

Earnings beats all estimates; An all-time high order book in BFSI and North America positions

CMP: Rs 3,121

Rating: HOLD

Target Price: Rs 3,337

Stock Info

BSE	532540
NSE	TCS
Bloomberg	TCS IN
Reuters	TCS.BO
Sector	IT
Face Value (Rs)	1
Equity Capital (Rs mn)	3,754
Mkt Cap (Rs mn)	117,10,817
52w H/L (Rs)	3,230/ 1,506
Avg Yearly Vol (in 000')	4,259

Shareholding Pattern %

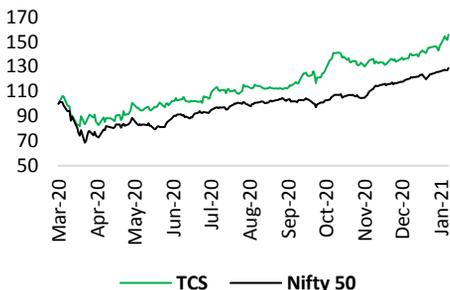
(As on Dec, 2020)

Promoters	72.05
FII	15.88
DII	7.72
Public & Others	4.35

Stock Performance (%)

	3m	6m	12m
TCS	10.5	40.7	38.4
Nifty	21.2	34.0	19.3

TCS Vs Nifty



TCS has beaten all our estimates with the Q3FY21 earnings. Consolidated revenue stood at Rs 42,0150 Mn, registering +5.4% YoY/4.7% QoQ. Consolidated EBIT stood at Rs 11,1840 Mn, up by 12.1% YoY/6.4% QoQ. On the margins front, EBIT margin improved by 159bps YoY/42bps QoQ to 26.6%, due to strong growth across all verticals, and operational benefits from SBWS model allowed TCS to post the highest operating margin in the last five years, even after rolling out a salary increase this quarter. Consolidated PAT saw a rise of 7.2% YoY to Rs 8,7270 Mn vs 8,1430 Mn in Q3FY20. The company also announced of interim dividend of Rs 6 per equity share. Constant Currency revenue growth: +4.1% QoQ, +0.4% YoY.

Q3FY21 Segment Highlights

Industries: Retail All verticals showed good sequential growth, led by Manufacturing (+7.1%), BFSI (+2%), Life Sciences and Healthcare (+5.2%), Communications & Media (+5.5%) and Retail and CPG (+3.1%). On a yoy, constant currency basis, Life Sciences and Healthcare continued to grow in double digits at 18.2%. BFSI (+2.4%) and Technology & Services (+2.4%) also moved into positive territory.

Markets: Sequential growth was led by North America (+3.3%), India (+18.1%), UK (+4.5%), and Continental Europe (+2.5%). Other markets grew as well, with and Asia Pacific growing +2.6%, MEA +6.7%, and Latin America +3.1%.

Services: Consulting & Services Integration: Continued robustness in demand, led by digital and cloud strategy, enterprise agility, mergers and acquisitions, and supply chain and finance transformation.

Digital Transformation Service: There was strong demand for hyperscale cloud services. Key areas included mainframe and legacy modernizations, data modernization on cloud (MDM, data lakes), augmented analytics for in-context insights, risk regulatory & compliance analytics and use of cloud platforms for collaboration.

Outlook & Valuation

We upgraded our earnings estimates for revenue and PAT for FY2021E/FY2022E, factoring in strong Q3FY21 results. Considering the strong growth momentum and the order book of \$6.8bn, which includes an all-time high order book in BFSI and North America positions. The company believes BFSI has not adopted public cloud on large scale and, hence, has tremendous opportunity, going ahead. Considering opportunities in cloud and ancillary technologies around cloud the company aspires to register double digit growth in FY22E. At CMP of Rs 3,121, TCS currently trades at FY20 P/E of 36x., we remain bullish on TCS for both near and long term. We value TCS at PE of 32x to its FY22E EPS of Rs 104, which yields a target price of Rs 3,337 per share. **We maintain our rating at HOLD for TCS.**

Particulars (Rs mn)	FY19	FY20	FY21E	FY22E
Net Sales	14,64,900	15,69,490	16,68,367	18,20,370
EBITDA	3,95,330	4,21,090	4,53,796	5,02,422
PAT	3,15,890	3,24,470	3,49,797	3,85,860
EPS (per share)	84	88	95	104
ROE	35%	41%	30%	33%
P/E	37	36	33	30

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

Q3 FY21 - Quarterly Performance (Consolidated)

(in Rs Mn)

Income Statement Rs Mn	Q3FY21	Q2FY21	Q3FY20	Q-o-Q	Y-o-Y
Net Revenue	4,20,150	4,01,350	3,98,540	4.7%	5.4%
Employee Costs	2,34,310	2,26,650	2,16,220	3.4%	8.4%
Other Operating Expenses	63,760	59,570	73,610	7.0%	-13.4%
Depreciation	10,240	9,980	8,970	2.6%	14.2%
EBIT	1,11,840	1,05,150	99,740	6.4%	12.1%
EBIT margin %	26.6%	26.2%	25.0%	42bps	159bps
Other Income	6,910	9,140	8,180	-24.4%	-15.5%
Finance Costs	1,830	1,740	2,230	5.2%	-17.9%
Exceptional Items	-	12,180		NA	NA
PBT	1,16,920	1,00,370	1,05,690	16.5%	10.6%
Tax Expense	29,650	25,330	24,260	17.1%	22.2%
Effective Tax Rate %	25.4%	25.2%	23.0%	12bps	241bps
Reported PAT	87,270	75,040	81,430	16.3%	7.2%
MI & Associates	-260	-290	-250		
Consolidated PAT	87,010	74,750	81,180	16.4%	7.2%
PAT Margin %	20.7%	18.6%	20.4%	208bps	34bps
EPS (Rs)	23.2	19.9	21.6	16.4%	7.1%

Q3 FY21 – Key Concall Highlights

Orders and projects

- Winning cloud engagement across different customer across the segments.
- Pipeline visibility has been very strong.
- Demand perspective the company will see strong demand in both traditional and modern technology.

Client matrix

- Remained flattish. At the end of Q3 there were 48 clients in \$100 million plus band.
- **TCV:** Total contract value has signed this quarter is \$6.8 bn. BFSI has delivered around \$2.6 bn. Retail is closed to 0.98 bn and North America at \$4 bn. This quarter has seen a strong conversion of large deals (Vs mostly small to midcap deals closing in Q2)
- Work provided to leading insurance provider in the north American market by leveraging cloud the company has been able to reduce their client's quote time and have reduce the time to bring products in the market by 50%.
- For Leading pharmacy player in North America the company has been able to a business benefit that has been advantageous to the client's customer by migrating the client's database into cloud base infrastructure.
- Advance AILM techniques have been able to reduce wastage and enhance customer experience.
- Company is working with a leading airline conglomerate in the department of baggage checking through cloud infra.
- The other big area company is seeing opportunity is in supply chain optimisation.
- Significantly investing in integrating multiple solution into human machine cognition platform. It has been used in central procurement and localized fulfillment to client business.
- TCS guides for double-digit growth in FY22

Covid affected quarter

- Digital collaboration and security rollouts were common during this quarter. Technology leverage was the theme for the industry in this covid times.
- Many last deals have been closed this quarter.

Supply side

- Company has an inventory of 40000 trainees which are ready to be on board assuming there is a strong growth forward.
- TCS has reached 15k contractual masters who are working with the customer and having deep knowledge about those customers.

Key Financials

Profit and Loss statement				
Particulars (Rs Mn)	FY19	FY20	FY21E	FY22E
Net Revenue	14,64,900	15,69,490	16,68,367	18,20,370
Employee costs	782460	859520	907592	983000
Operation and other expenses	287110	288880	306980	334948
Total Operating Expenses	1069570	1148400	1214571	1317948
EBIDTA	395330	421090	453796	502422
EBIDTA Margin	27.0%	26.8%	27.2%	27.6%
Depreciation	20560	35290	36704	38228
EBIT	374770	385800	417092	464194
Interest	1980	9240	8342	9102
Other Income	43110	45920	46714	47330
PBT	415900	422480	455464	502422
Tax	100010	98010	105668	116562
PAT	315890	324470	349797	385860
Growth (%)	22.1%	2.7%	7.8%	10.3%
EPS	84	86	95	104

Balance Sheet				
Particulars (Rs Mn)	FY19	FY20	FY21E	FY22E
Shareholder's Funds				
Share Capital	3754	3754	3701	3701
Reserves & Surplus	890710	796426	1146223	1183172
Net Worth	894464	800180	1149923	1186872
Minority Interest	4530	6710	7560	8310
Total Non Current Liabilities	27366	79720	114997	118683
Total Current Liabilities	220840	527200	632458	652780
Total Liabilities	1147200	1413810	1904938	1966645
Net Block	104110	109410	116786	127426
Capital Work-in-Progress	9630	9060	9000	9500
Goodwill on consolidation	17000	17100	17000	17300
Total Non Current Assets	228120	511440	859219	966364
Cash and bank balance	72240	86460	614779	916902
Total Current Assets	919080	902370	1045719	1000282
Total Assets	1147200	1413810	1904938	1966645

Cash Flow Statement				
Particulars (Rs Mn)	FY19	FY20	FY21E	FY22E
PAT	315890	324470	349797	385860
Add:- Depreciation	20560	35290	36704	38228
Change in Working Capital	55666	59641	59640	59640
Cash generated from operations	392116	419401	446141	483728
Taxes paid	-100010	-98010	-105668	-116562
Net cash flow from operating activities	292106	321391	340473	367166
Purchase of fixed assets	-20482	-22530	-24783	-27262
Others	-65860	0	0	0
Net cash flow from investing Activities	-86342	-22530	-24783	-27262
Dividend paid, including dividend tax	-126356	-129788	-139919	-154344
Others	-160360	0	0	0
Net cash flow from financing Activities	-286716	-129788	-139919	-154344
Net Cash Flow	19058	267082	281439	302122
Opening Cash Balance	48830	72412	333341	614779
Exchange difference on Forex	4524	-6154	0	0
Closing Cash Balance	72412	333341	614779	916902

Key Ratios				
Particulars	FY19	FY20	FY21E	FY22E
EPS (Rs)	84	86	95	104
Book Value (Rs)	238	213	311	321
DPS (Rs)	50	50	50	50
Payout %	59	58	53	48
Dividend Yield %	1.6	1.6	2.8	2.8
P/E (x)	37.1	36.1	33.0	29.9
EBIDTA Margin	27.0%	26.8%	27.2%	27.6%
PBT Margin	28.4%	26.9%	27.3%	27.6%
PAT Margin	21.6%	20.7%	21.0%	21.2%
Debt/Equity (x)	0.0	0.1	0.1	0.1
Current Ratio (x)	4.2	1.7	1.7	1.5
ROE	35.3%	40.5%	30.4%	32.5%

Source: Arihant 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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