

- ❑ Tata Consultancy Services Limited (TCS) recorded revenue of Rs. 64,259 Crore, a growth of 7.6% YoY. The company recorded constant currency revenue growth of 5.5% in Q2 FY25.
- ❑ The EBIDTA and PAT for the current quarter was Rs. 16,731 Crores and Rs. 11,955 Crores respectively as compared Rs. 15,746 Crores and Rs. 11,380 Crores in the same quarter previous year an increase of 6.2% and 5.0% YoY basis, respectively. EBIDTAM and PATM in current quarter are 26.0% and 18.6% slightly down from 26.3% and 19.3% in same quarter last year.
- ❑ All the Growth Markets march above company average growth wherein major contribution was from India (+95.2%) which doubled to 8.9% from 4.9% in same quarter last year, Middle East & Africa (+7.9%), Asia Pacific (+7.5%), Latin America (+6.8%). In the Americas, North America saw a decline of 2.1%, while Latin America grew by 6.8% in Q2 FY25, based on year-over-year constant currency growth.
- ❑ Vertical-wise Revenue Break-up: Energy, Manufacturing and Life Science & Healthcare grew by 7.0%, 5.3% and 0.1% respectively. However, Communication & Media, and Tech grew by (10.3%) and (1.9%) YoY-CC, respectively. Notably, BFSI vertical witnessed sequential improvement of 0.1%.
- ❑ The company's workforce strength in Q2 FY25 is 612,724, with a net headcount addition of 5,726 in the second quarter. They maintain a diverse and inclusive workplace, with 35.5% women in the workforce and representation from 150 different nationalities. The attrition rate stands slightly up 20bps at 12.3%.
- ❑ The company's deal pipeline remains near an all time high, new deal TCV (Total Contract Value) wins stood at US\$8.6bn, in line with the guided range of US\$7-9bn. Notably, the deal pipeline remains strong. The management remains optimistic on Cloud, cyber security, vendor consolidation, GenAI and outsourcing opportunities from long-term perspectives, which was supported by strong TCV pipeline.
- ❑ The company reported muted Q2 numbers except slight momentum in BFSI segment and steady deal intake. Though management is optimistic and see recovery in Q4 led by gradual easing of inflation and interest rates, and a good holiday season. Therefore we recommend **HOLD** rating on the stock with an unchanged target price of **₹4,432 per share**.

Key takeaways from Concall

- ❑ Revenue stood at Rs. 64,259 crore in Q2 FY25, up by 7.6% YoY. In constant currency (cc) revenue increased by 5.5% YoY. Management expects growth to be in the same tandem which would be impacted by the furloughs season.
- ❑ Quarterly performance was led by increased traction in banking and insurance space. While BFSI vertical witnessing the signs of improvement, Manufacturing, Energy and regional markets-maintained momentum on YoY basis. Vertical such as LS & Healthcare remained under pressure amid client-specific issue, which is expected to stabilize in 3QFY25 and back to growth by 4QFY25. Notably, retail vertical remained on wait and watch mode amid weak macros. The consumer business continues to encounter short-term challenges, particularly within the life sciences segment in the UK.
- ❑ In Q2, TCV stood at \$8.6 billion, driven primarily by strong performance BFSI segment which contributed \$4.6 billion, reflecting recovery demand in financial services. Additionally, the Consumer Business Group accounted for \$1.2 billion, indicating steady growth in consumer-focused engagements. Geographically, North America remained a critical market, with deals worth \$4.4 billion signed during the quarter.
- ❑ EBIT margin for the quarter stood at 24.1%, 60bps dip QoQ due to investment in infra projects and higher third party expenses. Higher third-party expenses related to ongoing transformations impacted margins by -60 bps, while investments in talent and infrastructure resulted in a -70 bps impact, offset by favorable currency movements and the absence of one-time effects from Q1. The goal is to reach a 26% margin as soon as possible, with aspirations to exit FY25 at this level, although no specific timeline was provided.
- ❑ As on 30 September, the company has more than 1,300 clients in the \$1 million plus band. In Q2, they added 5 new clients YoY in the \$100 million plus band, bringing the total to 66, added 6 clients in \$20 million plus band, bringing the total to 298. 8 clients in \$10 million plus band, taking the total to 491.
- ❑ Management firmly believes that fed rate cut may have a positive impact on BFSI/TTH segment in the near term and the cost optimization, vendor consolidation & transformational deals to drive momentum in the near term. Company believes that client's specific challenges are one quarter phenomena (coupled with Q3 seasonally weak qtr) and will start performing from Q4.

Financials:

(In ₹ mn)	Q2-FY25	Q2-FY24	Chg	FY24	FY23	Chg
Net Sales	6,42,590	5,96,920	7.7%	24,08,930	22,54,580	6.8%
Operating Expense	4,75,280	4,39,460		17,65,920	16,63,620	
EBITDA	1,67,310	1,57,460	6.3%	6,43,010	5,90,960	8.8%
Other Income	7,290	10,060		44,220	36,100	
Depreciation	12,660	12,630		53,766	50,220	
EBIT	1,61,940	1,54,890	4.6%	6,33,464	5,76,840	9.8%
Interest	1,620	1,590		7,780	7,790	
PBT	1,60,320	1,53,300	4.6%	6,25,684	5,69,050	10.0%
Tax	40,770	39,500		1,58,980	1,46,040	
Exceptional Items	-	-		(9,580)	-	-
PAT	1,19,550	1,13,800	5.1%	4,60,990	4,23,010	9.0%
Minority /Other Adj.	(460)	(380)	-	(1,910)	(1,560)	-
Consolidated PAT	1,19,090	1,13,420	5.0%	4,59,080	4,21,450	8.9%

Margins	Q2-FY25	Q2-FY24	Chg BPS	FY24	FY23	Chg BPS
Operating Margin %	26.0%	26.4%	-34	26.7%	26.2%	48
Net Margin %	18.5%	19.0%	-47	19.1%	18.7%	36

Consolidated Financials:

(In ₹ mn)	FY-23	FY-24	FY-25E	FY-26E
Net Sales	22,54,580	24,08,930	26,49,823	29,67,802
Operating Expense	16,63,620	17,65,920	19,11,358	21,36,379
EBITDA	5,90,960	6,43,010	7,38,465	8,31,422
Other Income	36,100	44,220	48,642	54,479
Depreciation	50,220	49,850	53,766	59,356
EBIT	5,76,840	6,37,380	7,33,341	8,26,546
Interest	7,790	7,780	8,264	9,396
Misc. items	-	(9,580)	-	-
PBT	5,69,050	6,20,020	7,25,076	8,17,149
Tax	1,46,040	1,58,980	1,85,933	2,09,543
Minority Interest	(1,560)	(1,910)	-	-
PAT	4,21,450	4,59,130	5,39,144	6,07,606

Margins	FY-23	FY-24	FY-25E	FY-26E
Sales Growth %	-	6.8%	10.0%	12.0%
Operating Margin %	26.2%	26.7%	27.9%	28.0%
Net Margin %	18.7%	19.1%	20.3%	20.5%

(In ₹ mn)	FY-23	FY-24	FY-25E	FY-26E
<u>Liabilities</u>				
Equity Share Capital	3,660	3,620	3,620	3,620
Reserves & Surplus	9,00,580	9,01,270	14,40,414	20,48,020
Total Shareholder's Funds	9,04,240	9,04,890	14,44,034	20,51,640
Minority Interest	7,820	8,300	8,300	8,300
Long-Term Liabilities	-	-	-	-
Other Long-term Liabilities	80,950	80,490	80,490	80,490
Deferred Tax Liability	(25,150)	(24,260)	(24,260)	(24,260)
Short-term Liabilities	4,35,580	4,61,040	5,07,144	5,68,001
Total	14,03,441	14,30,461	20,15,709	26,84,172
<u>Assets</u>				
Net Fixed Assets	2,17,491	2,11,681	1,98,851	1,97,931
Long-Term L&A	38,490	27,780	27,780	27,780
Non Current Investments	2,660	2,810	2,810	2,810
Other Non-Current Assets	42,100	58,350	58,350	58,350
Current Asset	11,02,700	11,29,840	17,27,917	23,97,301
Total	14,03,441	14,30,461	20,15,709	26,84,172

Key Ratios	FY-23	FY-24	FY-25E	FY-26E
EPS (₹)	116.5	126.9	149.0	167.9
P/E (x)	35.8	32.6	27.8	24.7
P/B (x)	16.5	16.5	10.4	7.3
ROE	46.6%	50.7%	37.3%	29.6%

Source: Company, Anand Rathi Research

Key Risks:

- ❑ Cross currency headwinds may affect margin and revenue growth.
- ❑ High attrition rate and elevated sub-contractor cost.
- ❑ Impact of global recession or slowdown on deal inflow.

Rating and Target Price history:

TCS rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on 14 October 2024 close.

TCS rating details

Date	Rating	Target Price (₹)	Share Price (₹)
15-April-2021	BUY	3,610	3,104
14-July-2021	BUY	3,720	3,214
24-Nov-2021	BUY	3,990	3,444
19-Jan-2022	HOLD	4,350	3,828
14-April-2022	BUY	4,350	3,665
12-July-2022	BUY	3,770	3,114
11-Jan-2023	HOLD	3,770	3,325
14-Apr-2023	HOLD	3,560	3,190
17-July-2023	HOLD	3,800	3,492
18-Oct-2023	HOLD	3,800	3,487
15-Jan-2024	HOLD	4,250	3,904
22-Apr-2024	HOLD	4,250	3,873
15-Jul-2024	HOLD	4,432	4,168
14-Oct-2024	HOLD	4,432	4,141

Source: Bloomberg, Anand Rathi Research

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