

CMP: INR 3,860

Rating: Hold

Target Price: INR 4,235

Stock Info

BSE	532540
NSE	TCS
Bloomberg	TCS IN
Reuters	TCS.BO
Sector	IT
Face Value (INR)	1
Equity Capital (INR Cr)	370
Mkt Cap (INR Cr)	14,41,187
52w H/L (INR)	3,990/ 2,701
Avg Yearly Vol (in 000')	2,674

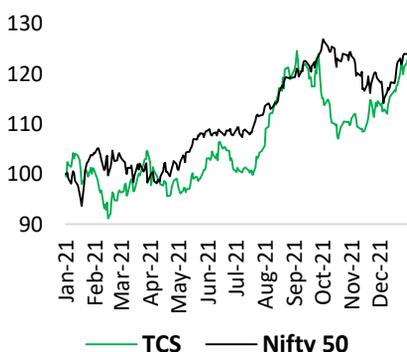
Shareholding Pattern %

(As on December, 2021)

Promoters	72.19
FII	15.37
DII	7.93
Public & Others	4.51

Stock Performance (%)	1m	3m	12m
TCS	7.2	6.7	22.8
Nifty	4.0	0.6	24.7

TCS Vs Nifty



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- TCS Q3FY22, Revenue significantly above estimate; EBIT margin below estimate on high subcontracting and other expenses.
- Constant Currency Revenue growth +14.4% YoY/3% QoQ to (Mn USD) 6,524 against our estimate 6,460 (Mn USD).
- Reported revenue of INR (up 4.3% QoQ/16.4% YoY). The growth was broad-based led by strong performance in BFSI (up 17.9% YoY) and retail (up 20.4% YoY).
- EBIT margin was down 57 bps QoQ at 25.03% on the high subcontracting cost in this supply-constrained environment and other expenses.
- Consolidated PAT stood at INR 9,806 Cr, up by 12.4% YoY/1.6% QoQ against our estimate of INR 9,899 Cr.
- Announced share buyback of INR 18,000 cr at INR 4,500 / share. Also announced interim dividend of INR 7/ share.

Conference call Highlights

- **Geography performance:** The company broad-based growth North America most important grew 18% YoY, Europe grew 17.5% YoY. The UK at 12.7% growth. India geography fantastic quarter in Q3. Moving forward it's hard to say, as India and emerging market is volatile.
- **Segment:** Vertical side, largest vertical BFSI, grew at 17.9% YoY, Retail & CPG grew 20.4% though it bore the brunt of Covid, Manufacturing grew strong at 18.3% YoY.
- **Client:** No of customers more than 100mn \$ grew by 10 from 48 to 58. Strong customer additions lowest band at 1mn+.

Outlook & Valuation

TCS missed operating performance in third consecutive quarter and expensive valuations will weigh on the performance of the stock. We believe demand environment to remain strong over medium term. However, We remain constructive on TCS from medium to long term with its ability to engage with large clients (TCV \$7.6bn) for their large transformation programs. At a CMP of INR 3,860, TCS is trading at P/E of 27.3x to its FY24E EPS of INR 141.2.

We value TCS at PE of 30x to its FY24E EPS of INR 141.2, which yields a target price of INR 4,235 per share. We maintain our rating to Hold.

Particulars (INR Cr)	FY21	FY22E	FY23E	FY24E
Revenues (US\$ mn)	22174	25861	29729	33307
Net Sales	164177	191639	224693	247818
EBIT	42481	50006	58368	65600
Net profit	32430	38888	45871	52237
EPS (INR)	86.7	105.1	124.0	141.2
PE (x)	44.01	36.73	31.13	27.34
EBIT Margin	25.88%	26.09%	25.98%	26.47%
ROE	37.23%	40.34%	40.71%	38.61%
ROCE	36.63%	38.65%	38.85%	36.36%

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Q3FY22 - Quarterly Performance (Consolidated)

(in INR Cr)

Consolidated Income Statement INR Cr	Q3FY22	Q2FY22	Q3FY21	Q-o-Q	Y-o-Y
Revenue (CC Terms) (Mn USD)	6,524	6,333	5,702	3.0%	14.4%
Net Revenue	48,885	46,867	42,015	4.3%	16.4%
Employee Costs	27,600	26,384	23,431	4.6%	17.8%
Other Operating Expenses	7,852	7,367	6,376	6.6%	23.1%
Depreciation	1,196	1,116	1,024	7.2%	16.8%
EBIT	12,237	12,000	11,184	2.0%	9.4%
EBIT margin %	25.03%	25.60%	26.6%	-57bps	-159bps
Other Income	1,205	1,111	691	8.5%	74.4%
Finance Costs	251	142	183	76.8%	37.2%
Exceptional Items	-	-	-	NA	NA
PBT	13,191	12,969	11,692	6.6%	12.8%
Tax Expense	3,385	3,316	2,965	2.1%	14.2%
Effective Tax Rate %	25.7%	25.6%	25.4%	9bps	30bps
Reported PAT	9,806	9,653	8,727	1.6%	12.4%
MI & Associates	-37	-29	-26		
Consolidated PAT	9,769	9,624	8,701	1.5%	12.3%
PAT Margin %	20.0%	20.5%	20.7%	-55bps	-73bps
EPS (INR)	26.4	26.0	23.2	1.5%	13.9%

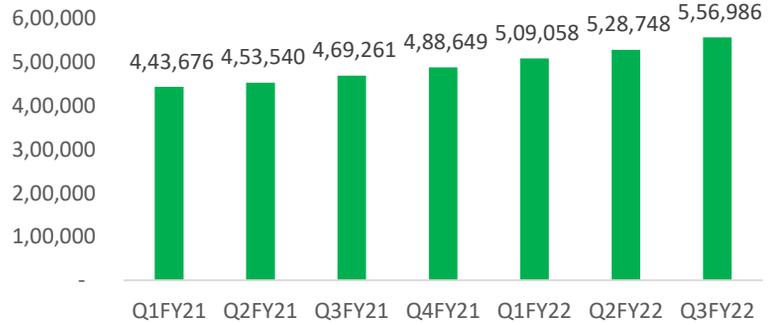
Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Q3FY22 – Key Concall Highlights

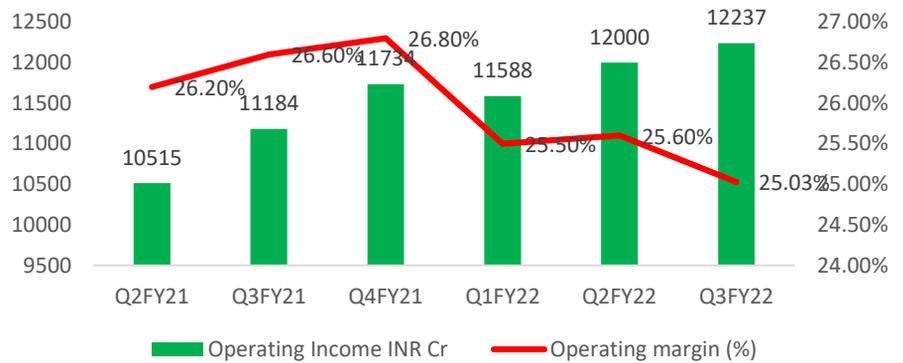
- **Attrition** is best in class in the industry at 15.3% LTM. Able to increase count by 87000 YoY attracting the right talent. Mix about 34000 entry-level associates based on demand from each vertical. Significant coming from campus and rest from market. Significantly coming from campus and rest from market. A hybrid environment for employees will stay.
- **Deal wins & outlook:** Strong 7.6bn\$ in the Q3FY22 on YoY basis and TCv is broad-based across the full spectrum of demand and not skewed. Gives strong confidence in demand outlook. The mix of small and large deals. At least 4 deals are significant. Significant investment in clouds. On deals, 50mn to 500mn range are in pipeline.
- **On pricing,** slight realization uptick and looking forward to realization improvement over next future quarters. Pricing has been stable with an upward bias. Customer relationships are long-term so no short-term price variations. New age services are more inclined to pricing than traditional ones.
- No preference for the size of deals and the company prefers to be present in all spectrums. Prefers medium-sized deals to Large deals as they long time to mature. Large deals are far and few in the pipeline. The medium-sized deals are a major constituent and will continue to be a bedrock for TCv.
- **Margin:** Margin at 25% down 60 bps QoQ but still industry-leading. Measures were undertaken to handle the churn which is seen across the industry. The company has the lowest attrition. Once it normalizes, the margins will be looked at for optimization.
- **Demand:** BFSI has grown by 18%. Manufacturing is also done well. No change in demand. Medium-term visibility. Overall technology upgrade cycle across verticals. Payment modernization, customer experience, in BFSI. The demand environment continues to be strong as overall there is a technology upgrade cycle across verticals.
- **Performance:** Broad-based growth across verticals and geographies. Geography-wise, North America which is the most important segment grew 18%, Europe grew 17.5%, the UK at 12.7% on a YoY basis. Vertical side, largest vertical BFSI, grew at 17.9% YoY, Retail & CPG grew 20.4% though it bore the brunt of Covid, Manufacturing grew strong at 18.3% YoY. Very good quarter on all fronts platforms, products, and services.

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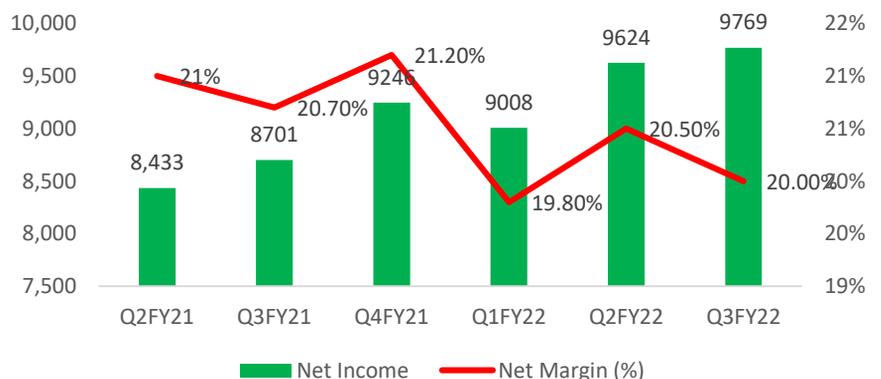
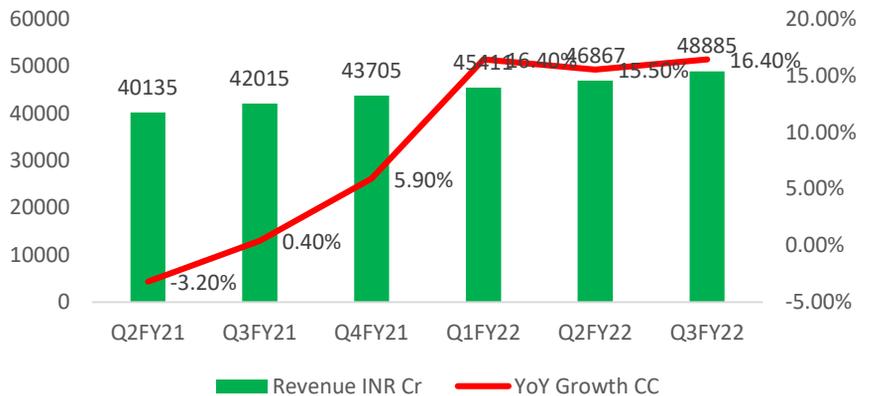
Total Employee Base



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Revenue of INR (up 4.3% QoQ/16.4% YoY). The growth was broad-based led by strong performance in BFSI (up 17.9% YoY) and retail (up 20.4% YoY).



Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Financials

Income Statement (INR Cr)					
Year End-March	FY20	FY21	FY22E	FY23E	FY24E
Revenues (US\$ mn)	22,031	22,174	25,861	29,729	33,307
<i>Change (%)</i>	5.3%	0.6%	16.6%	15.0%	12.0%
Revenues	1,56,949	1,64,177	1,91,639	2,24,693	2,47,818
<i>Change (%)</i>	7.2%	4.6%	16.7%	17.2%	10.3%
Employee costs	85,952	91,814	1,07,509	1,25,603	1,37,539
Operation and other expenses	1,14,840	1,17,631	1,38,938	1,63,240	1,79,048
Total Operating Expenses	2,00,792	2,09,445	2,46,448	2,88,843	3,16,587
Depreciation	3,529	4,065	2,694	3,086	3,170
EBIT	38580	42481	50006	58368	65600
Interest	924	637	638	639	640
Other Income	4,592	3,134	2,977	3,573	4,823
PBT	42,248	44,978	52,345	61,302	69,783
Exceptional Items	0	1,218	0	0	0
PBT after exceptional Items	42,248	43,760	52,345	61,302	69,783
Tax	9,801	11,198	13,348	15,325	17,446
<i>Rate (%)</i>	23.2%	24.9%	25.5%	25.0%	25.0%
PAT	32,447	32,562	38,997	45,976	52,338
Non-controlling interest	-107	-132	-110	-105	-101
Consolidated PAT	32,340	32,430	38,888	45,871	52,237
<i>PAT Margin (%)</i>	20.7%	19.8%	20.3%	20.5%	21.1%

Balance Sheet (INR Cr)					
Year End-March	FY20	FY21	FY22E	FY23E	FY24E
Sources of Funds					
Share Capital	375	370	370	370	370
Reserves & Surplus	83,751	86,063	95,351	1,11,622	1,34,259
Non controlling interest	623	675	675	675	676
Total Equity	84,749	87,108	96,396	1,12,667	1,35,305
Deferred Tax Liability (Net)	779	767	767	767	767
Capital Employed	93,839	96,604	1,05,938	1,22,266	1,44,943
Application of Funds					
Gross Block	26,444	28,658	30,570	32,609	34,785
Less: Depreciation	15,503	17,548	19,793	22,324	25,180
Net Block	10,941	11,110	10,777	10,285	9,605
CWIP	906	926	926	926	926
Financial Assets	8,612	9,319	8,016	8,341	8,568
Investments	216	213	249	292	322
Inventories	5	8	8	8	9
Sundry debtors	36,264	36,662	42,318	45,062	47,730
Cash and bank	9,666	9,329	12,082	19,314	36,596
Other Current Assets	18,162	24,121	24,373	26,544	27,977
Total Current assets	90,237	99,280	1,12,820	1,30,837	1,56,327
Total Current liabilities	27,060	34,155	36,760	38,324	40,715
Net Current assets	63,177	65,125	76,060	92,512	1,15,612
Capital Employed	93,839	96,604	1,05,938	1,22,266	1,44,943

Cash Flow Statement (INR Cr)					
Year End-March	FY20	FY21	FY22E	FY23E	FY24E
Profit for the Year	32,447	32,562	38,997	45,976	52,338
Depreciation	3,529	4,065	2,694	3,086	3,170
Finance Costs	924	637	638	639	640
Operating Profit before WC Changes	42,882	47,031	58,983	68,325	76,905
Operating Profit after WC Changes	38,215	47,894	65,579	70,463	80,531
Direct Taxes Paid & Exceptional Items	-5,846	-9,092	-13,348	-15,325	-17,446
Cash Flow from Operating Activities	32,369	38,802	52,231	55,138	63,085
Cash Flow from Investing Activities	8,565	-8,129	-11,607	-12,441	-10,489
Cash Flow from Financing Activities	-39,915	32,634	-35,572	-35,638	-35,487
Net Change in Cash & Cash Equivalents	1,019	-1,961	5,051	7,059	17,109
Opening Cash & Cash Equivalents	7,224	8,646	6,858	12,082	19,314
Closing Cash & Cash Equivalents	8646	6858	12082	19314	36596

Key Ratios					
Year End-March	FY20	FY21	FY22E	FY23E	FY24E
Per share (INR)					
EPS	86.2	86.7	105.1	124.0	141.2
BVPS	226	226	235	261	305
Valuation (x)					
P/E	44.3	44.0	36.7	31.1	27.3
P/BV	16.9	16.2	14.8	12.7	10.6
Return ratio (%)					
EBIT Margin	24.6%	25.9%	26.1%	26.0%	26.5%
PAT Margin	20.7%	19.8%	20.3%	20.5%	21.1%
ROE	38.2%	37.2%	40.3%	40.7%	38.6%
ROCE	35.0%	36.6%	38.6%	38.9%	36.4%
Leverage Ratio (%)					
Total D/E	0.1	0.1	0.1	0.1	0.1
Turnover Ratios					
Asset Turnover (x)	14.2	15.0	18.2	22.6	25.8
Inventory Days	1	2	2	2	2
Receivable Days	80	81	81	73	70

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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