

**Results In-line with expectations; Maintain Buy**

QIFY24 Result Update | Sector: IT | July 13, 2023

**BUY**

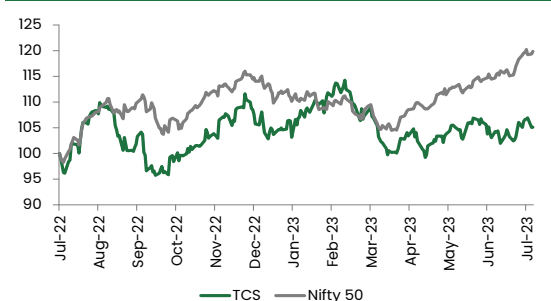
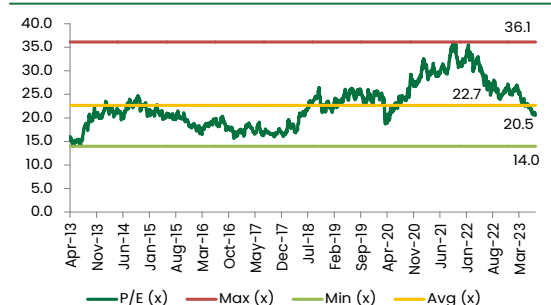
<b>CMP (Rs)</b>	3,260
<b>Target Price (Rs)</b>	3,882
<b>Potential Upside</b>	19.1%
<b>Sensex</b>	65,394
<b>Nifty</b>	19,384

**Key Stock data**

<b>BSE Code</b>	532540
<b>NSE Code</b>	TCS
<b>Bloomberg</b>	TCS:IN
<b>Shares o/s, Cr (FV 1)</b>	366.0
<b>Market Cap (Rs Cr)</b>	1,192,814
<b>3M Avg Volume</b>	1,817,376
<b>52 week H/L</b>	3,575/2,926

**Shareholding Pattern**

(%)	Sep-22	Dec-22	Mar-23
<b>Promoter</b>	72.3	72.3	72.3
<b>FII</b>	13.1	12.9	12.7
<b>DII</b>	8.6	9.3	9.6
<b>Others</b>	6.1	5.5	5.4

**1 Year relative price performance**

**PE Forward (x)**

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**Revenue in-line with expectations:** TCS QIFY24 revenue was in-line with our expectations. Rupee revenue came in at Rs 59,381cr, up by 0.4% QoQ and 12.6% YoY and revenue in USD was 7,226mn, up by 0.4% QoQ and 6.6% YoY. While growth in constant currency was flat QoQ and grew by 7% YoY. Amongst geographies, in terms of CC, the growth was mainly driven by the UK with 16.1% growth YoY followed by India, Latin America and Middle East with 14%, 13.5% and 15.2%, respectively. Amongst verticals, growth was led by Life Sciences and Healthcare which grew 10.1% followed by the Manufacturing vertical with 9.4% growth. Besides, other sectors like BFSI, Retail & Consumer and Technology and Media grew in single digit of 3%, 5.3%, 4.4 and 0.5%, respectively.

**EBIT margin impacted due to wage hike:** EBIT for QIFY24 came in at Rs 13,755cr which de-grew by 5.1% QOQ and grew by 12.9% YoY. EBIT margin was down by 132bps QoQ and marginally up by 7bps YoY. The company aim was to maintain margins in the range of 24-25% but due to annual salary increase from April there was ~200bps impact of this hike which was offset through improved efficiencies. In the medium term, management expects to reach 24-25% margin while in the long run they aspire to reach margins of 26-28% but no immediate timeline given for the same.

**Attrition cooled off further lower:** This is the third consecutive quarter wherein TCS attrition moderated and reached to 17.8%, down by 230bps QoQ and 190bps YoY. For QIFY23 and Q4FY23 attrition was at 19.7% and 20.1%, respectively.

**Healthy flow of deals continues:** In QIFY24, strong deals momentum continued for TCS and it won orders worth USD 10.2bn, which was higher by 2% QoQ and 24.4% YoY. Deals for QIFY23 and Q4FY23 were at USD 8.2bn and USD 10bn, respectively.

**Management outlook:** 1) Client are prioritizing spends and their approach is more towards short term deals as it is generating better return at the time of uncertainty and prevailing macro challenges. 2) Further, the management believes from a long term perspective deal momentum and demand will continue for cost optimization and vendor consolidation along with newer technologies. 3) There are a lot of clients who are interested in Artificial Intelligence as well as cyber security and the company is continuously investing and building solutions for the clients. 4) TCS corporate R&D group has already filed 710 patents for AI innovations in the past five years, of which 282 has already been granted

**Outlook & Valuation:** TCS posted in-line numbers for QIFY24 with strong deals momentum and easing attrition. Further, Management was a bit cautious for the near term demand because of the prevailing macro uncertainty however in the longer term clients spending is expected to pick up pace while demand for cloud, transformation, AI and cyber would be healthy. Additionally, TCS would continue to maintain its leadership position, innovate products in newer technologies as per the demand and focus on managing cost and operating margins. On the financial front, we have estimated its revenue/EBIT to grow at 16.0/18.2% 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	49,011	58,074
APATM (%)	20.1	18.8	18.7	19.1
EPS (Rs)	105.1	115.6	133.9	158.7
PE (x)	31.0	28.2	24.3	20.5
RoE (%)	43.1	46.8	41.7	41.8

Source : RBL Research

Net sales grew by 0.4% each in rupee and USD due to macro challenges and slowdown in spending

EBIT margin down by 132bps QoQ impacted by wage hike

### P&L Account Quarterly – consolidated

Particulars, Rs cr	Q1FY24	Q1FY23	Y-o-Y %	Q4FY23	Q-o-Q %
<b>Net Sales (\$ Mn)</b>	<b>7,226</b>	<b>6,780</b>	<b>6.6</b>	<b>7,195</b>	<b>0.4</b>
<b>Net Sales (Rs Cr)</b>	<b>59,381</b>	<b>52,758</b>	<b>12.6</b>	<b>59,162</b>	<b>0.4</b>
Employee Cost	35,148	30,326	15.9	33,688	4.3
Cost of equipment and licences	506	217	133.2	620	(18.4)
Other Expense	8,729	8,798	(0.8)	9,082	(3.9)
<b>Total Expenditure</b>	<b>44,383</b>	<b>39,341</b>	<b>12.8</b>	<b>43,389</b>	<b>2.3</b>
<b>EBITDA</b>	<b>14,998</b>	<b>13,417</b>	<b>11.8</b>	<b>15,773</b>	<b>(4.9)</b>
EBITDA Margins (%)	25.3	25.4	-17bps	26.7	-140bps
Depreciation	1,243	1,231	1.0	1,285	(3.3)
EBIT	13,755	12,186	12.9	14,488	(5.1)
EBIT Margins (%)	23.2	23.1	7bps	24.5	-132bps
Other Income	1,397	789	77.1	1,175	18.9
Interest	163	199	(18.1)	272	(40.1)
PBT	14,989	12,776	17.3	15,391	(2.6)
PBT Margin (%)	25.2	24.2	103bps	26.0	-77bps
Tax	3,869	3,257	18.8	3,955	(2.2)
<b>PAT</b>	<b>11,120</b>	<b>9,519</b>	<b>16.8</b>	<b>11,436</b>	<b>(2.8)</b>
PAT Margin (%)	18.7	18.0	68bps	19.3	-60bps
EPS	30.4	26.0	16.8	31.2	(2.8)

Source : RBL Research

### Revenue Distribution by Geography & growth in Constant Currency (%)

Particulars	Q1FY24	Q1FY23	Y-o-Y %
Americas	54.2	55.0	-
North America	52.2	53.2	4.6
Latin America *	2.0	1.8	13.5
Europe	31.3	30.1	-
UK	16.4	14.9	16.1
Continental Europe	14.9	15.2	3.4
India	4.9	4.8	14.0
Asia Pacific	7.8	8.3	4.7
MEA	2.0	1.8	15.2

Source : RBL Research

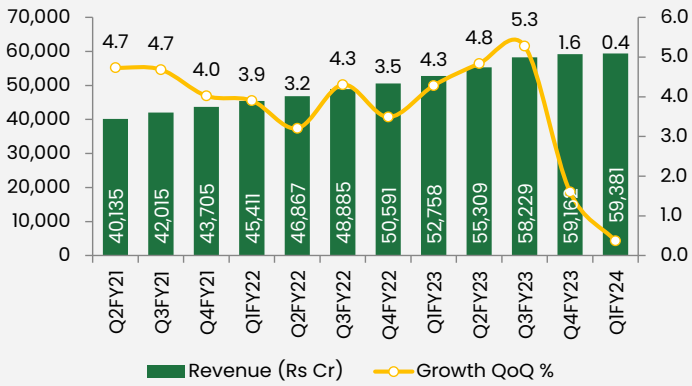
### Revenue Distribution by Industry & Growth in Constant Currency (%)

Particulars	Q1FY24	Q1FY23	Y-o-Y %
BFSI	31.0	32.1	3.0
Retail & CPG	15.7	15.9	5.3
Communication & Media	6.4	6.8	0.5
Manufacturing	10.2	9.9	9.4
Life Science & Healthcare	10.5	10.1	10.1
Technology & Services	8.6	8.8	4.4
Regional Markets & Others	17.6	16.4	16.9

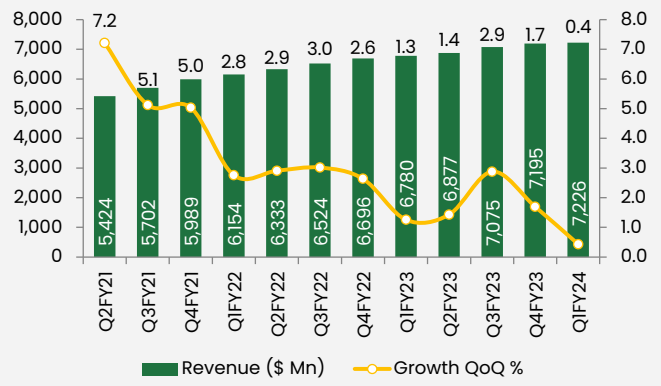
Source : RBL Research

Story in charts

Revenue in rupee grew by 0.4% QoQ and 12.6% YoY

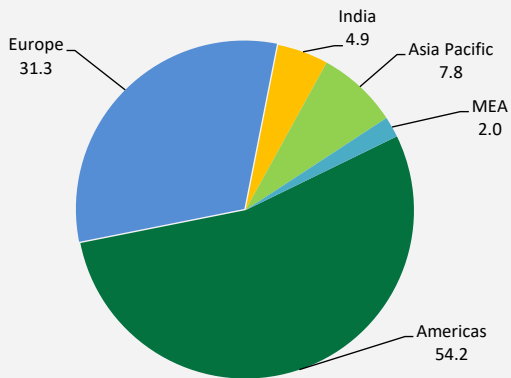


Revenue in USD grew by 0.4% QoQ and 6.6% YoY

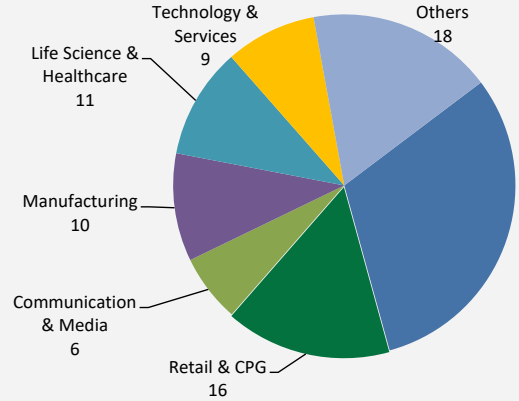


Source : RBL Research

Revenue Distribution by Geography in Q1FY24 (%)

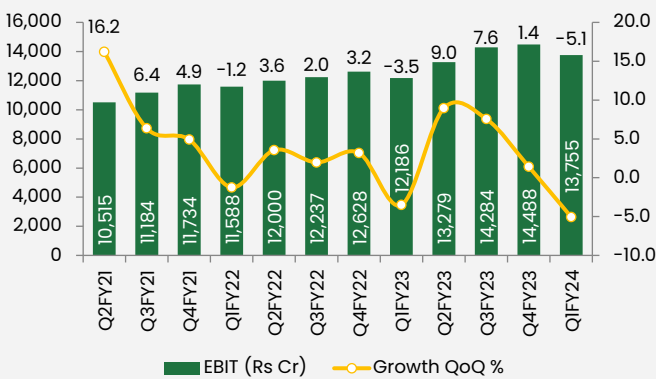


Revenue Distribution by Industry in Q1FY24 (%)

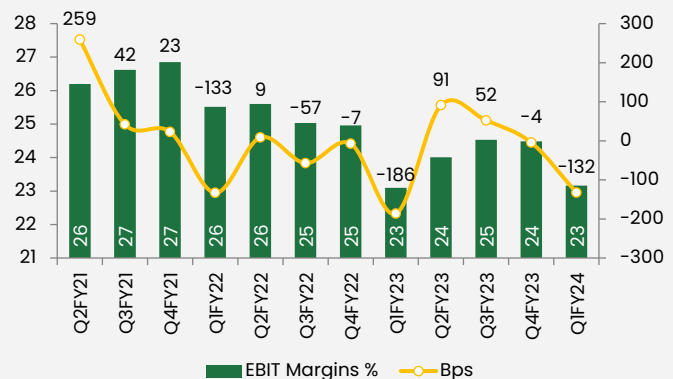


Source : RBL Research

EBIT de-grew by 5.1% QoQ and 12.9% YoY

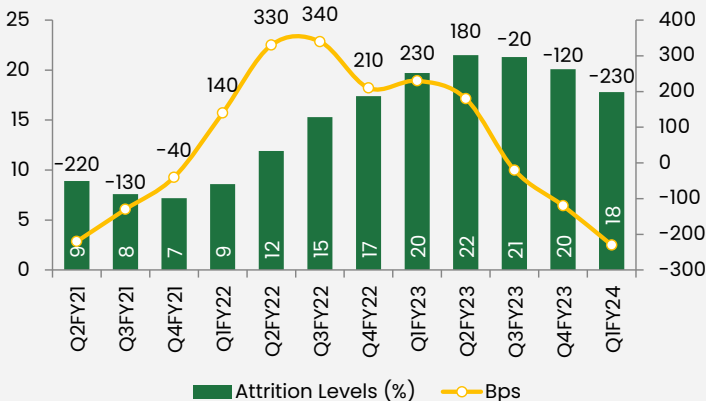


EBIT margin decline by 132bps QoQ and up by 7bps YoY

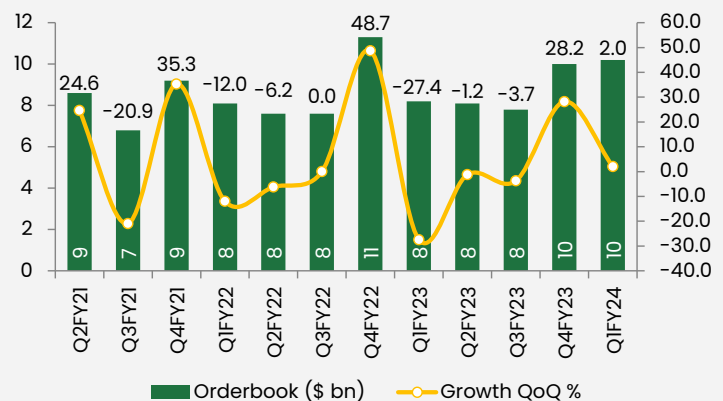


Source : RBL Research

Attrition moderated to 17.8% in Q1FY24



Order book at USD 10.2bn, up by 2% QoQ and 24.4% YoY



Source : RBL Research

## P&amp;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
<b>Total expenditure</b>	<b>138,697</b>	<b>166,198</b>	<b>192,262</b>	<b>222,113</b>
<b>EBITDA</b>	<b>53,057</b>	<b>59,260</b>	<b>69,270</b>	<b>81,263</b>
EBITDAM (%)	27.7	26.3	26.5	26.8
Depreciation	4,604	5,023	5,231	5,461
PBIT	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
Interest expenses	784	779	779	779
PBT	51,687	56,907	65,875	78,057
Tax	13,238	14,604	16,864	19,983
PAT (after Exceptional)	38,449	42,303	49,011	58,074
PAT Margin %	20.1	18.8	18.7	19.1
EPS	105.1	115.6	133.9	158.7

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	117,109	138,584
<b>Total Shareholder's Fund</b>	<b>89,139</b>	<b>90,424</b>	<b>117,475</b>	<b>138,950</b>
Minority Interest	707	782	782	782
Deferred tax liabilities	590	792	811	940
Other long term	8,727	8,095	9,154	10,618
<b>Total</b>	<b>9,317</b>	<b>8,887</b>	<b>9,964</b>	<b>11,559</b>
<b>Current Liabilities</b>				
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
<b>Total</b>	<b>42,351</b>	<b>43,558</b>	<b>47,530</b>	<b>54,719</b>
<b>Total liabilities</b>	<b>141,514</b>	<b>143,651</b>	<b>175,751</b>	<b>206,009</b>
<b>Application of Assets</b>				
Net Block	19,511	18,657	19,013	19,376
Current work in process	1,205	1,234	1,234	1,234
Goodwill on	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	311	173	201	233
Other non-current assets	6,459	7,886	9,154	10,618
<b>Total</b>	<b>33,204</b>	<b>33,381</b>	<b>35,644</b>	<b>38,173</b>
<b>Current Assets</b>				
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	20,062	29,209
Bank balance	5,733	3,909	3,909	3,909
Short term loans and	6,445	1,325	1,537	1,783
Other current assets	19,288	19,939	23,538	27,304
<b>Total</b>	<b>108,310</b>	<b>110,270</b>	<b>140,108</b>	<b>167,836</b>
<b>Total assets</b>	<b>141,514</b>	<b>143,651</b>	<b>175,751</b>	<b>206,009</b>

Source : RBL Research

**Cashflow – consolidated**

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Profit before tax	51,687	56,907	65,875	78,057
Add: Depreciation	4,604	5,023	5,231	5,461
Add: Interest cost	784	779	779	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)	(6,198)	(4,809)
Cash from Operations	51,435	54,931	63,072	76,454
Less: Taxes	(11,486)	(12,966)	(16,864)	(19,983)
<b>Cash flow from Operations</b>	<b>39,949</b>	<b>41,965</b>	<b>46,208</b>	<b>56,471</b>
<b>Net cash used in Investing</b>				
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
<b>Cash flow from investing</b>	<b>(897)</b>	<b>39</b>	<b>(10,530)</b>	<b>(9,945)</b>
<b>Cash flow from Financing</b>				
Proceeds from Equity shares	(18,000)	(4,192)	-	-
Dividend (Incl dividend tax)	(13,317)	(41,347)	(21,960)	(36,600)
Interest cost	(698)	(779)	(779)	(779)
Others	(1,566)	(1,560)	-	-
<b>Cash flow from Financing</b>	<b>(33,581)</b>	<b>(47,878)</b>	<b>(22,739)</b>	<b>(37,379)</b>
<b>Net cash Inflow/Outflow</b>	<b>5,471</b>	<b>(5,874)</b>	<b>12,939</b>	<b>9,147</b>
Opening cash	6,858	12,488	7,123	20,062
Exchange gain/loss	159	509	-	-
<b>Closing Cash</b>	<b>12,488</b>	<b>7,123</b>	<b>20,062</b>	<b>29,209</b>

Source : RBL Research

**Key ratios – consolidated**

Particulars	FY22	FY23	FY24E	FY25E
<b>Per share Data</b>				
EPS (Rs)	105.1	115.6	133.9	158.7
Book value per share (Rs)	243.5	247.1	321.0	379.6
Dividend per share (Rs)	36.4	113.0	60.0	100.0
Dividend Payout (%)	34.6	97.7	44.8	63.0
Dividend Yield %	1.1	3.5	1.8	3.1
<b>Profitability Ratios</b>				
EBITDAM(%)	27.7	26.3	26.5	26.8
PBTM (%)	27.0	25.2	25.2	25.7
NPM (%)	20.1	18.8	18.7	19.1
RoE (%)	43.1	46.8	41.7	41.8
RoCE (%)	54.4	60.0	54.5	54.6
<b>Efficiency Data</b>				
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
<b>Valuation</b>				
P/E (x)	31.0	28.2	24.3	20.5
P/BV	13.4	13.2	10.2	8.6
EV/EBITDA	22.3	20.0	16.9	14.3
EV/Sales	6.2	5.3	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	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? <b>[If answer is yes, nature of Interest is given below this table]</b>		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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