

## Good show in a seasonally soft quarter

Information Technology ▶ Result Update ▶ January 12, 2024

TARGET PRICE (Rs): 3,900

**TCS's Q3 operating performance beat estimates – Revenue grew 1% QoQ (1.1% in CC terms) to USD7.28bn, slightly higher than our estimate of 0.8% QoQ CC growth. While the revenue growth was aided by ramp-up of the BSNL deal in Q3, it was partly offset by persistent weakness in discretionary spending and reprioritization of client spends. Adj. EBITM expanded by 70bps QoQ to 25% vs our estimate of 24.7%, aided by operating efficiencies, lower sub-contractor expenses and currency depreciation. Deal intake moderated a bit sequentially, albeit remaining healthy with TCV of USD8.1bn; book-to-bill stood at 1.1x. Deal wins were broad-based and dominated by cost optimization programs. Management remains watchful in the near term given macro uncertainties, and refrained from providing any timeline of recovery; but it expects acceleration in revenue growth once macro uncertainties recede. We cut FY24-26E EPS by less than 1.5%, factoring in the Q3 performance and EPIC legal case settlement. We maintain REDUCE with unchanged TP of Rs3,900/share, at 25x Dec-25E EPS.**

## TCS: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	19,17,540	22,54,580	24,28,078	27,45,638	29,58,734
EBITDA	5,30,570	5,92,600	6,29,082	7,25,761	8,02,221
Adj. PAT	3,83,270	4,21,470	4,55,185	5,21,481	5,79,849
Adj. EPS (Rs)	104.7	115.2	125.8	144.1	160.3
EBITDA margin (%)	27.7	26.3	25.9	26.4	27.1
EBITDA growth (%)	17.1	11.7	6.2	15.4	10.5
Adj. EPS growth (%)	19.5	10.0	9.2	14.6	11.2
RoE (%)	42.6	45.9	51.9	56.1	50.8
RoIC (%)	70.9	83.4	85.7	93.3	95.0
P/E (x)	35.7	32.4	29.7	25.9	23.3
EV/EBITDA (x)	25.0	22.4	21.0	18.0	16.1
P/B (x)	15.0	14.8	16.3	13.1	10.8
FCFF yield (%)	2.9	3.0	3.3	3.5	4.0

Source: Company, Emkay Research

## Results Summary

TCS's revenue grew 1% QoQ (1.1% QoQ/1.7% YoY in CC terms) to USD7.28bn, a tad higher than our estimate of USD7.24bn. Cost of equipment and software licenses increased by USD91mn QoQ, partly reflecting ramping-up of the BSNL deal. Adj. EBITM expanded by 70bps QoQ to 25%, on the back of efficiency improvements through productivity and realization (60bps), reduction in sub-contracting costs (70bps) and currency benefits (25bps), partly negated by headwinds from furloughs and higher third-party expenses (-80bps). Among geographies, North America declined 1.2% QoQ in USD terms, while the UK and Continental Europe grew 0.4% QoQ and 1.7% QoQ, respectively. India grew 25.7% QoQ, backed by the BSNL deal ramp-up. BFSI, Consumer Business, Communications & Media, and Technology & Services declined 1.8%, 0.3%, 1.9%, and 1.4% QoQ, respectively. Manufacturing, Lifesciences & Healthcare, Regional Markets & Others, and ERU grew 2.2%, 1%, 12.9%, and 2.8% QoQ. The company's headcount declined 1% QoQ to 603,305 employees. **What we liked:** Operating performance beat, healthy cash conversion (OCF/EBITDA at 73.1%), further moderation in LTM attrition to 13.3%. **What we did not like:** Continued weakness in North America, BFSI, Consumer Business, Communication & Media, and Technology & Services.

## Earnings Call KTAs

i) Company has noted cautious client behavior due to macro-economic uncertainties (fear of recession and continued high inflation) which creates a case of pent-up demand in the areas of hyper-personalization, channel modernization, point-of-sale, insights & recommendations driven by AI, supply chain, sustainability, intelligent operations, etc, as investments have not kept pace with requirements or business demand. Company expects the pent-up demand to materialize once macro uncertainties recede. ii) Clients continue to prioritize investments that accelerate cost reduction, drive business agility, and improve resilience across the supply chain. iii) AI.Cloud, cyber security, and cognitive business operations led the growth among service lines in Q3. iv) Company has commenced fresher hiring from campuses and continues to recalibrate lateral hiring, while focusing on driving utilization higher. v) Management remains committed to its 26-28% EBITM aspirations. Utilization, productivity, subcon costs, pricing, pyramid, and automation remain the key margin levers. vi) BFSI was impacted in Q3 by the completion of large programs in North America, and expects the segment to retrace growth in Q4. Deal closures in BFSI remain broad-based. vii) The pricing environment remains stable. Realization improved due to higher productivity, better utilization, and use of tools. viii) TCS declared a dividend of Rs27/share (interim dividend: Rs9; special dividend: Rs18).

Target Price – 12M	Dec-24
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	4.4
CMP (11-Jan-24) (Rs)	3,735.6

Stock Data	Ticker
52-week High (Rs)	3,929
52-week Low (Rs)	3,070
Shares outstanding (mn)	3,659.1
Market-cap (Rs bn)	13,669
Market-cap (USD mn)	1,64,615
Net-debt, FY24E (Rs mn)	-3,01,300
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	7,345.6
ADTV-3M (USD mn)	88.5
Free float (%)	28.0
Nifty-50	21,647
INR/USD	83.0
<b>Shareholding, Sep-23</b>	
Promoters (%)	72.3
FPIs/MFs (%)	12.5/10.1

## Price Performance

(%)	1M	3M	12M
Absolute	2.5	3.5	14.5
Rel. to Nifty	(0.5)	(5.3)	(5.3)

## 1-Year share price trend (Rs)



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**Exhibit 1: Quarterly snapshot**

Particular (Rs mn)	Q3 FY24	Q2 FY24	QoQ (%)	Q3 FY23	YoY (%)
Net sales (USD mn)	7,281	7,210	1.0	7,075	2.9
Net sales	605,830	596,920	1.5	582,290	4.0
Operating expenses	451,530	439,470		426,750	
EBITDA	154,300	157,450	-2.0	155,540	-0.8
- Margin (%)	25.5	26.4	-90.0	26.7	(120.0)
Depreciation	12,330	12,620		12,700	
EBIT	141,970	144,830	-2.0	142,840	-0.6
- Margin (%)	23.4	24.3	-80.0	24.5	-110.0
Other income	6,320	8,470		3,600	
Pre-tax profit	148,290	153,300	-3.3	146,440	1.3
Tax provided	37,320	39,500		37,610	
Profit after tax	110,970	113,800		108,830	2.0
Emkay - Net profit	110,970	113,800	-2.5	108,830	2.0
EPS (Rs)	30.6	31.0	-1.4	29.6	3.1

Source: Company, Emkay Research

**Exhibit 2: Changes in estimates**

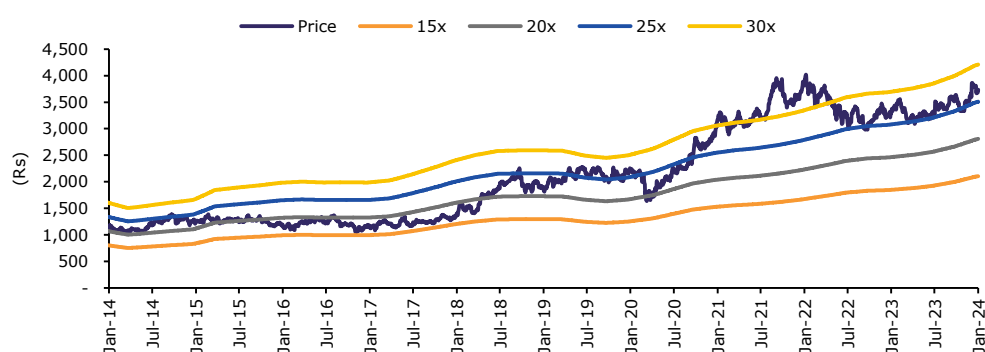
(Rs mn)	FY24E			FY25E			FY26E		
	Old	New	change	Old	New	change	Old	New	change
Revenue (USD mn)	29,276	29,326	0.2%	32,652	32,686	0.1%	34,773	34,809	0.1%
YoY growth (%)	4.8	5.0		11.5	11.5		6.5	6.5	
Revenue	2,424,590	2,428,078	0.1%	2,742,800	2,745,638	0.1%	2,955,676	2,958,734	0.1%
EBIT	585,882	579,072	-1.2%	670,155	670,848	0.1%	739,323	740,088	0.1%
EBIT margins (%)	24.2	23.8		24.4	24.4		25.0	25.0	
Net profit	461,435	455,185	-1.4%	523,951	521,481	-0.5%	582,365	579,849	-0.4%
EPS (Rs)	127.5	125.8	-1.4%	144.8	144.1	-0.5%	161.0	160.3	-0.4%

Source: Company, Emkay Research

**Exhibit 3: Actuals vs estimates (Q3FY24)**

(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue (USD mn)	7,281	7,239	7,219	0.6%	0.9%	Revenue came in better than our estimate.
Sales	605,830	602,995	600,945	0.5%	0.8%	
EBIT	141,970	148,940	147,832	-4.7%	-4.0%	Adjusted EBITM were ahead of expectations. Reported EBITM missed expectations due to one-off costs pertaining to settlement of legal claim.
EBIT margin	23.4%	24.7%	24.6%	-130 bps	-120 bps	
PAT	110,970	116,981	114,780	-5.1%	-3.3%	Reported profit missed expectations due to one-off costs.

Source: Company, Bloomberg, Emkay Research

**Exhibit 4: TCS – One-year forward P/E**

Source: Company, Emkay Research

## TCS: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>19,17,540</b>	<b>22,54,580</b>	<b>24,28,078</b>	<b>27,45,638</b>	<b>29,58,734</b>
Revenue growth (%)	16.8	17.6	7.7	13.1	7.8
<b>EBITDA</b>	<b>5,30,570</b>	<b>5,92,600</b>	<b>6,29,082</b>	<b>7,25,761</b>	<b>8,02,221</b>
EBITDA growth (%)	17.1	11.7	6.2	15.4	10.5
Depreciation & Amortization	46,040	50,230	50,010	54,913	62,133
<b>EBIT</b>	<b>4,84,530</b>	<b>5,42,370</b>	<b>5,79,072</b>	<b>6,70,848</b>	<b>7,40,088</b>
EBIT growth (%)	17.4	11.9	6.8	15.8	10.3
Other operating income	0	0	0	0	0
Other income	40,180	34,490	41,737	37,644	47,002
Financial expense	7,840	7,790	7,020	6,000	6,000
<b>PBT</b>	<b>5,16,870</b>	<b>5,69,070</b>	<b>6,13,788</b>	<b>7,02,493</b>	<b>7,81,090</b>
Extraordinary items	0	0	0	0	0
Taxes	1,32,380	1,46,040	1,56,899	1,79,136	1,99,178
Minority interest	(1,220)	(1,560)	(1,705)	(1,876)	(2,063)
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>3,83,270</b>	<b>4,21,470</b>	<b>4,55,185</b>	<b>5,21,481</b>	<b>5,79,849</b>
PAT growth (%)	18.2	10.0	8.0	14.6	11.2
<b>Adjusted PAT</b>	<b>3,83,270</b>	<b>4,21,470</b>	<b>4,55,185</b>	<b>5,21,481</b>	<b>5,79,849</b>
<b>Diluted EPS (Rs)</b>	<b>104.7</b>	<b>115.2</b>	<b>125.8</b>	<b>144.1</b>	<b>160.3</b>
Diluted EPS growth (%)	19.5	10.0	9.2	14.6	11.2
<b>DPS (Rs)</b>	<b>43.0</b>	<b>115.0</b>	<b>95.0</b>	<b>88.0</b>	<b>99.0</b>
<b>Dividend payout (%)</b>	<b>41.1</b>	<b>99.8</b>	<b>75.5</b>	<b>61.1</b>	<b>61.8</b>
EBITDA margin (%)	27.7	26.3	25.9	26.4	27.1
EBIT margin (%)	25.3	24.1	23.8	24.4	25.0
Effective tax rate (%)	25.6	25.7	25.6	25.5	25.5
<b>NOPLAT (pre-IndAS)</b>	<b>3,60,433</b>	<b>4,03,182</b>	<b>4,31,048</b>	<b>4,99,782</b>	<b>5,51,365</b>
Shares outstanding (mn)	3,659.1	3,659.1	3,618.1	3,618.1	3,618.1

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	5,16,870	5,69,070	6,13,788	7,02,493	7,81,090
Others (non-cash items)	45,900	49,490	50,010	54,913	62,133
Taxes paid	(1,14,860)	(1,46,040)	(1,56,899)	(1,79,136)	(1,99,178)
Change in NWC	(26,460)	(43,870)	(15,531)	(52,601)	(35,791)
<b>Operating cash flow</b>	<b>4,21,450</b>	<b>4,45,030</b>	<b>4,91,369</b>	<b>5,25,669</b>	<b>6,08,255</b>
Capital expenditure	(29,610)	(30,610)	(48,300)	(55,913)	(63,133)
Acquisition of business	0	0	0	0	0
Interest & dividend income	27,040	30,930	36,717	27,644	37,002
<b>Investing cash flow</b>	<b>(37,910)</b>	<b>(32,780)</b>	<b>50,670</b>	<b>(1,85,913)</b>	<b>(2,63,133)</b>
Equity raised/(repaid)	(1,80,670)	(41,740)	(2,09,611)	0	0
Debt raised/(repaid)	(240)	0	0	0	0
Payment of lease liabilities	(14,170)	(15,150)	2,970	0	0
Interest paid	0	0	0	0	0
Dividend paid (incl tax)	(1,33,750)	(4,14,100)	(3,43,718)	(3,18,392)	(3,58,191)
Others	1,590	5,090	0	0	0
<b>Financing cash flow</b>	<b>(3,27,240)</b>	<b>(4,65,900)</b>	<b>(5,50,359)</b>	<b>(3,18,392)</b>	<b>(3,58,191)</b>
Net chg in Cash	56,300	(53,650)	(8,320)	21,364	(13,069)
OCF	4,21,450	4,45,030	4,91,369	5,25,669	6,08,255
Adj. OCF (w/o NWC chg.)	4,47,910	4,88,900	5,06,900	5,78,270	6,44,046
FCFF	3,91,840	4,14,420	4,43,069	4,69,756	5,45,121
FCFE	4,11,040	4,37,560	4,72,765	4,91,400	5,76,123
OCF/EBITDA (%)	79.4	75.1	78.1	72.4	75.8
FCFE/PAT (%)	107.2	103.8	103.9	94.2	99.4
<b>FCFF/NOPLAT (%)</b>	<b>108.7</b>	<b>102.8</b>	<b>102.8</b>	<b>94.0</b>	<b>98.9</b>

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	3,660	3,660	3,618	3,618	3,618
Reserves & Surplus	9,08,930	9,21,760	8,23,657	10,26,747	12,48,405
<b>Net worth</b>	<b>9,12,590</b>	<b>9,25,420</b>	<b>8,27,275</b>	<b>10,30,365</b>	<b>12,52,023</b>
Minority interests	7,070	7,820	9,525	11,401	13,464
Deferred tax liability (net)	(30,900)	(24,850)	(25,850)	(26,850)	(27,850)
<b>Total debt</b>	<b>78,180</b>	<b>76,880</b>	<b>79,850</b>	<b>79,850</b>	<b>79,850</b>
<b>Total liabilities &amp; equity</b>	<b>9,66,940</b>	<b>9,85,270</b>	<b>8,90,800</b>	<b>10,94,766</b>	<b>13,17,487</b>
Net tangible fixed assets	1,20,800	1,15,950	1,16,400	1,17,400	1,18,400
Net intangible assets	11,010	8,670	6,510	6,510	6,510
Net ROU assets	76,360	75,600	75,600	75,600	75,600
Capital WIP	0	0	0	0	0
Goodwill	39,350	40,060	40,060	40,060	40,060
Investments [JV/Associates]	0	0	0	0	0
<b>Cash &amp; equivalents</b>	<b>4,97,120</b>	<b>4,88,440</b>	<b>3,81,150</b>	<b>5,32,514</b>	<b>7,19,444</b>
Current assets (ex-cash)	6,54,900	6,96,200	7,37,269	8,28,142	8,90,108
Current Liab. & Prov.	4,32,600	4,39,650	4,66,188	5,05,460	5,32,635
<b>NWC (ex-cash)</b>	<b>2,22,300</b>	<b>2,56,550</b>	<b>2,71,081</b>	<b>3,22,682</b>	<b>3,57,473</b>
<b>Total assets</b>	<b>9,66,940</b>	<b>9,85,270</b>	<b>8,90,800</b>	<b>10,94,766</b>	<b>13,17,487</b>
Net debt	(4,18,940)	(4,11,560)	(3,01,300)	(4,52,664)	(6,39,594)
Capital employed	9,66,940	9,85,270	8,90,800	10,94,766	13,17,487
<b>Invested capital</b>	<b>4,69,820</b>	<b>4,96,830</b>	<b>5,09,651</b>	<b>5,62,252</b>	<b>5,98,043</b>
BVPS (Rs)	249.4	252.9	228.6	284.8	346.0
Net Debt/Equity (x)	(0.5)	(0.4)	(0.4)	(0.4)	(0.5)
Net Debt/EBITDA (x)	(0.8)	(0.7)	(0.5)	(0.6)	(0.8)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
<b>RoCE (%)</b>	<b>55.1</b>	<b>59.1</b>	<b>66.2</b>	<b>71.4</b>	<b>65.3</b>

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	35.7	32.4	29.7	25.9	23.3
P/CE(x)	31.8	29.0	26.8	23.4	21.1
P/B (x)	15.0	14.8	16.3	13.1	10.8
EV/Sales (x)	6.9	5.9	5.4	4.8	4.4
EV/EBITDA (x)	25.0	22.4	21.0	18.0	16.1
EV/EBIT(x)	27.3	24.4	22.8	19.5	17.4
EV/IC (x)	28.2	26.7	25.9	23.2	21.5
FCFF yield (%)	2.9	3.0	3.3	3.5	4.0
FCFE yield (%)	3.0	3.2	3.5	3.6	4.3
Dividend yield (%)	1.2	3.1	2.5	2.4	2.7
<b>DuPont-RoE split</b>					
Net profit margin (%)	20.0	18.7	18.7	19.0	19.6
Total asset turnover (x)	2.0	2.3	2.6	2.8	2.5
Assets/Equity (x)	1.1	1.1	1.1	1.1	1.1
<b>RoE (%)</b>	<b>42.6</b>	<b>45.9</b>	<b>51.9</b>	<b>56.1</b>	<b>50.8</b>
<b>DuPont-RoIC</b>					
NOPLAT margin (%)	18.8	17.9	17.8	18.2	18.6
IC turnover (x)	3.8	4.7	4.8	5.1	5.1
<b>RoIC (%)</b>	<b>70.9</b>	<b>83.4</b>	<b>85.7</b>	<b>93.3</b>	<b>95.0</b>
<b>Operating metrics</b>					
Core NWC days	42.3	41.5	40.8	42.9	44.1
<b>Total NWC days</b>	<b>42.3</b>	<b>41.5</b>	<b>40.8</b>	<b>42.9</b>	<b>44.1</b>
Fixed asset turnover	7.8	9.2	10.1	11.5	12.3
Opex-to-revenue (%)	72.3	73.7	74.1	73.6	72.9

Source: Company, Emkay Research

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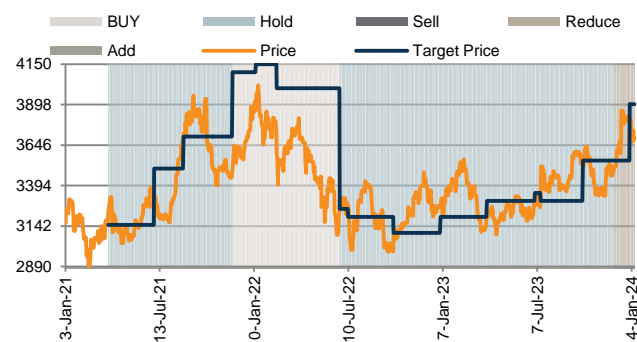
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## RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
31-Dec-23	3,793	3,900	Reduce	Dipeshkumar Mehta
30-Nov-23	3,488	3,550	Reduce	Dipeshkumar Mehta
12-Oct-23	3,543	3,550	Hold	Dipeshkumar Mehta
02-Oct-23	3,529	3,550	Hold	Dipeshkumar Mehta
13-Jul-23	3,341	3,300	Hold	Dipeshkumar Mehta
02-Jul-23	3,302	3,350	Hold	Dipeshkumar Mehta
13-Apr-23	3,189	3,300	Hold	Dipeshkumar Mehta
01-Apr-23	3,206	3,300	Hold	Dipeshkumar Mehta
10-Jan-23	3,286	3,200	Hold	Dipeshkumar Mehta
02-Jan-23	3,261	3,200	Hold	Dipeshkumar Mehta
10-Oct-22	3,119	3,100	Hold	Dipeshkumar Mehta
04-Oct-22	3,091	3,100	Hold	Dipeshkumar Mehta
09-Jul-22	3,265	3,200	Hold	Dipeshkumar Mehta
23-Jun-22	3,309	3,250	Hold	Dipeshkumar Mehta
15-Jun-22	3,206	4,000	Buy	Dipeshkumar Mehta
12-Apr-22	3,691	4,000	Buy	Dipeshkumar Mehta
01-Apr-22	3,759	4,000	Buy	Dipeshkumar Mehta
22-Feb-22	3,586	4,000	Buy	Dipeshkumar Mehta
13-Jan-22	3,898	4,150	Buy	Dipeshkumar Mehta
01-Jan-22	3,738	4,100	Buy	Dipeshkumar Mehta
29-Nov-21	3,502	4,100	Buy	Dipeshkumar Mehta
09-Oct-21	3,936	3,700	Hold	Dipeshkumar Mehta
02-Oct-21	3,730	3,700	Hold	Dipeshkumar Mehta
27-Aug-21	3,720	3,700	Hold	Dipeshkumar Mehta
09-Jul-21	3,208	3,500	Hold	Dipeshkumar Mehta
02-Jul-21	3,325	3,500	Hold	Dipeshkumar Mehta
13-Apr-21	3,104	3,150	Hold	Dipeshkumar Mehta
05-Apr-21	3,239	3,150	Hold	Dipeshkumar Mehta

Source: Company, Emkay Research

## RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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<b>SELL</b>	<15% downside

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