

Deal wins continue to drive growth in FY22

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<http://www.asiamoney.com/brokers>

CMP: INR 3,259

Rating: Accumulate

Target Price: INR 3,663

Stock Info

BSE	532540
NSE	TCS
Bloomberg	TCS IN
Reuters	TCS.BO
Sector	IT
Face Value (INR)	1
Equity Capital (INR Cr)	370
Mkt Cap (INR Cr)	1,203,282
52w H/L (INR)	3,399/ 2,125
Avg Yearly Vol (in 000')	3,808

Shareholding Pattern %

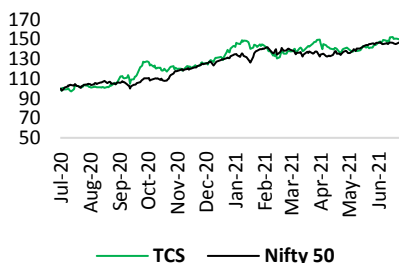
(As on Mar, 2021)

Promoters	72.19
FII	15.62
DII	7.82
Public & Others	4.37

Stock Performance (%)

	3m	6m	12m
TCS	-1.8	4.2	46.6
Nifty	5.9	9.8	47.1

TCS Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

TCS has reported Q1FY22 numbers below our estimate. TCS has reported consolidated revenue of INR 45,411 Cr, +18.5% YoY/3.9% QoQ in Q1FY22 against our estimate of INR 45,890 cr. Consolidated EBIT stood at INR 11,588 Cr, up by 28.1% YoY/-1.2% QoQ against our estimate of INR 11,706 Cr. On the margins front, EBIT margin improved by 2552bps YoY/contracted 133bps QoQ to 25.5% in-line with an estimate but given higher attrition and hiring with a wage hike, and strong growth across all verticals. Consolidated PAT saw a rise of 28.1% YoY/-2.7% QoQ to INR 9,031 Cr against our estimate of INR 9,568 Cr. Constant Currency Revenue growth +21.6% YoY/2.8% QoQ to (Mn USD) 6,154 against our estimate 6,204 (Mn USD).

Q1FY22 Segment Highlights

Industries: All verticals showed good sequential growth. Growth continued to be led by Life Sciences and Healthcare +7.3% QoQ, Retail and CPG growing 4.4% QoQ. BFSI +3.1% QoQ, Manufacturing +4.8% QoQ, Technology & Services +5% QoQ, and Communications & Media +1.7% QoQ, also saw significantly improved performance.

Markets: Growth was led by North America +4.1% QoQ, UK +3.6% QoQ, Continental Europe +1.5% QoQ, Latin America +4% QoQ and Middle East & Africa +4.2% QoQ. The pandemic's second-wave impacted sequential growth in India -14.1% QoQ, and Asia Pacific +2.4% QoQ.

Services: Consulting & Services Integration: Growth this quarter was led by cloud strategy and transformation, next-generation enterprise transformation and supply chain services, with demand led by Manufacturing & Utilities and Life Sciences among the industry verticals.

Outlook & Valuation

TCS in the near term on relatively expensive valuations to Infosys. Excluding India business, the performance was strong in line with Q4FY21. TCS revenue blip is largely one-offs due to India business impact which is expected to bounce back in coming quarters. However, remain constructive on TCS from medium to long term with its ability to engage with large clients for their large transformation programs. At a CMP of INR 3,259, Currently, TCS is trading at FY23 P/E of 26.7x to its FY23E EPS INR 122.1.

We value TCS at PE of 30x to its FY23E EPS of INR 122.1, which yields a target price of INR 3,663 per share. We upgrade our rating to Accumulate from Neutral earlier.

Particulars (INR Cr)	FY20	FY21	FY22E	FY23E
Revenues (US\$ mn)	22031	22174	25746	28798
Net Sales	156949	164177	190557	218795
EBIT	38580	42481	49709	56427
Net profit	32340	32430	38549	45177
EPS (Rs)	86.2	86.7	104.2	122.1
PE (x)	37.8	37.6	31.3	26.7
EBIT Margin	24.6%	25.9%	26.1%	25.8%
PAT Margin	20.7%	19.8%	20.3%	20.7%
ROE	38.2%	37.2%	40.1%	40.5%
ROCE	35.0%	36.6%	38.6%	38.2%

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

Q1 FY22 - Quarterly Performance (Consolidated)

(in INR Cr)

Consolidated Income Statement INR Cr	Q1FY22	Q4FY21	Q1FY21	Q-o-Q	Y-o-Y
Revenue (CC Terms) (Mn USD)	6,154	5,989	5,059	2.8%	21.6%
Net Revenue	45,411	43,705	38,322	3.9%	18.5%
Employee Costs	25,649	23,625	22,093	8.6%	16.1%
Other Operating Expenses	7,099	7,279	6,205	-2.5%	14.4%
Depreciation	1,075	1,067	976	0.7%	10.1%
EBIT	11,588	11,734	9,048	-1.2%	28.1%
EBIT margin %	25.52%	26.8%	23.6%	-133bps	2552bps
Other Income	721	931	598	-22.6%	20.6%
Finance Costs	146	138	142	5.8%	2.8%
Exceptional Items	-	-	-	NA	NA
PBT	12,163	12,527	9,504	-2.9%	28.0%
Tax Expense	3,132	3,245	2,455	-3.5%	27.6%
Effective Tax Rate %	25.8%	25.9%	25.8%	-15bps	-8bps
Reported PAT	9,031	9,282	7,049	-2.7%	28.1%
MI & Associates	-23	-36	-41		
Consolidated PAT	9,008	9,246	7,008	-2.6%	28.5%
PAT Margin %	19.8%	21.2%	18.3%	-132bps	155bps
EPS (Rs)	24.4	25.0	18.7	-2.5%	30.4%

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

Q1 FY22 – Key Concall Highlights

- The company focused on transformation services that yielding results, partnered with customers for their transformation journeys.
- Deal win** of \$8.1 bn was well distributed across verticals and sizes. The deal pipeline remains strong as it seeks to participate in all types of deals from cost led outsourcing to core transformation.
- EMEA based global leader in car & truck rental, selected TCS to empower their Hybrid cloud technology, that reliable IT operations with resilience and support cloud native applications Devops & micro services based architecture which are driving digital transformations.
- Sweden based bank and financial provider selected TCS, to build ecosystem banking that platforms will help business capabilities to deliver an ecosystem of digital financial products to its customer.
- North American Energy transportation company selected TCS, to provide integrated identity management functions across IT and OT ecosystems. It will focus on AI/ML driven based access control to establish strong governance over privileged identities & enable seamless governance of identities.
- Canadian multinational banking & financial services chosen TCS as its quality assurance partner for ignitor. It's one of their key modernization programs by leveraging the TCS CX Assurance Platform.
- The Client additions, 2 new clients joined \$100million club in QoQ basis. In YoY basis, 5 Clients (\$50million), 11 clients (\$20 million), 23 clients (\$10 million), 22 clients (\$5million), 52 Clients (\$1 millions) are added in client's portfolio.
- Few of discretionary expenses such as travel to get back to pre- Covid19 level by the end of FY22.
- Overall pricing environment is stable for the company as most of its revenue comes from long term relationships.
- Attrition has picked up as demand for talent high considering the demand environment but are confident of controlling employee cost.
- Continues to build on its localization strategy through local hiring in US and other key markets.
- Pricing strategy build on client long term relationships, Price volatility is low. Bulk business is coming from existing customers and pricing are stable.
- The Europe business will impact another 1 or 2 quarters, industrial and manufacturing seems good recovery in demand. The management are positive in terms of demand & revenue in Europe business.

Key Financials

Income Statement (INR Cr)

Year End-March	FY20	FY21	FY22E	FY23E
Revenues (US\$ mn)	22,031	22,174	25,746	28,798
Change (%)	5.3%	0.6%	16.1%	11.9%
Revenues	1,56,949	1,64,177	1,90,557	2,18,795
Change (%)	7.2%	4.6%	16.1%	14.8%
Employee costs	85,952	91,814	1,06,903	1,22,525
Operation and other expenses	1,14,840	1,17,631	1,38,154	1,59,283
Total Operating Expenses	2,00,792	2,09,445	2,45,056	2,81,808
EBITDA	42,109	46,546	52,403	59,512
Depreciation	3,529	4,065	2,694	3,086
EBIT	38580	42481	49709	56427
Interest	924	637	638	639
Other Income	4,592	3,134	2,821	4,203
PBT	42,248	44,978	51,891	59,990
Exceptional Items	0	1,218	0	0
PBT after exceptional Items	42,248	43,760	51,891	59,990
Tax	9,801	11,198	13,232	14,698
Rate (%)	23.2%	24.9%	25.5%	24.5%
PAT	32,447	32,562	38,659	45,293
Non-controlling interest	-107	-132	-110	-116
Consolidated PAT	32,340	32,430	38,549	45,177
PAT Margin (%)	20.7%	19.8%	20.3%	20.7%

Cash Flow Statement (INR Cr)

Year End-March	FY20	FY21	FY22E	FY23E
Profit for the Year	32,447	32,562	38,659	45,293
Adjustments:				
Depreciation	3,529	4,065	2,694	3,086
Finance Costs	924	637	638	639
Operating Profit before WC Changes	42,882	47,031	58,531	67,020
Operating Profit after WC Changes	38,215	47,894	65,032	70,656
Direct Taxes Paid & Exceptional Items	-5,846	-9,092	-13,232	-14,698
Cash Flow from Operating Activities	32,369	38,802	51,800	55,958
Cash Flow from Investing Activities	8,565	-8,129	-11,415	-11,585
Cash Flow from Financing Activities	-39,915	-32,634	-35,503	-37,860
Net Change in Cash & Cash Equivalents	1,019	-1,961	4,882	6,513
Opening Cash & Cash Equivalents	7,224	8,646	6,858	11,913
Closing Cash & Cash Equivalents	8646	6858	11913	18599

Balance Sheet (INR Cr)

Year End-March	FY20	FY21	FY22E	FY23E
Sources of Funds				
Share Capital	375	370	370	370
Reserves & Surplus	83,751	86,063	95,012	1,10,589
Non controlling interest	623	675	675	675
Total Equity	84,749	87,108	96,057	1,11,634
Deferred Tax Liability (Net)	779	767	767	767
Capital Employed	93,839	96,604	1,05,598	1,21,223
Application of Funds				
Gross Block	26,444	28,658	30,570	32,609
Less: Depreciation	15,503	17,548	19,793	22,324
Net Block	10,941	11,110	10,777	10,285
CWIP	906	926	926	926
Financial Assets	8,612	9,319	8,005	8,283
Investments	216	213	247	284
Inventories	5	8	8	8
Sundry debtors	36,264	36,662	42,288	46,157
Cash and bank	9,666	9,329	11,913	18,599
Other Current Assets	18,162	24,121	24,300	26,175
Total Current assets	90,237	99,280	1,12,355	1,29,799
Total Current liabilities	27,060	34,155	36,623	38,265
Net Current assets	63,177	65,125	75,732	91,535
Capital Employed	93,839	96,604	1,05,598	1,21,223

Key Ratios

Year End-March	FY20	FY21	FY22E	FY23E
Per share (Rs)				
EPS	86	87	104	122
BVPS	226	226	235	260
Valuation (x)				
P/E	37.8	37.6	31.3	26.7
P/BV	14.4	13.8	12.6	10.8
Return ratio (%)				
EBITDA Margin	26.83%	28.35%	27.50%	27.20%
EBIT Margin	24.6%	25.9%	26.1%	25.8%
PAT Margin	20.7%	19.8%	20.3%	20.7%
ROE	38.2%	37.2%	40.1%	40.5%
ROCE	35.0%	36.6%	38.6%	38.2%
Leverage Ratio (%)				
Total D/E	0.1	0.1	0.1	0.1
Turnover Ratios				
Asset Turnover (x)	14.2	15.0	18.1	21.3
Inventory Days	1	2	2	2
Receivable Days	80	81	81	77

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

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880