



3R MATRIX	+	=	-
Right Sector (RS)	Green	Grey with check	Red
Right Quality (RQ)	Green with check	Grey	Red
Right Valuation (RV)	Green	Grey with check	Red

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	Grey	↔	Grey
RQ	Green	↔	Green
RV	Grey	↔	Grey

ESG Disclosure Score		NEW
ESG RISK RATING		11.42
Updated Aug 08, 2023		
Low Risk		
NEGL	LOW	MED
0-10	10-20	20-30
		HIGH
		SEVERE
		30-40
		40+

Source: Morningstar

Company details

Market cap:	Rs. 13,19,051 cr
52-week high/low:	Rs. 3,619/2,926
NSE volume: (No of shares)	19.9 lakh
BSE code:	532540
NSE code:	TCS
Free float: (No of shares)	101.4 cr

Shareholding (%)

Promoters	72.3
FII	12.5
DII	9.8
Others	5.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.0	13.5	13.4	19.8
Relative to Sensex	3.0	6.9	(3.2)	4.9

Sharekhan Research, Bloomberg

Tata Consultancy Services Ltd
Well placed to tide Uncertainty

IT & ITES	Sharekhan code: TCS		
Reco/View: Buy	↔	CMP: Rs. 3,605	Price Target: Rs. 4,200
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We maintain Buy rating on TCS with revised PT of Rs. 4,200 (the increase in PT reflects rollover of valuation multiple to Sep 25E EPS), as we believe the company is well placed to grab cost takeout as well as digital transformation programs along with opportunities arising from vendor consolidation. At the CMP, the stock trades at 25.5x/22.8x its FY25/26E EPS.
- Robust deal win momentum with average deal wins of ~\$8.9 bn over Q1FY23-Q1FY24 further aided by the recent large deals from JLR, Nest, and BSNL provides further resilience to the company's revenue growth profile.
- TCS's strong domain expertise, geographical presence, and ability to cross-sell make it well-positioned to grab market share during the challenging environment, as reflected from robust deal momentum.
- Revamp of the organisational structure undertaken by the new CEO is expected to alleviate concerns and aid in driving growth.

Despite the uncertain environment, deal momentum for TCS has been robust with average deal wins of ~\$8.9 bn over Q1FY23-Q1FY24 (stronger deal wins of \$1bn plus in the more recent quarters). In recent months, the company has won large deals from JLR/NEST and BSNL with deal TCV of \$1bn/\$1.1bn and \$1.8 bn respectively. These large deal wins would provide further resilience to its revenue growth profile. TCS's strong domain expertise, geographical presence, and ability to cross-sell make it well-positioned to grab market share during this challenging environment along with opportunities emerging from vendor consolidation. Revamp of the organisational structure undertaken by the new CEO is expected to alleviate concerns and aid in driving growth. As concerns on macro uncertainties wane from peak levels, discretionary spends are expected to gradually improve from CY24 along with reduced deal win cycle and faster deal conversion of the deal pipeline to revenues. We believe despite the challenging environment, TCS is well placed to grab cost takeout as well as digital transformation programs along with opportunities from vendor consolidation. Hence, we maintain Buy rating on TCS with revised price target (PT) of Rs. 4,200. At the CMP, the stock trades at 25.5x/22.8x its FY25/26E EPS.

- Deal win momentum continues to be robust:** Despite the uncertainty, TCS continues to witness robust deal flows with average deal win of ~\$8.9 bn over Q1FY23-Q1FY24. The recent JLR deal win of \$1bn TCV over five years is expected to add \$200 million dollar annually to revenue. The deal focuses on improving operational efficiency, potentially through leaner operations, and using the resulting cost savings to invest in a new digital core. The deal is reflective of a strategy that combines cost optimization with digital innovation to drive business growth. Further, the \$1.8 billion BSNL deal and \$1.1 billion Nest deal should provide resilience to the company's revenue growth profile. While the deal flow has stabilised with a higher mix of larger cost take-out programs, we believe the proportion of discretionary programs in the deal wins is set to improve gradually from CY24.
- Better placed to drive growth amid uncertainty:** TCS, with its strong domain expertise and diversified geographical presence, has continued to display greater resilience vis-a-vis its peers amid challenging macros (TCS's CC CQGR at 0.9% vs. 0.6% for Tier 1 IT companies over Q1FY23-Q1FY24). We believe TCS continues to be well placed to achieve market share gains with its ability to cross-sell services and to grab vendor consolidation opportunities. Further, as concerns on macro uncertainties wane from peak levels, discretionary spends are expected to gradually improve from CY24 along with reduced deal wins cycle and return of faster deal conversion of the deal pipeline to revenue.
- Revamped organisational structure to drive growth:** New CEO, K. Krithivasan has revamped the company's senior leadership, adding several new senior executives, global heads, and other loyal veterans. The new operating structure regroups existing Industry Solutions Unit (ISUs) along industry segments into key business groups, which aids in deepening customer centricity. TCS has also created an Enterprise cognitive business practices (CBO) unit focused on enterprise functions and another unit called TCS AI Cloud has been created combining all its public cloud units and AI initiatives. The structure has become effective from August 1, 2023, providing the needed organisational structure clarity.

Our Call

Valuation - Maintain Buy with a revised PT of Rs. 4,200: We believe despite the challenging environment, TCS is well placed to grab cost takeout as well as digital transformation programs along with opportunities from vendor consolidation, which are reflected in robust deal wins. We have fine-tuned the earnings estimates for FY24E/FY25E and introduced FY26 earnings estimates. We expect 9%/11.2% Sales and PAT CAGR over FY23-26E. Hence, we maintain Buy rating on TCS with revised PT of Rs. 4,200 (the increase in PT reflects the rollover of valuation multiple to Sep25E EPS). At the CMP, the stock trades at 25.5x/22.8x its FY25/26E EPS.

Key Risks

Rupee appreciation and/or adverse cross-currency movements. The contagion effect of the banking crisis, macro headwinds, and a possible recession in the US are likely to moderate the pace of technology spending.

Valuation

Particulars	FY23	FY24E	FY25E	FY26E
Revenue	2,25,458.0	2,44,133.0	2,66,044.4	2,92,012.3
OPM (%)	26.3	26.2	26.9	27.3
Adjusted PAT	42,147.0	46,434.1	51,833.0	57,909.0
% y-o-y growth	10.0	10.2	11.6	11.7
Adjusted EPS (Rs.)	115.2	126.9	141.6	158.2
P/E (x)	31.3	28.4	25.5	22.8
P/B (x)	14.5	12.5	12.2	11.9
EV/EBITDA	21.6	19.8	17.8	16.5
ROE (%)	46.6	47.3	48.7	53.0
ROCE (%)	54.8	52.2	57.1	62.2

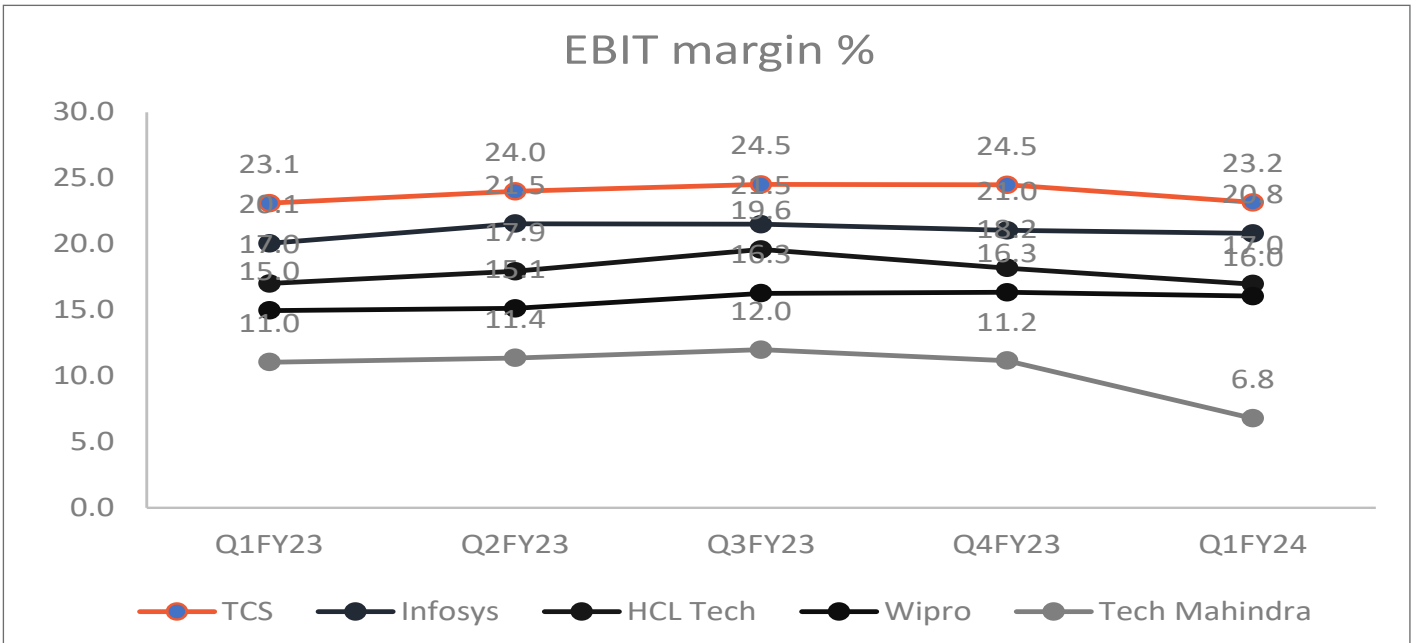
Source: Company; Sharekhan estimates

Resilient constant-currency revenue growth (q-o-q) trend

Tier 1 IT Company	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	CQGR
TCS	3.5%	4.0%	2.2%	0.6%	0.0%	0.9%
Infosys	5.5%	4.0%	2.4%	-3.2%	1.0%	0.5%
HCL Tech	2.7%	3.8%	5.0%	-1.2%	-1.3%	0.9%
Wipro	2.1%	4.1%	0.6%	-0.6%	-2.8%	-0.3%
Tech Mahindra	3.5%	2.9%	0.2%	0.3%	-4.1%	-1.0%

Source: Company; Sharekhan Research

Sector leading EBIT margins



Source: Company; Sharekhan Research

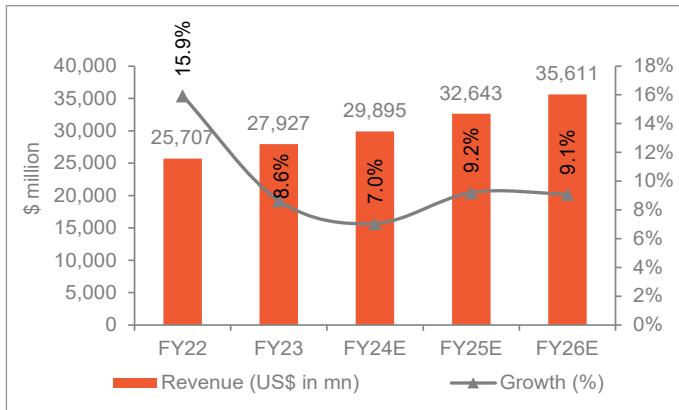
Recent large deals

Month	Client	Deal Value (TCV) \$bn
Sep-23	JLR	1
Jun-23	Nest	1.1
May-23	BSNL	1.8

Source: Company; Sharekhan Research

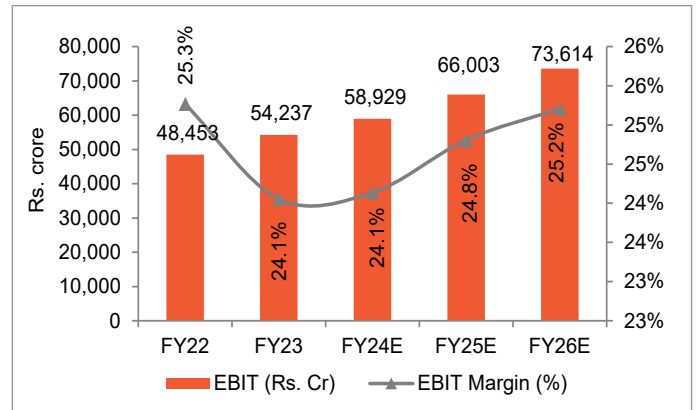
Financials in charts

Revenue (US\$ in mn)



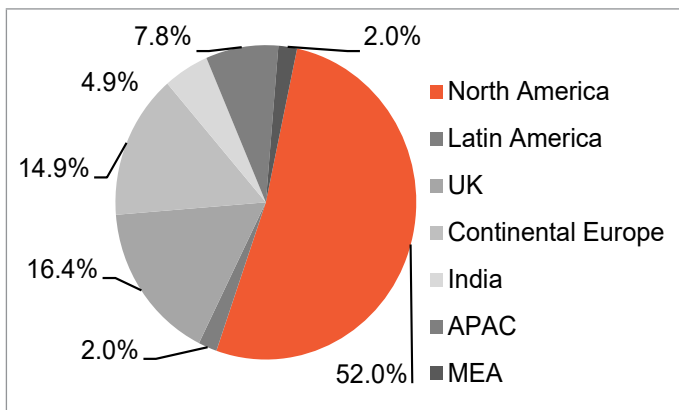
Source: Company, Sharekhan Research

EBIT and EBIT Margin



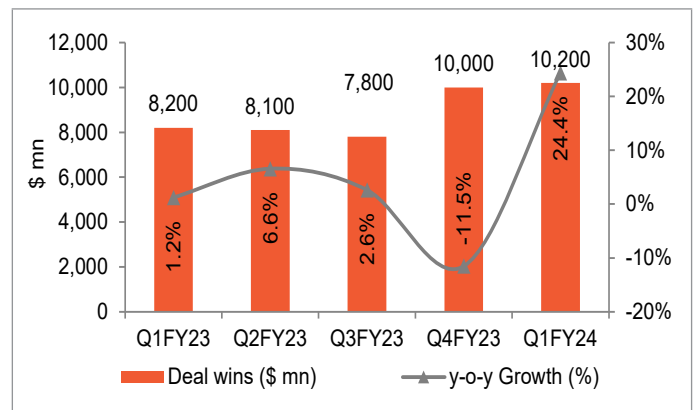
Source: Company, Sharekhan Research

Geographical break-up (%)



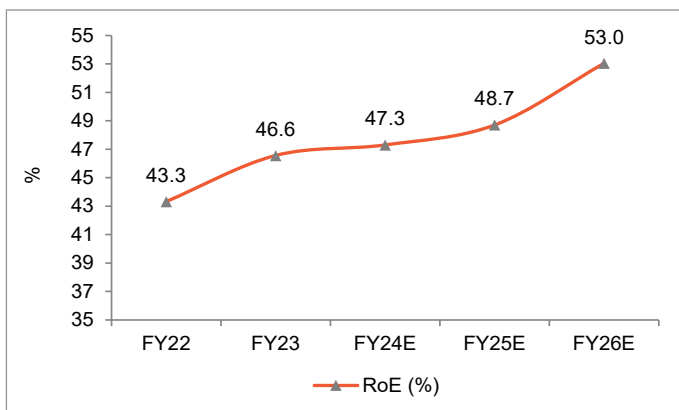
Source: Company, Sharekhan Research

Deal wins (\$ mn)



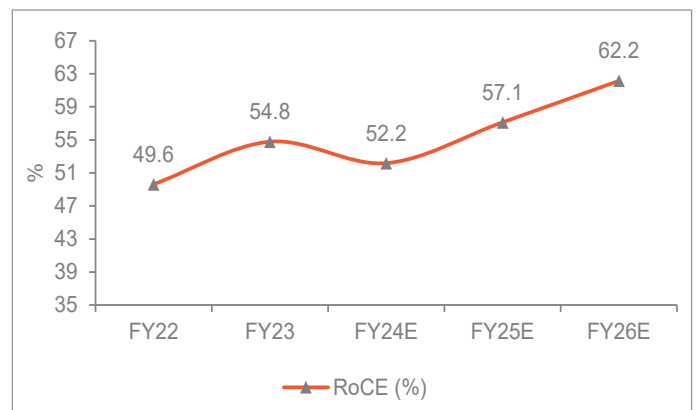
Source: Company, Sharekhan Research

RoE



Source: Company, Sharekhan Research

RoCE



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Persisting multiple global headwinds turning outlook for FY24E uncertain:

Owing to multiple global headwinds, the outlook for FY24E looks uncertain, and the recovery could be gradual in the coming quarters. Hence concerns relating to macroeconomic headwinds are unlikely to abate anytime soon thus restricting any material outperformance for Indian IT companies.

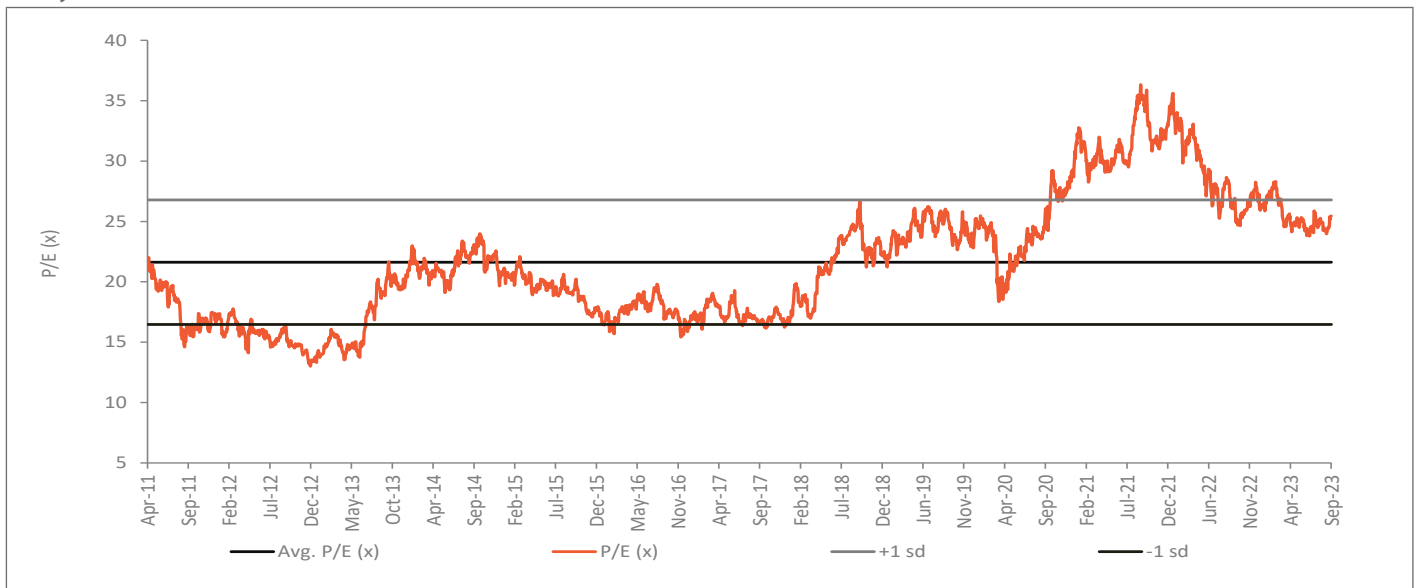
■ Company Outlook – Staying ahead of the race:

Being one of the largest IT services companies worldwide and having preferred partners as clients, TCS can capture a fair share of spends on digital and Cloud transformation initiatives and is well-positioned to participate in clients' transformation journeys. Further, the company is well-placed from a competitive perspective, especially in newer technologies. A stable management, full-service capabilities, the ability to structure large multi-service deals and multi-horizon transformation demand would help TCS to deliver strong revenue growth in the next three years. The management intends to keep the payout ratio at 80-100% of free cash generated.

■ Valuation – Maintain Buy with revised PT of Rs. 4,200:

We believe despite the challenging environment, TCS is well placed to grab cost takeout as well as digital transformation programs along with opportunities from vendor consolidation, which are reflected in robust deal wins. We have fine-tuned the earnings estimates for FY24E/FY25E and introduced FY26 earnings estimates. We expect 9%/11.2% Sales and PAT CAGR over FY23-26E. Hence, we maintain Buy rating on TCS with revised PT of Rs. 4,200 (the increase in PT reflects the rollover of valuation multiple to Sep25E EPS). At the CMP, the stock trades at 25.5x/22.8x its FY25/26E EPS.

One-year forward P/E (x) band



Source: Company; Sharekhan Research

About the company

TCS is among the pioneers of IT services outsourcing business in India and is the largest (\$27,927 million revenue in FY2023) IT services firm in terms of export revenue. Incorporated in 1968, the company provides a comprehensive range of IT services to industries such as BFS, insurance, manufacturing, telecommunications, retail and transportation. TCS is an IT services, consulting and business solutions organization that has been partnering with many of the world's largest businesses in their transformation journeys for over 50 years. TCS is well positioned to benefit from growing demand for offshore IT services, given its solid execution capabilities, long-standing relationships with clients, and stable management team. The company is a serious contender for winning large deals, as it has better experience compared to peers in implementing large, complex and mission-critical projects. TCS is one of the preferred IT vendors for most Fortune 500/Global 1,000 companies.

Investment theme

TCS is one of the leading IT services companies with a wide-range of capabilities, robust digital competencies, strong platform and stable management. The company is the preferred partner of large corporates and is increasing its participation in large digital implementation. Hence, we believe TCS would continue to gain market share in digital versus its large peers, given its superior execution capabilities on the digital front. We remain positive on the sustainability of its revenue growth momentum in the medium term, given strong deal wins, broad-based service offerings, higher spend on digital technologies and best-in-class execution.

Key Risks

1) Rupee appreciation and/or adverse cross-currency movements, 2) Contagion effect of banking crisis, and 3) macro headwinds and possible recession in the U.S. are likely to moderate the pace of technology spending.

Additional Data

Key management personnel

N. Chandrasekaran	Chairman
K. Krithivasan	Chief Executive Officer
N. Ganapathy Subramaniam	Chief Operating Officer
Samir Seksaria	Chief Financial Officer
Milind Lakkad	EVP and Global Head, HR

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	4.6
2	Vanguard Group Inc/The	1.1
3	SBI Funds Management Ltd	1.0
4	BlackRock Inc	0.9
5	Invesco Ltd	0.9
6	JPMorgan Chase & Co	0.5
7	Axis Asset Management Co Ltd/India	0.5
8	UTI Asset Management Co Ltd	0.4
9	First State Investments ICVC	0.3
10	Norges Bank	0.3

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

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