

Tata Consultancy Services Limited



Tata Consultancy Services Limited. **Operational recovery; Demand drivers remain intact with a few visible signs of slowdown**

CMP INR 3,354	Target INR 3,915	Potential Upside 16.7%	Market Cap (INR Mn) INR 1,22,72,460	Recommendation BUY	Sector Internet Software & Services
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Synopsis:

- TCS revenue for Q1FY24 stood at INR 5,93,810 mn as against INR 5,27,580 mn, registering a growth of 12.6% on a YoY basis and increased marginally by 0.4% on a QoQ basis from INR 5,91,620 mn. Revenue in dollar terms stood at USD 7226 mn as against USD 6780 mn, registering a growth of 6.6% on a YoY basis and remaining subdued on a QoQ basis.
- EBIT for the quarter came at INR 1,37,550 mn as against INR 1,21,860 mn, showing an improvement of 12.9% on a YoY basis and declining by 5.0% on a QoQ basis from INR 1,44,800 mn. Operating margins showed an improvement of 6 bps on a YoY basis and declined by 132 bps on a QoQ basis.
- Profit for Q1FY24 registered a growth of 16.8% on a YoY basis to INR 1,11,200 mn as against INR 95,190 mn in Q1FY23 and declined by 2.8% from INR 1,14,360 mn. PAT margin for Q1FY24 stood at 18.7%, registering an improvement of 70 bps on a YoY basis and a decline of 60 bps on a sequential basis.

MARKET DATA

Shares outs (Mn)	1,013.7
Mkt Cap (INR Mn)	1,22,72,460
52 Wk H/L (INR)	3,575 / 2,926
Volume Avg (3m K)	2547.6
Face Value (INR)	1
Bloomberg Code	TCS IN

KEY FINANCIALS

(INR Mn)	Q1FY24A	Q4FY23A	Q1FY23A	QoQ	YoY	KRChoksey Est.	Variance (%)
USD Revenue	7,226	7,195	6,780	0.4%	6.6%	7,230	-0.1%
Revenue	5,93,810	5,91,620	5,27,580	0.4%	12.6%	5,92,868	0.2%
EBIT	1,37,550	1,44,800	1,21,860	-5.0%	12.9%	1,27,349	7.4%
PAT	1,11,200	1,14,360	95,190	-2.8%	16.8%	1,01,711	8.5%
OPM (%)	23.16%	24.48%	23.10%	-132 bps	6 bps	21.48%	168 bps
NPM(%)	18.70%	19.30%	18.00%	-60 bps	70 bps	17.16%	154 bps

Source: Company, KRChoksey Research

Revenue growth across

TCS reported a YoY revenue growth of 12.6% to INR 5,93,810 mn from INR 5,27,580 mn in Q1FY23. The CC revenue growth was 7.0% YoY. The growth in Q1FY24 was primarily driven by the UK (16.1%), India (14.0%), MEA (15.2%), and Latin America (13.5%), while other markets showed single-digit growth in CC terms. The Life Sciences and Healthcare segment registered a YoY CC growth of 10.1%. The Manufacturing segment recorded a YoY CC growth of 9.4% due to a lower base, improvement in market share, and an eased supply chain, while their other verticals grew at a moderated pace. Clients continue to invest in building a strong cloud foundation for business innovation and productivity improvement. The management remains optimistic over the medium to long term, given healthy deal wins and the emergence of newer technologies.

TCV remains strong for two consecutive quarter

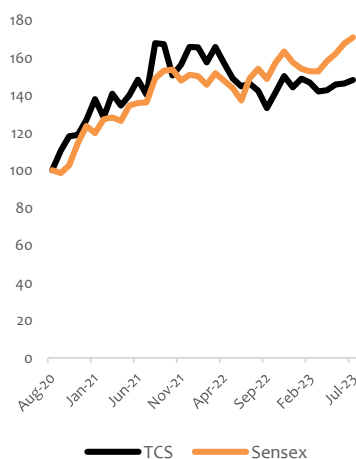
For Q1FY24, the company registered a Total Contract Value (TCV) of USD 10.2 billion, marking another consecutive quarter with a TCV of USD 10 billion. The total deal wins included USD 5.2 billion from North America, USD 3 billion in BFSI, and USD 1.2 billion in Retail & CPG. The book-to-bill ratio remained subdued at 1.4. TCS continues to witness robust demand for cloud migration, digital engineering, product innovation, and enterprise application solutions, which have contributed to the increased deal wins in these segments.

Operating margins to improve going ahead

Margins contracted by 132 bps on a sequential basis but improved marginally by 6 bps on a YoY basis. The contraction was primarily due to a hike in employee costs, which led to a decline in margins by 200 bps. However, this impact was partially offset by improving efficiencies. The company has implemented various cost-cutting initiatives that are expected to lead to margin improvement.

Generative AI and Machine learning will be key areas for growth

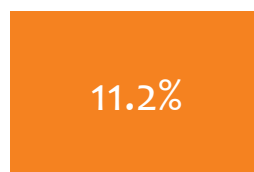
There has been strong interest across the industry to engage with TCS and explore opportunities in Generative AI and Machine Learning. The management expects that TCS is well-positioned to benefit from the long-term demand in these areas, driven by its early investment in Gen AI and Machine Learning. Despite short-term uncertainty, the company remains optimistic about its long-term growth.

SHARE PRICE PERFORMANCE

MARKET INFO

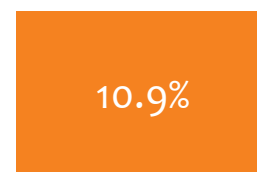
SENSEX	65,985.7
NIFTY	19,543.8

SHARE HOLDING PATTERN (%)

Particulars	Jun-23	Mar-23	Dec-22
Promoters	72.3	72.3	72.3
FIIIs	12.7	12.9	13.1
DIIIs	9.6	9.3	8.5
Others	5.4	5.5	5.2
Total	100.0	100.0	100.0



Revenue CAGR between FY23 and FY25E



PAT CAGR between FY23 and FY25E

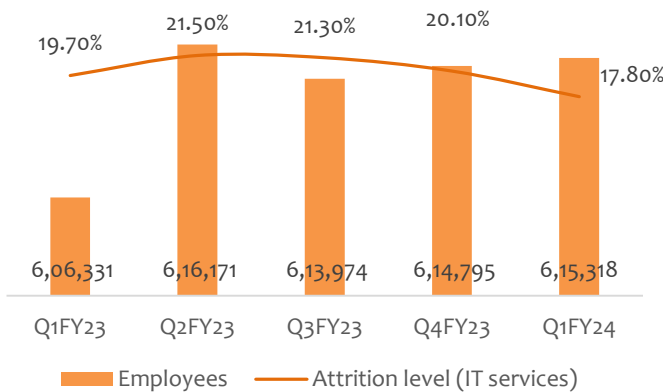
Tata Consultancy Services Limited.

Key Concall Highlights: (i) The order pipeline remains strong despite the conversion of TCV into revenue. (ii) The order book for the second consecutive quarter came in at \$10 billion. (iii) The long-term outlook remains strong for discretionary spending, but there are some short-term challenges due to macro overhang. (iv) The manufacturing segment is doing well owing to a lower base, improvement in market share, and easing of the supply chain. (v) The increase in employee costs has led to a decline in margins in Q1FY24 by 200 bps. (vi) The management expects the attrition rate to normalize to the industry average by H2FY24. (vii) The company sees good momentum in the UK, India, and MEA in Q1FY24. (viii) The company expects more opportunities in AI and machine learning areas and will focus on leveraging this technology for client transformation. (ix) Cost optimization, vendor consolidation, and integrated operations are high priorities for the clients. (x) The company expects that cloud migration and data modernization with new technologies such as Generative AI and machine learning will drive growth. (xi) TCS added 1 client of \$100 mn and 13 clients of \$50 mn in Q1FY24. (xii) Cloud migration is taking place at a faster pace, despite a cut in discretionary spending. (xiii) The company is not seeing much of a deal ramp-down or cancellation. (xiv) The attrition rate stood at 17.8% with a net addition of 523 associates during Q1FY24, and the company will continue to hire at the same pace going forward. (xv) The company declared an interim dividend of INR 9 per share for Q1FY24.

Valuation and view

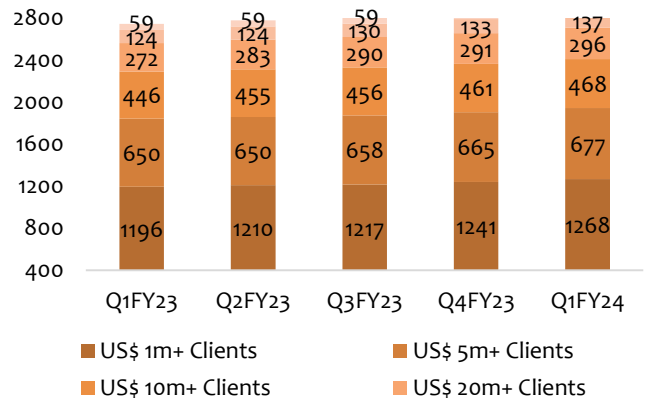
TCS is currently trading at a valuation with a P/E multiple of 26.5x/23.1x on FY24E/FY25E earnings. Despite persistent global macro uncertainties, TCS is well positioned with its size, steadfast market leadership position, best-in-asset class execution and order book (especially exposure to longer duration contracts) to deliver industry-leading growth/margin and demonstrate superior return ratios and hence we have changed our target price as INR 3,915 (Previously the target price was INR 3,888) with a P/E multiple of 27.0x to the FY25 with an estimated EPS of ~INR 145.0, an upside of 16.7% over the CMP. Accordingly, we maintain our “BUY” rating for the stock.

Employee Base & Attrition



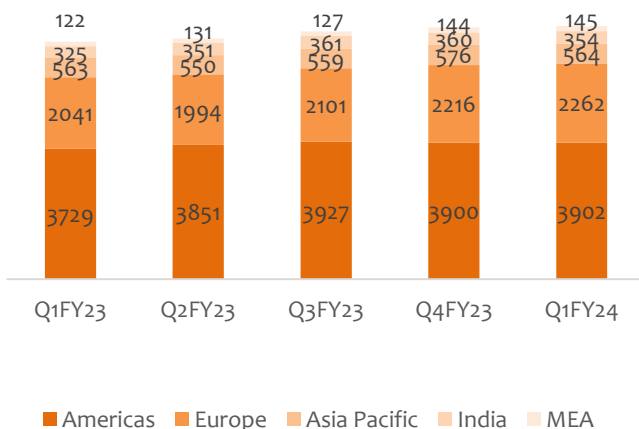
Source: Company, KRChoksey Research

Client Contribution



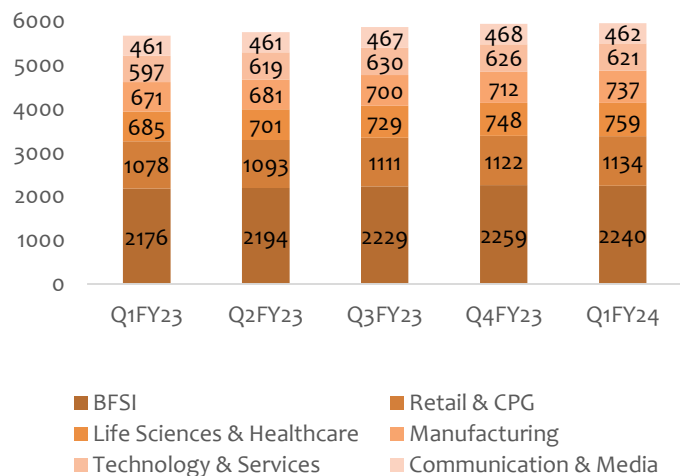
Source: Company, KRChoksey Research

Revenue by Geography (USD Mn)



Source: Company, KRChoksey Research

Vertical-wise Revenue Contribution (USD Mn)



Source: Company, KRChoksey Research

Tata Consultancy Services Limited.
KEY FINANCIALS
Exhibit 1: Balance Sheet

Particulars (INR Mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Property, Plant and Equipment	1,09,410	1,11,100	1,07,740	1,02,300	1,04,939	1,09,875
Right-of-use Asset	79,940	76,330	76,360	75,600	76,351	77,186
CWIP	9,060	9,260	12,050	12,340	12,340	12,340
Goodwill	17,100	17,980	17,870	18,580	18,580	18,580
Intangible Assets	2,830	4,800	11,010	8,670	8,670	8,670
Investments	2,160	2,130	2,230	2,660	3,002	3,064
Other non-current tax assets	52,900	57,760	56,910	58,900	58,089	58,091
Other non current assets	33,220	35,430	47,870	54,560	54,537	57,076
Total non current assets	3,06,620	3,14,790	3,32,040	3,33,610	3,42,236	3,50,870
Unbilled Revenue	57,320	65,830	77,360	89,050	95,693	1,14,161
Investments	2,61,400	2,91,600	3,02,620	3,68,970	4,05,776	4,52,927
Trade receivables	3,05,320	3,00,790	3,40,740	4,10,490	4,57,961	5,32,752
Cash & equivalent	96,660	93,290	1,82,210	1,10,320	2,31,158	3,42,912
Other current assets	1,81,590	2,41,100	1,80,060	1,23,790	1,21,583	1,39,277
Current Tax Assets	80	190	110	80	80	80
Total current assets	9,02,370	9,92,800	10,83,100	11,02,700	13,26,760	15,98,822
Total Assets	12,08,990	13,07,590	14,15,140	14,36,510	16,68,997	19,49,693
Equity Share Capital	3,750	3,700	3,660	3,660	3,660	3,660
Other Equity	8,37,510	8,60,630	8,87,730	9,00,580	11,15,749	13,62,528
Equity Attributable to Owners of the Company	8,41,260	8,64,330	8,91,390	9,04,240	11,19,409	13,66,188
Non controlling Interest	6,230	6,750	7,070	7,820	9,660	11,500
Total Equity	8,47,490	8,71,080	8,98,460	9,12,060	11,29,069	13,77,688
Long term Debts	69,060	65,030	63,680	62,030	60,159	58,364
Other Financial Liabilities	6,970	11,970	11,100	10,030	11,032	11,560
Employee benefit obligation	4,170	7,490	6,770	5,360	5,904	6,184
DTL	7790	7670	5900	7920	7920	7920
Other Non-Current Liabilities	2910	2800	5720	3530	3,883	4,271
Total non current liabilities	9,38,390	9,66,040	9,91,630	10,00,930	12,17,978	14,65,990
Short Term Borrowing & Leasing	12,680	12,920	14,500	14,850	15,511	16,156
Deferred Revenue	29,150	36,500	36,350	38,430	25,550	25,445
Trade Payables	67,400	78,600	80,450	1,05,150	1,01,745	1,06,577
Other Financial Liabilities	61,000	61,500	76,870	90,680	99,743	1,04,513
Other Current Liabilities	35,760	54,620	98,030	52,370	57,614	60,362
Employee benefit obligation	27,490	34,980	38,100	40,650	47,188	52,124
Current Tax Liabilities	37,120	62,430	79,210	93,450	1,03,669	1,18,526
Total Current Liabilities	2,70,600	3,41,550	4,23,510	4,35,580	4,51,019	4,83,703
Total liabilities	12,08,990	13,07,590	14,15,140	14,36,510	16,68,997	19,49,693

Source: Company, KRChoksey Research

Tata Consultancy Services Limited.
KEY FINANCIALS
Exhibit 2: Profit & Loss Statement

Particulars (INR Mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue	15,69,490	16,41,770	19,17,540	22,54,580	25,53,837	28,40,804
Employee Cost	8,59,520	9,18,140	10,75,540	12,75,220	14,80,318	16,35,172
Other Cost	2,88,880	2,58,170	3,11,430	3,86,760	3,99,085	4,28,359
EBITDA	4,21,090	4,65,460	5,30,570	5,92,600	6,22,296	7,22,000
Depreciation	35,290	40,650	46,040	50,220	54,900	59,132
EBIT	3,85,800	4,24,810	4,84,530	5,42,380	5,84,867	6,73,398
Other income, net	45,920	31,340	40,180	34,490	52,138	55,272
Finance costs	9,240	6,370	7,840	7,790	5,396	5,126
Pre-tax Income	4,22,480	4,49,780	5,16,870	5,69,080	6,31,609	7,23,544
Income tax expense	98,010	1,11,980	1,32,380	1,46,040	1,62,010	1,85,227
Net profit Before MI	3,24,470	3,37,800	3,84,490	4,23,040	4,69,599	5,38,317
Minority Interest	1,070	1,320	1,220	1,560	1,840	1,840
Net profit After MI	3,23,400	3,36,480	3,83,270	4,21,480	4,67,759	5,36,477
Diluted EPS (INR)	86.2	90.9	103.6	113.9	126.4	145.0
Shares in mn	3,752	3,700	3,700	3,700	3,700	3,700

Source: Company, KRChoksey Research

Exhibit 3: Free Cash Flow Analysis

Particulars (INR Mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Cash Generated From Operations	4,94,650	3,18,011	6,43,490	5,39,880	5,95,118	6,53,449
Net Cash Flow from/(used in) Investing Activities	-5,14,140	-2,62,990	-3,61,920	-4,19,139	-4,73,231	-5,39,890
Net Cash Flow from Financing Activities	68,620	-4,080	-1,390	-1,650	-1,861	-1,805
Net Inc/Dec in cash equivalents	49,130	-50,941	80,180	60,109	1,20,026	1,11,754
Closing Balance Cash and Cash Equivalents	1,44,231	93,290	1,82,210	1,10,320	2,31,158	3,42,912

Source: Company, KRChoksey Research

Exhibit 4: Ratio Analysis

Key Ratio	FY20	FY21	FY22	FY23	FY24E	FY25E
EBIT Margin (%)	24.6%	25.9%	25.3%	24.1%	23.4%	24.2%
Tax rate (%)	23.2%	24.9%	25.6%	25.7%	25.7%	25.6%
Net Profit Margin (%)	20.7%	20.6%	20.1%	19.2%	18.7%	19.3%
RoE (%)	37.3%	38.0%	43.7%	46.9%	46.2%	43.2%
RoCE (%)	31.7%	33.5%	36.8%	40.8%	39.2%	37.3%
EV/EBITDA	26.5	23.5	20.5	18.3	16.7	14.4
EPS (INR per share)	86.19	87.67	103.59	113.91	126.4	145.0

Source: Company, KRChoksey Research

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Tata Consultancy Services				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP(INR)	Recommendation	Our Rating	Upside
14-Jul-23	3,354	3,915	BUY	Buy	More than 15%
13-Apr-23	3,192	3,888	BUY	Accumulate	5% – 15%
11-Oct-22	3121	3739	BUY	Hold	0 – 5%
11-Jul-22	3268	3739	ACCUMULATE	Reduce	-5% – 0
				Sell	Less than – 5%

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KRChoksey Shares and Securities Pvt. Ltd.

CIN-U67120MH1997PTC108958

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: 91-22-6633 5000; Fax: 91-22-6633 8060

Corporate Office: Abhishek, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053. Phone: 91-22-6696 5555; Fax: 91-22-6691 9576

RESEARCH ANALYST
Abhishek Agarwal, research5@krchoksey.com, +91-22-66965540

KRChoksey Research
is also available on Bloomberg KRCS<GO>
Thomson Reuters, Factset and Capital IQ

Phone: +91-22-6696 5555, Fax: +91-22-6691 9576
www.krchoksey.com