

Estimate change	↔
TP change	↑
Rating change	↔

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Bloomberg	TCS IN
Equity Shares (m)	3,752
M.Cap.(INRb)/(USDb)	8271.6 / 111
52-Week Range (INR)	2302 / 1504
1, 6, 12 Rel. Per (%)	-2/11/9
12M Avg Val (INR M)	7293
Free float (%)	28.0

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	1,569	1,587	1,805
EBIT Margin (%)	24.6	24.5	25.3
PAT	323	315	372
EPS (INR)	86.2	83.9	99.1
EPS Gr. (%)	3.7	(2.7)	18.2
BV/Sh. (INR)	230	228	228

Ratios

RoE (%)	36.4	36.6	43.5
RoCE (%)	31.0	31.0	36.6
Payout (%)	99.1	104.6	100.3

Valuations

P/E (x)	25.7	26.4	22.3
P/BV (x)	9.6	9.7	9.7
EV/EBITDA (x)	18.9	18.7	16.1
Div Yield (%)	3.3	3.4	3.8

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	72.1	72.1	72.1
DII	8.1	8.1	7.8
FII	15.7	15.9	15.8
Others	4.1	4.0	4.3

FII Includes depository receipts

CMP: INR2,204 **TP: INR2,300 (+4%)** **Neutral**

Miss amidst a challenging environment; Positive outlook!

Deal wins and commentary on BFSI is encouraging

- For 1QFY21, TCS missed our revenue (USD) / EBIT estimate by 2%/6%. However, in our view, this is not worrying given the unprecedented damage global economies have witnessed. The management undertook the best possible efforts to optimize cost (SG&A = 12.3% of sales v/s 13.5% in 4Q) and cash conversion (OCF/PAT = 133% v/s 109% in 4Q), which provided great comfort.
- Similar to Accenture, underlying trends were resilient. However, as we highlighted in our [earlier note](#), lower exposure to the Healthcare vertical (10% of revenue v/s 18% for the former), which has continued to show strong traction, partly led to higher overall revenue decline.
- Deal wins (USD6.9b ex-Phoenix deal; +21% YoY) were stronger than our expectations (USD5.5–6.0b). More importantly, continued traction in large deals, a healthy pipeline, and better resilience in BFSI are encouraging factors.
- Management believes the worst impact of COVID-19 is behind (both in terms of revenue and profitability) even as some variables such as pricing and working capital cycles warrant a close watch. We expect TCS to be a key beneficiary of the COVID-19-led increase in tech intensity across verticals.

Slight miss on estimates; not a cause for concern

- TCS' reported revenue (CC) / EBIT / PBT / PAT declined 6.3%/2%/11%/14% YoY.
- As in the case of Accenture, the Healthcare vertical reported robust growth (~14% YoY, CC), led by work related to contact tracing applications, etc.
- The BFSI vertical (-4.9% YoY, CC) remained resilient and outperformed company-level growth. In this vertical, while the UK and Canadian markets remained soft, other geographies surpassed management expectations.
- Retail & CPG (-12.9% YoY) and Manufacturing (-7.1% YoY) were the most severely impacted verticals, weighed by sub-segments such as Travel, Discretionary Retail, etc.
- Barring continental Europe (+2.7% YoY), key geographies such as North America (-6.1% YoY) and the UK (-8.5% YoY) reported declines.
- The gross margin missed our estimates by ~160bp. This appears to be driven by sharper-than-expected negative operating leverage.
- Control on SG&A expenses (12.3% of sales v/s 13.5% in 4Q) was impressive.
- Lower other income and higher ETR also impacted reported profitability.
- Cash conversion (OCF/PAT = 133% v/s 109% in 4Q) reported impressive improvement, led by both billed and unbilled receivables.

Key highlights from management commentary

- Of the revenue decline witnessed in 1QFY21, 20% was attributable to supply-side issues, which should be resolved going forward as economies start up again.

- BFSI turned out more resilient than anticipated. Supply-side issues in this vertical were overcome by Apr'20. Some of the incremental demand is being driven by the ramp-up of IT infrastructure to support the distribution of government stimulus funds across economies.
- In Retail & CPG, while the technology spend to enable the online business channel increased considerably, recovery is expected to take longer.
- Globally, ~1% of employees are currently working from office. Management expects ~5% of employees to return to office by the end of the year.
- 32 projects were virtually ramped-up during the quarter. The company virtually on-boarded people across multiple geographies.
- Management indicated large deal wins during the quarter were very strong, allaying concerns around large deals in the current context. It further added the quarter also saw many small deals.
- Of the deal wins reported in 1Q (USD6.9b), the US geography contributed USD3.3b. The BFSI/Retail vertical contributed USD2.1b/USD0.9b. While deal closures were polarized, the pipeline is said to have a good mix of deals.
- The company hinted that the worst impact of COVID-19 was behind. It maintained its earlier outlook of flattish revenue (INR, YoY) by Dec'20. This translates to ~2% CQGR over the Sep and Dec quarters.
- While positive momentum is witnessed in Europe, management is cautiously optimistic on the situation in the US.
- As demand improves and growth revives, margins are expected to expand. It was suggested that discretionary spend would continue to be optimized.
- Collections improved in 1QFY21, which was a positive surprise. Management believes this was largely driven by a strong balance sheet support lent by governments to businesses across the world. However, it is implied that WC cycles need to be keenly observed.

Valuation and view – Key beneficiary of rising tech intensity

- TCS has a historical track record of adapting to multiple business challenges and technology change cycles. Additionally, it has consistently maintained its market leadership, best-in-class operational metrics, and high return ratios.
- While the peak of COVID-19-led uncertainty may be behind, near-term negative surprises related to demand, pricing, and collections cannot be ruled out.
- Nevertheless, TCS should be able to better navigate through these challenges (v/s the rest of the industry). Over the medium term, we expect TCS to be a key beneficiary of the COVID-19-driven increase in technology intensity across verticals.
- Rich multiples (22x FY22E EPS) leave limited upside in the stock, in our view. Accordingly, we remain NEUTRAL on the stock despite being positive on the company.

Quarterly Perf. (IFRS)

(INR b)

Y/E March	FY20				FY21E				FY20	FY21E	Est. 1QFY21	Var. (% / bp)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
IT Services Rev. (USD m)	5,485	5,517	5,586	5,444	5,059	5,008	5,008	5,023	22,032	20,099	5,172	-2.2
QoQ (%)	1.6	0.6	1.3	-2.5	-7.1	-1.0	0.0	0.3	5.4	-8.8	-5.0	-207bp
Overall Revenue (INR b)	382	390	399	399	383	381	381	382	1,569	1,526	393	-2.5
QoQ (%)	0.4	2.1	2.3	0.2	-4.1	-0.7	0.0	0.3			-1.6	-246bp
YoY (%)	11.4	5.8	6.7	5.1	0.4	-2.3	-4.5	-4.4	7.2	-2.8	3.0	-258bp
GPM (%)	40.5	40.8	41.4	42.0	39.4	41.4	41.2	41.0	41.2	40.7	41.0	-159bp
SGA (%)	16.3	16.8	16.3	16.9	15.8	16.9	16.4	16.4	16.6	16.4	16.6	-78bp
EBITDA	100	102	109	110	100	101	102	102	421	406	105	-4.2
EBITDA Margin (%)	26.3	26.2	27.3	27.5	26.2	26.7	26.9	26.7	26.8	26.6	26.6	-46bp
EBIT	92	94	100	100	90	93	94	94	386	371	96	-5.7
EBIT Margin (%)	24.2	24.0	25.0	25.1	23.6	24.5	24.7	24.5	24.6	24.3	24.4	-81bp
Other income	14	12	6	5	5	6	6	6	37	23	9	-47.9
PBT	106	105	106	105	95	99	100	100	422	394	105	-9.3
ETR (%)	23.4	23.5	23.0	23.0	25.8	25.8	25.8	25.8	23.2	25.8	23.0	282bp
PAT	82	81	81	81	70	74	74	74	324	291	81	-12.6
QoQ (%)	-0.3	-1.2	1.1	-0.6	-12.9	4.5	1.0	-0.5			-0.4	-1253bp
YoY (%)	10.7	1.7	0.3	-1.1	-13.5	-8.6	-8.6	-8.5	2.2	-10.3	-1.1	-1243bp
EPS (INR)	21.7	21.4	21.6	21.5	18.7	19.5	19.7	19.6	86.2	77.5	21.4	-12.6

Key Performance Indicators

Y/E March	FY20				FY21E				FY20	FY21E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenue (QoQ CC %)	2.5	1.6	0.3	-1.4	-6.7				7.1	7.1
Costs (% of revenue)										
COGS	59.5	59.2	58.6	58.0	60.6	58.6	58.8	59.0	58.8	59.3
SGA	16.3	16.8	16.3	16.9	15.8	16.9	16.4	16.4	16.6	16.4
Depreciation	2.1	2.2	2.3	2.4	2.5	2.2	2.2	2.2	2.2	2.3
Margins										
Gross Margin	40.5	40.8	41.4	42.0	39.4	41.4	41.2	41.0	41.2	40.7
EBITDA margin	26.3	26.2	27.3	27.5	26.2	26.7	26.9	26.7	26.8	26.6
EBIT Margin	24.2	24.0	25.0	25.1	23.6	24.5	24.7	24.5	24.6	24.3
Net Margin	21.3	20.6	20.4	20.1	18.3	19.2	19.4	19.3	20.6	19.1
Operating metrics										
Headcount (k)	437	451	447	448	444				448	
Attrition (%)	11.5	11.6	12.2	12.1	11.1				12.1	
Deal Win TCW (USD b)	5.7	6.4	6	8.9	6.9				27	
Key Verticals (YoY CC %)										
BFSI	9.2	8.0	5.3	-1.3	-4.9				5.2	
Retail	7.9	4.8	5.1	4.2	-12.9				5.5	
Key Geographies (YoY CC %)										
North America	7.7	5.3	4.1	0.2	-6.1				4.3	
UK	16.0	13.3	7.5	5.4	-8.5				10.4	
Continental Europe	15.0	16.0	15.9	11.9	2.7				14.6	

Key highlights from management commentary

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- Lower other income and higher ETR also impacted reported profitability.

- Cash conversion (OCF/PAT = 133% v/s 109% in 4Q) reported impressive improvement, led by both billed and unbilled receivables.

Exhibit 1: Barring Europe, other geographies reported revenue decline

Geographies	Cont. To Rev. (%)	YoY CC Gr. (%)
North America	51.4	-6.1
Latin America	1.7	0.2
UK	15	-8.5
Continental Europe	15.6	2.7
India	4.3	-27.6
Asia Pacific	9.8	-3.2
MEA	1.9	-11.7

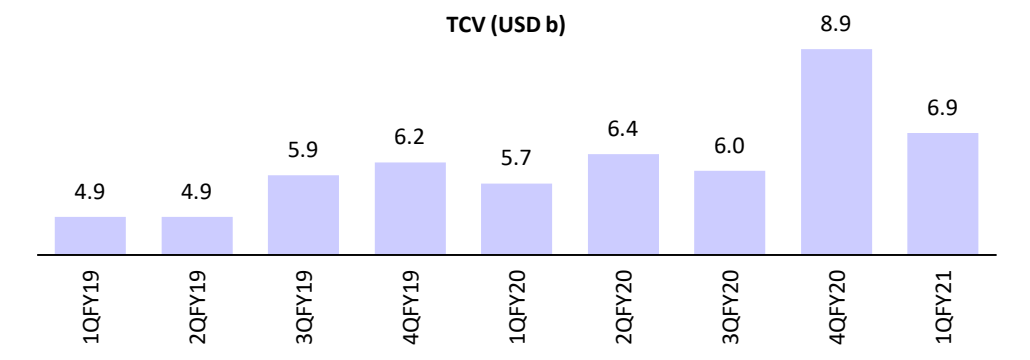
Source: Company, MOFSL

Exhibit 2: Across verticals, Healthcare reported strong growth, similar to Accenture

Services	Cont. To Rev. (%)	YoY CC Gr. (%)
BFSI	31.3	-4.9
Retail & CPG	14	-12.9
Communications & Media	7.1	-3.6
Manufacturing	9.7	-7.1
Life Sciences & Healthcare	9.6	13.8
Technology & Services	9.1	-4.0
Regional markets & Others	19.2	-12.5

Source: Company, MOFSL

Exhibit 3: Deal wins (ex-Phoenix) during the quarter were robust despite COVID-19

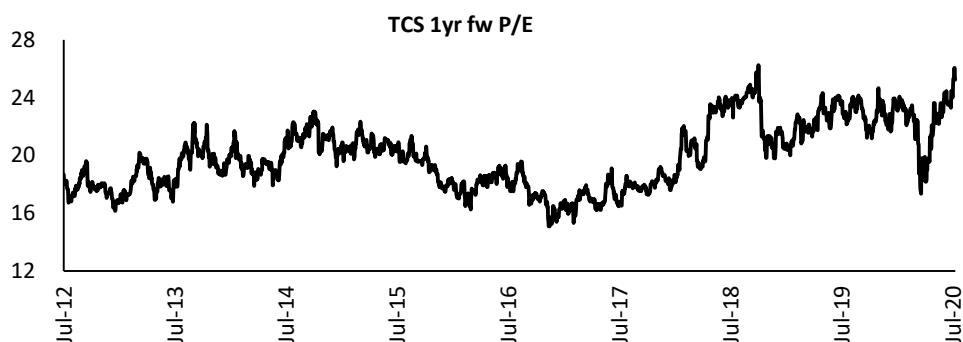


Source: Company, MOFSL

Valuation view – Key beneficiary of rising tech intensity

- TCS has a historical track record of adapting to multiple business challenges and technology change cycles. Additionally, it has consistently maintained its market leadership, best-in-class operational metrics, and high return ratios.
- While the peak of COVID-19-led uncertainty may be behind, near-term negative surprises related to demand, pricing, and collections cannot be ruled out.
- Nevertheless, TCS should be able to better navigate through these challenges (v/s the rest of the industry). Over the medium term, we expect TCS to be a key beneficiary of the COVID-19-driven increase in technology intensity across verticals.
- Rich multiples (22x FY22E EPS) leave limited upside in the stock, in our view. Accordingly, we remain NEUTRAL on the stock despite being positive on the company.

Exhibit 4: Over the long term, the company's P/E multiples averaged to ~19x



Source: Bloomberg, MOFSL

Exhibit 5: Revision in our estimates

	Revised		Earlier		Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
INR/USD	75.9	77.0	76.0	77.0	-0.1%	0.0%
USD Revenue - m	20,904	23,441	20,547	22,594	1.7%	3.7%
Growth (%)	(5.1)	12.1	(6.7)	10.0	160bps	220bps
EBIT margin - Overall (%)	24.5	25.3	24.5	25.3	-10bps	0bps
PAT (INR B)	315	372	320	367	-1.7%	1.3%
EPS	83.9	99.1	85.3	97.9	-1.7%	1.3%

Source: MOFSL

Operating metrics

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
Verticals (%)									
BFSI	31.1	31.2	30.8	30.9	30.8	31	30.4	29.7	31.3
Retail & CPG	15.4	15.4	15.5	15.1	15.0	14.8	15.2	15.4	14
Communication & Media	7.1	6.8	6.9	6.8	6.9	7.0	7.0	7.2	7.1
Manufacturing	10.2	9.8	9.8	9.6	9.8	9.8	10.0	10.1	9.7
Life Sciences & Healthcare	7.3	7.5	7.6	7.7	7.9	8.1	8.3	8.8	9.6
Technology & Services	9.0	8.9	8.7	8.6	8.8	8.7	8.4	8.7	9.1
Regional markets & Others	19.9	20.4	20.7	21.3	20.8	20.6	20.7	20.1	19.2
Geographies (%)									
North America	51	51.1	51.2	50.7	50.6	50.6	50.1	50.3	51.4
Latin America	1.9	2.0	2.0	2.0	1.8	1.9	1.9	1.8	1.7
UK	15.5	15.6	15.5	15.9	15.8	15.6	15.9	16.0	15.3
Continental Europe	14.0	14.0	14.1	14.1	14.3	14.6	14.9	15.2	15.6
India	5.8	5.6	5.7	5.8	6.0	5.7	5.7	5.5	4.3
Asia Pacific	9.6	9.6	9.4	9.5	9.4	9.4	9.3	9.3	9.8
MEA	2.2	2.1	2.1	2.0	2.1	2.2	2.2	1.9	1.9
QoQ growth (%)									
BFSI		3.6	(0.6)	3.1	1.3	1.2	(0.7)	(4.8)	(2.1)
Retail & CPG		3.2	1.3	0.1	1.0	(0.8)	4.0	(1.3)	(15.5)
Communication & Media		(1.1)	2.2	1.3	3.1	2.0	1.3	0.2	(8.4)
Manufacturing		(0.8)	0.7	0.7	3.7	0.6	3.3	(1.6)	(10.8)
Life Sciences & Healthcare		6.1	2.0	4.2	4.3	3.1	3.8	3.3	1.4
Technology & Services		2.1	(1.6)	1.6	4.0	(0.6)	(2.2)	0.9	(2.8)
Regional markets & Others		5.8	2.2	5.8	(0.8)	(0.4)	1.7	(5.4)	(11.2)
North America	3.2	3.4	0.9	1.8	1.4	0.6	0.3	(2.2)	(5.0)
Latin America	(3.5)	8.7	0.7	2.8	(8.5)	6.2	1.3	(7.7)	(12.2)
UK	3.6	3.9	0.0	5.5	1.0	(0.7)	3.2	(1.9)	(11.1)
Continental Europe	0.2	3.2	1.4	2.8	3.1	2.7	3.3	(0.6)	(4.6)
India	(5.0)	(0.3)	2.5	4.6	5.1	(4.4)	1.3	(6.0)	(27.3)
Asia Pacific	0.5	3.2	(1.4)	3.9	0.6	0.6	0.2	(2.5)	(2.1)
MEA	(10.6)	(1.4)	0.7	(2.1)	6.7	5.4	1.3	(15.8)	(7.1)
Total Employees (k)	401	411	418	424	437	451	447	448	444
Net Additions (k)	6	10	7	6	12	14	-4	2	-5
Attrition (LTM %)	10.9	10.9	11.2	11.3	11.5	11.6	12.2	12.1	11.1

Financials and valuations

Income statement							(INR b)	
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Sales	946	1,086	1,180	1,231	1,465	1,569	1,587	1,805
Change (%)	15.7	14.8	8.6	4.4	19.0	7.2	1.1	13.7
Cost of Services	545	609	669	713	852	923	940	1,058
SG&A Expenses	174	190	208	213	239	260	259	291
EBITDA	247	307	323	325	395	421	425	496
% of Net Sales	26.1	28.2	27.4	26.4	27.0	26.8	26.8	27.5
Depreciation	19	19	20	20	21	35	36	40
EBIT	228	288	303	305	375	386	388	456
% of Net Sales	24.1	26.5	25.7	24.8	25.6	24.6	24.5	25.3
Other Income	31	31	42	36	43	37	26	33
PBT	259	318	345	341	417	422	414	488
Tax	61	75	82	82	100	98	98	115
Rate (%)	23.5	23.6	23.6	24.1	24.0	23.2	23.6	23.5
PAT	199	243	264	259	317	324	316	374
Extraordinary gains/loss	0	0	0	0	0	0	0	0
Adjusted PAT	199	243	264	259	317	324	316	374
Minority Interest	2	1	1	1	1	1	2	2
Reported PAT	196	242	263	258	317	323	315	372
Change (%)	2.8	23.2	8.6	-1.8	22.6	2.2	-2.7	18.2

Balance Sheet							(INR b)	
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Net Worth	575	732	883	872	916	862	855	854
Minority Interest & Others	27	24	25	33	34	97	98	99
Loans	4	2	3	2	1	0	0	0
Capital Employed	605	758	911	908	950	960	953	953
Net Block	116	118	117	116	117	199	192	182
Intangibles	39	39	38	39	40	41	42	42
Other LT assets	80	85	81	84	75	79	75	75
Curr. Assets	515	669	817	845	938	910	918	966
Debtors	243	281	280	320	364	412	386	429
Cash & Bank Balance	250	367	509	499	495	350	351	332
Other Current Assets	22	22	28	26	79	149	180	205
Current Liab. & Prov	144	154	143	176	221	271	274	311
Net Current Assets	370	515	674	669	718	640	644	655
Application of Funds	605	758	911	908	950	960	953	953

Financials and valuations

Ratios

Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Basic (INR)								
EPS	51.3	63.2	68.7	67.4	83.1	86.2	83.9	99.1
Cash EPS	56.2	68.2	73.8	72.7	88.9	95.6	93.5	109.7
Book Value	150.1	191.1	230.6	227.8	241.5	229.8	227.8	227.5
DPS	79.0	60.0	23.5	25.0	32.0	73.0	75.0	85.0
Payout %	180.1	111.0	40.0	43.4	45.0	99.1	104.6	100.3
Valuation (x)								
P/E	43.1	35.0	32.2	32.8	26.6	25.7	26.4	22.3
Cash P/E	39.4	32.5	30.0	30.4	24.9	23.1	23.7	20.2
EV/EBITDA	33.3	26.4	24.7	24.5	20.0	18.9	18.7	16.1
EV/Sales	8.7	7.5	6.8	6.5	5.4	5.1	5.0	4.4
Price/Book Value	14.7	11.6	9.6	9.7	9.2	9.6	9.7	9.7
Dividend Yield (%)	3.6	2.7	1.1	1.1	1.4	3.3	3.4	3.8
Profitability Ratios (%)								
RoE	34.8	37.1	32.6	29.4	35.4	36.4	36.6	43.5
RoCE	29.4	32.3	27.8	25.5	30.7	31.0	31.0	36.6
RoIC	49.6	59.0	58.4	57.2	66.0	55.7	49.0	57.0
Turnover Ratios								
Debtors (Days)	94	94	87	95	91	96	89	87
Fixed Asset Turnover (x)	8.2	9.2	10.0	10.6	12.6	7.9	8.3	9.9

Cash Flow Statement

Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
(INR b)								
CF from Operations	261	315	323	325	395	421	425	496
Cash for Working Capital	7	-48	-16	-5	-53	-67	-3	-30
Net Operating CF	194	191	225	238	242	256	323	351
Net Purchase of FA	-29	-20	-40	-18	-21	-31	-26	-29
Free Cash Flow	164	171	185	220	221	225	298	322
Net Purchase of Invest.	15	-32	4	-3	9	-4	4	0
Net Cash from Invest.	-17	-52	-36	-23	-14	-123	-25	-29
Proc. from equity issues	0	0	0	0	0	0	0	0
Proceeds from LTB/STB	0	-1	1	8	-2	61	-1	0
Others	-2	1	36	-121	-90	-19	33	33
Dividend Payments	-171	-95	-105	-112	-141	-320	-329	-373
Cash Flow from Fin.	-173	-95	-68	-226	-232	-279	-297	-341
Net Cash Flow	4	44	121	-10	-3	-146	1	-19
Opening Cash Bal.	15	19	367	509	499	495	350	351
Add: Net Cash	4	44	121	-10	-3	-146	1	-19
Closing Cash Bal.	19	63	487	499	496	349	351	332

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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