

# Retail Equity Research

## Tata Consultancy Services Limited

IT Services

BSE CODE: 532540

NSE CODE: TCS

Bloomberg CODE: TCS:IN

SENSEX: 48,804

**BUY**

12M Investment period

Rating as per Large Cap

CMP Rs. 3,219 TARGET Rs. 3,773 RETURN 17%  
(Closing: 15-04-21) 

**KEY CHANGES:**

**TARGET** 

**RATING** 

**EARNINGS** 

### Strong exit from FY2021

Tata Consultancy Services, a division of Tata Sons Limited, is a global IT services organization that provides a comprehensive range of IT services to its clients in diverse industries. The Company, caters to finance and banking, insurance, telecommunication, transportation, retail, manufacturing, pharmaceutical, and utility industries

- In Q4FY21, revenue rose 9.4% YoY (+4.2% QoQ and +5.9% YoY on constant currency CC basis), led by BFSI (+7.0% QoQ, +13.3% YoY in CC), Retail CPG (+4.0% QoQ, -0.9% YoY in CC) and Life sciences & Healthcare.
- EBIT margin expanded further to 26.8% (+20bps QoQ/+175bps YoY) supported by operating efficiency and large transformational deals. Resultantly, net profit surged 14.9% YoY to Rs. 9,246cr further benefitted by lower tax recorded during the quarter.
- We remain positive on the stock as large deal wins and strong order book continues to support company's outlook. Additionally, operational efficiency and strong cash conversion cycle remains the key catalysts. We reiterate our BUY rating on the stock with a revised target price of Rs. 3,773 based on 31x FY23E adj. EPS.

### Revenue remains robust with strong growth across the verticals

Topline grew 9.4% YoY to Rs. 43,705cr (+4.2% QoQ, +5.9% YoY on CC basis). BFSI revenue increased to Rs. 17,559cr (+7.0% QoQ, +13.3% YoY in CC), supported by large transformational deals and core transformation. Retail and Consumer Packed Food (CPG) was at Rs. 6,778cr (+4.0% QoQ, -0.9% YoY in CC) owing to poor performance in sub sectors. Life Sciences and Healthcare segment continued to remain strong (+3.8% QoQ, +19.3% YoY in CC). Also, Manufacturing business went up 3.9% QoQ/+1.3% YoY on CC. Besides this, Communications and Media, and Technology Services rose 1.8% QoQ, while declined -4.0% YoY on CC terms. EBIT grew 17.0% to Rs. 11,734cr, as EBIT margin expanded 175bps YoY to 26.8% aided by operating efficiency and large deal wins. Resultantly, net profit surged 14.9% YoY to Rs. 9,246cr.

### Key concall highlights

- In Q4FY21, Company's order book stood at USD 9.2bn, the highest ever number recorded by the company so far. Additionally, TCS also added higher ever employees count 19,388 in Q4FY21, taking total to 488,649 in FY21. While attrition rate (LTM) in IT services was at lowest 7.2% vs. 7.6% in Q3FY21.
- Management proposed final dividend of Rs.15 in Q4FY21.

### Strong growth momentum aided by new products addition

TCS product portfolio continued to perform well in Q4FY21, Ignio signed up 15 new customers out of which 7 went live. Company upsell 21 products to its existing clients in Q4FY21. Overall, company added more than 50 customers for Ignio taking total to >200 in FY21. Additionally, TCS added 7 more reselling partners under channel partner program, won 2 more award under products suit and received 3 patent, with this company has 30 patents so far. Besides, TCS added 5 new wins and 5 go lives under financial domain TCS BaNCS, out of which biggest win was State Street in Q4FY21. Overall company recorded 19 wins for TCS BaNCS in FY21.

### Valuation

Outlook remain promising on the back of strong order book, robust growth across the geography and diverse product portfolio. Additionally, strong growth momentum in core business verticals are likely to continue with strong order booking in BFSI, Retail, and CPG. We reiterate our BUY rating on the stock with a revised target price of Rs. 3,773 based on 31x FY23E adj. EPS.

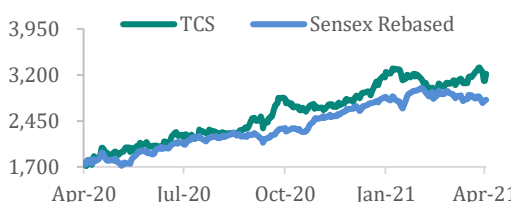
### Company Data

|                          |               |
|--------------------------|---------------|
| Market Cap (cr)          | Rs. 1,190,580 |
| Enterprise Value (cr)    | Rs. 1,198,896 |
| Outstanding Shares (cr)  | 374.0         |
| Free Float               | 28.0%         |
| Dividend Yield           | 1.2%          |
| 52 week high             | Rs. 3,359     |
| 52 week low              | Rs. 1,678     |
| 6m average volume (lacs) | 1.9           |
| Beta                     | 0.6           |
| Face value               | Rs. 1         |

| Shareholding %    | Q2FY21 | Q3FY21 | Q4FY21 |
|-------------------|--------|--------|--------|
| Promoters         | 72.1   | 72.1   | 72.2   |
| FII's             | 16.0   | 15.9   | 15.6   |
| MFs/Insti         | 7.9    | 7.8    | 7.9    |
| Public            | 3.5    | 3.6    | 3.7    |
| Others            | 0.6    | 0.7    | 0.7    |
| Total             | 100.0  | 100.0  | 100.0  |
| Promoters' pledge | 2.9    | 2.9    | 0.5    |

| Price Performance | 3 Month | 6 Month | 1 Year |
|-------------------|---------|---------|--------|
| Absolute Return   | -0.5%   | 17.5%   | 85.6%  |
| Absolute Sensex   | -0.5%   | 22.8%   | 60.6%  |
| Relative Return*  | 0.0%    | -5.3%   | 24.9%  |

\*over or under performance to benchmark index



| Consolidated (cr) | FY21A   | FY22E   | FY23E   |
|-------------------|---------|---------|---------|
| Sales             | 164,177 | 189,830 | 211,437 |
| Growth (%)        | 4.6     | 15.6    | 11.4    |
| EBITDA            | 46,546  | 54,256  | 60,453  |
| EBITDA Margin (%) | 28.4    | 28.6    | 28.6    |
| Adj. PAT          | 33,648  | 40,864  | 45,516  |
| Growth (%)        | 4.0     | 21.4    | 11.4    |
| Adj. EPS          | 90.0    | 109.3   | 121.7   |
| Growth (%)        | 4.4     | 21.4    | 11.4    |
| P/E               | 35.3    | 29.5    | 26.5    |
| P/B               | 13.8    | 12.6    | 11.6    |
| EV/EBITDA         | 25.5    | 22.1    | 19.8    |
| ROE (%)           | 37.5    | 42.8    | 44.0    |
| D/E               | 0.1     | 0.1     | 0.1     |

## Quarterly Financials (Consolidated)

### Profit & Loss Account

|                                | Q4FY21        | Q4FY20        | YoY Growth % | Q3FY21        | QoQ Growth % | FY21          | FY20          | YoY Growth % |
|--------------------------------|---------------|---------------|--------------|---------------|--------------|---------------|---------------|--------------|
| Revenue                        | 43,705        | 39,946        | 9.4          | 42,015        | 4.0          | 164,177       | 156,949       | 4.6          |
| <b>EBITDA</b>                  | <b>12,801</b> | <b>10,976</b> | <b>16.6</b>  | <b>12,208</b> | <b>4.9</b>   | <b>46,546</b> | <b>42,109</b> | <b>10.5</b>  |
| EBITDA margins                 | 29.3          | 27.5          | 175bps       | 29.1          | 20bps        | 28.4          | 26.8          | 150bps       |
| Depreciation                   | 1,067         | 951           | 12.2         | 1,024         | 4.2          | 4,065         | 3,529         | 15.2         |
| <b>EBIT</b>                    | <b>11,734</b> | <b>10,025</b> | <b>17.0</b>  | <b>11,184</b> | <b>4.9</b>   | <b>42,481</b> | <b>38,580</b> | <b>10.1</b>  |
| Interest                       | 138           | 251           | (45.0)       | 183           | (24.6)       | 637           | 924           | (31.1)       |
| Other Income                   | 931           | 738           | 26.2         | 691           | 34.7         | 3,134         | 4,592         | (31.8)       |
| Exceptional Items              | -             | -             | -            | -             | -            | (1,218)       | -             | n.m.         |
| <b>PBT</b>                     | <b>12,527</b> | <b>10,512</b> | <b>19.2</b>  | <b>11,692</b> | <b>7.1</b>   | <b>43,760</b> | <b>42,248</b> | <b>3.6</b>   |
| Tax                            | 3,245         | 2,419         | 34.1         | 2,965         | 9.4          | 11,198        | 9,801         | 14.3         |
| Share of profit from Associate | -             | -             | -            | -             | -            | -             | -             | -            |
| Minority Interest              | 36            | 44            | (18.2)       | 26            | 38.5         | 208           | 107           | 93.9         |
| <b>Reported PAT</b>            | <b>9,246</b>  | <b>8,049</b>  | <b>14.9</b>  | <b>8,701</b>  | <b>6.3</b>   | <b>32,430</b> | <b>32,340</b> | <b>0.3</b>   |
| Adjustments                    | -             | -             | -            | -             | -            | 1,218         | -             | n.m.         |
| <b>Adj. PAT</b>                | <b>9,246</b>  | <b>8,049</b>  | <b>14.9</b>  | <b>8,701</b>  | <b>6.3</b>   | <b>33,648</b> | <b>32,340</b> | <b>4.0</b>   |
| No. of shares                  | 374.0         | 375.2         | (0.3)        | 375.2         | (0.3)        | 374.0         | 375.2         | (0.3)        |
| <b>Adj. EPS (Rs.)</b>          | <b>24.7</b>   | <b>21.5</b>   | <b>15.2</b>  | <b>23.2</b>   | <b>6.6</b>   | <b>90.0</b>   | <b>86.2</b>   | <b>4.4</b>   |

### Change in Estimates

| Year / Rs. cr | Old estimates |         | New estimates |         | Change % |       |
|---------------|---------------|---------|---------------|---------|----------|-------|
|               | FY22E         | FY23E   | FY22E         | FY23E   | FY22E    | FY23E |
| Revenue       | 186,519       | 207,698 | 189,830       | 211,437 | 1.8      | 1.8   |
| EBITDA        | 52,107        | 58,146  | 54,256        | 60,453  | 4.1      | 4.0   |
| Margins (%)   | 27.9          | 28.0    | 28.6          | 28.6    | 70bps    | 60bps |
| Adj. PAT      | 39,305        | 43,764  | 40,864        | 45,516  | 4.0      | 4.0   |
| Adj. EPS      | 106.2         | 118.3   | 109.3         | 121.7   | 2.9      | 2.9   |

## PROFIT & LOSS

| Y.E March (Rs. cr)   | FY19A          | FY20A          | FY21A          | FY22E          | FY23E          |
|----------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Revenue</b>       | <b>146,463</b> | <b>156,949</b> | <b>164,177</b> | <b>189,830</b> | <b>211,437</b> |
| % change             | 19.0           | 7.2            | 4.6            | 15.6           | 11.4           |
| <b>EBITDA</b>        | <b>39,506</b>  | <b>42,109</b>  | <b>46,546</b>  | <b>54,256</b>  | <b>60,453</b>  |
| % change             | 21.5           | 6.6            | 10.5           | 16.6           | 11.4           |
| Depreciation         | 2,056          | 3,529          | 4,065          | 3,828          | 3,781          |
| <b>EBIT</b>          | <b>37,450</b>  | <b>38,580</b>  | <b>42,481</b>  | <b>50,427</b>  | <b>56,672</b>  |
| Interest             | 198            | 924            | 637            | 732            | 740            |
| Other Income         | 4,311          | 4,592          | 1,916          | 5,446          | 5,486          |
| <b>PBT</b>           | <b>41,563</b>  | <b>42,248</b>  | <b>43,760</b>  | <b>55,141</b>  | <b>61,417</b>  |
| % change             | 21.9           | 1.6            | 3.6            | 26.0           | 11.4           |
| Tax                  | 10,001         | 9,801          | 11,198         | 14,110         | 15,716         |
| Tax Rate (%)         | 24.1           | 23.2           | 25.6           | 25.6           | 25.6           |
| <b>Reported PAT</b>  | <b>31,472</b>  | <b>32,340</b>  | <b>32,430</b>  | <b>40,864</b>  | <b>45,516</b>  |
| Adj*                 | -              | -              | 1,218          | -              | -              |
| <b>Adj PAT</b>       | <b>31,472</b>  | <b>32,340</b>  | <b>33,648</b>  | <b>40,864</b>  | <b>45,516</b>  |
| % change             | 21.9           | 2.8            | 4.0            | 21.4           | 11.4           |
| No. of shares (cr)   | 379.0          | 375.2          | 374.0          | 374.0          | 374.0          |
| <b>Adj EPS (Rs.)</b> | <b>83.1</b>    | <b>86.2</b>    | <b>90.0</b>    | <b>109.3</b>   | <b>121.7</b>   |
| % change             | 23.8           | 3.8            | 4.4            | 21.4           | 11.4           |
| DPS (Rs.)            | 30.0           | 73.0           | 38.0           | 71.0           | 79.1           |
| CEPS (Rs.)           | 88.5           | 95.6           | 100.8          | 119.5          | 131.8          |

## CASH FLOW

| Y.E March (Rs. cr)      | FY19A           | FY20A           | FY21A           | FY22E           | FY23E           |
|-------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Net inc. + Depn.</b> | <b>33,528</b>   | <b>35,869</b>   | <b>36,495</b>   | <b>44,692</b>   | <b>49,297</b>   |
| Non-cash adj.           | (3,564)         | (656)           | 1,143           | (771)           | (10,194)        |
| Changes in W.C          | (1,371)         | (2,844)         | 1,164           | (5,072)         | (1,680)         |
| <b>C.F. Operation</b>   | <b>28,593</b>   | <b>32,369</b>   | <b>38,802</b>   | <b>38,850</b>   | <b>37,424</b>   |
| Capital exp.            | (1,954)         | (2,377)         | (2,682)         | (3,986)         | (4,440)         |
| Change in inv.          | 1,091           | 7,916           | (7,728)         | (2,690)         | -               |
| Other invest.CF         | 2,459           | 3,026           | 2,281           | (935)           | (443)           |
| <b>C.F - Investment</b> | <b>1,596</b>    | <b>8,565</b>    | <b>(8,129)</b>  | <b>(7,612)</b>  | <b>(4,883)</b>  |
| Issue of equity         | (16,000)        | -               | (19,757)        | -               | -               |
| Issue/repay debt        | (181)           | -               | -               | -               | -               |
| Dividends paid          | (11,472)        | (37,702)        | (10,907)        | (26,562)        | (29,585)        |
| Other finance.CF        | (244)           | (2,213)         | (1,970)         | (61)            | (77)            |
| <b>C.F - Finance</b>    | <b>(27,897)</b> | <b>(39,915)</b> | <b>(32,634)</b> | <b>(26,623)</b> | <b>(29,662)</b> |
| Chg. in cash            | 2,292           | 1,422           | (1,788)         | 4,615           | 2,878           |
| Closing cash            | 12,848          | 9,666           | 9,329           | 13,944          | 16,822          |

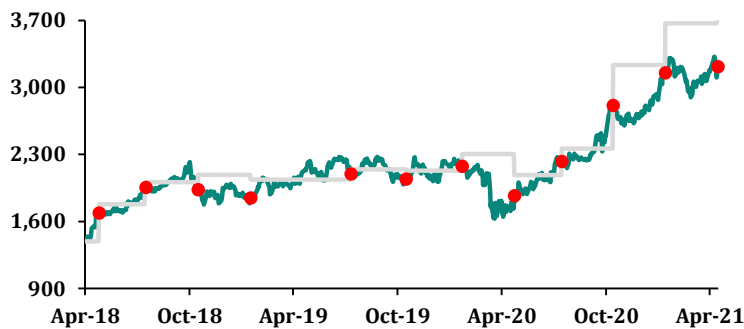
## BALANCE SHEET

| Y.E March (Rs. cr)       | FY19A          | FY20A          | FY21A          | FY22E          | FY23E          |
|--------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash                     | 12,848         | 9,666          | 9,329          | 13,944         | 16,822         |
| Accounts Receivable      | 27,346         | 30,532         | 30,079         | 34,644         | 38,059         |
| Inventories              | 10             | 5              | 8              | 11             | 12             |
| Other Cur. Assets        | 51,927         | 50,034         | 59,864         | 56,377         | 60,173         |
| Investments              | 239            | 216            | 213            | 2,903          | 2,903          |
| Gross Fixed Assets       | 24,522         | 26,899         | 29,581         | 33,567         | 38,008         |
| Net Fixed Assets         | 10,411         | 10,941         | 11,110         | 11,083         | 11,520         |
| CWIP                     | 963            | 906            | 926            | 1,111          | 1,333          |
| Intangible Assets        | 1,879          | 9,987          | 9,911          | 9,505          | 9,120          |
| Def. Tax (Net)           | 6,673          | 5,290          | 5,776          | 7,278          | 8,107          |
| Other Assets             | 2,647          | 3,322          | 3,543          | 3,382          | 3,382          |
| <b>Total Assets</b>      | <b>114,943</b> | <b>120,899</b> | <b>130,759</b> | <b>140,239</b> | <b>151,430</b> |
| Current Liabilities      | 22,084         | 25,792         | 32,863         | 33,204         | 36,313         |
| Provisions               | -              | -              | -              | -              | -              |
| Debt Funds               | 331            | 8,465          | 8,075          | 8,075          | 8,075          |
| Other Liabilities        | 2,629          | 1,893          | 2,713          | 2,652          | 2,575          |
| Equity Capital           | 375            | 375            | 370            | 370            | 370            |
| Reserves & Surplus       | 89,071         | 83,751         | 86,063         | 95,097         | 103,071        |
| Shareholder's Fund       | 89,446         | 84,126         | 86,433         | 95,467         | 103,441        |
| Minority Interest        | 453            | 623            | 675            | 841            | 1,027          |
| <b>Total Liabilities</b> | <b>114,943</b> | <b>120,899</b> | <b>130,759</b> | <b>140,239</b> | <b>151,430</b> |
| <b>BVPS (Rs.)</b>        | <b>236</b>     | <b>224</b>     | <b>231</b>     | <b>255</b>     | <b>277</b>     |

## RATIOS

| Y.E March                      | FY19A | FY20A | FY21A | FY22E | FY23E |
|--------------------------------|-------|-------|-------|-------|-------|
| <b>Profitab. &amp; Return</b>  |       |       |       |       |       |
| EBITDA margin (%)              | 27.0  | 26.8  | 28.4  | 28.6  | 28.6  |
| EBIT margin (%)                | 25.6  | 24.6  | 25.9  | 26.6  | 26.8  |
| Net profit mgn.(%)             | 21.5  | 20.6  | 19.8  | 21.5  | 21.5  |
| ROE (%)                        | 35.2  | 38.4  | 37.5  | 42.8  | 44.0  |
| ROCE (%)                       | 41.5  | 41.4  | 44.6  | 48.3  | 50.4  |
| <b>W.C &amp; Liquidity</b>     |       |       |       |       |       |
| Receivables (days)             | 68.1  | 71.0  | 66.9  | 66.6  | 65.7  |
| Inventory (days)               | 0.1   | 0.1   | 0.1   | 0.1   | 0.1   |
| Payables (days)                | 86.9  | 91.2  | 117.8 | 91.3  | 91.3  |
| Current ratio (x)              | 4.2   | 3.3   | 2.9   | 3.0   | 3.1   |
| Quick ratio (x)                | 3.1   | 2.5   | 2.0   | 2.3   | 2.2   |
| <b>Turnover &amp; Leverage</b> |       |       |       |       |       |
| Gross asset T.O (x)            | 6.2   | 6.1   | 5.8   | 6.0   | 5.9   |
| Total asset T.O (x)            | 1.3   | 1.3   | 1.3   | 1.4   | 1.4   |
| Int. coverage ratio (x)        | 189.1 | 41.8  | 66.7  | 68.9  | 76.5  |
| Adj. debt/equity (x)           | 0.0   | 0.1   | 0.1   | 0.1   | 0.1   |
| <b>Valuation</b>               |       |       |       |       |       |
| EV/Sales (x)                   | 5.1   | 4.3   | 7.2   | 6.3   | 5.7   |
| EV/EBITDA (x)                  | 18.9  | 16.2  | 25.5  | 22.1  | 19.8  |
| P/E (x)                        | 24.1  | 21.1  | 35.3  | 29.5  | 26.5  |
| P/BV (x)                       | 8.5   | 8.1   | 13.8  | 12.6  | 11.6  |

## Recommendation Summary



| Dates     | Rating | Target |
|-----------|--------|--------|
| 11-Jul-19 | HOLD   | 2,144  |
| 16-Oct-19 | HOLD   | 2,132  |
| 22-Jan-20 | HOLD   | 2,304  |
| 23-Apr-20 | BUY    | 2,084  |
| 15-Jul-20 | HOLD   | 2,361  |
| 13-Oct-20 | BUY    | 3,236  |
| 13-Jan-21 | BUY    | 3,667  |
| 16-Apr-21 | BUY    | 3,773  |

## Investment Rating Criteria

| Ratings     | Large caps                 | Midcaps                   | Small Caps                |
|-------------|----------------------------|---------------------------|---------------------------|
| Buy         | Upside is above 10%        | Upside is above 15%       | Upside is above 20%       |
| Accumulate  | -                          | Upside is between 10%-15% | Upside is between 10%-20% |
| Hold        | Upside is between 0% - 10% | Upside is between 0%-10%  | Upside is between 0%-10%  |
| Reduce/sell | Downside is more than 0%   | Downside is more than 0%  | Downside is more than 0%  |
| Not rated   |                            |                           |                           |

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside. The stock may still be a quality stock.

**Sell:** Exit from the stock.

**Not rated:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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