

Retail Equity Research

Tata Consultancy Services Limited

IT Services

BSE CODE: 532540

NSE CODE: TCS

Bloomberg CODE: TCS:IN

SENSEX: 73,738

BUY

12 Months Investment Period Rating as per Large Cap
CMP Rs. 3,874 TARGET Rs. 4,344 RETURN 12%
(Closing: 23-04-24) 

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Strong deal momentum, outlook intact

Tata Consultancy Services (TCS), a subsidiary of Tata Sons Ltd, is a global information technology company providing a range of services to the banking, financial services and insurance (BFSI); telecommunications; transportation; retail; manufacturing; pharma and utility industries.

- Q4FY24 consolidated revenue grew 3.5% YoY (up 2.2% YoY on constant currency, or CC, basis), aided by strong growth in the regional markets and manufacturing segment, moderated by a slight dip in the BFSI and consumer segments.
- Order book grew 32.0% YoY to \$13.2bn. TCS declared final dividend of Rs. 28, taking the total dividend payout to Rs. 73 per share for FY24.
- Revenue growth may remain subdued in the near term. However, the company's robust order book, strategic partnerships and widening margins auger well for its future performance. Hence, we remain optimistic and maintain our BUY rating on the stock, with a revised target price of Rs. 4,344 based on 27x FY26E adj. EPS.

Margin expansion on lower subcontractor cost, better productivity

TCS posted a muted 3.5% YoY growth in consolidated revenue in Q4FY24 to Rs. 61,237cr (up 2.2% YoY CC), as the clients re-prioritised deals with immediate and maximum ROI amid uncertain macro-economy and geopolitical volatilities. Among verticals, growth was led by the regional markets (up 26.0% YoY CC), manufacturing (up 9.7% YoY CC) and energy, resources, and utilities (up 7.3% YoY CC). Life sciences and healthcare grew 1.7% YoY CC. Revenue from the BFSI and consumer segments, the major contributors to total revenue, decreased 3.2% and 0.3% YoY, respectively. Regionally, growth was majorly attributable to the UK (up 6.2% YoY CC), Asia-Pacific (5.2% YoY CC) and Indian markets (37.9% YoY CC). North America witnessed 2.3% YoY decline in revenue in CC basis, while Continental Europe shrank 2.0% YoY CC. EBITDA rose 8.8% YoY to Rs 17,164cr, while EBITDA margin expanded 130bps YoY to 28.0%, on lower subcontractor costs, better productivity and utilisation. Subsequently, PAT grew 9.3% YoY to Rs. 12,502cr and PAT margin 110bps YoY to 20.4%.

Highest ever deal wins at \$13.2bn

Total contract value (TCV) bookings stood at \$13.2bn (up 32.0% YoY). The TCV of deal wins in North America was \$5.7bn. BFSI TCV stood at \$4.1bn and that of the consumer business was \$1.6bn. Key deal wins included strategic partnerships with a global architecture, engineering and consultancy company, a prominent provider of digital businesses and consumer information services, a leading European airline and a leading UK-based financial group.

Key concall highlights

- Two clients were added in the \$100mn+ band, six in the \$50mn+ band, 10 in the \$20mn+ band and 53 in the \$1mn+ band.
- LTM attrition rate stood at 12.5% (down 80bps QoQ). Net headcount addition fell 1,759 during the quarter; total headcount stood at 601,546.

Valuation

TCS reported resilient performance despite uncertain macro-economic conditions, evident in its broad-based deal wins across industry verticals and geography and better operating leverage. Revenue growth may remain subdued in the near term as clients still prioritise projects with immediate ROI. However, the company's dominant market position, superior execution capabilities, robust order book and sustained focus on cost optimisation auger well for its future performance. Hence, we reiterate our BUY rating on the stock with a revised target price of Rs. 4,344 using a target multiple of 27x P/E on FY26E adj. EPS.

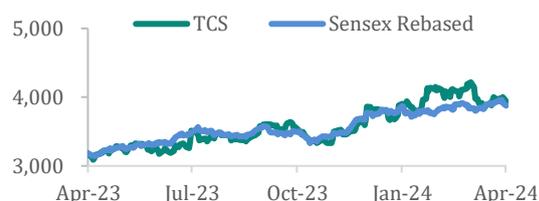
Company Data

Market Cap (cr)	Rs. 1,404,035
Enterprise Value (cr)	Rs. 1,396,353
Outstanding Shares (cr)	361.8
Free Float	28.0%
Dividend Yield	1.9%
52 week high	Rs. 4,254
52 week low	Rs. 3,149
6m average volume	339,066
Beta	0.8
Face value	Rs.1

Shareholding (%)	Q2FY24	Q3FY24	Q4FY24
Promoters	72.3	72.4	71.8
FII's	12.5	12.5	12.7
MFs/Insti	10.1	10.1	10.6
Public	5.0	4.9	4.9
Others	0.2	0.1	0.1
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	1.0%	10.4%	23.6%
Absolute Sensex	0.1%	10.7%	21.5%
Relative Return*	0.9%	-0.3%	2.1%

*Over or under performance to benchmark index



Consolidated (cr)	FY24A	FY25E	FY26E
Sales	240,893	261,623	283,906
Growth (%)	6.8	8.6	8.5
EBITDA	64,296	71,070	77,748
EBITDA Margin (%)	26.7	27.2	27.4
Adj. PAT	46,866	52,739	58,226
Growth (%)	11.2	12.5	10.4
Adj. EPS	128.5	145.8	160.9
Growth (%)	11.6	13.4	10.4
P/E	30.2	27.0	24.5
P/B	15.7	14.8	13.9
EV/EBITDA	22.0	20.0	18.2
ROE (%)	50.9	54.9	56.8
D/E	0.1	0.1	0.1

Quarterly Financials (Consolidated)

Profit & Loss Account

Rs. cr	Q4FY24	Q4FY23	YoY Growth (%)	Q3FY24	QoQ Growth (%)	FY24	FY23	YoY Growth (%)
Revenue	61,237	59,162	3.5	60,583	1.1	240,893	225,458	6.8
EBITDA	17,164	15,774	8.8	16,388	4.7	64,296	59,259	8.5
EBITDA margins	28.0	26.7	130bps	27.1	90bps	26.7	26.3	40bps
Depreciation	1,246	1,286	(3.1)	1,233	1.1	4,985	5,022	(0.7)
EBIT	15,918	14,488	9.9	15,155	5.0	59,311	54,237	9.4
Interest	226	272	(16.9)	230	(1.7)	778	779	(0.1)
Other Income	1,157	1,175	(1.5)	862	34.2	4,422	3,449	(43.6)
Exceptional Items	-	-	-	(958)	n.m.	(958)	-	n.m.
Share of profit from Associate	-	-	-	-	-	-	-	-
PBT	16,849	15,391	9.5	14,829	13.6	61,997	56,907	8.9
Tax	4,347	3,955	9.9	3,732	16.5	15,898	14,604	8.9
Reported PAT	12,502	11,436	9.3	11,097	12.7	46,099	42,303	9.0
Minority Interest	68	44	54.5	39	74.4	191	156	22.4
PAT att. to shareholders	12,434	11,392	9.1	11,058	12.4	45,908	42,147	8.9
Adjustments	-	-	-	958	n.m.	958	-	n.m.
Adj. PAT	12,434	11,392	9.1	12,016	3.5	46,866	42,147	11.2
No. of shares	361.8	365.8	(1.1)	396.7	(8.8)	361.8	365.8	(1.1)
Adj. EPS (Rs.)	34.4	31.1	10.4	30.3	13.5	129.5	115.2	12.4

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	266,404	288,456	261,623	283,906	(1.8)	(1.6)
EBITDA	70,463	77,676	71,070	77,748	0.9	0.1
Margins (%)	26.4	26.9	27.2	27.4	72bps	46bps
Adj. PAT	52,307	58,100	52,739	58,226	0.8	0.2
Adj. EPS	144.6	160.6	145.8	160.9	0.8	0.2

PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Revenue	191,754	225,458	240,893	261,623	283,906
% change	16.8	17.6	6.8	8.6	8.5
EBITDA	53,057	59,259	64,296	71,070	77,748
% change	14.0	11.7	8.5	10.5	9.4
Depreciation	4,604	5,022	4,985	4,776	4,559
EBIT	48,453	54,237	59,311	66,294	73,189
Interest	784	779	778	755	732
Other Income	4,018	3,449	3,464	5,232	5,678
PBT	51,687	56,907	61,997	70,771	78,134
% change	18.1	10.1	8.9	14.2	10.4
Tax	13,238	14,604	15,898	17,813	19,666
Tax Rate (%)	25.6	25.7	25.6	25.2	25.2
Reported PAT	38,449	42,303	46,099	52,958	58,468
PAT att. to common shareholders	38,327	42,147	45,908	52,739	58,226
Adj*	-	-	958	-	-
Adj PAT	38,327	42,147	46,866	52,739	58,226
% change	13.9	10.0	11.2	12.5	10.4
No. of shares (cr)	369.9	365.9	364.7	361.8	361.8
Adj EPS (Rs.)	103.6	115.2	128.5	145.8	160.9
% change	15.2	11.2	11.6	13.4	10.4
DPS (Rs.)	43.0	115.0	73.0	80.2	88.5

CASH FLOW

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Net inc. + Depn.	43,053	47,325	51,084	57,734	63,027
Non-cash adj.	932	(887)	(2,787)	(22,282)	(23,755)
Changes in W.C	(4,036)	(4,473)	(3,959)	(1,401)	(2,686)
C.F. Operation	39,949	41,965	44,338	34,051	36,586
Capital exp.	(2,452)	(2,495)	(2,185)	(3,401)	(3,691)
Change in inv.	(640)	7	5,657	(91)	(91)
Other invest.CF	2,195	2,527	2,554	2,916	2,809
C.F - Investment	(897)	39	6,026	(576)	(974)
Issue of equity	(18,067)	18	(17,046)	-	-
Issue/repay debt	-	-	-	(250)	(250)
Dividends paid	(13,375)	(41,410)	(25,218)	(29,006)	(32,024)
Other finance.CF	(2,139)	(6,486)	(6,272)	(637)	(618)
C.F - Finance	(33,581)	(47,878)	(48,536)	(29,893)	(32,893)
Chg. in cash	5,630	(5,365)	1,893	3,582	2,720
Closing cash	12,488	7,123	9,016	12,598	15,318

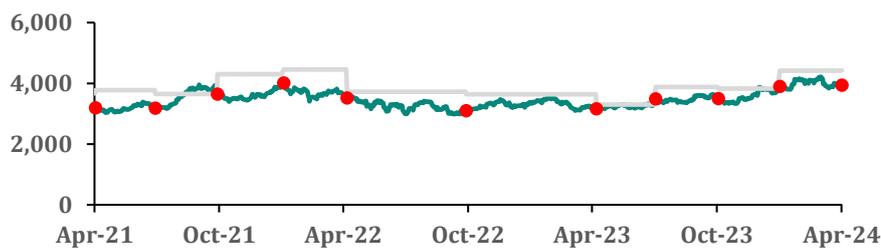
BALANCE SHEET

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	18,221	11,032	13,286	16,868	19,588
Accounts Receivable	34,074	41,049	44,434	47,877	51,387
Inventories	20	28	28	34	36
Other Cur. Assets	55,995	58,161	55,236	56,127	57,936
Investments	223	266	281	372	463
Gross Fixed Assets	30,300	32,344	34,529	37,930	41,621
Net Fixed Assets	10,774	10,230	9,376	7,923	6,972
CWIP	1,205	1,234	1,564	1,642	1,724
Intangible Assets	10,524	10,285	10,228	11,068	11,991
Def. Tax (Net)	5,691	5,890	5,003	5,606	6,189
Other Assets	4,787	5,476	7,013	6,474	6,015
Total Assets	141,514	143,651	146,449	153,989	162,302
Current Liabilities	40,901	42,073	44,599	46,133	47,804
Provisions	-	-	-	-	-
Debt Funds	8,390	8,041	8,386	8,136	7,886
Other Liabilities	2,377	2,331	2,145	2,263	2,377
Equity Capital	366	366	362	362	362
Reserves & Surplus	88,773	90,058	90,127	96,046	102,581
Shareholder's Fund	89,139	90,424	90,489	96,408	102,943
Minority Interest	707	782	830	1,049	1,292
Total Liabilities	141,514	143,651	146,449	153,989	162,302
BVPS (Rs.)	241	247	248	266	285

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab. & Return					
EBITDA margin (%)	27.7	26.3	26.7	27.2	27.4
EBIT margin (%)	25.3	24.1	24.6	25.3	25.8
Net profit mgn.(%)	20.1	18.8	19.1	20.2	20.6
ROE (%)	43.1	46.8	50.9	54.9	56.8
ROCE (%)	49.3	54.6	59.5	62.8	65.3
W.C & Liquidity					
Receivables (days)	64.9	66.5	67.3	66.8	66.1
Inventory (days)	0.2	0.3	0.3	0.3	0.3
Payables (days)	97.9	104.3	111.2	111.9	112.4
Current ratio (x)	2.6	2.5	2.5	2.5	2.6
Quick ratio (x)	1.9	2.0	1.9	2.0	2.1
Turnover & Leverage					
Gross asset T.O (x)	6.5	7.2	7.2	7.2	7.1
Total asset T.O (x)	1.4	1.6	1.7	1.7	1.8
Int. coverage ratio (x)	61.8	69.6	76.2	87.8	100.0
Adj. debt/equity (x)	0.1	0.1	0.1	0.1	0.1
Valuation					
EV/Sales (x)	7.2	5.2	5.9	5.4	5.0
EV/EBITDA (x)	25.9	19.8	22.0	20.0	18.2
P/E (x)	36.1	27.8	30.2	27.0	24.5
P/BV (x)	15.5	13.0	15.7	14.8	13.9

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
20-Apr-22	HOLD	3,718
12-Oct-22	BUY	3,635
15-Jan-24	BUY	3,753
21-Apr-23	BUY	3,301
17-Jul-23	BUY	3,879
17-Oct-23	HOLD	3,826
15-Jan-24	BUY	4,416
24-Apr-24	BUY	4,344

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/Neutral

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; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

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

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Not rated/Neutral- The analyst has no investment opinion on the stock under review

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