

BUY

CMP (Rs)	3,242
Target Price (Rs)	3,882
Potential Upside	19.7%
Sensex	60,393
Nifty	17,812

Key Stock data	
BSE Code	532540
NSE Code	TCS
Bloomberg	TCS:IN
Shares o/s, Cr (FV 1)	366.0
Market Cap (Rs Cr)	1,176,111
3M Avg Volume	17,90,700
52 week H/L	3,739/2,926

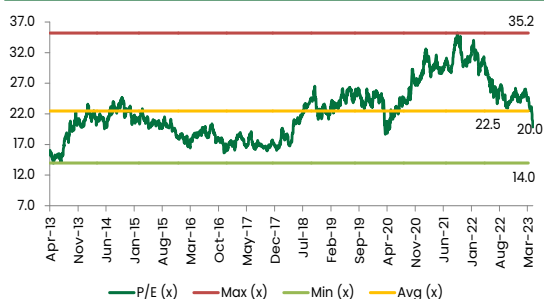
Shareholding Pattern

(%)	Jun-22	Sep-22	Dec-22
Promoter	72.3	72.3	72.3
FII	13.5	13.1	12.9
DII	8.4	8.6	9.3
Others	5.8	6.1	5.5

1 Year relative price performance



Forward P/E Band (x)



Research Analyst

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Q4FY23 result a miss but FY23 continued to perform well; Maintain Buy

Q4FY23 Result Update | Sector: IT | April 13, 2023

Revenue for Q4FY23 below estimates: TCS revenue in rupee term came in at Rs 59,162cr, up by 1.6% QoQ, below our expectation of 3.5% growth QoQ, while it grew by 16.9% YoY. Its dollar revenue stood at USD 7,195Mn, up by 1.7% QoQ and 7.5% YoY. The growth in revenue was because of continuous demand from cloud and data transformation services along with growth in Europe region as well as growth from Retail and Life Science & Healthcare segment. Further for FY23, rupee revenue grew by 17.6% to Rs 2,25,458cr while dollar revenue came at USD 27,927Mn with a growth of 8.6% YoY and it also witnessed a growth of 13.7% in constant currency for the year.

EBIT margins flat QoQ: TCS posted EBIT growth of 1.4% QoQ and 14.7% YoY, while margins remained flat QoQ and seen a decline of 47bps YoY at 24.5%. For FY23, EBIT came in 54,237cr, growth of 12% while margins at 24.1%, a decline of 121bps YoY. Going forward, the management will focus on improvement in margins by way of cost optimization and generation of higher revenue and winning large deals. Further, PAT grew by 5.1% QoQ and 14.8% YoY to Rs 11,436cr with margin of 19.7% and for FY23, PAT grew by 10% YoY to Rs 42,303cr with margin of 18.8%.

Attrition continued to moderate: TCS attrition saw a decline for the second consecutive quarter which came in at 20.1%, a decline of 120bps QoQ and this is positive. For Q3FY23, attrition was at 21.3% while it stood at 17.4% in Q4FY22. Going ahead, management expects further cooling off of attrition which will aid in margin improvement.

Deal wins remains resilient: The Company won deals worth Rs USD 10bn for Q4FY23, a growth of 28.2% QoQ while for FY23 deals wins stood at USD 34.1bn as compared to 34.6bn in FY22.

Management outlook: 1) Demand environment remained strong on cloud and data related services. 2) They faced a challenging environment in the North American region and BFSI segment. 3) Clients' spends were prioritized as it focused on cost optimization, vendor consolidation and automotive initiatives. 4) Medium to long term growth prospects seems strong given the demand for services, healthy deal pipeline and TCS strong position across market.

Outlook & Valuation: We remain positive for TCS on the back of strong deal momentum and continue demand for cloud & automation, cyber security and other services. Also, TCS healthy relationship with its clients and employees, moderating attrition and its focus on improving products & cost optimization measures will aid growth for the company. However, in the near term there may be some challenges for orders from BFSI and the American region but things will improve from a medium to long term perspective. Thus, we have estimated its revenue/EBIT to grow at 16.1/18.2% CAGR over FY23-25E and have maintained a **Buy** rating with a **target price of Rs 3,882**.

Financial Summary - consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net revenue	191,754	225,458	261,531	303,376
EBITDA	53,057	59,260	69,270	81,263
EBITDAM (%)	27.7	26.3	26.5	26.8
APAT	38,449	42,303	49,591	58,654
APATM (%)	20.1	18.8	19.0	19.3
EPS (Rs)	105.1	115.6	135.5	160.3
PE (x)	30.9	28.0	23.9	20.2
RoE (%)	43.1	46.8	42.0	41.9

Source : RBL Research

Continues demand for cloud & automation, cyber security and other services drove the revenue growth

EBIT margin remained flat at 24.5%

Europe region and Retail & life science segment drove CC growth for TCS: Amongst regions, Q4FY23 growth was driven by the UK as it grew by 17% in constant currency, followed by North America and Continental Europe which grew by 9.6% and 8.4% in CC. Further, Latin America, India, Middle East & Africa and Asia Pacific grew by 15.1%, 13.4%, 11.3% and 7.5%. Amongst verticals growth in Q4FY23 was led by Retail and Life Sciences & Healthcare with double digit growth of 13% and 12.3% in CC, followed by single digit growth from technology, BFSI, manufacturing and media with growth of 9.2%, 9.1%, 9.1% and 5.3% in CC.

On the deals front, for Q4FY23, geographically, deals worth USD 5bn were signed from North America while amongst verticals BFSI and Retail its largest segments signed deals worth USD 3bn and USD 1.3bn. For FY23, geographically its North America TCV was at USD 18bn and across verticals BFSI and Retail TCV came in at USD 10.4bn and USD 5.3bn.

P&L Account Quarterly - consolidated

Particulars (Rs cr)	Q4FY23	Q4FY22	Y-o-Y %	Q3FY23	Q-o-Q %
Net Sales (\$ Mn)	7,195	6,696	7.5	7,075	1.7
Net Sales (Rs Cr)	59,162	50,591	16.9	58,229	1.6
Employee Cost	33,688	28,353	18.8	32,467	3.8
Cost of equipment and licenses	620	260	138.5	643	(3.6)
Other Expense	9,082	8,133	11.7	9,565	(5.1)
Total Expenditure	43,389	36,746	18.1	42,675	1.7
EBITDA	15,773	13,845	13.9	15,554	1.4
EBITDA Margins (%)	26.7	27.4	-71bps	26.7	-5bps
Depreciation	1,285	1,217	5.6	1,270	1.2
EBIT	14,488	12,628	14.7	14,284	1.4
EBIT Margins (%)	24.5	25.0	-47bps	24.5	-4bps
Other Income	1,175	736	59.6	520	126.0
Interest	272	0		160	70.0
PBT	15,391	13,364	15.2	14,644	5.1
PBT Margin (%)	26.0	26.4	-40bps	25.1	87bps
Tax	3,955	3,405	16.2	3,761	5.2
PAT	11,436	9,959	14.8	10,883	5.1
PAT Margin (%)	19.3	19.7	-36bps	18.7	64bps
EPS	31.2	27.2	14.8	29.7	5.1

Source : RBL Research

Revenue Distribution by Geography – Constant Currency Growth (%) – consolidated

Particulars (Rs cr)	Q4FY23	Q4FY22	Y-o-Y	FY23	FY22	Y-o-Y
North America	52.4	51.6	9.6	53.4	50.5	15.3
Latin America *	1.8	1.7	15.1	1.8	1.7	17.3
UK	15.7	15.6	17.0	15	15.9	15.0
Continental Europe	15.1	15.5	8.4	14.9	16.0	11.0
Asia Pacific	8.0	8.5	7.5	8.0	8.8	7.6
India	5.0	5.1	13.4	5.0	5.1	14.6
MEA	2.0	2.0	11.3	1.9	2.0	7.8

Source : RBL Research

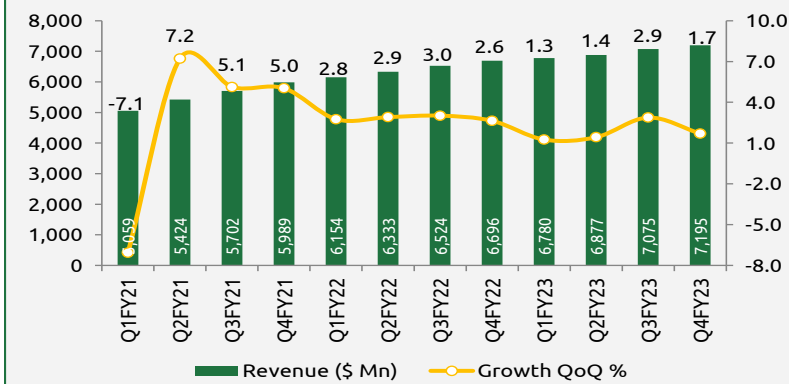
Revenue Distribution by Industry – Constant Currency Growth (%) – consolidated

Particulars (Rs cr)	Q4FY23	Q4FY22	Y-o-Y	FY23	FY22	Y-o-Y
BFSI	31.4	31.7	9.1	31.7	32.1	11.8
Retail & CPG	15.6	15.3	13.0	15.8	15.0	19.7
Life Science & Healthcare	10.4	10.1	12.3	10.2	10.0	13.3
Manufacturing	9.9	10.0	9.1	9.9	9.9	13.0
Technology & Services	8.7	8.7	9.2	8.8	8.7	13.7
Communication & Media	6.5	6.9	5.3	6.6	6.7	14.0
Regional Markets & Others	17.5	17.3	14.6	17.0	17.6	12.8

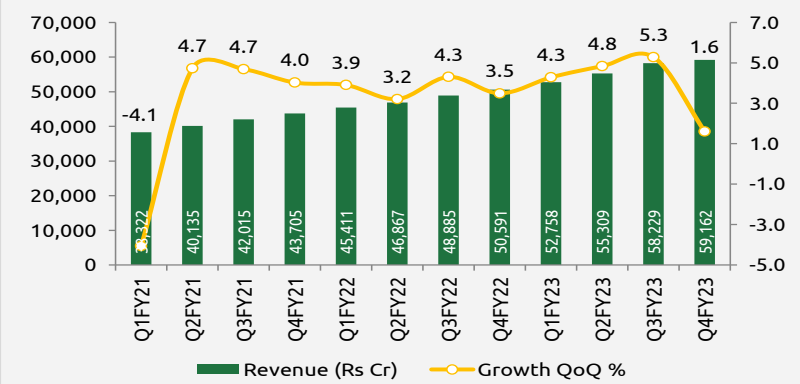
Source : RBL Research

Story in charts

Revenue in \$ grew by 1.7% QoQ

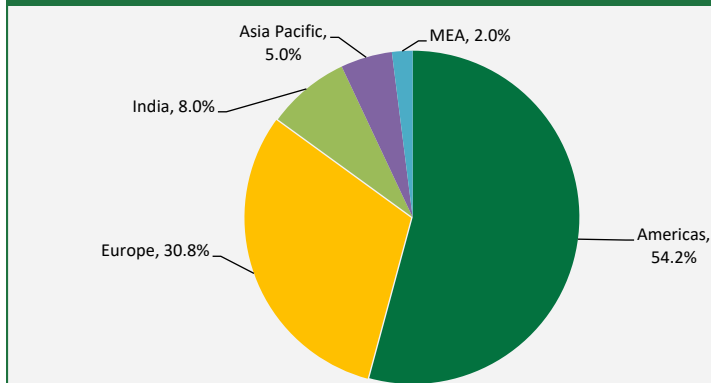


Revenue in Rs grew by 1.6% QoQ

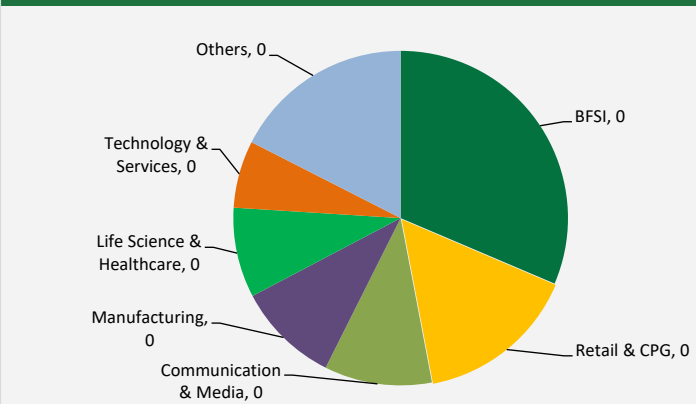


Source : RBL Research

UK business drove revenue growth for Q4FY23 (%)

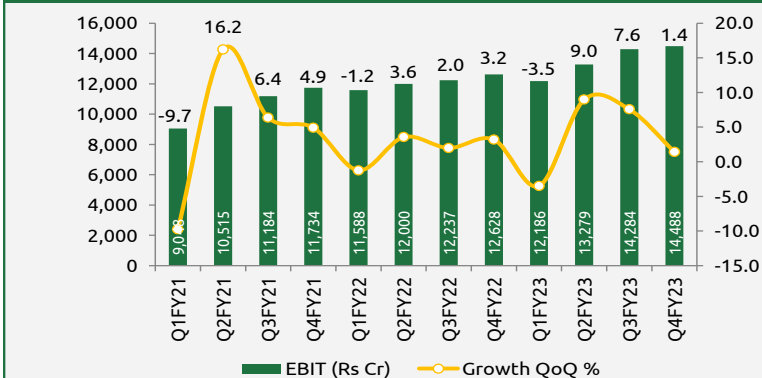


Retail, Lifescience and healthcare drove revenue growth for Q4FY23 (%)

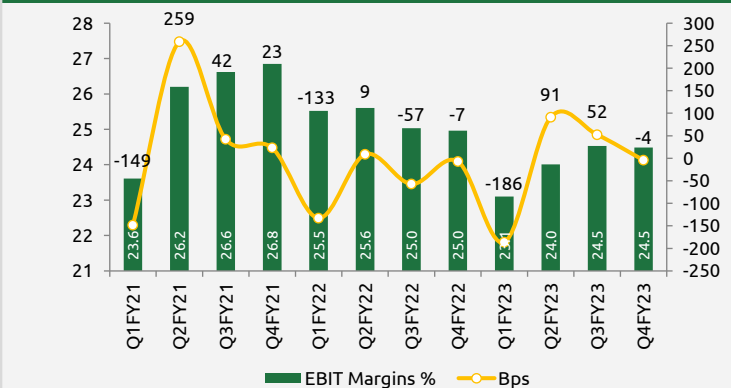


Source : RBL Research

EBIT grew by 1.4% QoQ

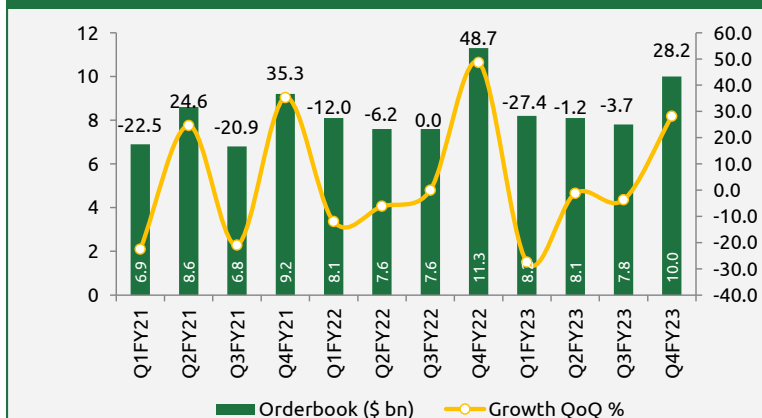


EBIT margins remained flat QoQ

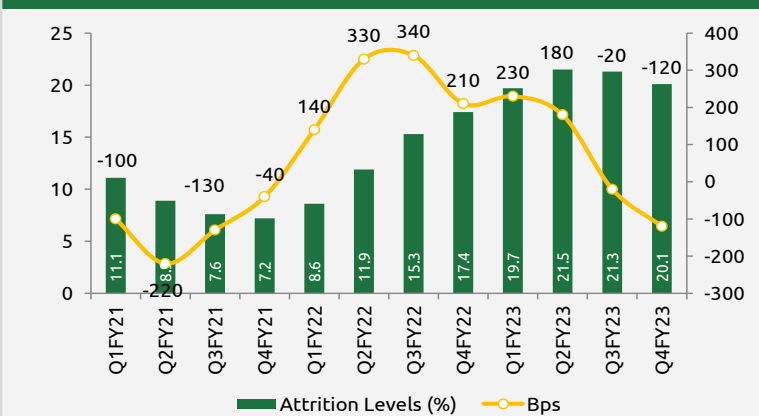


Source : RBL Research

Deal won worth USD 10 bn for Q4FY23



Attrition level came at 20.1%, a decline of 120bps



Source : RBL Research

P&L Account – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net Sales (\$ Mn)	25,707	27,927	32,412	37,922
Net sales	191,754	225,458	261,531	303,376
Employee cost	107,554	127,522	146,981	169,891
Advertisements cost	1,163	1,881	3,174	3,682
Other expenses	29,980	36,796	42,107	48,540
Total expenditure	138,697	166,198	192,262	222,113
EBITDA	53,057	59,260	69,270	81,263
EBITDAM (%)	27.7	26.3	26.5	26.8
Depreciation	4,604	5,023	5,231	5,461
EBIT	48,453	54,237	64,039	75,802
EBITM (%)	25.3	24.1	24.5	25.0
Other income	4,018	3,449	2,615	3,034
PBT	51,687	56,907	66,654	78,836
Tax	13,238	14,604	17,064	20,182
PAT (after Exceptional)	38,449	42,303	49,591	58,654
PAT Margin %	20.1	18.8	19.0	19.3
EPS	105.1	115.6	135.5	160.3

Source : RBL Research

Balance Sheet – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Share Capital	366	366	366	366
Reserves & Surplus	88,773	90,058	117,689	139,743
Total Shareholder's Fund	89,139	90,424	118,055	140,109
Minority Interest	707	782	782	782
Deferred tax liabilities	590	792	811	940
Other long term liabilities	8,727	8,095	9,154	10,618
Total	9,317	8,887	9,964	11,559
Current Liabilities				
Trade payables	8,045	10,515	11,823	13,299
Short term provisions	1,411	345	400	464
Other current liabilities	32,895	32,698	35,307	40,956
Total	42,351	43,558	47,530	54,719
Total liabilities	141,514	143,651	176,331	207,168
Application of Assets				
Net Block	19,511	18,657	19,013	19,376
Current work in process	1,205	1,234	1,234	1,234
Goodwill on consolidation	1,787	1,858	1,858	1,858
Non current investment	223	266	262	303
Deferred Tax assets	3,708	3,307	3,923	4,551
Long term loans and advances	311	173	201	233
Other non-current assets	6,459	7,886	9,154	10,618
Total	33,204	33,381	35,644	38,173
Current Assets				
Current investments	30,262	36,897	44,460	51,574
Inventories	20	28	27	32
Trade receivables	34,074	41,049	46,574	54,026
Cash balance	12,488	7,123	20,642	30,369
Bank balance	5,733	3,909	3,909	3,909
Short term loans and advances	6,445	1,325	1,537	1,783
Other current assets	19,288	19,939	23,538	27,304
Total	108,310	110,270	140,687	168,996
Total assets	141,514	143,651	176,331	207,168

Source : RBL Research

Cashflow – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Profit before tax	51,687	56,907	66,654	78,836
Add: Depreciation	4,604	5,023	5,231	5,461
Add: Interest cost	784	779	-	-
Others	(204)	(313)	-	-
Operating profit before working capital changes	54,204	59,148	69,270	81,263
Changes in working capital	(2,769)	(4,217)	(6,197)	(4,809)
Cash from Operations	51,435	54,931	63,072	76,454
Less: Taxes	(11,486)	(12,966)	(17,064)	(20,182)
Cash flow from Operations	39,949	41,965	46,009	56,272
Net cash used in Investing				
Purchase of fixed assets	(2,995)	(3,100)	(5,586)	(5,824)
Purchase of investments	(5,519)	(7,056)	(7,559)	(7,155)
Sales of fixed assets	31	37	-	-
Dividend Income//Interest Rec.	2,704	3,093	2,615	3,034
Cash flow from investing	(897)	39	(10,530)	(9,945)
Cash flow from Financing				
Proceeds from Equity shares	(18,000)	(4,192)	-	-
Dividend (Incl dividend tax)	(13,317)	(41,347)	(21,960)	(36,600)
Interest cost	(698)	(779)	-	-
Others	(1,566)	(1,560)	-	-
Cash flow from Financing	(33,581)	(47,878)	(21,960)	(36,600)
Net cash Inflow/Outflow	5,471	(5,874)	13,519	9,727
Opening cash	6,858	12,488	7,123	20,642
Closing Cash	12,488	7,123	20,642	30,369

Source : RBL Research

Key ratios – consolidated

Particulars	FY22	FY23	FY24E	FY25E
Per share Data				
EPS (Rs)	105.1	115.6	135.5	160.3
Book value per share (Rs)	243.5	247.1	322.6	382.8
Dividend per share (Rs)	36.4	113.0	60.0	100.0
Dividend Yield (%)	34.6	97.7	44.3	62.4
Dividend Yield %	1.1	3.5	1.9	3.1
Profitability Ratios				
EBITDAM(%)	27.7	26.3	26.5	26.8
PBTM (%)	27.0	25.2	25.5	26.0
NPM (%)	20.1	18.8	19.0	19.3
RoE (%)	43.1	46.8	42.0	41.9
RoCE (%)	54.4	60.0	54.2	54.1
Efficiency Data				
Debt-Equity Ratio	0.0	0.0	0.0	0.0
Fixed Asset Ratio	0.1	0.1	0.1	0.1
Debtors (Days)	64.9	66.5	65.0	65.0
Inventory (Days)	0.0	0.0	0.0	0.0
Payable (Days)	15.3	17.0	16.5	16.0
WC (Days)	49.6	49.5	48.5	49.0
Valuation				
P/E (x)	30.9	28.0	23.9	20.2
P/BV	13.3	13.1	10.1	8.5
EV/EBITDA	22.1	19.9	16.8	14.2
EV/Sales	6.1	5.2	4.5	3.8

Source : RBL Research

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Statements on ownership and material conflicts of interest, compensation– Research Analyst (RA)

S. No.	Statement	Answer	
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below, are given separately]

Nature of Interest (if answer to F (a) above is Yes :

.....

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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