

Tata Consultancy Services Limited



Tata Consultancy Services Limited.
In-line with expectation, Strong deal booking/execution

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 3,688	INR 4,256	15.4%	INR 13,494,216	ACCUMULATE	Internet Software & Services

Synopsis:

Tata Consultancy Services Ltd (TCS) Q4FY22 performance is inline with our estimate. Dollar Revenue was up 2.6% QoQ to USD 6,696mn (KRChoksey est. USD6,681mn). Rupee revenue grew by 3.5% QoQ to INR 5,05,910mn (KRChoksey est. INR 5,02,487Mn). Reported operating margin contracted by 7bps to 25.0% led by supply side pressures of backfilling of attrition, increased sub-contracting costs, wage interventions to retain talent and discretionary costs. Reported Net profit grew by 1.6% QoQ to INR 99,260mn (KRChoksey est. INR 99,889mn) with margin of 19.6%. In this quarter, TCS has registered a highest ever deal bookings of USD 11.3bn (two mega deal wins >USD 1Bn in Q4). TCS is well poised to benefit from strong demand and growing digital transformation opportunities, although salary inflation and potential slowdown in Europe remain near-term concerns. As supply side pressures ease off in FY23, there is scope for margin expansion led by reducing sub-contracting costs, improved pricing, pyramid optimization, best-in-class supply side engine and leverage from growth. The company declared a dividend of INR 22 per share. Our target price of INR 4,256 is based on 31.3x Mar-24E EPS with EPS CAGR of 14.6% over FY22-24E.

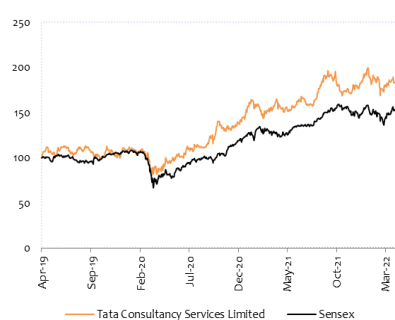
MARKET DATA

Shares outs (Mn)	3,699
Mkt Cap (INR Mn)	13,494,216
52 Wk H/L (INR)	4045.5/3004.8
Volume Avg (3m K)	3126.5
Face Value (INR)	1
Bloomberg Code	TCS:IN

KEY FINANCIALS

(INR Mn)	Q4FY22A	Q3FY22A	Q4FY21A	QoQ	YoY	KRChoksey Est.	Variance (%)
USD Revenue	6,696	6,524	5,989	2.6%	11.8%	6,681	0.2%
Revenue	5,05,910	4,88,850	4,37,050	3.5%	15.8%	5,02,487	0.7%
EBIT	1,26,280	1,22,370	1,17,340	3.2%	7.6%	1,25,102	0.9%
PAT	99,260	97,690	92,820	1.6%	6.9%	99,889	-0.6%
OPM (%)	25.0%	25.0%	26.8%	-7bps	-189bps	24.9%	6bps
NPM(%)	19.6%	20.0%	21.2%	-36bps	-162bps	19.9%	-26bps

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE

Broad based revenue growth performance

TCS reported Q4FY22 revenue of USD 6,696mn, up 2.6% QoQ in constant currency (inline with our estimate), and was partially dragged down by the India business (-4.8% QoQ). Clients in Continental Europe are realigning/redirecting their budgets on account of the prevalent macro situations, but management believes that there will not be any material negative impact on demand. Revenue growth was led by communication & media (+5.8% QoQ), followed by retail & CPG (+4.7% QoQ) and manufacturing (+3.7% QoQ), supported by the ramp-up of deal wins and within geographies, North Am led the sequential growth (+4.5% QoQ).

Strong deal wins to drive growth across geographies; Continued strong hiring

In this quarter, TCS has registered a highest ever deal bookings of USD 11.3bn, with a book-to-bill ratio of 1.35x as compared to Accenture's 1.20x on TTM basis, supported by mega deals of USD 1.8Bn TCV and market share gains compared to Accenture outsourcing. The overall demand outlook is positive with increased outsourcing, cloud adoption and growth & transformation initiatives. Q4 witnessed broad-based growth across all services, led by Cloud, Cyber Security, Enterprise Application Services, IoT and Digital engineering. TCS is seeing some uptick in pricing due to better enforcement of COLA clauses. Calibrated focus on building upstream/consulting with the changes in organizational structure help improve client mining in medium term and Q1FY23E growth rebound in BFSI vertical will be supported by strong bookings of USD 3.2bn which includes Sun Life Financial, Payments Canada deals.

Net headcount addition stood at 35k, the highest-ever in a quarter, which take the FY22 net addition count to 103k and the attrition increased to 17.4% TTM (+210bps QoQ) which company expects to taper down in H2FY23.

EBIT margin to sustain over 25%

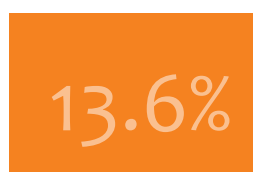
EBIT margin stood at 25%, inline with our estimate, and remained flat sequentially which was impacted by higher cost of delivery including higher sub-contracting (-90bps), offset by operational efficiency (+70bps) and FX tailwind (+10bps). The near term margin is expected remain compressed due to wage hike (in Q1FY23E, effective from 1st April,2022), a likely uptick in travel and other discretionary costs. However, management indicated that it has long-term margin levers in place and is working on to reach its aspirational EBIT level of 26-28% in the long term.

MARKET INFO

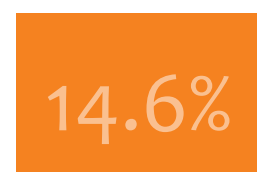
SENSEX	58,576
NIFTY	17,530

SHARE HOLDING PATTERN (%)

Particulars	Dec-21	Sep-21	Jun-21
Promoters	72.2	72.2	72.2
FIIs	15.0	15.4	15.4
DIIIs	8.0	7.9	8.0
Others	4.8	4.5	4.4
Total	100	100	100



Revenue CAGR between FY22 and FY24E



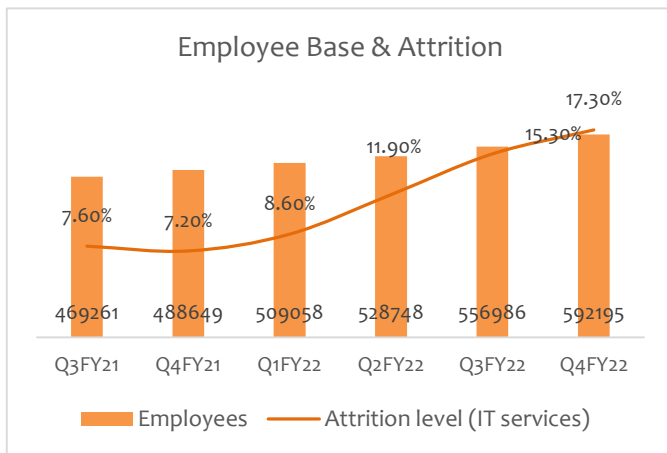
PAT CAGR between FY22 and FY24E

Tata Consultancy Services Limited.

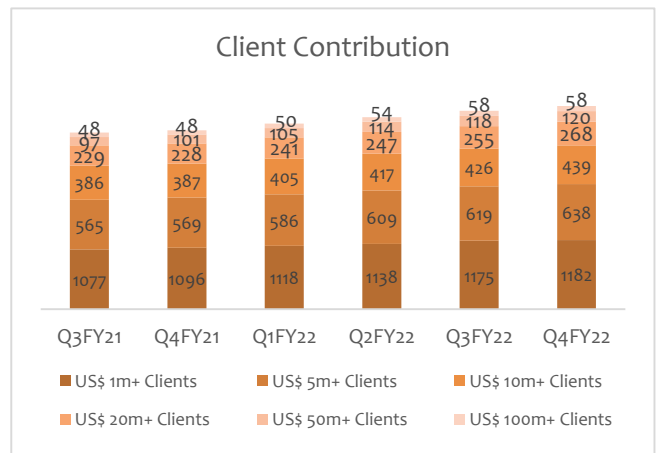
Key Concall Highlights: (i) TCS has rolled out a new organizational structure, led by RIG (Relationship Incubation group), to double down on customer intimacy by curating engagements across customer journeys, starting from building trust at the initial stage by executing projects on time becoming a strategic partner and at last helping clients in structural changes to bring out better output (ii) The company announced a salary hike (wef Apr'22), which is in line with the past few salary hikes with a slight upward bias (iii) Travel cost to remain sluggish due to first two months of the quarter and will continue to stay low in the near term as compared to the Pre-Covid level (iv) Renewal and ongoing projects are seeing a slight uptick. Though Fresh/new deal wins are facing a competitive environment but will see uptick in pricing due to demand-supply mismatch (v) TCS announced a final dividend of INR 22 per share

Valuation and view

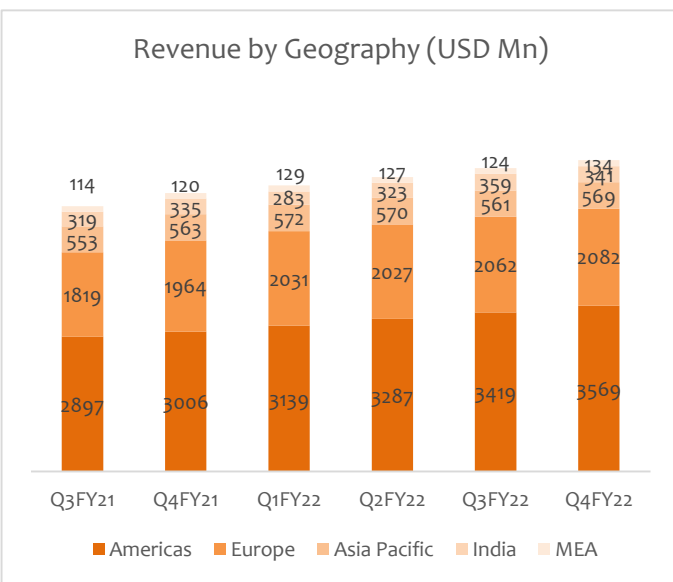
TCS is currently trading at a valuation with a P/E multiple of 30.8x/27.1x on FY23E/FY24E earnings. We expect strong deal momentum across verticals, ease in travel restrictions and continued investments in newer technologies such as product & platform which will help maintain the growth momentum in medium term future and hence we are assigning a P/E multiple of 31.3x to the FY24 estimated EPS of ~INR 136 to arrive at a target price of INR 4,256 per share, an upside of 15.4% over the CMP. Accordingly, we reiterate an "ACCUMULATE" rating to the stock.



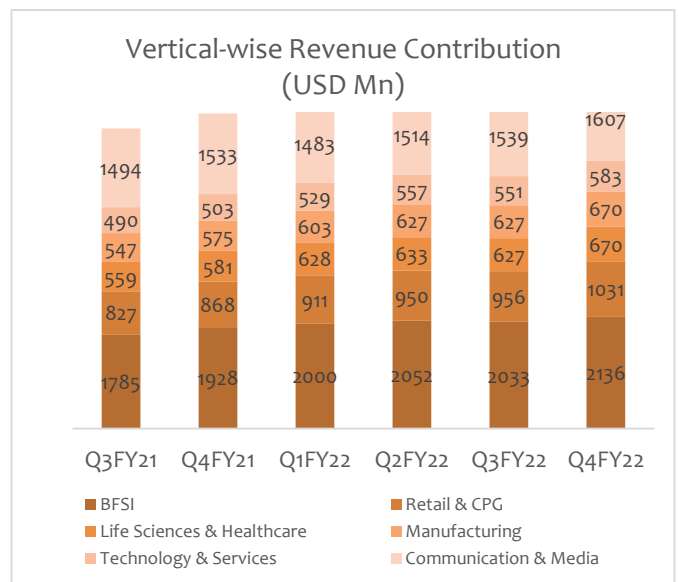
Source: Company, KRChoksey Research



Source: Company, KRChoksey Research



Source: Company, KRChoksey Research



Source: Company, KRChoksey Research

Tata Consultancy Services Limited.

KEY FINANCIALS

Exhibit 1: Balance Sheet

Particulars (INR Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E
Property, Plant and Equipment	1,04,110	1,09,410	1,11,100	1,07,740	1,02,449	91,481
Right-of-use Asset	0	79940	76330	76360	76360	76360
CWIP	9,630	9,060	9,260	12,050	12,050	12,050
Goodwill	17,000	17,100	17,980	17,870	17,870	17,870
Intangible Assets	1,790	2,830	4,800	11,010	11,010	11,010
Investments	2,390	2,160	2,130	2,230	2,230	2,230
Other non-current tax assets	66730	52900	57760	56910	56910	56910
Other non current assets	26,470	33,220	35,430	47,870	47,870	47,870
Total non current assets	2,28,120	3,06,620	3,14,790	3,32,040	3,26,749	3,15,781
Unbilled Revenue	51570	57320	65830	77360	89762	101378
Investments	2,90,910	2,61,400	2,91,600	3,02,620	3,02,620	3,02,620
Trade receivables	2,73,460	3,05,320	3,00,790	3,40,740	3,29,126	3,71,720
Cash & equivalent	1,28,480	96,660	93,290	1,82,210	3,48,778	4,81,345
Other current assets	1,58,360	1,81,590	2,41,100	1,80,060	1,80,060	1,80,060
Current Tax Assets	18530	80	190	110	110	110
Total current assets	9,21,310	9,02,370	9,92,800	10,83,100	12,50,455	14,37,233
Total Assets	11,49,430	12,08,990	13,07,590	14,15,140	15,77,204	17,53,014
Equity Share Capital	3,750	3,750	3,700	3,660	3,660	3,660
Other Equity	8,90,710	8,37,510	8,60,630	8,87,730	10,11,757	11,52,629
Equity Attributable to Owners of the Company	8,94,460	8,41,260	8,64,330	8,91,390	10,15,417	11,56,289
Non controlling Interest	4,530	6,230	6,750	7,070	8,290	9,510
Total Equity	8,98,990	8,47,490	8,71,080	8,98,460	10,23,707	11,65,799
Long term Debts	440	69,060	65,030	63,680	70,048	63,043
Other Financial Liabilities	12,570	6,970	11,970	11,100	11,100	11,100
Employee benefit obligation	3,300	4,170	7,490	6,770	6,770	6,770
DTL	10420	7790	7670	5900	5900	5900
Other Non-Current Liabilities	2870	2910	2800	5720	5720	5720
Total non current liabilities	9,28,590	9,38,390	9,66,040	9,91,630	11,23,245	12,58,332
short term borrowing & leasing	0	12,680	12,920	14,500	14,500	15,950
Deferred Revenue	23,920	29,150	36,500	36,350	36,350	43,620
Trade Payables	62,920	67,400	78,600	80,450	95,909	1,08,101
Other Financial Liabilities	49,030	61,000	61,500	76,870	76,870	76,870
Other Current Liabilities	34,740	35,760	54,620	98,030	98,030	98,030
Employee benefit obligation	23,560	27,490	34,980	38,100	43,710	48,800
Current Tax Liabilities	26,670	37,120	62,430	79,210	88,591	1,03,311
Total Current Liabilities	2,20,840	2,70,600	3,41,550	4,23,510	4,53,959	4,94,682
Total liabilities	11,49,430	12,08,990	13,07,590	14,15,140	15,77,204	17,53,014

Source: Company, KRChoksey Research

Tata Consultancy Services Limited.

KEY FINANCIALS

Exhibit 2: Profit & Loss Statement

Particulars (INR Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E
Revenue	14,64,630	15,69,490	16,41,770	19,17,540	21,90,184	24,73,626
Employee Cost	7,82,460	8,59,520	9,18,140	10,75,540	12,33,913	13,77,586
Other Cost	2,87,110	2,88,880	2,58,170	3,11,430	3,61,657	4,20,823
EBITDA	3,95,060	4,21,090	4,65,460	5,30,570	5,94,614	6,75,217
Depreciation	20,560	35,290	40,650	46,040	43,619	48,072
EBIT	3,74,500	3,85,800	4,24,810	4,84,530	5,50,994	6,27,145
Other income, net	43,110	45,920	31,340	39,674	47,059	54,095
Finance costs	1,980	9,240	6,370	7,334	5,824	4,245
Pre-tax Income	4,15,630	4,22,480	4,49,780	5,16,870	5,92,229	6,76,995
Income tax expense	1,00,010	98,010	1,11,980	1,32,380	1,48,057	1,72,659
Net profit Before MI	3,15,620	3,24,470	3,37,800	3,84,490	4,44,172	5,04,336
Minority Interest	900	1,070	1,320	1,220	1,220	1,220
Net profit Before MI	3,14,720	3,23,400	3,36,480	3,83,270	4,42,952	5,03,116
Diluted EPS (INR)	83.87	86.19	90.94	103.59	119.72	135.98
Shares in Million	3,752	3,752	3,700	3,700	3,700	3,700

Source: Company, KRChoksey Research

Exhibit 3: Free Cash Flow Analysis

Particulars (INR Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Cash Generated From Operations	4,26,550	4,94,650	4,67,580	6,43,490	6,65,511	7,11,579
Net Cash Flow from/(used in) Investing Activities	-3,92,990	-5,14,140	-4,61,130	-4,92,190	-5,72,041	-5,72,007
Net Cash Flow from Financing Activities	-70	68,620	-4,080	-1,390	6,368	-7,005
Net Inc/Dec in cash equivalents	33,490	49,130	2,370	1,49,910	99,838	1,32,568
Opening Balance	61,611	95,101	96,660	99,030	2,48,940	3,48,778
Closing Balance Cash and Cash Equivalents	95,101	1,44,231	99,030	2,48,940	3,48,778	4,81,345

Source: Company, KRChoksey Research

Exhibit 4: Ratio Analysis

Key Ratio	FY19	FY20	FY21	FY22	FY23E	FY24E
EBIT Margin (%)	25.6%	24.6%	25.9%	25.3%	25.2%	25.4%
Tax rate (%)	24.1%	23.2%	24.9%	25.6%	25.0%	25.5%
Net Profit Margin (%)	21.5%	20.6%	19.8%	20.0%	20.2%	20.3%
RoE (%)	36.1%	37.3%	39.5%	43.7%	46.5%	46.3%
RoCE (%)	31.3%	31.7%	33.5%	36.8%	39.1%	40.6%
EV/EBITDA	28.6	27.1	24.5	21.0	18.4	16.0
EPS (INR per share)	83.9	86.2	90.9	103.6	119.7	136.0

Source: Company, KRChoksey Research

Tata Consultancy Services Limited.

Tata Consultancy Services				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP(INR)	Recommendation	Our Rating	Upside
12-Apr-22	3688	4256	ACCUMULATE	Buy	More than 15%
13-Jan-21	3897	4256	ACCUMULATE	Accumulate	5% – 15%
08-Oct-21	3935	4256	ACCUMULATE	Hold	0 – 5%
				Reduce	-5% – 0
				Sell	Less than – 5%

ANALYST CERTIFICATION:

I, Saptarshi Mukherjee (MBA, PGDSM and MSc Investment & Finance), Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & Conditions and other disclosures:

KRChoksey Shares and Securities Pvt. Ltd (hereinafter referred to as KRCSPL) is a registered member of National Stock Exchange of India Limited and Bombay Stock Exchange Limited. KRCSPL is a registered Research Entity vide SEBI Registration No. INH00001295 under SEBI (Research Analyst) Regulations, 2014.

We submit that no material disciplinary action has been taken on KRCSPL and its associates (Group Companies) by any Regulatory Authority impacting Equity Research Analysis activities.

KRCSPL prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analyst covers. The information and opinions in this report have been prepared by KRCSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KRCSPL. While we would endeavor to update the information herein on a reasonable basis, KRCSPL is not under any obligation to update the information. Also, there may be regulatory, compliance or other reasons that may prevent KRCSPL from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or KRCSPL policies, in circumstances where KRCSPL might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KRCSPL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. KRCSPL accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Our employees in sales and marketing team, dealers and other professionals may provide oral or written market commentary or trading strategies that reflect opinions that are contrary to the opinions expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

Associates (Group Companies) of KRCSPL might have received any commission/compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of brokerage services or specific transaction or for products and services other than brokerage services.

KRCSPL or its Associates (Group Companies) have not managed or co-managed public offering of securities for the subject company in the past twelve months.

KRCSPL encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. KRCSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither KRCSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that Saptarshi Mukherjee (MBA, PGDSM and MSc Investment & Finance), Research Analyst of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific brokerage service transactions.

KRCSPL or its associates (Group Companies) collectively or its research analyst do not hold any financial interest/beneficial ownership of more than 1% (at the end of the month immediately preceding the date of publication of the research report) in the company covered by Analyst, and has not been engaged in market making activity of the company covered by research analyst.

It is confirmed that, Saptarshi Mukherjee (MBA, PGDSM and MSc Investment & Finance), Research Analyst do not serve as an officer, director or employee of the companies mentioned in the report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other Jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KRCSPL and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform them of and to observe such restriction.

Please send your feedback to research.insti@krchoksey.com

Visit us at www.krchoksey.com

KR Choksey Shares and Securities Pvt. Ltd

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.