

Refer to important disclosures at the end of this report

Healthy demand environment; H1 likely to see usual seasonality

- As per our interaction with TCS management, the company does not see any softness in demand or any delay in decision-making from clients despite the uncertain macro environment. Management is confident of sustaining revenue growth momentum in the coming quarters.
- TCS indicated that the deal pipeline remains healthy with a good mix of small, medium and large deals. The company further indicated that the deal closure velocity remains steady and it is not witnessing delays in decision making. TCS signed deals worth USD34.6bn in FY22 (up ~10% YoY).
- Margins are expected to remain under pressure in H1FY23 on account of headwinds stemming from wage hikes (w.e.f Q1) and an uptick in travel and visa costs. Margins should improve in H2, driven by normalization of salary hikes, moderation in attrition and benefits accruing from better pricing.
- TCS is well poised to benefit from strong demand and growing digital transformation opportunities. Key concerns include salary inflation, currency volatility and a potential slowdown in US/Europe. We have a Buy rating with a TP of Rs4,000 at 28x Mar'24E EPS.

Optimistic about sustaining revenue growth momentum in FY23: TCS has implemented a new organization structure to enhance its customer centricity in order to capture Horizon 2 and Horizon 3 demand and to drive sustained revenue growth. The new structure retains the atomicity of its earlier architecture, and its three dimensions – industry verticals, horizontal service lines and geography-based sales. TCS has now added a fourth dimension, the stage of the customer's relationship journey with TCS, wherein it has rearranged existing units into three business groups, each aligned to a particular phase in the customer relationship journey: 1) Relationship Incubation Group (to manage new relationship), 2) Enterprise Growth Group (to manage relationship that are in the high growth phase), and 3) Business Transformation Group (to manage large and mature relationship). TCS indicated that it does not see any softness in demand or any delay in the decision-making process from clients despite macro uncertainties. In UK, demand remains muted (although no material impact anticipated) due to Brexit, high inflationary pressures and geopolitical conditions. It continues to see good traction in markets like Canada on the back of growing penetration and market share gains, which it expects to continue in the medium term. Deal intake remains robust, with TCS signing deals worth USD34.6bn in FY22 (+10% YoY). It expects normal seasonality to play out in FY23 with H1 expected to be stronger. The company indicated that the pricing environment remains stable and is seeing better pricing for G&T (Growth & Transformation) and emerging technologies due to talent scarcity. Retail sector demand remains healthy as consumption trends have not changed materially. Management remains confident of sustaining revenue growth momentum in the coming quarters on the back of broad-based demand, strong deal intake and pipeline.

Margins to remain under pressure in H1 and to bounce back in H2: Management indicated that margins are expected to remain under pressure in H1FY23 due to wage hikes (effective April) and an uptick in travel and visa costs. Margins are likely to start improving from H2FY23 with the normalization of salary hikes, moderation in attrition (lower tactical intervention needed) and benefits accruing from better pricing. Attrition is expected to moderate in the coming quarters as the industry has increased the hiring of freshers over the last few quarters, resulting in the expansion of the talent pool. Management indicated that TCS has long-term margin levers in place and maintains its aspirational EBITM band of 26-28% in the long term.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Information Technology \(Page 7\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Revenue	1,569,490	1,641,770	1,917,540	2,231,100	2,571,140
EBITDA	421,100	453,280	530,570	613,508	708,131
EBITDA Margin (%)	26.8	27.6	27.7	27.5	27.5
APAT	323,400	324,300	383,270	446,784	518,616
EPS (Rs)	86.2	87.7	104.7	122.1	141.7
EPS (% chg)	2.8	1.7	19.5	16.6	16.1
ROE (%)	36.4	37.1	42.6	44.5	42.3
P/E (x)	37.2	36.6	30.6	26.3	22.6
EV/EBITDA (x)	27.9	25.5	21.3	18.2	15.5
P/BV (x)	14.0	13.4	12.9	10.7	8.6

Source: Company, Emkay Research

CMP	Target Price
Rs 3,206	Rs 4,000 (■)
as of (June 15, 2022)	12 months
Rating	Upside
BUY (■)	24.8 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	-/
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	122.1	141.7
Consensus	118.1	133.3
Mean Consensus TP (12M)	Rs 3,914	

Stock Details

Bloomberg Code	TCS IN
Face Value (Rs)	1
Shares outstanding (mn)	3,659
52 Week H/L	4,123 / 3,132
M Cap (Rs bn/USD bn)	11,732 / 150.27
Daily Avg Volume (nos.)	2,437,607
Daily Avg Turnover (US\$ mn)	109.5

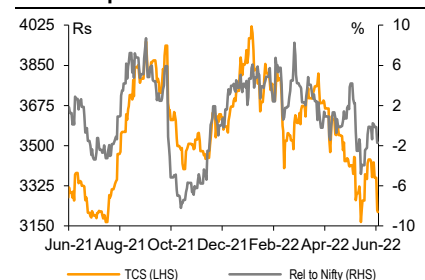
Shareholding Pattern Mar '22

Promoters	72.3%
FIIIs	14.2%
DIIIs	7.8%
Public and Others	5.7%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(6)	(11)	(10)	(2)
Rel. to Nifty	(6)	(5)	(1)	(1)

Relative price chart



Source: Bloomberg

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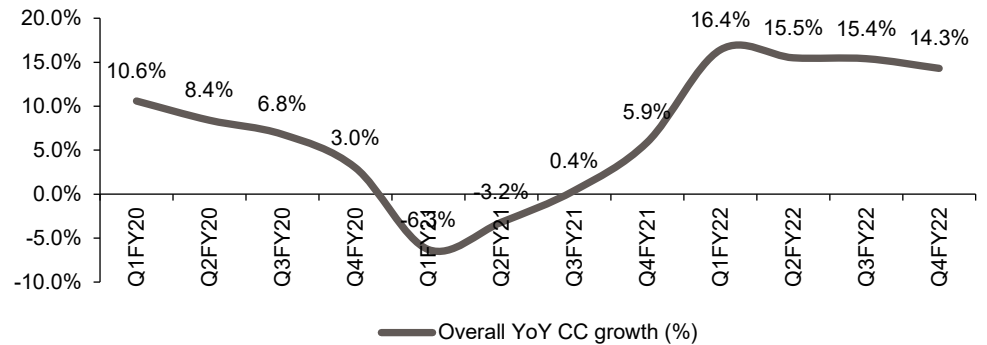
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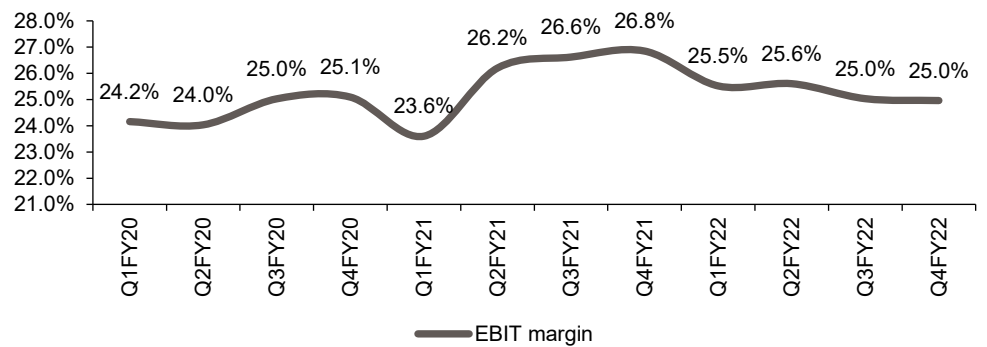
Story in Charts

Exhibit 1: Revenue growth momentum remains strong



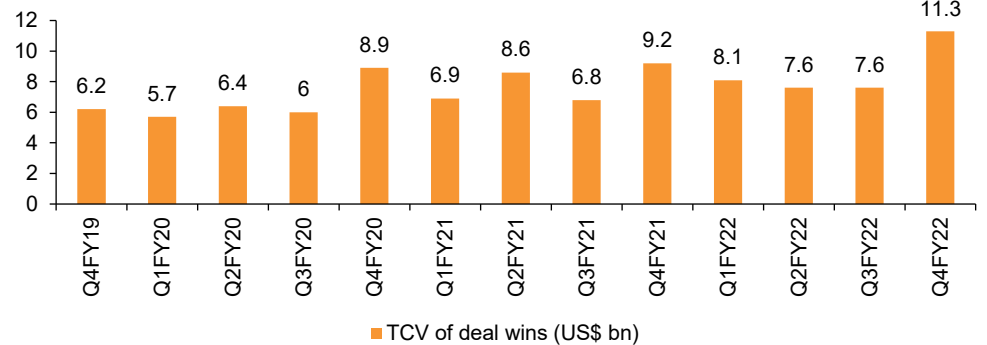
Source: Company, Emkay Research

Exhibit 2: Elevated attrition exerted pressure on EBITM over last few quarters



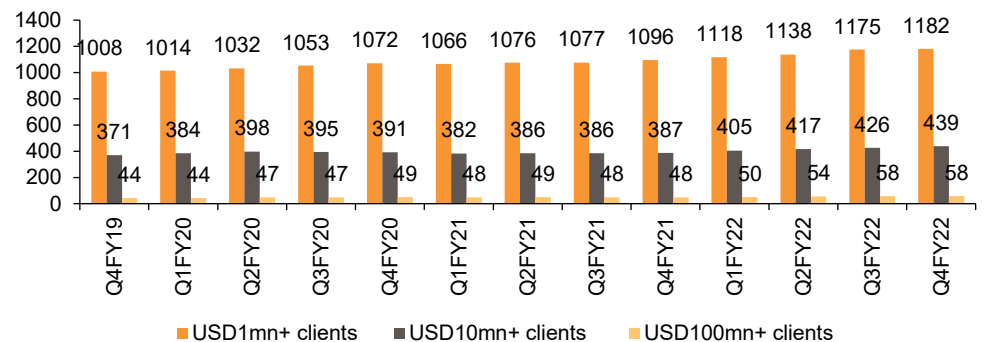
Source: Company, Emkay Research

Exhibit 3: Deal intake has remained healthy in the last few quarters

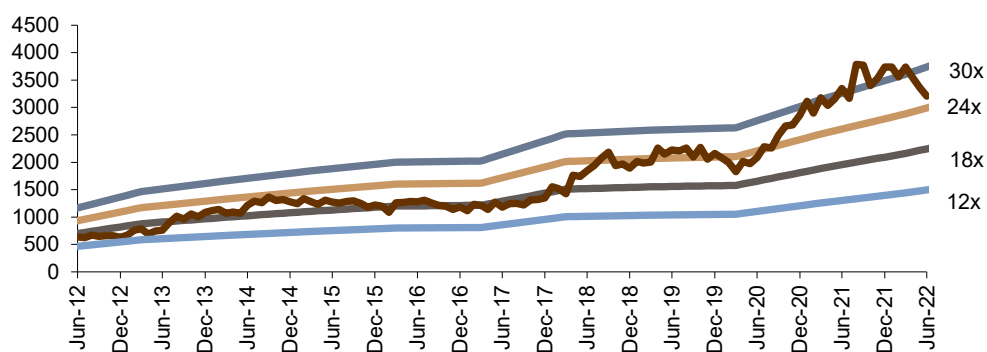


Source: Company, Emkay Research

Exhibit 4: Steady movement across client buckets



Source: Company, Emkay Research

Exhibit 5: TCS 1-year forward P/E chart

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Revenue	1,569,490	1,641,770	1,917,540	2,231,100	2,571,140
Expenditure	1,148,390	1,188,490	1,386,970	1,617,592	1,863,009
EBITDA	421,100	453,280	530,570	613,508	708,131
Depreciation	35,300	40,650	46,040	52,431	60,422
EBIT	385,800	412,630	484,530	561,077	647,709
Other Income	36,680	24,970	32,340	40,434	50,401
Interest expenses	0	0	0	0	0
PBT	422,480	437,600	516,870	601,512	698,111
Tax	98,010	111,980	132,380	153,386	178,018
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	1,070	1,320	1,220	1,342	1,476
Reported Net Income	323,400	324,300	383,270	446,784	518,616
Adjusted PAT	323,400	324,300	383,270	446,784	518,616

Balance Sheet

Y/E Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Equity share capital	3,750	3,700	3,660	3,660	3,660
Reserves & surplus	858,650	881,850	908,930	1,092,012	1,354,495
Net worth	862,400	885,550	912,590	1,095,672	1,358,155
Minority Interest	6,230	6,750	7,070	8,412	9,888
Loan Funds	81,740	77,950	78,180	78,180	78,180
Net deferred tax liability	(20,230)	(31,360)	(30,900)	(30,900)	(30,900)
Total Liabilities	930,140	938,890	966,940	1,151,364	1,415,323
Net block	240,650	241,960	247,520	244,360	245,360
Investment	275,090	323,540	372,240	369,620	619,620
Current Assets	686,370	724,280	779,780	1,003,704	1,069,439
Cash & bank balance	86,460	68,580	124,880	268,611	237,253
Other Current Assets	233,290	285,800	234,800	246,085	268,649
Current liabilities & Provision	271,970	350,890	432,600	466,320	519,096
Net current assets	414,400	373,390	347,180	537,384	550,343
Misc. exp	0	0	0	0	0
Total Assets	930,140	938,890	966,940	1,151,364	1,415,323

Cash Flow

Y/E Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
PBT (Ex-Other income) (NI+Dep)	323,400	324,300	383,270	446,784	518,616
Other Non-Cash items	97,610	124,800	132,240	1,342	1,476
Chg in working cap	(45,000)	10,920	(26,460)	(46,473)	(44,317)
Operating Cashflow	353,910	411,070	421,450	454,084	536,197
Capital expenditure	(30,570)	(28,200)	(24,830)	(49,271)	(61,422)
Free Cash Flow	323,340	382,870	396,620	404,813	474,775
Investments	76,760	(82,480)	(13,080)	2,620	(250,000)
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	46,190	(110,680)	(37,910)	(46,651)	(311,422)
Equity Capital Raised	0	(197,570)	(180,670)	(40,500)	0
Loans Taken / (Repaid)	(12,890)	(13,360)	(14,410)	0	0
Dividend paid (incl tax)	(377,020)	(109,070)	(133,750)	(223,202)	(256,134)
Other Financing Cash Flow	4,030	1,730	1,590	0	0
Financing Cashflow	(385,880)	(318,270)	(327,240)	(263,702)	(256,134)
Net chg in cash	14,220	(17,880)	56,300	143,731	(31,358)
Opening cash position	72,240	86,460	68,580	124,880	268,611
Closing cash position	86,460	68,580	124,880	268,611	237,253

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY20	FY21	FY22	FY23E	FY24E
EBITDA Margin	26.8	27.6	27.7	27.5	27.5
EBIT Margin	24.6	25.1	25.3	25.1	25.2
Effective Tax Rate	23.2	25.6	25.6	25.5	25.5
Net Margin	20.7	19.8	20.1	20.1	20.2
ROCE	46.0	46.8	54.2	56.8	54.4
ROE	36.4	37.1	42.6	44.5	42.3
RoIC	73.2	74.0	95.3	114.2	120.9

Per Share Data (Rs)	FY20	FY21	FY22	FY23E	FY24E
EPS	86.2	87.7	104.7	122.1	141.7
CEPS	95.6	98.7	117.3	136.4	158.2
BVPS	229.8	239.4	249.4	299.4	371.2
DPS	73.0	38.0	43.0	61.0	70.0

Valuations (x)	FY20	FY21	FY22	FY23E	FY24E
PER	37.2	36.6	30.6	26.3	22.6
P/CEPS	38.7	37.5	31.5	27.1	23.4
P/BV	14.0	13.4	12.9	10.7	8.6
EV / Sales	7.5	7.0	5.9	5.0	4.3
EV / EBITDA	27.9	25.5	21.3	18.2	15.5
Dividend Yield (%)	2.3	1.2	1.3	1.9	2.2

Gearing Ratio (x)	FY20	FY21	FY22	FY23E	FY24E
Net Debt/ Equity	(0.3)	(0.4)	(0.5)	(0.5)	(0.6)
Net Debt/EBIDTA	(0.7)	(0.7)	(0.8)	(0.9)	(1.1)
Working Cap Cycle (days)	76.3	67.8	42.3	44.0	44.4

Growth (%)	FY20	FY21	FY22	FY23E	FY24E
Revenue	7.2	4.6	16.8	16.4	15.2
EBITDA	6.6	7.6	17.1	15.6	15.4
EBIT	3.0	7.0	17.4	15.8	15.4
PAT	2.8	0.3	18.2	16.6	16.1

Quarterly (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Revenue	437,050	454,110	468,670	488,850	505,910
EBITDA	128,010	126,640	131,150	134,330	138,450
EBITDA Margin (%)	29.3	27.9	28.0	27.5	27.4
PAT	92,460	90,080	96,240	97,690	99,260
EPS (Rs)	25.0	24.4	26.0	26.4	27.1

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	72.2	72.2	72.2	72.2	72.3
FIs	15.6	15.4	15.4	15.0	14.2
DIs	7.8	8.0	7.9	7.9	7.8
Public and Others	4.4	4.4	4.5	4.9	5.7

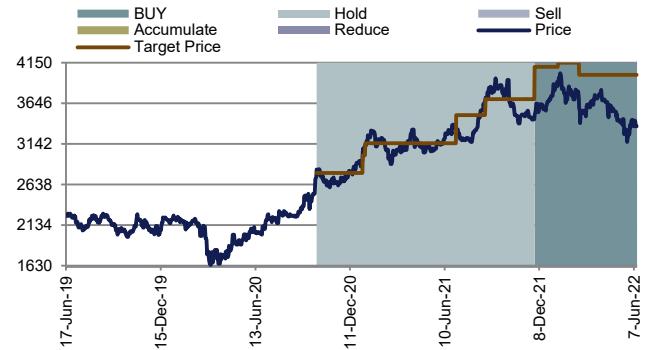
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
12-Apr-22	3,691	4,000	12m	Buy	Dipeshkumar Mehta
1-Apr-22	3,759	4,000	12m	Buy	Dipeshkumar Mehta
22-Feb-22	3,586	4,000	12m	Buy	Dipeshkumar Mehta
13-Jan-22	3,898	4,150	12m	Buy	Dipeshkumar Mehta
1-Jan-22	3,738	4,100	12m	Buy	Dipeshkumar Mehta
29-Nov-21	3,502	4,100	12m	Buy	Dipeshkumar Mehta
9-Oct-21	3,936	3,700	12m	Hold	Dipeshkumar Mehta
2-Oct-21	3,730	3,700	12m	Hold	Dipeshkumar Mehta
27-Aug-21	3,720	3,700	12m	Hold	Dipeshkumar Mehta
9-Jul-21	3,208	3,500	12m	Hold	Dipeshkumar Mehta
2-Jul-21	3,325	3,500	12m	Hold	Dipeshkumar Mehta
13-Apr-21	3,104	3,150	12m	Hold	Dipeshkumar Mehta
5-Apr-21	3,239	3,150	12m	Hold	Dipeshkumar Mehta
9-Jan-21	3,121	3,150	12m	Hold	Dipeshkumar Mehta
4-Jan-21	3,039	3,000	12m	Hold	Dipeshkumar Mehta
18-Dec-20	2,861	2,780	12m	Hold	Dipeshkumar Mehta
8-Oct-20	2,826	2,780	12m	Hold	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Information Technology



Analyst: Dipesh Mehta

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Sector

IT Services, ITes and Software

Analyst bio

Dipesh is a seasoned Equities professional who has covered Technology sector for over 15 years. Dipesh has completed his B.E. in Information Technology from Sardar Patel University and MMS in Finance from Mumbai University.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
Information Technology	12.76	12.69	-1%	-7	100.00	
BirlaSoft	0.00	0.03	NA	3	0.23	0
Coforge	0.12	0.00	-100%	-12	0.00	0
Firstsource Solutions	0.00	0.03	NA	3	0.22	0
HCL Tech	1.18	1.19	1%	1	9.34	0
Infosys	5.74	5.80	1%	6	45.45	0
L&T Infotech	0.21	0.00	-100%	-21	0.00	0
Mindtree	0.19	0.23	20%	4	1.82	0
Mphasis	0.21	0.25	22%	5	1.98	0
Oracle Financial Services*	0.08	0.00	-100%	-8	0.00	0
Persistent Systems	0.00	0.16	NA	16	1.23	0
TCS	3.62	3.53	-3%	-9	27.67	0
Tech Mahindra	0.70	0.72	3%	2	5.62	0
Wipro	0.72	0.75	5%	3	5.89	0
Cash	0.00	0.07	NA	7	0.55	0

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	15-Jun-21	14-Dec-21	15-Mar-22	13-May-22	14-Jun-22
EAP - Information Technology	100.0	194.2	233.3	235.1	201.4	190.5
BSE200 Neutral Weighted Portfolio (ETF)	100.0	181.3	217.8	217.7	186.1	176.0

*Performance measurement base date 1st April 2019

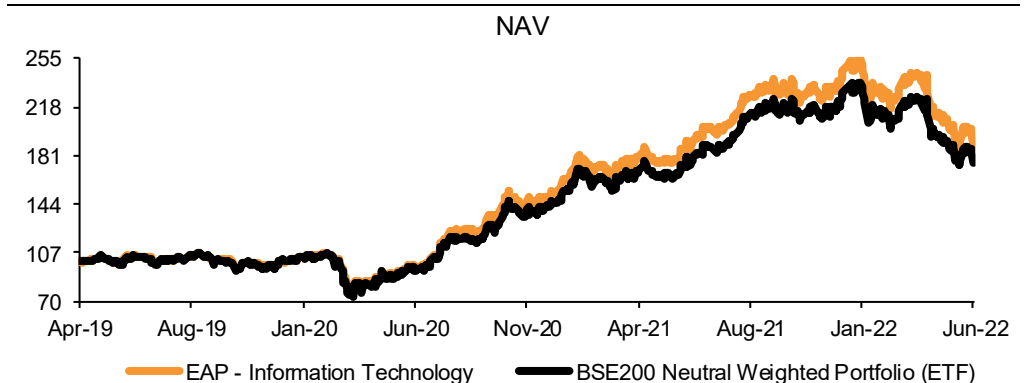
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Information Technology	-5.5%	-19.0%	-18.4%	-1.9%
BSE200 Neutral Weighted Portfolio (ETF)	-5.4%	-19.2%	-19.2%	-2.9%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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