

Tata Consultancy Services (TCS IN)

Rating: HOLD | CMP: Rs2,204 | TP: Rs2,116

July 10, 2020

Q1FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	HOLD		HOLD	
Target Price	2,116		1,982	
Sales (Rs. m)	17,27,366	18,86,620	16,78,099	18,44,565
% Chng.	2.9	2.3		
EBITDA (Rs. m)	4,68,841	5,09,202	4,55,544	4,97,826
% Chng.	2.9	2.3		
EPS (Rs.)	97.2	104.3	95.3	102.9
% Chng.	2.0	1.4		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	1,569	1,569	1,727	1,887
EBITDA (Rs. bn)	423	407	469	509
Margin (%)	27.0	26.0	27.1	27.0
PAT (Rs. bn)	323	310	368	395
EPS (Rs.)	85.3	81.9	97.2	104.3
Gr. (%)	2.8	(4.0)	18.7	7.3
DPS (Rs.)	61.0	51.5	54.0	54.0
Yield (%)	2.8	2.3	2.4	2.4
RoE (%)	36.8	33.7	34.8	32.0
RoCE (%)	43.9	41.1	41.7	38.8
EV/Sales (x)	5.1	5.1	4.6	4.1
EV/EBITDA (x)	18.9	19.6	16.8	15.2
PE (x)	25.8	26.9	22.7	21.1
P/BV (x)	9.7	8.5	7.3	6.3

Key Data

TCS.BO | TCS IN

52-W High / Low	Rs.2,303 / Rs.1,504
Sensex / Nifty	36,738 / 10,813
Market Cap	Rs.8,272bn/ \$ 1,10,295m
Shares Outstanding	3,752m
3M Avg. Daily Value	Rs.15384.95m

Shareholding Pattern (%)

Promoter's	72.05
Foreign	15.74
Domestic Institution	8.00
Public & Others	4.20
Promoter Pledge (Rs bn)	175.48

Stock Performance (%)

	1M	6M	12M
Absolute	6.4	(0.5)	5.4
Relative	(1.7)	12.3	11.1

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Dark clouds to vanish soon...

Quick Pointers:

- Sharper-than-expected contraction in revenues at 6.7% QoQ in c/c. Supply side impact was just 1.2% QoQ (20%) hence the entire revenue decline was demand led.
- TCV was up 20% YoY to US\$6.9bn & deal wins were strong across products & services. In-spite of lockdowns the deal closures have continued at the same pace in contactless way.
- TCS sees demand recovery ahead with revenues in INR being flat YoY in Q3FY21 (equal to Q3FY20) & in USD by Q4FY21 along with margin expansion over 1Q. Recovery faster than GFC.
- We have increased our EPS estimates (2.6% avg) of FY22/23E led by revenue upgrade of ~2.5% led by pent up demand & now value TCS on 21X (earlier 20X, due to market share gains) Sep-22 EPS of Rs. 100 & arrive at a changed target price of Rs.2116 (earlier: Rs.1982). TCS is currently trading at 22.X/20.9X earnings multiple at EPS of Rs. 97.2/104.3X on FY22E/FY23E respectively. Maintain Hold. Rich Valuation could limit absolute upside.

TCS reported sharper than revenue decline of 6.7% QoQ CC (Ple:5.3%; Cons:5.2%) & 7.1% QoQ in reported terms (Ple: 6%, Cons: 5.5%). Supply side impact was just 1.2% QoQ (20%) hence the entire revenue decline was demand led. Revenue growth was mainly impacted by Retail (-16% QoQ), Manufacturing (-11% QoQ) & Regional markets (-11.2% QoQ), surprisingly BFSI de-growth was curtailed just at 2.1% QoQ (all in reported terms). EBIT margin decline was below our/street estimates at 23.6% (Ple: 24%, Cons: 24.2%) which was mainly led by increase in employee costs by 360bps (45.3% of revenues, average 41% of revenues). While TCS will see declining FY21 earnings growth due to COVID-19 led business disruption, we expect it to bounce back to sustained double-digit growth from FY22 as it resumes market share gains. We have increased our EPS estimates of FY22/23E led by revenue upgrade of ~2.5% led by pent up demand. We have estimated 6% revenue decline in FY21E & 9.6% growth in FY22E. We value TCS on 21X (earlier 20X, increased due to market share gains) Sep-22 EPS of Rs. 100 & arrive at a changed target price of Rs.2116 (earlier: Rs.1982). TCS is currently trading at 22.X/20.9X earnings multiple at EPS of Rs.97.2/104.3X on FY22E/FY23E respectively. Maintain HOLD.

- **Weak revenue performance led by Retail & manufacturing:** TCS reported sharper than revenue decline of 6.7% QoQ CC (Ple:5.3%; Cons:5.2%) & 7.1% QoQ in reported terms (Ple: 6%, Cons: 5.5%). Supply side impact was just 1.2% QoQ (20%) hence the entire revenue decline was demand led. Revenue growth was mainly impacted by Retail (-16% QoQ), Manufacturing (-11% QoQ) & Regional markets (-11.2% QoQ), surprisingly BFSI growth was curtailed just at 2.1% QoQ (all in reported terms).

Client metrics: US\$100mn clients declined by 1 to 48; US\$50mn clients down by 5 at 100; US\$20mn clients down by 10 to 230

End-period headcount of 443,676, a net reduction of 4,788 QoQ. LTM attrition down 100 bps QoQ to 11.1%. TCS expects to onboard 40,000 fresher's over 2QFY21 and 3QFY21.

Recovery faster than GFC. From Q2FY21, they will start to grow QoQ.

- **Miss on margins led by drop in utilization:** EBIT margin decline was below our/street estimates at 23.6% (Ple: 24%, Cons: 24.2%) which was mainly led by increase in employee costs by 360bps (45.3% of revenues, average 41% of revenues). We believe drop in utilization levels would have led to such a steep increase. However, SG&A costs & sub-contracting was curtailed. Margin walk-through – **Tailwinds** i) Rupee depreciation of 3.2% QoQ, ii) Lower travel expense tailwind of 110 bps, iii) Aggressive cost management including rental expenses, iv) No annual hikes. **Headwinds-** i) Sharp decline in utilization, ii) Pricing Pressure by most impacted verticals (Retail, Manufacturing). Net profit of Rs70.1 bn declined 12.9% qoq and 13.8% yoy, on account of—(i) miss at EBIT level, (ii) higher tax rate at 25.8% and (iii) FX loss and lower other income.
- **Deal closures continued in the same way:** TCV was up 20% YoY to US\$6.9bn & deal wins were strong across products & services. In spite of lockdowns the deal closers has continued at the same pace in contactless way. Largest deal was from communication and media vertical & 2 deal wins in manufacturing verticals. NA deal win was at US\$ 3.3bn, BFSI was at US\$ 2.1bn & Retail & CPG was at US\$0.9bn. Many of the deals wins in the quarter were in WIP stage in the previous quarters. In some cases, the deals have been re-worked to include incorporates new realities of post-COVID world. They had good number of large and small deals. Large deals are coming in digital infrastructure side (including workplace security) & Small deals are coming in areas like customer experience, etc.
- **Recovery faster than GFC:** TCS sees demand recovery ahead with revenues in INR being flat YoY in Q3FY21 & in USD by Q4FY21 along with margin expansion over 1Q. Recovery faster than GFC. From Q2FY21, they will start to grow QoQ. Swift response by governments and central banks will drive faster recovery compared to GFC. TCS indicated good outlook for continental Europe and is cautiously optimistic on the US on specific verticals such as healthcare and banking. TCS believes revenue impact of the pandemic has bottomed out in 1QFY21.
- **Supply side impact about to be resolved:** TCS indicated that the absolute revenue impact of supply-side constraints in 1QFY21 was broadly similar to the impact in 4QFY20. Supply-side issues continued in the first half of April but have been resolved. TCS does not expect incremental revenue impact from supply issues in 2QFY21. Supply accounted for 20% of revenue impact in 1QFY21.
- **Clear winner in Vendor Consolidation:** TCS is participating in vendor consolidation & demands is coming in deals which aim to make workplace better & contactless. These kind of deals required complete portfolio of services and full scale capabilities which are scarce in the market. This is helping them gaining market share. All of their large deal wins have these capabilities- Digital workplace, secure workplace, etc. Unbilled revenue declined in the quarter because of strong financials practices put in place and the strong relationship they have with the customers. Moreover, clients have been able to receive good bailouts from their governments. This has protected their balance sheets and hence entire value chain has benefited. As and when this support goes away, DSO can increase.

- **BFSI turned out to stronger than last quarter:** BFSI declined was curtailed at just 2% QoQ decline in Q1FY21. The decline in Q1FY21 revenue was results of decline in revenue from UK and Canada banks + there was some supply side impact at the beginning of the quarter. BFSI clients took a conservation approach in terms of provisioning in March and April 2020, and made significant provisions. This will help them to improve profitability and increase investments in technology in the coming quarters. As per their conversation with clients, clients are interested in cloud, contact less solutions (in payment transactions, wealth management). Management mentioned that European banks will see recovery & US banks & capital market might recovery from Q3FY21.
- **COVID-19 led business implications:** All the 118 development centers and campuses are now open. They have altered the workplaces taking into account the local guidelines. They have defined safe operating zones, where max 100-120 people can operate. This along with initiatives like contact tracing is making it safer for people to come and work safely. At present 1% of the employees are working to office. As per there 2025 vision, minimum 25% of the workers will be able to work for home and be 100% productive. In Q2FY21, they expect 5% of the workforce to work from office with 25% of the time spend in office. The quality and quantity of the client engagements has become 3x as compared to pre-COVID.

Exhibit 1: Q1FY21 Result Overview (Rs mn)

Y/e March	1Q21	4Q20	QoQ gr.	1Q20	YoY gr.	Ple	Ple vs Act
Revenues (US\$ mn)	5,059	5,444	-7.1%	5,485	-7.8%	5,119	-1.2%
Revenues	3,83,220	3,99,460	-4.1%	3,81,720	0.4%	3,88,036	-1.2%
EBITDA	1,00,250	1,09,760	-8.7%	1,00,370	-0.1%	99,648	0.6%
EBITDA Margin	26.2%	27.5%	-132 bps	26.3%	-13 bps	26%	48 bps
EBIT	90,480	1,00,250	-9.7%	92,200	-1.9%	93,194	-2.9%
EBIT Margin	23.6%	25.1%	-149 bps	24.2%	-54 bps	24.0%	-41 bps
Adjusted PAT	70,080	80,490	-12.9%	81,310	-13.8%	76,993	-9.0%
EPS (Rs)	18.7	21.5	-12.9%	21.7	-13.8%	20.53	-9.0%

Source: Company, PL

In BFSI, the decline in Q1FY21 revenue was results of decline in revenue from UK and Canada banks + there was some supply side impact at the beginning of the quarter.

In Retail, Revenue was impacted because of shut down of retail stores. Travel will be the last to recover and Retail will be second last to recover.

US manufacturing is expected to recover from Q4FY21 (flat YoY). Their revenue will benefit from markets share gained in Europe.

The growth as driven by healthcare segment. Growth in Life-sciences segment was because of lower surgeries, etc.

In Communication, the revenue was impacted because of shut down in media activates. The extent of revenue decline in this segment was not anticipated earlier.

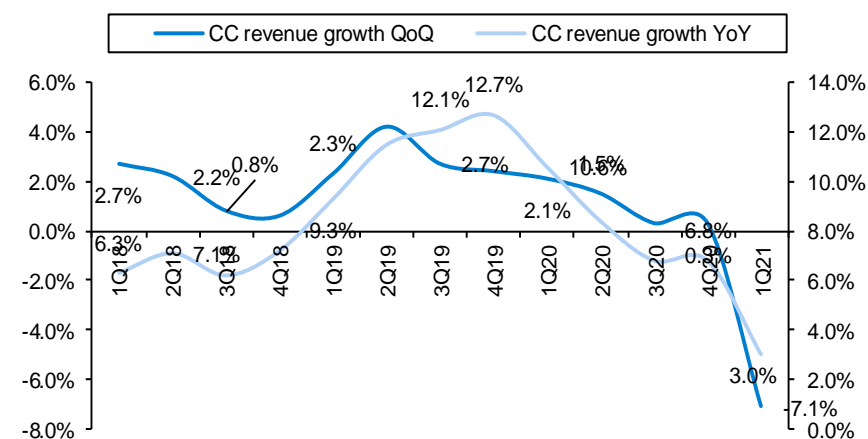
TCS reported sharper than revenue decline of 6.7% QoQ CC (Ple:5.3%; Cons:5.2%) & 7.1% QoQ in reported terms (Ple: 6%, Cons: 5.5%). Supply side impact was just 1.2% QoQ (20%) hence the entire revenue decline was demand led.

Exhibit 2: Vertical & Geography Wise Rev growth QoQ \$ terms

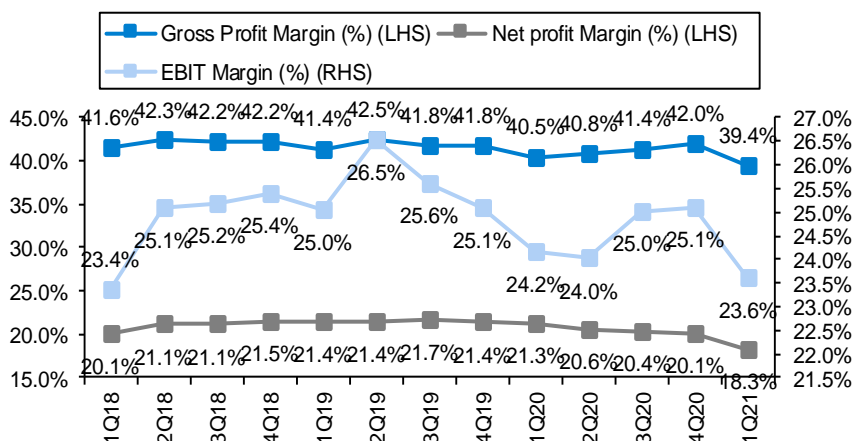
Revenue growth QoQ \$ Terms	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Vertical wise QoQ					
BFSI	1.3%	1.2%	-0.7%	-4.8%	-2.1%
Retail & CPG	1.0%	-0.8%	4.0%	-1.3%	-15.5%
Comm & media	3.1%	2.0%	1.3%	0.2%	-8.4%
Mfg	3.7%	0.6%	3.3%	-1.6%	-10.8%
Life Sc & Healthcare	4.3%	3.1%	3.8%	3.3%	1.4%
E&U	0.0%	0.0%	0.0%	0.0%	0.0%
Tech Services	4.0%	-0.6%	-2.2%	0.9%	-2.8%
Regional Markets & Others	-0.8%	-0.4%	1.7%	-5.4%	-11.2%
Geography Wise QoQ					
Americas	1.1%	0.8%	0.5%	-2.5%	-5.3%
- North America	1.4%	0.6%	0.3%	-2.2%	-5.0%
- Ibero America	-8.5%	6.2%	6.6%	-12.3%	-12.2%
Europe	2.0%	0.9%	3.3%	-1.3%	-8.0%
- UK	1.0%	-0.7%	3.2%	-1.9%	-11.1%
- Continental	3.1%	2.7%	3.3%	-0.6%	-4.6%
India	5.1%	-4.4%	1.3%	-6.0%	-27.3%
Others	1.6%	1.5%	0.4%	-5.1%	-2.9%
- AsiaPac	0.6%	0.6%	0.2%	-2.5%	-2.1%
- Middle East & Africa	6.7%	5.4%	1.3%	-15.8%	-7.1%

Source: Company, PL

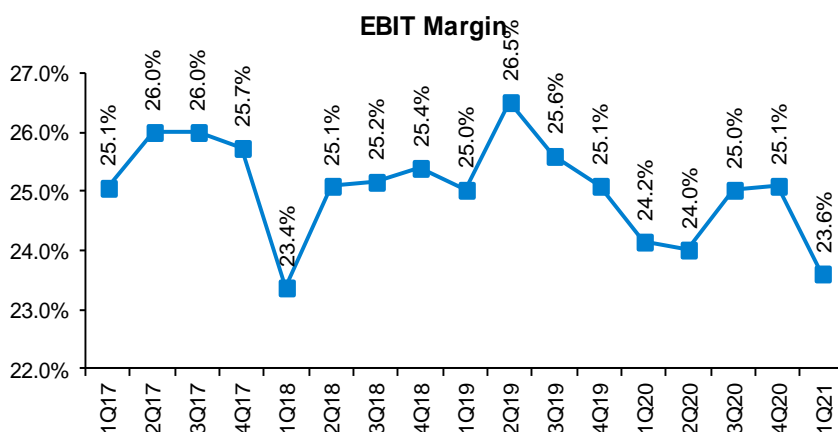
Exhibit 3: Revenue growth weaker than expectations



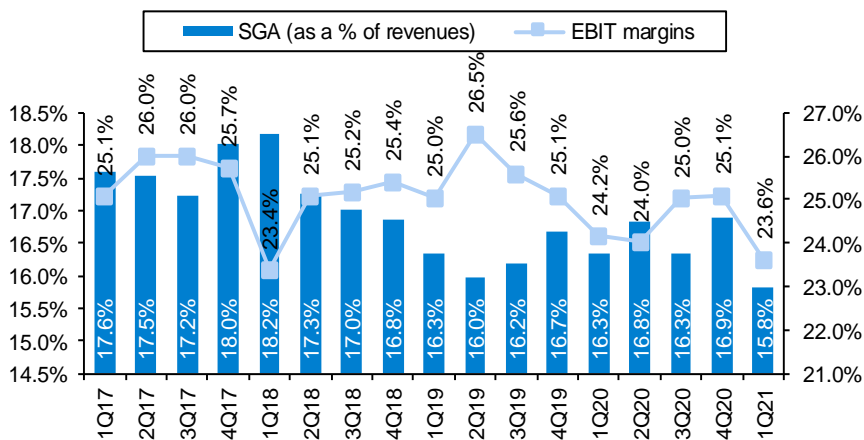
Source: Company, PL

Exhibit 4: Net Profit margin eroding below 21%


Source: Company, PL

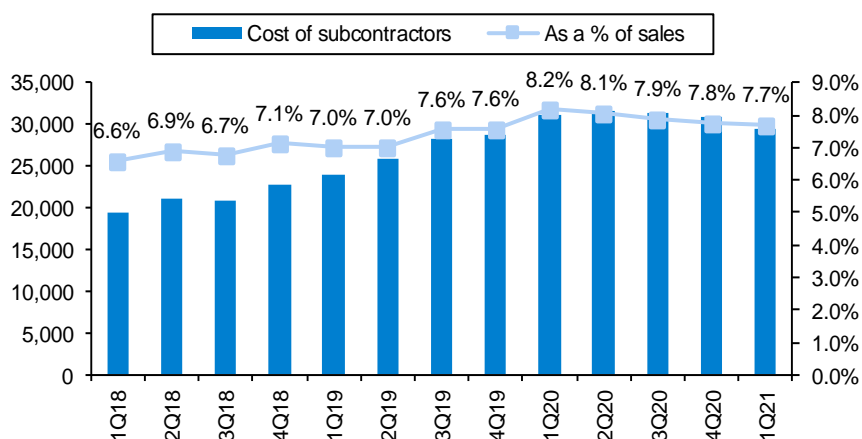
Exhibit 5: Weak margin performance


Source: Company, PL

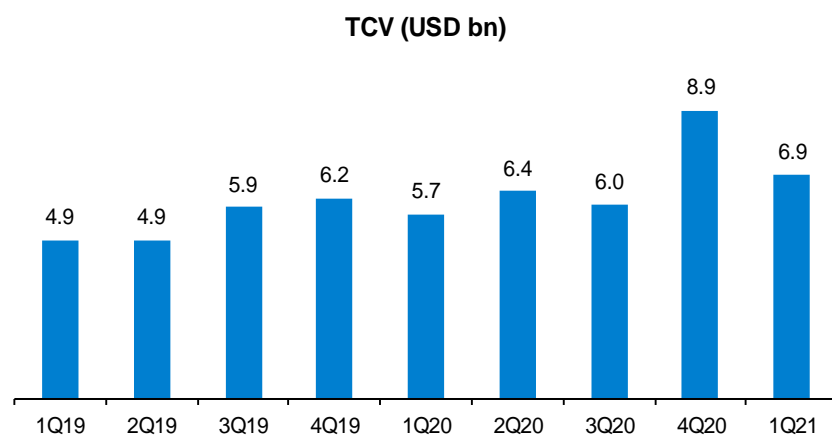
Exhibit 6: SGA costs curtailed


Source: Company, PL

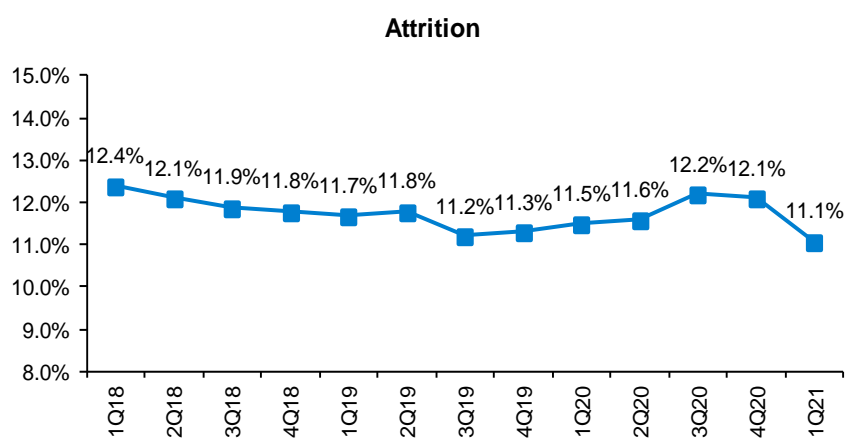
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Exhibit 7: Sub-Contracting building new normal level


Source: Company, PL

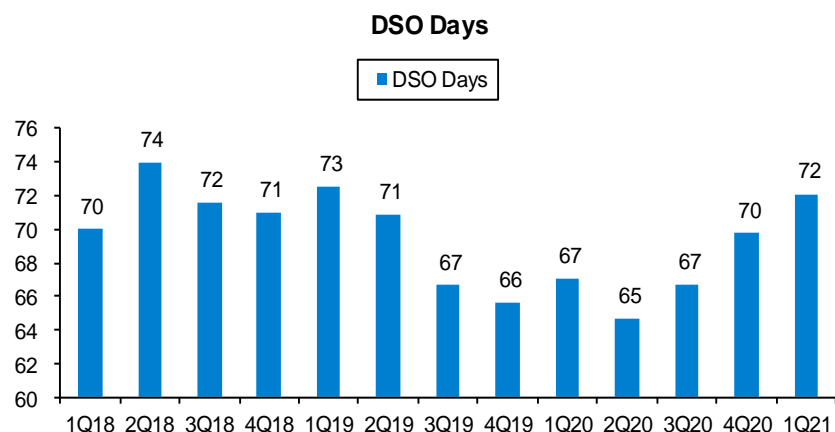
Exhibit 8: TCV Deal Pipeline continues to remain strong


Source: Company, PL

Exhibit 9: Attrition rate inched up during quarter


Source: Company, PL

Exhibit 10: DSO days marginally increased



Source: Company, PL

Valuations

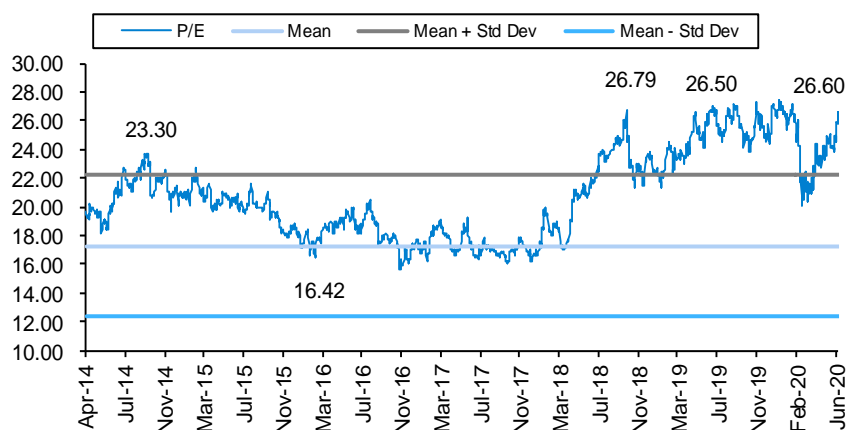
- While TCS will see declining FY21 earnings growth due to COVID-19 led business disruption, we expect it to bounce back to sustained double-digit growth from FY22 as it resumes market share gains.
- We have increased our EPS estimates (2.6% avg) of FY22/23E led by revenue upgrade of ~2.5% led by pent up demand & now value TCS on 21X (earlier 20X, due to market share gains) Sep-22 EPS of Rs. 100 & arrive at a changed target price of Rs.2116 (earlier: Rs.1982). TCS is currently trading at 22.X/20.9X earnings multiple at EPS of Rs.97.2/104.3X on FY22E/FY23E respectively. Maintain Hold.

Exhibit 11: Change in Estimates

Y/e March	FY21E	FY22E	FY23E
USD revenues (US\$ m)			
- New	20,743	22,728	24,502
- Old	20,348	22,080	23,955
Change (%)	1.9%	2.9%	2.3%
USD Revenue growth YoY	-5.9%	9.6%	7.8%
EBIT Margin			
- New	24.1%	25.6%	25.4%
- Old	24.0%	25.6%	25.4%
Change (%)	10 bps	-1 bps	0 bps
Recurring EPS - Fully diluted (Rs)			
- New	81.9	97.2	104.3
- Old	82.2	95.3	102.9
Change (%)	-0.4%	2.0%	1.4%

Source: Company, PL

Exhibit 12: One year forward PE chart of TCS



1-year for P/E	1Y	3Y	5Y	10Y
Average	22.9	21.0	20.1	19.9
Peak	24.7	26.3	26.3	26.3
Median	22.9	21.6	20.0	19.6

Source: Bloomberg, Company, PL

Exhibit 13: Financials

Rs m	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21E	3Q21E	4Q21E	FY21E	FY22E	FY23E
Revenue (US\$ m)	5,485	5,517	5,586	5,444	5,059	5,108	5,210	5,366	20,743	22,728	24,502
QoQ gr. growth	1.6%	0.6%	1.3%	-2.5%	-7.1%	1.0%	2.0%	3.0%	-5.9%	9.6%	7.8%
Revenue	381,720	389,770	398,540	399,460	383,220	386,132	393,855	405,702	1,568,908	1,727,366	1,886,620
Cost of revenue	227,210	230,630	233,690	231,690	232,140	221,823	231,224	234,766	919,953	982,882	1,076,431
Gross profit	154,510	159,140	164,850	167,770	151,080	164,309	162,630	170,936	648,955	744,484	810,190
Gross margin	40.5%	40.8%	41.4%	42.0%	39.4%	42.6%	41.3%	42.1%	41.4%	43.1%	42.9%
Operating expenses	62,310	65,530	65,110	67,520	60,600	72,280	67,768	69,753	270,401	302,556	330,482
EBIT	92,200	93,610	99,740	100,250	90,480	92,028	94,862	101,183	378,554	441,928	479,708
EBIT margin	24.2%	24.0%	25.0%	25.1%	23.6%	23.8%	24.1%	24.9%	24.1%	25.6%	25.4%
Depreciation & amortization	8,170	8,650	11,070	9,510	9,770	6,358	6,280	6,247	28,655	26,913	29,494
EBITDA	100,370	102,260	110,810	109,760	100,250	98,386	101,142	107,430	407,208	468,841	509,202
EBITDA margin	26.3%	26.2%	27.8%	27.5%	26.2%	25.5%	25.7%	26.5%	26.0%	27.1%	27.0%
Other income	14,180	11,680	5,950	4,870	4,560	8,060	10,060	12,060	34,740	46,065	45,145
Profit before tax	106,380	105,290	105,690	105,120	95,040	100,088	104,922	113,243	413,294	487,993	524,853
Income tax expense	24,850	24,710	24,260	24,190	24,550	23,436	24,479	29,829	102,294	119,239	129,120
Tax Rate	23.4%	23.5%	23.0%	23.0%	25.8%	23.4%	23.3%	26.3%	24.8%	24.4%	24.6%
Net income - recurring	81,310	80,420	81,180	80,490	70,080	76,577	80,368	83,339	310,364	368,454	395,434
EPS - basic & diluted (Rs.)	21.7	21.4	21.6	21.5	18.7	20.4	21.4	22.2	81.9	97.2	104.3

Source: Company, PL

Exhibit 14: Key Metrics

Revenue growth QoQ \$ Terms	Q1FY20	Q2FY20	Q3FY20	4Q20	1Q21
Vertical wise					
BFSI	1.3%	1.2%	-0.7%	-4.8%	-2.1%
Retail & CPG	1.0%	-0.8%	4.0%	-1.3%	-15.5%
Comm & media	3.1%	2.0%	1.3%	0.2%	-8.4%
Mfg	3.7%	0.6%	3.3%	-1.6%	-10.8%
Life Sc & Healthcare	4.3%	3.1%	3.8%	3.3%	1.4%
E&U	0.0%	0.0%	0.0%	0.0%	0.0%
Tech Services	4.0%	-0.6%	-2.2%	0.9%	-2.8%
Regional Markets & Others	-0.8%	-0.4%	1.7%	-5.4%	-11.2%
Geography Wise QoQ \$ Terms	Q1FY20	Q2FY20	Q3FY20	4Q20	1Q21
Americas	1.1%	0.8%	0.5%	-2.5%	-5.3%
- North America	1.4%	0.6%	0.3%	-2.2%	-5.0%
- IberoAmerica	-8.5%	6.2%	6.6%	-12.3%	-12.2%
Europe	2.0%	0.9%	3.3%	-1.3%	-8.0%
- UK	1.0%	-0.7%	3.2%	-1.9%	-11.1%
- Continental	3.1%	2.7%	3.3%	-0.6%	-4.6%
India	5.1%	-4.4%	1.3%	-6.0%	-27.3%
Others	1.6%	1.5%	0.4%	-5.1%	-2.9%
- AsiaPac	0.6%	0.6%	0.2%	-2.5%	-2.1%
- Middle East & Africa	6.7%	5.4%	1.3%	-15.8%	-7.1%

Source: Company, PL

Exhibit 15: Geography-wise revenues

(US\$ m)	1Q21	4Q20	QoQ gr.	1Q20	YoY gr.	YoY gr. (CC)
America	2,686	2,836	-5.3%	2,874	-6.5%	
North America	2,600	2,738	-5.0%	2,775	-6.3%	4.1%
Ibero America	86	98	-12.2%	99	-12.9%	6.2%
Europe	1,563	1,699	-8.0%	1,651	-5.3%	
UK	774	871	-11.1%	867	-10.7%	7.5%
Continental Europe	789	827	-4.6%	784	0.6%	15.9%
India	218	299	-27.3%	329	-33.9%	6.4%
Asia Pacific	496	506	-2.1%	516	-3.8%	5.7%
MEA	96	103	-7.1%	115	-16.6%	10.8%
% of Total						
America	53.1%	52.1%	100 bps	52.4%	70 bps	
North America	51.4%	50.3%	110 bps	50.6%	80 bps	
Ibero America	1.7%	1.8%	-10 bps	1.8%	-10 bps	
Europe	30.9%	31.2%	-30 bps	30.1%	80 bps	
UK	15.3%	16.0%	-70 bps	15.8%	-50 bps	
Continental Europe	15.6%	15.2%	40 bps	14.3%	130 bps	
India	4.3%	5.5%	-120 bps	6.0%	-170 bps	
Asia Pacific	9.8%	9.3%	50 bps	9.4%	40 bps	
MEA	1.9%	1.9%	0 bps	2.1%	-20 bps	

Source: Company, PL

Exhibit 16: Vertical-wise revenues

(US\$ m)	1Q21	4Q20	QoQ gr.	1Q20	YoY gr.	YoY gr. (CC)
BFSI	1,583	1,617	-2.1%	1,689	-6.3%	5.3%
Retail & CPG	708	838	-15.5%	823	-13.9%	5.1%
Comm & media	359	392	-8.4%	378	-5.1%	9.5%
Mfg	491	550	-10.8%	538	-8.7%	9.2%
Life Sc & Healthcare	486	479	1.4%	433	12.1%	17.1%
Tech Services	460	474	-2.8%	483	-4.6%	3.3%
Regional Markets & Others	971	1,094	-11.2%	1,141	-14.9%	5.7%
Total	5,059	5,444	-7.1%	5,485	-7.8%	6.8%
% of Total						
BFSI	31.3%	29.7%	160 bps	30.8%	50 bps	
Retail & CPG	14.0%	15.4%	-140 bps	15.0%	-100 bps	
Comm & media	7.1%	7.2%	-10 bps	6.9%	20 bps	
Mfg	9.7%	10.1%	-40 bps	9.8%	-10 bps	
Life Sc & Healthcare	9.6%	8.8%	80 bps	7.9%	170 bps	
Tech Services	9.1%	8.7%	40 bps	8.8%	30 bps	
Regional Markets & Others	19.2%	20.1%	-90 bps	20.8%	-160 bps	
Digital Revenue	0.0%	0.0%	0 bps	32.2%	-3220 bps	

Source: Company, PL

Exhibit 17: Client Metrics

	1Q21	4Q20	QoQ gr.	1Q20	YoY gr.
US\$ 1mn clients	1,066	1,072	-6	1,014	52
US\$ 5mn clients	564	565	-1	551	13
US\$ 10mn clients	382	391	-9	384	-2
US\$ 20mn clients	230	240	-10	219	11
US\$ 50mn clients	100	105	-5	100	0
US\$ 100mn clients	48	49	-1	44	4

Source: Company, PL

Exhibit 18: Headcount Metrics

Headcount Metrics	1Q21	4Q20	QoQ gr.	1Q20	YoY gr.
Headcount	4,43,676	4,48,464	-1.1%	4,24,285	4.6%
Net Addition (Consolidated)	-4,788	1,789	NA	6,356	NA
Overall Attrition	11.1%	12.1%	-100 bps	11.3%	-120 bps

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	15,69,490	15,68,908	17,27,366	18,86,620
YoY gr. (%)	7.2	0.0	10.1	9.2
Employee Cost	8,94,250	8,98,365	9,62,491	10,54,084
Gross Profit	6,75,240	6,70,543	7,64,874	8,32,536
Margin (%)	43.0	42.7	44.3	44.1
SG&A Expenses	-	-	-	-
Other Expenses	-	-	-	-
EBITDA	4,23,200	4,07,208	4,68,841	5,09,202
YoY gr. (%)	7.1	(3.8)	15.1	8.6
Margin (%)	27.0	26.0	27.1	27.0
Depreciation and Amortization	37,400	28,655	26,913	29,494
EBIT	3,85,800	3,78,554	4,41,928	4,79,708
Margin (%)	24.6	24.1	25.6	25.4
Net Interest	-	-	-	-
Other Income	36,680	34,740	46,065	45,145
Profit Before Tax	4,22,480	4,13,294	4,87,993	5,24,853
Margin (%)	26.9	26.3	28.3	27.8
Total Tax	98,010	1,02,294	1,19,239	1,29,120
Effective tax rate (%)	23.2	24.8	24.4	24.6
Profit after tax	3,24,470	3,10,999	3,68,754	3,95,734
Minority interest	1,070	635	300	300
Share Profit from Associate	-	-	-	-
Adjusted PAT	3,23,400	3,10,364	3,68,454	3,95,434
YoY gr. (%)	2.8	(4.0)	18.7	7.3
Margin (%)	20.6	19.8	21.3	21.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,23,400	3,10,364	3,68,454	3,95,434
YoY gr. (%)	2.8	(4.0)	18.7	7.3
Margin (%)	20.6	19.8	21.3	21.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,23,400	3,10,364	3,68,454	3,95,434
Equity Shares O/s (m)	3,790	3,790	3,790	3,790
EPS (Rs)	85.3	81.9	97.2	104.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	1,60,710	3,00,775	3,15,447	3,30,193
Tangibles	1,19,380	2,59,445	2,74,117	2,88,863
Intangibles	41,330	41,330	41,330	41,330
Acc: Dep / Amortization	-	-	-	-
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Net fixed assets	1,60,710	3,00,775	3,15,447	3,30,193
Tangibles	1,19,380	2,59,445	2,74,117	2,88,863
Intangibles	41,330	41,330	41,330	41,330
Capital Work In Progress	-	-	-	-
Goodwill	-	-	-	-
Non-Current Investments	2,160	2,160	2,160	2,160
Net Deferred tax assets	-	-	-	-
Other Non-Current Assets	1,64,890	1,64,890	1,64,890	1,64,890
Current Assets				
Investments	-	-	-	-
Inventories	-	-	-	-
Trade receivables	3,62,640	3,95,365	4,35,296	4,75,428
Cash & Bank Balance	3,55,910	3,52,734	4,76,199	6,26,441
Other Current Assets	1,83,820	62,756	69,095	75,465
Total Assets	12,30,130	12,78,680	14,63,087	16,74,577
Equity				
Equity Share Capital	3,750	3,750	3,750	3,750
Other Equity	8,58,650	9,73,842	11,37,649	13,28,436
Total Network	8,62,400	9,77,592	11,41,399	13,32,186
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	97,130	97,130	97,130	97,130
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	-	-	-	-
Other current liabilities	2,70,600	2,03,958	2,24,558	2,45,261
Total Equity & Liabilities	12,30,130	12,78,680	14,63,087	16,74,577

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	4,22,480	4,13,294	4,87,993	5,24,853
Add. Depreciation	37,400	28,655	26,913	29,494
Add. Interest	-	-	-	-
Less Financial Other Income	36,680	34,740	46,065	45,145
Add. Other	-	-	-	-
Op. profit before WC changes	4,59,880	4,41,948	5,14,906	5,54,347
Net Changes-WC	(27,130)	21,697	(25,670)	(25,799)
Direct tax	(98,010)	(1,02,294)	(1,19,239)	(1,29,120)
Net cash from Op. activities	3,34,740	3,61,351	3,69,997	3,99,429
Capital expenditures	(41,480)	(1,68,720)	(41,585)	(44,240)
Interest / Dividend Income	-	-	-	-
Others	230	-	-	-
Net Cash from Invt. activities	(41,250)	(1,68,720)	(41,585)	(44,240)
Issue of share cap. / premium	-	-	-	-
Debt changes	(440)	-	-	-
Dividend paid	(2,31,175)	(1,95,172)	(2,04,646)	(2,04,646)
Interest paid	-	-	-	-
Others	(1,25,355)	(635)	(300)	(300)
Net cash from Fin. activities	(3,56,970)	(1,95,807)	(2,04,946)	(2,04,946)
Net change in cash	(63,480)	(3,176)	1,23,465	1,50,242
Free Cash Flow	2,93,260	1,92,631	3,28,411	3,55,189

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	85.3	81.9	97.2	104.3
CEPS	95.2	89.5	104.3	112.1
BVPS	227.6	258.0	301.2	351.5
FCF	77.4	50.8	86.7	93.7
DPS	61.0	51.5	54.0	54.0
Return Ratio(%)				
RoCE	43.9	41.1	41.7	38.8
ROIC	37.8	35.2	35.2	32.1
RoE	36.8	33.7	34.8	32.0
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.4)	(0.4)	(0.5)
Debtor (Days)	84	92	92	92
Valuation(x)				
PER	25.8	26.9	22.7	21.1
P/B	9.7	8.5	7.3	6.3
P/CEPS	23.2	24.6	21.1	19.7
EV/EBITDA	18.9	19.6	16.8	15.2
EV/Sales	5.1	5.1	4.6	4.1
Dividend Yield (%)	2.8	2.3	2.4	2.4

Source: Company Data, PL Research

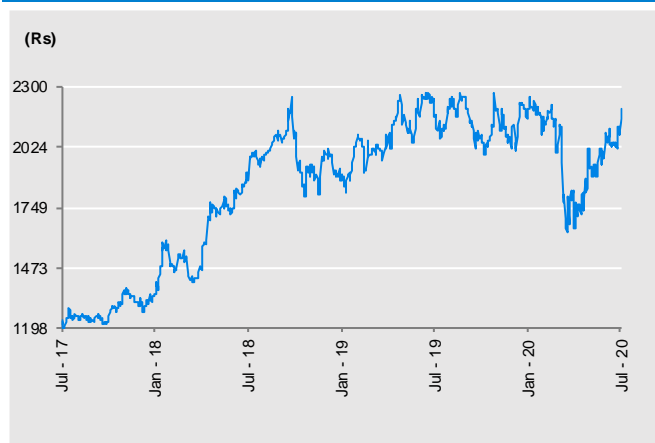
Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	3,89,770	3,98,540	3,99,460	3,83,220
YoY gr. (%)	5.8	6.7	5.1	0.4
Raw Material Expenses	2,24,100	2,24,720	2,24,410	2,24,860
Gross Profit	1,65,670	1,73,820	1,75,050	1,58,360
Margin (%)	42.5	43.6	43.8	41.3
EBITDA	1,02,260	1,10,810	1,09,760	1,00,250
YoY gr. (%)	(0.5)	9.9	9.0	(0.1)
Margin (%)	26.2	27.8	27.5	26.2
Depreciation / Depletion	8,650	11,070	9,510	9,770
EBIT	93,610	99,740	1,00,250	90,480
Margin (%)	24.0	25.0	25.1	23.6
Net Interest	-	-	-	-
Other Income	11,680	5,950	4,870	4,560
Profit before Tax	1,05,290	1,05,690	1,05,120	95,040
Margin (%)	27.0	26.5	26.3	24.8
Total Tax	24,710	24,260	24,190	24,550
Effective tax rate (%)	23.5	23.0	23.0	25.8
Profit after Tax	80,580	81,430	80,930	70,490
Minority interest	160	250	440	410
Share Profit from Associates	-	-	-	-
Adjusted PAT	80,420	81,180	80,490	70,080
YoY gr. (%)	1.8	0.2	(0.9)	(13.8)
Margin (%)	20.6	20.4	20.1	18.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	80,420	81,180	80,490	70,080
YoY gr. (%)	1.8	0.2	(0.9)	(13.8)
Margin (%)	20.6	20.4	20.1	18.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	80,420	81,180	80,490	70,080
Avg. Shares O/s (m)	3,750	3,750	3,750	3,750
EPS (Rs)	21.4	21.6	21.5	18.7

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Jul-20	Hold	1,982	2,200
2	17-Apr-20	Hold	1,584	1,716
3	12-Apr-20	Hold	1,723	1,766
4	04-Feb-20	Hold	2,106	2,103
5	18-Jan-20	Hold	2,106	2,219
6	03-Jan-20	Hold	2,102	2,201
7	17-Dec-19	Hold	2,106	2,127
8	11-Oct-19	Hold	1,985	2,004
9	03-Oct-19	BUY	2,273	2,060

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Cyient	Hold	450	437
2	HCL Technologies	Hold	591	579
3	Hexaware Technologies	Reduce	282	334
4	Infosys	Hold	788	763
5	L&T Technology Services	Hold	1,169	1,295
6	Larsen & Toubro Infotech	Hold	1,894	1,978
7	Mindtree	Reduce	763	945
8	Mphasis	Accumulate	943	887
9	NIIT Technologies	BUY	1,533	1,420
10	Persistent Systems	Reduce	447	514
11	Redington (India)	BUY	114	117
12	Sonata Software	Accumulate	400	313
13	Tata Consultancy Services	Hold	1,982	2,200
14	TeamLease Services	Hold	3,203	2,487
15	Tech Mahindra	Reduce	493	567
16	Wipro	Sell	201	225
17	Zensar Technologies	Accumulate	246	191

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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