

## Healthy revenue growth, improving deal wins...

Tata Consultancy Services' (TCS) revenue growth was across geographies and verticals led by a ramp up of deal wins and transformational opportunities. US\$ revenues grew 5.0% QoQ to \$5,987.0 million vs. our estimate of 5.0% QoQ growth and \$5,987.1 million estimate. EBIT margins expanded 20 bps QoQ to 26.8%. TCS has declared an interim dividend of ₹ 15/share. One of the key highlights was that the company's deal pipeline continues to be healthy at US\$9.2 billion. The company aspires to register double digit revenue growth in FY22E.

## Cloud migration key driver of growth

TCS believes that tech refresh cycle driven by cloud migration and business transformation will play a critical role in driving multi-year technology growth. In addition, ancillary technologies developed around cloud will lead to new business models & differentiated customer experiences. The company's investment in upskilling of its employees, investment in research & development and industry-specific solution and contextual knowledge to drive business transformation will make TCS key beneficiary of this secular demand growth in coming years. This, coupled with increased outsourcing in Europe (especially continental Europe is a sweet spot for TCS), vendor consolidation opportunities, captive carve outs in the US are expected to enable a large company like TCS to structure complex deal structure and gain market share from competition. Hence, we expect the company to register dollar growth of 13.9% in FY22E and 13.0% in FY23E.

## Margins to remain robust

The company has multiple levers to drive margins like utilisation, productivity improvement, savings due to Secured Borderless Workspace (SBWS), automation and revenue growth. Hence, we expect TCS to register healthy margin improvement of ~142 bps to 27.3% over FY21-23E.

## Valuation & Outlook

Healthy deal wins and robust hiring points to higher growth in coming years. Going forward, we expect the win momentum to continue. This, coupled with improving trend of cloud migration and business transformation is expected to play a critical role in driving multi-year technology growth. Going forward, global digital technologies are expected to witness robust growth (~15-20% CAGR in the next five years) led by robust growth in cloud, customer experience and robust growth in cloud native technologies. Considering TCS' digital prowess coupled with market share gains via vendor consolidation, captive carve outs and increase in outsourcing we expect TCS to register robust growth in revenues in coming years. This, coupled with healthy margins and better capital allocation prompt us to be positive on the stock from long term perspective. Hence, we maintain our **BUY** rating on the stock with a revised target price of ₹ 3,800/share (PE of 30x on FY23E EPS) (earlier target price ₹ 3,600).



### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	11,76,000.0
Total Debt (₹ Crore)	7,795.0
Cash and equivalents (₹ Crore)	38,489.0
EV (₹ Crore)	11,45,306.0
52 week H/L	3358/ 1678
Equity capital (₹ Crore)	370
Face value	₹ 1

### Key Risk

- We assume acceleration in digital technologies will drive revenue growth of IT companies. However, a slower than expected pace of growth in digital technologies will impact TCS' revenue growth
- We believe that in a post Covid world, higher revenue growth, productivity improvement and other cost savings like travel facility cost will not return to normal levels. However, if TCS is unable to realise cost savings or realise benefits of SBWS it will adversely impact its margins

### Research Analyst

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### Key Financial Summary

Financials	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Net Sales	1,46,463	1,56,949	1,64,177	1,89,437	2,17,012	15.0%
EBITDA	39,506	42,110	46,546	55,126	64,453	17.7%
EBITDA Margins (%)	27.0	26.8	28.4	29.1	29.7	
Net Profit	31,472	32,340	32,430	40,461	47,671	21.2%
EPS (₹)	83.8	86.2	86.7	109.3	128.7	
P/E	37.3	36.3	35.7	28.6	24.3	
RoNW (%)	34.4	38.4	37.5	43.3	45.7	
RoCE (%)	43.8	44.4	45.9	51.2	54.4	

Source: Company, ICICI Direct Research

**Exhibit 1: Variance Analysis**

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Revenue	43,705	43,640	39,946	9.4	42,015	4.0	Revenues in dollar terms increased 5.0% QoQ led by healthy growth across verticals and geographies
Employee expenses	24,860	23,949	22,441	10.8	23,749	4.7	
Gross Margin	18,845	19,691	17,505	7.7	18,266	3.2	
Gross margin (%)	43.1	45.1	43.8	-70 bps	43.5	-36 bps	
SG&A expenses	6,044	6,241	6,529	-7.4	6,059	-0.2	
EBITDA	12,801	13,450	10,976	16.6	12,207	4.9	
EBITDA Margin (%)	29.3	30.8	27.5	181 bps	29.1	24 bps	
Depreciation	1,067	1,023	951	12.2	1,023	4.3	
EBIT	11,734	12,427	10,025	17.0	11,184	4.9	
EBIT Margin (%)	26.8	28.5	25.1	175 bps	26.6	23 bps	Operating leverage benefit led to higher EBIT margins on QoQ basis
Other income (less interest)	793	475	487	62.8	508	56.1	
PBT	12,527	12,902	10,512	19.2	11,692	7.1	
Tax paid	3,245	3,277	2,419	34.1	2,965	9.4	
Reported PAT	9,246	9,599	8,049	14.9	8,701	6.3	
Adjusted PAT	9,246	9,599	8,049	14.9	8,701	6.3	PAT was below our estimate due to lower-than-expected operating margins

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	old	New	% Change	
Revenue	184,742	189,437	2.5	208,434	217,012	4.1	We revise FY22E and FY23E revenue estimates upwards led by healthy traction in digital technology and upward revision in US\$INR
EBIT	49,326	50,580	2.5	56,902	59,244	4.1	
EBIT Margin (%)	26.7	26.7	0 bps	27	27.3	0 bps	We expect margins to stabilise at 27.3% in FY23E
PAT	39,807	40,461	1.6	45,896	47,671	3.9	
EPS (₹)	107.5	109.3	1.6	123.9	128.7	3.9	

Source: Company, ICICI Direct Research

## Conference Call Highlights

- **Revenue outlook** – TCS' Q4FY21 revenues were healthy despite a seasonally weak quarter. This, we believe, was supported by 1.5% contribution from Postbank & Prudential takeovers. Further, the QoQ growth in revenues was led by large deal wins, expansion in newer business, healthy demand in core transformation services and conversion from earlier deals. The company saw demand in digital & cloud strategy, enterprise agility, mergers & acquisitions, operation & supply chain and finance transformation and customer experience. In retail & insurance, customer experience is gaining traction while core transformation & neo digital banks are seeing traction in banking. Going forward, the company believes it will see growth from both transformational and efficiency & productivity led deals. The company is seeing multi-year opportunity led by technology refresh, vendor consolidation, transformational projects and higher outsourcing. Considering opportunities in cloud and ancillary technologies around cloud the company aspires to register double digit growth in FY22E
- **Margins** – The company has multiple levers to drive margins like utilisation, productivity improvement, savings due to SBWS, automation and revenue growth. Hence, we expect TCS to register healthy margin improvement in the coming years
- **Deal TCV** - Deal TCV was at US\$9.2 billion, up 3.4% YoY. We believe this was mainly due to large deals won during the quarter. The deal wins are also broad-based participation across verticals and geographies. The company has also seen a mix of large (with large deal of US\$500-600 million) and small deals. Of the total TCV, North America accounted for US\$2.4 billion among geographies while vertically \$3.9 billion was from in BFSI and US\$1.4 billion in retail
- **Client metrics** - The company count in \$50 million+ bucket increased by four while 22 clients were added in the US\$1 million category
- **Employee update** - Attrition in IT services declined 40 bps QoQ to 7.2% (LTM). There was an increase of 19,388 employees in this quarter. Employee strength was at 488,649 at the end of Q4FY21. The company's robust hiring will enable it to tackle talent side crunch

## Key Metrics

**Exhibit 3: Geography wise break-up**

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
<b>Revenue by geography (%)</b>					
North America	50.3	51.4	49.9	49.1	48.6
Latin America	1.8	1.7	1.7	1.7	1.6
UK	16.0	15.3	15.5	15.7	16.0
Continental Europe	15.2	15.6	16.3	16.2	16.8
India	5.5	4.3	5.0	5.6	5.6
Asia Pacific	9.3	9.8	9.7	9.7	9.4
MEA	1.9	1.9	1.9	2.0	2.0
<b>Growth QoQ (%)</b>					
North America	-2.2	-5.0	4.1	3.4	4.0
Latin America	-7.7	-12.2	7.2	5.1	-1.1
UK	-1.9	-11.1	8.6	6.5	7.0
Continental Europe	-0.6	-4.6	12.0	4.5	8.9
India	-6.0	-27.3	24.7	17.7	5.0
Asia Pacific	-2.5	-2.1	6.1	5.1	1.8
MEA	-15.8	-7.1	7.2	10.7	5.0

Source: Company, ICICI Direct Research

*Growth happened across geographies and was led by North Americas, UK, India and Europe*

**Exhibit 4: Vertical wise break-up**

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
<b>Revenue by verticals (%)</b>					
BFSI	29.7	31.5	31.9	31.3	32.2
Retail & CPG	15.4	14.0	14.6	14.5	14.5
Communication and Media	7.2	6.9	6.5	6.6	6.5
Manufacturing	10.1	9.7	9.4	9.6	9.7
Life Sciences & Healthcare	8.8	9.6	9.8	9.8	9.7
Technology & services	8.7	9.1	8.9	8.6	8.4
Regional markets & others	20.1	19.2	18.9	19.6	19.1
<b>Growth QoQ (%)</b>					
BFSI	-4.8	-1.4	8.6	3.1	8.1
Retail & CPG	-1.3	-15.5	11.8	4.4	5.0
Communication and Media	0.2	-10.9	1.0	6.7	3.4
Manufacturing	-1.6	-10.8	3.9	7.4	6.1
Life Sciences & Healthcare	3.3	1.4	9.4	5.1	4.0
Technology & services	0.9	-2.8	4.9	1.6	2.6
Regional markets & others	-5.4	-11.2	5.5	9.0	2.4

Source: Company, ICICI Direct Research

*Broad based growth across verticals*

**Exhibit 5: Client & human resource matrix**

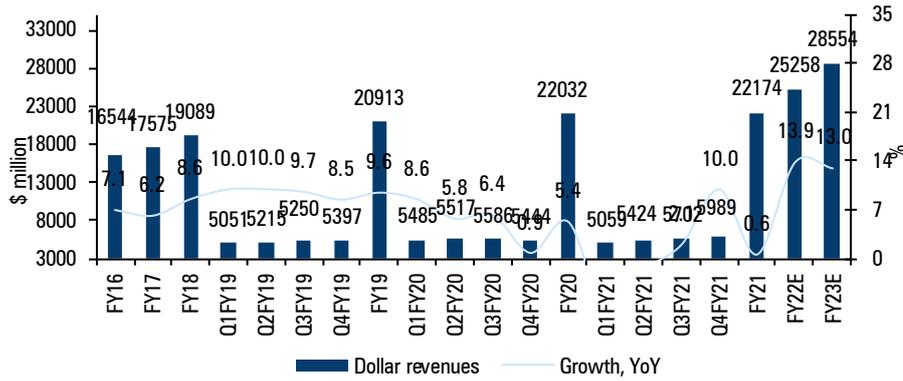
	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
<b>Client metrics</b>					
USD 1 mn+ clients	1072	1066	1076	1077	1096
USD 5 mn+ clients	565	564	565	565	569
USD 10 mn+ clients	391	382	386	386	387
USD 20 mn+ clients	240	230	228	229	228
USD 50 mn+ clients	105	100	97	97	101
USD 100 mn+ clients	49	48	49	48	48
<b>Headcount, Attrition</b>					
Total Employees	448646	443676	453540	469261	488649
Attrition, LTM (IT Services)	12.1	11.1	8.9	7.6	7.2

Source: Company, ICICI Direct Research

*The company added four clients in US\$50 million category and added 19,388 employees in the current quarter. Attrition was lowest in the quarter*

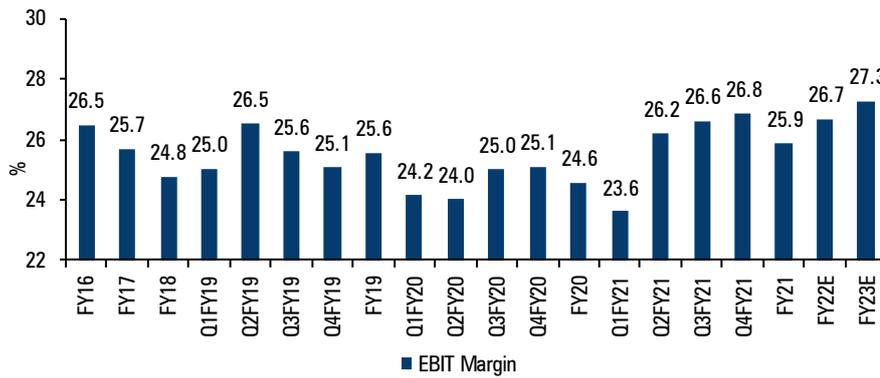
Financial story in charts

Exhibit 6: Dollar revenues may grow at 13.5% CAGR in FY21-23E



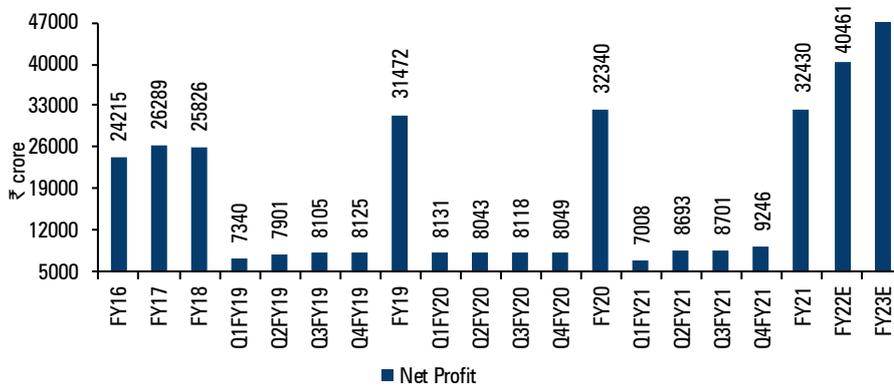
Source: Company, ICICI Direct Research

Exhibit 7: Revision in margin estimates for FY22E & FY23E



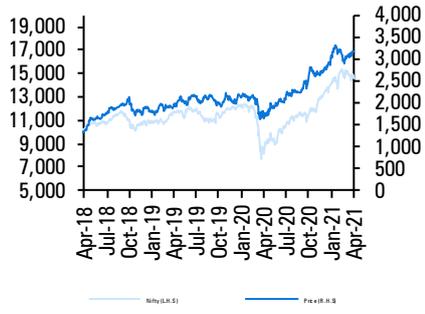
Source: Company, ICICI Direct Research

Exhibit 8: PAT trend



Source: Company, ICICI Direct Research

Exhibit 9: Price Performance



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Total operating Income</b>	<b>1,56,949</b>	<b>1,64,177</b>	<b>1,89,437</b>	<b>2,17,012</b>
Growth (%)	7.2	4.6	15.4	14.6
COGS (employee expenses)	89,635	94,053	1,06,842	1,21,093
S,G&A expenses	25,204	23,578	27,468	31,467
Total Operating Expenditure	1,14,839	1,17,631	1,34,311	1,52,560
<b>EBITDA</b>	<b>42,110</b>	<b>46,546</b>	<b>55,126</b>	<b>64,453</b>
Growth (%)	6.6	10.5	18.4	16.9
Depreciation	3,530	4,065	4,546	5,208
Other Income less interest	3,668	2,497	3,400	4,323
PBT	42,248	44,978	53,979	63,567
Total Tax	9,801	11,198	13,387	15,765
Minority Interest	107	132	132	132
<b>PAT</b>	<b>32,340</b>	<b>32,430</b>	<b>40,461</b>	<b>47,671</b>
Growth (%)	2.8	0.3	24.8	17.8
EPS (₹)	86.2	86.7	109.3	128.7
<b>PAT</b>	<b>32,340</b>	<b>32,430</b>	<b>40,461</b>	<b>47,671</b>
EPS - Reported (₹)	86.2	86.7	109.3	128.7

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	375	370	370	370
Reserve and Surplus	83,751	86,063	93,075	1,04,035
Share Premium	0	0	0	0
Total Shareholders funds	84,126	86,433	93,445	1,04,405
Total debt	8,174	7,795	7,994	8,211
Other liabilities & Provisions	1,405	2,226	2,341	2,467
Deferred tax liability(net)	779	767	767	767
Minority Interest / Others	623	675	807	939
<b>Total Liabilities</b>	<b>95,107</b>	<b>97,896</b>	<b>1,05,354</b>	<b>1,16,789</b>
<b>Assets</b>				
Net assets & CWIP	20,124	20,149	19,391	18,523
Goodwill	1,710	1,798	1,798	1,798
Other non current assets	8,430	9,204	9,734	10,313
Debtors	30,606	30,134	34,770	39,832
Loans and Advances	8,483	11,491	13,259	10,851
Other Current Assets	15,740	19,494	10,040	11,502
Current Investments	26,140	29,160	29,160	29,160
Cash	9,666	9,329	22,885	38,403
Trade Payable	6,740	7,860	9,069	10,389
OCL & Provisions	19,052	25,003	26,615	33,203
<b>Application of Funds</b>	<b>95,107</b>	<b>97,896</b>	<b>1,05,354</b>	<b>1,16,789</b>

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit before Tax	42,248	44,978	53,979	63,567
Add: Depreciation	3,529	4,065	4,546	5,208
(Inc)/dec in Current Assets	-7,125	-1,766	3,050	-4,115
Inc/(dec) in CL and Provisions	2,625	2,629	3,135	8,251
Taxes paid	3,955	-2,106	-13,387	-15,765
<b>CF from operating activities</b>	<b>32,369</b>	<b>38,802</b>	<b>48,387</b>	<b>53,287</b>
(Inc)/dec in Investments	7,916	-7,728	-530	-579
(Inc)/dec in Fixed Assets	-3,088	-3,139	-3,789	-4,340
Others	3,737	2,738	2,937	3,860
<b>CF from investing activities</b>	<b>8,565</b>	<b>-8,129</b>	<b>-1,382</b>	<b>-1,059</b>
Inc/(dec) in loan funds	0	0	0	0
Dividend paid & dividend tax	-37,634	-30,576	-33,449	-36,710
Others	-1,219	-722	0	0
<b>CF from financing activities</b>	<b>-39,915</b>	<b>-32,634</b>	<b>-33,449</b>	<b>-36,710</b>
Net Cash flow	1,019	-1,961	13,556	15,518
Exchange difference	0	0	0	0
Opening Cash	7,224	9,666	7,705	22,885
<b>Closing cash and Bank</b>	<b>9,666</b>	<b>7,705</b>	<b>22,885</b>	<b>38,403</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Per share data (₹)</b>				
Adjusted EPS (Diluted)	86.2	86.7	109.3	128.7
BV per share	224.3	233.6	252.6	282.2
DPS	85.0	21.0	90.3	99.1
Cash Per Share	25.8	25.2	61.9	103.8
<b>Operating Ratios (%)</b>				
EBIT margins	24.6	25.9	26.7	27.3
PBT Margins	26.9	27.4	28.5	29.3
PAT Margin	20.6	19.8	21.4	22.0
Debtor days	71	67	67	67
Creditor days	16	17	17	17
<b>Return Ratios (%)</b>				
RoE	38.4	37.5	43.3	45.7
RoCE	44.4	45.9	51.2	54.4
RoIC	65.1	71.5	94.9	120.4
<b>Valuation Ratios (x)</b>				
P/E	36.3	35.7	28.6	24.3
EV / Net Sales	7.3	7.0	6.0	5.1
Market Cap / Sales	7.5	7.2	6.2	5.4
<b>Solvency Ratios</b>				
Debt / EBITDA	0.2	0.2	0.1	0.1
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	2.1	1.9	1.6	1.4
Quick Ratio	2.1	1.9	1.6	1.4

Source: Company, ICICI Direct Research

**Exhibit 14: ICICI Direct coverage universe (IT)**

Company	Cmp (₹)	TP (₹)	Rating	Mcap (₹ Cr)	EPS (₹)				P/E (x)				RoCE (%)				RoE (%)			
					FY20	FY21E	FY22E	FY23E	FY20	FY21 E	FY22 E	FY23 E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
HCL Tech (HCLTEC)	1,002	1,150	Buy	2,71,815	40.8	48.3	54.1	62.6	25	21	19	16	23.0	23.6	24.4	24.8	21.6	21.5	20.8	20.6
Infosys (INFTEC)	1,399	1,610	Buy	5,95,916	38.9	45.9	54.5	63.4	36	30	26	22	30.8	34.5	36.4	38.5	25.2	27.2	29.3	31.0
TCS (TCS)	3,136	3,800	Buy	11,76,000	86.2	86.7	109.3	128.7	36	36	29	24	44.4	45.9	51.2	54.4	38.4	37.5	43.3	45.7
Tech M (TECMAH)	1,013	1,120	Buy	92,924	45.9	53.4	58.9	69.2	22	19	17	15	19.1	20.5	20.4	21.5	18.5	19.4	18.8	19.3
Wipro (WIPRO)	427	490	Hold	2,50,135	16.6	19.5	20.3	22.7	26	22	21	19	19.3	22.0	22.9	25.5	17.4	19.7	20.5	23.0
Mindtree (MINCON)	2,095	1,970	Buy	34,529	38.3	66.4	75.4	87.7	55	32	28	24	23.0	33.6	32.6	32.8	20.0	28.2	27.2	27.0
LTI (LTINFC)	4,208	4,580	Hold	73,523	86.6	107.7	125.5	149.1	49	39	34	28	30.7	32.4	31.7	31.6	28.1	28.7	28.0	27.9
Coforge (NIITEC)	2,961	2,875	Buy	17,824	71.4	72.6	95.3	111.7	41	41	31	26	23.0	23.5	26.6	27.4	18.5	19.4	22.4	22.9
Infoedge (INFEDG)	4,698	5,725	Hold	60,409	26.8	21.8	38.9	49.0	175	215	121	96	18.0	8.3	14.0	16.3	13.5	6.3	10.5	12.3
Teamlease (TEASER)	3,270	3,290	Buy	5,591	20.5	53.1	68.8	85.6	160	62	48	38	15.0	13.5	15.7	16.5	6.5	14.4	15.5	16.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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