

Superior execution drives margin beat; FY25 to be better than FY24

Information Technology ▶ Result Update ▶ April 13, 2024

TARGET PRICE (Rs): 3,950

TCS reported a steady operating performance – revenue grew 1.1% QoQ (1.1% CC) to USD7.36bn, slightly missing our estimate of USD7.42bn. Growth fell short of management’s initial estimates on account of the tough macro and slower decision-making. Adj. EBITM expanded by 100bps QoQ to 26%, logging higher than our estimate of 25.1%, aided by reduction in subcontracting costs, better utilization, and productivity improvement. Company posted a record high TCv, of USD13.2bn in Q4 (book-to-bill: ~1.8x). Despite the strong deal intake and some green shoots visibility, Management remained cautious in the near term on account of weak discretionary spending and continued pressure from the sudden pause/deferment of projects by clients amid the uncertain macro. Management indicated that growth visibility has improved versus a quarter ago, and expects FY25 growth to be better than FY24. We increase FY25-26E EPS by 1-1.5%, factoring in the FY24 performance and higher margin assumptions. We retain REDUCE on TCS given the rich valuations; our TP nudges up, to Rs3,950/share (Rs3,900 earlier) at 25x Mar-26E EPS.

TCS: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	1,917,540	2,254,580	2,408,930	2,637,254	2,854,702
EBITDA	530,570	592,600	633,370	716,887	787,997
Adj. PAT	383,270	421,470	459,080	517,508	572,581
Adj. EPS (Rs)	104.7	115.2	126.9	143.0	158.3
EBITDA margin (%)	27.7	26.3	26.3	27.2	27.6
EBITDA growth (%)	17.1	11.7	6.9	13.2	9.9
Adj. EPS growth (%)	19.5	10.0	10.2	12.7	10.6
RoE (%)	42.6	45.9	49.6	50.6	46.7
RoIC (%)	70.9	83.4	85.1	91.8	94.3
P/E (x)	38.2	34.7	31.5	28.0	25.3
EV/EBITDA (x)	26.8	24.0	22.2	19.4	17.5
P/B (x)	16.0	15.8	15.6	12.9	10.9
FCFF yield (%)	2.7	2.8	3.1	3.3	3.7

Source: Company, Emkay Research

Results Summary

TCS’s revenue grew 1.1% QoQ (1.1% QoQ/2.2% YoY CC) to USD7.36bn. Cost of equipment & software licenses increased by ~USD45mn QoQ (reflecting ramp up of the BSNL deal) and was a tad bit lower than our estimate, resulting in slightly lower revenue overall. Adjusted EBIT margin expanded by 100bps QoQ to 26%, well above our estimate of 25.1%. EBITM enhanced by 100bps QoQ backed by 190bps of benefits from lower subcontracting costs, productivity, and utilization improvement, and partly negated by higher third-party costs/travel expenses (90bps). North America and Continental Europe reported a decline of 0.1% and 1.6% QoQ, while the UK, India and Asia Pacific grew 3.6%, 11.1% and 1.1%, respectively. Among verticals, BFSI, communications & media, Technology & Services, and ERU saw revenue decline of 0.1%, 0.4%, 1.3%, and 0.6% QoQ, while Consumer, Manufacturing, Life sciences & healthcare, and Regional markets & others reported growth of 1.1%, 3.5%, 1.1%, and 6.1%, respectively. Headcount declined 0.3% QoQ to 601,546. The company has declared a dividend of Rs28/ share.

What we liked: Strong margin performance, robust deal intake (USD13.2bn TCv; broad-based across verticals and geographies), further reduction in attrition to 12.5% from 13.3% in Q3. **What we did not like:** Weakness in BFS and North America.

Earnings Call KTAs

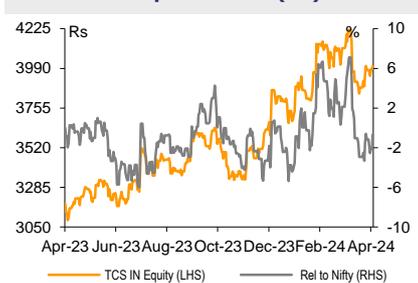
i) BFSI and North America has bottomed out, with a turnaround expected in coming quarters. ii) Management reiterated its medium-term EBITM aspirations of 26-28%. Utilization, productivity, pricing, and pyramid remain the key margin levers. Mgmt believes sub contract costs have largely bottomed out in Q4FY24, and expects wage hikes to impact margins in Q1. It gave wage hikes of 4.5-7%, with top performers getting a double-digit hike. iii) Cloud migration and modernization, GenAI, enterprise application services, identity & access management, connected devices, digital workplace services, network services, and vendor consolidation remain key themes across major deal wins in Q4. iv) LTM attrition stood at 12.5% and remains within the comfort range of 11-13%. v) Insurance, and consumer business, particularly airlines and transportation, returned to sequential growth (CC) in Q4. Insurance was up sequentially across geographies in Q4. vi) Despite near-term challenges, Company witnessed pent up demand in BFSI which could be a growth driver over the medium term. vii) Management highlighted that it has won more than 200 engagements in AI so far, and that the GenAI deal pipeline has doubled QoQ to USD900mn. viii) Discretionary spending remains under pressure as programs that do not meet immediate ROI threshold levels are being deferred. ix) Company has commenced hiring of freshers from campuses and continues to recalibrate lateral hiring, while focusing on driving up utilization.

Target Price – 12M	Mar-25
Change in TP (%)	1.3
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(1.3)
CMP (12-Apr-24) (Rs)	4,001.4

Stock Data	Ticker
52-week High (Rs)	4,255
52-week Low (Rs)	3,056
Shares outstanding (mn)	3,618.1
Market-cap (Rs bn)	14,477
Market-cap (USD mn)	173,543
Net-debt, FY25E (Rs mn)	-546,081
ADTV-3M (mn shares)	3
ADTV-3M (Rs mn)	12,140.5
ADTV-3M (USD mn)	145.5
Free float (%)	28.0
Nifty-50	22,519
INR/USD	83.4
Shareholding, Dec-23	
Promoters (%)	72.4
FPIs/MFs (%)	12.5/10.1

Price Performance			
(%)	1M	3M	12M
Absolute	(4.6)	3.5	24.0
Rel. to Nifty	(5.3)	(0.5)	(2.4)

1-Year share price trend (Rs)



Dipesh Mehta

dipeshkumar.mehta@emkayglobal.com
+91 22 6612 1253

Ayush Bansal

ayush.bansal@emkayglobal.com
+91 22 6612 1344

Pulkit Chawla

pulkit.chawla@emkayglobal.com
+91 22 6642 4258

Exhibit 1: Quarterly snapshot

Particular (Rs mn)	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	YoY (%)
Net sales (USD mn)	7,363	7,281	1.1	7,195	2.3
Net sales	612,370	605,830	1.1	591,620	3.5
Operating expenses	440,730	451,530		433,890	
EBITDA	171,640	154,300	11.2	157,730	8.8
- Margin (%)	28.0	25.5	260.0	26.7	140.0
Depreciation	12,460	12,330		12,850	
EBIT	159,180	141,970	12.1	144,880	9.9
- Margin (%)	26.0	23.4	260.0	24.5	150.0
Other income	9,310	6,320		9,030	
Pre-tax profit	168,490	148,290	13.6	153,910	9.5
Tax provided	43,470	37,320		39,550	
Profit after tax	125,020	110,970		114,360	9.3
Emkay - Net profit	125,020	110,970	12.7	114,360	9.3
EPS (Rs)	34.4	30.6	12.4	31.1	10.4

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates (Q4FY24)

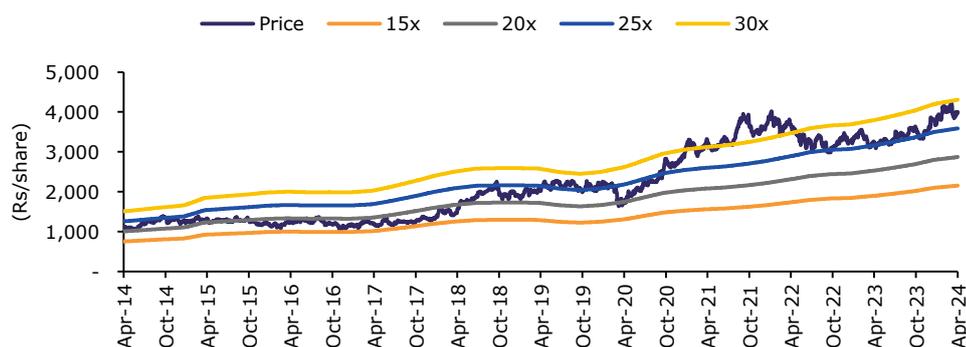
(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue (USD mn)	7,363	7,419	7,396	-0.8%	-0.4%	Revenue was lower than estimated
Sales	612,370	615,805	614,956	-0.6%	-0.4%	
EBIT	159,180	154,567	154,969	3.0%	2.7%	EBITM beat expectations for a third consecutive quarter
EBIT margin	26.0%	25.1%	25.2%	90 bps	80 bps	
PAT	125,020	120,817	119,916	3.5%	4.3%	Reported profit beat expectations due to the beat on operating performance and higher other income

Source: Company, Bloomberg, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY25E			FY26E		
	Old	New	Change	Old	New	Change
Revenue (USD mn)	31,623	31,396	-0.7%	33,832	33,585	-0.7%
YoY growth (%)	8.5	8.0		7.0	7.0	
Revenue	2,656,358	2,637,254	-0.7%	2,875,757	2,854,702	-0.7%
EBIT	656,500	664,142	1.2%	719,304	728,048	1.2%
EBIT margin (%)	24.7	25.2		25.0	25.5	
Net profit	510,890	517,508	1.3%	564,073	572,581	1.5%
EPS (Rs)	141.2	143.0	1.3%	155.9	158.3	1.5%

Source: Company, Emkay Research

Exhibit 4: TCS – One-year forward P/E

Source: Company, Emkay Research

TCS: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	1,917,540	2,254,580	2,408,930	2,637,254	2,854,702
Revenue growth (%)	16.8	17.6	6.8	9.5	8.2
EBITDA	530,570	592,600	633,370	716,887	787,997
EBITDA growth (%)	17.1	11.7	6.9	13.2	9.9
Depreciation & Amortization	46,040	50,230	49,840	52,745	59,949
EBIT	484,530	542,370	583,530	664,142	728,048
EBIT growth (%)	17.4	11.9	7.6	13.8	9.6
Other operating income	0	0	0	0	0
Other income	40,180	34,490	44,220	41,269	51,562
Financial expense	7,840	7,790	7,780	8,000	8,000
PBT	516,870	569,070	619,970	697,411	771,611
Extraordinary items	0	0	0	0	0
Taxes	132,380	146,040	158,980	177,840	196,761
Minority interest	(1,220)	(1,560)	(1,910)	(2,063)	(2,269)
Income from JV/Associates	0	0	0	0	0
Reported PAT	383,270	421,470	459,080	517,508	572,581
PAT growth (%)	18.2	10.0	8.9	12.7	10.6
Adjusted PAT	383,270	421,470	459,080	517,508	572,581
Diluted EPS (Rs)	104.7	115.2	126.9	143.0	158.3
Diluted EPS growth (%)	19.5	10.0	10.2	12.7	10.6
DPS (Rs)	43.0	115.0	73.0	90.0	99.0
Dividend payout (%)	41.1	99.8	57.5	62.9	62.6
EBITDA margin (%)	27.7	26.3	26.3	27.2	27.6
EBIT margin (%)	25.3	24.1	24.2	25.2	25.5
Effective tax rate (%)	25.6	25.7	25.6	25.5	25.5
NOPLAT (pre-IndAS)	360,433	403,182	433,894	494,786	542,396
Shares outstanding (mn)	3,659.1	3,659.1	3,618.1	3,618.1	3,618.1

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	516,870	569,070	619,970	697,411	771,611
Others (non-cash items)	45,900	49,490	50,180	52,745	59,949
Taxes paid	(114,860)	(146,040)	(158,980)	(177,840)	(196,761)
Change in NWC	(26,460)	(43,870)	(75,940)	(35,903)	(38,874)
Operating cash flow	421,450	445,030	469,320	536,414	595,924
Capital expenditure	(29,610)	(30,610)	(26,470)	(52,745)	(60,949)
Acquisition of business	0	0	0	0	0
Interest & dividend income	27,040	30,930	38,220	35,269	45,562
Investing cash flow	(37,910)	(32,780)	27,340	(122,895)	(260,949)
Equity raised/(repaid)	(180,670)	(41,740)	(210,050)	0	0
Debt raised/(repaid)	(240)	0	0	0	0
Payment of lease liabilities	(14,170)	(15,150)	(16,140)	(360)	0
Interest paid	0	0	0	0	0
Dividend paid (incl tax)	(133,750)	(414,100)	(252,180)	(325,628)	(358,191)
Others	1,590	5,090	640	0	0
Financing cash flow	(327,240)	(465,900)	(477,730)	(325,988)	(358,191)
Net chg in Cash	56,300	(53,650)	18,930	87,531	(23,215)
OCF	421,450	445,030	469,320	536,414	595,924
Adj. OCF (w/o NWC chg.)	447,910	488,900	545,260	572,316	634,799
FCFF	391,840	414,420	442,850	483,668	534,976
FCFE	411,040	437,560	473,290	510,938	572,538
OCF/EBITDA (%)	79.4	75.1	74.1	74.8	75.6
FCFE/PAT (%)	107.2	103.8	103.1	98.7	100.0
FCFF/NOPLAT (%)	108.7	102.8	102.1	97.8	98.6

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	3,660	3,660	3,620	3,620	3,620
Reserves & Surplus	908,930	921,760	922,500	1,114,380	1,328,771
Net worth	912,590	925,420	926,120	1,118,000	1,332,391
Minority interests	7,070	7,820	8,300	10,363	12,632
Deferred tax liability (net)	(30,900)	(24,850)	(23,920)	(26,770)	(27,770)
Total debt	78,180	76,880	80,210	79,850	79,850
Total liabilities & equity	966,940	985,270	990,710	1,181,443	1,397,102
Net tangible fixed assets	120,800	115,950	112,240	112,240	113,240
Net intangible assets	11,010	8,670	5,100	5,100	5,100
Net ROU assets	76,360	75,600	78,860	78,860	78,860
Capital WIP	0	0	0	0	0
Goodwill	39,350	40,060	39,890	39,890	39,890
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	497,120	488,440	468,250	625,931	802,716
Current assets (ex-cash)	654,900	696,200	747,690	806,862	871,223
Current Liab. & Prov.	432,600	439,650	461,320	487,439	513,927
NWC (ex-cash)	222,300	256,550	286,370	319,423	357,297
Total assets	966,940	985,270	990,710	1,181,443	1,397,102
Net debt	(418,940)	(411,560)	(388,040)	(546,081)	(722,866)
Capital employed	966,940	985,270	990,710	1,181,443	1,397,102
Invested capital	469,820	496,830	522,460	555,513	594,387
BVPS (Rs)	249.4	252.9	256.0	309.0	368.3
Net Debt/Equity (x)	(0.5)	(0.4)	(0.4)	(0.5)	(0.5)
Net Debt/EBITDA (x)	(0.8)	(0.7)	(0.6)	(0.8)	(0.9)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	55.1	59.1	63.5	65.0	60.5

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24	FY25E	FY26E
P/E (x)	38.2	34.7	31.5	28.0	25.3
P/CE(x)	34.1	31.0	28.4	25.4	22.9
P/B (x)	16.0	15.8	15.6	12.9	10.9
EV/Sales (x)	7.4	6.3	5.8	5.3	4.8
EV/EBITDA (x)	26.8	24.0	22.2	19.4	17.5
EV/EBIT(x)	29.4	26.2	24.1	21.0	18.9
EV/IC (x)	30.3	28.6	27.0	25.1	23.1
FCFF yield (%)	2.7	2.8	3.1	3.3	3.7
FCFE yield (%)	2.8	3.0	3.3	3.5	4.0
Dividend yield (%)	1.1	2.9	1.8	2.2	2.5
DuPont-RoE split					
Net profit margin (%)	20.0	18.7	19.1	19.6	20.1
Total asset turnover (x)	2.0	2.3	2.4	2.4	2.2
Assets/Equity (x)	1.1	1.1	1.1	1.1	1.1
RoE (%)	42.6	45.9	49.6	50.6	46.7
DuPont-RoIC					
NOPLAT margin (%)	18.8	17.9	18.0	18.8	19.0
IC turnover (x)	3.8	4.7	4.7	4.9	5.0
RoIC (%)	70.9	83.4	85.1	91.8	94.3
Operating metrics					
Core NWC days	42.3	41.5	43.4	44.2	45.7
Total NWC days	42.3	41.5	43.4	44.2	45.7
Fixed asset turnover	7.8	9.2	10.1	11.2	12.1
Opex-to-revenue (%)	72.3	73.7	73.7	72.8	72.4

Source: Company, Emkay Research

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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
31-Mar-24	3,876	3,900	Reduce	Dipeshkumar Mehta
01-Mar-24	4,094	3,900	Reduce	Dipeshkumar Mehta
12-Jan-24	3,883	3,900	Reduce	Dipeshkumar Mehta
31-Dec-23	3,793	3,900	Reduce	Dipeshkumar Mehta
30-Nov-23	3,488	3,550	Reduce	Dipeshkumar Mehta
12-Oct-23	3,543	3,550	Hold	Dipeshkumar Mehta
02-Oct-23	3,529	3,550	Hold	Dipeshkumar Mehta
13-Jul-23	3,341	3,300	Hold	Dipeshkumar Mehta
02-Jul-23	3,302	3,350	Hold	Dipeshkumar Mehta
13-Apr-23	3,189	3,300	Hold	Dipeshkumar Mehta
01-Apr-23	3,206	3,300	Hold	Dipeshkumar Mehta
10-Jan-23	3,286	3,200	Hold	Dipeshkumar Mehta
02-Jan-23	3,261	3,200	Hold	Dipeshkumar Mehta
10-Oct-22	3,119	3,100	Hold	Dipeshkumar Mehta
04-Oct-22	3,091	3,100	Hold	Dipeshkumar Mehta
09-Jul-22	3,265	3,200	Hold	Dipeshkumar Mehta
23-Jun-22	3,309	3,250	Hold	Dipeshkumar Mehta
15-Jun-22	3,206	4,000	Buy	Dipeshkumar Mehta
12-Apr-22	3,691	4,000	Buy	Dipeshkumar Mehta
01-Apr-22	3,759	4,000	Buy	Dipeshkumar Mehta
22-Feb-22	3,586	4,000	Buy	Dipeshkumar Mehta
13-Jan-22	3,898	4,150	Buy	Dipeshkumar Mehta
01-Jan-22	3,738	4,100	Buy	Dipeshkumar Mehta
29-Nov-21	3,502	4,100	Buy	Dipeshkumar Mehta
09-Oct-21	3,936	3,700	Hold	Dipeshkumar Mehta
02-Oct-21	3,730	3,700	Hold	Dipeshkumar Mehta
27-Aug-21	3,720	3,700	Hold	Dipeshkumar Mehta
09-Jul-21	3,208	3,500	Hold	Dipeshkumar Mehta
02-Jul-21	3,325	3,500	Hold	Dipeshkumar Mehta
13-Apr-21	3,104	3,150	Hold	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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Digitally signed by SESHADRI KUMAR SEN
DN: c=IN, o=Personal,
pseudonym=133422712594461905D5VUy8k9un4ET
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cm=SESHADRI KUMAR SEN
Date: 2024.04.13 00:59:10 +05'30'

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