

Tata Consultancy Services Ltd.

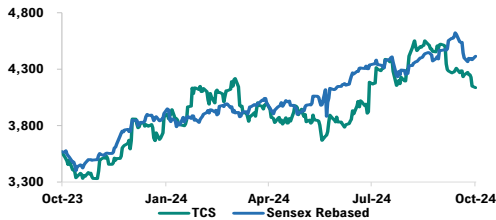
BUY

Sector: IT Services

16th October 2024

Key Changes	Target ▼	Rating ●	Earnings ▼	Target	Rs.4,634
Stock Type	Bloomberg Code	Sensex	NSE Code	BSE Code	Time Frame
Large Cap	TCS:IN	81,501	TCS	532540	12 Months
				CMP	Rs.4,095
				Return	+13%

Data as of: 16-10 2024

Company Data			
Market Cap (cr)	14,81,534		
52 Week High — Low (Rs.)	4,586 - 3,313		
Enterprise Value (Rs. cr)	1,473,596		
Outstanding Shares (Rs cr)	361.8		
Free Float (%)	28		
Dividend Yield (%)	1.8		
6m average volume (cr)	0.26		
Beta	0.8		
Face value (Rs)	1.0		
Shareholding (%)	Q4FY24	Q1FY25	Q2FY25
Promoters	71.8	71.8	71.8
FII's	12.7	12.4	12.7
MFs/Institutions	10.7	11.1	10.9
Public	4.9	4.8	4.7
Total	100.0	100.0	100.0
Promoter Pledge	0.3	0.3	0.3
Price Performance	3 Month	6 Month	1 Year
Absolute Return	-1%	3%	16%
Absolute Sensex	2%	10%	24%
Relative Return	-3%	-7%	-8%
*over or under performance to benchmark index			
			
Y.E March (cr)	FY24A	FY25E	FY26E
Sales	240,893.0	259,700.7	281,746.9
Growth (%)	6.8	7.8	8.5
EBITDA	64,296.0	69,886.5	76,646.6
EBITDA Margin (%)	26.7	26.9	27.2
PAT Adjusted	46,866.0	50,642.2	55,892.9
Growth (%)	11.2	8.1	10.4
Adjusted EPS	128.5	140.0	154.5
Growth (%)	11.6	8.9	10.4
P/E	30.2	29.6	26.8
P/B	15.7	14.9	14.0
EV/EBITDA	22.0	21.3	19.4
ROE (%)	50.9	50.5	52.5
D/E	0.1	0.1	0.1

Winning deals propels expansion

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

- In Q2FY25, TCS reported a revenue of Rs. 64,259cr (+8% YoY), driven by strong performance in India (+95% YoY), the UK (+11% YoY) and Asia-Pacific (+11% YoY).
- Revenue from India surged 95% YoY to Rs. 5,708cr, fueled by the rapid scale-up of the BSNL deal. Conversely, revenue from North America fell 1% YoY to Rs. 30,572cr, impacted by client-specific issues and softness in the communication segment.
- EBITDA increased 6% YoY to Rs. 16,731cr, led by lower cost of sales and revenue growth, with margin reaching to 26% (-40bps YoY). Consequently, PAT rose 5% YoY to Rs. 11,955cr.
- TCS's prospects are expected to receive a significant boost from a strengthened workforce, stabilisation of headwinds, large deal ramp-ups, and a healthy order pipeline.

Valuation

Despite challenging macroeconomic conditions and client-specific issues, TCS has demonstrated resilient revenue growth. BFSI growth is anticipated to accelerate, driven by stabilising macroeconomic environment, easing interest rates and robust deal pipeline. The manufacturing segment is expected to benefit from strong demand, while the upcoming holiday season is anticipated to spur growth in the consumer business segment. Lifesciences and healthcare headwinds are expected to stabilise, paving the way for growth in Q4FY25. Therefore, we remain optimistic about the company's growth prospects and **reiterate our Buy rating on the stock ,based on 30x P/E on FY26E Adj. EPS with a revised target price of Rs.4,634.**

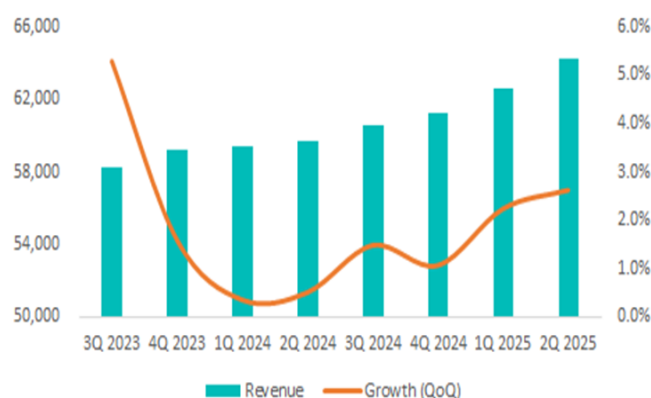
Quarterly Financials Consol.

Rs.cr	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)
Sales	64,259	59,692	7.7	62,613	2.6	126,872	119,073	6.5
EBITDA	16,731	15,746	6.3	16,662	0.4	33,393	30,744	8.6
Margin (%)	26.0	26.4	-40bps	26.6	-60bps	26.3	25.8	50bps
EBIT	15,465	14,483	6.8	15,442	0.1	30,907	28,238	9.5
PBT	16,032	15,330	4.6	16,231	-1.2	32,263	30,319	6.4
Rep. PAT	11,955	11,380	5.1	12,105	-1.2	24,060	22,500	6.9
Adj PAT	11,909	11,342	5.0	12,040	-1.1	23,949	22,416	6.8
EPS (Rs)	32.9	31.0	6.2	33.3	-1.1	66.2	61.3	8.1

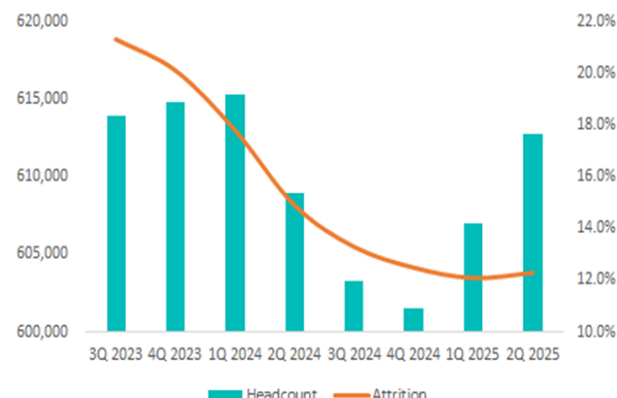
Key Highlights

- TCS's revenue growth was led by the communications, media and technology, which surged 26% YoY. The manufacturing segment grew 9% YoY, despite facing labour and supply-side constraints. The banking, financial services and insurance (BFSI) and retail and consumer business expanded 4% YoY and 3% YoY, respectively. Other businesses also grew 6.4% YoY.
- In Q2FY25, TCV reached \$8.6bn, driven by BFSI (\$2.9bn) and consumer business (\$1.2bn). Geographically, North America accounted for \$4.4bn of the total TCV.
- As of September 2024, workforce stood at 612,724, with LTM attrition increasing 20bps QoQ to 12.3%.
- TCS expects an upward trend in operating margins in the upcoming quarters, with long-term expectation of 26%-28%.
- TCS expects to close the BSNL deal by Q4FY25. The deployment of 1,00,000 BSNL sites is progressing steadily, having reached its halfway milestone. The BSNL deal has reached its peak revenue, which is expected to sustain for another quarter and then to go with the maintenance phase.

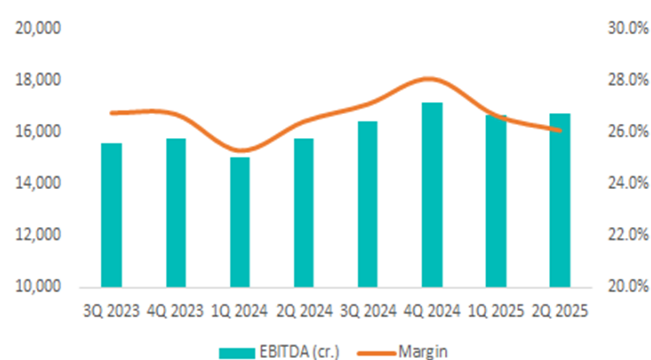
Revenue



LTM Attrition



EBITDA



PAT



Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	260,489	283,422	259,701	281,747	-0.3	-0.6
EBITDA	71,026	78,251	69,886	76,647	-1.6	-2.1
Margins (%)	27	28	27	27	-40 bps	-40 bps
Adj. PAT	52,128	58,134	50,642	55,893	-2.9	-3.9
EPS	144	161	140	155	-2.9	-3.9



Consolidated Financials

Profit & Loss

Y.E March (Rs cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Sales	191,754	225,458	240,893	259,701	281,747
% change	17%	18%	7%	8%	9%
EBITDA	53,057	59,259	64,296	69,886	76,647
% change	14%	11%	9%	9%	10%
Depreciation	4,604	5,022	4,985	5,027	5,047
EBIT	48,453	54,237	59,311	64,859	71,600
Interest	784	779	778	797	822
Other Income	4,018	3,449	3,464	3,896	4,226
PBT	51,687	56,907	61,997	67,958	75,004
% change	18%	10%	9%	10%	10%
Tax	13,238	14,604	15,898	17,105	18,878
Tax Rate (%)	26%	26%	26%	25%	25%
Reported PAT	38,449	42,303	46,099	50,853	56,125
Adj.*	-	-	958	-	-
Adj. PAT	38,327	42,147	46,866	50,642	55,893
% change	14%	10%	11%	8%	10%
No. of shares (cr)	369.9	365.9	364.7	361.8	361.8
Adj EPS (Rs)	103.6	115.2	128.5	140.0	154.5
% change	15%	11%	12%	9%	10%
DPS (Rs)	43.0	115.0	73.0	77.0	85.0

Cashflow

Y.E March	FY22A	FY23	FY24A	FY25E	FY26E
Net inc. + Depn.	43,053	47,325	51,084	55,880	61,172
Non-cash adj.	932	-887	-2,787	-17,280	-23,033
Other adjustments	0	0	0	0	0
Changes in W.C	-4,036	-4,473	-3,959	-1,387	-3,693
C.F. Operation	39,949	41,965	44,338	37,214	34,447
Capital exp.	-2,452	-2,495	-2,185	-3,376	-3,663
Change in inv.	-640	7	5,657	-91	-91
Other invest.CF	2,195	2,527	2,554	2,354	2,510
C.F - Investment	-897	39	6,026	-1,112	-1,244
Issue of equity	-18,067	18	-17,046	-	-
Issue/repay debt	-	-	-	1,400	150
Dividends paid	-13,375	-41,410	-25,218	-27,853	-30,741
Other finance.CF	-2,139	-6,486	-6,272	-974	-719
C.F - Finance	-33,581	-47,878	-48,536	-27,428	-31,310
Chg. in cash	5,630	-5,365	1,893	8,674	1,893
Closing cash	12,488	7,123	9,016	17,690	19,583

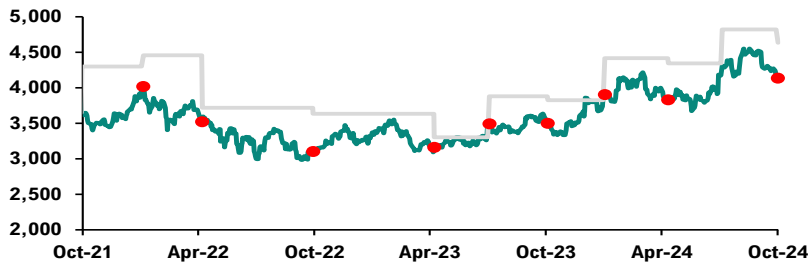
Balance Sheet

Y.E March (Rs cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	18,221	11,032	13,286	21,960	23,853
Accts. Receivable	34,074	41,049	44,434	49,343	53,814
Inventories	20	28	28	29	31
Other Cur. Assets	55,995	58,161	55,236	56,731	58,478
Investments	223	266	281	372	463
Gross Fixed Assets	30,300	32,344	34,529	37,905	41,568
Net Fixed Assets	10,774	10,230	9,376	7,693	6,277
CWIP	1,205	1,234	1,564	1,595	1,627
Intangible Assets	10,524	10,285	10,228	11,236	12,176
Def. Tax (Net)	5,691	5,890	5,003	5,388	5,758
Other Assets	4,787	5,476	7,013	7,085	7,122
Total Assets	141,514	143,651	146,449	161,431	169,599
Current Liabilities	40,901	42,073	44,599	47,964	49,373
Provisions	-	-	-	-	-
Debt Funds	8,390	8,041	8,386	9,786	9,936
Other Liabilities	2,377	2,331	2,145	1,967	2,070
Equity Capital	366	366	362	362	362
Res. & Surplus	88,773	90,058	90,127	100,311	106,584
Shareholder Funds	89,139	90,424	90,489	100,673	106,946
Minority Interest	707	782	830	1,041	1,273
Total Liabilities	141,514	143,651	146,449	161,431	169,599
BVPS	241	247	248	278	296

Ratio

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab. & Return					
EBITDA margin (%)	27.7	26.3	26.7	26.9	27.2
EBIT margin (%)	25.3	24.1	24.6	25.0	25.4
Net profit mgn.(%)	20.1	18.8	19.1	19.6	19.9
ROE (%)	43.1	46.8	50.9	50.5	52.5
ROCE (%)	49.3	54.6	59.5	58.2	60.6
W.C & Liquidity					
Receivables (days)	64.9	66.5	67.3	69.4	69.7
Inventory (days)	0.2	0.3	0.3	0.3	0.3
Payables (days)	97.9	104.3	111.2	146.0	142.4
Current ratio (x)	2.6	2.5	2.5	2.6	2.7
Quick ratio (x)	1.9	2.0	1.9	2.1	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	1.7
Int. covge. ratio (x)	61.8	69.6	76.2	81.4	87.1
Adj. debt/equity (x)	0.1	0.1	0.1	0.1	0.1
Valuation					
EV/Sales (x)	7.2	5.2	5.9	5.7	5.3
EV/EBITDA (x)	25.9	19.8	22.0	21.3	19.4
P/E (x)	36.1	27.8	30.2	29.6	26.8
P/BV (x)	15.5	13.0	15.7	14.9	14.0

Recommendation Summary (last 3 years)



Dates	Rating	Target
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
17.Jul.24	BUY	4,821
16.Oct.24	BUY	4,634

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.

Symbols definition:

▲ Upgrade

● No Change

▼ Downgrade

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 HOLD, REDUCE or SELL.

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