



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✓	✗

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	✗	↔	✓
RQ	✗	↔	✓
RV	✗	↔	✗

Company details

Market cap:	Rs. 16,46,845 cr
52-week high/low:	Rs. 4,580/3,313
NSE volume: (No of shares)	25.9 lakh
BSE code:	532540
NSE code:	TCS
Free float: (No of shares)	102.2 cr

Shareholding (%)

Promoters	71.8
FII	12.4
DII	11.0
Others	4.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.3	21.8	11.2	34.3
Relative to Sensex	3.2	10.4	-2.4	7.7

Sharekhan Research, Bloomberg

Tata Consultancy Services Ltd

Transitioning from resilient performance to steady growth

IT & ITES	Sharekhan code: TCS
Reco/View: Buy	CMP: Rs. 4,552 Price Target: Rs. 5,230
Upgrade	Maintain Downgrade

Summary

- We maintain BUY on TCS with revised PT of Rs. 5,230 (valued at 32x Sept 26E EPS). At CMP, the stock trades at 31.9/28.6/26.3x its FY25/26/27E EPS.
- Core verticals return to growth, especially for BFSI, coupled with an uptick in BFSI spends and supported by potential interest rate cut tailwinds to drive performance in the near and medium term.
- EBIT margin is expected to show an uptick going ahead in FY25 with wage hike headwind behind and assisted by margin levers of pyramid, productivity, and utilisation.
- The company's ability to leverage its comprehensive service offerings and deep industry-specific expertise positions it favourably to take advantage of opportunities in emerging technologies, which is evident from the robust AI and GenAI pipeline.

TCS has been consistently delivering resilient performance for past several quarters despite the challenging environment. Among Tier-1 companies, TCS has an improving constant currency revenue growth profile with a CQGR of 1.1% compared to a volatile growth profile for its peers. TCS reported a solid performance in Q1, with sequential growth returning in some of the lagging verticals, especially BFSI. Further spends in BFSI towards mitigating the risk associated with legacy systems, strengthening security practices, addressing data governance, and potential rate cut tailwinds augur well for the company. EBIT margin has also seen a steady uptick on a y-o-y basis since the last few quarters. The company has taken the wage hike headwind upfront in Q1 and is well placed to register an uptick in margins in the subsequent quarters despite the expected stabilisation of attrition and sub-contracting cost due to playing out of other margin levers such as pyramid, productivity, and utilisation. The company continues to be consistently relevant to clients through strong domain expertise and is constantly reskilling employees in emerging technologies like AI/ML and Gen AI. The company is steadily building the AI and GenAI pipeline, which stood at \$1.5 billion at the end of Q1FY25. TCS is well placed to deliver better performance in FY25 owing to its strong domain expertise, recovery in key verticals, ramp-up of deal wins, robust order book, and capitalise on the pent-up demand supported by potential rate cuts. We maintain BUY on TCS with revised PT of Rs. 5,230 (valued at 32x Sept 26E EPS). At CMP, the stock trades at 31.9/28.6/26.3x its FY25/26/27E EPS.

Resilient and improving performance: Among Tier-1 companies, TCS has an improving constant currency revenue growth profile with a CQGR of 1.1%, while the CQGR of HCL Tech, Infosys, Wipro, and Tech Mahindra stood at 1.4%/0.7%/-1.0% and -0.6% respectively with a volatile CC revenue growth profile. The company's EBIT margins stood at 24.7, up ~150 bps y-o-y, despite the wage hike taken in Q1FY25. The company has improved its segment's margins in Retail and Consumer, Lifesciences Manufacturing and Others in FY24, up 30/50/340 and 120 bps respectively over FY23. BFSI remained flat while the Communication segment reported 60 bps decline in FY24 compared to FY23. With the wage hike taken in Q1FY25, the subsequent quarters are expected to see improvement in margins. The company expects LTM attrition to stabilize at the current levels of 11-13% with subcontracting costs expected to remain steady around current levels. However, in the near term, pyramid, productivity, and utilization would be margin levers, which would aid in margin improvement.

Return of core verticals to growth to drive performance: The company started FY25 on a strong note with broad-based growth across verticals (barring CMT) and markets with demand fueled by cost optimisation and business transformation, which included supply chain modernisation, sustainability, enhanced customer and employee experience, technology modernisation, cloud data and analytics, and AI and GenAI initiatives. The core BFSI vertical, which contributed to 37.7% of FY2024 revenue, along with technology and services have staged a sequential return to growth in Q1FY25. The spends in BFSI is expected to be directed towards mitigating the risk associated with legacy systems and enhancing customer experience, while also prioritising tech spending on enabling new partnerships, strengthening security practices, addressing data governance, and implementing fully integrated digital operating models to tackle risk and regulatory scrutiny, which augurs well for the company.

Steady buildup of AI pipeline: The company has consistently maintained its relevance to clients by leveraging its comprehensive service offerings and deep industry-specific expertise, positioning it favourably to take advantage of opportunities in emerging technologies. The collaborative connection between Cloud and AI/GenAI technology is driving a notable transformation for many industries. The company's AI and GenAI pipeline stood at \$1.5 billion at the end of Q1FY25. The company has launched new labs, centers of excellence, and delivery centres focused on AI, IoT, and digital engineering. There is a renewed focus on data strategy, data governance, and the use of analytics driven by the desire to leverage AI and GenAI. Further, with more than half of its workforce skilled in AI/ML and Gen AI, TCS will maintain its position as the trusted partner for clients seeking transformation.

Our Call

Valuation – Maintain BUY with a revised PT of Rs. 5,230: Despite the challenging environment TCS has delivered a resilient revenue growth profile over the last several quarters along with improving margin trajectory. Although deal win TCV moderated in Q1 by 37% q-o-q, following the high base in the previous quarter, the LTM book to bill at ~1.4x provides decent revenue visibility. The company saw strong net additions after three consecutive quarters of decline, which indicates the company is positioning itself strategically to meet pent-up demand. We expect ~8.6%/10.3% sales and PAT CAGR over FY24-27E. We maintain BUY on TCS with revised PT of Rs. 5,230 (valued at 32x Sept 26E EPS) as the company is well placed to deliver better FY25 owing to recovery in key verticals, ramp up of deal wins, robust orderbook and capitalize on the pent-up demand supported by potential rate cuts. At CMP, the stock trades at 31.9/28.6/26.3x its FY25/26/27E 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 U.S. can moderate the pace of technology spending.

Valuation (consolidated)

Particulars	FY24	FY25E	FY26E	FY27E
Revenue	2,40,893	2,61,550	2,85,882	3,08,765
OPM (%)	26.7	27.4	27.6	28.0
Adjusted PAT	46,585	51,654	57,492	62,591
% y-o-y growth	10.5	10.9	11.3	8.9
Adjusted EPS (Rs.)	128.8	142.8	158.9	173.0
P/E (x)	35.3	31.9	28.6	26.3
P/B (x)	18.0	17.5	17.0	16.5
EV/EBITDA	25.0	22.5	20.8	19.1
ROE (%)	51.0	55.8	60.3	63.6
ROCE (%)	59.8	65.3	70.1	74.4

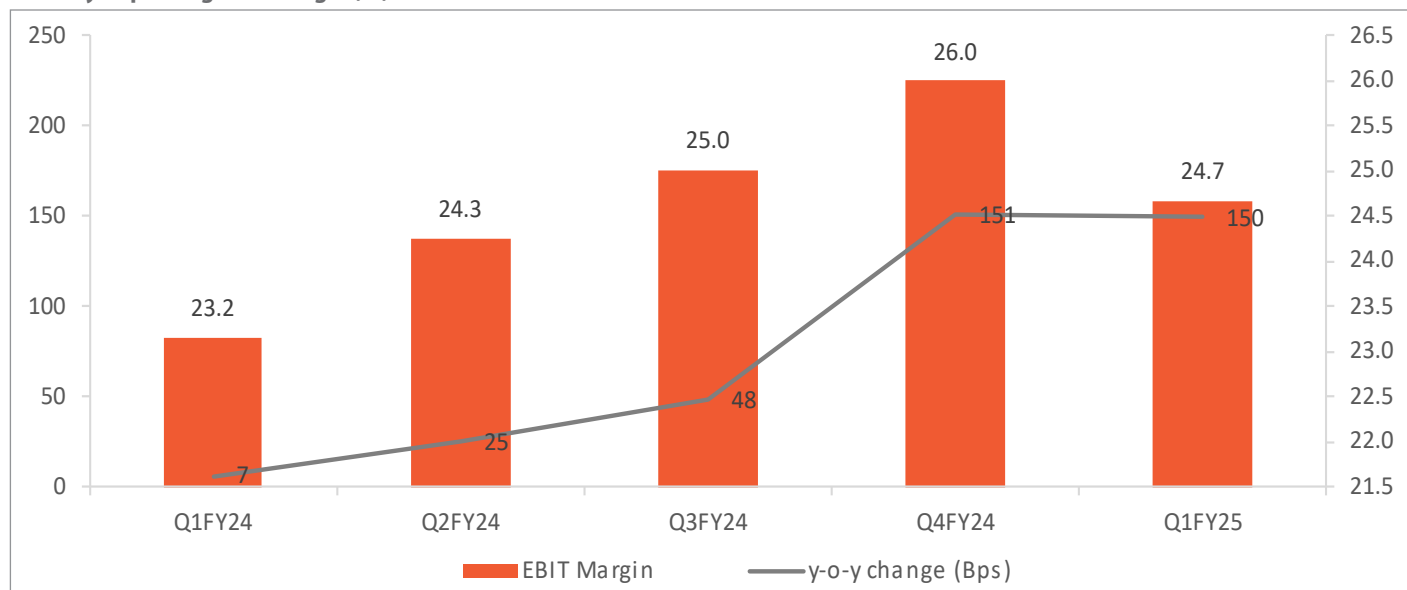
Source: Company; Sharekhan estimates

Resilient and improving constant-currency revenue growth (q-o-q) trend for TCS

Tier 1 IT Company	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	CQGR (%)
TCS	0.0%	-0.1%	1.0%	1.1%	2.2%	1.1%
Infosys	1.0%	2.3%	-1.0%	-2.2%	3.6%	0.7%
HCL Tech	-1.3%	1.0%	6.0%	0.3%	-1.6%	1.4%
Wipro	-2.8%	-2.0%	-1.7%	-0.3%	-1.0%	-1.0%
Tech Mahindra	-4.1%	-2.4%	1.1%	-0.8%	0.7%	-0.6%

Source: Company; Sharekhan Research

Steadily improving EBIT margin (%)



Source: Company; Sharekhan Research

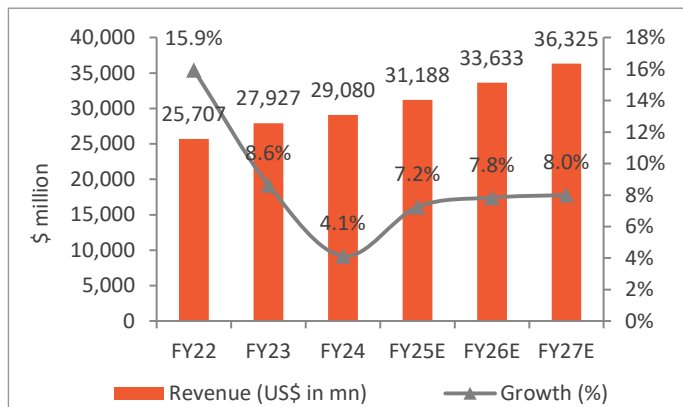
Worldwide IT Spending Forecast (USD million)

Particulars	2023 Spending	2023 Growth (%)	2024 Spending	2024 Growth (%)
Data Centre Systems	236,098	4	293,091	24.1
Devices	692,784	-6.5	730,125	5.4
Software	974,089	11.5	1,096,913	12.6
IT Services	1,503,698	4.9	1,609,846	7.1
Communications Services	14,91,733	3.2	1,537,188	3
Overall IT	4,898,401	3.8	5,267,163	7.5

Source: Gartner (July 2024)

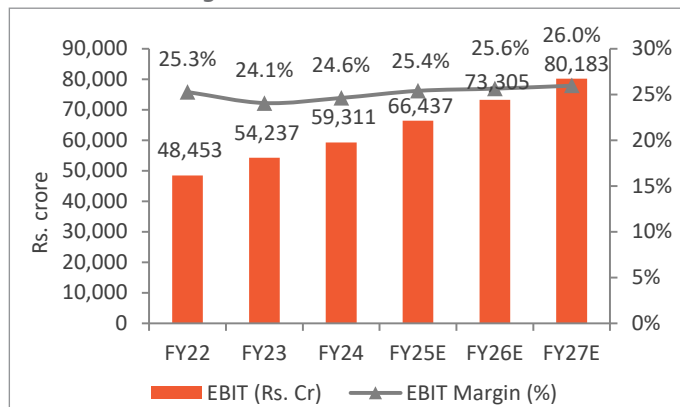
Financials in charts

Revenue (USD mn)



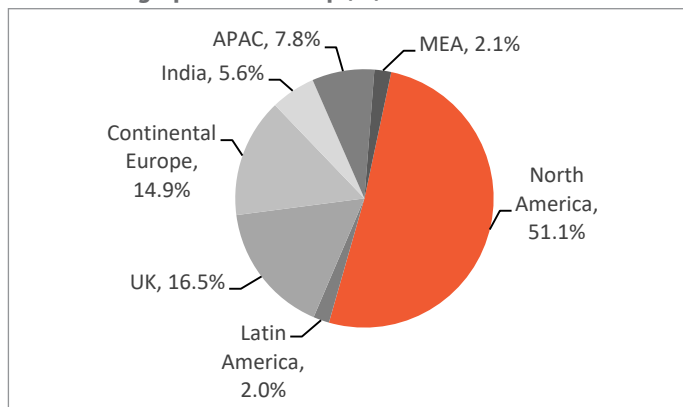
Source: Company, Sharekhan Research

EBIT and EBIT Margin



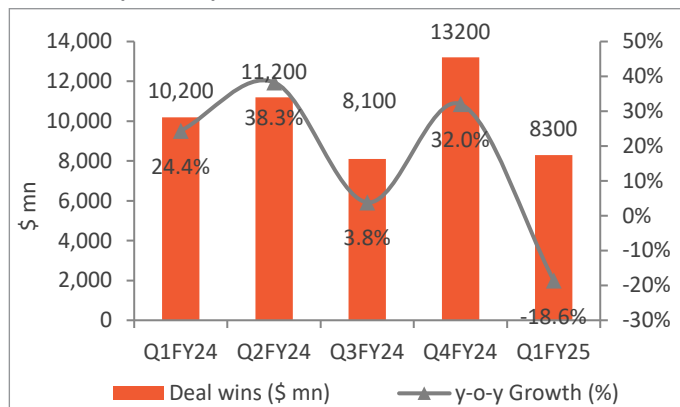
Source: Company, Sharekhan Research

FY2024 Geographical break-up (%)



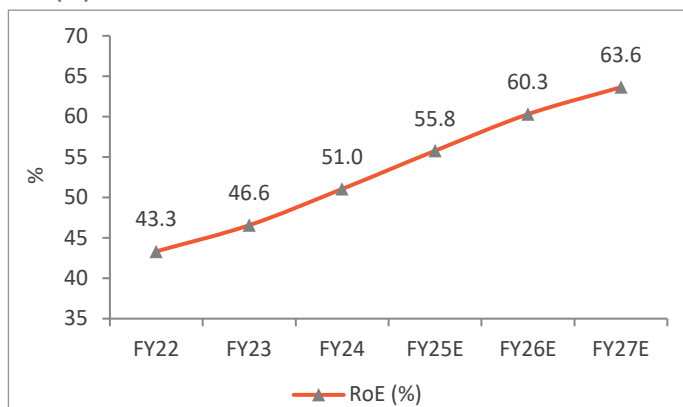
Source: Company, Sharekhan Research

Deal wins (USD mn)



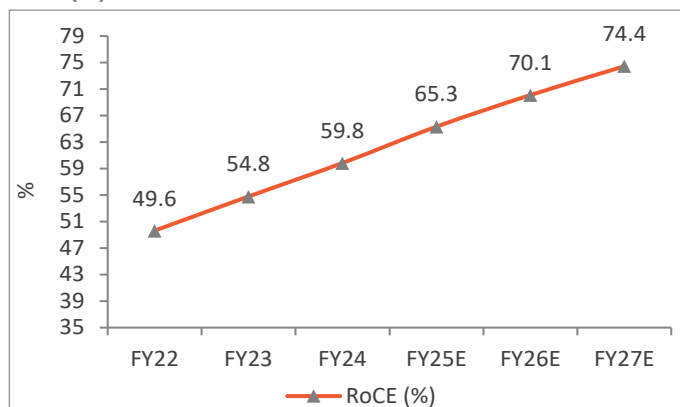
Source: Company, Sharekhan Research

RoE (%)



Source: Company, Sharekhan Research

RoCE (%)



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Macro headwinds bottoming out coupled with better earnings visibility

We anticipate growth momentum to return in FY25, aided by a lower base coupled with easing sector headwinds. Although the IT sector has already outperformed Nifty last year, we expect overall outperformance in CY24 as well, driven by receding headwinds and better earnings visibility.

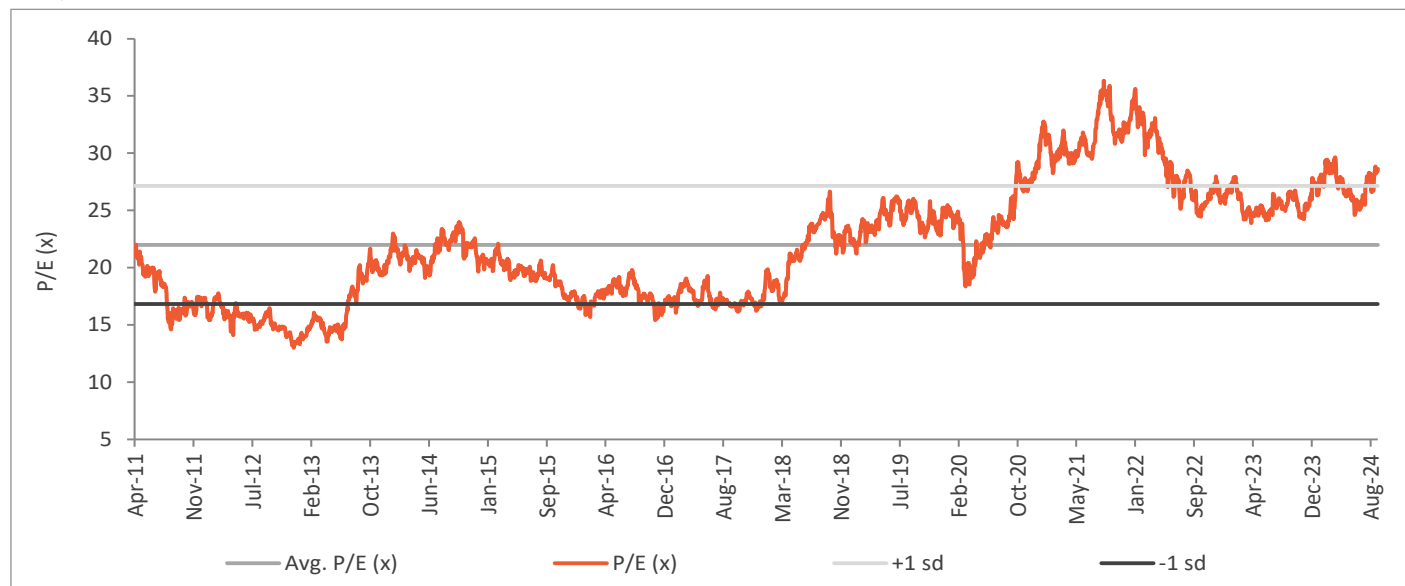
■ Company outlook - Staying ahead of the race

Being one of the largest IT services companies worldwide and having preferred partners as clients, TCS can capture a fair share of spending 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. Management intends to keep the payout ratio at 80-100% of free cash generated.

■ Valuation - Maintain Buy with revised PT of Rs. 5,230

Despite the challenging environment TCS has delivered a resilient revenue growth profile over the last several quarters along with improving margin trajectory. Although deal win TCV moderated in Q1 by 37% q-o-q, following the high base in the previous quarter, the LTM book to bill at ~1.4x provides decent revenue visibility. The company saw strong net additions after three consecutive quarters of decline, which indicates the company is positioning itself strategically to meet pent-up demand. We expect ~8.6%/10.3% sales and PAT CAGR over FY24-27E. We maintain BUY on TCS with revised PT of Rs. 5,230 (valued at 32x Sept 26E EPS) as the company is well placed to deliver better FY25 owing to recovery in key verticals, ramp up of deal wins, robust orderbook and capitalize on the pent-up demand supported by potential rate cuts. At CMP, the stock trades at 31.9/28.6/26.3x its FY25/26/27E EPS.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

TCS is among the pioneers of IT services outsourcing businesses in India and is the largest (USD27,927 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 organisation 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 spending on digital technologies, and best-in-class execution.

Key Risks

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

Additional Data

Key management personnel

N. Chandrasekaran	Chairman
K. Krithivasan	Chief Executive 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	4.97
2	SBI Funds Management Ltd	1.30
3	Vanguard Group Inc/The	1.15
4	BlackRock Inc	1.04
5	JPMorgan Chase & Co	0.42
6	ICICI Prudential Asset Management	0.38
7	UTI Asset Management Co Ltd	0.38
8	Invesco Ltd	0.36
9	Axis Asset Management Co Ltd/India	0.34
10	HDFC Asset Management Co Ltd	0.32

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

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