TCS

Accumulate

DART
DOLAT ANALYSIS & RESEARCH THEMES
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Result Update

View: Strong revenue growth outlook despite macro-economic concerns

The management is confident of strong growth in FY20 despite macro-economic challenges in the environment. The company signed TCV of USD 6.3bn during the quarter and TCV of USD 21.9bn for FY19 which gives us comfort for the growth trajectory in FY20. We expect a USD revenue growth of 9%/10% in USD terms for FY20/FY21, which factors in healthy growth in the BFSI vertical. The company maintained its aspirational margin band of 26%-28% despite visa rejection and talent shortage; we expect TCS to deliver margin towards lower end of its guidance. We downgrade our earnings estimate by 1.8%/6% for FY20/FY21 due revision in rupee assumption to ₹ 70 for FY20/FY21 (vs ₹ 72/₹ 74 for FY20/FY21 earlier). However, we maintain our ACCUMULATE rating with a revised TP of ₹ 2,225 based on 22x (20x earlier) one-year fwd. PER. We upgraded our multiple on back of strong deal win and order book which will help company deliver healthy growth over the next two years.

Result better than expectation

TCS reported a USD revenue growth of 2.8% QoQ (2.4% QoQ in CC terms) to USD 5,397 million (DCMe: USD 5,381 million), helped by strong deal wins and better growth in Europe. INR revenue grew 1.8% QoQ at ₹ 380.1 billion (DCMe: ₹ 379.2 billion), negatively impacted by INR appreciation. The EBIT margin declined 52bps QoQ at 25.1% (DCMe: 25.4%), due to rupee appreciation and exceptional contribution of ₹ 2,200 million to an electoral trust. However, adjusting the same EBIT margin improved 10bps QoQ to 25.7% which is higher than our estimate despite rupee appreciation. PAT grew 0.3% QoQ to ₹ 81.3 billion (DCMe: ₹ 80 billion); however, excluding the exceptional item PAT improved 3% QoQ to ₹ 83.5 billion.

Healthy growth in Europe to continue going ahead

Revenue from N. America grew 1.8% QoQ, due to healthy growth in BFSI verticals on a QoQ basis and LatAm rose 2.8% QoQ in USD terms. UK grew 5.4% QoQ, while Cont. Eur. increased 2.8% QoQ in USD terms. India reported a growth of 4.6% QoQ in USD terms. TCS's stronger positioning and engagement with customers in Europe, which will help them achieve better growth as compared to US region. Among the verticals, BFSI/ Communication/ Manufacturing reported 2.8% QoQ growth each in USD terms. Other verticals like Retail/ Life Science/ Energy grew 0.9%/4.1%/0.6% QoQ respectively in USD terms.

Q4FY19 Result (₹ Mn)

Particulars	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Revenue	380,100	320,750	18.5	373,380	1.8
Total Expense	280,420	235,260	19.2	273,590	2.5
EBITDA	99,680	85,490	16.6	99,790	(0.1)
Depreciation	4,310	4,020	7.2	4,150	3.9
EBIT	95,370	81,470	17.1	95,640	(0.3)
Other Income	11,930	9,940	20.0	11,630	2.6
Interest	280	120	133.3	160	75.0
EBT	107,020	91,290	17.1	107,110	(0.1)
Tax	25,500	22,040	15.7	25,900	(1.5)
RPAT	81,260	69,040	17.7	81,050	0.3
APAT	81,260	69,040	17.7	81,050	0.3
			(bps)		(bps)
Gross Margin (%)	42.9	43.5	(62)	42.9	(1)
EBITDA Margin (%)	26.2	26.7	(43)	26.7	(50)
NPM (%)	21.4	21.5	(15)	21.7	(33)
Tax Rate (%)	23.8	24.1	(32)	24.2	(35)
EBIT Margin (%)	25.1	25.4	(31)	25.6	(52)

CMP	₹ 2,015
Target / Upside	₹ 2,225 / 10%
BSE Sensex	38,729
NSE Nifty	11,644

Scrip Details

Equity / FV	₹ 3,750mn / ₹ 1
Market Cap	₹ 7,554bn
	US$ 109bn
52-week High/Low	₹ 2,276/₹ 1,555
Avg. Volume (no)	2,999,260
NSE Symbol	TCS
Bloomberg Code	TCS IN

Shareholding Pattern Mar'19(%)

Promoters	72.1
MF/Banks/FIs	7.6
FIIs	15.8
Public / Others	4.5

Valuation (x)

	FY19A	FY20E	FY21E
P/E	24.0	22.0	19.9
EV/EBITDA	18.0	16.3	14.6
ROE (%)	35.2	36.5	37.1
RoACE (%)	32.2	32.4	33.1

Estimates (₹ mn)

	FY19A	FY20E	FY21E
Revenue	1,464,630	1,595,369	1,755,547
EBITDA	390,990	430,187	476,133
PAT	314,720	344,127	378,673
EPS (₹)	83.9	91.8	101.0

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DOLAT CAPITAL

Digital traction continues

Revenue from digital services (31% cont.) grew 5.9% QoQ and 41.4% YoY in USD terms, while traditional business (Ex Digital) grew 1.5% QoQ and de-grew 1.7% YoY in USD terms. Digital growth is wide spread and is coming across the industries.

Exhibit 1: Q4FY19 performance

₹ mn	Q4FY19	DCMe	Diff (%)	Q3FY19	QoQ (%)	Q4FY18	YoY (%)
USD revenue	5,397	5,381	0.3	5,250	2.8	4,739	13.9
Revenue	3,80,100	3,79,217	0.2	3,73,380	1.8	3,20,750	18.5
EBIT	95,370	96,321	(1.0)	95,640	(0.3)	81,470	17.1
Pre-Tax Profit	1,07,020	1,05,321	1.6	1,07,110	(0.1)	91,290	17.2
Net Profit	81,260	80,044	1.5	81,050	0.3	69,040	17.7
EPS (₹)	21.7	21.3	1.5	21.6	0.3	18.4	17.7
Margins (%)							
Operating Margin	25.1	25.4		25.6	(52)	25.4	(31)
Net Margin	21.4	21.1		21.7	(33)	21.5	(15)

Source: Company, DART

Exhibit 2: Constant Currency-Revenue Growth

Revenue Growth	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
QoQ %	1.0	2.0	1.7	1.3	2.0	4.1	3.7	1.8	2.4

Source: Company, DART

Exhibit 3: Digital Business

Digital Business	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Constant Currency (% QoQ)	5.9	13.9	10.2	NA	16.5	NA	NA
% of Revenues	19.7	22.1	23.8	25.0	28.0	30.1	31.0

Source: Company, DART

Exhibit 4: Digital & Non-Digital USD Revenue

Revenue (USD mn)	Q4FY18	Q3FY19	Q4FY19	QoQ (%)	YoY (%)
Digital Services	1,183	1,580	1,673	5.9	41.4
Non-Digital Services	3,789	3,670	3,724	1.5	(1.7)
% of Revenues					
Digital Services	23.8	30.1	31.0	90 bps	720 bps
Non-Digital Services	76.2	69.9	69.0	(90 bps)	(720 bps)

Source: Company, DART

Exhibit 5: Geographic split

Revenue (USD mn)	Q4FY18	Q3FY19	Q4FY19	QoQ (%)	YoY (%)
America	2,595	2,793	2,844	1.8	9.6
North America	2,496	2,688	2,736	1.8	9.6
Ibero America	99	105	108	2.8	8.5
Europe	1,462	1,554	1,619	4.2	10.8
UK	756	814	858	5.4	13.5
Continental Europe	706	740	761	2.8	7.8
India	308	299	313	4.6	1.5
Asia Pacific	482	494	513	3.9	6.3
MEA	124	110	108	(2.1)	(13.2)
% of Total					
America	52.2	53.2	52.7	(50 bps)	50 bps
North America	50.2	51.2	50.7	(50 bps)	50 bps
Ibero America	2.0	2.0	2.0	0 bps	0 bps
Europe	29.4	29.6	30.0	40 bps	60 bps
UK	15.2	15.5	15.9	40 bps	70 bps
Continental Europe	14.2	14.1	14.1	0 bps	(10 bps)
India	6.2	5.7	5.8	10 bps	(40 bps)
Asia Pacific	9.7	9.4	9.5	10 bps	(20 bps)
MEA	2.5	2.1	2.0	(10 bps)	(50 bps)

Source: Company, DART

Exhibit 6: Client metrics

	Q4FY18	Q3FY19	Q4FY19	QoQ (%)	YoY (%)
USD 1mn clients	963	996	1,008	1.2	4.7
USD 5mn clients	495	519	532	2.5	7.5
USD 10mn clients	350	370	371	0.3	6.0
USD 20mn clients	207	211	215	1.9	3.9
USD 50mn clients	97	99	99	0.0	2.1
USD 100mn clients	38	45	44	(2.2)	15.8

Source: Company, DART

Exhibit 7: Headcount metrics

	Q4FY18	Q3FY19	Q4FY19	QoQ (%)	YoY (%)
Including Indian Subsidiaries	3,94,998	4,17,929	4,24,285	1.5	7.4

Source: Company, DART

Exhibit 8: Vertical split

Revenue (USD mn)	Q4FY18	Q3FY19	Q4FY19	QoQ (%)	YoY (%)
BFSI	1,546	1,617	1,662	2.8	7.5
Communication & Media	353	362	372	2.8	5.5
Manufacturing	368	378	389	2.8	5.6
Retail & CPG	825	866	874	0.9	5.9
Life Sciences & Healthcare	358	399	416	4.1	16.1
Energy & Utilities	239	247	248	0.6	4.0
Others	1,283	1,381	1,436	4.0	11.9
% of Total					
BFSI	31.1	30.8	30.8	0 bps	(30 bps)
Communication & Media	7.1	6.9	6.9	0 bps	(20 bps)
Manufacturing	7.4	7.2	7.2	0 bps	(20 bps)
Retail & CPG	16.6	16.5	16.2	(30 bps)	(40 bps)
Life Sciences & Healthcare	7.2	7.6	7.7	10 bps	50 bps
Energy & Utilities	4.8	4.7	4.6	(10 bps)	(20 bps)
Others	25.8	26.3	26.6	30 bps	80 bps

Source: Company, DART

Exhibit 9: Estimate Revision

₹ mn	New		Earlier		Change (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	15,95,369	17,55,547	16,45,351	18,77,796	(3.0)	(6.5)
EBIT	4,11,765	4,55,820	4,30,300	4,95,101	(4.3)	(7.9)
EBITDA	4,30,187	4,76,133	4,47,709	5,13,435	(3.9)	(7.3)
Pre Tax Profit	4,54,167	4,99,623	4,63,193	5,31,885	(1.9)	(6.1)
Net Profit	3,44,127	3,78,673	3,50,550	4,02,631	(1.8)	(6.0)
EPS (₹)	91.8	101.0	93.5	107.4	(1.8)	(6.0)
Margins (%)						
EBIT margin	25.8	26.0	26.2	26.4		
EBITDA margin	27.0	27.1	27.2	27.3		
Net margin	21.6	21.6	21.3	21.4		
INR/USD	70.0	70.0	72.5	75.1	(3.5)	(6.8)

Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Revenue	**1,231,040**	**1,464,630**	**1,595,369**	**1,755,547**
Total Expense	**910,290**	**1,073,640**	**1,165,182**	**1,279,414**
COGS	697,150	835,090	913,113	1,003,793
Employees Cost	0	0	0	0
Other expenses	213,140	238,550	252,068	275,621
EBIDTA	**320,750**	**390,990**	**430,187**	**476,133**
Depreciation	15,730	16,490	18,422	20,313
EBIT	**305,020**	**374,500**	**411,765**	**455,820**
Interest	(24,190)	(25,890)	(37,602)	(39,803)
Other Income	11,710	15,240	4,800	4,000
Exc. / E.O. items	0	0	0	0
EBT	**340,920**	**415,630**	**454,167**	**499,623**
Tax	82,120	100,010	109,000	119,909
RPAT	258,260	314,720	344,127	378,673
Minority Interest	540	900	1,040	1,040
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**258,260**	**314,720**	**344,127**	**378,673**

Balance Sheet

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Sources of Funds				
Equity Capital	1,910	3,750	3,750	3,750
Minority Interest	4,020	4,530	4,530	4,530
Reserves & Surplus	870,500	911,810	967,007	1,067,850
Net Worth	**872,410**	**915,560**	**970,757**	**1,071,600**
Total Debt	2,470	620	620	620
Net Deferred Tax Liability	0	0	0	0
Total Capital Employed	**878,900**	**920,710**	**975,907**	**1,076,750**
Applications of Funds				
Net Block	**116,000**	**116,500**	**123,078**	**127,765**
CWIP	0	0	0	0
Investments	0	0	0	0
Current Assets, Loans & Advances	**968,090**	**1,054,030**	**1,120,311**	**1,236,129**
Inventories	66,860	51,570	56,585	61,253
Receivables	249,430	273,460	300,053	324,807
Cash and Bank Balances	472,490	519,760	523,959	599,211
Loans and Advances	26,470	78,910	86,584	93,727
Other Current Assets	152,840	130,330	153,130	157,130
Less: Current Liabilities & Provisions	**205,190**	**249,820**	**267,482**	**287,143**
Payables	0	0	0	0
Other Current Liabilities	205,190	249,820	267,482	287,143
Net Current Assets	762,900	804,210	852,829	948,985
Total Assets	**878,900**	**920,710**	**975,907**	**1,076,750**

E – Estimates

Important Ratios

Particulars	FY18A	FY19A	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	43.4	43.0	42.8	42.8
EBIDTA Margin	26.1	26.7	27.0	27.1
EBIT Margin	24.8	25.6	25.8	26.0
Tax rate	24.1	24.1	24.0	24.0
Net Profit Margin	21.0	21.5	21.6	21.6
(B) As Percentage of Net Sales (%)				
COGS	56.6	57.0	57.2	57.2
Employee	0.0	0.0	0.0	0.0
Other	17.3	16.3	15.8	15.7
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	(12.6)	(14.5)	(11.0)	(11.5)
Inventory days	20	13	13	13
Debtors days	74	68	69	68
Average Cost of Debt	(902.6)	(1675.7)	(6064.8)	(6419.8)
Payable days	0	0	0	0
Working Capital days	226	200	195	197
FA T/O	10.6	12.6	13.0	13.7
(D) Measures of Investment				
AEPS (₹)	68.9	83.9	91.8	101.0
CEPS (₹)	73.1	88.3	96.7	106.4
DPS (₹)	50.0	30.0	63.0	63.0
Dividend Payout (%)	72.6	35.7	68.7	62.4
BVPS (₹)	232.6	244.1	258.9	285.8
RoANW (%)	29.4	35.2	36.5	37.1
RoACE (%)	26.5	32.2	32.4	33.1
RoAIC (%)	77.1	92.8	96.6	98.1
(E) Valuation Ratios				
CMP (₹)	2015	2015	2015	2015
P/E	29.3	24.0	22.0	19.9
Mcap (₹ Mn)	7,554,375	7,554,375	7,554,375	7,554,375
MCap/ Sales	6.1	5.2	4.7	4.3
EV	7,084,355	7,035,235	7,031,036	6,955,784
EV/Sales	5.8	4.8	4.4	4.0
EV/EBITDA	22.1	18.0	16.3	14.6
P/BV	8.7	8.3	7.8	7.0
Dividend Yield (%)	2.5	1.5	3.1	3.1
(F) Growth Rate (%)				
Revenue	4.4	19.0	8.9	10.0
EBITDA	0.9	21.9	10.0	10.7
EBIT	0.6	22.8	10.0	10.7
PBT	(1.2)	21.9	9.3	10.0
APAT	(1.8)	21.9	9.3	10.0
EPS	(1.8)	21.9	9.3	10.0

Cash Flow

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
CFO	268,760	315,240	341,969	383,122
CFI	(39,740)	5,520	(47,800)	(29,000)
CFF	(261,650)	(273,490)	(289,970)	(278,870)
FCFF	254,440	298,250	316,969	358,122
Opening Cash	505,120	472,490	519,760	523,959
Closing Cash	472,490	519,760	523,959	599,211

E – Estimates

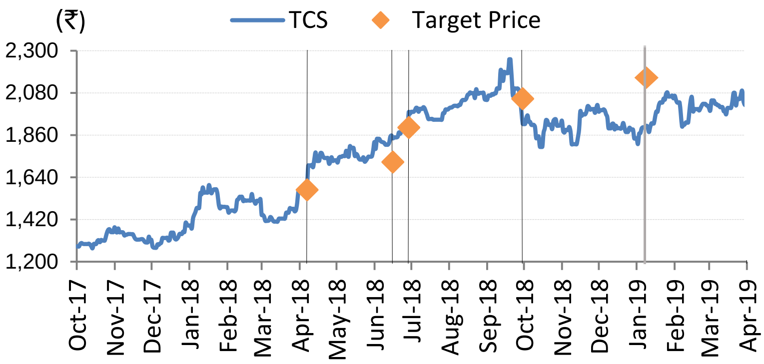
DART

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Apr-18	Reduce	1,575	1,596
Jun-18	Reduce	1,720	1,843
Jul-18	Reduce	1,900	1,980
Oct-18	Reduce	2,050	1,918
Jan-19	Accumulate	2,100	1,889

**Price as on recommendation date*

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