Tata Consultancy Services Limited (TCS IN)

14 April 2021

Q4-FY21 Result Update

CMP: ₹3,104

Target: ₹3,610

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- Tata Consultancy Services Ltd. reported consolidated revenues of ₹437,050 million in Q4FY21, up by 9.4% year over year (y/y) and 4.1% quarter on quarter (q/q) led by strong growth across all verticals and geographies. This healthy growth in the top-line is also supported by the strong demand in core transformation services and strong revenue conversion from earlier deals.
- All verticals showed good sequential growth, BFSI (+7% QoQ, +13.3% YoY), Retail and CPG (+4% QoQ, -0.9% YoY), Life Sciences and Healthcare (+3.8% QoQ, +19.3% YoY), Manufacturing (+3.9% QoQ, +1.3% YoY) and Technology & Services (+2.8% QoQ, +3.9% YoY). On a geographical front, North America (51% of revenue) improved by 3.9% QoQ, Europe (32% of revenue) grew by 5.9% QoQ, India business grew by 2.8% QoQ in CC terms.
- Consolidated EBITDA grew 16.6% y/y to ₹128,010 million while margins stood at 29.3% aided by strong execution, lower utilization and lower travel cost. Net profit for Q4FY21 stood at ₹92,460 million, reporting a growth of 14.9% y/y.
- Strong recovery from TCS, post the initial phases of the COVID-19 pandemic, indicates continued strength in the tech spending environment, along with its ability to capture outsized market share. The management commentary on enterprise demand, especially on Cloud, implies a positive outlook for the Company. It also highlighted a robust pipeline, with a mix of small/midsized deals along with a few large ones, giving it confidence on client spends.
- Overall TCV of deals won during 4QFY21 was at a record high of USD9.2b compared to USD8.9b in 4QFY20. The deal wins are also broad-based participation across verticals and geographies. 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.
- It is expected that IT companies could be key beneficiaries in this multiyear technology transformation phase and in this current scenario, enterprises are building a cloud-based foundation that could serve as a resilient, secure and scalable digital core. TCS' investments in building deep expertise on these platforms, in research & development spends and in industry-specific solutions can be a key beneficiary of this secular demand growth in coming years.
- As per management, strong outlook for BFSI vertical (strongest-ever BFSI deal bookings), investments in hyper-scalers units and improving supply-side metrics, could help the Company to post **double digit growth in the year ended March 2022**.
- With continuity of robust growth across segments, we expect the growth momentum to continue in the medium term supported by strong deal pipeline and ramp up of large deals. We maintain our **Buy** rating on the stock with an upward revised target price of **₹3,610 per share**.

Analyst: Shikher Jain
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Financials

(In ₹ mn)	Q4-FY21	Q4-FY20	Chg	FY21	FY20	Chg
Net Sales	437,050	399,460	9.4%	1,641,770	1,569,490	4.6%
Operating Expense	309,040	289,700	6.7%	1,176,310	1,148,400	2.4%
EBITDA	128,010	109,760	16.6%	465,460	421,090	10.5%
Other Income	9,310	7,380	26.2%	31,340	45,920	-31.8%
Depreciation	10,670	9,510	12.2%	40,650	35,290	15.2%
EBIT	126,650	107,630	17.7%	456,150	431,720	5.7%
Interest	1,380	2,510	-45.0%	6,370	9,240	-31.1%
PBT	125,270	105,120	19.2%	449,780	422,480	6.5%
Tax	32,450	24,190		111,980	98,010	
Exceptional Items	-	-		(12,180)	-	
PAT	**92,820**	**80,930**	**14.7%**	**325,620**	**324,470**	**0.4%**
Minority /Other Adj.	(360)	(440)		(1,320)	(1,070)	
Consolidated PAT	**92,460**	**80,490**	**14.9%**	**324,300**	**323,400**	**0.3%**

Margins	Q4-FY21	Q4-FY20	Chg BPS	FY21	FY20	Chg BPS
Operating Margin %	29.3%	27.5%	181	28.4%	26.8%	152
Net Margin %	21.2%	20.1%	101	19.8%	20.6%	-85

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Consolidated Financials:

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
Net Sales	1,569,490	1,641,770	1,895,371	2,189,521
Operating Expense	1,148,400	1,176,310	1,343,110	1,527,648
EBITDA	421,090	465,460	552,261	661,873
Other Income	45,920	31,340	32,350	38,091
Depreciation	35,290	40,650	45,901	51,051
EBIT	431,720	456,150	538,710	648,913
Interest	9,240	6,370	4,126	4,290
Misc. items	-	(12,180)	-	-
PBT	422,480	437,600	534,584	644,623
Tax	98,010	111,980	135,879	157,432
Minority Interest	(1,070)	(1,320)	(1,120)	(1,105)
PAT	**323,400**	**324,300**	**397,585**	**486,086**

Margins	FY-20	FY-21	FY-22E	FY-23E
Sales Growth %	7.2%	4.6%	15.4%	15.5%
Operating Margin %	26.8%	28.4%	29.1%	30.2%
Net Margin %	20.6%	19.8%	21.0%	22.2%

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
Liabilities				
Equity Share Capital	3,750	3,750	3,750	3,750
Reserves & Surplus	837,510	860,631	930,641	1,040,452
Totat Shareholder's Funds	841,260	864,381	934,391	1,044,202
Minority Interest	6,230	5,500	5,200	5,151
Long-Term Liabilities	-	-	-	-
Other Long-term Liabilities	83,080	22,265	25,010	28,910
Deferred Tax Liability	(20,490)	(16,659)	(19,764)	(21,985)
Short-term Liabilities	270,630	325,876	327,956	376,581
Total	**1,180,710**	**1,201,363**	**1,272,793**	**1,360,563**
Assets				
Net Fixed Assets	218,340	220,450	221,313	236,843
Long-Term L&A	34,800	42,086	45,653	47,562
Non Current Investments	2,160	2,278	3,245	3,619
Other Non-Current Assets	23,040	27,985	28,634	30,145
Current Asset	902,370	908,564	918,743	921,684
Total	**1,180,710**	**1,201,363**	**1,272,793**	**1,360,563**

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
EPS (₹)	87.4	87.7	107.5	131.4
P/E (x)	35.5	35.4	28.9	23.6
P/B (x)	13.6	12.9	12.4	11.8
ROE	38.4%	37.5%	43.3%	45.7%

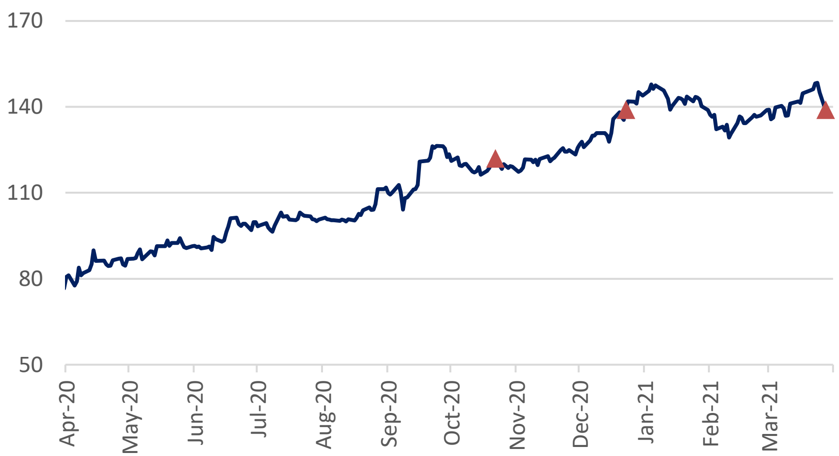
Source: Company, Anand Rathi Research

Key Risks:

- Foreign currency fluctuations.
- Employee Attrition.

Rating and Target Price history:

TCS IN rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on 14 April 2021 close.

TCS IN rating details

Date	Rating	Target Price (₹)	Share Price (₹)
18-April-2019	BUY	2,510	2,150
06-Nov-2020	BUY	3,230	2,708
11-Jan-2021	BUY	3,530	3,177
15-April-2021	BUY	3,610	3,104

Source: Bloomberg, Anand Rathi Research

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