

Tata Consultancy Services Limited



Tata Consultancy Services

Mixed results but deal wins remain solid

CMP INR 3,941	Target INR 4,194	Potential Upside 6.4%	Market Cap (INR Mn) INR 1,42,58,159	Recommendation ACCUMULATE	Sector Internet Software & Services
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Synopsis:

- Tata Consultancy Services (TCS) reported a mixed set of Q4FY24 numbers, with the top-line missing our estimates, while profits came in better-than-expected. Revenue (+3.5% YoY) was driven by India (+37.9%), UK (+6.2%) and Manufacturing (+9.7%), but still missed our estimates by 1.0%.
- EBIT (+9.9% YoY) surpassed our estimates by 10.8% on stronger-than-expected execution and lower other expenses; EBIT margins expanded by 151 bps YoY.
- PAT jumped by 9.3% on lower other expenses and finance costs; PAT margins improved by 109 bps YoY.
- In Q4FY24, the IT Services attrition rate stood at 12.5%, slightly exceeding our base case estimate of 11.7% by 80 bps but remaining within the management's comfort range of 11% to 13%.
- We apply a **27.0x multiple on FY26E EPS** to arrive at a raised **Target Price of INR 4,194 per share**, with an ACCUMULATE rating.

MARKET DATA

Shares outs (Mn)	3,620
Mkt Cap (INR Mn)	1,42,58,159
52 Wk H/L (INR)	4,255/3,070
Volume Avg (3m K)	2,570
Face Value (INR)	1
Bloomberg Code	TCS IN

KEY FINANCIALS

(INR Mn)	Q4FY24A	Q3FY24A	Q4FY23A	QoQ	YoY
USD Revenue	7,363	7,281	7,195	1.1%	2.3%
Revenue	6,12,370	6,05,830	5,91,620	1.1%	3.5%
EBIT	1,59,180	1,51,550	1,44,880	5.0%	9.9%
PAT	1,25,020	1,10,970	1,14,360	12.7%	9.3%
OPM (%)	26.0%	25.0%	24.5%	98 bps	151 bps
NPM(%)	20.4%	18.3%	19.3%	210 bps	109 bps

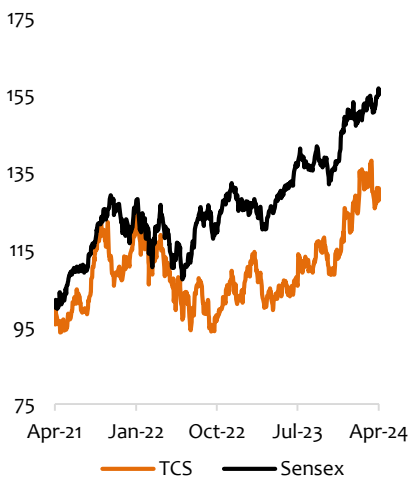
Source: Company, KR Choksey Research

Generating revenue growth and contract momentum despite industry challenges

- TCS reported Q4FY24 revenue growth on both, YoY and QoQ basis, despite concerns over pressure on the top-line growth.
- The Company generated a record-breaking Total Contract Value (TCV) of USD 13.2 Bn in Q4FY24 (Q3FY24: USD 8.1 Bn). The strong deal signings are indicative of the Company's robust client relationships and strong future revenue visibility, in our view.
- TCS is actively pursuing new business opportunities, particularly in retail banking and market infrastructure that incorporates payments and GenAI-driven portfolio management. This includes the notable BSNL project for upgradation to 5G networks, offering both immediate and long-term revenue prospects.
- Despite some challenges with discretionary projects, management is optimistic about outperforming the revenue growth witnessed in FY24 during FY25E, supported by deal wins. The Company is optimistic about growth, fueled by advancements in AI, IoT, and cloud technologies, with generative AI poised to drive sustained tech spending.

Margins beat but significant margin expansion unlikely in the near-term

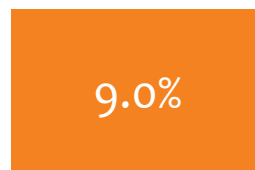
- Q4FY24 operating margin beat our estimates and the full-year FY24 operating margin showed an improvement of 50bps YoY, in spite of a 250 bps adverse impact from annual wage hikes and other costs, and a 90 bps rise from higher third-party expenses. The margin improvement was largely due to effective cost control measures, including optimizing subcontractor expenses and enhancing productivity, which helped mitigate higher costs.
- Management believes that the subcontractor cost lever may have bottomed out, and factors such as pyramid pricing and utilization, could aid margins going forward. TCS forecasts a similar FY25E margin trajectory to FY24; we reckon that any significant margin recovery may still be distant as the Company exhausts some of the previously utilized levers to lower costs.

SHARE PRICE PERFORMANCE

MARKET INFO

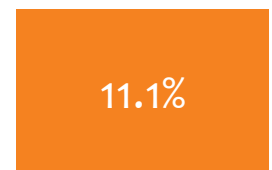
SENSEX	73,400
NIFTY	22,273

SHARE HOLDING PATTERN (%)

Particulars	Dec-23	Sep-23	Jun-23
Promoters	72.4	72.3	72.3
FIIIs	12.5	12.5	12.5
DIIIs	10.0	10.0	9.8
Others	5.1	5.2	5.4
Total	100.0	100.0	100.0



Revenue CAGR between FY24 and FY26E



PAT CAGR between FY24 and FY26E

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Key Concall Highlights:

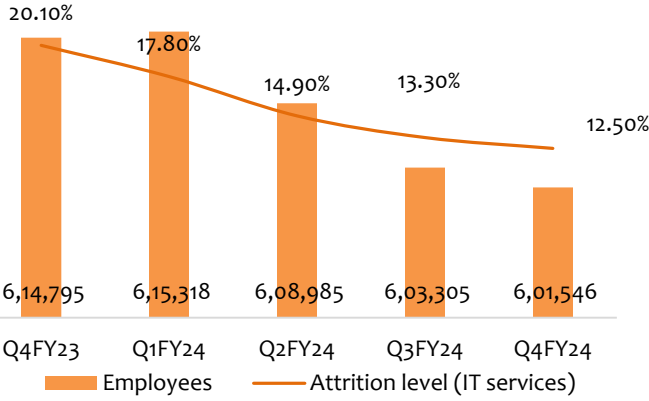
- In FY24, revenue grew by 6.8% in INR terms, 3.4% in CC terms, and 4.1% in USD terms, with an operating margin of 24.6% and a net margin of 19.3%.
- TCS experienced strong geographical growth in FY24 from India (38%), the Middle East and Africa (11%), Latin America (10%), and Asia Pacific (5.2%), while facing declines in Continental Europe (-2.2%) and North America (-2.3%).
- TCS added two USD 100 Mn+ clients (total 62), reflecting strong resilience and customer trust amid uncertain macroeconomic and geopolitical conditions.
- TCS focuses on operating model and cloud transformation, business process optimization, and AI engagements, with BFSI showing resilience amid economic challenges and the Consumer Business Group achieving moderate growth despite pressures. TCS has formed strategic partnerships in energy management to drive energy transition projects.
- TCS remains optimistic about sustained growth driven by a robust deal pipeline, particularly in India, emphasizing selective engagement for favorable margins and cash flows, across both public and private sector projects.
- The Company believes there is improved demand visibility overall but highlights that near-term visibility remains limited, particularly for projects with delayed ROI, contrasting with industry challenges but maintaining optimism for medium to long-term growth.
- TCS demonstrated resilience with improved EBIT margins despite the BSNL deal impact, aiming for further gains through disciplined execution and strategic pricing amid macroeconomic uncertainties.
- The BSNL deal involves installing networks across 100,000 towers and providing 5G upgrades for some of these towers. The project could be expanded to include higher number of towers and maintenance support services. TCS sees this as a mission-critical, complex, integrated and indigenously developed project, which can be leveraged to win contracts with other operators as well.
- TCS secured a USD 4.5 Bn TCV in BFSI, with growth in insurance and capital markets. The Company is exploring emerging opportunities in retail banking and market infrastructure, including payments and GenAI-driven portfolio management.
- TCS faces volatility in BFSI client decision-making, impacting project planning, but maintains flexibility in client relationships to strengthen bonds, despite operational unpredictability.
- The Board recommended a final dividend of INR 28 per share, with total shareholder payouts including buybacks and dividends reaching INR 4,62,230 Mn for the year.

Valuation and view:

We believe that TCS is well placed amongst Indian IT services companies, having generated strong deal wins and revenue growth, both sequentially and on an annual basis in Q4FY24. So far, the Company has been able to maneuver through the challenging macroeconomic situation. Although margins came in stronger than expected, the ability to achieve significantly higher margins is unlikely, in our view. We lower our FY26E EPS to INR 155.3 (previously: INR 159.7) to reflect the margin pressure. The Company is currently trading at 25.3x on FY26E earnings. The large TCV provides much-needed revenue visibility and confidence in the Company's execution, prompting us to apply a higher P/E multiple of 27.0x (previously: 26.0x) to our FY26E EPS. Accordingly, we slightly raise our Target Price to INR 4,194 (previously: INR 4,151) and reiterate our "ACCUMULATE" rating on the shares of TCS.

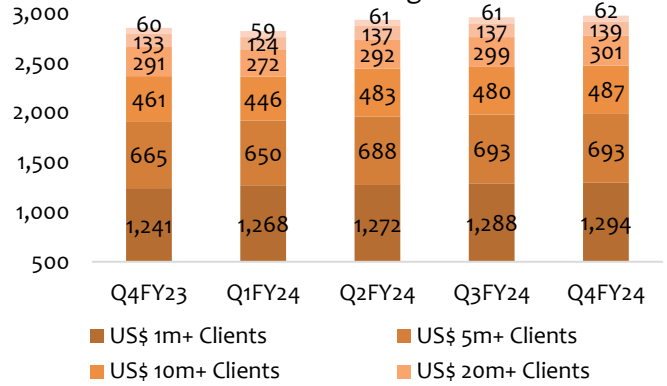
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Reducing employee attrition rates show potential for margin improvement



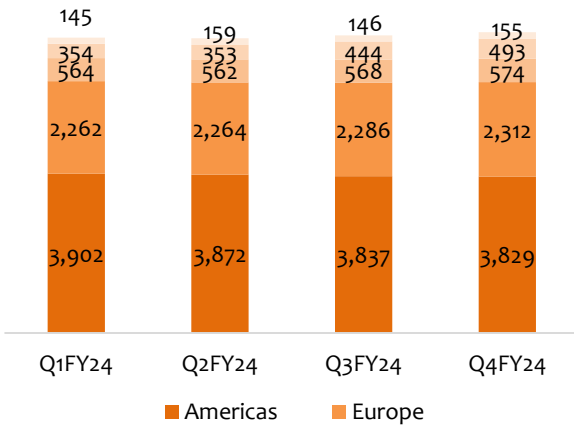
Source: Company, KR Choksey Research

Increasing deals across client bands shows diversified growth



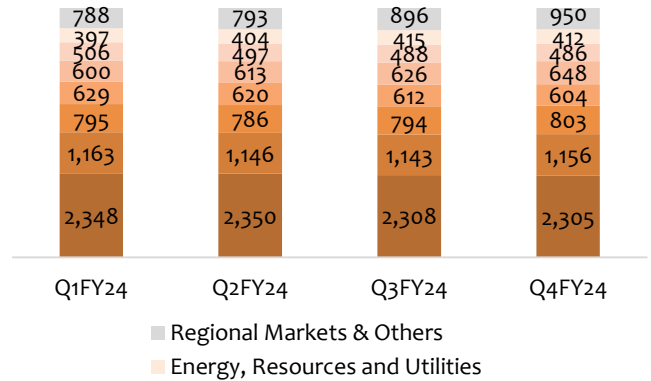
Source: Company, KR Choksey Research

India revenues continue to show traction



Source: Company, KR Choksey Research

BFSI continues to remain under pressure



Source: Company, KR Choksey Research

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KEY FINANCIALS

Exhibit 1: Balance Sheet

Particulars (INR Mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Property, Plant and Equipment	1,11,100	1,07,740	1,02,300	93,760	98,974	1,10,060
Right-of-use Asset	76,330	76,360	75,600	78,860	78,085	77,226
CWIP	9,260	12,050	12,340	15,640	15,640	15,640
Goodwill	17,980	17,870	18,580	18,320	18,320	18,320
Intangible Assets	4,800	11,010	8,670	5,100	8,670	8,670
Investments	2,130	2,230	2,660	2,810	2,843	3,148
Other non-current tax assets	57,760	56,910	58,900	50,030	57,329	60,875
Other non-current assets	35,430	47,870	54,760	70,130	58,515	64,786
Total non-current assets	3,14,790	3,32,040	3,33,810	3,34,650	3,38,376	3,58,725
Unbilled Revenue	65,830	77,360	89,050	91,430	1,05,925	1,17,278
Investments	2,91,600	3,02,620	3,68,970	3,14,810	4,20,251	4,65,292
Trade receivables	3,00,790	3,40,740	4,10,490	4,44,340	4,94,316	5,47,296
Cash & equivalent	93,290	1,82,210	1,10,320	1,32,860	2,09,303	3,73,372
Other current assets	2,41,100	1,80,060	1,23,790	1,44,890	1,44,736	1,60,248
Current Tax Assets	190	110	80	1,510	1,510	1,510
Total current assets	9,92,800	10,83,100	11,02,700	11,29,840	13,76,040	16,64,995
Total Assets	13,07,590	14,15,140	14,36,510	14,64,490	17,14,416	20,23,720
Equity Share Capital	3,700	3,660	3,660	3,620	3,620	3,620
Other Equity	8,60,630	8,87,730	9,00,580	9,01,270	11,42,448	14,03,297
Equity Attributable to Owners of the Company	8,64,330	8,91,390	9,04,240	9,04,890	11,46,068	14,06,917
Non-controlling Interest	6,750	7,070	7,820	8,300	10,210	12,120
Total Equity	8,71,080	8,98,460	9,12,060	9,13,190	11,56,278	14,19,037
Long term Debts	65,030	63,680	62,030	65,160	63,205	61,309
Other Financial Liabilities	11,970	11,100	10,030	4,820	10,726	11,876
Employee benefit obligation	7,490	6,770	5,360	6,860	5,738	6,353
DTL	7,670	5,900	7,920	9,770	9,770	9,770
Other Non-Current Liabilities	2,800	5,720	3,530	3,650	4,015	4,417
Total non-current liabilities	9,66,040	9,91,630	10,00,930	10,03,450	12,49,732	15,12,761
Short-term borrowing & leasing	12,920	14,500	14,850	15,050	14,990	16,597
Deferred Revenue	36,500	36,350	38,430	36,400	25,445	26,901
Trade Payables	78,600	80,450	1,05,150	99,810	96,716	1,08,490
Other Financial Liabilities	61,500	76,870	90,680	83,620	96,973	1,07,366
Other Current Liabilities	54,620	98,030	52,370	66,640	56,008	62,010
Employee benefit obligation	34,980	38,100	40,650	45,190	48,412	53,202
Current Tax Liabilities	62,430	79,210	93,450	1,14,330	1,26,141	1,36,392
Total Current Liabilities	3,41,550	4,23,510	4,35,580	4,61,040	4,64,685	5,10,959
Total liabilities	13,07,590	14,15,140	14,36,510	14,64,490	17,14,416	20,23,720

Source: Company, KR Choksey Research

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Exhibit 2: Profit & Loss Statement

Particulars (INR Mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Revenue	16,41,770	19,17,540	22,54,580	24,08,930	25,84,567	28,61,574
Employee Cost	9,18,140	10,75,540	12,75,220	14,01,310	15,01,217	16,49,753
Other Cost	2,58,170	3,11,430	3,86,770	3,76,540	3,61,839	4,40,106
EBITDA	4,65,460	5,30,570	5,92,590	6,31,080	7,21,510	7,71,714
Depreciation	40,650	46,040	50,220	49,850	54,231	54,731
EBIT	4,24,810	4,84,530	5,42,370	5,81,230	6,67,280	7,16,983
Other income, net	31,340	40,180	34,490	46,520	47,780	52,408
Finance costs and extraordinary expenses	18,550	7,840	7,790	7,780	13,448	10,758
Pre-tax Income	4,37,600	5,16,870	5,69,070	6,19,970	7,01,612	7,58,633
Income tax expense	1,11,980	1,32,380	1,46,040	1,58,980	1,75,403	1,89,658
Net profit Before MI	3,25,620	3,84,490	4,23,030	4,60,990	5,26,209	5,68,975
Minority Interest	1,320	1,220	1,560	1,910	1,910	1,910
Net profit After MI	3,24,300	3,83,270	4,21,470	4,59,080	5,24,299	5,67,065
Diluted EPS (INR)	86.71	103.62	115.19	125.74	143.60	155.32
Shares in Million	3,740	3,699	3,659	3,651	3,651	3,651

Source: Company, KR Choksey Research

Exhibit 3: Free Cash Flow Analysis

Particulars (INR Mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Net Cash Generated From Operations	3,88,020	3,99,490	4,19,650	4,43,380	5,99,195	7,27,101
Net Cash Flow from/(used in) Investing Activities	-81,290	-8,970	390	60,260	-62,273	-65,262
Net Cash Flow from Financing Activities	-3,26,340	-3,35,810	-4,78,780	-4,85,360	-4,60,479	-4,97,769
Net Inc/Dec in cash equivalents	-17,880	56,300	-53,650	18,930	76,443	1,64,069
Closing Balance Cash and Cash Equivalents	68,580	1,24,880	71,230	90,160	1,66,603	3,30,672

Source: Company, KR Choksey Research

Exhibit 4: Ratio Analysis

Key Ratio	FY21	FY22	FY23	FY24	FY25E	FY26E
EBIT Margin (%)	25.9%	25.3%	24.1%	24.1%	25.8%	25.1%
Tax rate (%)	25.6%	25.6%	25.7%	25.6%	25.0%	25.0%
Net Profit Margin (%)	19.8%	20.1%	18.8%	19.1%	20.4%	19.9%
RoE (%)	36.6%	43.7%	47.8%	50.8%	51.1%	44.4%
RoCE (%)	33.2%	36.8%	40.7%	43.1%	44.4%	38.9%
EV/EBITDA	23.9	20.6	18.2	22.0	19.0	17.5
EPS (INR per share)	86.7	103.6	115.2	125.7	143.6	155.3

Source: Company, KR Choksey Research

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Date	CMP (INR)	TP (INR)	Recommendation
16-Apr-24	3,941	4,194	ACCUMULATE
15-Jan-24	3,902	4,151	ACCUMULATE
17-Oct-23	3,524	3,888	ACCUMULATE
14-Jul-23	3,354	3,888	BUY
13-Apr-23	3,192	3,888	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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