

Retail Equity Research

Tata Consultancy Services Limited

IT Services

BSE CODE: 532540

NSE CODE: TCS

Bloomberg CODE: TCS:IN

SENSEX: 60,284

BUY

12 Months Investment period Rating as per Large Cap
CMP Rs. 3,654 TARGET Rs. 4,298 RETURN 18% ↑
(Closing: 12-10-21)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

TCS delivers strong performance in Q2FY22

Tata Consultancy Services, a division of Tata Sons Limited, is a global IT services organization that provides a comprehensive range of IT services to its clients in diverse industries. The Company, caters to finance and banking, insurance, telecommunication, transportation, retail, manufacturing, pharmaceutical, and utility industries.

- Q2FY22 revenue rose 16.8% YoY (+3.2% QoQ, +15.5% YoY on constant currency (CC) basis), led by double digit growth across all divisions.
- EBITDA margin contracted 70bps to 28.0% owing to high cost of sales and operating costs. Adj. PAT surged 10.7% YoY on higher other income.
- Company plans to hire over 40,000 freshers during FY22, anticipating strong demand in coming quarters.
- Strong TCV, new deals acquisition, robust growth across segments will continue to drive performance in coming quarters, for which the hiring cycle has also picked up pace. We reiterate our BUY rating on the stock with a revised target price of Rs. 4,298 based on 36x FY23E adj. EPS.

Revenue surges on the back of strong growth across verticals

During Q2FY22, revenue grew 16.8% YoY to Rs. 46,867cr (+3.2% QoQ, +15.5% YoY on CC basis) due to increase in volume and demand across all segments. BFSI revenue increased 14.3% YoY to Rs. 18,445cr (+1.6% QoQ), supported by strong revenue from its products with loan crossing USD 2bn mark. Retail and Consumer Packed Food (CPG) up by 17.8% YoY to Rs. 7,483cr (+4.4% QoQ) with strong order book. Life Sciences and Healthcare segment grew by 19.7% YoY to Rs. 4,978cr (+1.6% QoQ) supported by new deals. Also, manufacturing business saw robust growth of 18.6% YoY to Rs. 4,538cr (+3.2% QoQ) due to increased bookings and new deal wins. Besides this, Communications and Media, and Technology Services rose 17.9% YoY to Rs. 7,733cr (+4.3% QoQ). EBIT grew 14.1% to Rs. 12,000cr, but EBIT margin contracted ~60bps due to high operating costs and D&A. Adj. PAT rose 10.7% YoY to Rs. 9,624cr, further helped by higher other income (+21.6% YoY), partly offset by higher taxes (+30.9%).

Key concall highlights

- In Q2FY22, company's TCV stood at USD 7.6bn, with the strong set of deal wins across all the geographies. Additionally, TCS added 19,690 employees count in Q2FY22, taking total to 528,748. Also, attrition rate (LTM) in IT services was at lowest in the industry at 11.9%.
- Management proposed interim dividend of Rs.7 in Q2FY22.

New product addition aids growth momentum

TCS product portfolio continued to perform well in Q2FY22. Ignio signed up 22 new customers out of which 8 went live. In the financial services domain, TCS BaNCS added five new wins and three went live during the quarter. Company's Quartz blockchain platform had new wins out of which one went live, and the company also won its first customer from the pharma industry. Overall, during Q2FY22 the company added 17 new clients in USD 50mn band, 19 clients in USD 20mn plus band, 31 clients in USD 10mn plus band, 44 in USD 5mn plus band and 62 clients in USD 1mn plus band.

Valuation

Company's long-term outlook remains promising on the back of strong order book, new deal wins and strong execution capabilities. Strong growth momentum in core business verticals is likely to continue with strong order booking in BFSI, Retail, and CPG. We reiterate our BUY rating on the stock with a revised target price of Rs. 4,298 based on 36x FY23E adj. EPS.

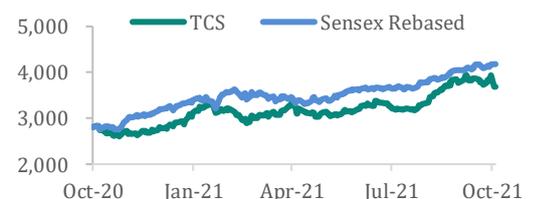
Company Data

Market Cap (cr)	Rs. 1,378,792
Enterprise Value (cr)	Rs. 1,375,094
Outstanding Shares (cr)	369.9
Free Float	28.0%
Dividend Yield	1.0%
52 week high	Rs. 3,990
52 week low	Rs. 2,600
6m average volume	137,504
Beta	0.6
Face value	Rs. 1

Shareholding %	Q4FY21	Q1FY22	Q2FY22
Promoters	72.2	72.2	72.2
FII's	15.6	15.4	15.4
MFs/Insti	7.9	8.0	7.9
Public	3.7	3.5	3.5
Others	0.7	0.9	1.0
Total	100.0	100.0	100.0
Promoters' pledge	0.5	0.5	0.5

Price Performance	3 Month	6 Month	1 Year
Absolute Return	14.9%	11.0%	31.0%
Absolute Sensex	14.8%	21.3%	48.4%
Relative Return*	0.1%	-10.3%	-17.5%

*over or under performance to benchmark index



Consolidated (cr)	FY21A	FY22E	FY23E
Sales	164,177	192,368	216,589
Growth (%)	4.6	17.2	12.6
EBITDA	46,546	53,787	60,253
EBITDA Margin (%)	28.4	28.0	27.8
Adj. PAT	33,648	39,673	44,652
Growth (%)	4.0	17.9	12.5
Adj. EPS	90.0	106.1	119.4
Growth (%)	4.4	17.9	12.5
P/E	35.3	34.8	30.9
P/B	13.8	14.2	12.6
EV/EBITDA	25.5	25.6	22.8
ROE (%)	37.5	40.8	40.9
D/E	0.1	0.1	0.1

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY22	Q2FY21	YoY Growth %	Q1FY22	QoQ Growth %	H1FY22	H1FY21	YoY Growth %
Revenue	46,867	40,135	16.8	45,411	3.2	92,278	78,457	17.6
EBITDA	13,116	11,513	13.9	12,663	3.6	25,779	21,537	19.7
EBITDA margins	28.0	28.7	(70bps)	27.9	10bps	27.9	27.5	40bps
Depreciation	1,116	998	11.8	1,075	3.8	2,191	1,974	11.0
EBIT	12,000	10,515	14.1	11,588	3.6	23,588	19,563	20.6
Interest	142	174	(18.4)	146	(2.7)	288	316	(8.9)
Other Income	1,111	914	21.6	721	54.1	1,832	1,512	21.2
Exceptional Items	-	(1,218)	n.m.	-	-	-	(1,218)	n.m.
PBT	12,969	10,037	29.2	12,163	6.6	25,132	19,541	28.6
Tax	3,316	2,533	30.9	3,132	5.9	6,448	4,988	29.3
Sh. of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	29	29	-	23	26.1	52	70	(25.7)
Reported PAT	9,624	7,475	28.7	9,008	6.8	18,632	14,483	28.6
Adjustments	-	1,218	n.m.	-	-	-	1,218	n.m.
Adj. PAT	9,624	8,693	10.7	9,008	6.8	18,632	15,701	18.7
No. of shares	369.9	375.2	(1.4)	369.9	(0.0)	369.9	375.2	(1.4)
Adj. EPS (Rs.)	26.0	23.2	12.3	24.4	6.8	50.4	41.8	20.4

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	192,663	214,587	192,368	216,589	(0.2)	0.9
EBITDA	55,023	61,319	53,787	60,253	(2.2)	(1.7)
Margins (%)	28.6	28.6	28.0	27.8	(60bps)	(80bps)
Adj. PAT	39,539	44,039	39,673	44,652	0.3	1.4
Adj. EPS	105.7	117.7	106.1	119.4	0.3	1.4

PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	146,463	156,949	164,177	192,368	216,589
% change	19.0	7.2	4.6	17.2	12.6
EBITDA	39,506	42,109	46,546	53,787	60,253
% change	21.5	6.6	10.5	15.6	12.0
Depreciation	2,056	3,529	4,065	3,828	3,791
EBIT	37,450	38,580	42,481	49,959	56,462
Interest	198	924	637	773	742
Other Income	4,311	4,592	1,916	4,347	4,532
PBT	41,563	42,248	43,760	53,534	60,252
% change	21.9	1.6	3.6	22.3	12.5
Tax	10,001	9,801	11,198	13,699	15,418
Tax Rate (%)	24.1	23.2	25.6	25.6	25.6
Reported PAT	31,472	32,340	32,430	39,673	44,652
Adj*	-	-	1,218	-	-
Adj PAT	31,472	32,340	33,648	39,673	44,652
% change	21.9	2.8	4.0	17.9	12.5
No. of shares (cr)	379.0	375.2	374.0	374.0	374.0
Adj EPS (Rs.)	83.1	86.2	90.0	106.1	119.4
% change	23.8	3.8	4.4	17.9	12.5
DPS (Rs.)	30.0	73.0	38.0	68.9	71.6
CEPS (Rs.)	88.5	95.6	100.8	116.3	129.5

CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	33,528	35,869	36,495	43,501	48,443
Non-cash adj.	(3,564)	(656)	1,143	(273)	(9,896)
Changes in W.C	(1,371)	(2,844)	1,164	(4,957)	(2,339)
C.F. Operation	28,593	32,369	38,802	38,271	36,208
Capital exp.	(1,954)	(2,377)	(2,682)	(4,040)	(4,548)
Change in inv.	1,091	7,916	(7,728)	(6,115)	(5,259)
Other invest.CF	2,459	3,026	2,281	1,806	2,053
C.F - Investment	1,596	8,565	(8,129)	(8,349)	(7,755)
Issue of equity	(16,000)	-	(19,757)	-	-
Issue/repay debt	(181)	-	-	300	(275)
Dividends paid	(11,472)	(37,702)	(10,907)	(25,787)	(26,791)
Other finance.CF	(244)	(2,213)	(1,970)	(855)	(810)
C.F - Finance	(27,897)	(39,915)	(32,634)	(26,342)	(27,876)
Chg. in cash	2,292	1,422	(1,788)	3,581	577
Closing cash	12,848	9,666	9,329	12,910	13,487

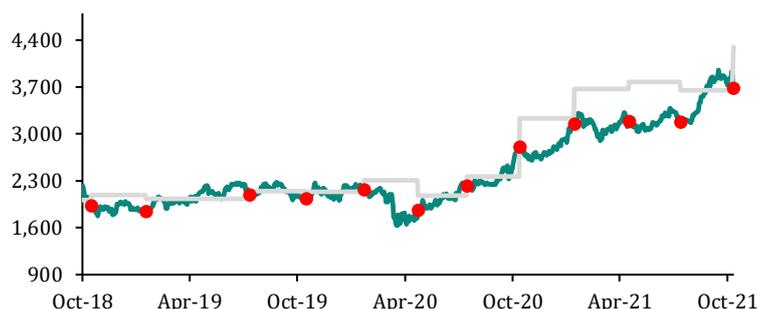
BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	12,848	9,666	9,329	12,910	13,487
Accounts Receivable	27,346	30,532	30,079	35,107	38,986
Inventories	10	5	8	12	12
Other Cur. Assets	51,927	50,034	59,864	62,363	71,612
Investments	239	216	213	453	424
Gross Fixed Assets	24,522	26,899	29,581	33,621	38,169
Net Fixed Assets	10,411	10,941	11,110	11,136	11,671
CWIP	963	906	926	1,111	1,333
Intangible Assets	1,879	9,987	9,911	9,505	9,120
Def. Tax (Net)	6,673	5,290	5,776	7,066	7,953
Other Assets	2,647	3,322	3,543	3,382	3,382
Total Assets	114,943	120,899	130,759	143,045	157,980
Current Liabilities	22,084	25,792	32,863	33,945	37,024
Provisions	-	-	-	-	-
Debt Funds	331	8,465	8,075	8,375	8,100
Other Liabilities	2,629	1,893	2,713	2,631	2,563
Equity Capital	375	375	370	370	370
Reserves & Surplus	89,071	83,751	86,063	96,888	108,905
Shareholder's Fund	89,446	84,126	86,433	97,258	109,275
Minority Interest	453	623	675	836	1,018
Total Liabilities	114,943	120,899	130,759	143,045	157,980
BVPS (Rs.)	236	224	231	260	292

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	27.0	26.8	28.4	28.0	27.8
EBIT margin (%)	25.6	24.6	25.9	26.0	26.1
Net profit mgn.(%)	21.5	20.6	19.8	20.6	20.6
ROE (%)	35.2	38.4	37.5	40.8	40.9
ROCE (%)	41.5	41.4	44.6	46.9	47.7
W.C & Liquidity					
Receivables (days)	68.1	71.0	66.9	66.6	65.7
Inventory (days)	0.1	0.1	0.1	0.1	0.1
Payables (days)	86.9	91.2	117.8	91.3	91.3
Current ratio (x)	4.2	3.3	2.9	3.1	3.2
Quick ratio (x)	3.1	2.5	2.0	2.4	2.4
Turnover & Leverage					
Gross asset T.O (x)	6.2	6.1	5.8	6.1	6.0
Total asset T.O (x)	1.3	1.3	1.3	1.4	1.4
Int. coverage ratio (x)	189.1	41.8	66.7	64.7	76.1
Adj. debt/equity (x)	0.0	0.1	0.1	0.1	0.1
Valuation					
EV/Sales (x)	5.1	4.3	7.2	7.1	6.3
EV/EBITDA (x)	18.9	16.2	25.5	25.6	22.8
P/E (x)	24.1	21.1	35.3	34.8	30.9
P/BV (x)	8.5	8.1	13.8	14.2	12.6

Recommendation Summary (Last 3 Years)



Dates	Rating	Target
22-Jan-20	HOLD	2,304
23-Apr-20	BUY	2,084
15-Jul-20	HOLD	2,361
13-Oct-20	BUY	3,236
13-Jan-21	BUY	3,667
16-Apr-21	BUY	3,773
13-Jul-21	BUY	3,650
12-Oct-21	BUY	4,298

Source: Bloomberg, Geojit research

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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