

April 16, 2019

Tata Consultancy Services Limited

Q4 FY19 Result Update

Tata consultancy services limited (TCS) revenue for the quarter came in at INR 3,80,100 mn, up by 18% from INR 3,73,380 mn YoY. TCS has reported a growth of 18.96% in the total revenue to INR 14,64,630 mn for FY19 vs INR 12,31,040 mn in FY18. All major verticals reported close to double digit growth on a YoY basis, BFSI +11.6%, Retail +9.9%, E&U +11.3%, Life science +18.2%, Telecom +9.6% while regional markets grew +18.7% (all in CC terms). The management recommended a final dividend of INR 18/ share.

Other highlights

- Attrition was 11.3% vs 11.2% in 3QFY19
- Net addition of 6356 employees implies ~1.5% sequential increase in headcount.

Digital revenues drive growth

Digital business scaled up to annual run rate of US\$6.7bn and accounted for 31% of revenues. The management is of the opinion that market is going through dynamic changes; primarily because so many companies are expanding and reshaping their portfolios and pushing for global scale and reach at the same time. Hence, they see scope and potential and have the necessary means to scale up. Digital leaders are companies that manage the power of digital information and technologies to improve business performance.

Products and TCV deal wins

Digital disruption is at its peak and enterprises are constantly looking for new revenue streams which involves infusing next generation smart products with consumer relevant services. The company achieved robust wins across its portfolio offerings as evident from strong wins and accolades. TCS reported TCV signings of about US\$6.2bn for the quarter, taking the count for the year to ~USD21.9bn, providing a revenue cover of ~1.1x.

Steady performance in retail

Retailers are moving to omni-channel and real-time retail, transforming business models, processes, channels, and pricing strategies. From a medium-term perspective, TCS continues to remain positive on Retail as it believes the changes in the business model would be permanent and thus it would keep evolving its offerings to remain relevant to the current need. TCS is betting on growth from retail clients, particularly in the US, who are looking to increase spending on technology solutions.

| Financial Snapshot (INR Mn) | FY18 | FY19 | FY20E | FY21E |
|-----------------------------|------------|------------|------------|------------|
| Net Sales | 12,31,065 | 14,64,644 | 16,18,163 | 18,56,613 |
| EBIDTA | 3,25,185 | 3,95,064 | 4,14,363 | 4,81,577 |
| EBITDA Margin | 26% | 27% | 26% | 26% |
| Profit After Tax | 2,58,285 | 3,14,734 | 3,36,892 | 3,79,970 |
| PAT Margin | 21% | 21% | 21% | 20% |
| P/E | 29 | 24 | 22 | 20 |
| EV/EBITDA | 21 | 18 | 17 | 15 |
| EPS in INR | 66 | 84 | 90 | 101 |

Source: Company, NSPL Research

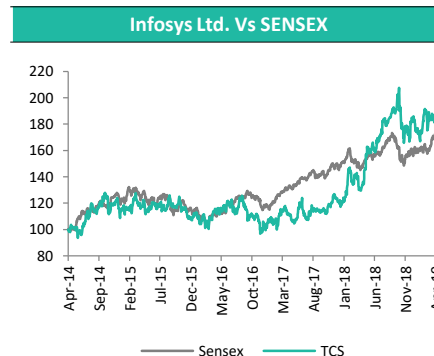
* Read last page for disclaimer & rating rationale

BUY*

| Downside Scenario | Current Price | Price Target | Upside Scenario |
|-------------------|---------------|--------------|-----------------|
| | 2014 | 2323 | |
| | | 15% ▲ | |

| Market Data | |
|---------------------|------------|
| Industry | IT |
| Sensex | 39,038 |
| Nifty | 11,728 |
| Bloomberg Code | TCS:IN |
| Face Value (INR) | 1 |
| 52-w H/L | 2273/ 1554 |
| Market Cap (INR Mn) | 80,40,050 |

| Valuation Data | FY19 | FY20E | FY21E |
|----------------|------|-------|-------|
| P/E (x) | 24 | 22 | 20 |
| EV/ EBITDA (x) | 18 | 17 | 15 |



| | Shareholding Pattern | | |
|----------------|----------------------|--------|--------|
| | Mar'18 | Dec'18 | Sep'18 |
| Promoters | 72.05 | 72.05 | 72.05 |
| FIIIs | 15.8 | 15.8 | 16.05 |
| DIIIs | 7.83 | 7.73 | 7.49 |
| Others/ Retail | 4.32 | 4.42 | 4.41 |



| | Mar-19 | Dec-18 | QoQ | Mar-18 | YoY |
|----------------------|------------|------------|----------|------------|----------|
| Sales | 3,80,100 | 3,73,380 | 2% | 3,20,750 | 19% |
| Expenses | 2,79,360 | 2,72,550 | 2% | 2,34,230 | 19% |
| EBITDA | 1,00,740 | 1,00,830 | - | 86,520 | 16% |
| EBITDA Margin | 27% | 27% | - | 27% | - |
| Other Income | 11,930 | 11,630 | 3% | 9,940 | 20% |
| Depreciation | 5,370 | 5,190 | 3% | 5,050 | 6% |
| EBIT | 1,07,300 | 1,07,270 | - | 91,410 | 17% |
| Interest | 280 | 160 | 75% | 120 | 133% |
| Profit before tax | 1,07,020 | 1,07,110 | - | 91,290 | 17% |
| Tax | 25,500 | 25,706 | -1% | 21,910 | 16% |
| PAT | 81,520 | 81,210 | - | 69,250 | 17% |
| PAT Margin | 21% | 22% | - | 22% | - |

Source: Company, NSPL Research

Valuation:

The management has stated that it intends to participate aggressively in all the tendering process and hence the use of subcontractors, given supply-side constraints in the US. Over time it is likely the management will rationalize subcontractor costs and replace them with its own lower-cost resources over time.

TCS's leadership in digital (\$6.7bn annualized) are key differentiators. Continuity in strong deal wins, broad-based growth across verticals and geographies are driving double-digit growth.

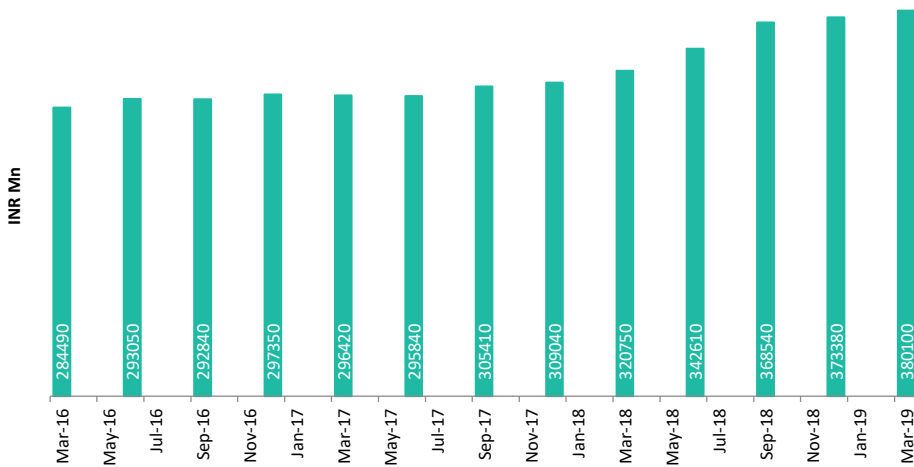
At CMP of INR 2014, the company is trading at 20.1x FY21E EPS. We value the company using P.E. multiple methodology. We have given an exit multiple of 23x to arrive at a target price of INR 2323 which is an upside of 15%.

**Conference call highlights:**

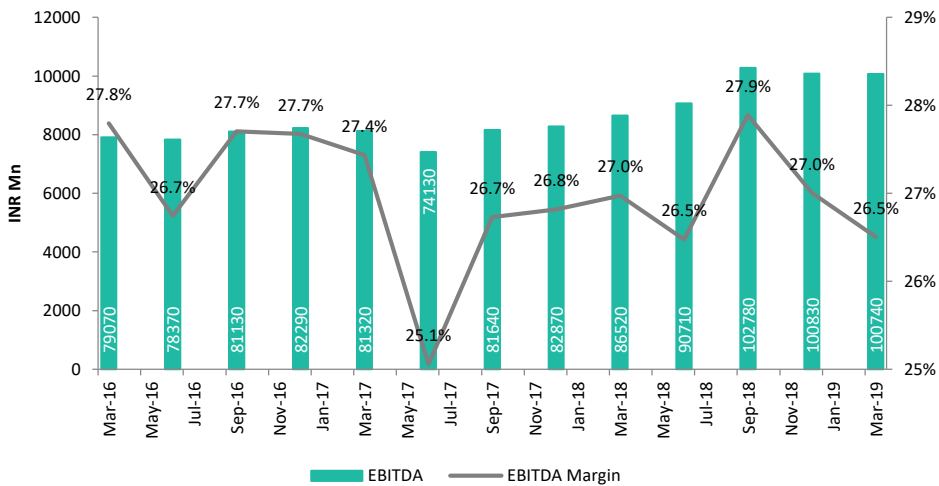
- The management is focused on securing growth through aggressive participation in market even as global macro uncertainty continue to persist.
- They mentioned that as the size of digital deals increases, upfront onsite execution will be followed by an offshore tail, which should help margin expansion.
- The number of \$1mn clients increased by 18 to 1008. 13 clients were added in the \$5mn bucket and 1 in the \$10mn slab. While the \$50mn category remained flat QoQ, \$100mn clients stood at 44.
- Net employee additions in Q4 FY19 were lower at 6,356 (6,827 in Q3FY19). Total headcount stood at 424,285. Attrition (LTM) increased slightly QoQ to 11.3% (11.2% in Q3FY19).
- TCS reported UK and continental Europe posted robust growth of 21.3% YoY and 17.5% YoY, respectively, in cc terms. YoY, North America, Latin America, Asia Pacific and India posted cc growth of 9.9%, 16.2%, 11.5% and 11.3%, respectively.
- TCS indicated that platform deals are typically long cycle deals and are lumpy in nature. TCS thinks pricing in the European market is fragmented and typically higher than Americas.
- While there are macro uncertainties in major markets and pockets of volatility in BFSI (large Europe banks) and Auto, TCS's client discussions do not indicate spending cuts yet. This is reflected in the strong deal wins, TCS won ~\$6.2bn deals in 4QFY19 and ~\$22bn in FY19.
- TCS added six clients in the \$100mn+ bucket in FY19.



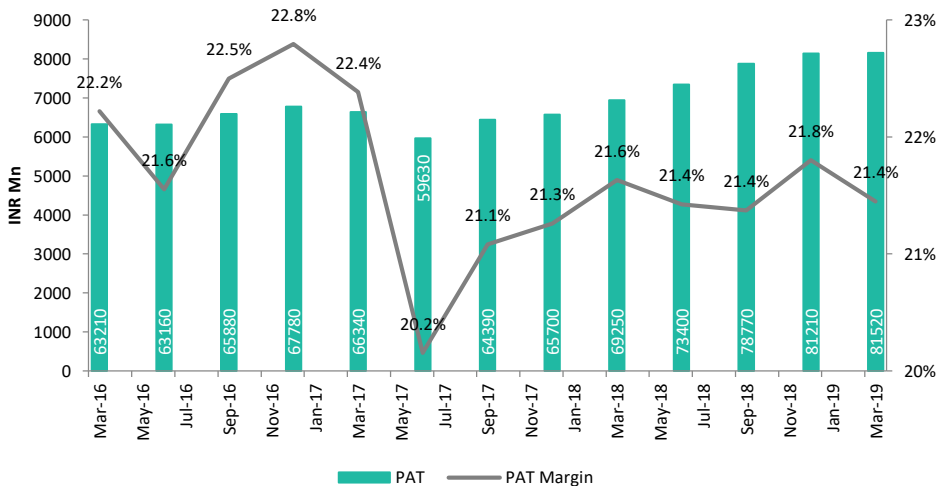
Sales



EBITDA & EBITDA Margin



PAT & PAT Margin



Source: Company, NSPL Research



| Profit & Loss Statement (INR Mn) | FY18 | FY19 | FY20E | FY21E |
|----------------------------------|-----------|-----------|-----------|-----------|
| Total Revenue | 12,31,065 | 14,64,644 | 16,18,163 | 18,56,613 |
| Total Operating Expenditure | 9,05,880 | 10,69,580 | 12,03,800 | 13,75,036 |
| EBIDTA | 3,25,185 | 3,95,064 | 4,14,363 | 4,81,577 |
| Operating Profit | 3,05,045 | 3,74,514 | 3,93,608 | 4,39,053 |
| Depreciation | 20,140 | 20,550 | 20,756 | 20,963 |
| Non-operating Income | 35,900 | 41,130 | 41,010 | 39,347 |
| Profit Before Tax | 3,40,945 | 4,15,644 | 4,34,618 | 4,78,399 |
| Tax | 82,120 | 1,00,010 | 94,944 | 1,19,991 |
| Profit After Tax | 2,58,285 | 3,14,734 | 3,36,892 | 3,79,970 |

| Balance Sheet (INR Mn) | FY18 | FY19 | FY20E | FY21E |
|--|-----------------|-----------------|------------------|------------------|
| Liabilities | | | | |
| Equity Capital | 1,910 | 3,750 | 3,750 | 3,750 |
| Total Reserves | 8,70,500 | 9,11,810 | 11,11,792 | 4,91,762 |
| Net Worth | 8,72,410 | 9,15,560 | 11,15,542 | 14,95,512 |
| Minority Interest | 4,020 | 4,530 | 7,312 | 7,312 |
| Total Loans | 1,080 | 920 | 3,010 | - |
| Deferred Tax Liability (Net) | (64,210) | (15,900) | (15,900) | (15,900) |
| Other Non Current Liabilities | (540) | (460) | - | - |
| Capital Employed | 8,12,760 | 9,04,650 | 11,09,963 | 14,86,924 |
| Assets | | | | |
| Net Block | 1,16,120 | 1,18,290 | 84,125 | 78,161 |
| Total Investment | 4,75,280 | 3,72,630 | 4,19,800 | 5,00,000 |
| Intangible Assets | 38,840 | 38,340 | 38,340 | 50,000 |
| Other non-current assets | 3,010 | 2,390 | 4,000 | 5,000 |
| Current Assets | | | | |
| Inventories | 3,723 | 4,396 | 4,947 | 6,000 |
| Sundry Debtors | 3,30,533 | 3,93,247 | 4,34,466 | 5,50,000 |
| Cash and Bank Balance | 4,05,900 | 3,63,150 | 2,24,006 | 3,80,127 |
| Loans and Advances: | 5,294 | 6,298 | 6,958 | 7,577 |
| Operating Loans and Advances | 1,231 | 1,465 | 1,618 | 2,412 |
| Non-operating Loans & Advances | 4,063 | 4,833 | 5,340 | 6,754 |
| Others | 67,709 | 80,555 | 88,999 | 99,000 |
| Total Current Assets | 4,55,170 | 8,47,646 | 7,59,376 | 10,44,293 |
| Less: Current Liabilities & Provisions | | | | |
| Sundry Creditors | 81,901 | 96,702 | 1,08,837 | 1,09,925 |
| Provision for Tax and Others | 16,424 | 20,002 | 18,989 | 19,179 |
| Total Current Liabilities & Provisions | 1,78,280 | 2,20,840 | 2,23,297 | 2,25,530 |
| Net Current Assets | 2,48,890 | 3,82,480 | 5,36,079 | 9,31,191 |
| Capital Applied | 8,12,760 | 9,04,650 | 11,09,963 | 14,86,924 |

Source: Company, NSPL Research



| Cash Flow Statement (INR Mn) | FY18 | FY19 | FY20E | FY21E |
|-----------------------------------|----------|----------|------------|------------|
| PBT | 3,40,945 | 4,15,644 | 4,34,618 | 4,78,399 |
| Cash Flow from Operating | 1,74,000 | 2,08,279 | 2,23,519 | 4,99,362 |
| Cash Flow from Investing | (10,920) | (88,770) | 91,400 | 1,15,240 |
| Cash Flow from Financing | (58,658) | (76,759) | (1,75,775) | (3,90,596) |
| Incr/(Decr) in Balance Sheet Cash | 1,04,422 | (42,750) | (1,39,144) | 1,56,121 |
| Cash at the Start of the Year | 3,01,478 | 4,05,900 | 3,63,150 | 2,24,006 |
| Cash at the End of the Year | 4,05,900 | 3,63,150 | 2,24,006 | 3,80,127 |

| Y/E March | FY18 | FY19 | FY20E | FY21E |
|------------|------|------|-------|-------|
| EPS in INR | 66 | 84 | 90 | 101 |

Valuation (x)

| | | | | |
|--------------------|----|----|----|----|
| P/E | 29 | 24 | 22 | 20 |
| EV/EBITDA | 21 | 18 | 17 | 15 |
| Price/Book Value | 8 | 9 | 9 | 8 |
| Dividend Yield (%) | 4 | 4 | 3 | 4 |

Profitability Ratios (%)

| | | | | |
|------|----|----|----|----|
| RoE | 29 | 37 | 39 | 41 |
| RoCE | 29 | 36 | 38 | 40 |

| | Q3FY17 | Q4FY17 | Q1FY18 | Q2FY18 | Q3FY18 | Q4FY18 | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 |
|-------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Total Employees | 3,78,497 | 3,78,223 | 3,85,809 | 3,89,213 | 3,90,880 | 3,94,998 | 4,00,875 | 4,11,102 | 4,17,929 | 4,24,285 |
| Net Additions | 6,978 | 8,726 | -1,414 | 3,404 | 1,667 | 4,118 | 5,877 | 10,227 | 6,827 | 6,356 |
| Attrition (LTM %) | 12.2 | 11.5 | 11.6 | 11.3 | 11.1 | 11.0 | 10.9 | 10.9 | 11.2 | 11.3 |

| Segment Wise (% of revenue) | Q2FY18 | Q3FY18 | Q4FY18 | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 |
|-----------------------------|--------|--------|--------|--------|--------|--------|--------|
| BFSI | 32.6 | 31.6 | 31.1 | 31.1 | 31.2 | 30.8 | 30.8 |
| Retail & CPG | 15.9 | 16.7 | 16.6 | 16.6 | 16.6 | 16.5 | 16.2 |
| Communication & Media | 7.1 | 7.1 | 7.1 | 7.1 | 6.9 | 6.9 | 6.9 |
| Manufacturing | 7.4 | 7.5 | 7.4 | 7.3 | 7.2 | 7.2 | 7.2 |
| Life Sciences & Healthcare | 7.2 | 7.3 | 7.2 | 7.3 | 7.5 | 7.6 | 7.7 |
| Energy & Utilities | 4.2 | 4.5 | 4.8 | 4.8 | 4.6 | 4.7 | 4.6 |
| Technology & Services | 8.0 | 7.9 | 7.8 | 7.7 | 7.6 | 7.6 | 7.4 |
| Regional Markets & Others | 17.6 | 17.4 | 18.0 | 18.1 | 18.4 | 18.7 | 19.2 |

| Geography Wise (% of revenue) | Q2FY18 | Q3FY18 | Q4FY18 | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|
| Americas | 54.1 | 54.2 | 52.2 | 52.9 | 53.1 | 53.2 | 52.7 |
| North America | 51.9 | 52.0 | 50.2 | 51.0 | 51.1 | 51.2 | 50.7 |
| Latin America | 2.2 | 2.2 | 2.0 | 1.9 | 2.0 | 2.0 | 2.0 |
| Europe | 27.4 | 27.6 | 29.4 | 29.5 | 29.6 | 29.6 | 30.0 |
| UK | 14.0 | 14.1 | 15.2 | 15.5 | 15.6 | 15.5 | 15.9 |
| Continental Europe | 13.4 | 13.5 | 14.2 | 14.0 | 14.0 | 14.1 | 14.1 |
| India | 6.3 | 6.3 | 6.2 | 5.8 | 5.6 | 5.7 | 5.8 |
| Asia-Pacific | 9.8 | 9.5 | 9.7 | 9.6 | 9.6 | 9.4 | 9.5 |
| Middle East and Africa | 2.4 | 2.4 | 2.5 | 2.2 | 2.1 | 2.1 | 2.0 |

Source: Company, NSPL Research

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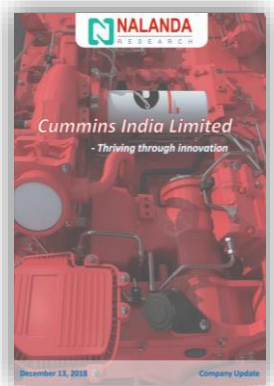
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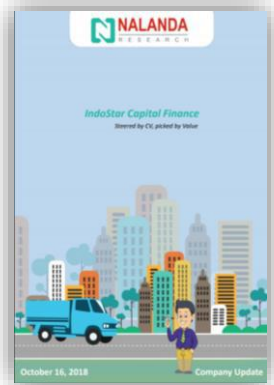
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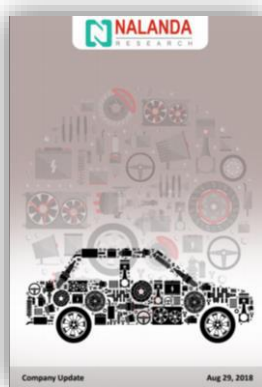
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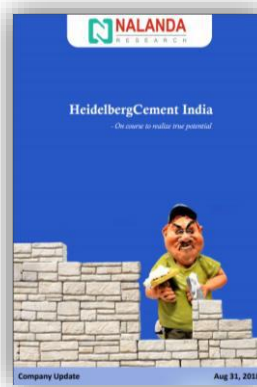
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| TCS Limited | | | | Rating Legend | |
|----------------|-----------|--------------------|----------------|---------------|---------------|
| Date | CMP (INR) | Target Price (INR) | Recommendation | Strong Buy | More than 15% |
| April 16, 2019 | 2014 | 2323 | Buy | Buy | 5% - 15% |
| | | | | Hold | 0 - 5% |
| | | | | Reduce | -5% - 0 |
| | | | | Sell | Less than -5% |

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|--|---|
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| Details of Disciplinary History of NSPL | No disciplinary action is / was running / initiated against NSPL |
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