

Tata Consultancy Services



TCS Ltd.

Digital Play & Internal Restructuring to Drive Growth

CMP INR 2536	Target INR 2833	Potential Upside 11.3%	Market Cap (INR Mn) 4993261	Recommendation Accumulate	Sector IT Services
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Company Highlights

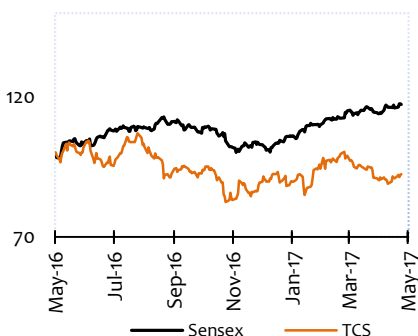
TCS offers a range of IT services, outsourcing and business solutions. They also offer IT infrastructure services, business process outsourcing services, engineering and industrial services, global consulting and asset leveraged solutions. Their segments include banking, financial services and insurance; manufacturing; retail and distribution, and telecom. They are having 142 offices in 42 countries as well as 105 delivery centers in 20 countries.

- USD Revenues of \$17.5 Bn
- Total Headcount: 387,223
- Operating Margin Guidance for FY18e: 26 – 28%

MARKET DATA

Shares outs (Mn)	1970.4
EquityCap (INR Mn)	1970.4
Mkt Cap (INR Mn)	4993261
52 Wk H/L (INR)	2740/2045.7
Volume Avg (3m K)	1346.1
Face Value (INR)	1
Bloomberg Code	TCS IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	30435
NIFTY	9429

Internal restructuring of service lines should lead to value unlocking

TCS has realigned its organizational structure to the evolving IT business environment. The company has divided its service lines into three main buckets:

1. Cognitive Business Operations – (i) Enterprise BPS Service (ii) IT Infrastructure Service
2. Consulting & Service Integration – (i) Finance Transformation (ii) Supply Chain Transformation
3. Digital Transformation Services – (i) Enterprise Intelligent Transformation (ii) Analytics & Insights (iii) Internet of Things (iv) Cloud Infrastructure (v) Assurance CoE (vi) Enterprise Application Services (vii) Cyber Security (viii) Digital Interactive (ix) Cloud Applications, APIfication

Under the new structure, the organization was divided into 3 strategic units with its independent focus, direction and business heads. We believe that TCS' transformation towards a structure aligned more towards the evolved macro IT environment is more advantageous as the company's planning and execution will be much better than having services pass through multiple departments in the organization. With a separate Presidents at the helm of each business unit, we believe that TCS is in the right direction as far as experience, focus and vision is concerned. Reguraman Ayyaswamy will head the IoT service line, Satishchandra Doreswamy will head the cloud infrastructure unit and Dinanath Kholkar will head the analytics unit.

EBIT Margin guidance maintained in the range of 26-28%

For FY18E, TCS has maintained its EBIT margin guidance in the range of 26-28% despite headwinds geo-political pressures and pricing pressure in traditional business. Additionally, Digital revenues as a percent of overall revenues increased to 17.9% in Q4 versus 16.8% in Q3 and reported a growth of 29% yoy. We expect Digital business to be the biggest growth driver as there exists immense traction in Cloud Adoption, Big Data, Analytics and Automation.

Expect BFSI and Retail Segments to bounce back

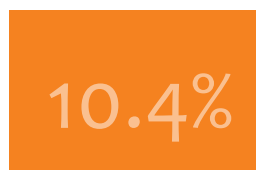
BFSI and Retail were the laggards in FY17 mainly due to softness in client spend in North America (in BFSI) and structural stress in Retail segment in the same region. However, we believe that BFSI will bounce back through FY18E on the back of revival in IT spend and consistency in order pipeline for TCS.

Valuation and view

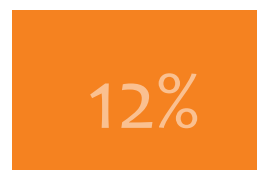
We believe that this round of internal restructuring should unlock value for TCS and improve focus on growth areas. Additionally a bounce back in BFSI and Retail, which have lagged in performance in FY17, and consistent growth in Digital will be major triggers for TCS going ahead. Additionally, we expect Products and Platforms to outperform through FY18E. We have "ACCUMULATE" rating on the stock and as we assign multiple of 17x to its FY19E EPS of INR. 166.7 to arrive at a price target of INR 2,833.

SHARE HOLDING PATTERN (%)

Particulars	Mar 17	Dec 16	Sep 16
Promoters	73.31	73.33	73.33
FIIIs	16.9	16.79	17.02
DIIIs	5.36	5.4	5.14
Others	4.43	4.48	4.52
Total	100	100	100



Volume CAGR between CY 16 and CY 18E



Revenue CAGR between CY 16 and CY 18E

ANALYST

Mayank Babla, mayank.babla@krchoksey.com, 91-22-6696 5572

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is also available on Bloomberg KRCS<GO>
Thomson Reuters, Factset and Capital IQ

91-22-6696 5555 / 91-22-6691 9569

www.krchoksey.com

TCS Ltd.

Exhibit 1: Profit & Loss Statement

INR Mn	FY15	FY16	FY17	FY18E	FY19E
Net Sales	9,46,484	10,86,462	11,79,660	12,99,563	14,46,682
Sales Growth %	15.7%	14.8%	8.6%	10.2%	11.3%
Total Revenue	9,46,484	10,86,462	11,79,660	12,99,563	14,46,682
Less:					
Employees Cost	5,32,273	5,95,490	6,54,300	7,20,042	8,00,048
SG&A	1,67,547	1,84,193	2,02,250	2,22,225	2,44,489
Total Operating Expenditure	6,99,820	7,79,682	8,56,550	9,42,267	10,44,537
EBITDA	2,46,664	3,06,780	3,23,110	3,57,296	4,02,145
EBITDA Growth%	-1.9%	24.4%	5.3%	10.6%	12.6%
Less: Depreciation	18,699	18,879	19,870	20,315	20,315
Operating Profit	2,27,965	2,87,901	3,03,240	3,36,981	3,81,830
Operating Profit Growth%	-4.2%	26.3%	5.3%	11.1%	13.3%
Non-Operating Income	1,135	331	170	0	0
Profit Before Tax	32,532	30,833	42,060	47,399	51,359
Tax	2,59,362	3,18,403	3,45,130	3,84,379	4,33,189
Net Profit	60,830	74,825	81,106	90,329	1,01,799
Adjusted Profit	2,048	2,192	2,376	2,646	2,983
Reported Diluted EPS INR	1,96,484	2,41,386	2,61,648	2,91,404	3,28,407
Diluted EPS Growth%	1,96,484	2,41,386	2,61,648	2,91,404	3,28,407
Adjusted EPS	100.3	122.8	132.8	147.9	166.7
Adjusted EPS Growth%	2.7%	22.4%	8.2%	11.4%	12.7%

Source: Company, KRChoksey Research

TCS Ltd.

Exhibit 2: Balance Sheet

INR Mn	FY15	FY16	FY17	FY18E	FY19E
Liabilities					
Equity Capital	1,957	1,970	1,970	1,970	1,970
Reserves & Surplus	5,59,861	6,51,635	8,06,952	9,79,931	11,74,876
Equity	5,61,818	6,53,606	8,08,922	9,81,902	11,76,847
Net Worth	5,61,818	6,53,606	8,08,922	9,81,902	11,76,847
Minority Interest	8,948	5,025	7,402	10,048	13,030
Net Deferred tax liability/(Asset)	4,054	4,412	4,412	4,412	4,412
Total Loans	3,503	1,955	3,503	3,503	3,503
Other Non Current Liabilities	12,421	9,819	15,336	16,894	18,807
Capital Employed	5,90,745	6,74,817	8,39,574	10,16,759	12,16,599
Assets					
Gross Block	1,60,512	1,95,336	2,10,336	2,25,336	2,40,336
Less:Depreciation	75,938	89,270	1,09,140	1,29,455	1,49,770
Net Block	84,574	1,06,066	1,01,196	95,881	90,566
Capital WIP	28,681	16,712	28,681	28,681	28,681
Investments	7,129	2,265	2,265	2,265	2,265
Intangible Assets	38,468	20,199	20,199	20,199	20,199
Others-A	95,892	1,17,928	1,06,169	1,16,961	1,30,201
Current Assets					
Inventories	3,019	163	3,520	3,872	4,293
Sundry Debtors	2,37,503	2,80,615	3,16,731	3,48,924	3,88,424
Cash and Bank Balance	1,95,088	2,91,442	3,47,988	5,02,844	6,66,334
Loans and Advances	4,018	55,824	5,308	5,588	6,221
Other Current Assets	36,570	2,634	70,780	71,476	79,567
Total Current Assets	4,76,198	6,30,677	7,44,327	9,32,704	11,44,838
Less: Current Liabilities & Provisions					
Sundry Creditors	86,435	75,399	77,442	85,191	94,438
Provisions	11,214	90,057	16,221	18,066	20,360
Other Current Liabilities	42,547	53,575	69,600	76,674	85,354
Total Current Liabilities & Provisions	1,40,197	2,19,030	1,63,263	1,79,931	2,00,152
Capital Applied	5,90,745	6,74,817	8,39,574	10,16,759	12,16,599

Source: Company, KRChoksey Research

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Exhibit 3: Ratio Analysis

INR Mn	FY15	FY16	FY17	FY18E	FY19E
EBITDA Margin(%)	26.1%	28.2%	27.4%	27.5%	27.8%
Tax/PBT(%)	23.5%	23.5%	23.5%	23.5%	23.5%
Net Profit Margin(%)	20.8%	22.2%	22.2%	22.4%	22.7%
RoE(%)	30.4%	36.3%	33.4%	30.5%	28.7%
RoCE(%)	29.3%	35.0%	32.3%	29.5%	27.8%
Current Ratio(x)	3.4x	2.9x	4.6x	5.2x	5.7x
Dividend Payout(%)	86.5%	47.5%	40.6%	40.6%	40.6%
Book Value Per Share(Rs.)	286.8	332.4	410.5	498.3	597.3
Financial Leverage Ratios					
Debt/Equity(x)	32.4%	12.1%	4.9%	0.0%	0.0%
Growth Indicators%					
Growth in Gross Block(%)	22.4%	21.7%	7.7%	7.1%	6.7%
Sales Growth(%)	15.7%	14.8%	8.6%	10.2%	11.3%
EBITDA Growth(%)	(1.9%)	24.4%	5.3%	10.6%	12.6%
Net Profit Growth(%)	2.8%	22.9%	8.4%	11.4%	12.7%
Diluted EPS Growth(%)	2.7%	22.4%	8.2%	11.4%	12.7%
Turnover Ratios					
Debtors (Days of net sales)	92	94	98	98	98

Source: Company, KRChoksey Research

Exhibit 4: Free Cash Flow Analysis

INR Mn	FY15	FY16	FY17	FY18E	FY19E
EBITDA	2,27,965	2,87,901	3,03,240	3,36,981	3,81,830
Less: Adjusted Taxes	53,466	67,657	71,261	79,190	89,730
NOPLAT	1,74,499	2,20,244	2,31,979	2,57,790	2,92,100
Plus: Depreciation	18,699	18,879	19,870	20,315	20,315
Less: Increase in Working Capital	-24,097	41,739	50,830	18,491	30,146
Operating Cash flow	2,17,295	1,97,384	2,01,018	2,59,614	2,82,269
Less: Net Capex	26,934	28,402	26,969	15,000	15,000
Less: Increase in Net Other Assets	13,703	15,518	-20,977	7,345	9,567
Total FCF	1,76,659	1,53,464	1,95,027	2,37,268	2,57,702

Source: Company, KRChoksey Research

TCS Ltd.

TCS Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
19-May-17	2,536	2,833	ACCUMULATE	Buy	More than 15%
19-Apr-17	2,283	2,583	ACCUMULATE	Accumulate	5% – 15%
13-Jan-17	2,344	2,490	ACCUMULATE	Hold	0 – 5%
19-Oct-16	2,400	2,570	ACCUMULATE	Reduce	-5% – 0
				Sell	Less than – 5%

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Kisan Ratilal Choksey Shares and Securities Pvt. Ltd

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: 91-22-6633 5000; Fax: 91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: 91-22-6696 5555; Fax: 91-22-6691 9576.

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