

Q1FY25 Tata Consultancy Services Ltd



Tata Consultancy Services

TCS off to a strong start

CMP INR 4,169*	Target INR 4,587	Potential Upside 10.0%	Market Cap (INR Mn) INR 1,50,77,837	Recommendation ACCUMULATE	Sector Internet Software & Services
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Result Highlights

- TCS Q1FY25 revenue and earnings came in line with our expectations.
- Revenue grew to INR 6,26,130 Mn, up 5.4% YoY, primarily driven by double-digit growth in emerging markets and moderate growth in developed markets.
- EBIT jumped to INR 1,54,420 Mn, up 12.3% YoY, driven by lower business expense and employee expense; EBIT margins contracted by 150 bps YoY.
- PAT increased by 8.9% YoY to INR 1,21,050 Mn due to better operational performance partially offset by lower other income; PAT margins improved by 61 bps YoY.
- We increase our FY26E EPS to reflect expectation of growth across verticals going forward, robust pipeline, coupled with improvement in margins. We increase our Target Price (TP) to INR 4,587 and retain “ACCUMULATE” rating on the shares of TCS.

MARKET DATA

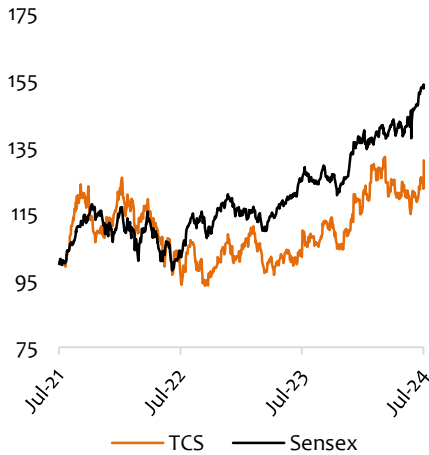
Shares outs (Mn)	3,618
Mkt Cap (INR Mn)	1,50,77,837
52 Wk H/L (INR)	4,255/3,273
Volume Avg (3m K)	2,640
Face Value (INR)	1
Bloomberg Code	TCS IN

KEY FINANCIALS

INR Millions	Q1FY25	Q4FY24	Q1FY24	QoQ	YoY
Revenue	626,130	612,370	593,810	2.2%	5.4%
EBIT	154,420	159,180	137,550	-3.0%	12.3%
PAT	121,050	125,020	111,200	-3.2%	8.9%
OPM (%)	24.7%	26.0%	23.2%	-133 bps	150 bps
NPM (%)	19.3%	20.4%	18.7%	-108 bps	61 bps

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	80,665
NIFTY	24,587

Sequential growth across verticals except communication and media

- TCS Q1FY25 revenue grew at 5.4% YoY in rupee terms, 4.4% in constant currency, and 3.9% YoY in dollar terms.
- In terms of markets, revenue from India surged by 61.8% CC YoY, MEA grew 8.5% CC YoY, UK jumped by 6.0% CC YoY and Latin America 6.3% CC YoY.
- The North America market returned to sequential growth after five quarters.
- In terms of verticals, manufacturing continues to be leader with 9.4% CC YoY followed by energy, resources and utilities witnessed a growth of 5.7% CC YoY.
- The attrition rate declined further to 12.1% with net addition of 5,452 employees.
- EBIT margins improved to 24.7% in Q1FY25 despite headwind from annual wage hikes partially offset by lower subcontracting cost and higher utilization.
- TCS reported Total Contract Value (TCV) of USD 8.3 Bn down 37.1% QoQ and 18.6% YoY (Q4FY24 TCV USD 13.2 Bn).

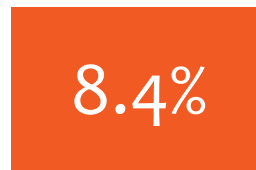
AI/Cloud, Cyber Security and Enterprise were the theme of Q1FY25

- Clients are experiencing robust growth momentum, with a persistent focus on advancing their AI-infused Cloud adoption journeys.
- The Company highlighted GenAI pipeline doubling in Q1FY25 to USD 1.5 Bn with more than 270 AI and GenAI engagements being deployed.
- In Cyber security, notable traction is observed across various geographies for Security Operations transformation, Ransomware resilience, Secure Gen AI, and Attack Surface Management initiatives.
- TCS is witnessing increasing adoption of IoT-driven transformation in connected devices and manufacturing, alongside growing utilization of Industrial AI.

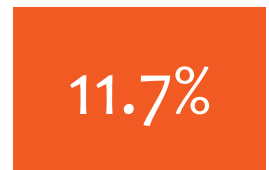
SHARE HOLDING PATTERN (%)

Particulars (%)	Mar-24	Dec-23	Sep-23
Promoters	71.8	72.4	72.3
FIIIs	12.7	12.5	12.5
DIIIs	10.6	10.0	10.0
Others	4.9	5.1	5.2
Total	100.0	100.0	100.0

*Based on Today's closing



Revenue CAGR between FY24 and FY26E



Adj. PAT CAGR between FY24 and FY26E

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Key Concall Highlights:

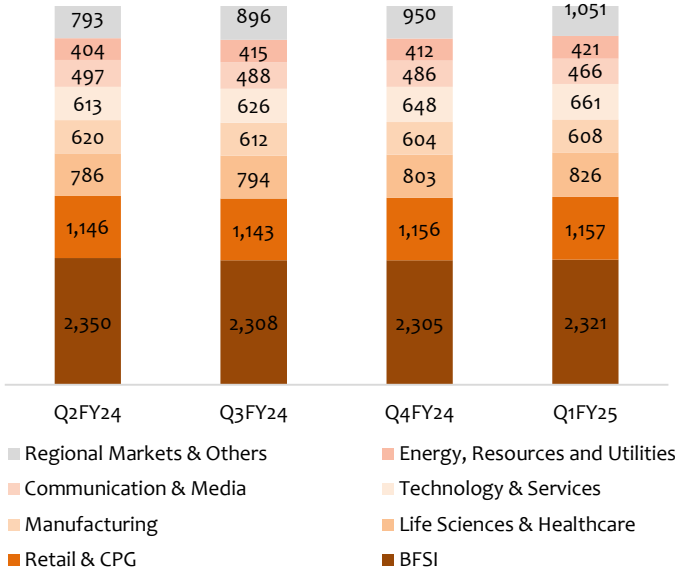
- Almost all the verticals saw positive sequential growth, except for Communication & Media Industry.
- The Q1 operating margin reached 24.7%, even though it faced a 170 basis points challenge from annual wage increases, which was countered by operational efficiencies.
- Moreover, there was an increase in third-party expenses. However, these were mitigated by operational efficiencies, such as enhanced productivity, better utilization, and reduced subcontractor costs.
- The board has announced an interim dividend of INR 10.0 per share.
- The subcontractor costs, pivotal in enhancing margins last year, have reached their lowest point and are projected to stabilize at their current level.
- TCS BaNCS had registered five wins and 12 go-lives during the quarter and in Quartz blockchain platform had one win and one go-live this quarter.
- In the Securities industry, the move to T+1 settlement cycles is a significant growth catalyst for us.
- The Company introduced GenAI-based intelligent buying guide enhancements, a conversational commerce system aiding agents and customers in product discovery and delivering personalized recommendations and tailored user experiences.
- The Company added 3 more clients YoY in the USD 100 Mn+ band, bringing the total to 63.
- TCS added 3 more clients in US 50 Mn band, 4 in USD 20 Mn band, and 18 more clients in USD 10 Mn band.
- In Q1FY25, there was a net increase in the workforce, adding 5,452 employees, bringing the total workforce to 606,998.
- The attrition rate was at 12.1% in Q1FY25 and is in the comfort range of 11.0 – 13.0%.
- TCY in Q1FY25 stood at USD 8.3 Bn, with BFSI contributing USD 2.7 Bn, consumer business group was at USD 1.1 Bn.
- Clients are investing in cost optimization initiatives, yielding immediate returns on investment (ROI).
- Over the long term, BFSI clients are anticipated to enhance their investments in developing integrated models utilizing cloud and AI.
- In terms of Communication & Media vertical, the management highlighted clients are prioritizing the realization of benefits from their investments in 5G made during the pandemic period before embarking on large-scale programs.
- Regarding the Service practices, growth this quarter was driven by AI.Cloud, Cyber Security, and Enterprise Solutions.
- TCS introduced new labs, centers of excellence, and delivery centers specifically dedicated to AI, IoT, and digital engineering.
- During this quarter, more than 270 AI and GenAI engagements have been deployed or are in various stages of progress.
- AI and GenAI pipeline has doubled in Q1FY25 to USD 1.5 Bn.
- In Q1FY25, TCS launched AI WisdomNext, a platform integrating multiple generative AI services into a unified interface.
- TCS AI WisdomNext facilitates organizations in adopting next-generation technology at scale efficiently and in compliance with regulatory frameworks.
- The Company plans to integrate generative AI into its operations to foster sustainable growth through its partnership with Xerox.
- The Company implemented double-digit wage increases for top performers and an average wage hike ranging from 4.5% to 7.0% for other employees, effective from April 1st.
- There is significant demand for transforming operating models and consolidating vendors in the consumer business sector.
- In the Healthcare sector, there is rising utilization of home care and virtual care, alongside widespread adoption of value-based care, resulting in higher expenditures on IT services.
- In the Technology and Services sector, customers are exercising caution regarding new expenditures until there is a noticeable uptick in business growth momentum.

Valuation and view:

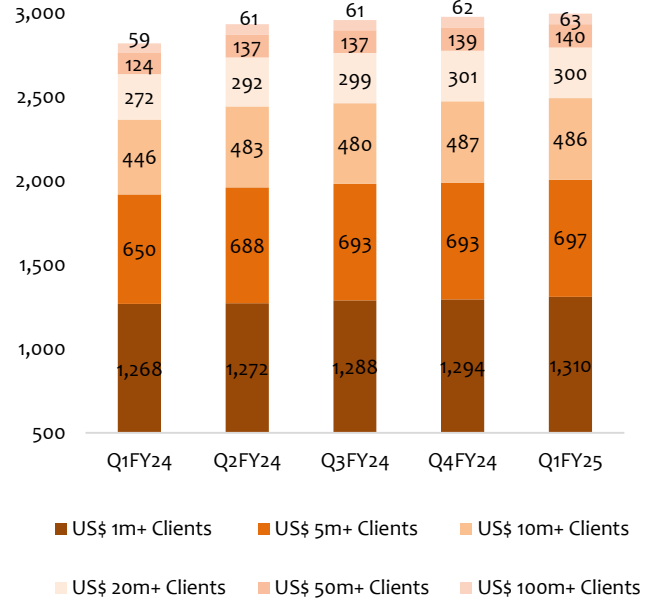
The Company performed well in Q1FY25 posting strong vertical growth except communication and media and the management is confident that the Company will perform better in FY25E than FY24. North America saw sequential growth for the first time in five quarters with emerging market boosting the growth. **With strong performance and recovery in vertical, margin improvement, deals wins, growing AI orderbook and robust pipeline, prompts us to increase FY26 EPS to INR 158.2 (previously: INR 155.3) and increase our P/E multiple to 29.0x (previously: 27.0x). Accordingly, we raise our target price to INR 4,587 (previously: INR 4,194) and reiterate our “ACCUMULATE” rating on the shares of TCS.**

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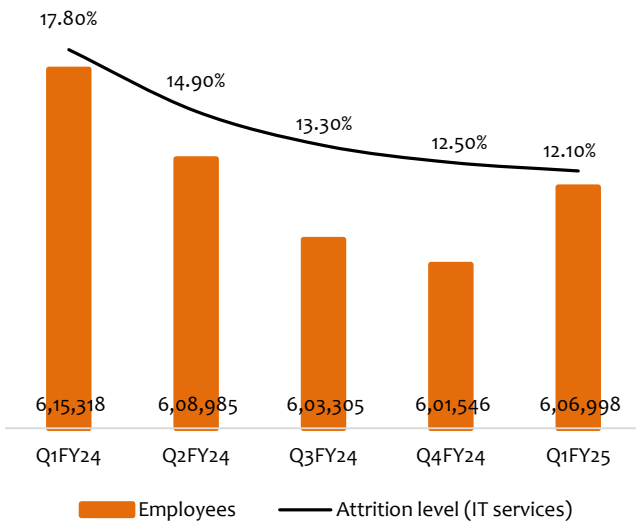
YoY growth witnessed across all verticals except communication & media



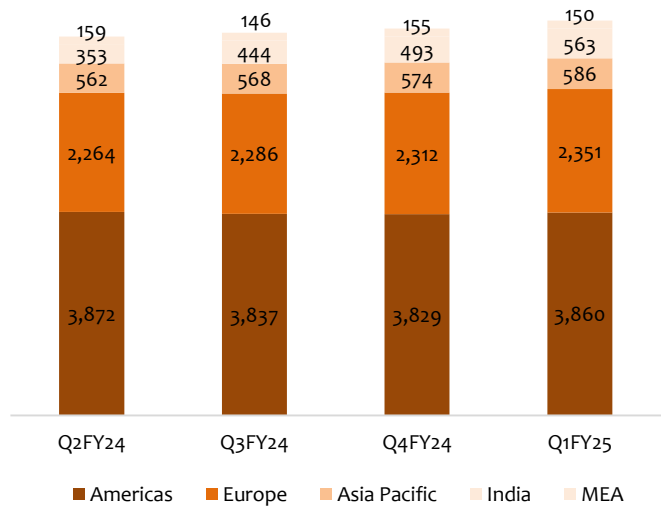
Increasing deals in higher bands (YoY)



Attrition rate continues to decline



India revenues continue to show traction



Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY22	FY23	FY24	FY25E	FY26E
Revenue	1,917,540	2,254,580	2,408,930	2,556,694	2,830,714
Employee Cost	1,075,540	1,275,220	1,401,310	1,505,668	1,654,644
Other Cost	311,430	386,770	376,540	365,738	410,453
EBITDA	530,570	592,590	631,080	685,289	765,616
Depreciation	46,040	50,220	49,850	39,733	41,620
EBIT	484,530	542,370	581,230	645,555	723,997
Other income, net	40,180	34,490	46,520	47,780	52,408
Finance costs and extraordinary expenses	7,840	7,790	7,780	13,448	10,758
Pre-tax Income	516,870	569,070	619,970	679,888	765,647
Income tax expense	132,380	146,040	158,980	171,284	191,412
Net profit Before MI	384,490	423,030	460,990	508,604	574,235
Minority Interest	1,220	1,560	1,910	1,910	1,910
Net profit After MI	383,270	421,470	459,080	506,694	572,325
Diluted EPS (INR)	103.6	115.2	125.9	140.0	158.2
Shares in Million	3,699	3,659	3,647	3,618	3,618

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Millions	FY22	FY23	FY24	FY25E	FY26E
Net Cash Generated From Operations	399,490	419,650	443,380	572,035	724,749
Net Cash Flow from/(used in) Investing Activities	-8,970	390	60,260	-61,609	-64,559
Net Cash Flow from Financing Activities	-335,810	-478,780	-485,360	-446,853	-502,363
Net Inc/Dec in cash equivalents	56,300	-53,650	18,930	63,572	157,827
Closing Balance Cash and Cash Equivalents	124,880	71,230	90,160	153,732	311,559

Source: Company, KRChoksey Research

Exhibit 3: Key Ratio

Key Ratio	FY22	FY23	FY24	FY25E	FY26E
EBIT Margin (%)	25.3%	24.1%	24.1%	25.2%	25.6%
Tax rate (%)	25.6%	25.7%	25.6%	25.2%	25.0%
Net Profit Margin (%)	20.1%	18.8%	19.1%	19.9%	20.3%
RoE (%)	43.7%	47.8%	50.8%	49.6%	45.1%
RoCE (%)	36.8%	40.7%	43.1%	43.0%	39.5%
EV/EBITDA	20.6	18.2	22.0	19.9	17.5
EPS (INR per share)	103.6	115.2	125.9	140.0	158.2

Source: Company, KRChoksey Research

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Exhibit 4: Balance Sheet

INR Millions	FY 22	FY 23	FY 24	FY 25E	FY 26E
Property, Plant and Equipment	107,740	102,300	93,760	112,831	136,317
Right-of-use Asset	76360	75600	78860	78093	77244
CWIP	12,050	12,340	15,640	15,640	15,640
Goodwill	17,870	18,580	18,320	18,320	18,320
Intangible Assets	11,010	8,670	5,100	8,670	8,670
Investments	2,230	2,660	2,810	2,812	3,114
Other non-current tax assets	56910	58900	50030	57090	60611
Other non-current assets	47,870	54,760	70,130	57,884	64,087
Total non-current assets	332,040	333,810	334,650	351,340	384,003
Unbilled Revenue	77360	89050	91430	104783	116013
Investments	302,620	368,970	314,810	415,719	460,274
Trade receivables	340,740	410,490	444,340	488,985	541,393
Cash & equivalent	182,210	110,320	132,860	196,432	354,259
Other current assets	180,060	123,790	144,890	143,175	158,520
Current Tax Assets	110	80	1510	1510	1510
Total current assets	1,083,100	1,102,700	1,129,840	1,350,603	1,631,969
Total Assets	1,415,140	1,436,510	1,464,490	1,701,943	2,015,972
Equity Share Capital	3,660	3,660	3,620	3,620	3,620
Other Equity	887,730	900,580	901,270	1,134,349	1,397,619
Equity Attributable to Owners of the Company	891,390	904,240	904,890	1,137,969	1,401,239
Non controlling Interest	7,070	7,820	8,300	10,210	12,120
Total Equity	898,460	912,060	913,190	1,148,179	1,413,359
Long term Debts	63,680	62,030	65,160	63,205	61,309
Other Financial Liabilities	11,100	10,030	4,820	10,610	11,747
Employee benefit obligation	6,770	5,360	6,860	5,676	6,284
DTL	5900	7920	9770	9770	9770
Other Non-Current Liabilities	5720	3530	3650	4015	4416.5
Total non-current liabilities	991,630	1,000,930	1,003,450	1,241,456	1,506,886
short term borrowing & leasing	14,500	14,850	15,050	14,829	16,418
Deferred Revenue	36,350	38,430	36,400	25,445	26,901
Trade Payables	80,450	105,150	99,810	97,149	107,204
Other Financial Liabilities	76,870	90,680	83,620	95,927	106,208
Other Current Liabilities	98,030	52,370	66,640	55,404	61,342
Employee benefit obligation	38,100	40,650	45,190	48,555	53,360
Current Tax Liabilities	79,210	93,450	114,330	123,178	137,653
Total Current Liabilities	423,510	435,580	461,040	460,488	509,086
Total liabilities	1,415,140	1,436,510	1,464,490	1,701,943	2,015,972

Source: Company, KRChoksey Research

Tata Consultancy Services

Tata Elxsi Ltd.			
Date	CMP (INR)	TP (INR)	Recommendation
15-Jul-24	4,169	4,587	ACCUMULATE
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
16-Apr-24	3,941	4,194	ACCUMULATE

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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