

BUY

TP: Rs 3,780 | ▲ 16%

**TATA CONSULTANCY
SERVICES**

| IT Services

| 12 April 2021

Strong contract wins lend a head start for FY22

TCS's Q4FY21 revenue growth of 4.2% QoQ CC was broadly in line with our optimistic estimates in a seasonally weak quarter. Growth was broad-based across verticals and geographies. Adj. EBIT margin stood at 26.8%, up 20bps QoQ despite hiring. TCV was strong at US\$ 9.2bn. We tweak FY22/FY23 EPS by -1%/-3%, raise our target P/E to 28x (vs. 27.4x) and roll over to a new Mar'22 TP of Rs 3,780 (vs. Rs 3,710). Being the industry leader, TCS will be a prime beneficiary of vendor consolidation during the current technology upcycle. Maintain BUY.

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Results in line: TCS reported QoQ revenue growth of 4.2% CC/5% USD, nearly in line with our optimistic estimates of 4.4% CC/5.2% USD. Demand is robust, as indicated by its highest-ever quarterly TCV of US\$ 9.2bn, up 3% YoY on a strong base of US\$ 8.9bn in Q4FY20.

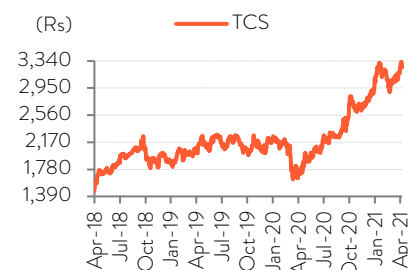
Geographically, the UK and Europe grew the most at 7-9% QoQ USD. India was strong at 5% USD, followed by North America at 4%. Vertical-wise, BFSI posted stellar growth of 8% QoQ USD. Manufacturing and RCPG both increased by 5% USD each and life sciences was robust at 4%. The strong all-round showing indicates the beginning of a multiyear demand growth cycle wherein we expect TCS to be the prime beneficiary.

Margins intact: EBIT margin at 26.8% expanded 20bps QoQ, in line with our estimate and within TCS's targeted band of 26-28% – this was despite record quarterly hiring of ~19,400 employees and INR appreciation. Management expects to maintain margins aided by accelerated growth.

Strong BFSI TCV: BFSI is gaining momentum with TCV at an all-time high of US\$ 3.9bn (+63% YoY, +50% QoQ). Retail TCV was at US\$ 1.4bn. Most deals are being driven by core transformation, app modernisation and cloud migration.

Ticker/Price	TCS IN/Rs 3,247
Market cap	US\$ 162.4bn
Shares o/s	3,753mn
3M ADV	US\$ 143.0mn
52wk high/low	Rs 3,354/Rs 1,675
Promoter/FPI/DII	72%/17%/11%

Source: NSE

STOCK PERFORMANCE

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21A	FY22E	FY23E
Total revenue (Rs mn)	1,464,630	1,569,490	1,641,770	2,026,582	2,383,493
EBITDA (Rs mn)	395,050	421,100	465,460	590,316	678,489
Adj. net profit (Rs mn)	315,240	323,400	336,480	435,024	499,401
Adj. EPS (Rs)	84.0	86.2	90.9	117.6	135.0
Adj. EPS growth (%)	25.3	2.6	5.5	29.3	14.8
Adj. ROAE (%)	35.5	37.0	39.2	44.2	40.7
Adj. P/E (x)	38.7	37.7	35.7	27.6	24.1
EV/EBITDA (x)	30.7	28.8	26.1	20.6	17.9

Source: Company, BOBCAPS Research

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Important disclosures, including any required research certifications, are provided at the end of this report.



Other highlights

- The board has declared dividend of Rs 15/sh.
- TCS hired 19,388 employees in Q4FY21, the highest ever in a quarter.
- Attrition at 7.2% was at an all-time low.
- BFSI and retail TCV stood at US\$ 3.9bn and US\$ 1.4bn respectively vs. US\$ 2.6bn and US\$ 1.8bn in Q3FY21.

FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Revenues (US\$ mn)	5,989	5,444	10.0	5,702	5.0	22,174	22,032	0.6
Revenue (Rs mn)	437,050	399,460	9.4	420,150	4.0	1,641,770	1,569,490	4.6
Operating Expenditure	309,040	289,700	6.7	298,080	3.7	1,176,310	1,148,390	2.4
Cost of revenues	248,600	224,410	10.8	237,490	4.7	940,530	896,350	4.9
as % of sales	56.9	56.2	-	56.5	-	57.3	57.1	-
SG&A expenses	60,440	65,290	(7.4)	60,590	(0.2)	235,780	252,040	(6.5)
as % of sales	13.8	16.3	-	14.4	-	14.4	16.1	-
EBITDA	128,010	109,760	16.6	122,070	4.9	465,460	421,100	10.5
Depreciation	10,670	9,510	12.2	10,230	4.3	40,650	35,300	15.2
EBIT	117,340	100,250	17.0	111,840	4.9	424,810	385,800	10.1
Other Income	7,930	4,870	62.8	5,080	56.1	24,970	36,680	-
PBT	125,270	105,120	19.2	116,920	7.1	449,780	422,480	6.5
Total Tax	32,450	24,190	34.1	29,650	9.4	111,980	98,010	14.3
Adjusted PAT	92,820	80,930	14.7	87,270	6.4	337,800	324,470	4.1
(Profit)/loss from JV's/Ass/MI	(360)	(440)	-	(260)	-	(1,320)	(1,070)	-
APAT after MI	92,460	80,490	14.9	87,010	6.3	336,480	323,400	4.0
Reported PAT	92,460	80,490	14.9	87,010	6.3	336,480	323,400	4.0
Reported EPS	25.0	21.4	16.5	23.2	7.7	90	86	4.5
Margins (%)			(bps)		(bps)			(bps)
EBITDA	29.3	27.5	180	29.1	20	28.4	26.8	(150)
EBIT	26.8	25.1	180	26.6	20	25.9	24.6	(130)
EBT	28.7	26.3	230	27.8	80	27.4	26.9	(50)
PAT	21.2	20.1	100	20.7	40	20.5	20.6	10
Effective Tax Rate	25.9	23.0	290	25.4	50	24.9	23.2	(170)

Source: BOBCAPS Research, Company

FIG 2 – OPERATING METRICS

(in US\$ terms)	Q4FY21 (% Contr. to Revenue)	Growth (%)	
		QoQ	YoY
Deal win TCV (US\$ mn)	9,200	35.3	3.4
Revenue by Geography			
Americas	48.6	4.0	6.3
UK	16.0	7.0	10.0
Europe	16.8	8.9	21.6
India	5.6	5.0	12.0
Asia Pac	9.4	1.8	11.2
Ibero America	1.6	(1.1)	2.0
MEA	2.0	5.0	15.8
Revenue by Domain			
BFSI	32.2	8.1	19.3
Manufacturing	9.6	5.0	4.6
Telecom & Media	6.5	3.4	(0.7)
Life Sciences & Healthcare	9.7	4.0	21.3
Retail & CPG	14.5	5.0	3.6
Technology & Services	8.4	2.6	6.2
Regional Markets & Others	19.1	2.4	4.5
	Q4FY21	Q3FY21	Q4FY20
Attrition (LTM) (%)	7.2	7.6	12.1

Source: BOBCAPS Research, Company

Valuation methodology

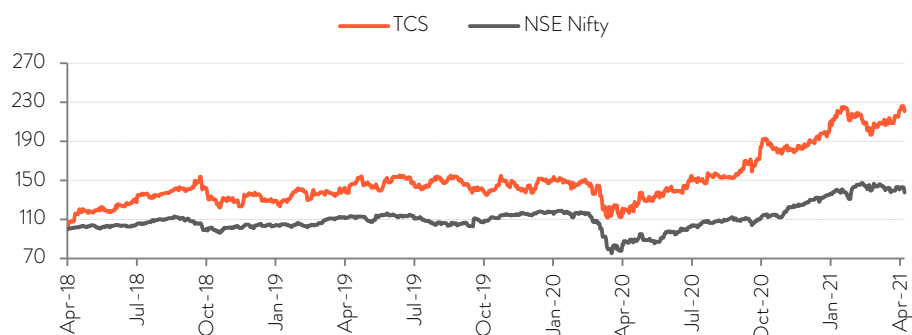
Following a strong Mar'21 quarter on all counts, we roll over to a new Mar'22 target price of Rs 3,780 (Rs 3,710 earlier) based on an updated one-year forward P/E multiple of 28x (27.4x earlier) which is +2sd above the last five-year mean P/E of 21.2x. We adjust FY22/FY23 EPS estimates by -1.3%/-3.5%. The P/E is justified by TCS's industry-leading position which makes it the prime beneficiary of the upcoming technology upcycle, growing cloud migration demand and vendor consolidation. Reiterate BUY.

FIG 3 – REVISED ESTIMATES

(Rs mn)	FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)
Revenues (US\$ mn)	27,337	26,485	(3.1)	31,928	30,457	(4.6)
YoY growth (%)	23.2	19.4	-	16.8	15.0	-
Revenues	2,091,917	2,026,582	(3.1)	2,490,423	2,383,493	(4.3)
EBITDA	598,885	590,316	(1.4)	703,010	678,489	(3.5)
EBITDA margin (%)	28.6	29.1	-	28.2	28.5	-
Net profits	441,514	435,024	(1.5)	518,669	499,401	(3.7)
EPS (Rs)	119.1	117.6	(1.3)	139.9	135.0	(3.5)

Source: BOBCAPS Research

FIG 4 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key downside risks to our estimates are:

- non-conversion of TCV, and
- impact from the second Covid-19 wave.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Total revenue	1,464,630	1,569,490	1,641,770	2,026,582	2,383,493
EBITDA	395,050	421,100	465,460	590,316	678,489
Depreciation	20,550	35,300	40,650	41,297	45,248
EBIT	374,500	385,800	424,810	549,019	633,241
Net interest income/(expenses)	0	0	0	0	0
Other income/(expenses)	41,130	36,680	24,970	31,039	32,539
Exceptional items	0	0	0	0	0
EBT	415,630	422,480	449,780	580,058	665,780
Income taxes	100,010	98,010	111,980	144,435	165,779
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	(380)	(1,070)	(1,320)	(600)	(600)
Reported net profit	315,240	323,400	336,480	435,024	499,401
Adjustments	0	0	0	0	0
Adjusted net profit	315,240	323,400	336,480	435,024	499,401

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Accounts payables	0	0	0	0	0
Other current liabilities	250,000	292,440	371,480	349,794	411,397
Provisions	0	0	0	0	0
Debt funds	440	69,060	65,030	65,030	65,030
Other liabilities	0	0	0	0	0
Equity capital	3,750	3,750	3,700	3,700	3,700
Reserves & surplus	0	0	0	0	0
Shareholders' fund	898,990	847,490	871,080	1,097,283	1,356,873
Total liabilities and equities	1,149,430	1,208,990	1,307,590	1,512,107	1,833,300
Cash and cash eq.	72,240	86,460	68,580	141,676	320,616
Accounts receivables	273,460	305,320	300,790	388,660	457,108
Inventories	0	0	0	0	0
Other current assets	243,530	239,510	295,170	333,137	391,807
Investments	349,540	273,760	318,440	318,440	318,440
Net fixed assets	113,740	198,410	196,690	195,925	198,347
CWIP	0	0	0	0	0
Intangible assets	18,790	19,930	22,780	22,780	22,780
Deferred tax assets, net	26,560	28,280	39,310	39,310	39,310
Other assets	51,570	57,320	65,830	72,180	84,892
Total assets	1,149,430	1,208,990	1,307,590	1,512,107	1,833,300

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Net income + Depreciation	236,600	359,770	378,450	476,920	545,249
Interest expenses	(25,640)	(36,680)	(24,970)	(31,039)	(32,539)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(21,690)	8,850	19,400	(153,872)	(78,227)
Other operating cash flows	96,660	(2,965)	0	0	0
Cash flow from operations	285,930	328,975	372,880	292,009	434,482
Capital expenditures	(21,320)	(119,970)	(38,930)	(40,532)	(47,670)
Change in investments	73,820	(75,780)	44,680	0	0
Other investing cash flows	(36,050)	36,680	24,970	31,039	32,539
Cash flow from investing	16,450	(159,070)	30,720	(9,492)	(15,131)
Equities issued/Others	0	0	(259,499)	0	0
Debt raised/repaid	(1,940)	0	0	0	0
Interest expenses	(162,310)	0	0	0	0
Dividends paid	(114,720)	(155,685)	(161,981)	(209,420)	(240,412)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(278,970)	(155,685)	(421,480)	(209,420)	(240,412)
Changes in cash and cash eq.	23,410	14,220	(17,880)	73,096	178,940
Closing cash and cash eq.	72,240	86,460	68,580	141,676	320,616

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21A	FY22E	FY23E
Reported EPS	84.0	86.2	90.9	117.6	135.0
Adjusted EPS	84.0	86.2	90.9	117.6	135.0
Dividend per share	30.0	34.5	36.4	47.0	54.0
Book value per share	239.5	225.8	235.4	296.6	366.7

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21A	FY22E	FY23E
EV/Sales	8.3	7.7	7.4	6.0	5.1
EV/EBITDA	30.7	28.8	26.1	20.6	17.9
Adjusted P/E	38.7	37.7	35.7	27.6	24.1
P/BV	13.6	14.4	13.8	10.9	8.9

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21A	FY22E	FY23E
Tax burden (Net profit/PBT)	75.8	76.5	74.8	75.0	75.0
Interest burden (PBT/EBIT)	111.0	109.5	105.9	105.7	105.1
EBIT margin (EBIT/Revenue)	25.6	24.6	25.9	27.1	26.6
Asset turnover (Revenue/Avg TA)	131.1	133.1	130.5	143.7	142.5
Leverage (Avg TA/Avg Equity)	1.3	1.4	1.5	1.4	1.4
Adjusted ROAE	35.5	37.0	39.2	44.2	40.7

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21A	FY22E	FY23E
YoY growth (%)					
Revenue	19.0	7.2	4.6	23.4	17.6
EBITDA	21.5	6.6	10.5	26.8	14.9
Adjusted EPS	25.3	2.6	5.5	29.3	14.8
Profitability & Return ratios (%)					
EBITDA margin	27.0	26.8	28.4	29.1	28.5
EBIT margin	25.6	24.6	25.9	27.1	26.6
Adjusted profit margin	21.5	20.6	20.5	21.5	21.0
Adjusted ROAE	35.5	37.0	39.2	44.2	40.7
ROCE	34.3	35.8	37.6	43.7	44.8
Working capital days (days)					
Receivables	65	67	67	62	65
Inventory	0	0	0	0	0
Payables	78	86	103	92	81
Ratios (x)					
Gross asset turnover	12.8	10.1	8.3	10.3	12.1
Current ratio	2.6	2.4	2.0	2.7	3.0
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	(0.1)	0.0	0.0	(0.1)	(0.2)

Source: Company, BOBCAPS Research

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

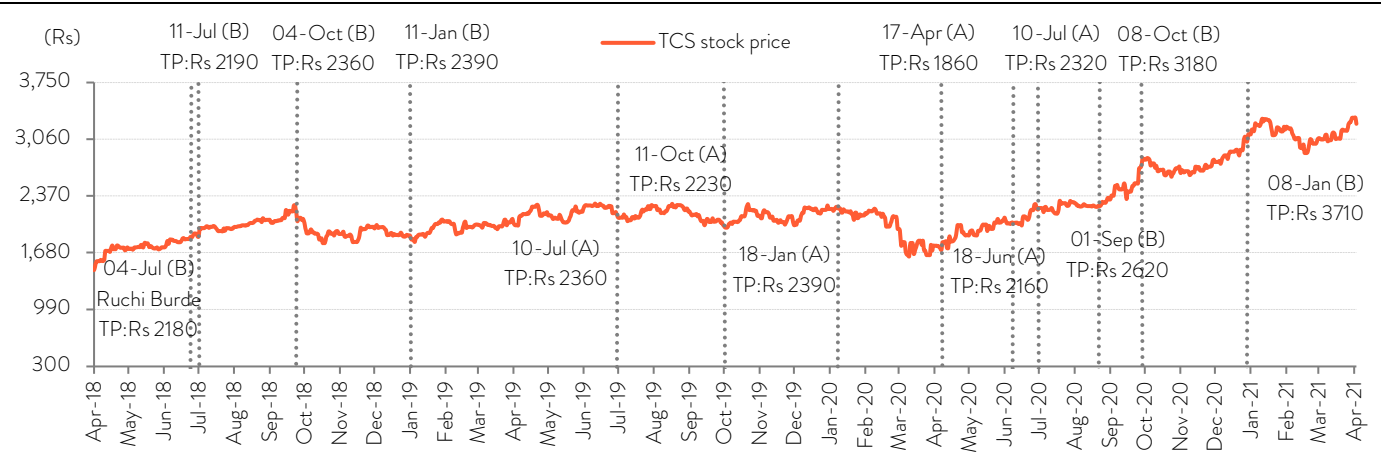
REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

RATINGS AND TARGET PRICE (3-YEAR HISTORY): TATA CONSULTANCY SERVICES (TCS IN)



B – Buy, A – Add, R – Reduce, S – Sell

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