

Retail Equity Research

Tata Consultancy Services Limited

IT Services

BSE CODE: 532540

NSE CODE: TCS

Bloomberg CODE: TCS:IN

SENSEX: 57,235

BUY

12 Months Investment period Rating as per Large Cap
CMP Rs. 3,101 TARGET Rs. 3,635 RETURN 17% ↑
(Closing: 13-10-22)

KEY CHANGES:

TARGET ↓

RATING ↑

EARNINGS ↓

Demand resilient; benign conditions ahead

Tata Consultancy Services (TCS), a subsidiary of Tata Sons Ltd, is a global IT services organisation. It provides a comprehensive range of services to its clients in diverse industries. The company caters to finance and banking, insurance, telecommunication, transportation, retail, manufacturing, pharmaceutical and utility industries.

- Revenue of TCS in Q2FY23 grew a significant 18.0% YoY to Rs 55,309 cr, mainly due to solid gains across verticals.
- Operating margin expanded 90 bps QoQ to 24.0% (-160 bps YoY), supported by operational efficiencies, improved realisations and favourable currency changes. The PAT margin stood at 18.9%.
- Despite the economic headwinds in the quarter, TCS rebounded on strong demand for its services. The growth was primarily driven by higher demand for cloud platforms and continued customer interest in technology services as reflected in deal wins. We expect revenue to rise further, supported by operating efficiencies and cost optimisation. We upgrade our rating to BUY on the stock with a revised target price of Rs 3,635 based on 28x FY24E adjusted EPS.

Resilient revenue growth across verticals

TCS posted a revenue of Rs 55,309cr (+18.0% YoY) in 2QFY23, broadly based across verticals led by retail and consumer business (+23.5% YoY) and communication (+21.0% YoY). In retail, TCS witnessed an uptick in demand in travel and hospitality sub-segments, while order book stood at USD 1.6billion. In the communication segment, growth was on the back of investments in 5G and personalised offerings to end customers. Revenue from the BFSI segment rose 14.4% YoY to Rs 21,110cr, with clients' spending on cloud, enterprise application services and cyber security, having a total contract value of USD 2.3billion. Revenue from life sciences and healthcare and others increased 20.4% YoY to Rs 10,433cr.

Key concall highlights

- In Q2FY23, the company added five more new clients in the USD100 million(mn) band, ten clients in the USD50mn plus band, and 36 more clients in the USD20mn band, bringing the total clients to 2781.
- The company added 9,840 employees in the quarter, taking its total headcount to 616,171. In the last twelve months (LTM), the IT services attrition rate increased to 21.5% (19.7% in 1QFY23).

Margin recovery

During the quarter, operating profit increased 9.0% QoQ to Rs 13,279cr. Operating margin widened +90 bps QoQ to 24% (-160 bps YoY) on account of favourable currency movement, operational efficiencies from flattening of workforce pyramid, and enhanced productivity of fresh hires. Consequently, net profit increased 10.0% QoQ to Rs 10,431cr, crossing Rs 10,000cr milestone in quarterly net profit. Net profit margin expanded 90 bps QoQ to 18.9%.

Valuation

TCS has built a resilient business model by securing long-term contracts with leading brands. As such, we believe technology spending should continue to increase and expect other secular tailwinds to drive healthy growth over the medium term. Moreover, the stock has also corrected 15.3% in the past six months, suggesting a buying opportunity. Hence, we upgrade our rating on the stock to BUY with a revised target price of Rs 3,635 based on 28x FY24E adjusted EPS.

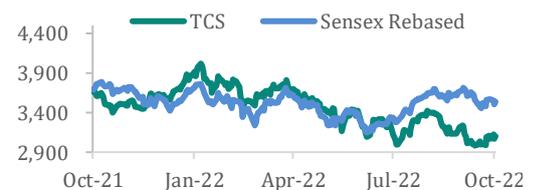
Company Data

Market Cap (cr)	Rs. 1,133,940
Enterprise Value (cr)	Rs. 1,117,423
Outstanding Shares (cr)	365.9
Free Float	28.0%
Dividend Yield	1.4%
52 week high	Rs. 4,046
52 week low	Rs. 2,926
6m average volume	172,665
Beta	0.8
Face value	Rs. 1

Shareholding (%)	Q3FY22	Q4FY22	Q1FY23
Promoters	72.2	72.3	72.3
FII's	15.0	14.2	13.5
MFs/Insti	8.0	7.9	8.4
Public	3.8	4.6	4.7
Others	1.0	1.1	1.1
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	2.1%	-15.3%	-15.2%
Absolute Sensex	7.0%	-1.9%	-5.8%
Relative Return*	-4.9%	-13.4%	-9.4%

*over or under performance to benchmark index



Consolidated (cr)	FY22A	FY23E	FY24E
Sales	191,754	222,370	248,706
Growth (%)	16.8	16.0	11.8
EBITDA	53,057	58,537	64,680
EBITDA Margin (%)	27.7	26.3	26.0
Adj. PAT	38,327	42,827	47,500
Growth (%)	13.9	11.7	10.9
Adj. EPS	103.6	117.0	129.8
Growth (%)	15.2	13.0	10.9
P/E	36.1	26.5	23.9
P/B	15.5	10.5	9.0
EV/EBITDA	25.9	19.1	17.1
ROE (%)	43.0	39.7	37.6
D/E	0.1	0.1	0.1

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY23	Q2FY22	YoY Growth (%)	Q1FY23	QoQ Growth (%)	H1FY23	H1FY22	YoY Growth (%)
Revenue	55,309	46,867	18.0	52,758	4.8	108,067	92,278	17.1
EBITDA	15,481	14,227	8.8	14,205	9.0	29,686	27,611	7.5
EBITDA margins	28.0	30.4	(240bps)	26.9	110bps	27.5	29.9	(240bps)
Depreciation	1,237	1,116	10.8	1,230	0.6	2,467	2,191	12.6
EBIT	14,244	13,111	8.6	12,975	9.8	27,219	25,420	7.1
Interest	148	142	4.2	199	(25.6)	347	288	20.5
Other Income	-	-	n.m.	-	n.m.	-	-	n.m.
Exceptional Items	-	-	n.m.	-	n.m.	-	-	n.m.
PBT	14,096	12,969	8.7	12,776	10.3	26,872	25,132	6.9
Tax	3,631	3,316	9.5	3,257	11.5	6,888	6,448	6.8
Share of profit from Associate	-	-	n.m.	-	n.m.	-	-	n.m.
Minority Interest	34	29	17.2	41	(17.1)	75	52	44.2
Reported PAT	10,431	9,624	8.4	9,478	10.1	19,909	18,632	6.9
Adjustments	-	-	n.m.	-	n.m.	-	-	n.m.
Adj. PAT	10,431	9,624	8.4	9,478	10.1	19,909	18,632	6.9
No. of shares	365.9	369.9	(1.1)	365.9	-	365.9	369.9	(1.1)
Adj. EPS (Rs.)	28.5	26.0	9.6	25.9	10.1	54.4	50.4	8.0

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	220,488	246,245	222,370	248,706	0.9	1
EBITDA	60,028	66,231	58,537	64,680	(2.5)	(2.3)
Margins (%)	27.2	26.9	26.3	26.0	(90bps)	(90bps)
Adj. PAT	43,490	48,576	42,827	47,500	(1.5)	(2.2)
Adj. EPS	118.9	132.8	117.0	129.8	(1.5)	(2.2)

PROFIT & LOSS

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Revenue	156,949	164,177	191,754	222,370	248,706
% change	7.2	4.6	16.8	16.0	11.8
EBITDA	42,109	46,546	53,057	58,537	64,680
% change	6.6	10.5	14.0	10.3	10.5
Depreciation	3,529	4,065	4,604	4,661	4,265
EBIT	38,580	42,481	48,453	53,876	60,415
Interest	924	637	784	767	711
Other Income	4,592	1,916	4,018	4,647	4,352
PBT	42,248	43,760	51,687	57,756	64,057
% change	1.6	3.6	18.1	11.7	10.9
Tax	9,801	11,198	13,238	14,792	16,406
Tax Rate (%)	23.2	25.6	25.6	25.6	25.6
Reported PAT	32,340	32,430	38,327	42,827	47,500
Adj*	-	1,218	-	-	-
Adj PAT	32,340	33,648	38,327	42,827	47,500
% change	2.8	4.0	13.9	11.7	10.9
No. of shares (cr)	375.2	374.0	369.9	365.9	365.9
Adj EPS (Rs.)	86.2	90.0	103.6	117.0	129.8
% change	3.8	4.4	15.2	13.0	10.9
DPS (Rs.)	73.0	38.0	43.0	52.7	58.4
CEPS (Rs.)	95.6	100.8	116.1	129.8	141.5

CASH FLOW

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Net inc. + Depn.	35,869	36,495	42,931	47,488	51,764
Non-cash adj.	(656)	1,143	1,054	(11,588)	(9,227)
Changes in W.C	(2,844)	1,164	(4,036)	(4,928)	(3,878)
C.F. Operation	32,369	38,802	39,949	30,973	38,659
Capital exp.	(2,377)	(2,682)	(2,452)	(3,336)	(4,352)
Change in inv.	7,916	(7,728)	(640)	334	111
Other invest.CF	3,026	2,281	2,195	2,164	1,585
C.F - Investment	8,565	(8,129)	(897)	(838)	(2,656)
Issue of equity	-	(19,757)	(18,067)	-	-
Issue/repay debt	-	-	-	(275)	(250)
Dividends paid	(37,702)	(10,907)	(13,375)	(21,200)	(23,512)
Other finance.CF	(2,213)	(1,970)	(2,139)	(765)	(646)
C.F - Finance	(39,915)	(32,634)	(33,581)	(22,240)	(24,409)
Chg. in cash	1,422	(1,788)	5,630	7,895	11,595
Closing cash	9,666	9,329	18,221	26,116	37,711

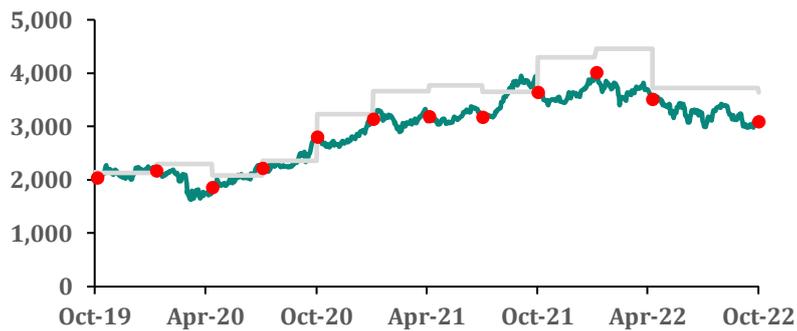
BALANCE SHEET

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash	9,666	9,329	18,221	26,116	37,711
Accounts Receivable	30,532	30,079	34,074	40,027	44,767
Inventories	5	8	20	23	24
Other Cur. Assets	50,034	59,864	55,995	65,006	68,650
Investments	216	213	223	330	439
Gross Fixed Assets	26,899	29,581	32,033	35,369	39,721
Net Fixed Assets	10,941	11,110	10,774	9,388	9,413
CWIP	906	926	1,205	1,265	1,329
Intangible Assets	9,987	9,911	10,524	10,087	9,672
Def. Tax (Net)	5,290	5,776	5,691	6,654	8,200
Other Assets	3,322	3,543	4,787	4,787	4,787
Total Assets	120,899	130,759	141,514	163,683	184,991
Current Liabilities	25,792	32,863	40,901	44,457	47,495
Provisions	-	-	-	-	-
Debt Funds	8,465	8,075	8,390	8,115	7,865
Other Liabilities	1,893	2,713	2,377	2,379	2,443
Equity Capital	375	370	366	366	366
Reserves & Surplus	83,751	86,063	88,773	107,523	125,826
Shareholder's Fund	84,126	86,433	89,139	107,889	126,192
Minority Interest	623	675	707	843	995
Total Liabilities	120,899	130,759	141,514	163,683	184,991
BVPS (Rs.)	224	231	241	295	345

RATIOS

Y.E March	FY20A	FY21A	FY22A	FY23E	FY24E
Profitab. & Return					
EBITDA margin (%)	26.8	28.4	27.7	26.3	26.0
EBIT margin (%)	24.6	25.9	25.3	24.2	24.3
Net profit mgn.(%)	20.6	19.8	20.0	19.3	19.1
ROE (%)	38.4	37.5	43.0	39.7	37.6
ROCE (%)	41.4	44.6	49.3	46.1	44.7
W.C & Liquidity					
Receivables (days)	71.0	66.9	64.9	65.7	65.7
Inventory (days)	0.1	0.1	0.2	0.2	0.2
Payables (days)	91.2	117.8	97.9	87.6	85.8
Current ratio (x)	3.3	2.9	2.6	2.9	3.1
Quick ratio (x)	2.5	2.0	1.9	2.1	2.3
Turnover & Leverage					
Gross asset T.O (x)	6.1	5.8	6.2	6.6	6.6
Total asset T.O (x)	1.3	1.3	1.4	1.5	1.4
Int. coverage ratio (x)	41.8	66.7	61.8	70.2	85.0
Adj. debt/equity (x)	0.1	0.1	0.1	0.1	0.1
Valuation					
EV/Sales (x)	4.3	7.2	7.2	5.0	4.4
EV/EBITDA (x)	16.2	25.5	25.9	19.1	17.1
P/E (x)	21.1	35.3	36.1	26.5	23.9
P/BV (x)	8.1	13.8	15.5	10.5	9.0

Recommendation Summary (Last 3 Years)



Dates	Rating	Target
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
17-Jan-22	BUY	4,457
20-Apr-22	HOLD	3,718
13-Oct-22	BUY	3,635

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/Neutral			

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/Neutral: 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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