

Reduce

Result inline; commentary stays confident on sustained traction

- TCS reported revenue growth of 4.2% QoQ in CC terms (DE: 4.3%) led by broad-based growth across verticals. OPM improved by 23bps QoQ to 26.8% (DE:26.5%) led by sustained cost savings in SG&A. Announced Final Dividend of Rs. 15 per share.
- Signed highest ever TCV of US\$9.2bn (BFSI \$3.9bn, Retail \$1.4bn) taking TTM TCV to \$31.5bn implying 1.42x revenue coverage. TCV in Q4 witnessed higher closure of small deals (largest deal was \$0.5bn).
- TCS is confident with its' "qualitative" commentary on cloud adoption led multi-year growth opportunity. Expects high double digit growth in FY22 (led by low base) and potential for double digit growth over next couple of years.
- While Q4 performance, continued positive stance on transformation, and strong TTM TCV of \$31.5Bn provide us comfort for near term, we don't see any meaningful upgrades for our estimates (scaled up by 1-2% over FY22E/FY23E) and maintain Reduce rating on TCS with TP of Rs3,370 valued at 30x FY23E earnings (3x on PEG basis).

"Growth through Transformation" is the theme

TCS has remained upbeat about the "multi-year transformation" and has highlighted that cloud is being used as the key component for growth and differentiation by businesses and this cloud transformation will bring more opportunities ahead. Demand drivers are Themes around core transformation, Revamping Ops, Projects around new business lines, Cost-take outs, supply side transformation, M&A led Deal Wins. These structural growth drivers to remain strong over 3-5 years. In the broadest sense, TCS thinks that this growth and transformation opportunity is very large and yet to be scoped out and it is entering a large growing opportunity (TCS aspire for double digit growth beyond FY22). It is already investing in deepening transformation capabilities and strengthening partnerships with large tech partners, startups and academia. TCS's superlative execution is also driving up its market share wins (from large consulting players who have not been able to evolve) and superior pricing in some cases. However, we believe most of these already been known and factored into its current price and do not warrant any further upgrades.

Q4FY21 Result (Rs Mn)

| Particulars | Q4FY21 | Q4FY20 | YoY (%) | Q3FY21 | QoQ (%) |
|-------------------|----------|----------|---------|----------|---------|
| Revenue | 4,37,050 | 3,99,460 | 9.4 | 4,20,150 | 4.0 |
| Total Expense | 3,09,040 | 2,89,700 | 6.7 | 2,98,080 | 3.7 |
| EBITDA | 1,28,010 | 1,09,760 | 16.6 | 1,22,070 | 4.9 |
| Depreciation | 10,670 | 9,510 | 12.2 | 10,230 | 4.3 |
| EBIT | 1,17,340 | 1,00,250 | 17.0 | 1,11,840 | 4.9 |
| Other Income | 9,310 | 7,270 | 28.1 | 6,910 | 34.7 |
| Interest | 1,380 | 2,400 | (42.5) | 1,830 | (24.6) |
| EBT | 1,25,270 | 1,05,120 | 19.2 | 1,16,920 | 7.1 |
| Tax | 32,450 | 24,190 | 34.1 | 29,650 | 9.4 |
| RPAT | 92,460 | 80,490 | 14.9 | 87,010 | 6.3 |
| APAT | 92,460 | 80,490 | 14.9 | 87,010 | 6.3 |
| | | | (bps) | | (bps) |
| Gross Margin (%) | 43.1 | 43.8 | (70) | 43.5 | (36) |
| EBITDA Margin (%) | 29.3 | 27.5 | 181 | 29.1 | 24 |
| NPM (%) | 21.2 | 20.1 | 101 | 20.7 | 45 |
| Tax Rate (%) | 25.9 | 23.0 | 289 | 25.4 | 54 |
| EBIT Margin (%) | 26.8 | 25.1 | 175 | 26.6 | 23 |

| | |
|-----------------|---------------|
| CMP | Rs 3,247 |
| Target / Upside | Rs 3,370 / 4% |
| NIFTY | 14,311 |

Scrip Details

| | |
|------------------|---------------------|
| Equity / FV | Rs 3,700mn / Rs 1 |
| Market Cap | Rs 12,021.5bn / USD |
| 52-week High/Low | Rs 3,354/ 1,675 |
| Avg. Volume (no) | 34,26,960 |
| Bloom Code | TCS IN |

| Price Performance | 1M | 3M | 12M |
|-------------------|----|----|-----|
| Absolute (%) | 6 | 3 | 85 |
| Rel to NIFTY (%) | 12 | 6 | 28 |

Shareholding Pattern

| | Sep'20 | Dec'20 | Mar'21 |
|-----------------|--------|--------|--------|
| Promoters | 72.1 | 72.1 | 72.2 |
| MF/Banks/FIs | 7.9 | 7.7 | 7.8 |
| FIIIs | 16.0 | 15.9 | 15.6 |
| Public / Others | 4.1 | 4.4 | 4.4 |

Valuation (x)

| | FY21E | FY22E | FY23E |
|-----------|-------|-------|-------|
| P/E | 37.1 | 31.5 | 28.9 |
| EV/EBITDA | 25.7 | 22.0 | 19.9 |
| ROE (%) | 38.0 | 40.4 | 39.0 |
| RoACE (%) | 39.8 | 42.2 | 40.5 |

Estimates (Rs mn)

| | FY21E | FY22E | FY23E |
|-----------|-----------|-----------|-----------|
| Revenue | 16,41,770 | 18,98,127 | 21,11,189 |
| EBITDA | 4,53,280 | 5,24,335 | 5,75,879 |
| PAT | 3,24,300 | 3,81,648 | 4,10,076 |
| EPS (Rs.) | 87.6 | 103.1 | 112.4 |

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Exhibit 1: Quarterly performance versus estimates

| (Rs mn) | Estimates | | | % Variation | | Comment |
|-----------------|-----------|----------|-----------|-------------|-----------|---|
| | Actual | Dolat | Consensus | Dolat | Consensus | |
| USD Revenue | 5,989 | 5,981 | 5,962 | 0.1 | 0.5 | Revenue in-line with estimates |
| INR Revenue | 4,37,050 | 4,36,495 | 4,36,204 | 0.1 | 0.2 | |
| EBIT | 1,17,340 | 1,15,875 | 1,17,785 | 1.3 | (0.4) | EBIT beat led by SG&A cost savings. |
| EBIT Margin (%) | 26.8 | 26.5 | 27.0 | 30 bps | (20 bps) | |
| PAT | 92,460 | 89,993 | 93,045 | 2.7 | (0.6) | PAT beat extended by higher than expected Other Income. |

Source: Company, DART

Change in estimates

Given sustained stance (qualitative) and commentary on Multi-year transformation, in-line Q4 performance, we have largely retained our growth estimates for both FY22/23E. We have slightly upgraded the EBIT Margin estimates as management is confident to cover up cost normalization impact through gains from operating leverage. As a result, our earnings estimates for the company has increased by 2.5%/1.4% respectively for FY22/23E earnings.

Exhibit 2: Change in Estimates

| (Rs mn) | FY21A | | | FY22E | | | FY23E | | |
|----------------|-----------|-----------|-------|-----------|-----------|--------|-----------|-----------|--------|
| | Old | Actual | % chg | Old | New | % chg | Old | New | % chg |
| USD Revenue | 22,166 | 22,174 | 0.0 | 25,442 | 25,475 | 0.1 | 27,744 | 27,779 | 0.1 |
| YoY growth, % | 0.6 | 0.6 | 3 bps | 14.8 | 14.9 | 11 bps | 9.0 | 9.0 | 0 bps |
| INR Revenue | 16,41,215 | 16,41,770 | 0.0 | 18,95,718 | 18,98,127 | 0.1 | 21,08,509 | 21,11,189 | 0.1 |
| EBIT | 4.6 | 4.6 | 4 bps | 15.5 | 15.6 | 11 bps | 11.2 | 11.2 | 0 bps |
| EBIT Margin, % | 4,11,165 | 4,12,630 | 0.4 | 4,77,309 | 4,78,780 | 0.3 | 5,19,015 | 5,26,695 | 1.5 |
| Net Profit | 25.1 | 25.1 | 8 bps | 25.2 | 25.2 | 5 bps | 24.6 | 24.9 | 33 bps |
| EPS (Rs) | 3,21,833 | 3,24,300 | 0.8 | 3,72,509 | 3,81,648 | 2.5 | 4,04,482 | 4,10,076 | 1.4 |

Source: DART, Company

Exhibit 3: Key Assumptions in our estimates

| Metrics | FY20A | FY21A | FY22E | FY23E |
|------------------------|-------|-------|-------|-------|
| USD Revenue growth (%) | 5.4 | 0.6 | 14.9 | 9.0 |
| USD/INR | 71.2 | 74.0 | 74.5 | 76.0 |
| INR growth | 7.2 | 4.6 | 15.6 | 11.2 |
| EBIT Margins | 24.6 | 25.1 | 25.2 | 24.9 |
| EPS growth (%) | 2.8 | 1.6 | 17.7 | 9.1 |

Source: Company, DART

Exhibit 4: Key Revenue Growth Matrix

| YoY Growth | FY21 | Q1FY21 | Q2FY21 | Q3FY21 | Q4FY21 |
|------------|-------|--------|--------|--------|--------|
| CC Growth | (0.8) | (6.3) | (3.2) | 0.4 | 5.9 |
| USD Growth | 0.6 | (7.8) | (1.7) | 2.1 | 10.0 |
| INR Growth | 4.6 | 0.4 | 3.0 | 5.4 | 9.4 |

Source: DART, Company

Exhibit 5: Quarterly and YTD Trend

| Rs mn | Q4FY20 | Q1FY21 | Q2FY21 | Q3FY21 | Q4FY21 | YoY (%) | QoQ (%) | FY20 | FY21 | YoY (%) |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|--------------|--------------|------------------|------------------|--------------|
| USD Revenue | 5,444 | 5,059 | 5,424 | 5,702 | 5,989 | 10.0 | 5.0 | 22,032 | 22,174 | 0.6 |
| INR Revenue | 3,99,460 | 3,83,220 | 4,01,350 | 4,20,150 | 4,37,050 | 9.4 | 4.0 | 15,69,490 | 16,41,770 | 4.6 |
| Operating Expense | 2,89,700 | 2,82,970 | 2,98,400 | 2,98,080 | 3,09,040 | 6.7 | 3.7 | 11,48,390 | 11,88,490 | 3.5 |
| Cost of revenues | 2,24,410 | 2,24,860 | 2,29,580 | 2,37,490 | 2,48,600 | 10.8 | 4.7 | 8,96,350 | 9,40,530 | 4.9 |
| as % of sales | 56.2 | 58.7 | 57.2 | 56.5 | 56.9 | 70 bps | 36 bps | 57.1 | 57.3 | 18 bps |
| SG&A expenses | 65,290 | 58,110 | 68,820 | 60,590 | 60,440 | (7.4) | (0.2) | 2,52,040 | 2,47,960 | (1.6) |
| as % of sales | 16.3 | 15.2 | 17.1 | 14.4 | 13.8 | (252bps) | (59bps) | 16.1 | 15.1 | (96bps) |
| EBITDA | 1,09,760 | 1,00,250 | 1,02,950 | 1,22,070 | 1,28,010 | 16.6 | 4.9 | 4,21,100 | 4,53,280 | 7.6 |
| Depreciation | 9,510 | 9,770 | 9,980 | 10,230 | 10,670 | 12.2 | 4.3 | 35,300 | 40,650 | 15.2 |
| EBIT | 1,00,250 | 90,480 | 92,970 | 1,11,840 | 1,17,340 | 17.0 | 4.9 | 3,85,800 | 4,12,630 | 7.0 |
| Other Income | 7,270 | 5,980 | 9,140 | 6,910 | 9,310 | 28.1 | 34.7 | 45,810 | 31,340 | (31.6) |
| Finance Cost | (2,400) | (1,420) | (1,740) | (1,830) | (1,380) | (42.5) | (24.6) | (9,130) | (6,370) | (30.2) |
| PBT | 1,05,120 | 95,040 | 1,00,370 | 1,16,920 | 1,25,270 | 19.2 | 7.1 | 4,22,480 | 4,37,600 | 3.6 |
| Tax | 24,190 | 24,550 | 25,330 | 29,650 | 32,450 | 34.1 | 9.4 | 98,010 | 1,11,980 | 14.3 |
| PAT | 80,930 | 70,490 | 75,040 | 87,270 | 92,820 | 14.7 | 6.4 | 3,24,470 | 3,25,620 | 0.4 |
| (Profit)/loss from JV's/Ass/MI | 440 | 410 | 290 | 260 | 360 | (18.2) | 38.5 | 1,070 | 1,320 | 23.4 |
| PAT after MI | 80,490 | 70,080 | 74,750 | 87,010 | 92,460 | 14.9 | 6.3 | 3,23,400 | 3,24,300 | 0.3 |
| Reported EPS | 21.5 | 18.7 | 19.9 | 23.2 | 25.0 | 16.4 | 7.7 | 86.2 | 86.8 | 0.7 |
| Margins (%) | | | | | | (bps) | (bps) | | | (bps) |
| EBIDTA | 27.5 | 26.2 | 25.7 | 29.1 | 29.3 | 181 | 24 | 26.8 | 27.6 | 78 |
| EBIT | 25.1 | 23.6 | 23.2 | 26.6 | 26.8 | 175 | 23 | 24.6 | 25.1 | 55 |
| EBT | 26.3 | 24.8 | 25.0 | 27.8 | 28.7 | 235 | 83 | 26.9 | 26.7 | (26) |
| PAT | 20.1 | 18.3 | 18.6 | 20.7 | 21.2 | 101 | 45 | 20.6 | 19.8 | (85) |
| Effective Tax rate | 23.0 | 25.8 | 25.2 | 25.4 | 25.9 | 289 | 54 | 23.2 | 25.6 | 239 |

Source: DART, Company

What to expect next Quarter

We expect growth of 3.0 % CC QoQ in \$ Revenue lead by broad-based momentum across vertical backed by strong TCV wins (smaller deals that are ramping faster, versus larger deals that adds visibility). OPM Margin should decline by 105bps as utilization is expected to decline and also for impact of salary hike.

Exhibit 6: What to expect next quarter

| (Rs Mn) | Q1FY22E | Q4FY21 | Q1FY21 | QoQ (%) | YoY (%) |
|-----------------|----------|----------|----------|-----------|---------|
| USD Revenue | 6,169 | 5,989 | 5,059 | 3.0 | 21.9 |
| INR Revenue | 4,56,482 | 4,37,050 | 3,83,220 | 4.4 | 19.1 |
| EBIT | 1,17,760 | 1,17,340 | 90,480 | 0.4 | 30.2 |
| PAT | 93,857 | 92,460 | 70,080 | 1.5 | 33.9 |
| EPS (Rs.) | 25.3 | 25.0 | 18.7 | 1.5 | 35.7 |
| EBIT Margin (%) | 25.8 | 26.8 | 23.6 | (105 bps) | 219 bps |

Valuation

We believe TCS and other Tier I IT companies would continue to deliver strong revenue momentum over next 4-6 - quarters (translating into double digit revenue growth) and thus would sustain current valuations of 25x-30x which implies 3x on PEG basis. We currently value TCS at 30x (from 30times) on FY23E Earnings of Rs. 112.4 (earlier Rs. 111.4) with TP of Rs3,370 per share (from Rs. 3,330) and UNCHANGED Rating of **Reduce**.

Key Highlights of Earning Call

- **Revenue:** Revenue grew 4.2% in CC in terms and 5.0% in USD terms where it witnessed 80bps favorable Cross Currency fx impact. TCS highlighted that Revenue growth was led by strong demand for core services, market share gain and **strong conversion of revenue** from deal wins (same as in Q3). The current quarter had Postbank and Prudential deal impact of 156bps (our calculation).
- **Margins:** EBIT Margin improved by 23bps to 26.8%. This sequential improvement was led by SG&A cost savings (Salaries in SG&A component declined 3.4% QoQ – using subcontracting lever here). The next quarter is expected to have impact of wage hikes (starting from April'21, last hike was in Oct'20). The commentary highlighted aspirational OPM Margins of 26%-28%.
- **Deal Wins:** TCS won \$9.2Bn TCV during the quarter. TTM TCV stood at \$31.5bn with Revenue Coverage at 1.42x. The TCV contains larger component of small deals (compared to Q3, Note: Previous Q1 and Q2 had higher share of small deals). The BFSI TCV was at all-time high at \$3.9Bn (strong number as it doesn't include Postbank deal and overall largest deal in Overall TCV is only \$500mn). Retail TCV was in-line at \$1.4Bn. TCV for Rest business was also strong at \$3.9Bn. North America TCV was strong at \$4.2Bn. TCS highlighted that smaller deals are faster to start while larger deals provide more visibility, and is well aligned to this current shorter/sudden ramp deals. TCS is also witnessing M&A/Divesture-led deals: (did one for Large Medical Devices player where its unit got divested and listed). Flight to Quality led Deal Wins is continuing to help win market share for TCS.
- **Vertical Commentary:** BFSI vertical grew 3.9% QoQ in CC terms led by Large Deals win, expansion in new businesses and core transformation demand. Retail & CPG (3.4% QoQ CC) is witnessing robust sequential growth despite weakness in some sub sectors (Travel, etc. Life Science Vertical grew only 1% QoQ in CC terms but TCS is positive as it overall the vertical continues to perform very well and has delivered 10 year CAGR of 19%. Comm and Media Vertical grew 2.5% QoQ in CC terms but remains below prior year level with 5.9% CC decline for F21. On Full Year basis, only BFSI Vertical, Technology Vertical and Healthcare Vertical have delivered growth of 2.4%, 0.2% and 17.1% YoY. But Ex Travel and few sub-vertical, all verticals are on a trajectory to recovery.

Exhibit 7: Vertical Trend for Q4FY21

| Vertical | Amount (\$ mn) | QoQ (%) (CC) | YoY (%) (CC) | Incremental Revenue (\$ mn) | % Contribution of Incremental Revenue |
|------------------------------|----------------|--------------|--------------|-----------------------------|---------------------------------------|
| BFSI | 2,911 | 3.9 | 5.9 | 111 | 20 |
| Communication & Media | 96 | 2.5 | 1.5 | (1) | 0 |
| Retail & CPG | 958 | 3.4 | 1.0 | 63 | 11 |
| Manufacturing | 1,006 | 8.5 | 11.7 | 82 | 15 |
| Technnology & Services | 335 | 2.8 | 11.2 | 16 | 3 |
| Life Sciences and Healthcare | 563 | 1.0 | 1.5 | 10 | 2 |
| Regional Markets & Others | 120 | 4.2 | 10.6 | 6 | 1 |
| Total | 5,989 | 4.2 | 5.9 | 565 | 100 |

Source: DART, Company

Geographic Commentary: Revenue Growth was strong across all regions. North America region grew 7% QoQ CC growth and Europe Region grew ~4.0% QoQ in CC terms. TCS highlighted the Japan Strategy where it focuses to reduce clients from 35 priority customers to lower count but build a large portfolio with them.

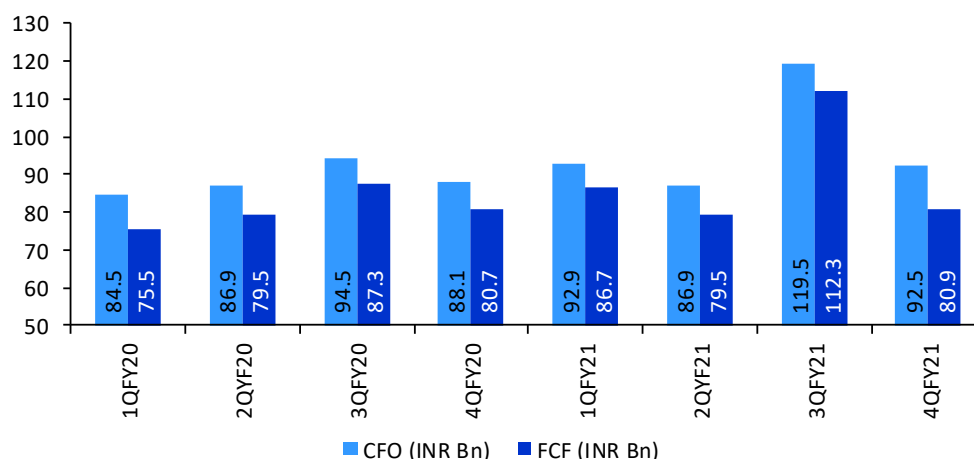
Exhibit 8: Geography Trend for Q4FY21

| Geography | Revenue (\$ mn) | QoQ (%) (CC) | YoY (%) (CC) | Incremental Revenue (\$ mn) | % Contribution of Incremental Revenue |
|--------------------|-----------------|--------------|--------------|-----------------------------|---------------------------------------|
| North America | 1,928 | 7.0 | 13.3 | 144 | 25 |
| Latin America | 389 | 1.8 | (4.0) | 13 | 2 |
| UK | 868 | 4.0 | (0.9) | 42 | 7 |
| Continental Europe | 575 | 3.9 | 1.3 | 28 | 5 |
| India | 503 | 2.8 | 3.9 | 13 | 2 |
| Asia Pacific | 581 | 3.8 | 19.3 | 22 | 4 |
| MEA | 1,144 | 1.7 | 0.8 | 26 | 5 |
| Total | 5,989 | 4.2 | 5.9 | 565 | 100 |

Source: DART, Company

- **Attrition:** The attrition rate (LTM) stood at 7.2% (from 7.6% in Q3).
- **Products & Platforms:** Ignio reported 15 new customers and 7 new lives. There were 21 up sells in Q4 and 7 new reselling partners. In FY21, 50 new customers were added and total customers stood at 200. TCS Bancs reported 5 wins and 5 lives (State Street was marquee live). Quartz reported 2 wins and 1 live. Drug Development Product reported 2 lives.
- **Captive:** TCS highlighted that Captive takeover remains as an integral part of business model.
- **Supply Side Constraints:** TCS highlighted that Supply side issues are not a constraint for TCS as it does significant investments and building platform for re-skilling.
- **Pricing:** TCS highlighted that pricing is stable for themselves and that quality players are being rewarded with market share, superior pricing or both.
- **Dividend:** The Final Dividend stood at Rs. 15 per share.

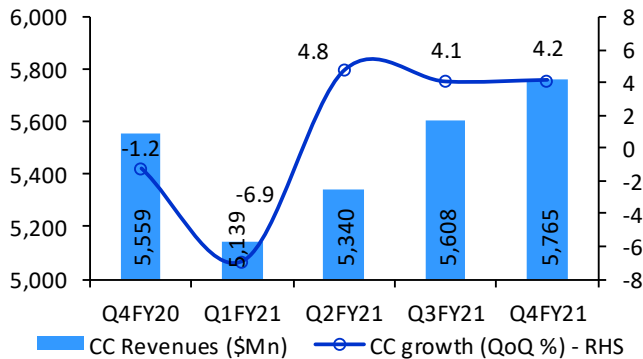
Exhibit 9: CFO and FCF Quarterly Trend



Source: DART, Company

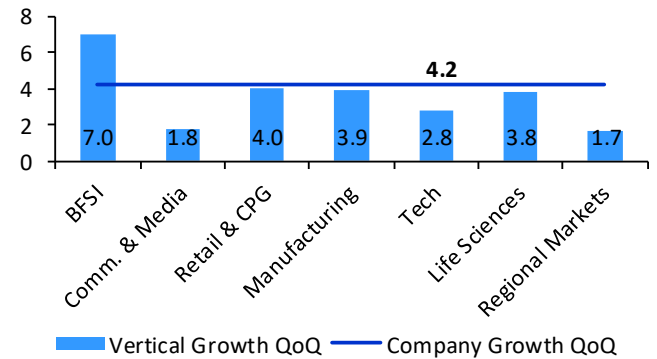
Story in Charts

Exhibit 10: CC Revenue grew by 4.2% QoQ led by ...



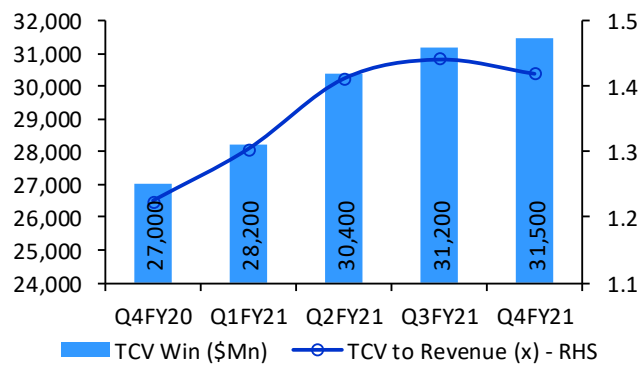
Source: DART, Company

Exhibit 11: Broad-based CC Growth across verticals



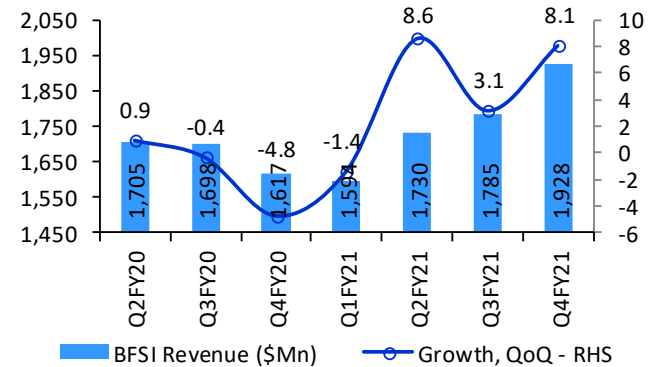
Source: DART, Company

Exhibit 12: TCV Wins of \$9.2Bn led to TTM TCV of \$31.5Bn with Revenue Coverage of 1.42x



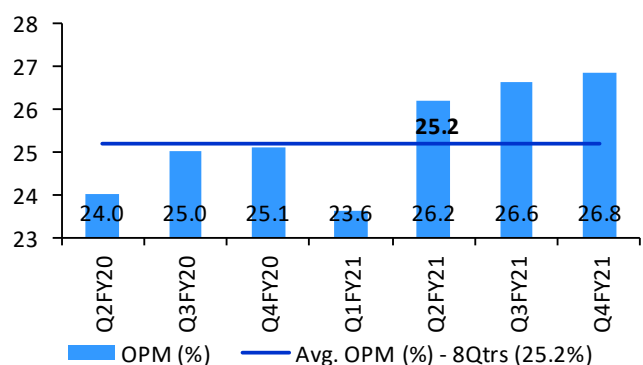
Source: DART, Company

Exhibit 13: BFSI rev grew 8.1% QoQ in USD Terms, and expects multiple levers to play out in future.



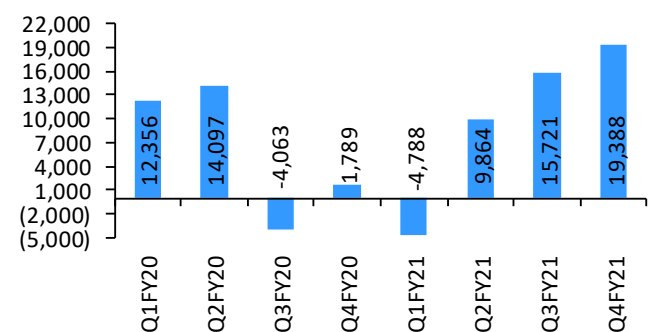
Source: DART, Company

Exhibit 14: OPM up ~23bps led by SG&A cost savings



Source: DART, Company, Adjusted EBIT Margin for Q2FY21 (excluding legal claim)

Exhibit 15: Net Employee addition pretty robust



Source: DART, Company

Exhibit 16: Operating Metrics 1

| Operating Metrics | Q3FY19 | Q4FY19 | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 | Q1FY21 | Q2FY21 | Q3FY21 | Q4FY21 |
|------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| CC growth (%) (QoQ) | 1.8 | 2.4 | 2.3 | 1.6 | 0.3 | (1.2) | (6.9) | 4.8 | 4.1 | 4.2 |
| CC growth (%) (YoY) | 12.1 | 12.7 | 10.6 | 8.4 | 6.8 | 3.0 | (6.3) | (3.2) | 0.4 | 5.9 |
| Vertical Amount (INR mn) | | | | | | | | | | |
| BFSI | 1,617 | 1,668 | 1,689 | 1,705 | 1,698 | 1,617 | 1,594 | 1,730 | 1,785 | 1,928 |
| Communication & Media | 362 | 367 | 378 | 381 | 391 | 392 | 349 | 353 | 376 | 389 |
| Retail & CPG | 814 | 815 | 823 | 855 | 849 | 838 | 708 | 792 | 827 | 868 |
| Manufacturing | 515 | 518 | 538 | 541 | 559 | 550 | 491 | 510 | 547 | 575 |
| Technnology & Services | 457 | 464 | 483 | 480 | 469 | 474 | 460 | 483 | 490 | 503 |
| Life Sciences and Healthcare | 399 | 416 | 433 | 419 | 464 | 479 | 486 | 532 | 559 | 581 |
| Regional Markets & Others | 1,087 | 1,150 | 1,141 | 1,137 | 1,156 | 1,094 | 971 | 1,025 | 1,118 | 1,144 |
| Vertical Growth (YoY) (CC) | | | | | | | | | | |
| BFSI | 8.6 | 11.6 | 9.2 | 8.0 | 5.3 | (1.3) | (4.9) | (1.1) | 2.4 | 13.3 |
| Communication & Media | 10.8 | 10 | 8.4 | 11.8 | 9.5 | 9.3 | (3.6) | (10.1) | (4.8) | (4.0) |
| Retail & CPG | 10.5 | 9.9 | 7.9 | 4.8 | 5.1 | 4.2 | (12.9) | (5.7) | (5.1) | (0.9) |
| Manufacturing | 6.7 | 9.2 | 5.5 | 7.8 | 9.2 | 7.0 | (7.1) | (7.3) | (3.6) | 1.3 |
| Technnology & Services | 5.8 | 6 | 7.8 | 5.6 | 3.3 | 8.7 | (4.0) | (1.5) | 2.4 | 3.9 |
| Life Sciences and Healthcare | 15.7 | 18.2 | 18.1 | 16.0 | 17.1 | 16.2 | 13.8 | 17.2 | 18.2 | 19.3 |
| Regional Markets & Others | 22.6 | 20.8 | 16.9 | 9.3 | 5.7 | (0.7) | (12.5) | (9.2) | (2.9) | 0.8 |
| Vertical EBIT Margin (%) | | | | | | | | | | |
| BFSI | 27.3 | 28.4 | 27.3 | 27.6 | 28.5 | 27.5 | 26.9 | 29.6 | 28.9 | 28.4 |
| Communication & Media & Technology | 27.3 | 27.9 | 29.3 | 29.0 | 29.1 | 31.1 | 29.0 | 29.2 | 29.6 | 30.4 |
| Retail & CPG | 26.8 | 27.7 | 26.2 | 25.2 | 26.8 | 26.3 | 22.0 | 29.0 | 30.0 | 30.1 |
| Manufacturing | 29.4 | 24.8 | 26.5 | 26.0 | 27.2 | 28.2 | 25.4 | 26.9 | 29.5 | 30.4 |
| Regional Markets & Others | 24.5 | 20.4 | 20.9 | 21.5 | 23.2 | 24.8 | 25.7 | 26.9 | 27.9 | 29.0 |
| Geography Amount (INR mn) | | | | | | | | | | |
| North America | 2,688 | 2,736 | 2,775 | 2,792 | 2,799 | 2,738 | 2,600 | 2,707 | 2,800 | 2,911 |
| Latin America | 105 | 108 | 99 | 105 | 106 | 98 | 86 | 92 | 97 | 96 |
| UK | 814 | 858 | 867 | 861 | 888 | 871 | 774 | 841 | 895 | 958 |
| Continental Europe | 740 | 761 | 784 | 805 | 832 | 827 | 789 | 884 | 924 | 1,006 |
| India | 299 | 313 | 329 | 314 | 318 | 299 | 218 | 271 | 319 | 335 |
| Asia Pacific | 494 | 513 | 516 | 519 | 519 | 506 | 496 | 526 | 553 | 563 |
| MEA | 110 | 108 | 115 | 121 | 123 | 103 | 96 | 103 | 114 | 120 |
| Geography Growth (YoY) (CC) | | | | | | | | | | |
| North America | 8.2 | 9.9 | 7.7 | 5.3 | 4.1 | 0.2 | (6.1) | (3.0) | (0.2) | 5.9 |
| Latin America | 7.6 | 16.2 | 6.4 | 7.3 | 6.2 | 3.9 | 0.2 | (2.7) | (3.8) | 1.5 |
| UK | 25.1 | 21.3 | 16.0 | 13.3 | 7.5 | 5.4 | (8.5) | (8.1) | (1.6) | 1.0 |
| Continental Europe | 17.6 | 17.5 | 15.0 | 16.0 | 15.9 | 11.9 | 2.7 | 3.7 | 3.6 | 11.7 |
| India | 9.7 | 11.3 | 15.9 | 7.7 | 6.4 | (1.9) | 27.6 | (10.7) | 4.1 | 11.2 |
| Asia Pacific | 12.6 | 11.5 | 9.5 | 6.5 | 5.7 | 3.5 | (3.2) | (1.8) | 1.3 | 1.5 |
| MEA | -3.3 | -4 | 6.4 | 7.3 | 10.8 | 1.3 | (11.7) | (5.4) | (3.8) | 10.6 |
| Client Data \$mn | | | | | | | | | | |
| >US\$1 million | 996 | 1,008 | 1,014 | 1,032 | 1,053 | 1,072 | 1,066 | 1,076 | 1,077 | 1,096 |
| >US\$5 million | 519 | 532 | 551 | 554 | 557 | 565 | 564 | 565 | 565 | 569 |
| >US\$10 million | 370 | 371 | 384 | 398 | 395 | 391 | 382 | 386 | 386 | 387 |
| >US\$20 million | 211 | 215 | 219 | 225 | 232 | 240 | 230 | 228 | 229 | 228 |
| >US\$50 million | 99 | 99 | 100 | 101 | 102 | 105 | 100 | 97 | 97 | 101 |
| >US\$100 million | 45 | 44 | 44 | 47 | 47 | 49 | 48 | 49 | 48 | 48 |

Source: DART, Company

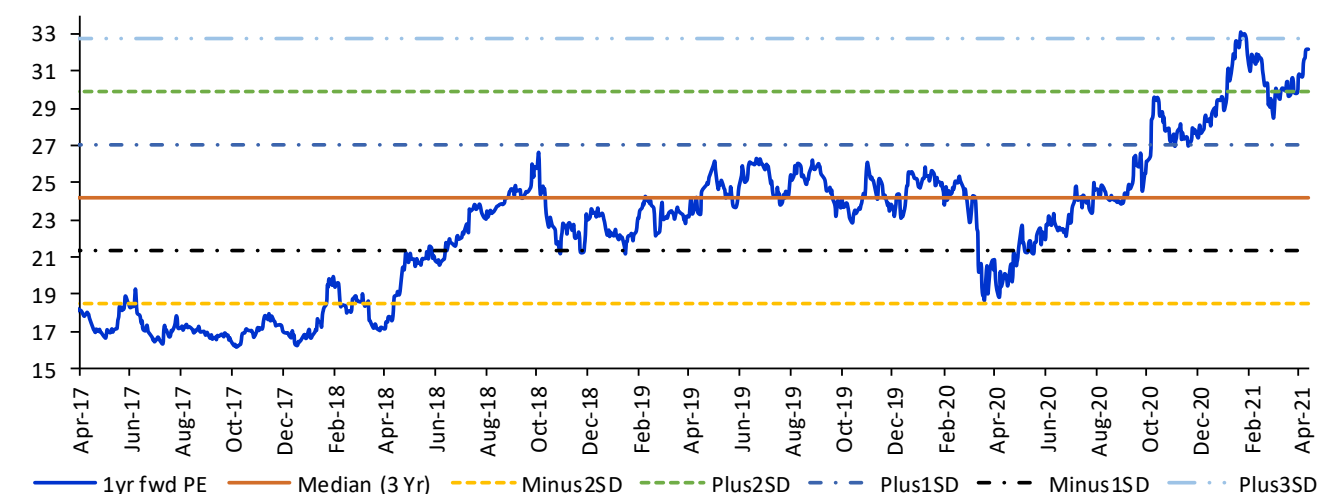
Exhibit 17: Operating Metrics 2

| Operating Metrics | Q3FY19 | Q4FY19 | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 | Q1FY21 | Q2FY21 | Q3FY21 | Q4FY21 |
|--------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|----------|----------|
| TCV Data (\$ mn) | | | | | | | | | | |
| TCV (\$ mn) | 5,900 | 6,200 | 5,700 | 6,400 | 6,000 | 8,900 | 6,900 | 8,600 | 6,800 | 9,200 |
| BFSI TCV (\$mn) | NA | NA | 2,000 | 2,200 | 1,800 | 2,400 | 2,100 | 1,700 | 2,600 | 3,900 |
| Retail TCV (\$mn) | NA | NA | 1,000 | 830 | 860 | 3,100 | 900 | 1,000 | 980 | 1,400 |
| Non BFSI and Retail TCV (\$mn) | NA | NA | 2,700 | 3,370 | 3,340 | 3,400 | 3,900 | 5,900 | 3,220 | 3,900 |
| North America TCV (\$mn) | NA | NA | 2,800 | 3,400 | 3,300 | 5,300 | 3,300 | 3,200 | 4,000 | 4,200 |
| Non - US TCV (\$mn) | NA | NA | 2,900 | 3,000 | 2,700 | 3,600 | 3,600 | 5,400 | 2,800 | 5,000 |
| TCV TTM basis (\$ mn) | NA | 21,900 | 22,700 | 24,200 | 24,300 | 27,000 | 28,200 | 30,400 | 31,200 | 31,500 |
| Revenue coverage (TTM basis) | NA | 1.05 | 1.06 | 1.12 | 1.11 | 1.23 | 1.31 | 1.41 | 1.44 | 1.42 |
| Employee Metrics | | | | | | | | | | |
| Total Employees | 417,929 | 424,285 | 436,641 | 450,738 | 446,675 | 448,464 | 443,676 | 453,540 | 4,69,261 | 4,88,649 |
| Net Additions | 6,827 | 6,356 | 12,356 | 14,097 | (4,063) | 1,789 | (4,788) | 9,864 | 15,721 | 19,388 |
| Attrition (IT Services) (LTM) | 11.2 | 11.3 | 11.5 | 11.6 | 12.2 | 12.1 | 11.1 | 8.9 | 7.6 | 7.2 |

Source: DART, Company

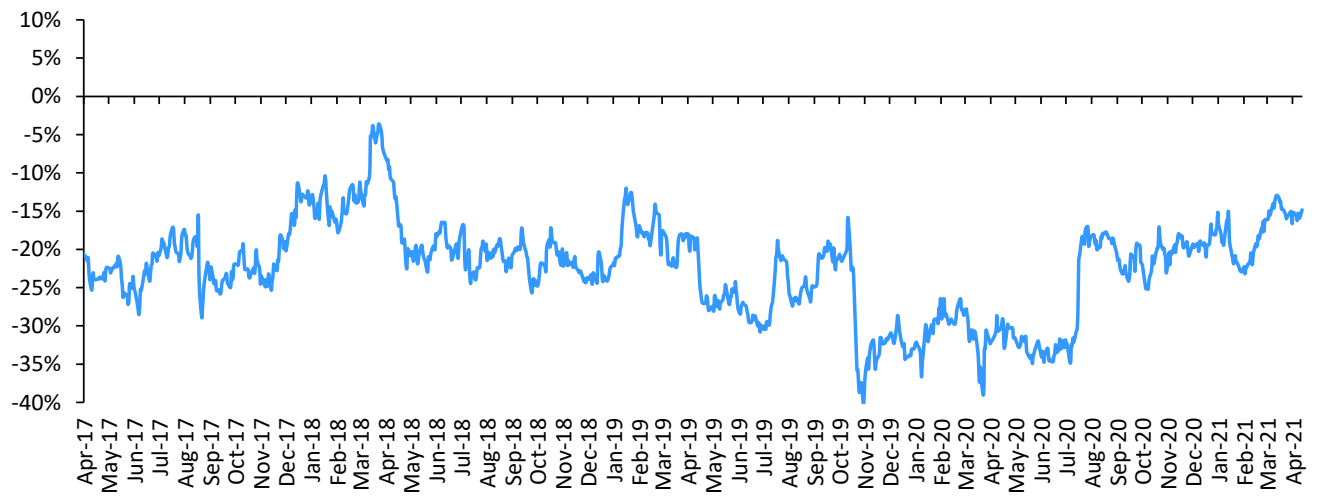
PE Performance

Exhibit 18: TCS is trading around Median Plus3SD with PER of 31.4x and is difficult to sustain.



Source: DART, Company

Exhibit 19: INFY discount over TCS has been narrowing



Source: DART, Company

Profit and Loss Account

| (Rs Mn) | FY20A | FY21E | FY22E | FY23E |
|--|------------------|------------------|------------------|------------------|
| Revenue | 15,69,490 | 16,41,770 | 18,98,127 | 21,11,189 |
| Total Expense | 11,48,390 | 11,88,490 | 13,73,792 | 15,35,310 |
| COGS | 8,96,350 | 9,40,530 | 10,90,224 | 12,12,387 |
| Employees Cost | 0 | 0 | 0 | 0 |
| Other expenses | 2,52,040 | 2,47,960 | 2,83,568 | 3,22,923 |
| EBIDTA | 4,21,100 | 4,53,280 | 5,24,335 | 5,75,879 |
| Depreciation | 35,300 | 40,650 | 45,555 | 49,184 |
| EBIT | 3,85,800 | 4,12,630 | 4,78,780 | 5,26,695 |
| Interest | 9,130 | 6,370 | 5,316 | 5,014 |
| Other Income | 45,810 | 31,340 | 37,723 | 27,845 |
| Exc. / E.O. items | 0 | 0 | 0 | 0 |
| EBT | 4,22,480 | 4,37,600 | 5,11,187 | 5,49,526 |
| Tax | 98,010 | 1,11,980 | 1,28,819 | 1,38,481 |
| RPAT | 3,23,400 | 3,24,300 | 3,81,648 | 4,10,076 |
| Minority Interest | 1,070 | 1,320 | 720 | 970 |
| Profit/Loss share of associates | 0 | 0 | 0 | 0 |
| APAT | 3,23,400 | 3,24,300 | 3,81,648 | 4,10,076 |

Balance Sheet

| (Rs Mn) | FY20A | FY21E | FY22E | FY23E |
|-------------------------------|-----------------|-----------------|------------------|------------------|
| Sources of Funds | | | | |
| Equity Capital | 3,750 | 3,700 | 3,700 | 3,645 |
| Minority Interest | 6,230 | 6,750 | 7,470 | 8,440 |
| Reserves & Surplus | 8,37,510 | 8,60,630 | 10,20,108 | 10,75,065 |
| Net Worth | 8,41,260 | 8,64,330 | 10,23,808 | 10,78,711 |
| Total Debt | 0 | 0 | 0 | 0 |
| Net Deferred Tax Liability | (20,490) | (31,640) | (32,426) | (33,228) |
| Total Capital Employed | 8,27,000 | 8,39,440 | 9,98,851 | 10,53,922 |

Applications of Funds

| | | | | |
|---|-----------------|------------------|------------------|------------------|
| Net Block | 2,09,280 | 2,10,210 | 2,10,205 | 2,10,071 |
| CWIP | 9,060 | 9,260 | 7,760 | 7,260 |
| Investments | 12,360 | 26,840 | 26,840 | 26,840 |
| Current Assets, Loans & Advances | 9,50,010 | 10,21,970 | 12,15,870 | 13,03,155 |
| Inventories | 50 | 80 | 80 | 80 |
| Receivables | 3,66,620 | 3,69,900 | 4,14,606 | 4,54,972 |
| Cash and Bank Balances | 86,460 | 68,580 | 2,09,567 | 2,77,825 |
| Loans and Advances | 85,040 | 1,15,010 | 1,17,304 | 1,19,645 |
| Other Current Assets | 1,50,440 | 1,76,800 | 1,83,713 | 1,85,033 |
| Less: Current Liabilities & Provisions | 3,53,710 | 4,28,840 | 4,61,824 | 4,93,404 |
| Payables | 1,03,520 | 1,27,070 | 1,46,885 | 1,64,080 |
| Other Current Liabilities | 2,50,190 | 3,01,770 | 3,14,939 | 3,29,323 |
| <i>sub total</i> | | | | |
| Net Current Assets | 5,96,300 | 5,93,130 | 7,54,046 | 8,09,751 |
| Total Assets | 8,27,000 | 8,39,440 | 9,98,851 | 10,53,922 |

E – Estimates

Important Ratios

| Particulars | FY20A | FY21E | FY22E | FY23E |
|---|-------------|-------------|-------------|-------------|
| (A) Margins (%) | | | | |
| Gross Profit Margin | 42.9 | 42.7 | 42.6 | 42.6 |
| EBIDTA Margin | 26.8 | 27.6 | 27.6 | 27.3 |
| EBIT Margin | 24.6 | 25.1 | 25.2 | 24.9 |
| Tax rate | 23.2 | 25.6 | 25.2 | 25.2 |
| Net Profit Margin | 20.6 | 19.8 | 20.1 | 19.4 |
| (B) As Percentage of Net Sales (%) | | | | |
| COGS | 57.1 | 57.3 | 57.4 | 57.4 |
| Employee | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 16.1 | 15.1 | 14.9 | 15.3 |
| (C) Measure of Financial Status | | | | |
| Gross Debt / Equity | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest Coverage | 42.3 | 64.8 | 90.1 | 105.0 |
| Inventory days | 0 | 0 | 0 | 0 |
| Debtors days | 85 | 82 | 80 | 79 |
| Average Cost of Debt | 4150.0 | | | |
| Payable days | 24 | 28 | 28 | 28 |
| Working Capital days | 139 | 132 | 145 | 140 |
| FA T/O | 7.5 | 7.8 | 9.0 | 10.0 |
| (D) Measures of Investment | | | | |
| AEPS (Rs) | 86.2 | 87.6 | 103.1 | 112.4 |
| CEPS (Rs) | 95.6 | 98.6 | 115.4 | 125.9 |
| DPS (Rs) | 66.0 | 38.0 | 60.0 | 60.9 |
| Dividend Payout (%) | 76.6 | 43.4 | 58.2 | 54.2 |
| BVPS (Rs) | 227.2 | 233.4 | 276.5 | 291.3 |
| RoANW (%) | 37.3 | 38.0 | 40.4 | 39.0 |
| RoACE (%) | 39.0 | 39.8 | 42.2 | 40.5 |
| RoAIC (%) | 49.7 | 54.6 | 61.4 | 67.3 |
| (E) Valuation Ratios | | | | |
| CMP (Rs) | 3247 | 3247 | 3247 | 3247 |
| P/E | 37.7 | 37.1 | 31.5 | 28.9 |
| Mcap (Rs Mn) | 1,20,21,466 | 1,20,21,466 | 1,20,21,466 | 1,20,21,466 |
| MCap/ Sales | 7.7 | 7.3 | 6.3 | 5.7 |
| EV | 1,16,73,606 | 1,16,61,286 | 1,15,21,299 | 1,14,78,042 |
| EV/Sales | 7.4 | 7.1 | 6.1 | 5.4 |
| EV/EBITDA | 27.7 | 25.7 | 22.0 | 19.9 |
| P/BV | 14.3 | 13.9 | 11.7 | 11.1 |
| Dividend Yield (%) | 2.0 | 1.2 | 1.8 | 1.9 |
| (F) Growth Rate (%) | | | | |
| Revenue | 7.2 | 4.6 | 15.6 | 11.2 |
| EBITDA | 6.6 | 7.6 | 15.7 | 9.8 |
| EBIT | 3.0 | 7.0 | 16.0 | 10.0 |
| PBT | 1.6 | 3.6 | 16.8 | 7.5 |
| APAT | 2.8 | 0.3 | 17.7 | 7.4 |
| EPS | 2.8 | 1.6 | 17.7 | 9.1 |

Cash Flow

| (Rs Mn) | FY20A | FY21E | FY22E | FY23E |
|--------------|------------|------------|------------|------------|
| CFO | 3,23,690 | 3,88,020 | 3,73,080 | 4,23,179 |
| CFI | 85,650 | (81,290) | (10,643) | (719) |
| CFF | (3,99,150) | (3,26,340) | (2,21,451) | (3,54,203) |
| FCFF | 2,92,810 | 3,56,630 | 3,29,030 | 3,74,629 |
| Opening Cash | 72,240 | 86,460 | 68,580 | 2,09,567 |
| Closing Cash | 86,460 | 68,580 | 2,09,567 | 2,77,825 |

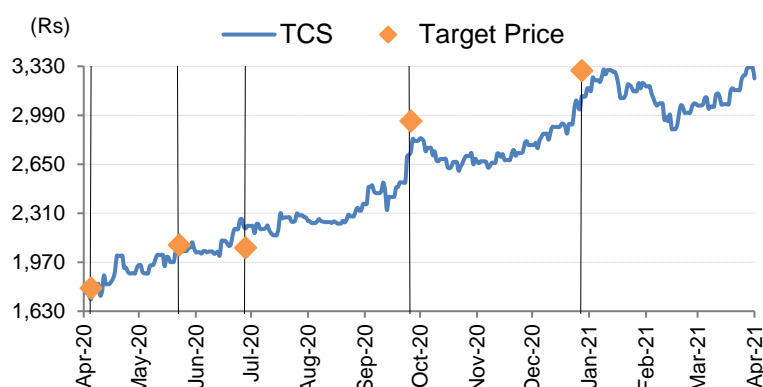
E – Estimates

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 (Rs.) | Price (Rs.) |
|--------|------------|----------|-------------|
| Apr-20 | Accumulate | 1,790 | 1,716 |
| Jun-20 | Reduce | 2,090 | 2,046 |
| Jul-20 | Reduce | 2,070 | 2,204 |
| Oct-20 | Accumulate | 2,950 | 2,736 |
| Jan-21 | Reduce | 3,300 | 3,121 |

*Price as on recommendation date

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