

Retail Equity Research

Tata Consultancy Services Limited

IT Services

BSE CODE: 532540

NSE CODE: TCS

Bloomberg CODE: TCS:IN

SENSEX: 61,223

BUY

12 Months Investment period Rating as per Large Cap
CMP Rs. 3,969 TARGET Rs. 4,457 RETURN 12%
(Closing: 14-01-22) 

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Growth momentum sustained; Outlook intact

Tata Consultancy Services, a division of Tata Sons Limited, is a global IT services organization that provides a comprehensive range of IT services to its clients in industries. The Company caters to finance and banking, insurance, telecommunication, and transportation among others.

- Q3FY22 revenue up 16.4% YoY (+4.3% QoQ, +15.4% YoY on constant currency (CC) basis) as segments continued to record strong growth.
- EBIT margin recorded a 60bps sequential contraction to 25.0% owing to increase in backfilling costs, targeted increments and subcontractor expenses. PAT however surged 12.3% YoY on higher other income.
- Company added 28,238 new employees during Q3FY22 bringing the total headcount to 556,986. Attrition in the quarter stood at 15.3%.
- Company managed to sustain its strong growth momentum, recording robust performance across all verticals, with pace expected to continue in the coming quarters. We reiterate our BUY rating on the stock with a rolled forward target price of Rs. 4,457 based on 33x FY24E adj. EPS.

Spike in revenue backed by solid growth across verticals

During Q3FY22, revenue grew 16.4% YoY to Rs. 48,885cr (+4.3% QoQ) due to increase in volume across all the major segments. BFSI segment (accounting for 38.9% of total revenue) recorded 14.1% YoY growth to Rs. 18,998cr (+3.0% QoQ), supported by strong TCV of USD 2.9bn. Retail and Consumer Packed Food segment (CPG) revenue increased 20% YoY to Rs. 7,852cr (+4.9% QoQ), while Communications, Media and Technology Services business saw growth of 18.3% YoY to Rs. 8,254cr (+6.7% QoQ). Manufacturing segment rose 17.3% YoY to Rs. 4,722cr (+4.0% QoQ), and Life Sciences and Healthcare revenue soared 18.5% YoY to Rs. 5,169cr. Group EBIT grew 9.4% YoY to Rs. 12,237cr, however EBIT margin shrank to 25% vs. 26.6% in Q3FY21, impacted by higher backfilling costs in addition to target increments and higher subcontractor expenses. PAT came in at Rs. 9,769cr (+12.3% YoY), aided by higher other income (+74.4% YoY) despite higher finance costs (+37.2% YoY).

Key concall highlights

- During Q3FY22, TCV stood at USD 7.6bn. Company's total count of clients in the \$100mn+ band grew to 58, and \$50mn+ to 118.
- TCS BaNCS added 9 new wins and 5 go lives, while Ignio signed up 10 new customers, of which 5 went live. Quartz blockchain platform saw 3 new wins.
- Company board proposed an interim dividend of Rs. 7 for the quarter, taking the total dividend for FY22 to Rs. 21 so far.

Company announces share buyback

On the back of strong performance, the Board on January 12, 2022 approved a proposal to buy back up to 4cr equity shares of the company for an amount not exceeding Rs. 18,000cr. Priced at Rs. 4,500 per equity share, implying a nearly 13% upside over CMP, the buyback would amount to 1.08% of TCS' total paid-up equity capital.

Valuation

Sustained traction in new deal wins and gradual pickup in economic outlook will continue to translate to higher performance for TCS in the near-to-medium term. Company already reached its earlier H2FY22 headcount goal of 34,000 new hires in the current quarter and is looking to hire more in Q4FY22. Maintaining a positive outlook, we retain our BUY rating on the stock with a rolled forward target price of Rs. 4,457 based on 33x FY24E adj. EPS.

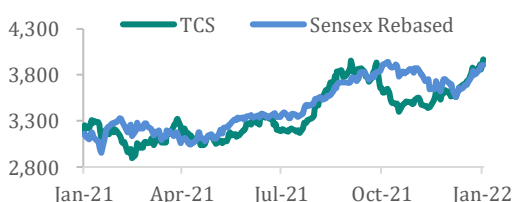
Company Data

Market Cap (cr)	Rs. 1,468,226
Enterprise Value (cr)	Rs. 1,448,316
Outstanding Shares (cr)	369.9
Free Float	28.0%
Dividend Yield	0.7%
52 week high	Rs. 4043
52 week low	Rs. 2,701
6m average volume (lacs)	1.3
Beta	0.6
Face value	Rs. 1

Shareholding %	Q1FY22	Q2FY22	Q3FY22
Promoters	72.2	72.2	72.2
FII's	15.4	15.4	15.0
MFs/Insti	8.0	7.9	8.0
Public	3.5	3.5	3.8
Others	0.9	1.0	1.0
Total	100.0	100.0	100.0
Promoters' pledge	0.5	0.5	0.5

Price Performance	3 Month	6 Month	1 Year
Absolute Return	9.9%	23.5%	22.1%
Absolute Sensex	-0.1%	15.7%	23.5%
Relative Return*	10.0%	7.8%	-1.3%

*over or under performance to benchmark index



Consolidated (cr)	FY22E	FY23E	FY24E
Sales	190,550	217,714	244,878
Growth (%)	16.1	14.3	12.5
EBITDA	53,674	60,624	67,562
EBITDA Margin (%)	28.2	27.8	27.6
Adj. PAT	39,268	44,911	50,517
Growth (%)	16.7	14.4	12.5
Adj. EPS	105.0	120.1	135.1
Growth (%)	16.7	14.4	12.5
P/E	37.8	33.1	29.4
P/B	13.8	11.5	9.8
EV/EBITDA	27.3	24.0	21.4
ROE (%)	36.5	34.8	33.5
D/E	0.1	0.1	0.1

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q3FY22	Q3FY21	YoY Growth %	Q2FY22	QoQ Growth %	9MFY22	9MFY21	YoY Growth %
Revenue	48,885	42,015	16.4	46,867	4.3	141,163	120,472	17.2
EBITDA	13,433	12,208	10.0	13,116	2.4	39,212	33,745	16.2
EBITDA margins	27.5	29.1	(160bps)	28.0	(50bps)	27.8	28.0	(20bps)
Depreciation	1,196	1,024	16.8	1,116	7.2	3,387	2,998	13.0
EBIT	12,237	11,184	9.4	12,000	2.0	35,825	30,747	16.5
Interest	251	183	37.2	142	76.8	539	499	8.0
Other Income	1,205	691	74.4	1,111	8.5	3,037	2,203	37.9
Exceptional Items	-	-	-	-	-	-	(1,218)	n.m.
PBT	13,191	11,692	12.8	12,969	1.7	38,323	31,233	22.7
Tax	3,385	2,965	14.2	3,316	2.1	9,833	7,953	23.6
Sh. of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	37	26	42.3	29	27.6	89	96	(7.3)
Reported PAT	9,769	8,701	12.3	9,624	1.5	28,401	23,184	22.5
Adjustments	-	-	-	-	-	-	1,218	n.m.
Adj. PAT	9,769	8,701	12.3	9,624	1.5	28,401	24,402	16.4
No. of shares	369.9	375.2	(1.4)	369.9	-	369.9	375.2	(1.4)
Adj. EPS (Rs.)	26.4	23.2	13.9	26.0	1.5	76.8	65.0	18.1

Change in Estimates

	Old estimates		New estimates			Change %	
Year / Rs. cr	FY22E	FY23E	FY22E	FY23E	FY24E	FY22E	FY23E
Revenue	192,368	216,589	190,550	217,714	244,878	(0.9)	0.5
EBITDA	53,787	60,253	53,674	60,624	67,562	(0.2)	0.6
Margins (%)	28.0	27.8	28.2	27.8	27.6	20bps	0bps
Adj. PAT	39,673	44,652	39,268	44,911	50,517	(1.0)	0.6
Adj. EPS	106.1	119.4	105.0	120.1	135.1	(1.0)	0.6

PROFIT & LOSS

Y.E March (Rs. cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	156,949	164,177	190,550	217,714	244,878
% change	7.2	4.6	16.1	14.3	12.5
EBITDA	42,109	46,546	53,674	60,624	67,562
% change	6.6	10.5	15.3	12.9	11.4
Depreciation	3,529	4,065	4,584	4,213	3,984
EBIT	38,580	42,481	49,090	56,412	63,578
Interest	924	637	781	784	781
Other Income	4,592	3,134	4,311	4,554	4,898
PBT	42,248	43,760	52,620	60,182	67,694
% change	1.6	3.6	20.2	14.4	12.5
Tax	9,801	11,198	13,155	15,046	16,924
Tax Rate (%)	23.2	25.6	25.0	25.0	25.0
Reported PAT	32,340	32,430	39,268	44,911	50,517
Adj*	-	1,218	-	-	-
Adj PAT	32,340	33,648	39,268	44,911	50,517
% change	2.8	4.0	16.7	14.4	12.5
No. of shares (cr)	375.2	374.0	374.0	374.0	374.0
Adj EPS (Rs.)	86.2	90.0	105.0	120.1	135.1
% change	3.8	4.4	16.7	14.4	12.5
DPS (Rs.)	73.0	38.0	42.0	48.0	54.0
CEPS (Rs.)	95.6	100.8	117.2	131.3	145.7

CASH FLOW

Y.E March (Rs. cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Net inc. + Depn.	35,869	36,495	43,852	49,124	54,501
Non-cash adj.	(656)	1,143	278	(9,390)	(11,589)
Changes in W.C	(2,844)	1,164	(3,428)	(4,402)	(5,187)
C.F. Operation	32,369	38,802	40,702	35,331	37,725
Capital exp.	(2,377)	(2,682)	(3,156)	(3,606)	(4,056)
Change in inv.	7,916	(7,728)	(6,115)	(5,259)	(4,956)
Other invest.CF	3,026	2,281	2,086	1,965	1,977
C.F - Investment	8,565	(8,129)	(7,184)	(6,900)	(7,035)
Issue of equity	-	(19,757)	-	-	-
Issue/repay debt	-	-	300	(275)	(250)
Dividends paid	(37,702)	(10,907)	(15,707)	(17,964)	(20,207)
Other finance.CF	(2,213)	(1,970)	(890)	(840)	(706)
C.F - Finance	(39,915)	(32,634)	(16,297)	(19,079)	(21,163)
Chg. in cash	1,422	(1,788)	17,221	9,352	9,528
Closing cash	9,666	9,329	26,550	35,902	45,430

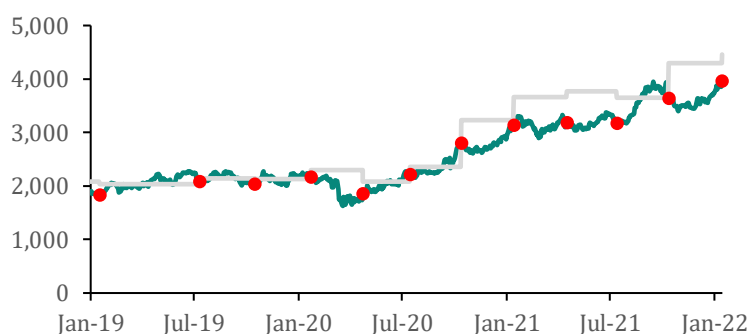
BALANCE SHEET

Y.E March (Rs. cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash	9,666	9,329	26,550	35,902	45,430
Accounts Receivable	30,532	30,079	33,346	39,189	45,302
Inventories	5	8	12	13	12
Other Cur. Assets	50,034	59,864	62,284	71,672	79,894
Investments	216	213	453	424	622
Gross Fixed Assets	26,899	29,581	32,737	36,342	40,398
Net Fixed Assets	10,941	11,110	9,636	8,980	9,000
CWIP	906	926	972	1,021	1,072
Intangible Assets	9,987	9,911	9,505	9,120	8,754
Def. Tax (Net)	5,290	5,776	6,785	7,761	8,729
Other Assets	3,322	3,543	3,382	3,382	3,382
Total Assets	120,899	130,759	152,925	177,462	202,197
Current Liabilities	25,792	32,863	33,597	36,764	39,417
Provisions	-	-	-	-	-
Debt Funds	8,465	8,075	8,375	8,100	7,850
Other Liabilities	1,893	2,713	2,604	2,548	2,623
Equity Capital	375	370	370	370	370
Reserves & Surplus	83,751	86,063	107,107	128,582	150,586
Shareholder's Fund	84,126	86,433	107,477	128,952	150,956
Minority Interest	623	675	872	1,098	1,352
Total Liabilities	120,899	130,759	152,925	177,462	202,197
BVPS (Rs.)	224	231	287	345	404

RATIOS

Y.E March	FY20A	FY21A	FY22E	FY23E	FY24E
Profitab. & Return					
EBITDA margin (%)	26.8	28.4	28.2	27.8	27.6
EBIT margin (%)	24.6	25.9	25.8	25.9	26.0
Net profit mgn.(%)	20.6	19.8	20.6	20.6	20.6
ROE (%)	38.4	37.5	36.5	34.8	33.5
ROCE (%)	41.4	44.6	42.1	40.8	39.7
W.C & Liquidity					
Receivables (days)	71.0	66.9	63.9	65.7	67.5
Inventory (days)	0.1	0.1	0.1	0.1	0.1
Payables (days)	91.2	117.8	89.4	87.6	85.8
Current ratio (x)	3.3	2.9	3.5	3.9	4.2
Quick ratio (x)	2.5	2.0	2.7	3.0	3.3
Turnover & Leverage					
Gross asset T.O (x)	6.1	5.8	6.1	6.3	6.4
Total asset T.O (x)	1.3	1.3	1.3	1.3	1.3
Int. coverage ratio (x)	41.8	66.7	62.9	72.0	81.4
Adj. debt/equity (x)	0.1	0.1	0.1	0.1	0.1
Valuation					
EV/Sales (x)	4.3	7.2	7.7	6.7	5.9
EV/EBITDA (x)	16.2	25.5	27.3	24.0	21.4
P/E (x)	21.1	35.3	37.8	33.1	29.4
P/BV (x)	8.1	13.8	13.8	11.5	9.8

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
23-Apr-20	BUY	2,084
15-Jul-20	HOLD	2,361
13-Oct-20	BUY	3,236
13-Jan-21	BUY	3,667
16-Apr-21	BUY	3,773
13-Jul-21	BUY	3,650
12-Oct-21	BUY	4,298
17-Jan-22	BUY	4,457

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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