

Stellar Q4FY24 performance; Maintain Buy

Q4FY24 Result Update | Sector: IT | April 13, 2024

BUY

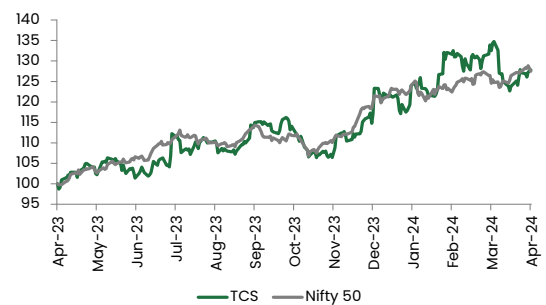
CMP (Rs)	4,001
Target Price (Rs)	4,615
Potential Upside	15.3%
Sensex	74,245
Nifty	22,519

Key Stock data

BSE Code	532540
NSE Code	TCS
Bloomberg	TCS:IN
Shares o/s, Cr (FV 1)	361.8
Market Cap (Rs Cr)	1,447,741
3M Avg Volume	2,464,454
52 week H/L	4,255/3,070

Shareholding Pattern

(%)	Jun-23	Sep-23	Dec-23
Promoter	72.3	72.3	72.4
FII	12.5	12.5	12.5
DII	9.8	10.1	10.1
Others	5.4	5.1	5.0

1 year relative price performance

1 year P/E Forward (x)

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Steady topline growth: TCS revenue in rupee grew by 3.5% YoY and 1.1% QoQ to Rs 61,237cr and revenue in dollar grew by 2.3% YoY and 1.1% QoQ to USD 7,363mn while revenue growth in constant currency was 2.2% YoY for Q4FY24. The growth in the quarter amongst geographies was driven by India & other regional businesses as well as UK while North America reported muted growth. Amongst industry manufacturing, energy and other regional markets led the growth while de-growth was seen in BFSI, consumer and technology industries. For FY24, constant currency growth came in at 3.4% while revenue in rupee stood at Rs 2,40,893cr, up by 6.8% YoY and revenue in dollar grew by 4.1% YoY to USD 29,080mn. Amongst geography, except for North America which saw a flat growth all the other markets reported positive growth while amongst industries consumer, life science, energy and manufacturing saw a growth while BFSI, technology and communication witnessed slowdown and de-grew in the range of 1-2.6% YoY in CC terms.

Robust margin expansion: Its EBIT witnessed a growth of 9.9% YoY and 5% QoQ to Rs 15,918cr and EBIT margins improved by 150bps YoY and 98bps QoQ to 26% which was in-line with management expectation. Its PAT came in at Rs 12,502cr, which grew by 9.3% YoY and 12.7% QoQ as it was adjusted for an exceptional item of Rs 958cr in Q3FY24. For FY24, its EBIT grew by 9.4% YoY to Rs 59,311cr with margin improvement of 56bps to 24.6%. PAT grew by 9% YoY to Rs 46,099cr with margin at 19.1%, an improvement of 37bps. Further, the management plan is to scale margins in between 26-28% and would be driven by cost optimization & saving, better operating efficiency and gaining long term deals.

Highest ever order wins: TCS won multi-year high deal for FY24 which stood at USD 42.7bn, an increase of 25.2% YoY (USD 34.1bn in FY23). In Q4FY24 its order book came in healthy at USD 13.2bn higher by 32% YoY (USD 10bn in Q4FY23) and 63% QoQ (USD 8.1bn in Q3FY24). Amongst deals, ~USD 19.6bn from North America, BFSI TCV was at USD 12.7bn and TCV of USD 5.8bn was from Consumer Business.

Attrition moderated further: In Q4FY24, TCS attrition continued to moderate to 12.5% from 13.3% in Q3FY24, a fall of 80 bps QoQ and was down by 760bps from 20.1% in Q4FY23. Management plan is to hire fresher's, train them and continue to grow talent organically which would aid in maintaining attrition level as well as bring in more efficiencies.

Outlook & Valuation: TCS reported a healthy set of numbers for Q4FY24 with robust margin improvement and multi-year order win and this signals improving performance ahead. We believe clients currently are focusing on prioritizing projects that reduce cost and increase business agility, and would start its spending on discretionary projects in FY25. Further, we continue to remain optimistic on the growth of TCS given its leadership position, healthy portfolio and investment towards technologies and platform. Amongst the IT peers, our top pick is TCS and financially we have estimated its revenue/EBIT to grow at 11%/14.7% CAGR over FY24-26E. We maintain our Buy rating on the stock but revising the target price upwards to Rs 4,615 by assigning a P/E multiple of 27x on FY26E EPS.

Financial Summary - consolidated

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
Net revenue	225,458	240,893	264,982	296,780
EBIT	54,237	59,311	68,100	78,053
EBITM (%)	24.1	24.6	25.7	26.3
APAT	42,303	46,099	53,114	60,934
APATM (%)	18.8	19.1	20.0	20.5
EPS (Rs)	115.6	127.4	146.8	168.4
PE (x)	34.6	31.4	27.3	23.8
RoE (%)	46.8	50.9	49.4	47.4

Source : RBL Research

Key Highlights: 1) Management commentary suggested that the situation is seeing gradual improvement as for the quarter, it saw steady growth in revenue, but margins and order pipeline remained strong with attrition continuing to ease. They could not suggest a definite timeline for revival but expects FY25 to be better as compared to FY24. 2) Newer technology is seeing healthy demand. 3) For margins, the plan is to scale it in between 26-28% in the next 2-3 years. 4) The company has applied for 8,040 patents upto FY24 and has been granted 3,919 patents. For Q4FY24, it applied for 188 patents and 461 were granted. 5) Post the retirement of TCS COO, NG Subramaniam's, the company does not intend to appoint a new and has plans to redistribute his duties. 6) AI.Cloud, Enterprise Solutions, IOT & DE and Cyber Security led the growth this quarter. 7) For deals, few of the well-known partners are Ramboll, Aviva, Euroclear Finland, Nuuday, Toyota Motor North America, Ontario Teachers' Pension Plan, Australia's largest e-health company, EasyJet and few others. 8) The company has proposed a final dividend of Rs 28/share.

Performance across Geographies & Verticals: 1) Amongst geographies America & Europe contribute around 80-85% revenue in Q4FY24 & FY24. a) In Q4FY24, North America and Europe de-grew by 2.3% YoY and 2% YoY in CC. On the flip side, the growth was led by the UK and India as well as Asia Pacific and other regional markets which grew by 6.2% YoY, 37.9% YoY, 5.2% YoY and 10.7% YoY, respectively in CC terms. b) For FY24, UK and India led the growth with 10.1% YoY/20.2% YoY in CC terms followed by Asia Pacific and other regional markets with 4.5% YoY/14.4% YoY in CC terms and Europe was marginally up by 0.7% YoY while for North America it was flat. 2) Amongst verticals BFSI, consumer & Life Science contributes ~57-60% revenue in Q4FY24 & FY24. a) In Q4FY24, Manufacturing, Life science, Energy and regional markets witnessed a CC growth of 9.7% YoY, 1.7% YoY, 7.3% YoY and 26% YoY while BFSI, consumer, technology and communications reported de-growth in CC of 3.2% YoY, 0.3% YoY, 5.6% YoY and 5.5%, respectively. b) For FY24, BFSI, communication and technology continued to be on the negative side and CC growth was down by 1% YoY, 2.6% YoY, 2.3% YoY while the positive growth was led by consumer, manufacturing, Life science, Energy and regional markets with 1.8% YoY, 7.3% YoY, 4.8% YoY, 12.6% YoY and 19.8%, respectively.

P&L Account Quarterly - consolidated

Particulars, Rs cr	Q4FY24	Q4FY23	Y-o-Y (%)	Q3FY24	Q-o-Q (%)
Net Sales (\$ Mn)	7,363	7,195	2.3	7,281	1.1
Net Sales (Rs Cr)	61,237	59,162	3.5	60,583	1.1
Employee Cost	35,138	33,688	4.3	34,722	1.2
Cost of equipment and licenses	1,561	620	151.8	1,173	33.1
Other Expense	7,374	9,082	(18.8)	8,300	(11.2)
Total Expenditure	44,073	43,389	1.6	44,195	(0.3)
EBITDA	17,164	15,773	8.8	16,388	4.7
EBITDA Margins (%)	28.0	26.7	137bps	27.1	98bps
Depreciation	1,246	1,285	(3.1)	1,233	1.1
EBIT	15,918	14,488	9.9	15,155	5.0
EBIT Margins (%)	26.0	24.5	151bps	25.0	98bps
Other Income	1,157	1,175	(1.5)	862	34.2
Interest	226	272	(16.9)	230	(1.7)
PBT	16,849	15,391	9.5	15,787	6.7
PBT Margin (%)	27.5	26.0	150bps	26.1	146bps
Exceptional item	-	-	-	-958	-
PBT (after Excep.)	16,849	15,391	9.5	14,829	13.6
Tax	4,347	3,955	9.9	3,732	16.5
PAT (after except.)	12,502	11,436	9.3	11,097	12.7
PAT Margin (%)	20.4	19.3	109bps	18.3	210bps
EPS (Rs)	34.5	31.2	10.5	30.7	12.7

Source : RBL Research

The revenue growth was led by India & UK region as well as manufacturing & energy industry

EBIT margin grew strong driven by cost optimization and better operating efficiency

India & other region drove the growth

Revenue Distribution by Geography & growth in Constant Currency (%) - consolidated

Particulars, Rs cr	Q4FY24	Q4FY23	Y-o-Y %	FY24	FY23	Y-o-Y %
Americas	52.0	54.2	-	53.1	55.2	-
North America	50.0	52.4	(2.3)	51.1	53.4	(0.2)
Latin America *	2.0	1.8	9.8	2.0	1.8	12.4
Europe	31.4	30.8	-	31.4	29.9	-
UK	16.8	15.7	6.2	16.5	15.0	10.1
Continental Europe	14.6	15.1	(2.0)	14.9	14.9	0.7
India	6.7	5.0	37.9	5.6	5.0	20.2
Asia Pacific	7.8	8.0	5.2	7.8	8.0	4.5
MEA	2.1	2.0	10.7	2.1	1.9	14.4
Growth in CC %			2.2			3.4

Source : RBL Research

Manufacturing, Life science & Energy drove the growth

Revenue Distribution by Industry & Growth in Constant Currency (%) - consolidated

Particulars, Rs cr	Q4FY24	Q4FY23	Y-o-Y %	FY24	FY23	Y-o-Y %
BFSI	31.3	32.9	(3.2)	32.0	33.3	(1.0)
Consumer Business	15.7	16.0	(0.3)	15.8	16.0	1.8
Communication & Media	6.6	7.1	(5.5)	6.8	7.2	(2.6)
Manufacturing	8.8	8.1	9.7	8.6	8.2	7.3
Life Science & Healthcare	10.9	10.9	1.7	10.9	10.8	4.8
Technology & Services	8.2	8.9	(5.6)	8.5	9.0	(2.3)
Energy, Resources and Utilities	5.6	5.4	7.3	5.6	5.2	12.6
Regional Markets & Others	12.9	10.7	26.0	11.8	10.3	19.8
Growth in CC %			2.2			3.4

Source : RBL Research

Clients Contribution

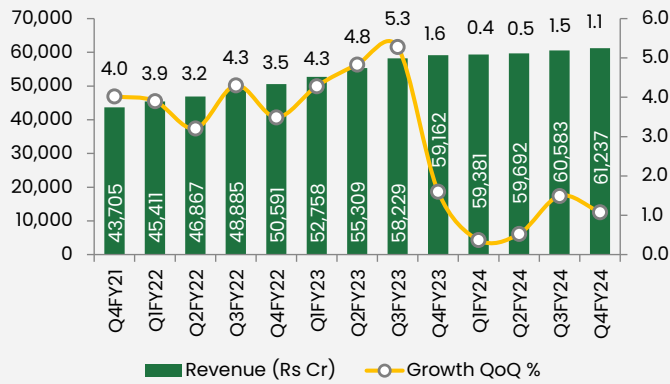
Particulars	Q4FY24	Q4FY23
USD 1 mn clients *	1,294	1,241
USD 5 mn clients *	693	665
USD 10 mn clients *	487	461
USD 20 mn clients *	301	291
USD 50 mn clients *	139	133
USD 100 mn clients *	62	60

* Last Twelve Months' services revenues; includes clients in India

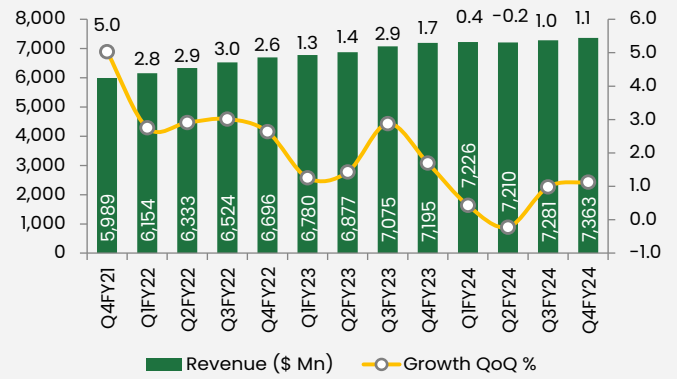
Source : RBL Research

Story in charts

Revenue in rupee grew by 1.1% QoQ and 3.5% YoY

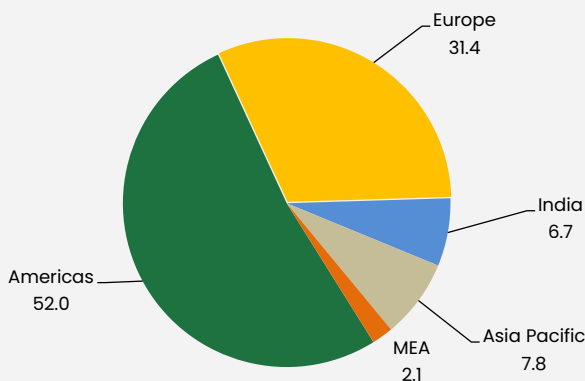


Revenue in dollar grew by 1.1% QoQ and grew by 2.3% YoY

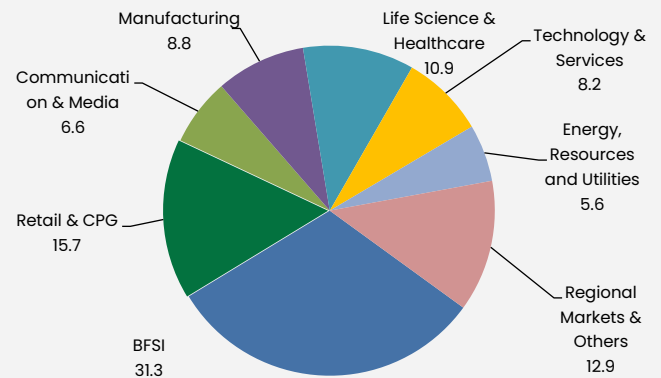


Source : RBL Research

Revenue Distribution by Geography (%)

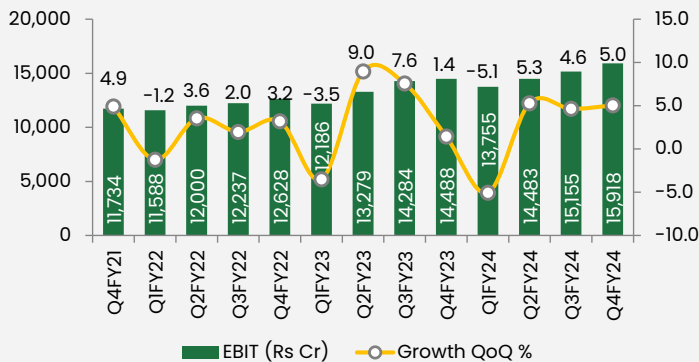


Revenue Distribution by Industry Vertical (%)

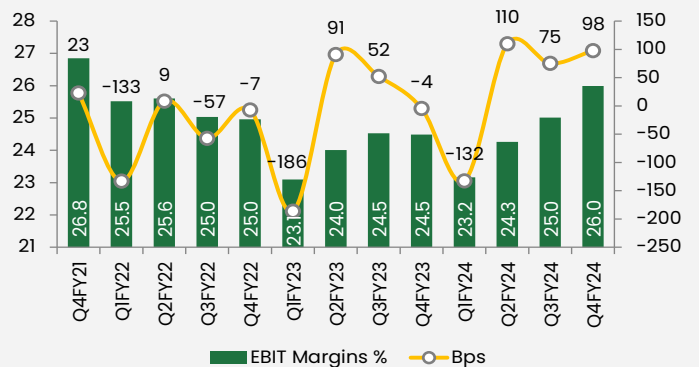


Source : RBL Research

EBIT grew by 5.0% QoQ and 9.9% YoY

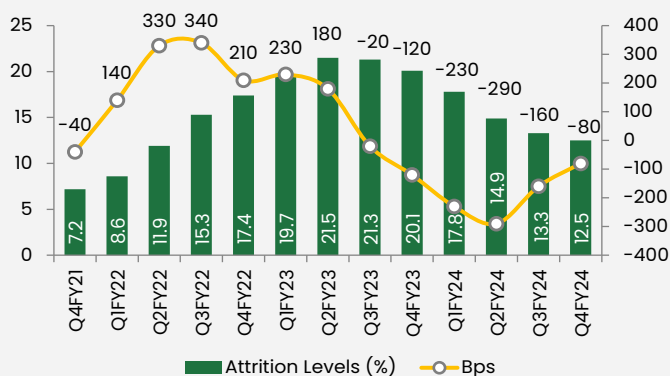


EBIT margin improved by 98bps QoQ and 151bps YoY

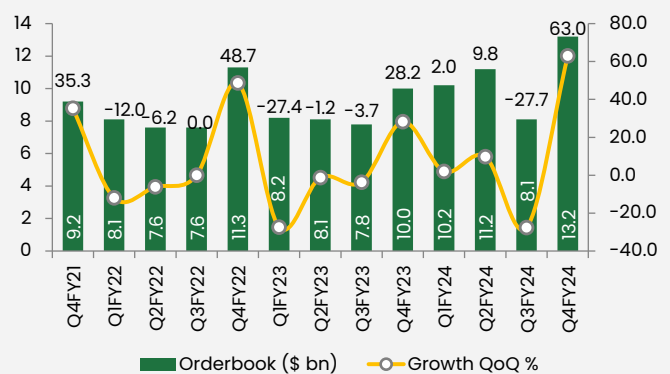


Source : RBL Research

Attrition further moderated to 12.5% in Q4FY24



Order Book stood at USD 13.2bn in Q4FY24



Source : RBL Research

P&L Account – consolidated

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
Net Sales (\$ Mn)	27,927	29,080	32,119	35,973
Net sales	225,458	240,893	264,982	296,780
Employee cost	127,522	140,131	152,630	170,352
Cost of equipment and software licenses	1,881	3,702	3,180	2,968
Other expenses	36,796	32,764	36,038	40,065
Total expenditure	166,198	176,597	191,847	213,385
EBITDA	59,260	64,296	73,135	83,395
EBITDAM (%)	26.3	26.7	27.6	28.1
Depreciation	5,023	4,985	5,035	5,342
EBIT	54,237	59,311	68,100	78,053
EBITM (%)	24.1	24.6	25.7	26.3
Other income	3,449	4,422	5,035	5,639
Interest expenses	779	778	795	890
PBT	56,907	62,955	72,340	82,802
Tax	14,604	15,898	18,268	20,910
PAT (after Exceptional)	42,303	46,099	53,114	60,934
PAT Margin %	18.8	19.1	20.0	20.5
EPS	115.6	127.4	146.8	168.4

Source : RBL Research

Balance Sheet – consolidated

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
Share Capital	366	362	362	362
Reserves & Surplus	90,058	90,127	107,061	128,197
Total Shareholder's Fund	90,424	90,489	107,423	128,559
Minority Interest	782	830	830	830
Deferred tax liabilities	792	977	1,060	1,187
Other long term liabilities	8,095	8,049	9,009	10,091
Total	8,887	9,026	10,069	11,278
Current Liabilities				
Trade payables	10,515	9,981	10,962	12,278
Short term provisions	345	140	154	172
Other current liabilities	32,698	35,983	38,422	43,033
Total	43,558	46,104	49,539	55,483
Total liabilities	143,651	146,449	167,861	196,150
Application of Assets				
Net Block	18,657	17,772	18,117	18,469
Current work in process	1,234	1,564	1,564	1,564
Goodwill on consolidation	1,858	1,832	1,832	1,832
Non current investment	266	281	265	297
Deferred Tax assets	3,307	3,403	3,743	4,192
Long term loans and advances	173	2	2	2
Other non-current assets	7,886	8,611	10,599	11,871
Total	33,381	33,465	36,123	38,228
Current Assets				
Current investments	36,897	31,481	35,773	40,065
Inventories	28	28	31	34
Trade receivables	41,049	44,434	48,877	54,743
Cash balance	7,123	9,016	16,057	28,871
Bank balance	3,909	4,270	4,270	4,270
Short term loans and advances	1,325	491	1,557	1,744
Other current assets	19,939	23,264	25,173	28,194
Total	110,270	112,984	131,738	157,921
Total assets	143,651	146,449	167,861	196,150

Source : RBL Research

Cashflow – consolidated

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
Profit before tax	56,907	61,997	71,382	81,844
Add: Depreciation	5,023	4,985	5,035	5,342
Add: Interest cost	779	778	795	890
Others	(313)	(270)	-	-
Operating profit before working capital changes	59,148	63,709	72,177	82,437
Changes in working capital	(4,217)	(6,882)	(5,273)	(3,645)
Cash from Operations	54,931	56,827	66,905	78,792
Less: Taxes	(12,966)	(12,489)	(18,268)	(20,910)
Cash flow from Operations	41,965	44,338	48,637	57,882
Net cash used in Investing				
Purchase of fixed assets	(3,100)	(2,650)	(5,380)	(5,694)
Purchase of investments	(7,056)	6,193	(4,276)	(4,325)
Sales of fixed assets	37	-	-	-
Dividend Income//Interest Rec.	3,093	3,016	5,035	5,639
Cash flow from investing	39	6,026	(4,621)	(4,380)
Cash flow from Financing				
Proceeds from Equity shares	(4,192)	(17,000)	-	-
Dividend (Incl dividend tax)	(41,347)	(25,137)	(36,180)	(39,798)
Interest cost	(779)	(699)	(795)	(890)
Others	(1,560)	(5,700)	-	-
Cash flow from Financing	(47,878)	(48,536)	(36,975)	(40,688)
Net cash Inflow/Outflow	(5,874)	1,828	7,041	12,814
Opening cash	12,488	7,123	9,016	16,057
Exchange gain/loss	509	65	-	-
Closing Cash	7,123	9,016	16,057	28,871

Source : RBL Research

Key ratios – consolidated

Particulars	FY23	FY24	FY25E	FY26E
Per share Data				
EPS (Rs)	115.6	127.4	146.8	168.4
Book value per share (Rs)	247.1	250.1	296.9	355.3
Dividend per share (Rs)	113.0	69.5	100.0	110.0
Dividend Payout (%)	97.7	54.5	68.1	65.3
Dividend Yield (%)	2.8	1.7	2.5	2.7
Profitability Ratios				
EBITDAM (%)	26.3	26.7	27.6	28.1
PBTM (%)	25.2	26.1	27.3	27.9
NPM (%)	18.8	19.1	20.0	20.5
RoE (%)	46.8	50.9	49.4	47.4
RoCE (%)	60.0	65.5	63.4	60.7
Efficiency Data				
Debt-Equity Ratio	0.0	0.0	0.0	0.0
Fixed Asset Ratio	0.1	0.1	0.1	0.1
Debtors (Days)	66.5	67.3	67.3	67.3
Inventory (Days)	0.0	0.0	0.0	0.0
Payable (Days)	17.0	15.1	15.1	15.1
WC (Days)	49.5	52.2	52.3	52.3
Valuation				
P/E (x)	34.6	31.4	27.3	23.8
P/BV	16.2	16.0	13.5	11.3
EV/EBITDA	24.6	22.4	19.6	17.0
EV/Sales	6.5	6.0	5.4	4.8

Source : RBL Research

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Statements on ownership and material conflicts of interest, compensation– Research Analyst (RA)

S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below, are given separately]

Nature of Interest (if answer to F (a) above is Yes :

.....

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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