

Rating: **ACCUMULATE** | CMP: Rs1,889 | TP: Rs2,275

January 7, 2019

Q3FY19 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	2,275		2,300	
Sales (Rs. m)	1,620,890	1,823,256	1,671,189	1,780,821
% Chng.			(3.0)	2.4
EBITDA (Rs. m)	447,168	495,952	461,845	503,220
% Chng.			(3.2)	(1.4)
EPS (Rs.)	93.6	104.1	96.4	105.5
% Chng.			(2.9)	(1.3)

Key Financials

	FY18	FY19E	FY20E	FY21E
Sales (Rs. bn)	1,231	1,461	1,621	1,823
EBITDA (Rs. bn)	325	399	447	496
Margin (%)	26.4	27.3	27.6	27.2
PAT (Rs. bn)	258	316	351	391
EPS (Rs.)	67.5	84.2	93.6	104.1
Gr. (%)	1.1	24.8	11.1	11.2
DPS (Rs.)	25.0	31.2	34.6	38.5
Yield (%)	1.3	1.7	1.8	2.0
RoE (%)	29.4	35.9	35.7	32.8
RoCE (%)	28.9	35.2	34.9	32.2
EV/Sales (x)	5.5	4.6	4.0	3.5
EV/EBITDA (x)	20.9	16.7	14.6	12.8
PE (x)	28.0	22.4	20.2	18.1
P/BV (x)	8.3	8.0	6.5	5.5

Key Data

TCS.BO | TCS IN

52-W High / Low	Rs.2,276 / Rs.1,347
Sensex / Nifty	36,107 / 10,822
Market Cap	Rs.7,087bn/ \$ 100,462m
Shares Outstanding	3,752m
3M Avg. Daily Value	Rs.10666.22m

Shareholding Pattern (%)

Promoter's	72.05
Foreign	16.05
Domestic Institution	7.44
Public & Others	4.46
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(4.4)	0.7	34.6
Relative	(7.5)	1.1	28.3

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Strong revenue growth momentum negated by Tepid Margins

- Revenues Inline, Margins miss:** TCS delivered mixed set of performance during the quarter with inline constant currency growth negated by tepid margins. Revenues came at USD5250mn for Q3FY19 up 0.7% QoQ and 9.7% YoY and below our estimates (PLe: USD5283mn). Cross currency headwind for the quarter stood at 110bps. Constant currency revenue growth for the quarter stood at 1.8% inline with our estimates (PLe: 1.9%). EBIT margin for the quarter came at 25.6% down 90 bps QoQ and below our estimates (PLe: 27.0%). Management cited that increase in subcontractor cost (+40bps) with localization of operations and supply constraint of talent has led to tepid margins during the quarter. PAT for the quarter came at Rs 81.1bn which is 2% below our estimates (PLe: 83.1bn) led by margins miss. NPM stood at 21.7% up 30bps QoQ/60bps YoY led by higher other income.
- Stable demand Environment:** For Q3FY19, TCS' revenues grew by 12.1% YoY in constant currency and stood highest in last 14 quarters. Management believes that it is back on track for double digit YoY revenue growth momentum in constant currency. Among geographies North America grew by 8.2% YoY, UK up 25.1% YoY and continental Europe 17.6% YoY in cc terms. Management cited stable demand environment in North America and Europe and no signs of weakness. Among verticals, BFSI grew by 8.6% YoY, Retail and CPG 10.5% YoY and Lifesciences 15.7% YoY in cc terms. Digital Revenues contributed to 30% of total revenues and were up 52.7% YoY in cc and remained the key driver for incremental growth.
- Robust Deal Pipeline:** TCV deal wins during the quarter stood at USD5.3bn which implies 20% QoQ growth (vs USD4.90bn in Q2FY19). As per management commentary pipeline has expanded across geographies and verticals. Management cited that deal wins is mainly driven by digital business transformation led by IoT, AI, Automation and Cybersecurity.
- Valuation and View:** Led by USD revenue miss in Q3 we marginally trim USD revenue growth assumption to 9.5/10/10.1% for FY19E/20E/21E (vs 10.1/10.4/9.6% growth modelled earlier). For achieving 9.5% USD revenue growth for FY19 company would require 2.5% USD revenue growth in Q4FY19 which we believe is favorable doable.
- Our USD/INR assumptions are at 70/70.5/72 for FY19/FY20/FY21E. While rupee depreciation could aid margins in medium term, we believe TCS might have to gradually pass on the benefits to clients. We model EBIT margins at 25.9/26.3/26.0% for FY19/FY20E/FY21E (vs 24.8% in FY18). Our EPS estimates are downgraded modestly by 1.8/1.5/1.8% for FY19/FY20/21E to Rs84/94/104/sh. TCS trades at 19.5x FY20E EPS and 18.6x Sep20E EPS. We trim our TP by 1.1% at 23x Sep20E EPS to Rs2275 (Earlier Rs2300/sh) Retain Accumulate.

Exhibit 1: Consolidated P&L

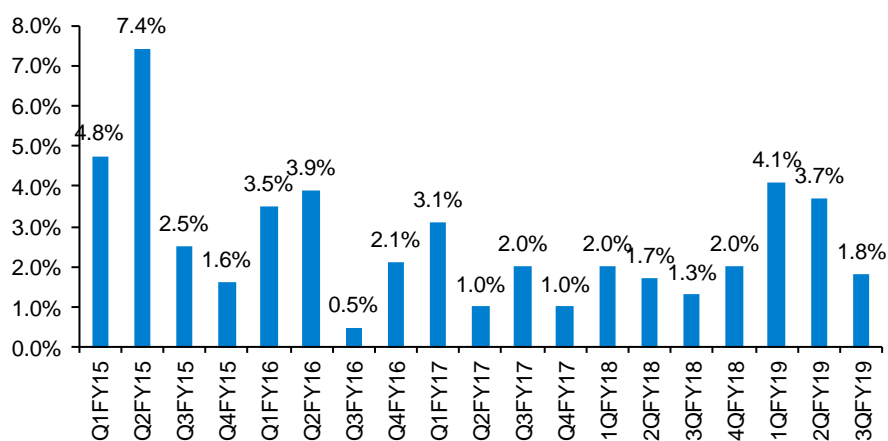
(Rs mn)	3QFY19	2QFY19	QoQ Growth	1QFY19	YoY Growth	PI Estimates	Variance(PL VS ACTUAL)
Total Operating Income (USD)	5,250	5,215	0.7%	4,787	9.7%	5,283	-0.6%
Total Operating Income	373,380	368,540	1.3%	309,040	20.8%	376,135	-0.7%
EBITDA	100,710	102,780	-2.0%	82,880	21.5%	106,446	-5.4%
EBITDA Margins	27.0%	27.9%	-92 bps	26.8%	15 bps	28.3%	
Pre -Tax Income	107,110	103,640	3.3%	86,450	23.9%	110,368	-3.0%
Tax	25,900	24,370	6.3%	21,000	23.3%	27,040	-4.2%
Tax- Rate	24.2%	23.5%	67 bps	24.3%	-11 bps	24.5%	
PAT	81,050	79,010	2.6%	65,310	24.1%	83,128	-2.5%
EPS	21.6	20.7	4.5%	17.1	26.6%	22.1	-2.5%

Source: Company, PL

USD revenues below estimates: Revenues came at USD5250mn were up 0.7% QoQ and 9.7% YoY and below our estimates (Ple: USD 5283mn). Constant currency growth for the quarter stood at 1.8% and inline with our estimates (Ple: 1.9%)

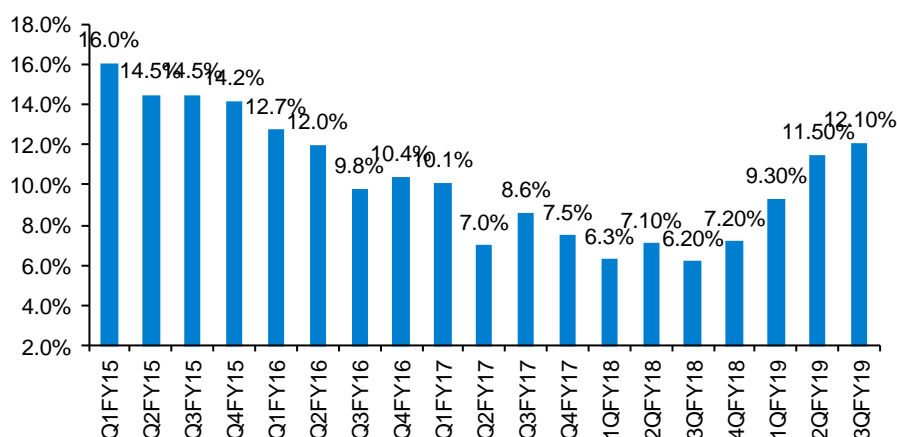
Digital revenues stood at USD1580mn up 8.2% QoQ and 49.4% YoY in USD. In constant currency, Digital revenues for Q3FY19 were up 52.7% YoY. Traditional Business (Revenues Ex-Digital) revenue came at USD3670mn decline 2.3% QoQ and down 1.6% YoY. Hence, digital remains the key driver for incremental growth.

TCS has shown stronger revenue momentum in 3QFY19 (vs 3QFY18) led by digital transformational deal wins

Exhibit 2: Revenue Growth in Constant Currency (QoQ)


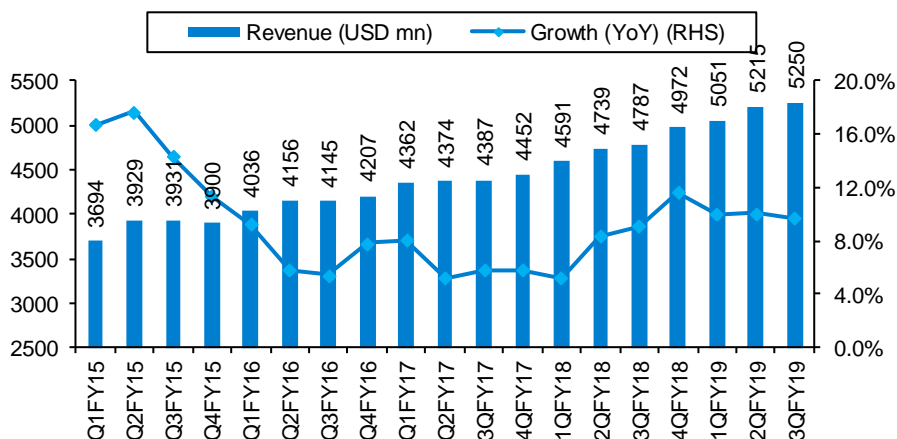
Source: Company, PL

Exhibit 3: Revenue growth in cc (YoY)



Source: Company, PL

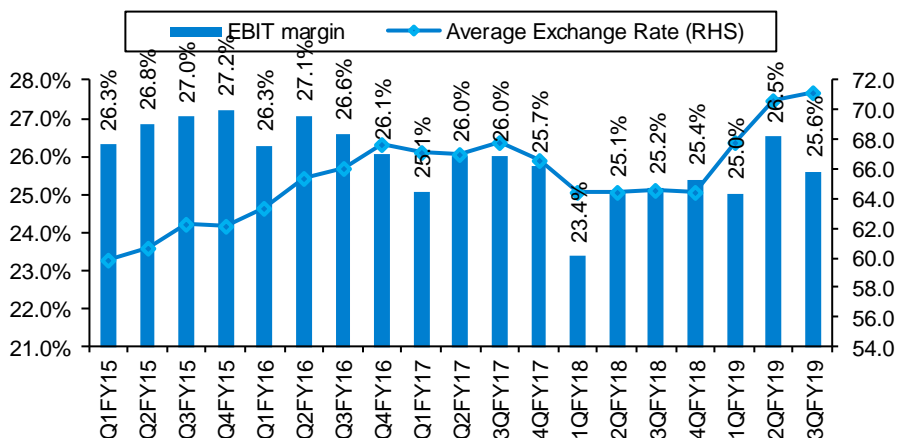
Exhibit 4: USD Revenue growth (YoY)



Source: Company, PL

- Margin below our estimates:** EBITDA Margin for the quarter came at 27.0% down 120 bps QoQ and below our estimates (PLe: 28.3%). EBIT margin for the quarter came at 25.6% down 90 bps QoQ and below our estimates (PLe: 27.0%).

Exhibit 5: EBIT Margin vs Average exchange rate



Source: PL, Company

Key Metrics

Exhibit 6: Geographical Mix of Revenues

Geography Mix in %	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
North America	53.5	54	55	53	52.5	51.9	52	50.2	51.0	51.1	51.2
Latin America	2.0	2.0	2.2	2.1	2.1	2.2	2.2	2	1.9	2.0	2.0
UK	14.8	13.8	13.3	13.7	13.9	14	14.1	15.2	15.5	15.6	15.5
Continental Europe	11.5	11.8	11.1	11.8	12.5	13.4	13.5	14.2	14.0	14.0	14.1
India	6.2	5.8	6.3	6.8	7	6.3	6.3	6.2	5.8	5.6	5.7
APAC	9.6	10.2	9.6	9.7	9.5	9.8	9.5	9.7	9.6	9.6	9.4
MEA	2.4	2.4	2.5	2.6	2.5	2.4	2.4	2.5	2.2	2.1	2.1

Source: Company, PL

Exhibit 7: Revenue contribution by Geography and cc growth in geographies

Geography (CC Growth)	Revenue Contribution (%)	YoY (CC Growth)
North America	51.2%	8.2%
Latin America	2.0%	7.6%
UK	15.5%	25.1%
Continental Europe	14.1%	17.6%
India	5.7%	9.7%
Asia	9.4%	12.6%
MEA	2.1%	-3.3%
Total	100.0%	12.1%

Source: PL, Company

Exhibit 8: Headcount Details

Employee Details	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Total number of employees	362,079	371,519	378,497	387,223	385,809	389,213	390,880	394,988	400,875	411,102	417,929
Net additions	8,236	9,440	6,978	8,726	-1,414	3,404	1,667	4,118	5,877	10,227	6,827
Attrition	13.6%	12.9%	11.3%	11.3%	11.6%	11.3%	11.1%	11.0%	10.9%	10.9%	11.2%

Source: Company, PL

Headcount stands at 417,929 for the quarter with net addition of 6,827

Exhibit 9: Revenue by vertical and growth (QoQ & YoY)

Verticals (CC Growth)	Revenue contribution (%)	YoY (CC Growth)
BFSI	30.8%	8.6%
Retail & CPG	16.5%	10.5%
Communication & Media	6.9%	10.8%
Manufacturing	7.2%	6.7%
Life Sciences & Healthcare	7.6%	15.7%
Energy & Utilities	4.7%	18.1%
Technology and services	7.6%	5.8%
Regional markets and others	18.7%	22.6%
Total	100.0%	12.1%

Source: Company, PL

Exhibit 10: Client Details

Client Bucket	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
USD 1mn	838	829	847	859	880	897	905	933	941	963	978	989	996
USD 5mn	413	429	439	449	454	459	464	470	485	495	508	513	519
USD10 mn	281	298	298	295	300	310	322	328	337	350	355	365	370
USD20 mn	173	173	179	185	186	190	190	196	203	207	206	213	211
USD50 mn	65	73	77	78	80	84	85	91	94	97	97	98	99
USD100 mn	34	37	37	36	34	35	36	37	37	38	40	44	45

Source: Company, PL

Exhibit 11: Model Sheet of TCS

	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Revenues- USD mn	13,443	15,454	16,544	17,575	19,089	20,897	22,991	25,323
Growth (%)	16.2%	15.0%	7.1%	6.2%	8.6%	9.5%	10.0%	10.1%
Constant Currency growth (%)	17.3%	17.0%	11.9%	8.3%	6.7%			
Average exchange rate (USD vs INR)	60.8	61.2	65.6	67.1	64.5	69.9	70.5	72.0
Consolidated revenues (Rs mn)	818,093	946,484	1,086,462	1,179,660	1,231,040	1,461,218	1,620,890	1,823,256
Growth (%)	29.9%	15.7%	14.8%	8.6%	4.4%	18.7%	10.9%	12.5%
EBITDA (Rs mn)	251,533	272,941	306,776	323,110	325,170	399,296	447,168	495,952
EBIT (Rs mn)	238,031	254,243	287,901	303,240	305,030	378,952	426,712	473,162
PAT (Rs mn)	191,546	216,961	242,147	262,890	258,315	316,176	351,241	390,723
EBITDA Margins (%)	30.7%	28.8%	28.2%	27.4%	26.4%	27.3%	27.6%	27.2%
EBIT Margins (%)	29.1%	26.9%	26.5%	25.7%	24.8%	25.9%	26.3%	26.0%
NPM (%)	23.4%	22.4%	22.3%	22.3%	21.0%	21.6%	21.7%	21.4%
EPS	48.9	54.4	61.6	66.7	67.1	83.5	93.6	104.1
Growth (%)	37.5%	11.2%	13.2%	8.3%	0.6%	24.3%	12.1%	11.2%
P/E	25.0	35.8	32.2	29.7	29.4	23.7	21.2	19.0
EV/EBITDA	18.2	27.6	24.3	22.7	22.0	17.5	15.3	13.4
ROE	43.6%	38.5%	37.1%	32.6%	29.4%	35.9%	35.7%	32.8%
ROIC(%)	52.8%	50.8%	52.5%	52.5%	51.5%	60.1%	63.5%	65.6%
Consolidated balance sheet (Rs mn)								
Net cash on balance sheet (Rs mn)	201,255	204,995	299,852	460,070	429,470	414,657	577,614	756,097
Net cash per share	49.2	49.8	74.7	115.6	110.2	107.4	151.8	199.3
Net cash per share/ Stock price	2.5%	2.5%	3.8%	5.8%	5.6%	5.4%	7.7%	10.1%
Consolidated cash flows (Rs mn)								
Cash flow from operations	159,221	212,055	209,164	269,920	281,660	304,591	340,898	373,998
Capex + Acquisitions	(35,344)	(31,518)	(19,894)	(19,890)	(18,620)	(19,000)	(22,000)	(22,000)
Free cash flows	123,876	180,537	189,270	250,030	263,040	285,591	318,898	351,998
FCF Yield(%)	1.6%	2.4%	2.5%	3.3%	3.5%	3.8%	4.2%	4.6%

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Net Revenues	1,231,040	1,461,218	1,620,890	1,823,256
YoY gr. (%)	4.4	18.7	10.9	12.5
Employee Cost	688,760	830,968	916,333	1,036,529
Gross Profit	542,280	630,249	704,557	786,726
Margin (%)	44.1	43.1	43.5	43.1
SG&A Expenses	217,110	230,953	257,389	290,774
Other Expenses	-	-	-	-
EBITDA	325,170	399,296	447,168	495,952
YoY gr. (%)	0.6	22.8	12.0	10.9
Margin (%)	26.4	27.3	27.6	27.2
Depreciation and Amortization	20,140	20,344	20,457	22,791
EBIT	305,030	378,952	426,712	473,162
Margin (%)	24.8	25.9	26.3	26.0
Net Interest	-	-	-	-
Other Income	35,900	39,480	36,500	42,000
Profit Before Tax	340,930	418,432	463,212	515,162
Margin (%)	27.7	28.6	28.6	28.3
Total Tax	82,120	101,416	111,171	123,639
Effective tax rate (%)	24.1	24.2	24.0	24.0
Profit after tax	258,810	317,016	352,041	391,523
Minority interest	495	840	800	800
Share Profit from Associate	-	-	-	-
Adjusted PAT	258,315	316,176	351,241	390,723
YoY gr. (%)	(1.7)	22.4	11.1	11.2
Margin (%)	21.0	21.6	21.7	21.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	258,315	316,176	351,241	390,723
YoY gr. (%)	(1.7)	22.4	11.1	11.2
Margin (%)	21.0	21.6	21.7	21.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	258,315	316,176	351,241	390,723
Equity Shares O/s (m)	3,828	3,753	3,753	3,753
EPS (Rs)	67.5	84.2	93.6	104.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Non-Current Assets				
Gross Block	232,760	251,760	273,760	295,760
Tangibles	232,640	251,640	273,640	295,640
Intangibles	120	120	120	120
Acc: Dep / Amortization	116,640	136,984	157,440	180,231
Tangibles	116,640	136,984	157,440	180,231
Intangibles	-	-	-	-
Net fixed assets	116,120	114,776	116,320	115,529
Tangibles	116,000	114,656	116,200	115,409
Intangibles	120	120	120	120
Capital Work In Progress	-	-	-	-
Goodwill	38,840	38,840	38,840	38,840
Non-Current Investments	29,680	31,680	33,680	35,680
Net Deferred tax assets	22,530	22,530	22,530	22,530
Other Non-Current Assets	49,770	52,770	53,770	54,770
Current Assets				
Investments	357,070	357,070	357,070	357,070
Inventories	69,130	70,138	77,803	87,516
Trade receivables	250,370	284,237	315,296	354,661
Cash & Bank Balance	69,390	54,577	217,534	396,017
Other Current Assets	26,100	29,100	30,100	31,100
Total Assets	1,084,090	1,110,808	1,318,033	1,548,803
Equity				
Equity Share Capital	3,828	3,753	3,753	3,753
Other Equity	868,586	884,029	1,078,929	1,295,737
Total Network	872,414	887,782	1,082,682	1,299,490
Non-Current Liabilities				
Long Term borrowings	540	540	540	540
Provisions	5,030	5,230	5,430	5,630
Other non current liabilities	9,210	10,110	11,010	11,910
Current Liabilities				
ST Debt / Current of LT Debt	1,930	1,930	1,930	1,930
Trade payables	50,940	56,047	62,171	69,933
Other current liabilities	125,410	129,510	133,610	137,710
Total Equity & Liabilities	1,084,094	1,110,808	1,318,033	1,548,803

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
PBT	340,920	418,432	463,212	515,162
Add. Depreciation	20,140	20,344	20,457	22,791
Add. Interest	-	-	-	-
Less Financial Other Income	35,900	39,480	36,500	42,000
Add. Other	(3,000)	-	-	-
Op. profit before WC changes	358,060	438,776	483,668	537,952
Net Changes-WC	(310)	(32,769)	(31,599)	(40,316)
Direct tax	(76,090)	(101,416)	(111,171)	(123,639)
Net cash from Op. activities	281,660	304,591	340,898	373,998
Capital expenditures	(18,040)	(19,000)	(22,000)	(22,000)
Interest / Dividend Income	-	-	-	-
Others	15,510	-	-	-
Net Cash from Invst. activities	(2,530)	(19,000)	(22,000)	(22,000)
Issue of share cap. / premium	(160,420)	(160,000)	-	-
Debt changes	(190)	400	400	400
Dividend paid	(107,600)	(140,733)	(156,341)	(173,915)
Interest paid	-	-	-	-
Others	(240)	-	-	-
Net cash from Fin. activities	(268,450)	(300,333)	(155,941)	(173,515)
Net change in cash	10,680	(14,742)	162,957	178,483
Free Cash Flow	263,040	285,591	318,898	351,998

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19E	FY20E	FY21E
Per Share(Rs)				
EPS	67.5	84.2	93.6	104.1
CEPS	72.7	89.7	99.0	110.2
BVPS	227.9	236.6	288.5	346.3
FCF	68.7	76.1	85.0	93.8
DPS	25.0	31.2	34.6	38.5
Return Ratio(%)				
RoCE	28.9	35.2	34.9	32.2
ROIC	52.0	60.4	63.9	65.9
RoE	29.4	35.9	35.7	32.8
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.5)	(0.5)	(0.6)
Debtor (Days)	74	71	71	71
Valuation(x)				
PER	28.0	22.4	20.2	18.1
P/B	8.3	8.0	6.5	5.5
P/CEPS	26.0	21.1	19.1	17.1
EV/EBITDA	20.9	16.7	14.6	12.8
EV/Sales	5.5	4.6	4.0	3.5
Dividend Yield (%)	1.3	1.7	1.8	2.0

Source: Company Data, PL Research

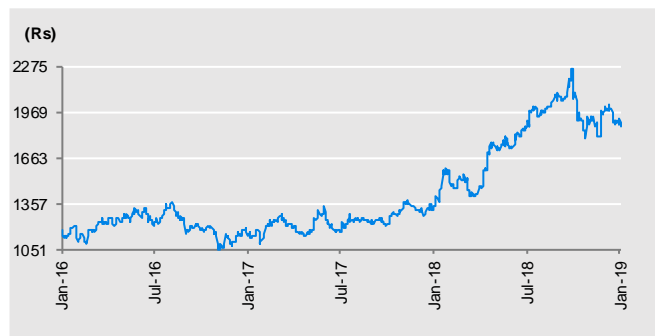
Quarterly Financials (Rs m)

Y/e Mar	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Net Revenue	320,750	342,610	368,540	373,380
YoY gr. (%)	8.2	15.8	20.7	20.8
Raw Material Expenses	181,240	196,850	207,950	213,340
Gross Profit	139,510	145,760	160,590	160,040
Margin (%)	43.5	42.5	43.6	42.9
EBITDA	86,530	90,710	102,780	100,710
YoY gr. (%)	4.4	4.8	13.3	(2.0)
Margin (%)	27.0	26.5	27.9	27.0
Depreciation / Depletion	5,050	4,930	5,070	5,070
EBIT	81,480	85,780	97,710	95,640
Margin (%)	25.4	25.0	26.5	25.6
Net Interest	-	-	-	-
Other Income	9,820	12,080	5,930	11,470
Profit before Tax	91,300	97,860	103,640	107,110
Margin (%)	28.5	28.6	28.1	28.7
Total Tax	22,040	24,240	24,370	25,900
Effective tax rate (%)	24.1	24.8	23.5	24.2
Profit after Tax	69,260	73,620	79,270	81,210
Minority interest	-	-	-	-
Share Profit from Associates	(210)	(220)	(260)	(160)
Adjusted PAT	69,050	73,400	79,010	81,050
YoY gr. (%)	4.5	23.4	22.6	24.1
Margin (%)	21.5	21.4	21.4	21.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	69,050	73,400	79,010	81,050
YoY gr. (%)	4.5	23.4	22.6	24.1
Margin (%)	21.5	21.4	21.4	21.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	69,050	73,400	79,010	81,050
Avg. Shares O/s (m)	3,829	3,829	3,825	3,753
EPS (Rs)	18.0	19.2	20.7	21.6

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Jan-18	Accumulate	2,770	2,788
2	13-Apr-18	Accumulate	2,770	3,151
3	19-Apr-18	Accumulate	3,380	3,191
4	10-Jul-18	Accumulate	2,010	1,874
5	11-Jul-18	Accumulate	2,080	1,875
6	5-Oct-18	Accumulate	2,300	2,065
7	11-Oct-18	Accumulate	2,300	1,980
8	7-Jan-19	Accumulate	2,300	1,898

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Cyient	BUY	810	609
2	HCL Technologies	Accumulate	1,100	942
3	Hexaware Technologies	Accumulate	430	332
4	Infosys	BUY	790	672
5	L&T Technology Services	Accumulate	1,780	1,637
6	Mindtree	BUY	1,140	835
7	Mphasis	Accumulate	1,220	925
8	NIIT Technologies	BUY	1,460	1,141
9	Persistent Systems	Accumulate	725	570
10	Redington (India)	BUY	140	86
11	Sonata Software	BUY	410	296
12	Tata Consultancy Services	Accumulate	2,300	1,898
13	TeamLease Services	Hold	2,740	2,884
14	Tech Mahindra	BUY	885	688
15	Wipro	Accumulate	350	324
16	Zensar Technologies	BUY	290	229

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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