

TCS

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Steady operating performance

TCS delivered better than expected revenue growth in Q3, while margins came a tad below our expectations. Revenue grew 2.9% QoQ to USD7.1bn (2.2% CC) in a seasonally-soft quarter, driven by cloud, ERP and cyber security services as well as market-share gains through vendor consolidation. Continued traction in regional markets (~6% CC QoQ growth for a second quarter in a row; inherently more volatile) largely explains the revenue beat. Deal-closure activity (deal intake TCV of USD7.8bn; book-to-bill at 1.1x) exhibited some moderation due to slower decision-making, although the deal pipeline build-up has remained healthy so far. Management remains watchful in the near term, considering heightened macro uncertainties; however, it reiterated confidence on accelerating revenue growth, once uncertainties abate. We tweak our earnings estimates for FY23-25 (<1% cut) post the Q3 performance and special dividend outgo. TCS is well placed to navigate the challenging demand environment, considering its well-diversified offerings across growth & transformation and cost takeout & efficiency projects; but this seems to be largely captured in the valuation, in our view. We retain HOLD with TP of Rs3,200/share at 22x Dec-24E EPS.

Results summary: Revenue grew 2.9% QoQ to USD7.1bn (2.2%/13.5% QoQ/YoY CC), beating our estimates. EBITM expanded ~50bps QoQ to 24.5% on the back of currency movement (+70bps) and operational rigor (+30bps; includes better utilization, realization, and reduction of external consultants costs), offset by increasing cost of normalcy (back-to-office and travel cost) and higher project-related third-party costs (-50bps). Net Profit stood at Rs108.5bn, lower than our estimate of Rs111.6bn on account of lower other income. Revenue growth was broad-based and led by Retail & CPG (18.7% CC YoY), Life Sciences & Healthcare (14.4%), Technology & Services (13.6%), Communication and Media (13.5%), Manufacturing (12.5%), and BFSI (11.1%). **What we liked:** Revenue beat, broad-based revenue growth, steady deal intake (TCV of USD7.8bn), dividend of Rs75 per share (incl. Rs67/sh special dividend). **What we did not like:** Sequential reduction in headcount after 10 quarters (headcount growth moderated to 10.2% YoY vs. 21.2% at the end of Q4FY22).

Earning call KTAs: 1) Cloud, ERP, Modernization & Security, Customer Experience, Connected Services and Managed Security were the themes that drove the growth in Q3. 2) Management expects near term uncertainties amid increased caution by clients in the USA, but is hopeful of return to normalcy in clients' decision-making in the next few months. UK is showing resilience and is likely to remain steady, partly aided by market-share gain. Europe performance was held up in Q3, but outlook remains uncertain due to the macro situation. 3) Management highlighted that the manufacturing vertical is demonstrating better resilience than expected, but remains watchful considering the macro uncertainties, disruptions from supply-chain and energy prices. 4) It expects the FY23 exit-margin to be at ~25%. 5) Deal TCV for BFSI stood at USD2.5bn, Retail & CPG TCV at USD1.2bn and North America TCV at USD4.2bn in Q3FY23. 6) Headcount declined by 2,197 in Q3 due to focus on efficiency, aggressive hiring in prior quarters, and abating supply-side challenges. It expects the hiring trend to normalize in FY24, with gross hiring plan of 125k-150k. 7) The company added ~7,000 freshers in Q3 (~42,000 fresher addition in 9MFY23). 8) LTM attrition moderated to 21.3% vs 21.5% in Q2 and is likely to further taper down. Management indicated that quarterly annualized attrition moderated by ~6% QoQ.

Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	1,641,770	1,917,540	2,242,912	2,439,162	2,741,738
EBITDA	453,280	530,570	593,777	666,008	748,842
EBITDA Margin (%)	27.6	27.7	26.5	27.3	27.3
APAT	324,300	383,270	421,409	479,689	544,486
EPS (Rs)	87.7	104.7	115.2	131.1	148.8
EPS (% chg)	1.7	19.5	10.0	13.8	13.5
ROE (%)	37.1	42.6	47.3	48.9	44.6
P/E (x)	37.9	31.7	28.8	25.3	22.3
EV/EBITDA (x)	26.4	22.1	19.9	17.4	15.2
P/BV (x)	13.9	13.3	14.0	11.1	9.0

Source: Company, Emkay Research

CMP	Target Price
Rs 3,320 as of (January 9, 2023)	Rs 3,200 (■) 12 months
Rating	Upside
HOLD (■)	(3.6) %

Change in Estimates

EPS Chg FY23E/FY24E (%)	(0.6)/(0.8)
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	115.2	131.1
Consensus	115.8	130.7
Mean Consensus TP (12M)	Rs 3,448	

Stock Details

Bloomberg Code	TCS IN
Face Value (Rs)	1
Shares outstanding (mn)	3,659
52 Week H/L	4,046 / 2,926
M Cap (Rs bn/USD bn)	12,148 / 147.50
Daily Avg Volume (nos.)	1,814,600
Daily Avg Turnover (USD mn)	71.6

Shareholding Pattern Sep '22

Promoters	72.3%
FIIIs	13.1%
DIIIs	8.6%
Public and Others	6.1%

Price Performance

(%)	1M	3M	6M	12M
Absolute	1	8	2	(14)
Rel. to Nifty	3	4	(9)	(15)

Relative price trend



Source: Bloomberg

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Exhibit 1: Quarterly snapshot

Particular (Rs mn)	Q3 FY23	Q2 FY23	QoQ (%)	Q3 FY22	YoY (%)
Net sales (USD mn)	7,075	6,877	2.9	6,524	8.4
Net sales	582,290	553,090	5.3	488,850	19.1
Operating expenses	426,750	407,930		354,520	
EBITDA	155,540	145,160	7.2	134,330	15.8
Margins (%)	26.7	26.2	50.0	27.5	(80.0)
Depreciation	12,700	12,370		11,960	
EBIT	142,840	132,790	7.6	122,370	16.7
Margins (%)	24.5	24.0	50.0	25.0	-50.0
Other income	3,600	8,170		9,540	
Pre-tax profit	146,440	140,960	3.9	131,910	11.0
Tax provided	37,610	36,310		33,850	
Profit after tax	108,830	104,650		98,060	11.0
Emkay Net profit	108,460	104,310	4.0	97,690	11.0
EPS (Rs)	29.6	28.5	4.0	26.4	12.2

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates (Q3FY23)

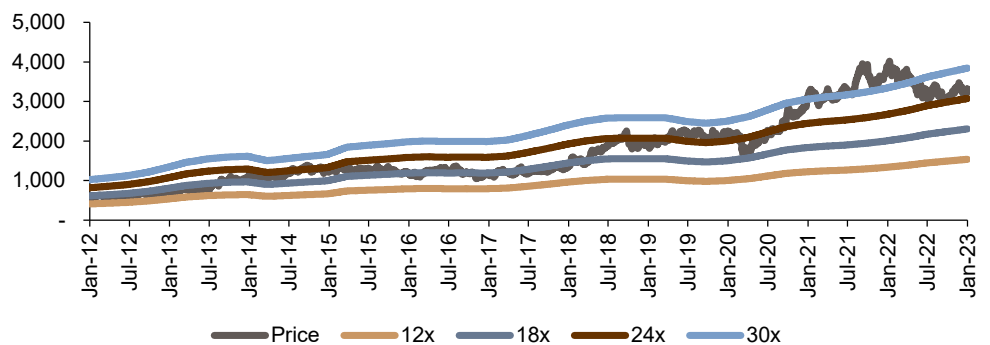
(Rs mn)	Actual	Consensus		Variation		Comment
		Emkay	Estimate	Emkay	Consensus	
Revenues (USD mn)	7,075	6,925	7,007	2.2%	1.0%	Revenues were better than estimates due to continued momentum in regional markets
Sales	582,290	569,939	575,435	2.2%	1.2%	
EBIT	142,840	140,889	141,557	1.4%	0.9%	EBITM a tad lower than estimates
EBIT margin	24.5%	24.7%	24.6%	-20 bps	-10 bps	
PAT	108,460	111,626	111,634	-2.8%	-2.8%	Profit missed expectations due to lower other income

Source: Company, Emkay Research

Exhibit 3: Changes in estimates (Q3FY23)

(Rs mn)	FY23E			FY24E			FY25E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenues(USD mn)	27,590	27,892	1.1%	29,800	30,113	1.1%	33,079	33,436	1.1%
YoY growth (%)	7.3	8.5		8.0	8.0		11.0	11.0	
Revenues	2,218,276	2,242,912	1.1%	2,413,795	2,439,162	1.1%	2,712,446	2,741,738	1.1%
EBIT	538,705	542,768	0.8%	602,366	608,687	1.0%	677,099	684,411	1.1%
EBIT Margins (%)	24.3	24.2		25.0	25.0		25.0	25.0	
Net profit	424,083	421,409	-0.6%	483,642	479,689	-0.8%	547,860	544,486	-0.6%
EPS (Rs)	115.9	115.2	-0.6%	132.2	131.1	-0.8%	149.7	148.8	-0.6%

Source: Company, Emkay Research

Exhibit 4: TCS' 1-year forward P/E chart

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	1,641,770	1,917,540	2,242,912	2,439,162	2,741,738
Expenditure	1,188,490	1,386,970	1,649,135	1,773,154	1,992,897
EBITDA	453,280	530,570	593,777	666,008	748,842
Depreciation	40,650	46,040	51,009	57,320	64,431
EBIT	412,630	484,530	542,768	608,687	684,411
Other Income	24,970	32,340	25,710	37,340	48,808
Interest expenses	0	0	0	0	0
PBT	437,600	516,870	568,478	646,027	733,219
Tax	111,980	132,380	145,586	164,737	186,971
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	1,320	1,220	1,483	1,602	1,762
Reported Net Income	324,300	383,270	421,409	479,689	544,486
Adjusted PAT	324,300	383,270	421,409	479,689	544,486

Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	3,700	3,660	3,660	3,660	3,660
Reserves & surplus	881,850	908,930	865,389	1,088,944	1,344,365
Net worth	885,550	912,590	869,049	1,092,604	1,348,025
Minority Interest	6,750	7,070	8,553	10,155	11,916
Loan Funds	77,950	78,180	78,180	78,180	78,180
Net deferred tax liability	(31,360)	(30,900)	(30,900)	(30,900)	(30,900)
Total Liabilities	938,890	966,940	924,882	1,150,039	1,407,222
Net block	241,960	247,520	244,360	245,360	247,360
Investment	323,540	372,240	369,620	569,620	769,620
Current Assets	724,280	779,780	778,840	836,077	937,905
Cash & bank balance	68,580	124,880	40,478	40,411	55,512
Other Current Assets	285,800	234,800	246,764	261,055	281,464
Current liabilities & Provision	350,890	432,600	467,937	501,018	547,663
Net current assets	373,390	347,180	310,902	335,059	390,242
Misc. exp	0	0	0	0	0
Total Assets	938,890	966,940	924,882	1,150,039	1,407,222

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	324,300	383,270	421,409	479,689	544,486
Other Non-Cash items	124,800	132,240	1,483	1,602	1,762
Chg in working cap	10,920	(26,460)	(48,124)	(24,224)	(40,082)
Operating Cashflow	411,070	421,450	425,777	514,387	570,597
Capital expenditure	(28,200)	(24,830)	(47,849)	(58,320)	(66,431)
Free Cash Flow	382,870	396,620	377,928	456,066	504,166
Investments	(82,480)	(13,080)	2,620	(200,000)	(200,000)
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(110,680)	(37,910)	(45,229)	(258,320)	(266,431)
Equity Capital Raised	(197,570)	(180,670)	(40,500)	0	0
Loans Taken / (Repaid)	(13,360)	(14,410)	0	0	0
Dividend paid (incl tax)	(109,070)	(133,750)	(424,450)	(256,134)	(289,065)
Other Financing Cash Flow	1,730	1,590	0	0	0
Financing Cashflow	(318,270)	(327,240)	(464,950)	(256,134)	(289,065)
Net chg in cash	(17,880)	56,300	(84,402)	(67)	15,101
Opening cash position	86,460	68,580	124,880	40,478	40,411
Closing cash position	68,580	124,880	40,478	40,411	55,512

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	27.6	27.7	26.5	27.3	27.3
EBIT Margin	25.1	25.3	24.2	25.0	25.0
Effective Tax Rate	25.6	25.6	25.6	25.5	25.5
Net Margin	19.8	20.1	18.9	19.7	19.9
ROCE	46.8	54.2	60.1	62.3	57.3
ROE	37.1	42.6	47.3	48.9	44.6
RoIC	55.1	70.9	82.0	86.0	90.9

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	87.7	104.7	115.2	131.1	148.8
CEPS	98.7	117.3	129.1	146.8	166.4
BVPS	239.4	249.4	237.5	298.6	368.4
DPS	38.0	43.0	116.0	70.0	79.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	37.9	31.7	28.8	25.3	22.3
P/CEPS	33.7	28.3	25.7	22.6	19.9
P/BV	13.9	13.3	14.0	11.1	9.0
EV / Sales	7.3	6.1	5.3	4.8	4.2
EV / EBITDA	26.4	22.1	19.9	17.4	15.2
Dividend Yield (%)	1.1	1.3	3.5	2.1	2.4

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	(0.4)	(0.5)	(0.4)	(0.5)	(0.6)
Net Debt/EBIDTA	(0.7)	(0.8)	(0.6)	(0.8)	(1.0)
Working Cap Cycle (days)	67.8	42.3	44.0	44.1	44.6

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	4.6	16.8	17.0	8.7	12.4
EBITDA	7.6	17.1	11.9	12.2	12.4
EBIT	7.0	17.4	12.0	12.1	12.4
PAT	0.3	18.2	10.0	13.8	13.5

Quarterly (Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Revenue	488,850	505,910	527,580	553,090	582,290
EBITDA	134,330	138,450	134,170	145,160	155,540
EBITDA Margin (%)	27.5	27.4	25.4	26.2	26.7
PAT	97,690	99,260	94,780	104,310	108,460
EPS (Rs)	26.4	27.1	25.9	28.5	29.6

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	72.2	72.2	72.3	72.3	72.3
FIs	15.4	15.0	14.2	13.5	13.1
DIs	7.9	7.9	7.8	8.4	8.6
Public and Others	4.5	4.9	5.7	5.8	6.1

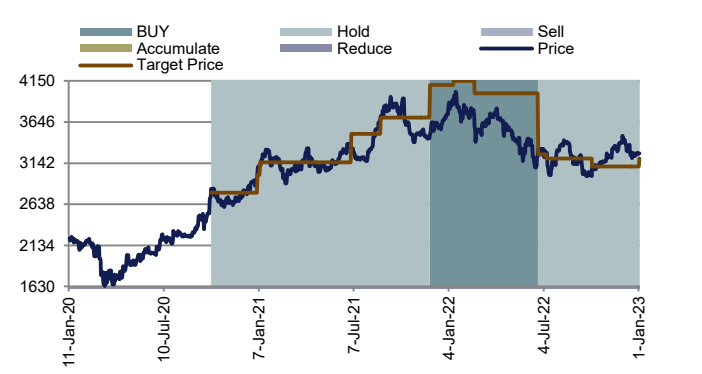
Source: Capitaline

RECOMMENDATION HISTORY (Rs/share)

Date	Closing Price	TP	Period	Rating	Analyst
2-Jan-23	3,261	3,200	12m	Hold	Dipeshkumar Mehta
10-Oct-22	3,119	3,100	12m	Hold	Dipeshkumar Mehta
4-Oct-22	3,091	3,100	12m	Hold	Dipeshkumar Mehta
9-Jul-22	3,265	3,200	12m	Hold	Dipeshkumar Mehta
23-Jun-22	3,309	3,250	12m	Hold	Dipeshkumar Mehta
15-Jun-22	3,206	4,000	12m	Buy	Dipeshkumar Mehta
12-Apr-22	3,691	4,000	12m	Buy	Dipeshkumar Mehta
1-Apr-22	3,759	4,000	12m	Buy	Dipeshkumar Mehta
22-Feb-22	3,586	4,000	12m	Buy	Dipeshkumar Mehta
13-Jan-22	3,898	4,150	12m	Buy	Dipeshkumar Mehta
1-Jan-22	3,738	4,100	12m	Buy	Dipeshkumar Mehta
29-Nov-21	3,502	4,100	12m	Buy	Dipeshkumar Mehta
9-Oct-21	3,936	3,700	12m	Hold	Dipeshkumar Mehta
2-Oct-21	3,730	3,700	12m	Hold	Dipeshkumar Mehta
27-Aug-21	3,720	3,700	12m	Hold	Dipeshkumar Mehta
9-Jul-21	3,208	3,500	12m	Hold	Dipeshkumar Mehta
2-Jul-21	3,325	3,500	12m	Hold	Dipeshkumar Mehta
13-Apr-21	3,104	3,150	12m	Hold	Dipeshkumar Mehta
5-Apr-21	3,239	3,150	12m	Hold	Dipeshkumar Mehta
9-Jan-21	3,121	3,150	12m	Hold	Dipeshkumar Mehta
4-Jan-21	3,039	3,000	12m	Hold	Dipeshkumar Mehta
18-Dec-20	2,861	2,780	12m	Hold	Dipeshkumar Mehta
8-Oct-20	2,826	2,780	12m	Hold	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY (Rs/share)



Source: Bloomberg, Company, Emkay Research

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Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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