

Accumulate

'Building on Belief'

FY21 was a defining year for the IT industry as it saw strong structural drivers getting in place and IT vendors all set to ride the wave of transformation. TCS itself has highlighted that it is well positioned to take on the G&T (Growth and Transformation) opportunities with its contextual knowledge of clients and strong R&D efforts driving innovation and new ideas. Even with its already highlighted Vision 25x25, it expects TCS hubs to act as innovation hubs and for team brain storming and only 75% resources at a-time to work on a WFA mode. As per the CEO; two key drivers for this multi-year transformation are 1) need to improve customer journey (front and back end) and organizations realizing the need to invest in Tech (no more deferment). With both drivers leading to cloud-led investments, TCS believes that Cloud will act as an ecosystem for further transformation with more cloud-led technologies being used over 3-5 years and thus believes that current cycle to drive growth sustenance/acceleration for multiple years.

A Multi Year Technology Cycle spread over three horizons

TCS believes that the current Technology shift as the start of a multi-year Technology upgradation cycle in which the abundance of native capabilities will constantly expand the art of the possible, opening up newer opportunities for technology-driven differentiations. It is expecting this cloud transformation journey as not limited to using the cloud-infra but about harnessing the native capabilities of the cloud and delivering contextual personalised solutions to their customers. TCS expects this journey would play out over next three to five years as the company transcends its IT landscape over three horizons. First of this three horizon has kick-started for many of its client in FY21 as they do the cloud migration. However, the real value for clients would accrue over the next two horizons as TCS will help them leverage the rich native capabilities of cloud stacks around analytics, AI and ML to build new systems for customer engagement, creating new engagement as well as business models.

Talent on cloud, organic talent development and SBWS to support OPM

TCS believes that it has been able to harness significant advantages from its remote-delivery model 'Secured Borderless Workspaces'. For eg: now it sees its entire organization as one big global talent pool available (Talent on cloud) which he can use for any project (even multiple) regardless of their physical location. This can boost productivity (same talent can work on projects across teams/markets), reduce need for bench and also save on travel/visa. Apart from this, TCS believes that its unique organic talent development practice keeps it immune from any threats from supply-side constraint and is evident from its lowest attrition globally at 7.2%. Thus, remote delivery, effectively provides cushion coverage around multiple operating margin levers and thus enables TCS to maintain industry leading profitability (aspirational band at 26-28% EBIT margin).

Outlook

Despite reporting a weaker growth than its peers in FY21 at 0.6% revenue growth; TCS is confident with its' "qualitative" commentary on cloud adoption led multi-year growth opportunity. Expects high double digit growth in FY22 (led by low base) and potential for double digit growth over next couple of years and TCV wins (TTM: \$31.6Bn) have support this thesis. Given the correction post Q4, we change our recommendation to Accumulate with TP of Rs.3370 (unchanged) valued at 30x FY23E earnings.

CMP	Rs 3,082
Target / Upside	Rs 3,370 / 9%
BSE Sensex	49,889
NSE Nifty	15,030

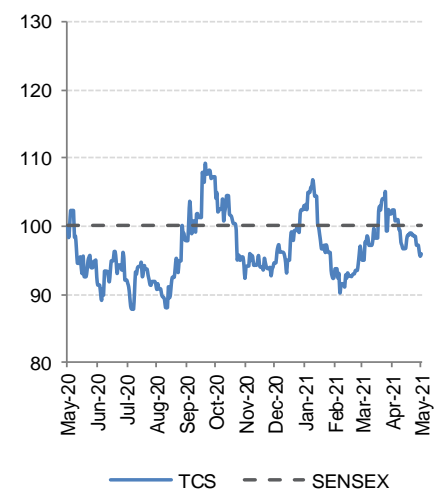
Scrip Details

Equity / FV	Rs 3,700mn / Rs 1
Market Cap	Rs 11,412bn
	US\$ 156bn
52-week High/Low	Rs 3,354/Rs 1,925
Avg. Volume (no)	31,69,300
NSE Symbol	TCS
Bloomberg Code	TCS IN

Shareholding Pattern Mar'21(%)

Promoters	72.1
MF/Banks/FIs	8.0
FIIIs	15.7
Public / Others	4.2

TCS Relative to Sensex



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Commentary by Chairman – Mr. N Chandrasekaran

- Chairman highlighted that TCS performed well during the pandemic as it adapted to the new operating model (SBWS) to support customers and protect well-being of employees. He believes that TCS's Vision 25x25 (25% of resources work from office) and talent investments around cloud have set TCS as a thought leader and trend setter.
- He further highlighted that the year CY20 as an inflection point for enterprise consumption of technology. Organizations have now realized the importance of technology (Tech change is less perceptible in enterprise world). The pressing need for operational resilience and for enhancing customer experiences in digital channels will drive investments in cloud and start transformation journey. Also, Cloud is the first step in digital investments which opens a vast array of possibilities.
- "TCS is well positioned to benefit from this multi-year upgradation cycle". TCS can win by its differentiated capabilities and collaborative, solution-centric approach make it the preferred transformation partner.

CEO Commentary - Rajesh Gopinathan

- Mr. Rajesh Gopinathan highlighted that TCS responded with speed and agility, embracing a new operating model (SBWS) which maintained business continuity and accelerated clients' growth and transformation (G&T). Also TCS is now in a far better position than it was in the start of FY21 with better growth visibility, strong order book (TTM TCV at \$31.5bn implying 1.42x on revenue coverage marking growth of 17% YoY basis), structural growth drivers in place.
- **Demand for transformation is driven by two trends:** 1) Consumers are **preferring** contactless, digital transactions. This has led enterprises to do investment in front-end and back-end transformation (personalization of UI, simplify back-end process and reduce TAT to improve customer journey) 2) Pandemic highlight the downside of carrying technology debt (i.e not doing/slowing digital investments). Now organizations are investing around core transformation engagements, encompassing operations, digital workplaces, applications, data, the underlying infrastructure and cybersecurity.
- **Both Drivers converge on Cloud:** Organizations have done investments around cloud stacks (hyperscalers). These decisions have led to **multiple engagements around cloud migration, application modernization and data modernization**. As a precursor to the core transformation and cloud migration, many customers are now revisiting their current operations to look for opportunities for optimization and to free up.
- These trends resulted in a **steady and strong flow of deals of all sizes, across all our industry verticals, throughout FY21**. They also led to two large deal wins (Deutsche Bank and Prudential Financial deal). Now the TTM TCV stands at \$31.6mn (up 17.1% YoY).

Multi-Year Technology Cycle – Rajesh Gopinathan

- Mr. Rajesh highlighted that Cloud is just not a server and storage infrastructure. With **all the investments by hyperscalers in building tech stacks and expanding offerings** (richer native choices around databases, data warehouses, applications and even cutting-edge tools like machine vision, conversational systems, AI, ML and IoT). **Cloud has become a technology ecosystem**.

- This is opened opportunities for **tech driven differentiation**. This differentiation comes from **bespoke solutions** (contextualized to each customer's unique circumstances) and not from cloud alone which is a standardized product. This is what TCS highlighted it **has been doing for customers over the last few years** (leveraging its' deep contextual knowledge of their business and tech, it's research and innovation, intellectual property and expertise across digital technologies).
- TCS expects this cloud transformational journey for client to **spread over 3 horizons in next 3-5 years**. FY21 has kick started the first horizon for many enterprises. **Migration to cloud will play over 2-3 years** for enterprises depending on the complexity of the IT landscape.
- The **outcome of this first phase** of transformation will be a future-ready digital technology stack that serves as a **scalable foundation for the subsequent horizons of transformation**. Enterprises will start realizing the full value of their cloud investments in the subsequent two horizons. In the **second horizon**, TCS expects to start helping enterprises leverage the rich native capabilities of these stacks around **analytics, AI and ML** to build new systems of customer engagement, new systems of differentiation and experiment with new business models.
- As more enterprises join cloud, it will create a collaborative ecosystem and help launch larger, purpose driven offering where TCS **has deep domain knowledge across multiple industry verticals**. TCS has opportunity to be the transformation agents and potential orchestrators of such cloud ecosystem.
- **TCS is confident on its the collective knowledge with clients and it's a deep understanding of technologies with an innovative mind-set**. TCS highlighted that it has achieved early success with this approach and won several growth & transformation engagements. TCS has a verticalized structure that has led to domain and contextual knowledge within the Industry Solution Units and the sustained investments in organic talent development, in research and innovation, and in creating intellectual property have helped build up solutioning expertise and boost its innovation credentials.
- Further in this direction, TCS is strengthening partnerships with large tech providers as well as startups, academia and domain specialists for co-innovating and collaborating to create new service offerings.

Insights from COO, CTO, President – Business & Technology Services

- Mr. K Ananth Krishnan (CTO) highlighted that the **new brand statement (Building on Belief)** highlights the role that TCS has been playing in helping customers scale up and accelerate their innovation programs and realize those ideas TCS truly believes in. (Every new idea or innovation is born out of the belief that it will build something better)
- Mr. NG Subramaniam (COO) commented on growth of industry by highlighting 1) TCS is winning quite a few Growth and Transformation engagements (G&T) with the Business 4.0™ thought leadership framework 2) Enterprise's growth and transformation investment is going to leapfrog in the coming years. It not only **expands the addressable market** but also provides a **secular tailwind to power TCS' growth** over the next decade.
- The COO also highlighted that deal wins are driven by **RFP driven transformation deals and proactive proposals**. In the first scenario, customers typically know what they want to accomplish and look to us for knowhow.

In the latter one, account teams proactively identify business problems that are critical for a customer, and put together high-level solution ideas which they pitch to customers. This is often followed by more detailed workshops that eventually culminate in a full-fledged engagement.

- Mr. Krishnan Ramanujam (President) further added that TCS Research & Innovation is a catalyst where TCS **organizes account level ideathons to crowdsource creative ideas** which address our customers' most pressing business problems, leveraging our contextual knowledge. Employees brainstorm on these and other proactive ideas at Innovation Days and deliver selected ones in rapid Agile sprints to the customer.
- They also highlighted that sales teams leverage a steadily expanding suite of transformation offerings aligned to emerging themes, which they can readily adapt to each customer's unique circumstances. With each successful G&T engagement, the **positive references** build up and TCS is sought by other customers facing similar business problems to help them in their transformation journeys.
- The COO highlighted that **Intellectual property is one of TCS' biggest differentiators**, and it has played a pivotal role in many of our largest G&T engagements. patents, products, and platforms stand testimony to TCS's technology expertise and business knowledge.
- Further they (trio) highlighted that today **winning large outsourcing deals** is essential for revenue growth and visibility but now **it is a hygiene factor** and no longer a differentiator. **They are not just large plain vanilla** outsourcing deals, but **also higher-value G&T deals**.

Human Resources

- TCS again highlighted "Vision 25x25". It is a model that captures all the benefits of the remote model and addresses its challenges. Under this Model, TCS expects that **by year 2025 no more than 25% of employees will need to be at a TCS facility and no individual would have to spend more than 25% of their time at a TCS facility** to be 100% productive. TCS's offices will become ideation and innovation hubs, using in-person interactions for brainstorming and team-building, while day-to-day work can be performed from anywhere.
- In FY21, Learning Intensity (learning hours) has increased significantly by almost 37% YoY.
- TCS also **launched TCS Elevate, a merit-based talent framework**, to bring further tighter linkage between learning and careers, and to drive a culture of continuous learning and aspiration for accelerated career paths. Over 138,000 associates have been on-boarded to this program.
- The company continued its track record of pioneering industry-first practices by embracing online hiring, **conducting around 100,000 virtual interviews**, and pivoting the TCS NQT completely to virtual mode. Over 368K students from 3,100+ colleges attended the TCS NQT from the safety of their homes. TCS's investment in strategic leadership hiring from top B-schools deepened with TCS being the highest internship hirer in B-Schools.
- During the year, TCS applied for 5,879 patents (granted 1,850) cumulatively.
- The median increase in remuneration in employees stood at negative 0.3% YoY. This is in slight contrast with 1) wage hikes which were effective Oct 1st, 2020. 2) **Average annual increase was 5.2% in India**. However, during the course of the year, the total increase is approximately 6.4%, after accounting for promotions and other event based compensation revisions. 3) Employees outside India received a wage increase varying from **2% to 6%**.

- Increase in the **managerial remuneration for FY21 was 55.2%**. Increase in the managerial remuneration for FY21 is **not comparable** with FY20 as FY20 had a 15% decline in remuneration due to COVID.
- The overall percentage of women in the workforce has gone up from **33.8% in FY 2016 to 36.5% in FY 2021**. The participation of women across level is 44% in Junior level, 30.3% in Middle level and 12.6% in Senior level.
- TCS has highlighted that it stays open to inorganic acquisitions but **focus and commitment to organic talent development** remains unwavering.
- Throughout FY 2021, less than **4% of the workforce worked out of TCS** facilities. (mostly confined to very sensitive projects and activities such as R&D which necessarily require specialized equipment and controlled environments).
- Looking ahead TCS' Vision 25x25 envisages a very different role for the office to serve as physical hubs for collaboration, innovation and team building, while routine work can get done from anywhere. Towards this, **TCS has already built Incubation Development Centers at some locations**, which will be further refined to align with business requirements. These locations are going to be Open Agile Collaborative Workspaces with Software Defined Network rolled out in a phased manner. This will give the teams mobility, flexibility and seamless collaboration environments for their business functions. **TCS is also planning to consolidate old leased, non-agile and smaller vintage facilities to new owned campuses, optimizing its operational expenses.**
- TCS, today, has 6,000 inventors and innovators working in TCS research labs and innovation centres. This is the result of sustained investments.

Management Discussion and Analysis – Industry Overview

- The pandemic caused an estm 3.3% contraction of the world output in CY20, with advanced economies contracting 4.7%, and **many sectors such as travel, hospitality, transportation, aerospace, consumer discretionary and small enterprises getting impacted severely across the world.**
- Global technology spends declined 3.2% to about \$1.4 trillion in 2020. Within that IT services spending declined more (down 3.9%) while Business Process Management declined by 2.4%.
- TCS highlighted that while the spending showed a decline, technology was center-stage in enterprises' response to the pandemic-related lockdowns and thereafter. After the initial contraction due to dislocations, **the need for business continuity, operational resilience and the switch to digital transactions drove strong demand for IT services over the rest of the year (Q2-Q4).**
- Demand for services around remote connectivity, cybersecurity, collaboration tools, digitized processes, automation and cloud adoption, progressively strengthened in the course of the year.
- As consumers shifted to online channels, **Enterprises realized the need to invest in enhancing customer experience.** This significantly accelerated investments in digital transformation and cloud adoption.
- TCS has highlighted that it has **shown market share growth**, even in the fragmented IT Industry where even largest IT provider has a mid-single digit market share, led by customer-centric strategy and organization structure, focused investments in building superior capabilities.

Exhibit 1: TCS Market Share

Particulars	FY11	FY21
Industry Size (\$Bn)	1,014.0	1,355.0
TCS Size (\$Bn)	8.2	22.2
TCS Market Share (%)	0.8	1.6

Source: DART, Company

MD&A – Company Overview

TCS has devised several unique and differentiated strategic approach that capitalises on ever-evolving market trends to convert challenges into opportunities (Refer exhibit).

Exhibit 2: TCS Strategy

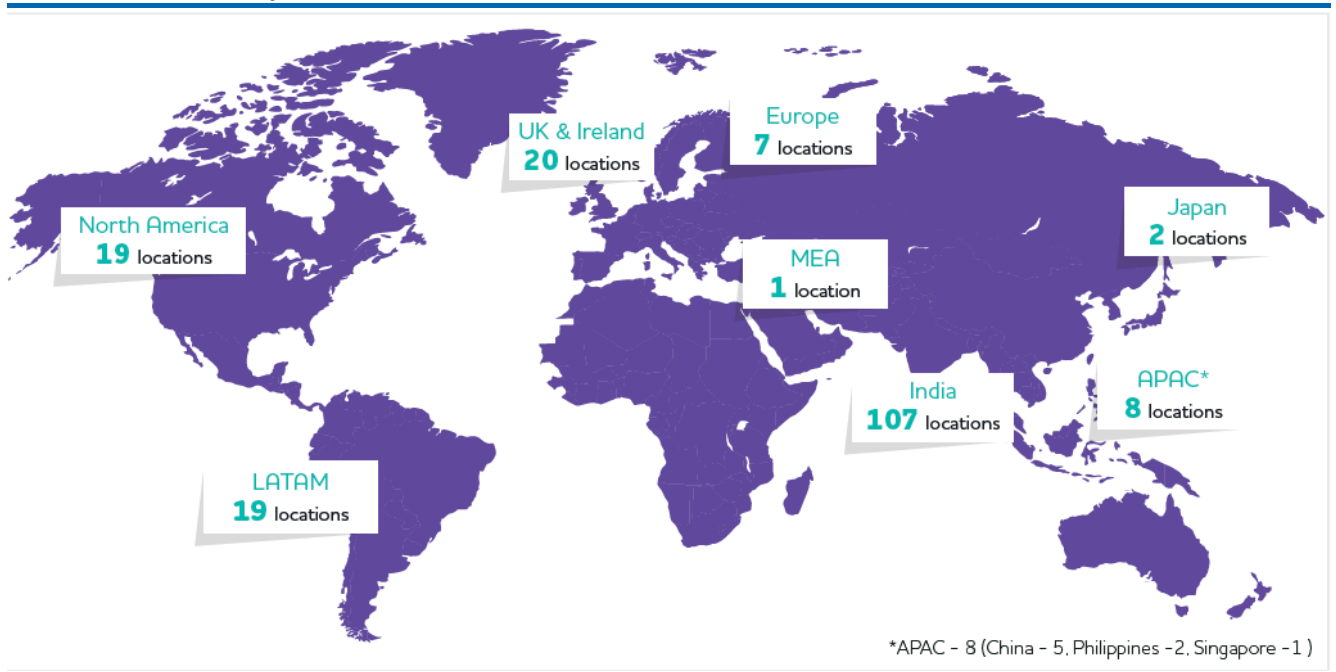
Market Trends	TCS Approach	Outcomes
<ul style="list-style-type: none"> More and more industries are leveraging technology to differentiate themselves. Customers want solutions to business problems and not just technology skills 	<ul style="list-style-type: none"> Position as a growth and transformation partner More investment in research and innovation, co-innovation and collaboration. Domain-specific IP Greater focus on contextual knowledge Proactive solution selling 	<ul style="list-style-type: none"> Industry-defining mega deals Thinner competitive set Higher quality revenue More fulfilling work Better retention
<ul style="list-style-type: none"> Non-CIO buyers emerging in enterprises 	<ul style="list-style-type: none"> Full stakeholder services and solutions 	<ul style="list-style-type: none"> Expansion of addressable market More deeply embedded in customer's business, Greater resilience and visibility Higher profile, strategically more important engagements
<ul style="list-style-type: none"> Transformational partners selected based on solution quality and time to market 	<ul style="list-style-type: none"> Leverage TCS' contextual knowledge, Location Independent Agile, Machine First Delivery Model and Intellectual Property 	<ul style="list-style-type: none"> Thinner competitive set Higher quality revenue
<ul style="list-style-type: none"> Greater platformization of business 	<ul style="list-style-type: none"> Launch of cloud based platforms and new business models Leverage IP portfolio 	<ul style="list-style-type: none"> Large deals that improve business visibility Expansion of addressable market Frees up spends for systems of differentiation
<ul style="list-style-type: none"> Pandemic disruption highlights need for operational resilience and enterprise adaptability 	<ul style="list-style-type: none"> Launch of SBWS Greater focus on Location Independent Agile and MFDM Promote operating model transformation using AI 	<ul style="list-style-type: none"> Highlights company's responsiveness Market share expansion

Source: DART, Company

- To gain leadership in the rapidly expanding services opportunity around the hyperscalers cloud platforms, **TCS launched dedicated practice units around AWS, Microsoft Azure and Google Cloud Platform.** Each unit is a full-service, multidisciplinary organization offering customers the full range of transformational and operational services on the respective technology stacks, spanning advisory services, migration, application and data modernization, including SaaS and enterprise productivity suites, infrastructure, cyber-security and edge.

- TCS also operationalized **ten new Threat Management Centres (TMCs)** across locations - including the US, UK, Spain and India - for providing cyber security services locally to its enterprise customers. These centres will focus on providing cyber security solutions and services, including managed detection and response services, incident management and breach support, on-demand cyber vigilance services, digital forensics and regulatory compliance.
- TCS has also articulated **its three-horizon cloud transformation journey roadmap to guide customers** in their core transformation and cloud investments.

Exhibit 3: TCS Delivery Center locations



Source: DART, Company

- TCS highlighted that it has complete portfolio of offerings targeting every C-suite stakeholder which now will be delivered under SBWS Model.
- Building on the success of its SBWS model, TCS is now **further innovating with service delivery models**, launching talent clouds (the algorithm-based talent marketplace and an internal gig workers' community), which enable greater fungibility of talent, resulting in **faster project ramp-ups and better delivery outcomes for customers** while resulting in higher employee satisfaction. This is currently under pilot tests. **It is a structured way to enable anyone with the right skills to deliver specific work from anywhere in the world at their convenience and still deliver** its client commitments with certainty.

Vertical Commentary

Banking, Financial Services and Insurance (32% of Revenue): TCS highlighted that key investment themes within this vertical are **customer experience transformation; future readiness through core transformation** including platform simplification and modernization and cloud adoption; optimization of back office operations. Other key areas of spend are adoption of payments, robo-advisory systems and crypto-custody solutions Market reform such as CAT, LIBOR Transition, SFTR, BREXIT also drove significant spend especially around the use of predictive analytics, AI, NLP and automation.

Communication, Media and Technology (7% of Revenue): TCS highlighted that parts of the Media sub-vertical, related to live sports, events, entertainment and radio were affected by the pandemic. The key investment themes within this vertical includes **5G and fiber rollout, network virtualization, operating model transformation**, product and platform engineering, business simplification, data and analytics and cloud enablement. M&A and business separation activities was another key driver of spend.

Retail and Consumer Business (14% of Revenue): The Discretionary retail and some parts of CPG were impacted by the pandemic. Spending was driven by **transformation in Demand Planning, Forecasting and Replenishment** to ensure continuous availability of high demand essential items; **unified customer experience across channels, contactless pick-up / payment**, curbside pickups etc; D2C and e-commerce initiatives in CPG. Travel, Transportation & Hospitality – The sector was badly impacted by pandemic restrictions. Key investment themes include contactless operations and self-service, operating model changes, and simplification.

Manufacturing (9% of Revenue): TCS highlighted that large parts of manufacturing sector were impacted badly by the plant closures and supply chain disruptions. **This resulted in postponements in capex and discretionary programs.** The key spending themes included **IT infrastructure and movement to the cloud, Plant safety and industrial applications** such as remote asset management, IT security, Supply chain resilience, in-vehicle software, connected products. In the Utilities sub-vertical, key areas of spend included geospatial systems, customer service, and operational resilience and optimization.

Life Science (10% of Revenue): **Growth in the Life Sciences segment was led by pandemic related initiatives such as adverse event processing for the vaccine, M&A synergies through IT integration, digital marketing and analytics, IT operating model transformation, cloud enablement, workplace modernization and cybersecurity.**

Other Vertical (19% of Revenue): The key areas of **spend across other verticals included M&A, cloud adoption, cyber security, operations optimization** and vendor consolidation.

ESG Update

- **TCS has cut its carbon footprint by 48.8% over FY20.** It is also working on longer-term roadmap to neutralize our carbon footprint and bring down atmospheric carbon towards helping the world reach net-zero levels by 2050. The Vision 25x25 will be pivotal in this target.
- It has also deployed Clever energy solutions that uses **IoT and AI to remotely monitor and optimize energy consumption** across distributed facilities, or by helping clients switch from energy-inefficient in-house data centers to more efficient public clouds.
- It has fully institutionalized the **SBWS (Secured Borderless Workspaces) operating model** and also replicated it for customers (further saving energy). The model was strengthened with additional analytics and extended to cover the end-to-end customer engagement lifecycle, including prospecting, sale and even new project ramp ups.
- **Governance:** Out of the nine Directors, seven (77.8%) are Non-Executive Directors out of which five (55.6%) are Independent Directors.

Customer Satisfaction Update

- TCS is ranked #1 in customer satisfaction for Europe (8th year in a row). It is #1 in 12 European Countries.

Exhibit 4: Europe Survey Result

Particulars	TCS	Industry Avg
Customer Satisfaction	82%	72%
Service Delivery Quality	82%	73%
Cloud Capability	81%	72%
Account Management	83%	74%
Proactivity	73%	64%
Innovation	71%	62%
Business Understanding	79%	72%

Source: DART, Company, based on studies conducted by whitelane research, pa consulting, quint wellington redwood, navisco and vlerick business school in 2020

Phoenix Deal Update (One of the largest deal for TCS)

- Phoenix Deal is **supported by TCS BFSI Platform for Life & Pensions** powered by TCS BaNCS™ which simplified and modernized Phoenix Group's technology stack, enabled greater innovation through easier and faster design and rollout of new products, and transformed all the processes across the end to end customer journey.
- It consolidated 7.4mn policies (currently moving more 6mn policies) on new platform and retired hundreds of legacy systems of Phoenix Group. On the front-end, TCS is helping the Phoenix Group enhance and personalize the customer, employer, and adviser experiences, adopting a more data and insights-driven approach. **These initiatives have resulted in a 400% increase in site visits to its online customer self-service tool**, 8x improvement in individual life cover claims processing and 85% of encashment claims settled in under 3 days compared to 12 days on traditional channels. It also has reduced customer complaints and enhanced customer satisfaction.

Product & Platform Update

Exhibit 5: Product and Platform – wins, achievements and status

Product & segment	Key features for the year FY21
TCS Bancs (Core Banking Solution)	<ul style="list-style-type: none"> TCS Bancs recorded 19 new wins (50% of the new wins were on TCS BaNCS Cloud) and 25 go lives in FY21. Capital Markets: TCS Bancs performs clearing and settlement in over 20 markets worldwide. It records 10 million trades per day (peak), represents \$40 trillion worth of AUC across 100 countries. Insurance: TCS Bancs administers over 20mn life, annuity and pension policies; 135mn property and casualty policies. Global Securities Achievements: It offers ready market connectivity to 45+local markets for settlements, with 8 of the top custodians running on the solution.
Ignio (Cognitive automation Software)	<ul style="list-style-type: none"> In FY21, Ignio secured 50+ new wins, 180% YoY growth in channel partners. Ignio manages over 1.5mn technology resources autonomously. It has 84 patents filed to date (30 granted).
TCS Advanced Drug Trails (Digital transformation of drug development and clinical trials)	<ul style="list-style-type: none"> It has executed 500 trials on ADD. 9 out of the Top 10 pharma companies are customers of TCS ADD. Key implementations: Redesigned operational analytics for top 3 pharma, implemented advanced submission planning for a pharma major's regulatory submission; rolled out cognitive automation of pharma co-vigilance for 62 studies; implemented eConsent for 11 studies, setup COVID study on ADD in less than 10 days for a leading Asia- based pharma major.
TCS Hobs (DT to digitally transform network and revenue mgmt. domains for SaaS biz.)	<ul style="list-style-type: none"> It is serving 33+ clients across Communications, Utilities, Manufacturing and Personal Care. Serving 22 million+ subscribers, handling 145,000+ devices and processing 1.2 billion+ events. It won 13 new wins and go-lives in FY21. Key Achievements: Prevented revenue leakage of over \$100mn and has delivered cost savings of over \$25mn for customers globally in FY21.
TCS Twinx (AI tool)	<ul style="list-style-type: none"> AI powered system of actionable intelligence – powered by an enterprise digital twin (customer, product-process) to help business leaders simulate and optimise enterprise decisions, predict and proactively manage outcomes. It won 7 new wins and 3 go-lives in FY21.
Jile (Agile DevOps platform)	<ul style="list-style-type: none"> Jile is SaaS-based platform to accelerate software development and delivery and integrate DevOps tools. It has 14,000 active users.
TCS Optumera (AI for Retail)	<ul style="list-style-type: none"> AI-powered retail optimization suite that enables retailers to improve sales and margins with integrated merchandising and supply chain decisions. It won 1 new win and 2 go-lives in FY21
TCS Omni Store (Commerce Platform)	<ul style="list-style-type: none"> AI-powered future commerce platform that enables unified customer journeys by seamlessly catering to new channels and brand expansions. It won 1 new win and 4 go-lives in FY21.
TCS Mastercraft (Digital platform - Automate and manage processes)	<ul style="list-style-type: none"> It won 25 new wins in FY21. Highlights: 96 billion+ records processed for data privacy, 5 billion+ records processed for data quality, 57+ million lines of code (mloc) analysed, 5+ mloc generated.
TCS Quartz (Smart Contract Development Toolkit)	<ul style="list-style-type: none"> An Intelligent smart contract development toolkit, Integration solutions and 'Designed for DLT' business solutions that provides foundational technology, tools and business components for creating distributed ledger solutions across varied industries. It had 10 new wins and 2 go-lives in FY21.

Source: DART, Company

Exhibit 6: Annual Report Marco View

Particulars	Details		
Key Management Personnel	Samir Seksaria is now the CFO. Earlier, CFO was V Ramakrishnan. Note: This is a post FY21 event (1 st May, 2021).		
Board of Directors	N. Chandrasekaran (Chairman) was reappointed. No changes made to BoD.		
Auditors	BSR & Co LLP (No Change)		
Credit Ratings	No Change		
Pledged Shares	NA		
Macro-economic factors	TCS highlighted that global economy is projected to grow at 6% in CY21 after an estimated contraction of 3.3% in CY20. There will uncertainty on the path of the health crisis, with likelihood of third or fourth waves. TCS expects its business outlook to remain positive due to an expansion in enterprise spending on IT services globally. TCS anticipates increased investments by customers in growth and transformation initiatives that deepen customer engagement, enable competitive differentiation, improve supply chain resilience and drive revenue growth.		
Share Holding Patterns	Particulars (%)	FY21	FY20
	Promoters		
	i) Promoter Shareholding	72.2	72.1
	Bank, FIs, Insurance Companies & Mutual Funds		
	i) Mutual Funds	2.9	2.6
	ii) FIs & Banks	0.0	0.1
	iii) Insurance Companies	4.9	5.4
	iv) FIs	15.6	15.7
Non-Institutions	4.4	4.2	

Source: DART, Company

Exhibit 7: Increase in Remuneration for KMP

Particulars (INR Mn)	Salary	Perquisites	Commission	Growth YoY
Rajesh Gopinathan	128	209	1700	52.2%
N Ganapathy Subramaniam	122	189	1300	59.2%

Source: DART, Company, YoY Increase is not comparable as FY20 had a 15% decrease in Remuneration due to COVID, CFO Remuneration is not disclosed

Exhibit 8: Current Director Remuneration

Name (Amount in INR Mn)	Commission	Sitting Fees
N Chandrasekaran	0.0	0.4
O P Bhatt	23.0	0.5
Aarthi Subramanian#	0.0	0.4
Dr Pradeep Kumar Khosla	18.5	0.4
Hanne Sorensen	18.5	0.4
Keki Mistry	20.0	0.5
Don Callahan	20.0	0.5
Total	100.0	3.2

Source: DART, Company, N Chandrasekaran, Chairman, has abstained from receiving commission from the Company, No payment is made towards commission to the Non-Executive Directors of the Company, who are in full time employment with any other Tata company.

Financial Performance – FY21

Profit & Loss Analysis

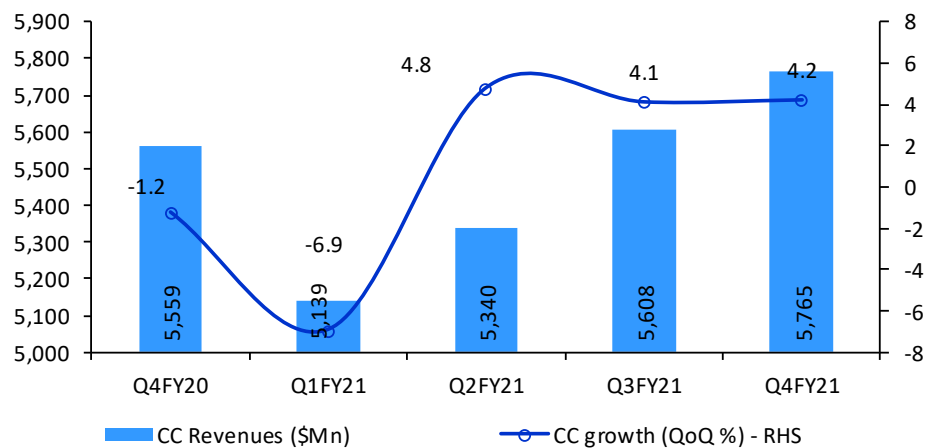
- TCS reported 0.8% YoY de-growth in CC terms largely due to weak performance in multiple pandemic affected vertical while BFSI and Life Sciences grew well at 2.4% and 17.1% YoY. The USD and INR growth was up 0.6% and 4.6% YoY respectively. Post the severe decline in Q1, TCS started recovery from Q2, reached the pre-pandemic level by Q3 and closed at strong \$5.7Bn quarterly revenue run-rate in Q4 that sets a strong base for double digit growth in FY22 (management expect high double digit growth for the year and sustained double-digit growth in the near future).

Exhibit 9: Vertical Performance Trend

Vertical	Amount (\$ mn)	YoY (%) (CC)	Mix (%)	Incremental Revenue (\$ mn)	% Contribution of Incremental Revenue
BFSI	7,037	2.4	32	328	231
Communication & Media	1,467	(5.9)	7	(75)	(53)
Retail & CPG	3,195	(6.2)	14	(170)	(120)
Manufacturing	2,123	(4.1)	10	(64)	(45)
Technology & Services	1,937	0.2	9	31	22
Life Sciences and Healthcare	2,157	17.1	10	362	255
Regional Markets & Others	4,258	(5.9)	19	(270)	(190)
Total	22,174	(0.8)	100	142	100

Source: DART, Company

Exhibit 10: Gradual recovery after severe Q1 decline



Source: DART, Company

- Geographic Growth:** Continental Europe largely led the growth for FY21 (up 5.5%). North America, the largest market for TCS, declined by 0.9% YoY in FY21. UK (16% of Revenue) showed severe decline at 4.3% YoY.

Exhibit 11: Geographic Growth Trend

Geography	Amount (\$ mn)	YoY (%) (CC)	Mix (%)	Incremental Revenue (\$ mn)	% Contribution of Incremental Revenue
North America	11,017	-0.9%	50%	-87	-61%
Latin America	371	-1.2%	2%	-37	-26%
UK	3,468	-4.3%	16%	-18	-13%
Continental Europe	3,603	5.5%	16%	354	249%
India	1,143	-0.5%	5%	-118	-83%
Asia Pacific	2,138	-5.9%	10%	78	55%
MEA	433	-2.7%	2%	-30	-21%
Total	22,174	5.9%	100%	142	100%

Source: DART, Company

- Cost of Services/Revenue Expense** inched up slightly as a % of Revenue by 34bps YoY. The absolute cost increased by 5.2% YoY. This increase was starkly lower than increase in Salaries which grew 9.6% (Employee Base grew 9% YoY, wage hikes for the year were effective Q3FY21). This was due to savings in Travel (down 62%), Cost of Soft licenses (down 24%) and Facility/Rent Exp (down 24%). Most of these savings were due to pandemic and some costs are expected to return in FY22.

Exhibit 12: Cost of Services/Revenue Analysis

Particulars (INR Mn)	FY21	FY20	FY21 (% of Sales)	FY20 (% of Sales)	Incremental Cost
Salaries, others and PF contribution	7,19,460	6,56,520	43.8	41.8	62,940
Payment to subcontractors	1,26,480	1,25,000	7.7	8.0	1,480
Cost of equipment and software licenses	14,620	19,050	0.9	1.2	(4,430)
Depreciation	30,850	26,870	1.9	1.7	3,980
Travel	8,830	22,910	0.5	1.5	(14,080)
Communication	14,340	12,320	0.9	0.8	2,020
Facility Exp/Rent	14,010	17,980	0.9	1.1	(3,970)
Other costs	42,790	42,570	2.6	2.7	220
Total	9,71,380	9,23,220	59.2	58.8	48,160

Source: DART, Company

- SG&A Expense** declined slightly as a % of Revenue by ~90bps on YoY basis. The absolute cost declined by 1.0% YoY. These savings were due to Employee Cost Savings in SG&A (down 2% YoY), Travel Expenses savings (down by 80% YoY) and Facility expenses (down 20% YoY).

Exhibit 13: SG&A Expense Analysis

Particulars (INR Mn)	FY21	FY20	FY21 (% of Sales)	FY20 (% of Sales)	Incremental Cost
Salaries, others and PF contribution	1,98,680	2,03,000	12.1	12.9	(4,320)
Fees to external consultant	5,690	4,370	0.3	0.3	1,320
Provision of doubtful debts	2,010	1,440	0.1	0.1	570
Depreciation	9,800	8,430	0.6	0.5	1,370
Facility expenses	7,290	9,060	0.4	0.6	(1,770)
Travel	1,980	10,040	0.1	0.6	(8,060)
Communication	4,620	3,600	0.3	0.2	1,020
Other Costs	27,690	20,530	1.7	1.3	7,160
Total	2,57,760	2,60,470	15.7	16.6	(2,710)

Source: DART, Company

- EBIT Margin increased by 55bps to 25.1% for the full year. This can be attributed to pandemic led cost saving. Adjusted for one-time payment towards the legal claim wherein it paid Rs12bn the OPM increased by nearly 130bps – Adj OPM at 25.9%.
- Other Income (on IND-AS basis) stood at Rs. 31Bn in FY21 (v/s Rs. 45Bn in FY20). Other Income mainly (80% in FY21) comprised of Interest Income which declined by 30%. The Fx Gain income also declined to Rs. 2.4Bn from Rs. 7.2Bn.
- Net profit grew by 0.3% to Rs. 324Bn. Net Profit margin declined by 85bps YoY to 19.8% (largely reflecting impact of lower other income and higher tax rate at 25.6% v/s 23.2% in FY20).

Balance Sheet Analysis

- The Total Investments and Cash Balance increased by 7.4% to Rs. 387Bn in FY21. Cash per share stood at ~Rs. 104.5 per share.
- Billed + Unbilled DSO largely remained stable at 86 days v/s 85 days (FY20)
- TCS has increased the expected annual amortisation for FY22-FY25. This is likely to due to higher intangibles on the Balance Sheet (Rs. 4,800Mn v/s Rs. 2,830Mn in FY20, Gross Addition of Rs. 1,920Mn) as the rules of Useful lives and straight method is unchanged.

Exhibit 14: Expected Amortisation

Particulars (INR Mn)	AR21	AR20
FY2022	196	98
FY2023	152	65
FY2024	96	17
FY2025	36	0

Source: DART, Company

- PPE including Capex remained largely flat at Rs. 120Bn v/s Rs. 118Bn in FY21. The Gross Capex for PPE stood at 25Bn (23% of Opening PPE)

Cash Flow Analysis

- Net Cash Flow from Operating Activities grew by 20% to Rs. 388Bn in FY21. This was despite flattish Net Income as Working Capital reduced during the year (Inflow of Rs. 8.6Bn v/s Outflow of Rs. 46.6Bn). On the contrary of the initial expectations of weaker collections due to COVID, DSO for the company were down 4 days to 67 days from 71 days in FY20.
- FCF for the year stood at Rs 356Bn (up 22% YoY). Capex for the year remained stable at Rs. 31Bn. FCF to Net Profit stood at 109% v/s 90% in FY20.
- Payouts: During the year company paid Dividends of Rs 38 per share and also completed Buyback of Rs 160bn during the year resulting in reduction in equity base by 1.42% (price: Rs3000 per share). Collectively this translated into 95% of the FCF of the year as payouts to investor inline with its commitment.

Profit and Loss Account

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Revenue	15,69,490	16,41,770	18,98,127	21,11,189
Total Expense	11,48,390	11,88,490	13,73,792	15,35,310
COGS	8,96,350	9,40,530	10,90,224	12,12,387
Employees Cost	0	0	0	0
Other expenses	2,52,040	2,47,960	2,83,568	3,22,923
EBIDTA	4,21,100	4,53,280	5,24,335	5,75,879
Depreciation	35,300	40,650	45,555	49,184
EBIT	3,85,800	4,12,630	4,78,780	5,26,695
Interest	9,130	6,370	5,316	5,014
Other Income	45,810	31,340	37,723	27,845
Exc. / E.O. items	0	0	0	0
EBT	4,22,480	4,37,600	5,11,187	5,49,526
Tax	98,010	1,11,980	1,28,819	1,38,481
RPAT	3,23,400	3,24,300	3,81,648	4,10,076
Minority Interest	1,070	1,320	720	970
Profit/Loss share of associates	0	0	0	0
APAT	3,23,400	3,24,300	3,81,648	4,10,076

Balance Sheet

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Sources of Funds				
Equity Capital	3,750	3,700	3,700	3,645
Minority Interest	6,230	6,750	7,470	8,440
Reserves & Surplus	8,37,510	8,60,630	10,20,108	10,75,065
Net Worth	8,41,260	8,64,330	10,23,808	10,78,711
Total Debt	0	0	0	0
Net Deferred Tax Liability	(20,490)	(31,640)	(32,426)	(33,228)
Total Capital Employed	8,27,000	8,39,440	9,98,851	10,53,922

Applications of Funds

Net Block	2,09,280	2,10,210	2,10,205	2,10,071
CWIP	9,060	9,260	7,760	7,260
Investments	12,360	26,840	26,840	26,840
Current Assets, Loans & Advances	9,50,010	10,21,970	12,15,870	13,03,155
Inventories	50	80	80	80
Receivables	3,66,620	3,69,900	4,14,606	4,54,972
Cash and Bank Balances	86,460	68,580	2,09,567	2,77,825
Loans and Advances	85,040	1,15,010	1,17,304	1,19,645
Other Current Assets	1,50,440	1,76,800	1,83,713	1,85,033
Less: Current Liabilities & Provisions	3,53,710	4,28,840	4,61,824	4,93,404
Payables	1,03,520	1,27,070	1,46,885	1,64,080
Other Current Liabilities	2,50,190	3,01,770	3,14,939	3,29,323
<i>sub total</i>				
Net Current Assets	5,96,300	5,93,130	7,54,046	8,09,751
Total Assets	8,27,000	8,39,440	9,98,851	10,53,922

E – Estimates

Important Ratios

Particulars	FY20A	FY21A	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	42.9	42.7	42.6	42.6
EBIDTA Margin	26.8	27.6	27.6	27.3
EBIT Margin	24.6	25.1	25.2	24.9
Tax rate	23.2	25.6	25.2	25.2
Net Profit Margin	20.6	19.8	20.1	19.4
(B) As Percentage of Net Sales (%)				
COGS	57.1	57.3	57.4	57.4
Employee	0.0	0.0	0.0	0.0
Other	16.1	15.1	14.9	15.3
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	42.3	64.8	90.1	105.0
Inventory days	0	0	0	0
Debtors days	85	82	80	79
Average Cost of Debt	4150.0			
Payable days	24	28	28	28
Working Capital days	139	132	145	140
FA T/O	7.5	7.8	9.0	10.0
(D) Measures of Investment				
AEPS (Rs)	86.2	87.6	103.1	112.4
CEPS (Rs)	95.6	98.6	115.4	125.9
DPS (Rs)	66.0	38.0	60.0	60.9
Dividend Payout (%)	76.6	43.4	58.2	54.2
BVPS (Rs)	227.2	233.4	276.5	291.3
RoANW (%)	37.3	38.0	40.4	39.0
RoACE (%)	39.0	39.8	42.2	40.5
RoAIC (%)	49.7	54.6	61.4	67.3
(E) Valuation Ratios				
CMP (Rs)	3082	3082	3082	3082
P/E	35.8	35.2	29.9	27.4
Mcap (Rs Mn)	1,14,12,163	1,14,12,163	1,14,12,163	1,14,12,163
MCap/ Sales	7.3	7.0	6.0	5.4
EV	1,10,64,303	1,10,51,983	1,09,11,997	1,08,68,739
EV/Sales	7.0	6.7	5.7	5.1
EV/EBITDA	26.3	24.4	20.8	18.9
P/BV	13.6	13.2	11.1	10.6
Dividend Yield (%)	2.1	1.2	1.9	2.0
(F) Growth Rate (%)				
Revenue	7.2	4.6	15.6	11.2
EBITDA	6.6	7.6	15.7	9.8
EBIT	3.0	7.0	16.0	10.0
PBT	1.6	3.6	16.8	7.5
APAT	2.8	0.3	17.7	7.4
EPS	2.8	1.6	17.7	9.1

Cash Flow

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
CFO	3,23,690	3,88,020	3,73,080	4,23,179
CFI	85,650	(81,290)	(10,643)	(719)
CFF	(3,99,150)	(3,26,340)	(2,21,451)	(3,54,203)
FCFF	2,92,810	3,56,630	3,29,030	3,74,629
Opening Cash	72,240	86,460	68,580	2,09,567
Closing Cash	86,460	68,580	2,09,567	2,77,825

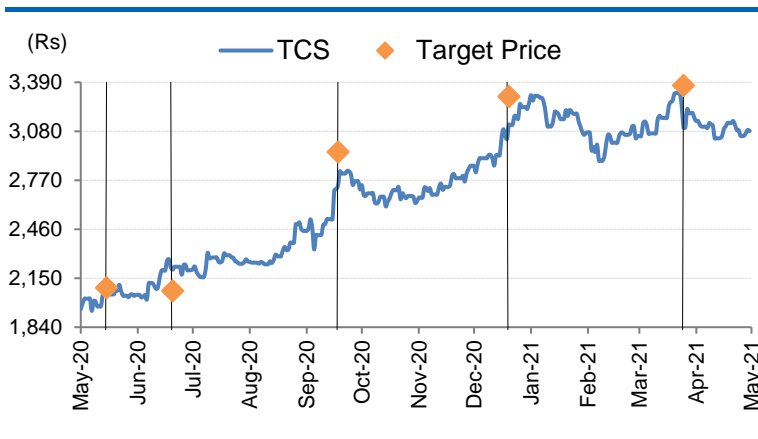
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jun-20	Reduce	2,090	2,046
Jul-20	Reduce	2,070	2,204
Oct-20	Accumulate	2,950	2,736
Jan-21	Reduce	3,300	3,121
Apr-21	Reduce	3,370	3,104

*Price as on recommendation date

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