

Tata Consultancy Services Limited (TCS)

14 April 2022

Q4-FY22 Result Update

CMP: ₹3,665

Target: ₹4,350

ANAND RATHI

- ❑ Tata Consultancy Services Limited (TCS) reported good growth in topline in line with our expectations with revenue from operation growing 15.8% YoY to ₹ 505.9 billion during 4QFY22 as against ₹ 437.1 billion in 4QFY21. The company recorded Constant Currency Revenue growth of 14.3% YoY. The Company recorded revenue at ₹ 1,917.5 billion for FY22, a growth of 16.8%.
- ❑ The company reported EBITDA of ₹ 138.5 billion in 4QFY22 as against ₹ 128 billion in 4QFY21. EBITDA Margins for 4QFY22 stood at ~27.4%. EBIT margin during the quarter were flat at 25% QoQ. During the quarter there was pressure on margins due to supply side challenges which were mitigated from operational efficiencies and currency support. The profit after tax (PAT) for 4QFY22 came in at ₹ 99.6 billion as against ₹ 92.8 billion during 4QFY21 recording a growth of 7.3% YoY. Net income margin stood at 19.7%.
- ❑ During the quarter growth was led by Retail and Consumer Business Segment which grew 21.1% YoY recording revenue at ₹ 8.2 billion in 4QFY22 as against ₹ 67.8 billion in 4QFY21. Banking, Financial Services and Insurance segment reported revenue of ₹ 195.3 billion in 4QFY22 as compared to ₹ 175.6 billion in 4QFY21, a revenue growth of ~11.2 % YoY. Life Science and Health Care segment grew by 19.7% YoY to ₹ 54.2 billion during 4QFY22 as against ₹ 45.2 billion in 4QFY21. Manufacturing segment recorded ₹ 49.5 billion in Revenue with a growth rate of 17.5% YoY. Communication, Media and Technology grew 20.4% to ₹ 84.8 billion in 4QFY22 as against ₹ 70.4 billion in 4QFY21.
- ❑ On geographical front, among the major markets growth was led by North America which grew by 18.7%. Continental Europe grew by 10.1%, while UK grew 13%. Among the emerging markets, growth was led by Latin America which grew 20.6% and India which grew 7%. Middle East and Africa grew 7.3% and Asia Pacific grew by 5.5%.
- ❑ During 4QFY22, TCS recorded highest ever order book at \$11.3 billion. It includes two mega deals of ~\$1 billion each. By vertical, BFSI had very strong TCV of \$3.2 billion. While retail posted an order book of \$4.6 billion. The TCV of deals signed in North America stood at \$6.1 billion. For the full year, the order book TCV was \$34.6 billion, a growth of 9.5% over the prior year.
- ❑ On the people front the company saw all-time high net additions in the quarter at 35,309 during Q4FY22 bringing the total headcount to ~592,000. During the quarter, LTM attrition was at 17.4%. However the incremental attrition has moderated.

- During the quarter, the company had robust additions in every revenue bucket. They added 10 more clients for the last 12 months in the \$100 million plus band, bringing the total to 58. The Company added 19 more clients in the \$50 million plus band, bringing the total to 120. They added 40 more clients in the \$20 million band bringing the total to 268. While 52 more clients were added in the \$10 million band, bringing the total to 439. The company 69 more clients in the \$5 million band, bringing the total to 638 and 86 more clients in the \$1 million plus band, bringing the total to 1,152.
- 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 recommend **BUY** rating on the stock with a revised target price of **₹4,350 per share**.

Financials:

(In ₹ mn)	Q4-FY22	Q4-FY21	Chg	FY22	FY21	Chg
Net Sales	505,910	437,050	15.8%	1,917,540	1,641,770	16.8%
Operating Expense	367,460	309,040	18.9%	1,386,970	1,176,310	17.9%
EBITDA	138,450	128,010	8.2%	530,570	465,460	14.0%
Other Income	9,810	9,310	-	40,180	31,340	-
Depreciation	12,170	10,670	-	46,040	40,650	-
EBIT	136,090	126,650	7.5%	524,710	456,150	15.0%
Interest	2,450	1,380	-	7,840	6,370	-
PBT	133,640	125,270	6.7%	516,870	449,780	14.9%
Tax	34,050	32,450	-	132,380	111,980	-
Exceptional Items	-	-	-	-	(12,180)	-
PAT	99,590	92,820	7.3%	384,490	325,620	18.1%
Minority /Other Adj.	(330)	(360)	-	(1,220)	(1,320)	-
Consolidated PAT	99,260	92,460	7.4%	383,270	324,300	18.2%
Margins	Q4-FY22	Q4-FY21	Chg BPS	FY22	FY21	Chg BPS
Operating Margin %	27.4%	29.3%	-192	27.7%	28.4%	-68
Net Margin %	19.7%	21.2%	-155	20.1%	19.8%	22

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Consolidated Financials:

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(In ₹ mn)	FY-21	FY-22	FY-23E	FY-24E
Net Sales	1,641,770	1,917,540	2,224,346	2,557,998
Operating Expense	1,176,310	1,387,060	1,618,258	1,854,655
EBITDA	465,460	530,480	606,088	703,343
Other Income	31,340	40,270	44,487	51,160
Depreciation	40,650	46,040	49,430	56,844
EBIT	456,150	524,710	601,145	697,659
Interest	6,370	7,840	6,447	4,551
Misc. items	-12,180	-	-	-
PBT	437,600	516,870	594,698	693,108
Tax	111,980	132,380	152,313	177,518
Minority Interest	(1,320)	(1,220)	(1,770)	(2,062)
PAT	324,300	383,270	440,615	513,528

Margins	FY-21	FY-22	FY-23E	FY-24E
Sales Growth %	-	16.8%	16.0%	15.0%
Operating Margin %	28.4%	27.7%	27.2%	27.5%
Net Margin %	19.8%	20.0%	19.8%	20.1%

(In ₹ mn)	FY-21	FY-22	FY-23E	FY-24E
Liabilities				
Equity Share Capital	3,700	3,660	3,660	3,660
Reserves & Surplus	860,630	887,730	1,019,915	1,173,973
Total Shareholder's Funds	864,330	891,390	1,023,575	1,177,633
Minority Interest	6,750	7,070	8,840	10,902
Long-Term Liabilities	-	-	-	-
Other Long-term Liabilities	87,290	87,270	88,270	88,270
Deferred Tax Liability	(31,640)	(31,180)	(31,180)	(31,180)
Short-term Liabilities	341,550	423,510	491,272	564,962
Total	1,268,280	1,378,060	1,580,776	1,810,587
Assets				
Net Fixed Assets	219,470	225,030	254,489	271,790
Long-Term L&A	28,650	33,650	33,650	33,650
Non Current Investments	2,130	2,230	2,230	2,230
Other Non-Current Assets	25,230	34,050	34,050	34,050
Current Asset	992,800	1,083,100	1,256,356	1,468,867
Total	1,268,280	1,378,060	1,580,776	1,810,587

(In ₹ mn)	FY-21	FY-22	FY-23E	FY-24E
EPS (₹)	87.7	104.7	120.4	140.3
P/E (x)	41.8	35.4	30.8	26.4
P/B (x)	15.7	15.2	13.2	11.5
ROE	37.5%	43.0%	43.0%	43.6%

Source: Company, Anand Rathi Research

Tata Consultancy Services Limited (TCS)

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Key Risks:

- Foreign currency fluctuations.
- Employee Attrition.

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Rating and Target Price history:

TCS in rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on 14 April 2022 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
14-July-2021	BUY	3,720	3,214
24-Nov-2021	BUY	3,990	3,444
19-Jan-2022	HOLD	4,350	3,828
14-April-2022	BUY	4,350	3,665

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Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
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