

October 11, 2024

## Q2FY25 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

|                | Current |       | Previous |       |
|----------------|---------|-------|----------|-------|
|                | FY25E   | FY26E | FY25E    | FY26E |
| Rating         | BUY     |       | BUY      |       |
| Target Price   | 4,920   |       | 4,950    |       |
| Sales (Rs.bn)  | 2,587   | 2,810 | 2,590    | 2,824 |
| % Chng.        | (0.1)   | (0.5) |          |       |
| EBITDA (Rs.bn) | 693     | 781   | 709      | 792   |
| % Chng.        | (2.3)   | (1.4) |          |       |
| EPS (Rs.)      | 138.9   | 158.3 | 143.1    | 160.6 |
| % Chng.        | (3.0)   | (1.4) |          |       |

### Key Financials - Consolidated

| Y/e Mar         | FY24  | FY25E | FY26E | FY27E |
|-----------------|-------|-------|-------|-------|
| Sales (Rs. bn)  | 2,409 | 2,587 | 2,810 | 3,092 |
| EBITDA (Rs. bn) | 643   | 693   | 781   | 875   |
| Margin (%)      | 26.7  | 26.8  | 27.8  | 28.3  |
| PAT (Rs. bn)    | 466   | 502   | 573   | 642   |
| EPS (Rs.)       | 127.5 | 138.9 | 158.3 | 177.5 |
| Gr. (%)         | 10.6  | 9.0   | 14.0  | 12.1  |
| DPS (Rs.)       | 72.9  | 146.2 | 166.7 | 186.9 |
| Yield (%)       | 1.7   | 3.5   | 3.9   | 4.4   |
| RoE (%)         | 50.9  | 55.0  | 64.8  | 75.4  |
| RoCE (%)        | 48.1  | 52.2  | 60.9  | 70.9  |
| EV/Sales (x)    | 6.2   | 5.8   | 5.3   | 4.8   |
| EV/EBITDA (x)   | 23.3  | 21.5  | 19.1  | 17.1  |
| PE (x)          | 33.2  | 30.4  | 26.7  | 23.8  |
| P/BV (x)        | 16.7  | 17.0  | 17.6  | 18.3  |

### Key Data

TCS.BO | TCS IN

|                     |                            |
|---------------------|----------------------------|
| 52-W High / Low     | Rs.4,592 / Rs.3,296        |
| Sensex / Nifty      | 81,611 / 24,998            |
| Market Cap          | Rs.15,295bn / \$ 1,82,136m |
| Shares Outstanding  | 3,618m                     |
| 3M Avg. Daily Value | Rs.11296.41m               |

### Shareholding Pattern (%)

|                         |       |
|-------------------------|-------|
| Promoter's              | 71.77 |
| Foreign                 | 12.35 |
| Domestic Institution    | 11.00 |
| Public & Others         | 4.88  |
| Promoter Pledge (Rs bn) | -     |

### Stock Performance (%)

|          | 1M    | 6M    | 12M   |
|----------|-------|-------|-------|
| Absolute | (6.2) | 6.1   | 17.0  |
| Relative | (5.9) | (2.5) | (5.2) |

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## Tough phase, balancing growth and margins

### Quick Pointers:

- BFSI vertical on a path of recovery, but performance of other verticals remains volatile
- Expecting margin recovery in H2 and hit 26% by Q4 exit, which seems to be a little challenging

**TCS reported revenue of USD 7.7 bn, up ~1.1% QoQ CC below our & consensus estimate of 1.5% & 1.3% QoQ CC growth respectively while in dollar terms the revenue grew by 2.2% QoQ (PLe 2.3% & consensus estimate of 1.9% QoQ growth). The growth during the quarter was largely driven by Regional market, predominantly the BSNL deal that is at its peak (~150 bps contribution in Q2 per our estimates). Green shoots continued in BFSI, while growth within certain pockets remained volatile, partly attributed to work re-scoping and weak spending sentiment. EBIT margin declined by 60 bps QoQ to 24.1%, on account of higher third-party expenses and inching-up subcon cost, which partly offset by currency tailwinds & missing Q1 wage hike impact. TCV grew by 3.6% QoQ to USD 8.6 bn and BTB remained stable at 1.1x.**

Apart from the continued momentum within Regional market, the BFSI growth recovery was strong (+1.9% QoQ) and contributed meaningfully in Q2. However, continued volatility within consumer-oriented and asset-heavy verticals diluted the consolidated growth, while client-specific issues within Life Science further put a dent to the topline. Despite the weak show, the management was confident to stabilize Q3 performance and pickup pace in Q4, while the ramp up of BSNL deal would continue to support the growth in H2. Additionally, the re-scoping activity with a large account is largely stabilized and it expects the Life-Science vertical to recover in H2. With strong employee addition for the second consecutive quarter and elevated deal TCV (1.1x BTB) imply growth visibility in the coming quarters, while we believe the weakness in other verticals is largely aligned to the adverse macros and should recover by early FY26. We are cutting our revenue growth estimates by 10 and 40 bps for FY25E and FY26E and baking in 6.4%/8.0%/9.4% USD revenue growth for FY25E/FY26E/FY27E.

The decline in margin was majorly attributed to the continued ramp up of BSNL deal, while high-margin business growth was largely weak in Q2. The quarter has marked peak revenue for BSNL deal, which should continue its momentum before it achieves the maintenance phase by early FY26. The ramp up phase of the deal would continue in H2 and pressurize margins for the segment. Since the margin miss was meaningful in Q2, we are broadly aligning the same and cutting our estimates by 60bps and 30bps YoY for FY25E/FY26E.

**Valuations and outlook:** We believe the company's business mix is more favorable to the current enterprise spends which are diverted to stimulate core business functions or bring efficiency to their operations. TCS is well positioned to capture those spends and win disproportionately among its peers. We estimate USD revenue/earnings CAGR of 8.0%/11.8% over FY24-FY27E. The stock is currently trading at 24x FY27E, we are assigning P/E of 28x to FY27E with a target price of INR 4,920. We maintain "BUY" rating.

## Topline growth missed estimates, disappointed on margins

- Revenue at \$7.67b, up ~1.1% QoQ CC (our est.) and 2.2% QoQ USD terms, was below our (1.5% QoQ CC) & consensus estimates (1.3% QoQ CC).
- Revenue growth was led by Regional markets (+13.1% QoQ) and BFSI (+1.9% QoQ), while Manufacturing, Life Science and Communications were down by 0.1%, 3.4% & 2.7% QoQ respectively.
- **Part of the Regional Markets growth was driven by BSNL deal. As per our estimates ~150bps contribution coming from BSNL deal in 2Q**
- India region led the growth (21.3% QoQ), while UK & Europe regions grew by 2.8% & 3.6% QoQ respectively. North America and Latin America regions declined by 1.7% and 3.2% QoQ, respectively.
- **TCV normalized to earlier run-rate and came in at US\$ 8.6 bn, up 3.6% QoQ, BFSI, Retail & North America TCV came at US\$2.9 bn, US\$ 1.2 bn & US\$ 4.2 respectively. Book to bill at 1.1x**
- EBIT margin of 24.1% (down 60bp QoQ) was below our estimates of 25.2% and consensus of 24.9%. **Subcon expenses as % rev increased by 40 bps QoQ, while Software & Equipment cost (attributed to BSNL deal) increased by 160 bps QoQ**
- **Net employees increased by 5.7k to 612k vs 5.5k net additions in 1Q** , LTM Attrition was up by 20bps QoQ to 12.3%
- PAT at Rs119bn (18.5% PAT margin) in 2Q
- Q2FY25 – OCF/NP at 110.2%
- Interim Dividend of Rs10/share in the quarter

## Conference Call Highlights

- The management mentioned that the growth was driven by strong ramp up BSNL deal which is at its peak. They mentioned that they have installed ~50k out of 100k tower. They further expect the momentum to continue in Q3 and complete the project by Q4. They also mentioned that the increase in 3<sup>rd</sup> party expenses will follow similar trajectory of deal ramp up and expect it come down from Q4FY25.
- The management mentioned that revival in BFSI continues. BFSI reported 0.1% YoY CC growth (growth after 4 consecutive quarters of decline). They further mentioned growth is witnessed across both North America & UK region in sub-segment of banking, insurance & regulatory while sub-segments like capital market continue to remain weak.
- Vertical wise commentary: a) Lifescience vertical was impacted by client specific issue wherein the client reduced the scope of work. Management expects client to stabilize in Q3 & return to growth by Q4; b) Communications vertical remains weak due macro environment, management expects the vertical to recover gradually as the rate cut cycle should increase the capex spending; c) Consumer segment also impacted by macro environment but the

management expects it to recover on the back of upcoming holiday season; d) In Manufacturing segment although the demand remain strong their clients are witnessing short headwinds of labor shortage (auto sub-segment) & supply side constraints (auto & aerospace sub-segments), the management however expects the issues to resolve soon.

- The management mentioned that it is investing in emerging markets of India, APAC & LATAM regions and it expects these regions to be pillars for the long-term growth. They further mentioned that expansion in these regions wont major impact on the operating margin as they will be maintained at the company level. They also mentioned that as the operations scale up in these regions their margin individual margins will also increase as operating leverage kicks in.
- The management mentioned that TCV wins of USD 8.6 bn are in the comfort band of USD 7-9 bn. They further mentioned that the deal pipeline remains strong but deal closure cycle time remains elongated. However, the management remains confident of maintaining the TCV wins in FY25 at last year level of USD 42.7 bn. They also mentioned that to sustain the revenue growth it needs to maintain the BTB in band of 1.1x-1.2x.
- On Gen AI, the management mentioned that demand for Gen AI remains strong. They further mentioned its pipeline has doubled in Q2 & it is working on 600 Gen AI engagements compared to 278 in Q1. They also mentioned that its POC conversion has also increased significantly from 8 in Q1 to 86 in Q2. They however mentioned that the engagements remains of small size but few engagements are large multi-year engagements.
- The management mentioned that demand is still driven by cost optimization, vendor consolidation & supply chain management. They further mentioned that there is no change in discretionary spending demand but expects it to pick up gradually as the macro headwinds of high inflation & interest rate has started easing. They further mentioned that the optimism in recovery of discretionary spending is on the back of resumption of backlog which were stalled & increasing demand in Gen AI infused services. They mentioned that this will provide base of sustained growth in legacy modernization & enhanced customer experience.
- The management mentioned that it has commenced its fresher hiring process and started conducting its test for hiring freshers.

### **Margin Outlook**

- Margin during the quarter declined by 60 bps QoQ to 24.1% due to the headwinds of higher 3<sup>rd</sup> party expenses (60 bps impact) and higher sub-contractor cost & investment in talent (70 bps impact) mitigated by the tailwinds of cross currency benefits & absence of one-offs expenses incurred in Q1.
- The management reiterated its aspirations to increase its operating margin to band of 26-28% in the medium term. They further mentioned that they aspire to exit the Q4FY25 margin at 26%.

**Exhibit 1: 2QFY25 Results: Below estimate revenue growth, EBIT margin declined due to higher third-party expenses & sub-con costs**

| Consolidated (INR b)        | 2QFY25 | 1QFY25 | QoQ gr. (%) | 2QFY24 | YoY gr. (%) | FY25E  | FY24   | YoY gr. (%) |
|-----------------------------|--------|--------|-------------|--------|-------------|--------|--------|-------------|
| IT Services Revenue (USD m) | 7,670  | 7,505  | 2.2         | 7,210  | 6.4         | 30,927 | 29,080 | 6.4         |
| Overall Revenue (INR b)     | 643    | 626    | 2.6         | 597    | 7.7         | 2,587  | 2,409  | 7.4         |
| Gross Profit                | 245    | 250    | -1.7        | 239    | 2.5         | 1,027  | 973    | 5.5         |
| Gross Margin (%)            | 38.2   | 39.9   | -170bps     | 40.1   | -190bps     | 39.7   | 40.4   | -70bps      |
| SG&A and Other Costs        | 90.7   | 95     | -4.6        | 94     | -3.9        | 386.8  | 380    | 1.8         |
| % of Rev                    | 14.1   | 15.2   | -110bps     | 15.8   | -170bps     | 15.0   | 15.8   | -80bps      |
| EBITDA                      | 167    | 167    | 0.4         | 157    | 6.3         | 693    | 643    | 7.9         |
| EBIT Margin (%)             | 26.0   | 26.6   | -60bps      | 26.4   | -30bps      | 26.8   | 26.7   | 10bps       |
| Depreciation                | 13     | 12     | 4           | 13     | 0.4         | 54     | 50     | 7.4         |
| % of Rev                    | 2.0    | 1.9    | 0bps        | 2.1    | -10bps      | 2.1    | 2.1    | 0bps        |
| EBIT                        | 155    | 154    | 0.1         | 145    | 6.8         | 640    | 593    | 7.9         |
| EBIT Margin (%)             | 24.1   | 24.7   | -60bps      | 24.3   | -20bps      | 24.7   | 24.6   | 10bps       |
| Other Income (net)          | 6      | 8      | -28.1       | 8      | -33.1       | 37     | 37     | -0.3        |
| PBT                         | 160    | 162.3  | -1.2        | 153.3  | 4.6         | 677    | 630.3  | 7.4         |
| Tax                         | 41     | 41     | -1.2        | 40     | 3.2         | 172    | 163    | 6.1         |
| Effective tax rate (%)      | 25.4   | 25.4   | 0bps        | 25.8   | -30bps      | 25.5   | 25.8   | -30bps      |
| Adjusted PAT                | 119    | 120    | -1.1        | 113    | 5.0         | 502    | 466    | 7.9         |
| Exceptional items           | 0.0    | 0.0    | NA          | 0.0    | NA          | 0      | -6.7   | NA          |
| Reported PAT                | 119    | 120    | -1.1        | 113    | 5.0         | 502    | 459    | 9.5         |
| Reported EPS (INR)          | 33     | 33     | -1.1        | 31     | 6.2         | 139    | 126    | 10.5        |

Source: Company, PL

**Exhibit 2: Regional growth (%)**

| Geographies        | Contribution to revenue (%) | QoQ gr. (%) |
|--------------------|-----------------------------|-------------|
| North America      | 47.6                        | -1.7        |
| Latin America      | 1.8                         | -3.2        |
| UK                 | 17.0                        | 2.8         |
| Continental Europe | 14.6                        | 3.6         |
| India              | 8.9                         | 21.3        |
| Asia Pacific       | 8.0                         | 4.8         |
| MEA                | 2.1                         | 7.3         |

Source: Company, PL

**Exhibit 3: Vertical Growth (%)**

| Verticals                  | Contribution to revenue (%) | QoQ gr. (%) |
|----------------------------|-----------------------------|-------------|
| BFSI                       | 30.8                        | 1.9         |
| Retail & CPG               | 15.1                        | 0.2         |
| Communications & Media     | 5.9                         | -2.7        |
| Manufacturing              | 8.6                         | -0.1        |
| Life Sciences & Healthcare | 10.4                        | -3.4        |
| Technology & Services      | 8.0                         | 0.9         |
| Energy and Utilities       | 5.7                         | 4.0         |
| Regional markets & Others  | 15.5                        | 13.1        |

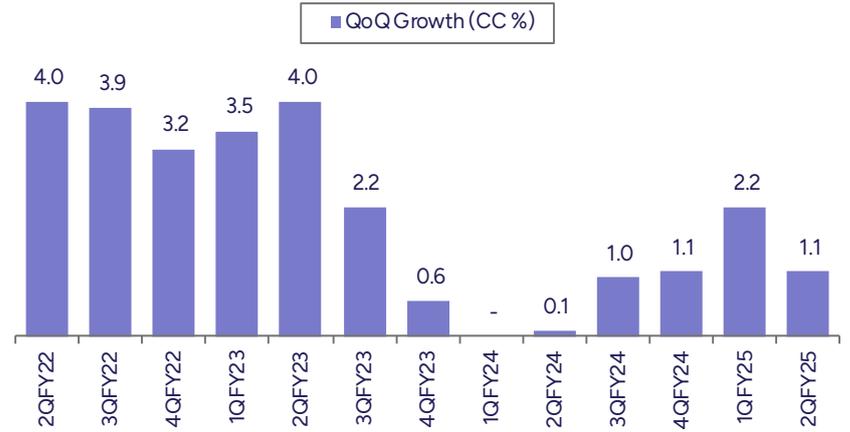
Source: Company, PL

**Exhibit 4: Key Performance Indicator**

|                             | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 | FY24 | FY25E |
|-----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|------|-------|
| Revenue (QoQ CC %)          | 2.2    | 0.6    | 0.0    | 0.1    | 1.0    | 1.1    | 2.2    | 1.1    | 3.4  | 5.7   |
| <b>Costs (% of revenue)</b> |        |        |        |        |        |        |        |        |      |       |
| COGS                        | 59.9   | 59.9   | 60.5   | 59.9   | 59.2   | 58.9   | 60.1   | 61.8   | 59.6 | 60.3  |
| SGA                         | 15.5   | 15.7   | 16.4   | 15.8   | 15.8   | 15.1   | 15.2   | 14.1   | 15.8 | 15.0  |
| <b>Margins</b>              |        |        |        |        |        |        |        |        |      |       |
| Gross Margin                | 40.1   | 40.1   | 39.5   | 40.1   | 40.8   | 41.1   | 39.9   | 38.2   | 40.4 | 39.7  |
| EBIT Margin                 | 24.5   | 24.5   | 23.2   | 24.3   | 25.0   | 26.0   | 24.7   | 24.1   | 24.6 | 24.7  |
| Net Margin                  | 18.7   | 19.3   | 18.7   | 19.1   | 19.4   | 20.4   | 19.3   | 18.6   | 19.1 | 19.4  |
| <b>Operating metrics</b>    |        |        |        |        |        |        |        |        |      |       |
| Headcount (k)               | 614    | 615    | 615    | 609    | 603    | 602    | 607    | 613    | 602  | -     |
| Attrition (%)               | 21.3   | 20.1   | 17.8   | 14.9   | 13.3   | 12.5   | 12.1   | 12.3   | 12.5 | -     |
| Deal Win TCV (USD b)        | 7.8    | 10     | 10.2   | 11.2   | 8.1    | 13.2   | 8.3    | 8.6    | 42.7 | -     |

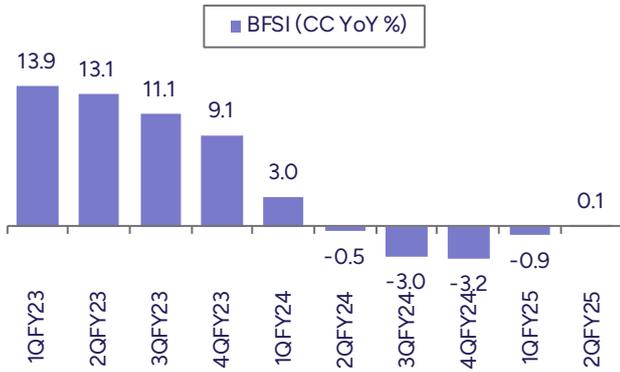
Source: Company, PL

**Exhibit 5: BSNL deal ramp up continues to drives growth**



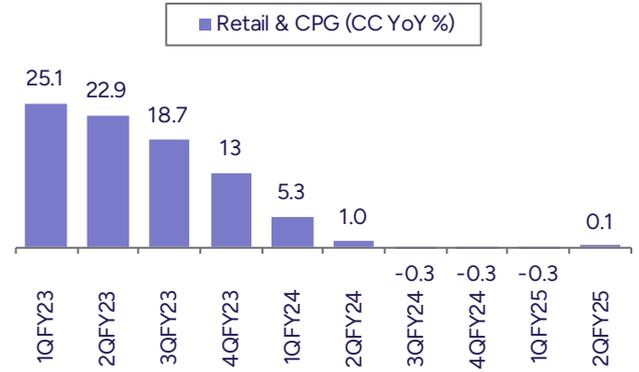
Source: Company, PL

**Exhibit 6: BFSI revival continues**



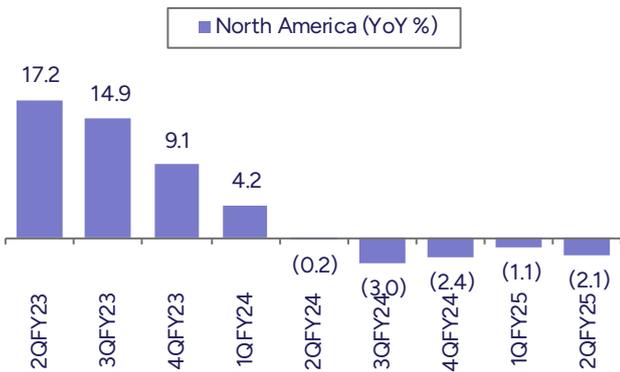
Source: Company, PL

**Exhibit 7: Retail still stressed**



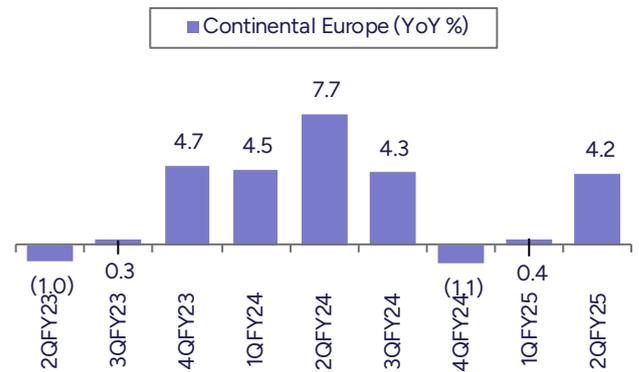
Source: Company, PL

**Exhibit 8: North America impacted by one-offs**



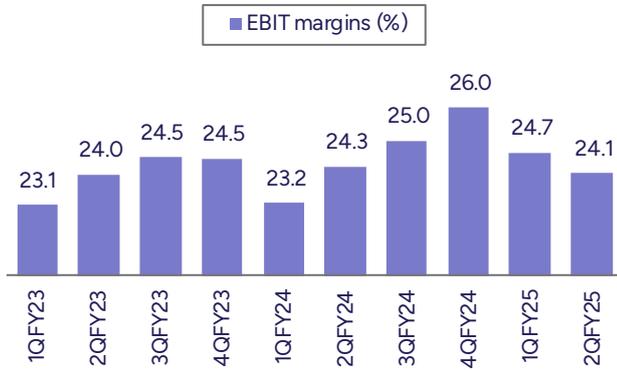
Source: Company, PL

**Exhibit 9: Continental Europe recovery sustains**



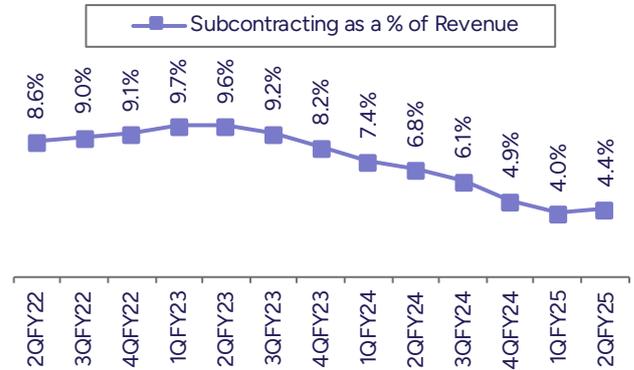
Source: Company, PL

**Exhibit 10: Margins impacted by higher 3<sup>rd</sup> party expenses & sub-con costs**



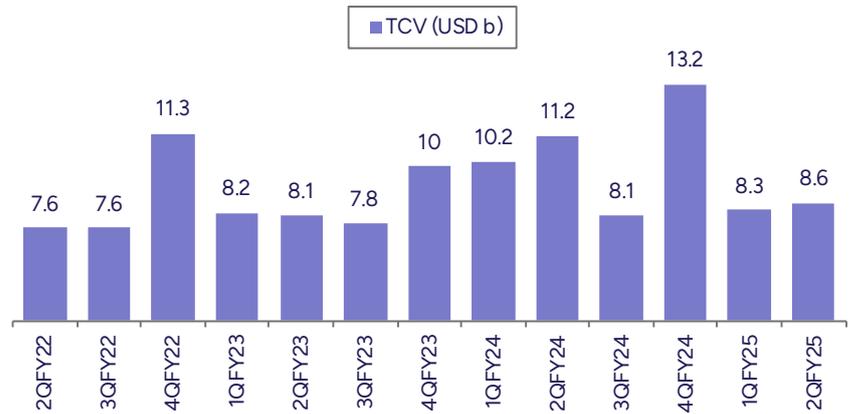
Source: Company, PL

**Exhibit 11: Sub-contracting cost increases by 40 bps QoQ in Q2**



Source: Company, PL

**Exhibit 12: TCV wins increases by 3.6% QoQ in Q2, BTB steady at 1.1x**

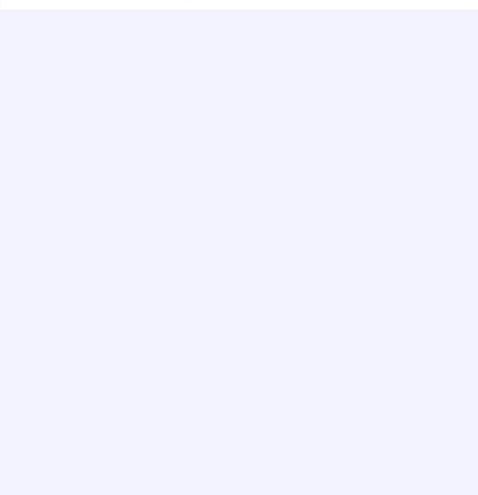


Source: Company, PL

**Exhibit 13: Operating Metrics**

| Consolidated (INR b)       | 3QFY22       | 4QFY22       | 1QFY23       | 2QFY23       | 3QFY23       | 4QFY23       | 1QFY24       | 2QFY24       | 3QFY24       | 4QFY24       | 1QFY25       | 2QFY25       |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Verticals (%)</b>       |              |              |              |              |              |              |              |              |              |              |              |              |
| BFSI                       | 32.1         | 31.9         | 32.1         | 33.6         | 33.1         | 32.9         | 32.5         | 32.6         | 31.7         | 31.3         | 30.9         | 30.8         |
| Retail & CPG               | 14.5         | 15.4         | 15.9         | 16.1         | 16.0         | 16.0         | 16.1         | 15.9         | 15.7         | 15.7         | 15.4         | 15.1         |
| Communication & Media      | 6.6          | 6.7          | 6.8          | 7.3          | 7.2          | 7.1          | 7.0          | 6.9          | 6.7          | 6.6          | 6.2          | 5.9          |
| Manufacturing              | 9.6          | 10.0         | 9.9          | 8.2          | 8.2          | 8.2          | 8.3          | 8.5          | 8.6          | 8.8          | 8.8          | 8.6          |
| Life Sciences & Healthcare | 9.8          | 10.0         | 10.1         | 10.7         | 10.8         | 10.9         | 11.0         | 10.9         | 10.9         | 10.9         | 11.0         | 10.4         |
| Technology & Services      | 8.6          | 8.7          | 8.8          | 9.1          | 9.0          | 8.9          | 8.7          | 8.6          | 8.4          | 8.2          | 8.1          | 8.0          |
| Energy & Utilities         |              |              |              | 5.0          | 5.2          | 5.4          | 5.5          | 5.6          | 5.7          | 5.7          | 5.7          | 5.7          |
| Regional markets & Others  | 18.8         | 17.3         | 16.4         | 10.0         | 10.5         | 10.6         | 10.9         | 11.0         | 12.3         | 12.9         | 14.0         | 15.5         |
| <b>Geographies (%)</b>     |              |              |              |              |              |              |              |              |              |              |              |              |
| North America              | 50.7         | 51.6         | 53.2         | 54.3         | 53.7         | 52.4         | 52.0         | 51.7         | 50.6         | 50.0         | 49.5         | 47.6         |
| Latin America              | 1.7          | 1.7          | 1.8          | 1.7          | 1.8          | 1.8          | 2.0          | 2.0          | 2.1          | 2.0          | 1.9          | 1.8          |
| UK                         | 15.6         | 15.6         | 14.9         | 14.5         | 14.9         | 15.7         | 16.4         | 16.5         | 16.4         | 16.8         | 16.9         | 17.0         |
| Continental Europe         | 16.0         | 15.5         | 15.2         | 14.5         | 14.8         | 15.1         | 14.9         | 14.9         | 15.0         | 14.6         | 14.4         | 14.6         |
| India                      | 5.5          | 5.1          | 4.8          | 5.1          | 5.1          | 5.0          | 4.9          | 4.9          | 6.1          | 6.7          | 7.5          | 8.9          |
| Asia Pacific               | 8.6          | 8.5          | 8.3          | 8.0          | 7.9          | 8.0          | 7.8          | 7.8          | 7.8          | 7.8          | 7.8          | 8.0          |
| MEA                        | 1.9          | 2.0          | 1.8          | 1.9          | 1.8          | 2.0          | 2.0          | 2.2          | 2.0          | 2.1          | 2.0          | 2.1          |
| <b>QoQ growth (%)</b>      |              |              |              |              |              |              |              |              |              |              |              |              |
| BFSI                       | 2.1          | 2.0          | 1.9          | 6.2          | 1.3          | 1.1          | -0.8         | 0.1          | -1.8         | -0.1         | 0.6          | 1.9          |
| Retail & CPG               | -0.4         | 9.0          | 4.5          | 2.7          | 2.2          | 1.7          | 1.1          | -1.5         | -0.3         | 1.1          | 0.0          | 0.2          |
| Communication & Media      | 4.6          | 4.2          | 2.8          | 8.9          | 1.5          | 0.3          | -1.0         | -1.6         | -1.9         | -0.4         | -4.2         | -2.7         |
| Manufacturing              | -0.1         | 6.9          | 0.2          | -16.0        | 2.9          | 1.7          | 1.7          | 2.2          | 2.2          | 3.5          | 1.9          | -0.1         |
| Life Sciences & Healthcare | 1.0          | 4.7          | 2.3          | 7.5          | 3.8          | 2.6          | 1.4          | -1.1         | 1.0          | 1.1          | 2.9          | -3.4         |
| Technology & Services      | 0.7          | 3.8          | 2.4          | 4.9          | 1.7          | 0.6          | -1.8         | -1.4         | -1.4         | -1.3         | 0.7          | 0.9          |
| Energy and Utilities       |              |              |              |              | 7.0          | 5.6          | 2.3          | 1.6          | 2.8          | -0.6         | 1.9          | 4.0          |
| Regional markets & Others  | 11.3         | -5.6         | -4.0         | -38.2        | 8.0          | 2.7          | 3.3          | 0.7          | 12.9         | 6.1          | 10.6         | 13.1         |
| North America              | 3.8          | 4.5          | 4.4          | 3.5          | 1.7          | -0.8         | -0.3         | -0.8         | -1.2         | -0.1         | 0.9          | -1.7         |
| Latin America              | 9.5          | 2.6          | 7.2          | -4.2         | 8.9          | 1.7          | 11.6         | -0.2         | 6.0          | -3.7         | -3.2         | -3.2         |
| UK                         | -0.2         | 2.6          | -3.3         | -1.3         | 5.7          | 7.2          | 4.9          | 0.4          | 0.4          | 3.6          | 2.5          | 2.8          |
| Continental Europe         | 3.7          | -0.6         | -0.7         | -3.2         | 5.0          | 3.8          | -0.9         | -0.2         | 1.7          | -1.6         | 0.5          | 3.6          |
| India                      | 11.1         | -4.8         | -4.7         | 7.8          | 2.9          | -0.3         | -1.6         | -0.2         | 25.7         | 11.1         | 14.1         | 21.3         |
| Asia Pacific               | -1.6         | 1.4          | -1.1         | -2.2         | 1.6          | 3.0          | -2.1         | -0.2         | 1.0          | 1.1          | 1.9          | 4.8          |
| MEA                        | -2.1         | 8.0          | -8.9         | 7.1          | -2.5         | 13.0         | 0.4          | 9.8          | -8.2         | 6.2          | -2.9         | 7.3          |
| <b>Total Employees (k)</b> | <b>557.0</b> | <b>592.2</b> | <b>606.3</b> | <b>616.2</b> | <b>614.0</b> | <b>614.8</b> | <b>615.3</b> | <b>609.0</b> | <b>603.3</b> | <b>601.5</b> | <b>607.0</b> | <b>612.7</b> |
| <b>Net Additions (k)</b>   | <b>28.2</b>  | <b>35.2</b>  | <b>14.1</b>  | <b>9.8</b>   | <b>-2.2</b>  | <b>0.8</b>   | <b>0.5</b>   | <b>-6.3</b>  | <b>-5.7</b>  | <b>-1.8</b>  | <b>5.5</b>   | <b>5.7</b>   |
| <b>Attrition (LTM %)</b>   | <b>15.3</b>  | <b>17.4</b>  | <b>19.7</b>  | <b>21.5</b>  | <b>21.3</b>  | <b>20.1</b>  | <b>17.8</b>  | <b>14.9</b>  | <b>13.3</b>  | <b>12.5</b>  | <b>12.1</b>  | <b>12.3</b>  |

Source: Company, PL



## Financials

### Income Statement (Rs bn)

| Y/e Mar                       | FY24         | FY25E        | FY26E        | FY27E        |
|-------------------------------|--------------|--------------|--------------|--------------|
| <b>Net Revenues</b>           | <b>2,409</b> | <b>2,587</b> | <b>2,810</b> | <b>3,092</b> |
| YoY gr. (%)                   | 6.8          | 7.4          | 8.7          | 10.0         |
| Employee Cost                 | 1,436        | 1,560        | 1,666        | 1,817        |
| Gross Profit                  | 973          | 1,027        | 1,145        | 1,275        |
| Margin (%)                    | 40.4         | 39.7         | 40.7         | 41.2         |
| Employee Cost                 | -            | -            | -            | -            |
| Other Expenses                | 63           | 64           | 56           | 62           |
| <b>EBITDA</b>                 | <b>643</b>   | <b>693</b>   | <b>781</b>   | <b>875</b>   |
| YoY gr. (%)                   | 8.5          | 7.9          | 12.7         | 12.1         |
| Margin (%)                    | 26.7         | 26.8         | 27.8         | 28.3         |
| Depreciation and Amortization | 50           | 54           | 58           | 64           |
| <b>EBIT</b>                   | <b>593</b>   | <b>640</b>   | <b>723</b>   | <b>811</b>   |
| Margin (%)                    | 24.6         | 24.7         | 25.7         | 26.2         |
| Net Interest                  | -            | -            | -            | -            |
| Other Income                  | 37           | 37           | 48           | 53           |
| <b>Profit Before Tax</b>      | <b>630</b>   | <b>677</b>   | <b>771</b>   | <b>864</b>   |
| Margin (%)                    | 26.2         | 26.2         | 27.4         | 27.9         |
| Total Tax                     | 163          | 172          | 197          | 220          |
| Effective tax rate (%)        | 25.8         | 25.5         | 25.5         | 25.5         |
| <b>Profit after tax</b>       | <b>468</b>   | <b>505</b>   | <b>574</b>   | <b>644</b>   |
| Minority interest             | 2            | 2            | 1            | 1            |
| Share Profit from Associate   | -            | -            | -            | -            |
| <b>Adjusted PAT</b>           | <b>466</b>   | <b>502</b>   | <b>573</b>   | <b>642</b>   |
| YoY gr. (%)                   | 10.5         | 7.9          | 14.0         | 12.1         |
| Margin (%)                    | 19.3         | 19.4         | 20.4         | 20.8         |
| Extra Ord. Income / (Exp)     | (7)          | -            | -            | -            |
| <b>Reported PAT</b>           | <b>459</b>   | <b>502</b>   | <b>573</b>   | <b>642</b>   |
| YoY gr. (%)                   | 8.9          | 9.5          | 14.0         | 12.1         |
| Margin (%)                    | 19.1         | 19.4         | 20.4         | 20.8         |
| Other Comprehensive Income    | -            | -            | -            | -            |
| Total Comprehensive Income    | 459          | 502          | 573          | 642          |
| <b>Equity Shares O/s (bn)</b> | <b>4</b>     | <b>4</b>     | <b>4</b>     | <b>4</b>     |
| <b>EPS (Rs)</b>               | <b>127.5</b> | <b>138.9</b> | <b>158.3</b> | <b>177.5</b> |

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs bn)

| Y/e Mar                               | FY24         | FY25E        | FY26E        | FY27E        |
|---------------------------------------|--------------|--------------|--------------|--------------|
| <b>Non-Current Assets</b>             |              |              |              |              |
| <b>Gross Block</b>                    | <b>608</b>   | <b>651</b>   | <b>698</b>   | <b>752</b>   |
| Tangibles                             | 608          | 651          | 698          | 752          |
| Intangibles                           | -            | -            | -            | -            |
| <b>Acc: Dep / Amortization</b>        | <b>412</b>   | <b>476</b>   | <b>547</b>   | <b>624</b>   |
| Tangibles                             | 412          | 476          | 547          | 624          |
| Intangibles                           | -            | -            | -            | -            |
| <b>Net fixed assets</b>               | <b>196</b>   | <b>174</b>   | <b>152</b>   | <b>128</b>   |
| Tangibles                             | 196          | 174          | 152          | 128          |
| Intangibles                           | -            | -            | -            | -            |
| Capital Work In Progress              | -            | -            | -            | -            |
| Goodwill                              | 40           | 40           | 40           | 40           |
| Non-Current Investments               | 53           | 62           | 67           | 74           |
| Net Deferred tax assets               | 24           | 22           | 22           | 25           |
| Other Non-Current Assets              | 33           | 36           | 39           | 43           |
| <b>Current Assets</b>                 |              |              |              |              |
| Investments                           | 353          | 308          | 263          | 218          |
| Inventories                           | -            | -            | -            | -            |
| Trade receivables                     | 444          | 460          | 500          | 550          |
| Cash & Bank Balance                   | 90           | 106          | 130          | 135          |
| Other Current Assets                  | 216          | 196          | 213          | 235          |
| <b>Total Assets</b>                   | <b>1,486</b> | <b>1,452</b> | <b>1,479</b> | <b>1,505</b> |
| <b>Equity</b>                         |              |              |              |              |
| Equity Share Capital                  | 4            | 4            | 4            | 4            |
| Other Equity                          | 923          | 896          | 866          | 831          |
| <b>Total Network</b>                  | <b>926</b>   | <b>899</b>   | <b>869</b>   | <b>835</b>   |
| <b>Non-Current Liabilities</b>        |              |              |              |              |
| Long Term borrowings                  | -            | -            | -            | -            |
| Provisions                            | -            | -            | -            | -            |
| Other non current liabilities         | 80           | 85           | 98           | 108          |
| <b>Current Liabilities</b>            |              |              |              |              |
| ST Debt / Current of LT Debt          | -            | -            | -            | -            |
| Trade payables                        | 100          | 108          | 120          | 131          |
| Other current liabilities             | 361          | 339          | 368          | 405          |
| <b>Total Equity &amp; Liabilities</b> | <b>1,486</b> | <b>1,452</b> | <b>1,479</b> | <b>1,505</b> |

Source: Company Data, PL Research

**Cash Flow (Rs bn)**

| Y/e Mar                              | FY24         | FY25E        | FY26E        | FY27E        |
|--------------------------------------|--------------|--------------|--------------|--------------|
| PBT                                  | 461          | 677          | 771          | 864          |
| Add. Depreciation                    | 50           | 50           | 54           | 58           |
| Add. Interest                        | 0            | -            | -            | -            |
| Less Financial Other Income          | 37           | 37           | 48           | 53           |
| Add. Other                           | 0            | -            | -            | -            |
| Op. profit before WC changes         | 511          | 728          | 825          | 922          |
| Net Changes-WC                       | (76)         | (27)         | (15)         | (31)         |
| Direct tax                           | 34           | (172)        | (197)        | (220)        |
| <b>Net cash from Op. activities</b>  | <b>469</b>   | <b>528</b>   | <b>613</b>   | <b>671</b>   |
| Capital expenditures                 | (27)         | (29)         | (31)         | (34)         |
| Interest / Dividend Income           | -            | -            | -            | -            |
| Others                               | 54           | 45           | 45           | 45           |
| <b>Net Cash from Inv. activities</b> | <b>27</b>    | <b>16</b>    | <b>14</b>    | <b>11</b>    |
| Issue of share cap. / premium        | -            | -            | -            | -            |
| Debt changes                         | -            | -            | -            | -            |
| Dividend paid                        | (252)        | (529)        | (603)        | (676)        |
| Interest paid                        | -            | -            | -            | -            |
| Others                               | (226)        | -            | -            | -            |
| <b>Net cash from Fin. activities</b> | <b>(478)</b> | <b>(529)</b> | <b>(603)</b> | <b>(676)</b> |
| <b>Net change in cash</b>            | <b>18</b>    | <b>16</b>    | <b>24</b>    | <b>5</b>     |
| Free Cash Flow                       | 443          | 500          | 582          | 636          |

Source: Company Data, PL Research

**Quarterly Financials (Rs bn)**

| Y/e Mar                           | Q3FY24      | Q4FY24      | Q1FY25      | Q2FY25      |
|-----------------------------------|-------------|-------------|-------------|-------------|
| <b>Net Revenue</b>                | <b>606</b>  | <b>612</b>  | <b>626</b>  | <b>643</b>  |
| YoY gr. (%)                       | 4.0         | 3.5         | 5.4         | 7.7         |
| Raw Material Expenses             | 359         | 360         | 377         | 397         |
| Gross Profit                      | 247         | 252         | 250         | 245         |
| Margin (%)                        | 40.8        | 41.1        | 39.9        | 38.2        |
| <b>EBITDA</b>                     | <b>164</b>  | <b>172</b>  | <b>167</b>  | <b>167</b>  |
| YoY gr. (%)                       | 5.4         | 8.8         | 11.1        | 6.3         |
| Margin (%)                        | 27.1        | 28.0        | 26.6        | 26.0        |
| Depreciation / Depletion          | 12          | 12          | 12          | 13          |
| <b>EBIT</b>                       | <b>152</b>  | <b>159</b>  | <b>154</b>  | <b>155</b>  |
| Margin (%)                        | 25.0        | 26.0        | 24.7        | 24.1        |
| Net Interest                      | -           | -           | -           | -           |
| Other Income                      | 7           | 9           | 8           | 6           |
| <b>Profit before Tax</b>          | <b>159</b>  | <b>168</b>  | <b>162</b>  | <b>160</b>  |
| Margin (%)                        | 26.2        | 27.5        | 25.9        | 24.9        |
| Total Tax                         | 41          | 43          | 41          | 41          |
| Effective tax rate (%)            | 25.8        | 25.8        | 25.4        | 25.4        |
| <b>Profit after Tax</b>           | <b>118</b>  | <b>125</b>  | <b>121</b>  | <b>120</b>  |
| Minority interest                 | -           | 1           | 1           | -           |
| Share Profit from Associates      | -           | -           | -           | -           |
| <b>Adjusted PAT</b>               | <b>117</b>  | <b>124</b>  | <b>120</b>  | <b>119</b>  |
| YoY gr. (%)                       | 8.2         | 9.1         | 8.7         | 5.0         |
| Margin (%)                        | 19.4        | 20.3        | 19.2        | 18.5        |
| Extra Ord. Income / (Exp)         | -           | -           | -           | -           |
| <b>Reported PAT</b>               | <b>111</b>  | <b>124</b>  | <b>120</b>  | <b>119</b>  |
| YoY gr. (%)                       | 2.0         | 9.1         | 8.7         | 5.0         |
| Margin (%)                        | 18.3        | 20.3        | 19.2        | 18.5        |
| Other Comprehensive Income        | -           | -           | -           | -           |
| <b>Total Comprehensive Income</b> | <b>111</b>  | <b>124</b>  | <b>120</b>  | <b>119</b>  |
| Avg. Shares O/s (m)               | 4           | 4           | 4           | 4           |
| <b>EPS (Rs)</b>                   | <b>32.1</b> | <b>34.1</b> | <b>33.3</b> | <b>32.9</b> |

Source: Company Data, PL Research

**Key Financial Metrics**

| Y/e Mar                    | FY24  | FY25E | FY26E | FY27E |
|----------------------------|-------|-------|-------|-------|
| <b>Per Share(Rs)</b>       |       |       |       |       |
| EPS                        | 127.5 | 138.9 | 158.3 | 177.5 |
| CEPS                       | 141.1 | 153.7 | 174.4 | 195.2 |
| BVPS                       | 253.4 | 248.6 | 240.2 | 230.8 |
| FCF                        | 121.1 | 138.1 | 160.9 | 175.9 |
| DPS                        | 72.9  | 146.2 | 166.7 | 186.9 |
| <b>Return Ratio(%)</b>     |       |       |       |       |
| RoCE                       | 48.1  | 52.2  | 60.9  | 70.9  |
| ROIC                       | 32.2  | 36.0  | 40.2  | 44.7  |
| RoE                        | 50.9  | 55.0  | 64.8  | 75.4  |
| <b>Balance Sheet</b>       |       |       |       |       |
| Net Debt : Equity (x)      | (0.5) | (0.5) | (0.5) | (0.4) |
| Net Working Capital (Days) | 52    | 50    | 49    | 49    |
| <b>Valuation(x)</b>        |       |       |       |       |
| PER                        | 33.2  | 30.4  | 26.7  | 23.8  |
| P/B                        | 16.7  | 17.0  | 17.6  | 18.3  |
| P/CEPS                     | 30.0  | 27.5  | 24.2  | 21.7  |
| EV/EBITDA                  | 23.3  | 21.5  | 19.1  | 17.1  |
| EV/Sales                   | 6.2   | 5.8   | 5.3   | 4.8   |
| Dividend Yield (%)         | 1.7   | 3.5   | 3.9   | 4.4   |

Source: Company Data, PL Research

**Key Operating Metrics**

| Y/e Mar          | FY24   | FY25E  | FY26E  | FY27E  |
|------------------|--------|--------|--------|--------|
| Revenue (USD mn) | 29,080 | 30,927 | 33,403 | 36,537 |

Source: Company Data, PL Research

Price Chart



Recommendation History

| No. | Date      | Rating     | TP (Rs.) | Share Price (Rs.) |
|-----|-----------|------------|----------|-------------------|
| 1   | 03-Oct-24 | BUY        | 4,950    | 4,288             |
| 2   | 12-Jul-24 | Accumulate | 4,370    | 3,924             |
| 3   | 02-Jul-24 | Accumulate | 4,360    | 3,978             |
| 4   | 14-Apr-24 | Accumulate | 4,360    | 4,001             |

Analyst Coverage Universe

| Sr. No. | Company Name              | Rating     | TP (Rs) | Share Price (Rs) |
|---------|---------------------------|------------|---------|------------------|
| 1       | Cyient                    | Accumulate | 2,120   | 1,914            |
| 2       | HCL Technologies          | BUY        | 2,080   | 1,817            |
| 3       | Infosys                   | BUY        | 2,180   | 1,904            |
| 4       | LTIMindtree               | BUY        | 7,200   | 6,273            |
| 5       | Mphasis                   | Hold       | 3,020   | 3,016            |
| 6       | Persistent Systems        | Accumulate | 5,770   | 5,488            |
| 7       | Tata Consultancy Services | BUY        | 4,950   | 4,288            |
| 8       | Tech Mahindra             | Accumulate | 1,720   | 1,625            |
| 9       | Wipro                     | Accumulate | 580     | 547              |

PL's Recommendation Nomenclature (Absolute Performance)

|                          |                                   |
|--------------------------|-----------------------------------|
| <b>Buy</b>               | : > 15%                           |
| <b>Accumulate</b>        | : 5% to 15%                       |
| <b>Hold</b>              | : +5% to -5%                      |
| <b>Reduce</b>            | : -5% to -15%                     |
| <b>Sell</b>              | : < -15%                          |
| <b>Not Rated (NR)</b>    | : No specific call on the stock   |
| <b>Under Review (UR)</b> | : Rating likely to change shortly |

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