

Stock Update

On a promising set up

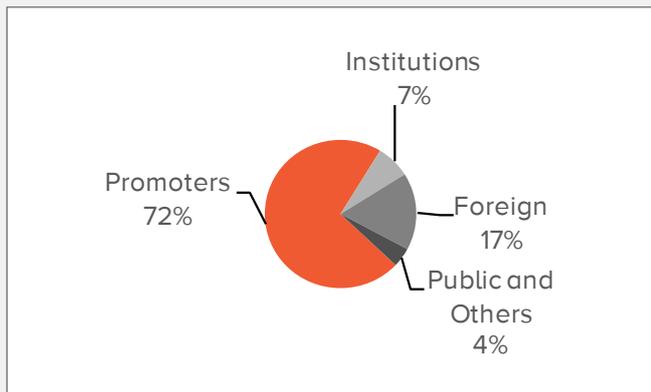
Tata Consultancy Services

Reco: Buy | CMP: Rs2,077

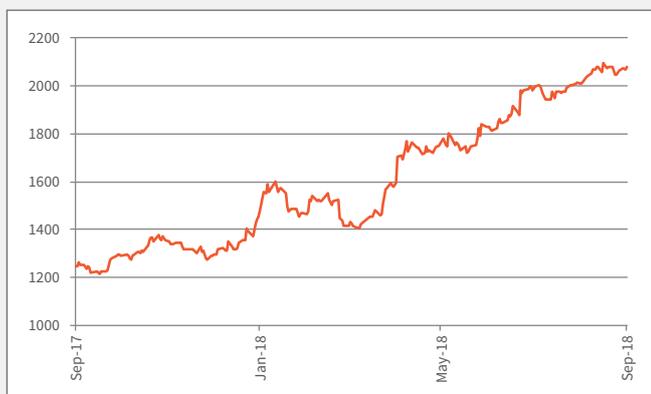
Company details

Price target:	Rs2,400
Market cap:	Rs795,157 cr
52-week high/low:	Rs1,210/2,105
NSE volume: (No of shares)	26.7 lakh
BSE code:	532540
NSE code:	TCS
Sharekhan code:	TCS
Free float: (No of shares)	107.5 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.9	13.4	48.1	68.3
Relative to Sensex	4.6	7.7	30.7	44.7

Key points

- ◆ **Currency reset fuels earnings upgrades:** The recent sharp fall in rupee against USD would benefit TCS in terms of higher EBIT margin along with upside at PAT level, given its cash flow hedges policy, exposure to the U.S. (~53% of total revenue in Q1FY2019) and favourable onsite mix. Since the beginning of Q2FY2019, USD/INR rates have witnessed correction of close to 5.7% and are currently hovering around Rs. 72.5 levels vs. USD. Hence, we have incorporated INR/USD rate of Rs. 70 for the remaining quarters of FY2019 and Rs. 71.5 for FY2020E and beyond. However, we have revised down our USD revenue growth estimates owing to cross-currency headwinds (U.S. dollar has appreciated against major currencies). Effectively, we have revised upward our EBIT margin estimates and increased our earnings estimates by 5%/5.5% for FY2019E/FY2020E, given the reset of INR/USD assumptions.
- ◆ **Promising business visibility:** We believe TCS is on track to achieve double-digit constant currency (CC) revenue growth (management targets to achieve 10% CC growth) in FY2019, given large deal ramp-ups (signed over \$8 billion deals in the past two-three quarters), turnaround of the BFSI vertical (3.7% q-o-q in Q1FY2019) and improved macro environment (such as demand recovery in the U.S. and rupee tailwind). Further, the company's ability to manage mega multi-technology deals through its Business 4.0 framework along with preferred digital transformation program partner and long-term client relationships provide visibility of sustenance of revenue growth momentum in FY2020E. Notably, revenue from the digital business has grown at an 8.7% CAGR over the past eight quarters, which outperforms large Indian IT players, thanks to its head start investments in digital technologies over competitors. In our view, TCS is well placed among IT outsourcing companies to capture large scale digital transformation deals.
- ◆ **Superior capability justifies premium valuations:** We have revised upward our earnings estimates for FY2019E/FY2020E on account of reset of USD/INR rate and have introduced FY2021 numbers in this note. The stock has given a return of around 65% in the past one year and is currently trading at 22x its

FY2020E EPS estimates. We believe TCS stock would continue to trade at a healthy premium to its peers, given its superior execution capabilities, ability to win large digital-win deals and is best-positioned in the competitive landscape. Further, TCS is expected to deliver best-in-class growth rates among large-cap IT

companies with revenue and earnings CAGRs of 13% and 14%, respectively, over FY2018-FY2021E. Therefore, we maintain our Buy rating on the stock with a revised price target (PT) of Rs. 2,400 (rollover target multiple to average FY2020E and FY2021E EPS estimates).

Valuations

Particulars	Rs cr			
	FY18	FY19E	FY20E	FY21E
Total revenue	1,23,104.0	1,45,254.7	1,63,246.1	1,77,939.1
EBIT margin (%)	24.8	26.2	26.3	26.4
Net profit	25,826.0	31,900.1	35,505.4	38,676.2
EPS (Rs.)	67.5	83.3	92.7	101.0
P/E (x)	30.8	24.9	22.4	20.6
EV/EBITDA	12.1	9.8	8.7	7.8
RoE (%)	29.5	33.9	33.9	33.1
RoCE (%)	37.6	43.6	43.9	42.9

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