net	924	637	784	779	682	610
PBDT	45,777	49,043	56,291	61,929	67,564	73,828
Depreciation	3,529	4,065	4,604	5,022	5,041	5,145
Profit before tax	42,248	44,978	51,687	56,907	62,523	68,684
Provision for tax	9,801	11,198	13,238	14,604	16,192	17,858
Profit after tax	32,447	33,780	38,449	42,303	46,331	50,826
Minority interest/extraordinary	(107)	(1,350)	(122)	(156)	(174)	(185)
Adjusted PAT	32,340	32,430	38,327	42,147	46,157	50,641

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	82,301	67,266
Net worth	84,749	87,108	89,846	91,206	82,667	67,632
Short term Debt	1,268	1,292	1,450	1,485	1,535	1,575
Long term Debt	6,906	6,503	6,368	6,203	6,303	6,353
Total Debt	8,174	7,795	7,818	7,688	7,838	7,928
Employee benefit obligation	417	749	677	536	786	1,036
Deferred Income tax Liab. (net of Deferred tax assets)	(2,049)	(3,164)	(3,118)	(2,515)	(2,515)	(2,515)
Provisions	-	-	-	-	-	-
Other Financial Liabilities	988	1,477	1,682	1,356	-	(200)
Capital Employed	92,279	93,965	96,905	98,271	88,776	73,881
Gross block	26,444	28,658	30,300	32,344	32,694	34,934
Accumulated depreciation	15,503	17,548	19,526	22,114	24,314	26,514
Net block	10,941	11,110	10,774	10,230	8,380	8,420
Capital WIP& Capital advances	906	926	1,205	1,234	1,634	1,934
Goodwill and other intangible assets	1,993	2,278	2,888	2,725	2,165	1,915
Investments (Long-term)	216	213	223	266	326	426
Other non-current assets	13,778	13,021	14,406	15,619	16,539	16,571
Total Non-current Assets	27,834	27,548	29,496	30,074	29,044	29,266
Sundry debtors	30,532	30,079	34,074	41,049	43,049	37,049
Cash & bank	35,806	38,489	48,483	47,929	43,554	40,577
Unbilled revenues	5,732	6,583	7,736	8,905	8,755	9,255
Loans, Other Financial and current assets	18,162	24,121	17,997	12,359	12,859	12,859
Inventories	5	8	20	28	28	38
Sundry creditors	6,740	7,860	8,045	10,515	10,555	10,605
Other current liabilities	19,052	25,003	32,856	31,558	37,958	44,558
Net current assets	64,445	66,417	67,409	68,197	59,732	44,615
Capital Deployed	92,279	93,965	96,905	98,271	88,776	73,881

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	6.6	6.6
EBITDA	6.6	10.5	14.0	11.7	7.2	8.0
PAT	2.8	0.3	18.2	10.0	9.5	9.7
Profitability Ratios (%)						
EBIT margins	24.6	25.9	25.3	24.1	24.3	24.8
PAT margins	20.6	19.8	20.0	18.7	19.2	19.8
ROCE	33.2	34.1	35.9	39.4	43.3	49.9
ROIC	54.4	60.0	79.2	84.7	100.7	149.6
ROA	28.1	27.0	28.3	30.6	34.1	39.7
ROE	38.2	37.2	42.7	46.2	55.8	74.9
Valuation Ratio (x)						
P/E (on FDEPS)	24.6	29.1	33.8	28.7	28.6	26.1
P/CEPS	22.2	25.9	30.2	25.6	25.8	23.7
P/BV	9.4	10.7	14.3	13.2	16.0	19.5
Dividend yield (%)	4.0	0.9	1.0	3.5	2.8	3.6
EV/Sales	4.9	5.6	6.6	5.2	5.3	5.0
EV/EBITDA	18.3	19.6	23.7	19.7	20.2	18.8
EV / Total Assets	6.5	7.2	9.1	8.3	9.4	10.0
Per Share Data (Rs)						
EPS (Basic)	86.2	86.7	103.6	115.2	126.1	138.4
EPS (fully diluted)	86.2	86.7	103.6	115.2	126.1	138.4
Cash EPS	95.6	97.6	116.1	128.9	139.9	152.4
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	225.9	184.8
Dupont Analysis						
EBIT margin (a)	27.5	27.8	27.4	25.6	26.3	27.0
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	1.8	2.0
ROA (a*b*c)	28.1	27.0	28.3	30.6	34.1	39.7
Net Profit AT/Total Assets (a1)	27.4	25.6	27.8	30.0	33.6	39.2
Total Assets/Stockholders' Equity (b1)	1.4	1.5	1.5	1.5	1.7	1.9
ROE (a1*b1)	38.2	37.2	42.7	46.2	55.8	74.9
Liquidity ratios (x)						
Debtors days	67	67	61	61	64	57
Creditors days	21	23	21	20	22	21
Working capital cycle (ex-cash) (days)	66	63	45	32	28	14
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)	(0.6)	(0.5)
Interest Coverage	46.7	71.6	66.9	74.1	92.7	113.6

Source: Company and Anvil Research

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