

Tata Consultancy Services Limited



Tata Consultancy Services Limited.
Margins improved Q-o-Q, despite muted revenue growth, deal wins remained healthy

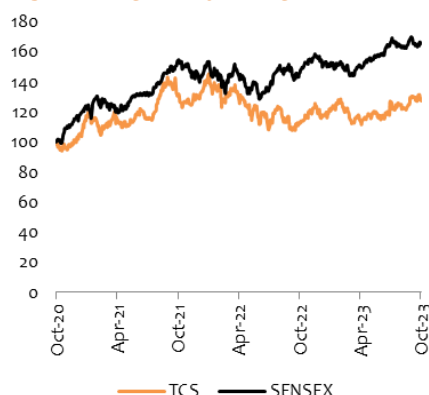
CMP INR 3,524	Target INR 3,888	Potential Upside 10.33%	Market Cap (INR Mn) INR 1,28,45,650	Recommendation ACCUMULATE	Sector Internet Software & Services
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Synopsis:

- TCS Ltd revenue for Q2FY24 stood at INR 5,96,920 mn, registering a growth of 7.92% on a YoY basis from INR 5,53,090 mn and on a QoQ basis it grew by 0.52% from INR 5,93,810 mn.
- The EBIT for the quarter stood at INR 1,44,830 mn, registering a growth of 9.07% on a YoY basis from INR 1,32,790 mn and on a sequential basis it grew by 5.29% from INR 1,37,550 mn. The operating margins for Q2FY24 came at 24.26%, which expanded by 110 bps YoY and 25 bps QoQ.
- Net profit for the quarter came at INR 1,13,800 mn, registering a growth of 9.10% YoY from INR 1,04,310 mn and 2.34% on a sequential basis from INR 1,11,200 mn. The PAT margin stood at 19.06%, which also expanded by 36 bps YoY and 20 bps QoQ.
- During the quarter, the company declared second interim dividend of INR 9/ share and also announced the buyback of INR 1,70,000 mn at INR 4150/ share.

MARKET DATA

Shares outs (Mn)	1,013.7
Mkt Cap (INR Mn)	1,32,09,907
52 Wk H/L (INR)	3,680/3,053
Volume Avg (3m K)	2547.6
Face Value (INR)	1
Bloomberg Code	TCS IN

SHARE PRICE PERFORMANCE

MARKET INFO

SENSEX	66,167
NIFTY	19,732

KEY FINANCIALS

(INR Mn)	Q2FY24A	Q1FY24A	Q2FY23A	QoQ	YoY
USD Revenue	7,175	7,217	6,877	-0.58%	4.33%
Revenue	5,96,920	5,93,810	5,53,090	0.52%	7.92%
EBIT	1,44,830	1,37,550	1,32,790	5.29%	9.07%
PAT	1,13,800	1,11,200	1,04,310	2.34%	9.10%
OPM (%)	24.26%	23.16%	24.01%	110 bps	25 bps
NPM(%)	19.06%	18.70%	18.86%	36 bps	20 bps

Source: Company, KRChoksey Research

Muted revenue growth

TCS reported a YoY revenue growth of 7.92% to INR 5,96,920 mn. On a CC basis, the revenue grew by 2.80% YoY. The growth in Q2FY24 was primarily led by Latin America (13.1% YoY CC), UK (10.7% YoY CC) and MEA (15.9% YoY CC). Markets like North America and Europe witnessed muted growth owing to reprioritization of deals, increased focus on cost optimization and slower conversion of TCV into revenues. The Life science & healthcare and manufacturing segments rose 5.0% and 5.8%, respectively, on a YoY basis, in CC terms. Clients continue to invest for business agility, cost optimization and productivity improvement. Despite the short term overhang, management remains optimistic about long term growth, given healthy deal wins and investment in newer areas like AI, IoT and digital engineering.

Deal wins continues to accelerate

For Q2FY24, TCS registered a Total Contract Value (TCV) of USD 11.2 bn, which is second highest TCV ever in a quarter. The total TCV included USD 4.5 bn from North America, USD 3 bn from BFSI and USD 1.4 bn from Consumer Business. The book to bill ratio stood at 1.6. The order book was mainly driven by 2 mega deals worth TCV USD 1 bn each from BSNL and JLR. We expect deal wins to continue owing to strong interest from client to digitally transform their IT and business operating models.

Margins improved despite muted growth

The operating margins for Q2FY24 stood at 24.26%, which expanded by 110 bps on a QoQ basis and 25 bps YoY. The margin expansion was primarily led by cost efficiency initiative, improvement in utilizations rates while driving productivity. Management expects margin to remain stable or in upward trajectory, going ahead, owing to easing of supply chain, scope of improving utilization rates and various innovation levers kicking in.

Gen AI and cloud, next big areas for growth

TCS has over 250 Gen AI opportunities in pipeline across various industries and has trained more than 1,00,000 workforce for Gen AI. Management expects that Cloud migration, application modernization, edge to cloud will drive growth ahead. TCS investment in newer technologies and building new capabilities will yield good results in long term.

SHARE HOLDING PATTERN (%)

Particulars	Sept-23	Jun-23	Mar-23
Promoters	72.3	72.3	72.3
FIIIs	12.5	12.7	12.9
DIIIs	9.8	9.6	9.3
Others	5.4	5.4	5.5
Total	100.0	100.0	100.0

12.3%

Revenue CAGR between FY23 and FY25E

12.4%

PAT CAGR between FY23 and FY25E

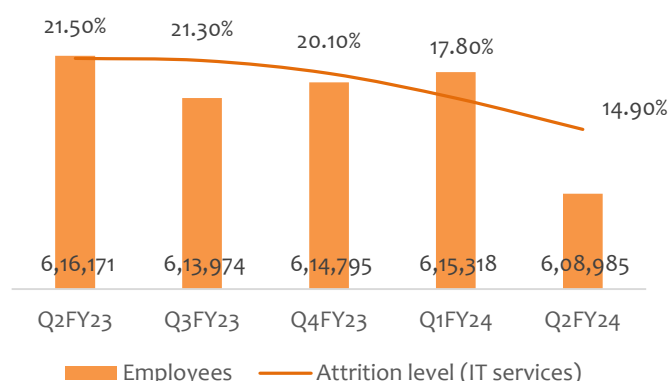
Tata Consultancy Services Limited.

Key Concall Highlights: (i) During the quarter, the company witnessed strong demand particularly in cloud and optimization (ii) The revenue growth during the quarter were muted owing to reprioritization of deals, increased focus on cost optimization, which led to decline in spending and slower conversion of TCV into revenue. (iii) Order book TCV stood at \$11.2 bn, which is second highest TCV win. (iv) There was margin expansion of 110 bps on a YoY basis, which was led by improvement in efficiency, reduction in fixed costs and lower employee expenses (v) The attrition rate has been normalized to 14.9% and employee base stood at 6,08,985. (vi) The company expects huge opportunity in Gen AI and has a strong talent pool of 1,00,000 GenAI ready workforce (vii) During the quarter, there was some caution witnessed from North America and Continental Europe clients, while emerging markets like UK and MEA continues to witness healthy growth. (viii) Cost optimization remains key priority among the clients (ix) Management expects utilization rates and margin to flow in upward trajectory (x) During the quarter, the company has reported two deal from BSNL and JLR having TCV of \$1 bn respectively. (xi) in Q2FY24, the effective tax rate remained at 25.8% (xii) The company has declared second interim dividend of INR 9/share and has announced buyback worth INR 1,70,000 mn at INR 4,150/ share. (xiii) TCS has over 250 Gen AI opportunities in pipeline across industries. (xiv) AI, Cloud, TCS Interactive and Digital Engineering led the growth among service lines during the quarter (xv) US \$ 100m+ clients has increased to 61, up by 2 clients YoY.

Valuation and view:

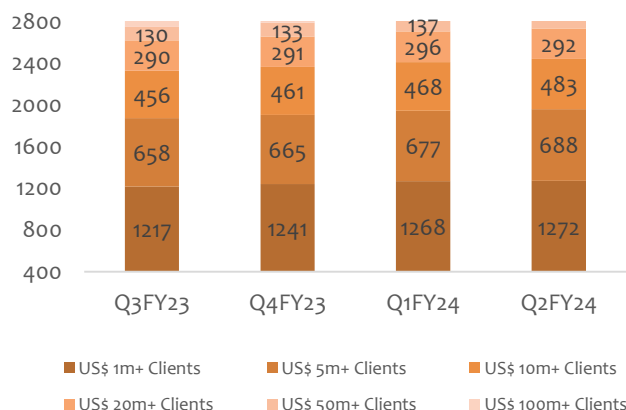
TCS is currently trading at 28.5x/24.7x on FY24E/FY25E earnings. Despite persistent global macro uncertainties, TCS is well positioned with its size, steadfast market leadership position, best-in-asset class execution and order book (especially exposure to longer duration contracts) to deliver industry-leading growth/margin and demonstrate superior return ratios. Hence, we have kept the same target price as INR 3,888, applying a P/E multiple of 27.0x to the FY25E EPS of ~INR 144.0, which is giving an upside of 9.4% over the CMP. Accordingly, we change our rating to “ACCUMULATE” from “BUY” for the stock.

Employee Base & Attrition



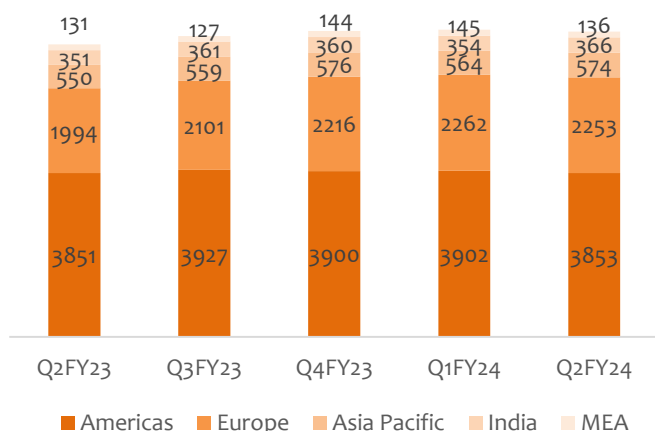
Source: Company, KRChoksey Research

Client Contribution



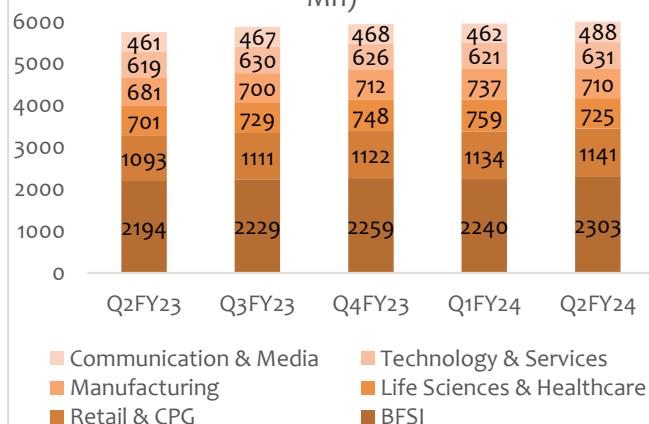
Source: Company, KRChoksey Research

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	58,087	56,914
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	3,33,810	3,42,236	3,50,870
Unbilled Revenue	57,320	65,830	77,360	89,050	95,693	1,06,550
Investments	2,61,400	2,91,600	3,02,620	3,68,970	4,05,776	4,25,072
Trade receivables	3,05,320	3,00,790	3,40,740	4,10,490	4,57,961	4,86,918
Cash & equivalent	86,460	68,580	1,24,880	71,230	1,82,142	2,75,796
Other current assets	1,91,790	2,65,810	2,37,390	1,62,880	1,75,184	2,00,814
Current Tax Assets	80	190	110	80	80	80
Total current assets	9,02,370	9,92,800	10,83,100	11,02,700	13,16,836	14,95,230
Total Assets	12,08,990	13,07,590	14,15,140	14,36,510	16,59,072	18,46,100
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	11,11,051	12,85,854
Equity Attributable to Owners of the Company	8,41,260	8,64,330	8,91,390	9,04,240	11,14,711	12,89,514
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	11,05,051	13,01,014
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	12,13,280	13,66,313
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	1,02,700	1,07,123
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	97,488	1,14,063
Total Current Liabilities	2,70,600	3,41,550	4,23,510	4,35,580	4,45,792	4,79,787
Total liabilities	12,08,990	13,07,590	14,15,140	14,36,510	16,59,072	18,46,100

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	5,67,396	6,62,869
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	6,14,138	7,13,015
Income tax expense	98,010	1,11,980	1,32,380	1,46,040	1,50,711	1,78,254
Net profit Before MI	3,24,470	3,37,800	3,84,490	4,23,040	4,63,427	5,34,761
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	4,61,587	5,32,921
Diluted EPS (INR)	86.2	90.9	103.6	113.9	124.8	144.0
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	3,23,690	3,88,020	3,99,490	4,19,650	5,71,372	6,26,455
Net Cash Flow from/(used in) Investing Activities	85,650	-81,290	-8,970	390	-4,58,599	-5,30,996
Net Cash Flow from Financing Activities	-3,99,150	-3,26,340	-3,35,810	-4,78,780	-1,861	-1,805
Net Inc/Dec in cash equivalents	10,190	-19,610	54,710	-58,740	1,10,912	93,654
Opening Balance Cash and Cash Equivalents	72,240	86,460	68,580	1,24,880	71,230	1,82,142
Exchange Difference	4,030	1,730	1,590	5,090	0	0
Closing Balance Cash and Cash Equivalents	86,460	68,580	1,24,880	71,230	1,82,142	2,75,796

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%	22.7%	23.8%
Tax rate (%)	23.2%	24.9%	25.6%	25.1%	24.5%	25.0%
Net Profit Margin (%)	20.7%	20.6%	20.1%	19.3%	18.5%	19.2%
RoE (%)	37.3%	38.0%	43.7%	46.9%	45.3%	43.1%
RoCE (%)	31.7%	33.5%	36.8%	40.5%	38.7%	37.2%
EV/EBITDA	26.5	23.5	20.5	18.3	17.3	14.6
EPS (INR per share)	86.19	87.67	103.59	113.91	124.6	144.0

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
17-oct-23	3,524	3,888	ACCUMULATE	Buy	More than 15%
14-Jul-23	3,354	3,888	BUY	Accumulate	5% – 15%
13-Apr-23	3,192	3,888	BUY	Hold	0 – 5%
11-Oct-22	3121	3739	BUY	Reduce	-5% – 0
11-Jul-22	3268	3739	ACCUMULATE	Sell	Less than – 5%

ANALYST CERTIFICATION:

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