

Tata Consultancy Services Ltd.



TCS Ltd.

Digital Service and Strong Deal Pipeline to augment Growth

CMP INR 3,191	Target INR 3,357	Potential Upside 5.2%	Market Cap (INR Mn) 6,107,822	Recommendation Accumulate	Sector IT
-------------------------	----------------------------	---------------------------------	---	-------------------------------------	---------------------

Result highlights

- In dollar terms, Net Sales in Q4 FY18 stood at \$4,972 Mn which was above our estimates of \$4,916 Mn and reported a growth of 3.8% qoq and 11.6% yoy
- By Geography:** Continental Europe led the growth pack with 9.3% qoq growth, followed by UK at 12.0% qoq and MEA at 8.2% qoq. Americas saw a muted growth owing to lag in BFS and Retail verticals in the region.
- By Industry:** Energy & Utility and Travel & Hospitality led the pack with 10.8%/9.3% qoq growth respectively, followed by Telecom at 3.9% qoq growth and Life Sciences and Healthcare at 2.4% qoq growth.
- Digital revenues** stood at 23.8% of overall revenues, registering a 12% qoq growth.

MARKET DATA

Shares outs (Mn)	1914
EquityCap (INR Mn)	1914
Mkt Cap (INR Mn)	6107822
52 Wk H/L (INR)	3255/2255
Volume Avg (3m K)	2399.5
Face Value (INR)	1
Bloomberg Code	TCS IN

KEY FINANCIALS

Particulars (INR Mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	1,086,462	1,179,660	1,231,040	1,352,399	1,471,933
EBITDA	306,780	323,110	327,820	363,366	396,554
PAT	241,386	264,340	258,157	280,556	305,949
EPS	122.8	134.2	134.9	146.6	159.8
EBITDA Margin	28.2%	27.4%	26.6%	26.9%	26.9%
NPM	22.2%	22.4%	21.0%	20.7%	20.8%

Source: Company, KRChoksey Research

BFSI is expecting a revival in FY19, as guided by the Management

The company reported strong set of number in Q4 FY18, the revenues growth of 3.8% was largely supported by volume that grew by 2% qoq, however, the realization growth remained flat during the quarter. In BFSI the company has witnessed strong growth in Europe and other regions. Over the last few quarters, the budget allocation for clients (US Region) had been declining especially on BFS amidst increase in spending through captives and in-house implementation. The management has guided that the BFS in North America is expected to see a strong revival in FY19 owing to better visibility of investment plans for top-clients and greater adoption of Blockchain, Digital and Analytics.

The company is optimistic on Insurance vertical amidst strong pipeline and deal wins during the quarter. On retail front, the growth is stabilized at 0.8% qoq due to bankruptcy of one of the major retail clients. However, the management has guided that the retail to see a double-digit growth in FY19 Vs 8% growth in FY18 owing to strong deals in pipeline. Additionally, the investment profile in the upcoming quarters is quite optimistic than what it remained in the previous five quarters.

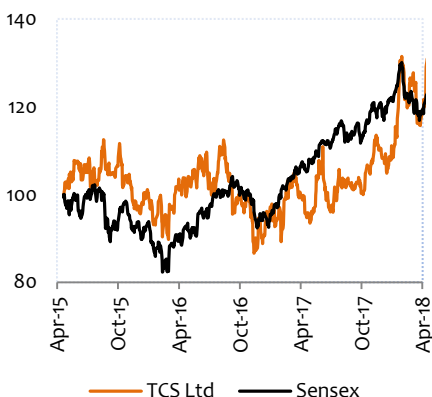
The deal wins on Transamerica (\$2.5 Bn), Scottish Window (\$1 Bn), Prudential (\$690 Mn) and Nielsen (\$400 Mn) give strong revenue visibility in FY19E and FY20E. We believe that the deal sizes are large enough to keep TCS ahead from its peers and deliver the industry leading growth.

The company has witnessed a decline of 73 bps on operating margin owing to wage inflation of 2%. In Q1 FY19, the company is expecting a wage hike which is likely to put the pressure on margins. However, the management has guided that the impact would be minimized owing to increase in deal wins for platform and solution, which are likely to offset the drag to some extent. The net margin declined by 200 bps on account of share buyback of INR 160 Bn and Dividend payout of INR 107 Bn, which had a negative impact on other income.

Digital Services Contributed 23.8% to overall revenues

Digital solution is transforming by itself from being a point solution to an integrated solution which creates the wide presence in the organization to transform digitally. Earlier the focus was on individual use cases and solution such as improving customer experience, getting insights through analytics. Now the demand is approaching for holistic solution to deliver the digital services across the full spectrum. We believe the company has deep contextual knowledge and technology expertise to help their clients in optimizing business processes and reduce cost. We expect the company to maintain its profitability, as the contribution from digital services to the overall revenues increase.

SHARE PRICE PERFORMANCE

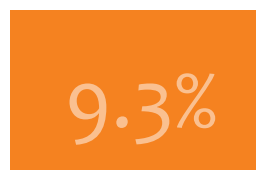


MARKET INFO

SENSEX	34427
NIFTY	10565

SHARE HOLDING PATTERN (%)

Particulars	Mar 18	Dec 17	Sep 17
Promoters	71.92	73.57	73.57
FIIIs	16.88	16.26	16.58
DIIIs	6.93	6.07	5.63
Others	4.28	4.1	4.23
Total	100	100	100



Revenue CAGR between FY 18 and FY 20E



PAT CAGR between FY 18 and FY 20E

ANALYST

Raghav Garg, researchho@krchoksey.com, +91-22-6696 5429
Pritesh Thakkar, pritesht.thakkar@krchoksey.com, +91-22-6696 5429

KRChoksey Research

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

+91-22-6696 5555 / +91-22-6691 9576
www.krchoksey.com

TCS Ltd.

Key Concall Highlights: (i) On ignio, the company won 7 new clients in Q4 FY18, adding the total number of clients under ignio is more than 50 (ii) Maga deals are attached with ignio (Cognitive automation solution), as the customers have been taking holistic approach to robotic automation to intelligent automation (iii) TCS BaNKS saw 29 new wins in a year, and 25 go live in FY18, out of which 5 wins and 4 go live in Q4 FY18 (iv) Digital Optumera (Retail platform) won 2 new large wins this year, 7 of the leading retailers are using this platform (v) The company expects the cash payout of 80% of the free cash flow going forward (vi) The company has launched Blockchain solution, which offers all the stakeholders in the financial system to collaborate with each other

Valuation and View

The company has bagged large number of deals during the quarter which gives strong revenue visibility and sustainable growth going forward. We believe the turnaround for BFS and Retail segment on the back of deal wins would be a huge positive for the company. Going ahead, we believe the increase in revenue contribution from digital services coupled with strong traction for platforms and solution to augment its topline growth. We believe the operating margin is sustainable at this level supported by contribution from digital services and platforms, which are margin accretive. As a result, it would minimize the dent on margins from increasing onsite effort and pricing pressure. We have envisaged, the company to maintain its margins at 26.9%/26.9% in FY19 and FY20. The stock is currently trading at 21.8x/20x in FY19E and FY20E. **We assign an "Accumulate" rating on the stock and we assign multiple of 21x to its FY20E EPS of INR. 159.8 to arrive at a price target of INR 3,357.**

Exhibit 1: Quarterly Income Statement

YE March (Rs. mn)	Q4 FY18	Q3 FY18	Q-o-Q change %	Q4 FY17	Y-o-Y change %	Q4 FY18 Est.	Deviation %
Total Revenue (USD Mn)	4,972	4,787	3.9%	4,452	11.7%	4,916	1.1%
Total Revenue (INR Mn)	320,750	309,040	3.8%	296,420	8.2%	316,590	1.3%
Less:							
Cost of Revenues	181,220	171,950	5.4%	163,020	11.2%	175,708	3.1%
SG&A Expenses	53,010	51,550	2.8%	52,070	1.8%	53,187	-0.3%
Total Expenditure	234,230	223,500	4.8%	215,090	8.9%	228,895	2.3%
EBIDTA	86,520	85,540	1.1%	81,330	6.4%	87,696	-1.3%
Less: Depreciation	5,050	7,730	(34.7%)	5,060	(0.2%)	6,332	-20.2%
Operating Income	81,470	77,810	4.7%	76,270	6.8%	81,364	0.1%
Non-operating Income	9,820	6,510	50.8%	4,540	116.3%	5,286	
Profit Before Tax	91,290	86,450	5.6%	89,850	1.6%	90,399	1.0%
Total Tax	22,040	21,000	5.0%	19,940	10.5%	21,244	3.7%
PAT before Minority Interest	69,250	65,450	5.8%	69,910	(0.9%)	69,155	0.1%
Minority Interest	210	140	N.A.	140	N.A.	146	
Profit After Tax	69,040	65,310	5.7%	69,770	(1.0%)	69,009	0.0%
Basic & Diluted EPS (Rs.)	36.1	34.1	5.7%	35.4	1.9%	36.1	0.0%
Basic & Diluted Outstanding (mn)	1,914	1,914		1,970		1,914	
Margin Analysis %			Change In bps	Change In bps			
EBIDTA Margin	27.0%	27.7%	-70	27.4%	-46	27.7%	-73
Operating Margin	25.4%	25.2%	22	25.7%	-33	25.7%	-30
PBT Margin	28.5%	28.0%	49	30.3%	-185	28.6%	-9
NPM	21.5%	21.1%	39	23.5%	-201	21.8%	-27
Effective Tax Rate (%)	24.1%	24.3%	-15	22.2%	195	23.5%	64
Cost Analysis %			Change In bps	Change In bps			
Cost of Revenues/ Sales	56.5%	55.6%	86	55.0%	150	55.5%	100
Other income/ PBT	12.9%	10.1%	286	15.5%	-254	10.1%	285

Source: Company, KRChoksey Research

ANALYST

Raghav Garg, researchho@krchoksey.com, +91-22-6696 5429
Pritesh Thakkar, pritesht.thakkar@krchoksey.com, +91-22-6696 5429

KRChoksey Research

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

+91-22-6696 5555 / +91-22-6691 9576
www.krchoksey.com

TCS Ltd.

Exhibit 2: Profit & Loss Statement

YE March (INR Mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	1,086,462	1,179,660	1,231,040	1,352,399	1,471,933
Sales Growth%	14.8%	8.6%	4.4%	9.9%	8.8%
Total Revenue	1,086,462	1,179,660	1,231,040	1,352,399	1,471,933
Less:					
Employees Cost	595,490	654,300	694,490	769,968	841,366
SG&A	184,193	202,250	208,730	219,064	234,012
Total Operating Expenditure	779,682	856,550	903,220	989,032	1,075,378
EBITDA	306,780	323,110	327,820	363,366	396,554
EBITDA Growth%	24.4%	5.3%	1.5%	10.8%	9.1%
Less: Depreciation	18,879	19,870	22,800	25,189	28,806
Operating Profit	287,901	303,240	305,020	338,177	367,748
Operating Profit Growth%	26.3%	5.3%	0.6%	10.9%	8.7%
Interest Paid	331	560	520	474	474
Non-operating Income	30,833	46,000	36,420	32,367	36,292
Profit Before Tax	318,403	348,680	340,920	370,071	403,566
Tax	74,825	81,940	80,116	86,967	94,838
Minority Interest	2,192	2,401	2,646	2,548	2,779
Net Profit	241,386	264,340	258,157	280,556	305,949
Adjusted Profit	241,386	264,340	258,157	280,556	305,949
Reported Diluted EPS Rs	122.8	134.2	134.9	146.6	159.8
Diluted EPS Growth%	22.4%	9.3%	0.5%	8.7%	9.1%

Source: Company, KRChoksey Research

TCS Ltd.

Exhibit 3: Balance Sheet

YE March(INR Mn)	FY16	FY17	FY18	FY19E	FY20E
Liabilities					
Equity Capital	1,970	1,970	1,970	1,970	1,970
Reserves & Surplus	708,750	860,170	849,370	1,011,209	1,198,792
Equity	710,720	862,140	851,340	1,013,179	1,200,762
Net Worth	710,720	862,140	851,340	1,013,179	1,200,762
Minority Interest	3,550	3,660	4,020	6,568	9,346
Net Deferred tax liability/(Asset)	8,050	9,190	11,700	11,700	11,700
Total Loans	1,960	2,710	2,350	3,010	3,010
Other Non Current Liabilities	11,720	11,310	16,880	17,581	19,135
Capital Employed	736,000	889,010	886,290	1,052,038	1,243,954
Assets					
Gross Block	193,080	208,910	227,200	242,200	257,200
Less: Depreciation	93,370	108,340	125,040	150,229	179,035
Net Block	99,710	100,570	102,160	91,971	78,165
Capital WIP	16,700	15,410	12,780	27,620	27,620
Investments	228,220	419,800	360,080	360,080	360,080
Intangible Assets	18,030	16,440	17,570	17,570	17,570
Others-A	120,960	91,400	115,200	121,716	132,474
Current Assets					
Inventories	160	210	260	271	295
Sundry Debtors	280,650	280,350	316,290	363,110	395,204
Cash and Bank Balance	66,450	40,020	69,500	170,482	342,181
Loans and Advances	27,430	29,090	32,050	21,638	23,551
Other Current Assets	32,650	39,230	37,130	33,810	36,798
Total Current Assets	407,340	388,900	455,230	589,311	798,029
Less: Current Liabilities & Provisions					
Sundry Creditors	75,410	62,790	50,940	67,742	73,656
Provisions	1,550	1,050	2,660	8,697	9,484
Other Current Liabilities	78,000	79,670	123,130	79,792	86,844
Total Current Liabilities & Provisions	154,960	143,510	176,730	156,230	169,984
Capital Applied	736,000	889,010	886,290	1,052,038	1,243,954

Source: Company, KRChoksey Research

ANALYST

Raghav Garg, researchho@krchoksey.com, +91-22-6696 5429
Pritesh Thakkar, pritesht.thakkar@krchoksey.com, +91-22-6696 5429

KRChoksey Research

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

+91-22-6696 5555 / +91-22-6691 9576
www.krchoksey.com

TCS Ltd.

Exhibit 4: Ratio Analysis

YE March	FY16	FY17	FY18	FY19E	FY20E
Key Operating Ratios					
EBITDA Margin(%)	28.2%	27.4%	26.6%	26.9%	26.9%
Tax/PBT(%)	23.5%	23.5%	23.5%	23.5%	23.5%
Net Profit Margin(%)	22.2%	22.4%	21.0%	20.7%	20.8%
RoE(%)	34.8%	31.0%	28.0%	28.3%	26.2%
RoCE(%)	33.7%	30.1%	27.1%	27.3%	25.4%
Current Ratio(x)	2.6x	2.7x	2.6x	3.8x	4.7x
Dividend Payout(%)	47.5%	50.2%	50.4%	42.3%	38.7%
Book Value Per Share(Rs.)	361.5	437.5	444.8	529.3	627.3
Financial Leverage Ratios					
Interest/Debt(%)	15.4%	19.6%	19.4%	15.8%	15.8%
Growth Indicators%					
Growth in Gross Block(%)	17.7%	8.2%	8.8%	6.6%	6.2%
Sales Growth(%)	14.8%	8.6%	4.4%	9.9%	8.8%
EBITDA Growth(%)	24.4%	5.3%	1.5%	10.8%	9.1%
Net Profit Growth(%)	22.9%	9.5%	(2.3%)	8.7%	9.1%
Diluted EPS Growth(%)	22.4%	9.3%	0.5%	8.7%	9.1%
Turnover Ratios					
Debtors (Days of sales)	94	87	94	98	98
Creditors	35	27	21	25	25
Inventory (Days of Optg.Costs)	0.1	0.1	0.1	0.1	0.1

Source: Company, KRChoksey Research

Exhibit 5: Free Cash Flow Analysis

YEMarch (INR Mn)	FY16	FY17	FY18	FY19E	FY20E
EBITA	287,901	303,240	305,020	338,177	367,748
Less: Adjusted Taxes	67,657	71,261	71,680	79,472	86,421
NOPLAT	220,244	231,979	233,340	258,706	281,327
Plus: Depreciation	18,879	19,870	22,800	25,189	28,806
Less: Increase in Working Capital	38,640	6,334	4,858	92,188	23,265
Operating Cashflow	200,484	245,515	251,283	191,706	286,869
Less: Net Capex	21,259	19,440	21,760	29,840	15,000
Less: Increase in Net Other Assets	18,100	(17,020)	16,290	(32,895)	8,816
FCF From Operation	161,125	243,095	213,233	194,762	263,053

Source: Company, KRChoksey Research

TCS Ltd.

TCS Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
20-Apr-18	3191	3357	ACCUMULATE	Buy	More than 15%
12-Jan-18	2770	2806	HOLD	Accumulate	5% – 15%
13-Oct-17	2,548	2,757	ACCUMULATE	Hold	0 – 5%
14-Jul-17	2,446	2,675	ACCUMULATE	Reduce	-5% – 0
19-Apr-17	2,283	2,583	ACCUMULATE	Sell	Less than – 5%
13-Jan-17	2,344	2,490	ACCUMULATE		
19-Oct-16	2,400	2,570	ACCUMULATE		

ANALYST CERTIFICATION:

We, Raghav Garg (B.Com, M.Com (Applied Finance)), research analyst and Pritesh Thakkar (MBA, B.Com), research associate, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & Conditions and other disclosures:

KRChoksey Shares and Securities Pvt. Ltd (hereinafter referred to as KRCSSPL) is a registered member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and MCX Stock Exchange Limited. KRCSSPL is a registered Research Entity vides SEBI Registration No. INH00001295 under SEBI (Research Analyst) Regulations, 2014.

We submit that no material disciplinary action has been taken on KRCSSPL and its associates (Group Companies) by any Regulatory Authority impacting Equity Research Analysis activities.

KRCSSPL prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analyst covers. The information and opinions in this report have been prepared by KRCSSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KRCSSPL. While we would endeavor to update the information herein on a reasonable basis, KRCSSPL is not under any obligation to update the information. Also, there may be regulatory, compliance or other reasons that may prevent KRCSSPL from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or KRCSSPL policies, in circumstances where KRCSSPL might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KRCSSPL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. KRCSSPL accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Our employees in sales and marketing team, dealers and other professionals may provide oral or written market commentary or trading strategies that reflect opinions that are contrary to the opinions expressed herein, .In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

Associates (Group Companies) of KRCSSPL might have received any commission/compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of brokerage services or specific transaction or for products and services other than brokerage services.

KRCSSPL or its Associates (Group Companies) have not managed or co-managed public offering of securities for the subject company in the past twelve months

KRCSSPL encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. KRCSSPL or its analysts do not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither KRCSSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that, Raghav Garg (B.Com, M.Com (Applied Finance)), research analyst and Pritesh Thakkar (MBA, B.Com), research associate, of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific brokerage service transactions.

KRCSSPL or its associates (Group Companies) collectively or its research analyst do not hold any financial interest/beneficial ownership of more than 1% (at the end of the month immediately preceding the date of publication of the research report) in the company covered by Analyst, and has not been engaged in market making activity of the company covered by research analyst.

It is confirmed that, Raghav Garg (B.Com, M.Com (Applied Finance)), research analyst and Pritesh Thakkar (MBA, B.Com), research associate, do not serve as an officer, director or employee of the companies mentioned in the report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other Jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KRCSSPL and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform them of and to observe such restriction.

Please send your feedback to research.insti@krchoksey.com
Visit us at www.krchoksey.com
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.