

Tata Consultancy Services Limited



Tata Consultancy Services Limited.
Healthy topline beats the growth concern; headwinds subsiding

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 3,897	INR 4,256	9.1%	INR 14,417,607	ACCUMULATE	Internet Software & Services

Synopsis:

Tata Consultancy Services Ltd (TCS) Q3FY22 performance was slightly higher than with our estimate. Dollar Revenue was up 3% QoQ to USD 6,333mn (KRChoksey est. USD6,488mn). Rupee revenue grew by 4.3% QoQ to INR 4,88,850mn (KRChoksey est. INR 4,4,86,591Mn). Reported operating margin contracted by 57bps to 25.0% led by supply side pressures of backfilling of attrition, increased sub-contracting costs, wage interventions to retain talent and discretionary costs. Reported Net profit grew by 1.5% QoQ to INR 97,690mn (KRChoksey est. INR 99,135mn) with margin of 20%. TCS showed strength in its core business segment and has bagged large/mid-sized deals spread across verticals (no mega deals win in Q3). Digital adoption, Agile, automation and cloud have multiyear tailwind and we expect the growth to continue on the back of strong demand environment to cloud shift and multi horizon cloud journey to play key role for TCS. As supply side pressures ease off in FY23, there is scope for margin expansion led by reducing sub-contracting costs, improved pricing, pyramid optimization, best-in-class supply side engine and leverage from growth. The company declared a dividend of INR 7 per share & a buyback of shares worth INR180bn at INR 4,500/share. Our target price of INR 4,256 is based on 29x Mar-24E EPS with EPS CAGR of 19.7% over FY22-24E.

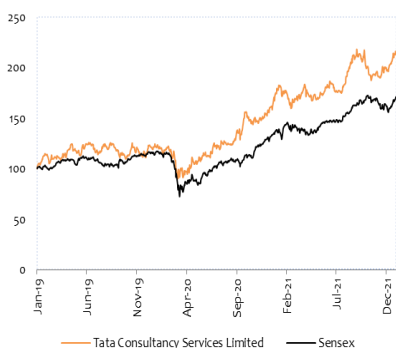
MARKET DATA

Shares outs (Mn)	3699
Mkt Cap (INR Mn)	14,417,607
52 Wk H/L (INR)	3990/2701
Volume Avg (3m K)	2388
Face Value (INR)	1
Bloomberg Code	TCS:IN

KEY FINANCIALS

(INR Mn)	Q3FY22A	Q2FY22A	Q3FY21A	QoQ	YoY	KRChoksey Est.	Variance (%)
USD Revenue	6,524	6,333	5,702	3.0%	14.4%	6,488	0.6%
Revenue	4,88,850	4,68,670	4,20,150	4.3%	16.4%	4,86,591	0.5%
EBIT	1,22,370	1,19,990	1,11,840	2.0%	9.4%	1,25,541	-2.5%
PAT	97,690	96,230	87,270	1.5%	11.9%	99,135	-1.5%
OPM (%)	25.0%	25.6%	26.6%	-57bps	-159bps	25.8%	-77bps
NPM(%)	20.0%	20.5%	20.8%	-55bps	-79bps	20.4%	-39bps

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE

Broad based revenue growth performance

TCS reported 3QFY22 revenue of USD 6,524mn, up 4.0% QoQ in constant currency which was driven by BFSI, manufacturing and Regional markets, while technology and communications verticals dragged down the growth. Management commentary on demand environment continues to remain strong, with a high visibility on Cloud-led spending over the next 2-3 years. Revenue growth was broad-based, and all verticals posted double-digit CC growth YoY. Growth was led by Retail & CPG (19.3% CC YoY), Manufacturing (12%), BFSI (17.9%) and Life Sciences & Healthcare (10.6%). All geographies, except for Asia Pacific and MEA, posted double-digit growth YoY.

Strong deal wins to drive growth across geographies; Continued strong hiring

TCS's 3QFY22 deal wins remained stable at USD 7.6bn, with a book-to-bill ratio of 1.2x, of which USD 2.9bn and USD 1bn were in BFSI and Retail, respectively & North America posted a TCv of USD 4.2bn in 3QFY22, with no major/mega deal as compared to 2QFY22. We believe that the absence of mega deals will bring in the stability in deal wins which is positive for any technology companies and also implies a higher annual contract value (ACV) would support near-term growth. TCS continued to see robust demand in the area of cloud modernization, connected enterprise & product innovation, customer experience and digital workplace transformation and gained traction with good mix of large, mid-sized and small deals. TCS experienced improved realization this quarter and there is further scope for price increase.

Strong headcount addition continued with highest ever net headcount addition of 28,238, up 18.7%YoY. Though the attrition rate has inched up to 15.3%, +340bps QoQ, (lowest in the industry) and has indicated that attrition has peaked out and should start normalizing going forward which means current supply-side challenges to normalize over the next few quarters.

EBIT margin to sustain over 25%

Margin contracted 60bp QoQ to 25.0% in Q3FY22, on account of targeted salary increments, back filling costs & increased subcontracting costs (-70bps), higher discretionary non-manpower costs like travel/facility/marketing (-60bps), partially offset by favorable currency movement (+10bps) and operating efficiencies (+60bps).

MARKET INFO

SENSEX	61,235
NIFTY	18,258

SHARE HOLDING PATTERN (%)

Particulars	Dec-21	Sep-21	Jun-21
Promoters	72.2	72.2	72.2
FIs	15.0	15.4	15.4
DIs	8.0	7.9	8.0
Others	4.8	4.5	4.4
Total	100	100	100

11.0%

Revenue CAGR between FY22 and FY24E

19.7%

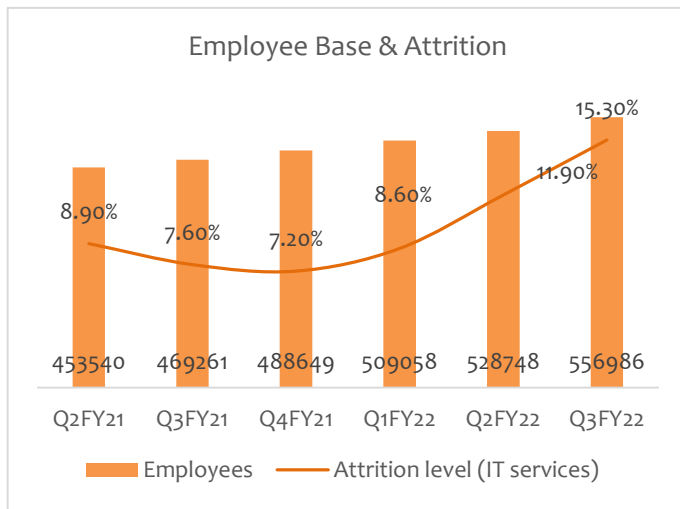
PAT CAGR between FY22 and FY24E

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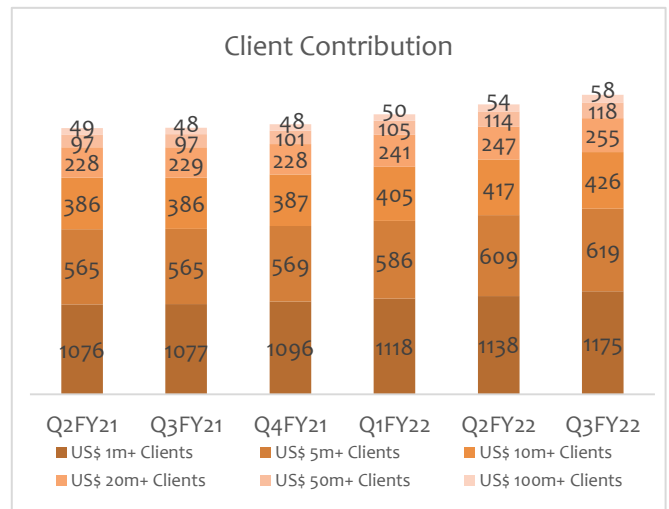
Key Concall Highlights: (i) TCS has announced a buyback of shares worth INR 180bn at INR 4,500/share, ~1.1% of equity and an interim dividend of INR 7/share (ii) Attrition may go up in Q4 & it expects to stabilize/start declining in next few quarters. (iii) Management expects a price hike, especially in digital projects (iv) Subcontracting costs are likely to remain higher in the near term and will come down once attrition starts moderating (v) In the BFSI vertical, TCS is likely to see the base effect in Q4FY22 as Q4FY21 benefitted from large deals (vi) Within Product and platform, TCS Master Craft signed 22 new customers (vii) TCS has witnessed customers shifting their ERP and other SAAS apps on cloud (horizon 1). In Horizon 2, client use cloud and cloud native capability to innovate their core business and in horizon 3, ecosystem play becomes revenue driver and provides end to end solution.

Valuation and view

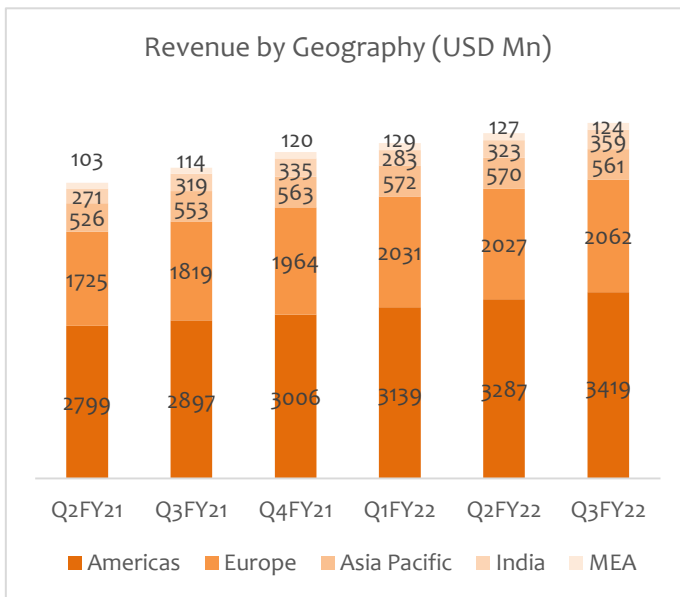
TCS is currently trading at a valuation with a P/E multiple of 31.7x/26.5x on FY23E/FY24E earnings. We expect strong deal momentum across verticals, ease in travel restrictions and continued investments in newer technologies such as product & platform which will help maintain the growth momentum in medium term future and hence we are assigning a P/E multiple of 29x to the FY24 estimated EPS of INR 147 to arrive at a target price of INR 4,256 per share, an upside of 9.1% over the CMP. Accordingly, we reiterate an “ACCUMULATE” rating to the stock.



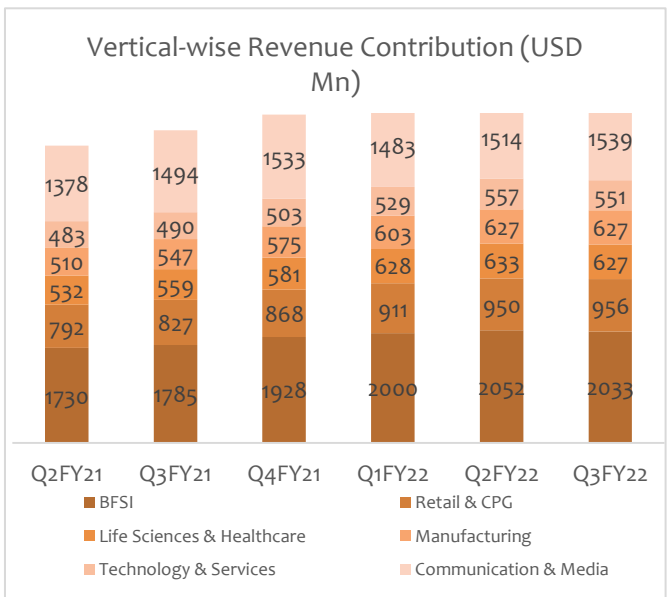
Source: Company, KRChoksey Research



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Source: Company, KRChoksey Research

Tata Consultancy Services Limited.
KEY FINANCIALS
Exhibit 1: Balance Sheet

Particulars (INR Mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Property, Plant and Equipment	1,04,110	1,09,410	90,059	85,357	77,482	66,015
Right-of-use Asset	0	79940	79940	79940	79940	79940
CWIP	9,630	9,060	9,060	9,060	9,060	9,060
Goodwill	17,000	17,100	17,100	17,100	17,100	17,100
Intangible Assets	1,790	2,830	2,830	2,830	2,830	2,830
Investments	2,390	2,160	2,160	2,160	2,160	2,160
Other non-current tax assets	66730	52900	52900	52900	52900	52900
Other non current assets	26,470	33,220	33,220	33,220	33,220	33,220
Total non current assets	2,28,120	3,06,620	2,87,269	2,82,567	2,74,692	2,63,225
Unbilled Revenue	51570	57320	67286	77588	86415	95465
Investments	2,90,910	2,61,400	2,61,400	2,61,400	2,61,400	2,61,400
Trade receivables	2,73,460	3,05,320	3,14,000	3,62,078	4,03,269	4,45,504
Cash & equivalent	1,28,480	96,660	2,96,730	3,70,008	4,74,415	5,87,546
Other current assets	1,58,360	1,81,590	1,81,590	1,81,590	1,81,590	1,81,590
Current Tax Assets	18530	80	80	80	80	80
Total current assets	9,21,310	9,02,370	11,21,085	12,52,744	14,07,169	15,71,585
Total Assets	11,49,430	12,08,990	14,08,355	15,35,311	16,81,861	18,34,809
Equity Share Capital	3,750	3,750	3,750	3,750	3,750	3,750
Other Equity	8,90,710	8,37,510	10,53,378	11,60,691	12,89,590	14,42,827
Equity Attributable to Owners of the Company	8,94,460	8,41,260	10,57,128	11,64,441	12,93,340	14,46,577
Non controlling Interest	4,530	6,230	7,514	8,798	10,082	11,366
Total Equity	8,98,990	8,47,490	10,64,642	11,73,239	13,03,422	14,57,943
Long term Debts	440	69,060	62,154	55,939	50,345	45,310
Other Financial Liabilities	12,570	6,970	6,970	6,970	6,970	6,970
Employee benefit obligation	3,300	4,170	4,170	4,170	4,170	4,170
DTL	10420	7790	7790	7790	7790	7790
Other Non-Current Liabilities	2870	2910	2910	2910	2910	2910
Total non current liabilities	9,28,590	9,38,390	11,48,636	12,51,017	13,75,607	15,25,094
short term borrowing & leasing	0	12,680	12,680	12,680	12,680	12,680
Deferred Revenue	23,920	29,150	14,224	16,744	20,405	9,957
Trade Payables	62,920	67,400	64,279	75,018	81,740	88,661
Other Financial Liabilities	49,030	61,000	61,000	61,000	61,000	61,000
Other Current Liabilities	34,740	35,760	35,760	35,760	35,760	35,760
Employee benefit obligation	23,560	27,490	29,365	34,029	36,707	39,600
Current Tax Liabilities	26,670	37,120	42,411	49,064	57,962	62,058
Total Current Liabilities	2,20,840	2,70,600	2,59,719	2,84,294	3,06,255	3,09,716
Total liabilities	11,49,430	12,08,990	14,08,355	15,35,311	16,81,861	18,34,809

Source: Company, KRChoksey Research

Tata Consultancy Services Limited.

KEY FINANCIALS

Exhibit 2: Profit & Loss Statement

Particulars (INR Mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	12,31,040	14,64,630	15,69,490	16,41,770	19,08,889	21,29,524	23,52,549
Employee Cost	6,63,960	7,82,460	8,59,520	9,18,140	10,80,314	11,64,117	12,55,846
Other Cost	2,41,920	2,87,110	2,88,880	2,58,170	3,04,794	3,51,594	3,88,171
EBITDA	3,25,160	3,95,060	4,21,090	4,65,460	5,23,781	6,13,813	7,08,533
Depreciation	20,140	20,560	35,290	39,873	42,602	44,849	46,516
EBIT	3,05,020	3,74,500	3,85,800	4,25,587	4,81,179	5,68,965	6,62,017
Other income, net	36,420	43,110	45,920	31,340	44,424	56,020	60,262
Finance costs	520	1,980	9,240	6,370	7,900	9,036	3,826
Pre-tax Income	3,40,920	4,15,630	4,22,480	4,50,557	5,17,703	6,15,949	7,18,452
Income tax expense	82,120	1,00,010	98,010	1,11,980	1,31,321	1,53,358	1,65,244
Net profit Before MI	2,58,800	3,15,620	3,24,470	3,38,577	3,86,382	4,62,591	5,53,208
Minority Interest	540	900	1,070	1,284	1,284	1,284	1,284
Net profit Before MI	2,58,260	3,14,720	3,23,400	3,37,293	3,85,098	4,61,307	5,51,924
Diluted EPS (INR)	68.83	83.87	86.19	89.89	102.63	122.94	147.09
Shares in Million	1,925	3,752	3,752	3,752	3,752	3,752	3,752

Source: Company, KRChoksey Research

Exhibit 3: Free Cash Flow Analysis

Particulars (INR Mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Cash Generated From Operations	4,26,550	4,94,650	4,60,904	5,22,849	6,31,397	7,11,000
Net Cash Flow from/(used in) Investing Activities	-3,92,990	-5,14,140	-2,53,928	-4,43,356	-5,21,396	-5,92,835
Net Cash Flow from Financing Activities	-70	68,620	-6,906	-6,215	-5,594	-5,034
Net Inc/Dec in cash equivalents	33,490	49,130	2,00,070	73,278	1,04,407	1,13,131
Opening Balance	61,611	95,101	96,660	2,96,730	3,70,008	4,74,415
Closing Balance Cash and Cash Equivalents	95,101	1,44,231	2,96,730	3,70,008	4,74,415	5,87,546

Source: Company, KRChoksey Research

Exhibit 4: Ratio Analysis

Key Ratio	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
EBIT Margin (%)	24.8%	25.6%	24.6%	25.9%	25.2%	26.7%	28.1%
Tax rate (%)	24.1%	24.1%	23.2%	24.9%	25.4%	24.9%	23.0%
Net Profit Margin (%)	21.0%	21.5%	20.6%	20.5%	20.2%	21.7%	23.5%
RoE (%)	29.8%	36.1%	37.3%	35.5%	34.7%	37.5%	40.2%
RoCE (%)	25.8%	31.3%	31.7%	30.6%	29.9%	32.5%	35.1%
EV/EBITDA	34.7	28.6	27.1	24.1	21.3	18.0	15.4
EPS (INR per share)	68.8	83.9	86.2	89.9	102.6	122.9	147.1

Source: Company, KRChoksey Research

Tata Consultancy Services Limited.

Tata Consultancy Services				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP(INR)	Recommendation	Our Rating	Upside
14-Jan-22	3897	4256	ACCUMULATE	Buy	More than 15%
08-Oct-21	3935	4256	ACCUMULATE	Accumulate	5% – 15%
25-Jun-21	3659	4053	ACCUMULATE	Hold	0 – 5%
				Reduce	-5% – 0
				Sell	Less than – 5%

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