

Near-term Challenges Persists; Outlook Remains Cautious

Est. Vs. Actual for Q1FY24: Revenue – **MISS**; EBITDA Margin – **MISS**; PAT – **INLINE**; Deal Wins – **BEAT**

Change in Estimates post Q1FY24 (Abs.)

FY24E/FY25E: Revenue 1%/ 2%; EBITDA 1%/ 2%; PAT 1%/ 2%

Recommendation Rationale

- BFSI and Retail verticals reported sluggish growth which may indicate softening of demand.
- TCV was within the typical quarterly range at \$10.1 Bn (vs. \$10 Bn QoQ).
- While the management is sceptical about the demand scenario, the medium to long-term outlook remains healthy.

Sector Outlook: Cautiously positive

Company Outlook & Guidance: The growth rate may slow down in FY24 due to uncertainties in the world's largest economies. However, supply-side constraints are easing up, which will help the company to gain some margin expansion in the near term. While H2FY24 may see some revision on the demand side, the industry's and the company's long-term outlook remain robust.

Current Valuation: 23x FY25E P/E; Earlier Valuation: 24x FY25E

Current TP: 3,370/share (Earlier TP: Rs 3,350/share)

Recommendation: With a limited upside from the CMP and the stock lacking triggers for the upside, we **maintain** our **HOLD** rating on the stock

Financial Performance

In Q4FY23, Tata Consultancy Services Ltd (TCS) reported revenue of Rs 59,381 Cr, up only 0.4% on a QoQ basis (in rupee terms). While it posted better revenue growth of 12.6% on a YoY basis, it nonetheless was the lowest in the last 12 quarters. The company reported operating profits of Rs 13,755 Cr with operating margins at 23.2% (a decline of 130 Bps). This was on account of wage hikes, higher visa and other operating costs. Attrition levels did drop by 220bps but they stood at 17.8%, looming concerns over the company's execution efficiency in the future. The management commentary on the verticals BFSI, Hi-tech Media, Life Sciences, and Retail was cautious. Furthermore, it expects the company to report moderate growth in the near term. On a brighter note, deal-wins for the quarter continued strong and remained high. Moreover, deal wins were spread across verticals and across geographies and stood at \$10.2 Bn (BFSI TCV at \$3 Bn, Retail TCV at \$1.2 Bn). However, TCS expects technology spending to remain resilient and expects the secular tailwinds to drive healthy growth over the medium term to long term.

Outlook: From a long-term perspective, we believe TCS has built a resilient business model by securing multiple long-term contracts with the world's leading brands. It has also established robust capabilities that will enable it to gain market share moving ahead. However, prevailing uncertainties in large economies continue to pose short-term headwinds to the growth prospects of the company.

Valuation & Recommendation

We recommend a **HOLD** rating on the stock and assign a 23x P/E multiple to its FY25E earnings of Rs 144.5/share to arrive at a TP of Rs 3,370/share, implying an upside of 3% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q4FY23	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	59162	1.6	16.7	59456	0%
EBITDA	14488	1.5	2	15094	-4%
EBITDA Margin	24%	-	100 bps	25	50 bps
Net Profit	11392	1.4	14.7	11482	-1%
EPS (Rs)	31.14	1.4	14.7	31.5	-1%

Source: Company, Axis Research

(CMP as of 12 July 2023)

CMP (Rs)	3,260
Upside /Downside (%)	3%
High/Low (Rs)	3,575/2,926
Market cap (Cr)	11,90,000
Avg. daily vol. (6m)Shrs.	18,39,129
No. of shares (Cr)	366

Shareholding (%)

	Mar-22	Jun-22	Sep-22
Promoter	72.3	72.3	72.3
FIIs	13.5	13.1	12.9
MFs / UTI	3.4	3.3	3.3
Banks / FIs	0.0	0.0	0.1
Others	10.8	11.3	11.4

Financial & Valuations

Y/E Mar (Rs Cr)	FY23E	FY24E	FY25E
Net Sales	2,25,458	2,35,499	2,57,682
EBITDA	73,046	63,114	69,059
Net Profit	58,454	47,196	53,474
EPS (Rs)	158.4	128.0	144.9
PER (x)	20.5	25.4	22.4
P/BV (x)	16	16	16
EV/EBITDA (x)	9	9	9
ROE (%)	49%	49%	49%

Change in Estimates (%)

Y/E Mar	FY24E	FY25E
Sales	1%	2%
EBITDA	1%	2%
PAT	1%	2%

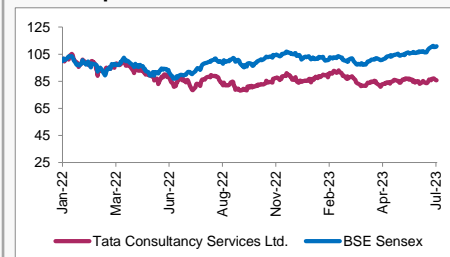
ESG disclosure Score**

Environmental Disclosure Score	49.8
Social Disclosure Score	35.7
Governance Disclosure Score	91.1
Total ESG Disclosure Score	58.9
Sector Average	42.5

Source: Bloomberg, Scale: 0,1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: Ace Equity, Axis Securities

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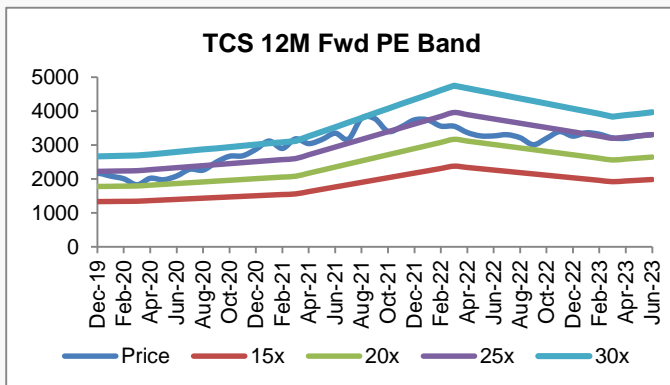
Recommendation Rationale & Key Highlights

- Management is confident of continuing strength in demand environment in the medium term to long term:**
 The US is relatively better placed in terms of demand. The UK is seeing higher cost optimization deals (with faster decision-making) while the Europe market will continue to be impacted in the near term. As the macro environment stabilizes, the company expects a pick-up in decision-making.
- Broad-based vertical growth:** TCS delivered broad-based growth in the majority of the verticals during the quarter. Growth in Q1 was led by Life Sciences and Healthcare (+10.1%), while Manufacturing grew by 9.1%. Regional markets & Other verticals grew 16.9% Retail & CPG grew 5.3%. Technology & Services grew by 4.4%, BFSI grew by 3%, and Communications & Media grew marginally by 0.5%.
- Better geographical performance** On a geographical front, North America (55.5% of revenue) posted a growth of 5.4% YoY, Latin America grew by 13.5% and Europe (29% of revenue) grew by 9.7% YoY. while India's business grew by 14.5% YoY.
- TCS announces Rs. 9/ share as interim dividend.**

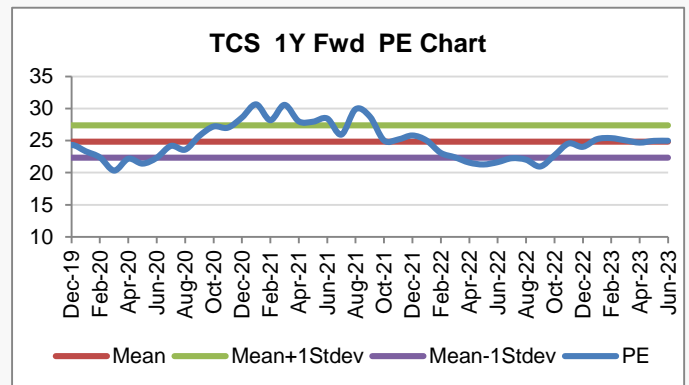
Key Risks to our Estimates and TP

- The demand environment is uncertain because of the potential threat of recession from the world's largest economies.
- The rising subcontracting cost and cross-currency headwinds may impact operating margins negatively.

TCS 12M Fwd PE Band



TCS1Y Fwd PE Chart



Source: Company, Axis Securities

Revenue Distribution by Geography - New Classification

	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1 FY24
Americas	52%	53%	55%	56%	56%	54%	0%
North America	51%	52%	53%	54%	54%	52%	52%
Latin America *	2%	2%	2%	2%	2%	2%	2%
Europe	32%	31%	30%	29%	30%	31%	16%
UK	16%	16%	15%	15%	15%	16%	16%
Continental Europe	16%	16%	15%	15%	15%	15%	16%
India	6%	5%	5%	5%	5%	5%	5%
Asia Pacific	9%	9%	8%	8%	8%	8%	8%
MEA	2%	2%	2%	2%	2%	2%	2%

Source: Company, Axis Research

Revenue Distribution by Industry Domain

	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1 FY24
BFSI	32%	32%	32%	32%	32%	31%	31%
Retail & CPG	15%	15%	16%	16%	16%	16%	16%
Communication & Media	7%	7%	7%	7%	7%	7%	6%
Manufacturing	10%	10%	10%	10%	10%	10%	10%
Life Science & Healthcare	10%	10%	10%	10%	10%	10%	11%
Technology & Services	9%	9%	9%	9%	9%	9%	9%
Regional Markets & Others	18%	17%	16%	16%	17%	18%	18%
Total	100%	100%	100%	100%	100%	100%	100%

Source: Company, Axis Research

Average Realized Rates in INR

	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1 FY24
USD	74.9	75.6	77.8	80.4	82.3	82.4	82.4
GBP	100.9	100.5	96.7	92.5	98.1	98.4	98.4
EUR	85.4	84.3	82.4	79.9	85.1	85.3	85.3

Source: Company, Axis Research

Client Parameters

	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1 FY24
USD 1 Mn clients *	1,175	1,182	1,196	1,210	1,217	1,241	1,268
USD 5 Mn clients *	619	638	650	650	658	665	677
USD 10 Mn clients *	426	439	446	455	456	461	468
USD 20 Mn clients *	255	268	272	283	290	291	296
USD 50 Mn clients *	118	120	124	124	130	133	137
USD 100 Mn clients *	58	58	59	59	59	60	60

Source: Company, Axis Research

Client Parameters

	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1 FY24
Total Headcount	5,56,986	5,92,195	6,06,331	6,16,171	6,13,974	6,14,795	6,15,318
Net Addition	28,238	35,209	14,136	9,840	(2,197)	821	523
Attrition (%)	15%	17%	20%	22%	21%	20%	18%

Source: Company, Axis Research

Results Review
(Rs Cr)

In Crs.	Q1 FY24	Q4 FY23	Q1 FY23	% change (YoY)	% change (QoQ)
Total Revenue	59,381	59,261	52,758	13%	0.20%
Cost of revenue	35,916	35,409	32,489		
Gross Margin	23,465	23,852	20,304		
SG&A Expenses	9,710	9,265	8,083		
Operating Income	13,755	14,488	12,186	13%	-5%
Margin(%)	23%	24%	23%	7	-128
Total Other Income/(Expense)	1,234	903	590		
Income Before Income Taxes	14,989	15,391	12,776		
Total Taxes	3,869	3,955	3,257		
ETR (%)	26%	26%	25%	32	12
Net Profit After Taxes	11,120	11,436	9,519	17%	-3%
Non Controlling Interest	46	44	41		
Net Income After Extraordinary Items	11,074	11,392	7,478	48%	-3%
Margin(%)	20%	20%	21%	-123	-
EPS	30.26	31.14	25.90	17%	-3%

Source: Company, Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY22A	FY23E	FY24E	FY25E
Net sales	1,91,754	2,25,458	2,35,499	2,57,682
Other operating income	0	0	0	0
Total income	1,91,754	2,25,458	2,35,499	2,57,682
Employee Cost	1,07,554	1,16,837	1,33,528	1,46,106
Fees to External Consultants	17,410	19,702	21,666	23,707
Cost of Equipment and Software Licenses	1,298	991	1,177	1,288
Travel	1,588	2,077	1,884	2,061
Communication	2,051	2,011	1,177	1,288
Facility Expenses	2,139	2,127	2,355	2,577
Other Costs	6,657	8,668	10,597	11,596
EBITDA	53,057	73,046	63,114	69,059
Other income	3,234	2,462	3,532	3,865
PBIDT	56,291	75,508	66,646	72,924
Depreciation	4,604	4,266	4,710	4,710
Interest & Fin Chg.	2	0	0	0
E/o income / (Expense)	0	0	0	0
Pre-tax profit	51,685	71,242	61,936	68,214
Tax provision	13,238	12,642	14,601	14,601
(-) Minority Interests	-122	-146	-140	-140
Associates	0	0	0	0
Profit after Tax	38,325	58,454	47,196	53,474
Other Comprehensive Income	0.0	0.0	0.0	0.0
PAT after Comprehensive Income	38,325	58,454	47,196	53,474

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY22A	FY23E	FY24E	FY25E
Total assets	1,02,514	1,43,260	1,79,622	2,39,350
Net Block	12,080.0	12,135.0	12,080.0	0.0
CWIP	5,167.0	5,856.6	6,753.1	4,555.3
Investments	19,309.0	20,336.2	21,484.8	19,553.4
Wkg. cap. (excl cash)	53,471	67,015	71,569	40,887
Cash / Bank balance	12,488	37,918	67,736	1,74,355
Misc. Assets	(1.0)	(1.0)	(1.0)	(1.0)
Capital employed	1,02,514	1,43,260	1,79,622	2,39,350
Equity capital	366.0	366.0	366.0	366.0
Reserves	90,894	1,32,250	1,66,480	2,18,211
Minority Interests	707.0	707.0	707.0	707.0
Borrowings	7,617	7,617	7,617	1,249
Def tax Liabilities	590.0	590.0	590.0	590.0

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY22A	FY23E	FY24E	FY25E
Sources	11,339	46,849	40,375	51,612
Cash profit	43,053	62,866	52,046	58,324
(-) Dividends	11,210	17,098	13,805	0
Retained earnings	31,843	45,769	38,241	58,324
Issue of equity	(4.0)	0.0	0.0	0.0
Change in Oth. Reserves	2,578.0	1,080.2	1,176.2	1,281.1
Borrowings	157	0	0	-6,368
Others	-23,235	0	0	0
Applications	11,339	46,849	40,375	51,612
Capital expenditure	8,731.0	8,126.9	5,448.6	6,418.0
Investments	1,774.0	751.3	563.7	597.0
Net current assets	(4,796.0)	12,540.1	3,613.1	(19,043.8)
Change in cash	5,630	25,430	29,818	1,06,619
Closing cash	6,858	6,858	6,858	6,858

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY22A	FY23E	FY24E	FY25E
Sales growth	16.8	17.6	4.5	9.4
OPM	27.7	32.4	26.8	26.8
Oper. profit growth	14.0	37.7	(11.4)	9.4
COGS / Net sales	56.1	51.8	56.7	56.7
Depreciation / G. block	(6,306.8)	7,757.2	(8,563.6)	(39.0)
Effective interest rate (%)	0.0	0.0	0.0	0.0
Net wkg.cap / Net sales	0.31	0.28	0.30	0.24
Net sales / Gr block (x)	43.7	46.5	44.0	47.7
RoCE	52%	58%	40%	33%
Debt / equity (x)	0.08	0.05	0.04	0.00
Effective tax rate	25.6	17.7	23.6	21.4
RoE	40%	49%	31%	27%
Payout ratio (Div/NP)	25.0	25.0	25.0	0.0
EPS (Rs.)	103.9	158.4	128.0	144.9
EPS Growth	16.0	52.4	(17.2)	13.3
CEPS (Rs.)	116.1	169.6	140.3	157.3
DPS (Rs.)	25.9	39.5	31.9	0.0

Source: Company, Axis Securities

Tata Consultancy Services Price Chart and Recommendation History



Date	Reco	TP	Research
11-Jan-21	BUY	3,550	Result Update
12-Apr-21	BUY	3,721	Pick of the week
13-Apr-21	BUY	3,560	Result Update
31-May-21	BUY	3,560	AAA
09-Jul-21	HOLD	3,560	Result Update
11-Oct-21	HOLD	4,100	Result Update
13-Jan-22	HOLD	4,200	Result Update
12-Apr-22	BUY	4,200	Result Update
11-Jul-22	HOLD	3,460	Result Update
19-Aug-22	HOLD	3,650	AAA
11-Oct-22	BUY	3,460	Result Update
10-Jan-23	HOLD	3,650	Result Update
13-Apr-23	HOLD	3,350	Result Update
13-Jul-23	HOLD	3,350	Result Update

Source: Axis Securities

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