Company Update

June 18, 2018

Rating matrix

Rating	:	Hold
Target	:	₹ 1850
Target Period	:	12 months
Potential Upside	:	0%

What's Changed?

Target	Changed from ₹ 1630 to ₹ 1850
EPS FY19E	Changed from ₹ 72.7 to ₹ 76.6
EPS FY20E	Changed from ₹ 81.4 to ₹ 84.4
Rating	Unchanged

Key Financials

₹ Crore	FY17	FY18E	FY19E	FY20E
Net Sales	117,966	123,104	140,147	154,462
EBITDA	32,311	32,634	37,980	41,859
Net Profit	26,289	25,944	28,754	31,670
EPS (₹)	66.7	67.7	76.6	84.4

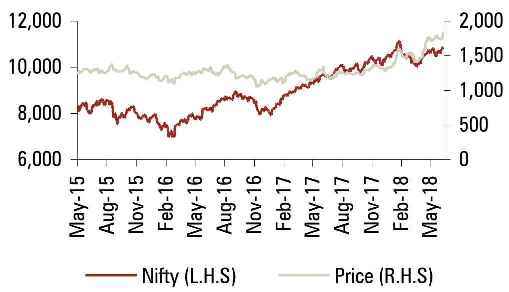
Valuation summary

	FY17	FY18E	FY19E	FY20E
P/E	27.7	27.1	24.0	21.8
Target P/E	27.7	27.2	24.1	21.9
EV / EBITDA	20.5	20.2	17.4	15.4
P/BV	8.2	8.1	7.8	6.4
RoNW (%)	29.8	29.8	32.5	29.5
RoCE (%)	37.9	38.1	41.7	38.3

Stock Data

Particular	Amount
Market Capitalization (₹ Crore)	706,252.0
Total Debt (FY17) (₹ Crore)	289.0
Cash and equivalents (₹ Crore)	45,663.0
EV (₹ Crore)	660,878.0
52 week H/L	1871 / 1163
Equity capital	383.0
Face value	₹ 1

Price Chart



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Tata Consultancy Services (TCS) ₹ 1844

Second Buyback in 2 years...

TCS board has approved a proposal to buy back shares for an aggregate amount not exceeding ₹ 16,000 crore. TCS will repurchase upto 7.6 crore of shares (1.99% of its equity) at ₹ 2,100/share (~14% premium to CMP). The buyback along dividend payout is broadly in line with management intention of pay out ~80-100% of FCF to shareholders. It should also improve its return ratio by 400-500 bps as buyback + dividend payout should utilise (~50% of its cash & investments). We also upgrade our EPS estimates by 3-5% on account of revision in exchange rate (₹ 67 for FY19E & FY20E). Nonetheless, we maintain our Hold recommendation with revised price target of ₹ 1850/share due to rich valuation.

Buyback up to 7.6 crore shares worth ₹ 16,000 crore...

TCS' board of directors have approved a proposal to buy back up to 7.6 crore equity shares at ₹ 2,100/share on a proportionate basis under the tender offer route for an aggregate amount not exceeding ₹ 16,000 crore. Buyback of 7.6 crore shares makes up 1.99% of total outstanding shares of ~383 crore (share capital post bonus issue), which is expected to boost TCS' return ratios by ~400-500 bps. TCS undertook the buyback programme for the second time post its first buyback in Feb 2017. Overall acceptance ratio works out to be 2% while for retail shareholders, the same stands at 35%.

Exhibit 1: Overall Acceptance Ratio

Total share capital (₹ crore) (A)	382.9
No of shares for buyback (₹ crore) (B)	7.6
Share Buyback Price (₹)	2100
Overall acceptance ratio (B/A) (%)	2.0

Source: Company, ICICI Direct Research

Exhibit 2: Acceptance Ratio for retail investors

Max share value held by retail category (₹)	200000	Total Buy back amout (₹ crore)	16000
Buy back price (₹)	2100	15% Reserved for Retail (₹ crore)	2400
Max no of shares held for retail category	95	No of shares for buyback (crore)	1.1
Distribution of equity shareholding*		Total shares held in 1-100 shares range (crore)	3.3
No of shares (1-100)	3.3	Acceptance ratio (%)	34.7

** as on March 31, 2018 (FY18 Annual Report)*
Source: Company, ICICI Direct Research

Company's intention to payout 80-100% of FCF annually...

TCS' current proposed buyback of ₹ 16,000 crore translates to 55.6% payout of our FY19E EPS expectation of ₹ 76.6. Accompanied by consistent dividend payout of ~35-40% of PAT, total payout ratio (in the form of dividend and buyback) stands out to be in the range of ~80-100% of FCF. This is in-line with the company's intention to return 80-100% of FCF to shareholders annually through the dividend/ buyback route.

Upgrade EPS by 3-5%, maintain HOLD on rich valuation...

TCS management commentary on broad based recovery coupled with large deal win, we anticipate acceleration in revenues growth trajectory. We now also consider 3-5% EPS upgrades on account of sharp depreciation of rupee, which would also provide margin tailwind. Nonetheless, we maintain our **HOLD** stance on TCS on account of rich valuation and revise our target price at ₹ 1850/share (22x FY20E EPS).

Financial summary

Profit and loss statement				₹ Crore
(Year-end March)	FY17	FY18E	FY19E	FY20E
Total operating Income	117,966	123,104	140,147	154,462
Growth (%)	8.6	4.4	13.8	10.2
COGS (employee expenses)	64,900	69,715	77,922	85,881
S,G&A expenses	20,755	20,755	24,245	26,722
Total Operating Expenditure	85,655	90,470	102,167	112,603
EBITDA	32,311	32,634	37,980	41,859
Growth (%)	5.3	1.0	16.4	10.2
Depreciation	1,987	2,014	2,242	2,471
Other Income less interest	4,189	3,590	2,425	2,926
PBT	34,513	34,210	38,163	42,314
Total Tax	8,156	8,212	9,350	10,579
Minority Interest	68	54	59	65
Exceptional Item	0	0	0	0
PAT before exceptional item	26,289	25,944	28,754	31,670
Growth (%)	8.6	-1.3	10.8	10.1
EPS (₹)	66.7	67.7	76.6	84.4
PAT after exceptional item	26,289	25,944	28,754	31,670
EPS - Reported (₹)	66.7	67.7	76.6	84.4

Source: Company, ICICI Direct Research

Cash flow statement				₹ Crore
(Year-end March)	FY17	FY18E	FY19E	FY20E
Profit before Tax	34,513	34,210	38,163	42,314
Add: Depreciation	1,987	2,014	2,242	2,471
(Inc)/dec in Current Assets	(896)	(1,252)	(3,277)	(2,870)
Inc/(dec) in CL and Provisions	(210)	3,966	2,597	2,283
Taxes paid	(7,946)	(8,212)	(9,350)	(10,579)
CF from operating activities	26,992	28,254	27,900	30,644
(Inc)/dec in Investments	(16,968)	(748)	(882)	(1,242)
(Inc)/dec in Fixed Assets	(1,953)	(2,077)	(2,102)	(2,317)
Others	0	2,471	2,475	2,976
CF from investing activities	(18,521)	(354)	(509)	(583)
Inc/(dec) in loan funds	87	0	0	0
Dividend paid & dividend tax	(10,947)	(11,203)	(11,351)	(12,747)
Others	(80)	(16,000)	(16,000)	0
CF from financing activities	(11,006)	(27,203)	(27,351)	(12,747)
Net Cash flow	(2,535)	698	40	17,314
Exchange difference	(163)	0	0	0
Opening Cash	6,347	4,028	4,725	4,765
Closing Cash	4,027	4,725	4,765	22,079

Source: Company, ICICI Direct Research

Balance sheet				₹ Crore
(Year-end March)	FY17	FY18E	FY19E	FY20E
Liabilities				
Equity Capital	394	383	375	375
Reserve and Surplus	81,290	80,037	81,447	100,370
Share Premium	6,631	6,631	6,631	6,631
Total Shareholders funds	88,315	87,051	88,453	107,376
Total debt	289	298	330	356
Other liabilities & Provisions	1,170	1,208	1,252	1,290
Deferred tax liability(net)	919	919	919	919
Minority Interest / Others	366	420	479	545
Total Liabilities	91,059	89,896	91,434	110,486
Assets				
Net assets & CWIP	11,788	11,851	11,711	11,556
Goodwill	3,721	3,721	3,721	3,721
Other non current assets	9,318	10,066	10,948	12,190
Debtors	22,684	23,672	25,226	26,259
Loans and Advances	4,531	4,728	5,383	5,933
Other Current Assets	7,648	7,715	8,783	10,071
Current Investments	41,636	41,636	41,636	41,636
Cash	4,027	4,725	4,765	22,079
Trade Payable	6,279	9,848	11,212	12,357
OCL & Provisions	8,015	8,364	9,522	10,596
Application of Funds	91,059	89,896	91,434	110,486

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY17	FY18E	FY19E	FY20E
Per share data (₹)				
Adjusted EPS (Diluted)	66.7	67.7	76.6	84.4
BV per share	224.0	227.3	235.6	286.0
DPS	47.0	50.0	25.1	28.2
Cash Per Share	10.2	12.3	12.7	58.8
Operating Ratios (%)				
EBIT margins	25.7	24.9	25.5	25.5
PBT Margins	29.3	27.8	27.2	0.0
PAT Margin	22.3	21.1	20.5	20.5
Debtor days	70	70	66	62
Creditor days	19	29	29	29
Return Ratios (%)				
RoE	29.8	29.8	32.5	29.5
RoCE	37.9	38.1	41.7	38.3
RoIC	66.8	70.3	79.3	84.2
Valuation Ratios (x)				
P/E	27.7	27.1	24.0	21.8
EV / Net Sales	5.6	5.4	4.7	4.2
Market Cap / Sales	6.0	5.7	5.0	4.6
Solvency Ratios				
Debt / EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.4	2.0	1.9	1.8
Quick Ratio	2.4	2.0	1.9	1.8

Source: Company, ICICI Direct Research

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