

Tata Consultancy Services Ltd.



TCS Ltd.

Market leadership continues

CMP INR 2113	Target INR 2236	Potential Upside 5.8%	Market Cap (INR Mn) 7,929,915	Recommendation Accumulate	Sector IT Services
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Result highlights

TCS delivered solid constant currency (cc) revenue growth of 12.7% yoy (+2.4% qoq) in Q4 FY19 while the USD Revenue increased 8.5% yoy to USD 5,397 mn (+2.8% qoq) in line with our expectations. In Rupee terms, top line increased 1.8% qoq to INR 38,010 Cr. (+18.5% yoy). Operating margin of 25.1% in Q4 FY19 was down 52 bps qoq (down 31 bps yoy) impacted by slightly higher direct cost as % of revenue.

- **By Geography:** North America business increased 9.9% yoy in cc basis while the UK (+21.3% yoy) and Europe (+17.5% yoy) region delivered strong performance.
- **By Industry:** BFSI revenue grew 11.6% yoy in cc basis and accounted for 30.8% of total business in 4QFY19, while revenue from Retail & CPG vertical saw near double digit growth (+9.9% yoy). Healthcare vertical stood out with revenue growing at 18.2% yoy.
- **By offering:** Digital Revenues registered a strong 46.4% yoy (representing 31% of total business in 4QFY19 vs. 23.8% in 4Q FY18)

MARKET DATA

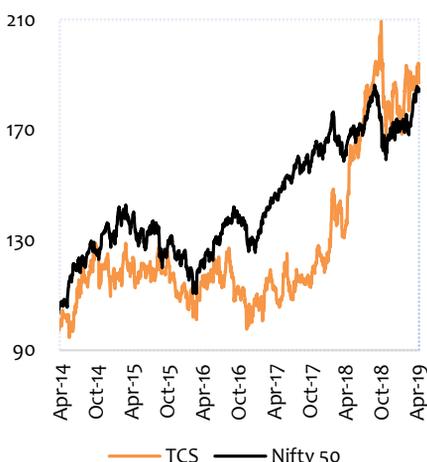
Shares outs (Mn)	3,752
Equity Cap (INR Mn)	915,560
Mkt Cap (INR Mn)	7,929,915
52 Wk H/L (INR)	2,276/1,554
Volume Avg (3m K)	3,245
Face Value (INR)	1.0
Bloomberg Code	TCS IN

KEY FINANCIALS

In INR Crores	FY17	FY18	FY19	FY20E	FY21E
Revenue	117,966	123,104	146,463	162,423	179,574
EBIT	30,324	30,502	37,450	42,511	46,999
PAT	26,289	25,826	31,472	34,878	38,290
EPS (INR)	69.37	68.15	83.05	92.03	101.03
EBIT Margin	25.7%	24.8%	25.6%	26.2%	26.2%
NPM	22.3%	21.0%	21.5%	21.5%	21.3%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	38,906
NIFTY	11,690

Solid top line performance led by broad based growth across region/verticals

TCS delivered an impressive top line performance during 4QFY19 with broad based growth across verticals and regions. BFSI revenue grew 11.6% yoy (cc basis) while Retail and CPG vertical increased 9.9%. Similarly, Healthcare (+18.2% yoy), Manufacturing (+.92% yoy) and Communications (+10% yoy) also posted impressive revenue growth. In terms of geography, revenue from North America increased 9.9% yoy and accounted for 50.7% of total revenue in 4QFY19 while Asia Pac posted 11.5% yoy growth. Business from Europe (ex-UK) improved 17.5% yoy while the LatAM region delivered a solid 16.2% yoy growth. Despite the challenging macro environment in the UK (Brexit related risks), company managed to grow its UK revenues by 21.3% yoy. Overall, growth was broad based with key verticals and region registering double digit growth.

Margin under control, nearly three-fourth workforce trained on Digital/Agile technologies

TCS reported operating margin of 25.1% in Q4 FY19, a moderate 52 bps qoq contraction (down 31 bps yoy). The decline in margin was primarily due to slightly higher Opex cost largely on training and development front. Net employee addition stood at 6,356 during the quarter while attrition rate at 11.3% was among the lowest in the industry. TCS management indicated that the company has already trained 73% of workforce on digital skills and 82% of workforce are trained on agile processes indicating that the company is well prepared for the changing technology landscape into Digital/agile technologies. Overall, we see TCS delivering growth without compromising on the margin front unlike its IT rival Infosys, where EBIT was under considerable pressure.

New deal wins and strong orderbook, well prepared towards Digital services

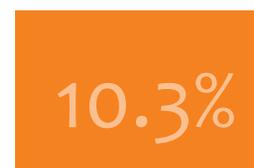
TCS added 6 new \$100mn clients and 2 new \$50mn clients during the quarter compared to last year with TCV of contracts signed at USD 6.2bn in 4QFY19 indicating strong deal closures. In fact, management indicated that order book in 4QFY19 was the highest in last four quarters with book-to-bill ratio at 1.05x in FY19. In our view, the company's broad based growth performance and the organisation wide preparedness towards changing technology landscape are the key positives. We expect TCS to leverage its market leadership position and participate aggressively into new market opportunities/client account wins.

SHARE HOLDING PATTERN (%)

Particulars	Mar 19	Dec 18	Sep 18
Promoters	72.05	72.05	72.05
FIIIs	15.80	15.80	16.05
DIIIs	7.72	7.62	7.40
Others	4.43	4.53	4.50
Total	100	100	100



Revenue CAGR between FY19 and FY21E



PAT CAGR between FY19 and FY21E

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Key Concall Highlights: (i) Management indicated that Europe overall as a geography continues to be ahead and growing faster than other regions. TCS indicated that European banking business has been positive but warned of few large European banks going through challenges. (ii) Management is highly positive on retail business outlook from a medium term perspective (iii) Company's Business 4.0 framework, which was launched 1.8 years back, is becoming de-facto model that companies across the world are adopting for their growth & transformation initiatives. (iv) Management cited that the company has the lowest attrition rate in the industry, and does not see any challenges in the near term. (v) On the digital front, the company introduced almost 28 different service lines and is participating aggressively across into new deals.

Valuation and view

We expect TCS to continue its high growth trajectory with a topline growth of 10.9%/10.6% in FY20E/FY21E supported by its digital business initiatives. Macro environment for global IT spending is improving and is expected to increase 3.5%/2.8% in CY20E/21E. The company's preparedness on training its work force towards Digital/Agile technologies provide a key competitive advantage for TCS over its peers and should translate into key client account wins. On the margin front, we expect EBIT to improve 50-60 bps over FY20/21. **TCS is currently trading at a P/E multiple of 23.0x/20.9x on FY20E/FY21E earnings. In our view, TCS shares warrant a sector premium for its market leadership position, readiness to participate aggressively into new opportunities and its high ROE. We apply a P/E multiple of 24.3x to the FY20 estimated EPS of INR 92 to arrive at a target price of INR 2236 per share, an upside of 5.8% over last close. Accordingly, we assign an "ACCUMULATE" rating to the stock.**

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Crores	FY 17	FY 18	FY 19	FY 20E	FY 21E
Revenues	117,966	123,104	146,463	162,423	179,574
Cost of sales	66,887	71,288	85,158	94,612	104,602
Gross profit	51,079	51,816	61,305	67,812	74,972
Opex	20,755	21,314	23,855	25,301	27,973
Operating profit	30,324	30,502	37,450	42,511	46,999
D&A	1,987	2,014	2,055	2,074	2,294
EBITDA	32,311	32,516	39,505	44,585	49,293
Other income, net	4,189	3,590	4,113	3,500	3,500
Pretax Income	34,513	34,092	41,563	46,011	50,499
Adjusted Pretax Income	34,513	34,092	41,563	46,011	50,499
Income tax expense	8,156	8,212	10,001	11,043	12,120
Minority interest	(68)	(54)	(90)	(90)	(90)
Net profit	26,289	25,826	31,472	34,878	38,290
Adjusted Net profit	26,289	25,826	31,472	34,878	38,290
Diluted EPS (INR)	69.4	68.1	83.0	92.0	101.0
Adjusted Diluted EPS (INR)	69.4	68.1	83.0	92.0	101.0
No. of Shares (mn) - Diluted	3,790	3,790	3,790	3,790	3,790

Source: Company, KRChoksey Research

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TCS Ltd.

Exhibit 2: Balance Sheet

INR Crores	FY17	FY18	FY19	FY20E	FY21E
Assets					
Cash and equivalents	3,597	4,883	7,224	11,736	19,054
Bank Deposits	430	2,056	5,428	5,428	5,428
Trade receivables	22,617	24,943	27,346	29,392	32,416
Investments	41,636	35,707	29,091	29,091	29,091
Other Current Assets	12,036	13,635	23,042	23,042	23,042
Total current assets	80,316	81,224	92,131	98,689	109,031
Property, plant and equipment	11,741	11,600	11,650	12,824	14,122
Goodwill	3,721	3,884	3,834	3,834	3,834
Other Intangible Assets, net	47	12	179	179	179
Other non current assets	9,528	11,689	9,259	9,259	9,259
Total non-current assets	25,037	27,185	24,922	26,096	27,394
Total Assets	105,353	108,409	117,053	124,785	136,425
Liabilities and equity					
Trade payables	6,279	5,094	6,292	6,480	7,165
Short-term Borrowings	218	193	18	19	19
Other Current liabilities	8,015	12,541	15,774	15,774	15,774
Total current liabilities	14,512	17,828	22,084	22,273	22,958
Long-Term Debt / Borrowings	71	54	44	43	43
Non-current liabilities	2,089	2,884	2,916	2,916	2,916
Total liabilities	16,672	20,766	25,044	25,232	25,917
Share capital	197	191	375	375	375
Share premium	5,082	-	-	-	-
Other reserves	1,549	2,796	2,566	2,566	2,566
Retained earnings	81,487	84,254	88,615	96,069	106,935
Total Equity holders of the company	88,315	87,241	91,556	99,010	109,876
Non-controlling interests	366	402	453	543	633
Total Equity	88,681	87,643	92,009	99,553	110,509
Total liabilities and equity	105,353	108,409	117,053	124,785	136,425

Source: Company, KRChoksey Research

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Exhibit 3: Free Cash Flow Analysis

INR Crores	FY17	FY18	FY19	FY20E	FY21E
Net Cash Generated From Operations	27,607	28,166	31,667	35,136	38,284
Net Cash Flow from/(used in) Investing Activities	(19,136)	(253)	(1,664)	(3,248)	(3,591)
Net Cash Flow from Financing Activities	(11,006)	(26,845)	(27,711)	(27,424)	(27,424)
Net Inc/Dec in cash equivalents	(2,535)	1,068	2,292	4,463	7,269
Opening Balance	6,295	3,597	4,883	7,224	11,736
Closing Balance Cash and Cash Equivalents	3,597	4,883	7,224	11,736	19,054

Source: Company, KRChoksey Research

Exhibit 4: Ratio Analysis

Key Ratio	FY17	FY18	FY19	FY20E	FY21E
EBIT Margin (%)	25.7%	24.8%	25.6%	26.2%	26.2%
Tax rate (%)	23.6%	24.1%	24.1%	24.0%	24.0%
Net Profit Margin (%)	22.3%	21.0%	21.5%	21.5%	21.3%
RoE (%)	29.8%	29.6%	34.4%	35.2%	34.8%
RoCE (%)	33.4%	33.7%	39.4%	41.5%	41.4%
Current Ratio (x)	5.53x	4.56x	4.17x	4.43x	4.75x
EPS (INR)	69.37	68.15	83.05	92.03	101.03

Source: Company, KRChoksey Research

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TCS Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
16-Apr-19	2113	2236	ACCUMULATE	Buy	More than 15%
20-Apr-18	3191	3357	ACCUMULATE	Accumulate	5% – 15%
12-Jan-18	2770	2806	HOLD	Hold	0 – 5%
13-Oct-17	2,548	2,757	ACCUMULATE	Reduce	-5% – 0
14-Jul-17	2,446	2,675	ACCUMULATE	Sell	Less than – 5%
19-Apr-17	2,283	2,583	ACCUMULATE		
13-Jan-17	2,344	2,490	ACCUMULATE		
19-Oct-16	2,400	2,570	ACCUMULATE		

ANALYST CERTIFICATION:

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