

Steady performance; macro uncertainty weighs on growth visibility

Information Technology ▶ Result Update ▶ July 12, 2024

TARGET PRICE (Rs): 3,950

TCS noted a tad better than expected operating performance in Q1. Revenue grew 1.9% QoQ (2.2% CC) to USD7.51bn, slightly surpassing expectations and largely backed by higher than estimated revenue contribution from the BSNL deal (almost half of incremental revenue QoQ). EBITM fell by 130bps QoQ to 24.7% due to wage hike. Deal wins moderated sequentially owing to timing of deal closures, but remained healthy at USD8.3bn (book-to-bill: 1.1x) and well within the management’s guided comfortable range of USD7-9bn per quarter. Despite broad-based revenue growth, healthy deal wins, and strong pipeline, the Mgmt refrained from commenting on growth sustainability, considering the near-term demand volatility caused by weakness in discretionary spending and unabated pressure from the sudden pause/deferment of projects by clients amid macro uncertainty. The management reiterated FY25 revenue growth being better than that in FY24. We largely retain FY24-27E earnings and our REDUCE on TCS, as well as TP of Rs3,950/share at 25x Jun-25E EPS.

TCS: Financial Snapshot (Consolidated)					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	22,54,580	24,08,930	25,87,992	27,81,757	30,11,231
EBITDA	5,92,600	6,33,370	7,03,596	7,67,183	8,31,408
Adj. PAT	4,21,470	4,59,080	5,09,714	5,57,894	6,09,819
Adj. EPS (Rs)	115.2	126.9	140.9	154.2	168.5
EBITDA margin (%)	26.3	26.3	27.2	27.6	27.6
EBITDA growth (%)	11.7	6.9	11.1	9.0	8.4
Adj. EPS growth (%)	10.0	10.2	11.0	9.5	9.3
RoE (%)	45.9	49.6	50.1	46.1	42.9
RoIC (%)	83.4	85.1	91.2	93.5	95.0
P/E (x)	34.1	30.9	27.9	25.4	23.3
EV/EBITDA (x)	23.5	21.8	19.4	17.6	16.0
P/B (x)	15.5	15.3	12.8	10.8	9.3
FCFF yield (%)	2.9	3.1	3.4	3.7	4.0

Source: Company, Emkay Research

Results Summary

Revenue grew 1.9% QoQ (2.2% QoQ/4.4% YoY CC) to USD7.51bn, a tad above our estimate of USD7.48bn. Cost of equipment and software licenses rose by USD70mn QoQ, partly reflecting ramp up of the BSNL deal. EBITM fell by 130bps QoQ to 24.7%, ahead of our estimate of 24.5%. EBITM was impacted (-170bps) by wage hike and higher third-party costs and partially offset by operating efficiencies including better productivity, higher utilization, and lower subcontracting costs. Among geographies, North America, UK, and Continental Europe grew 0.9%, 2.5%, and 0.5% QoQ (in USD terms). BFSI, Manufacturing, Life Sciences & Healthcare, Technology & Services, Regional Markets & Others, and ERU grew 0.6%, 1.9%, 2.9%, 0.7%, 10.6%, and 1.9% QoQ respectively. Consumer segment saw flat growth, whereas Communications & Media declined 4.2%. Headcount grew 0.9% QoQ (on-boarded 11,000 freshers), after three straight quarters of decline. The company announced an interim dividend of Rs10/share. **What we liked:** Steady operating performance, broad-based growth with almost all verticals reporting sequential growth. **What we did not like:** Weak cash conversion (67% OCF/EBITDA).

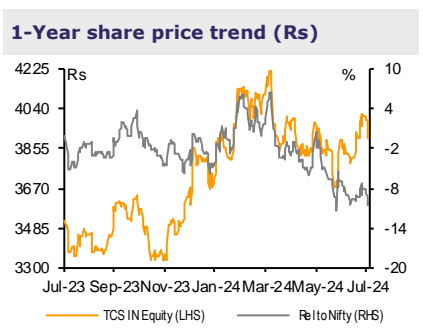
Earnings Call KTAs

i) TCS continued to witness the dichotomy that it has been seeing in the past 6 quarters. While larger and strategic transformation programs with enterprise-wide scope continued apace, some smaller programs with narrower scope benefits are being scrutinized more stringently, and hence tend to get deprioritized. TCS is seeing clients prioritize spend on initiatives oriented towards cost optimization which offer an immediate ROI. ii) BFSI saw return of QoQ growth. Clients are attempting to balance their priority between transformation and cost optimization projects. iii) Consumer segment saw QoQ growth, led by demand for cost optimization, operating model transformation, and vendor consolidation programs. Consumer confidence improvement and moderation in inflation are likely to drive a demand uptick. iv) CME continues to face growth headwinds. Interest rate cuts may be a trigger for higher spending by clients. v) TCS rolled out double-digit wage hikes for top-performing employees; average salary hike for employees is 4.5-7% wef Apr-24. vi) Revenue growth was led by AI Cloud, Cyber Security, and Enterprise Solutions. vii) In Q1, >270 AI/GenAI engagements have been deployed or are in various stages of progress. The AI/GenAI pipeline has almost doubled QoQ to USD1.5bn. viii) Near-term margin levers are pyramid rationalization, improved productivity, and better utilization, whereas pricing and growth acceleration would assist in the medium term.

Target Price – 12M	Jun-25
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	0.7
CMP (11-Jul-24) (Rs)	3,923.7

Stock Data	Ticker
52-week High (Rs)	4,255
52-week Low (Rs)	3,235
Shares outstanding (mn)	3,618.1
Market-cap (Rs bn)	14,196
Market-cap (USD mn)	1,69,878
Net-debt, FY25E (Rs mn)	-5,46,907
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	9,594.7
ADTV-3M (USD mn)	114.8
Free float (%)	28.0
Nifty-50	24,316
INR/USD	83.6
Shareholding, Mar-24	
Promoters (%)	71.8
FPIs/MFs (%)	12.7/10.7

Price Performance			
(%)	1M	3M	12M
Absolute	1.9	(1.5)	20.5
Rel. to Nifty	(2.5)	(7.9)	(3.7)



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Exhibit 1: Quarterly snapshot

Particular (Rs mn)	Q1 FY25	Q4 FY24	QoQ (%)	Q1 FY24	YoY (%)
Net sales (USD mn)	7,505	7,363	1.9	7,226	3.9
Net sales	626,130	612,370	2.2	593,810	5.4
Operating expenses	459,510	440,730		443,830	
EBITDA	166,620	171,640	-2.9	149,980	11.1
- Margin (%)	26.6	28.0	-140.0	25.3	140.0
Depreciation	12,200	12,460		12,430	
EBIT	154,420	159,180	-3.0	137,550	12.3
- Margin (%)	24.7	26.0	-130.0	23.2	150.0
Other income	7,890	9,310		12,340	
Pre-tax profit	162,310	168,490	-3.7	149,890	8.3
Tax provided	41,260	43,470		38,690	
Profit after tax	121,050	125,020		111,200	8.9
Emkay - Net profit	121,050	125,020	-3.2	111,200	8.9
EPS (Rs)	33.3	34.4	-3.2	30.3	10.0

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates

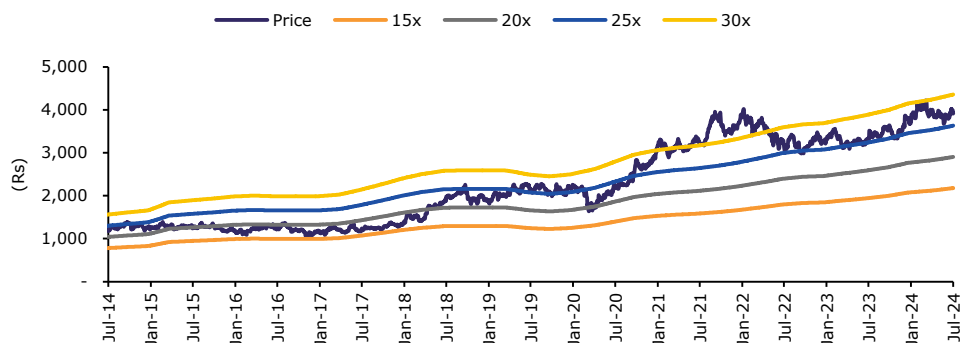
(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue (USD mn)	7,505	7,481	7,453	0.3%	0.7%	Revenues were a tad better than estimates.
Sales	626,130	623,899	621,645	0.4%	0.7%	
EBIT	154,420	152,855	153,546	1.0%	0.6%	EBITM beat expectations for the fourth consecutive quarter.
EBIT margin	24.7%	24.5%	24.7%	20 bps	0 bps	
PAT	121,050	120,075	119,356	0.8%	1.4%	Reported profit beat our expectations due to the operating performance beat.

Source: Company, Bloomberg, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY25E			FY26E			FY27E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue (USD mn)	30,821	30,861	0.1%	32,684	32,727	0.1%	34,969	35,014	0.1%
YoY growth (%)	6.0	6.1		6.0	6.0		7.0	7.0	
Revenue	25,84,505	25,87,992	0.1%	27,78,141	27,81,757	0.1%	30,07,317	30,11,231	0.1%
EBIT	6,52,239	6,54,121	0.3%	7,07,844	7,08,766	0.1%	7,67,174	7,68,172	0.1%
EBIT margins (%)	25.2	25.3		25.5	25.5		25.5	25.5	
Net profit	5,08,721	5,09,714	0.2%	5,57,412	5,57,894	0.1%	6,09,266	6,09,819	0.1%
EPS (Rs)	140.6	140.9	0.2%	154.1	154.2	0.1%	168.4	168.5	0.1%

Source: Company, 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)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	22,54,580	24,08,930	25,87,992	27,81,757	30,11,231
Revenue growth (%)	17.6	6.8	7.4	7.5	8.2
EBITDA	5,92,600	6,33,370	7,03,596	7,67,183	8,31,408
EBITDA growth (%)	11.7	6.9	11.1	9.0	8.4
Depreciation & Amortization	50,230	49,840	49,475	58,417	63,236
EBIT	5,42,370	5,83,530	6,54,121	7,08,766	7,68,172
EBIT growth (%)	11.9	7.6	12.1	8.4	8.4
Other operating income	0	0	0	0	0
Other income	34,490	44,220	40,590	51,297	61,846
Financial expense	7,790	7,780	7,730	8,000	8,000
PBT	5,69,070	6,19,970	6,86,981	7,52,063	8,22,018
Extraordinary items	0	0	0	0	0
Taxes	1,46,040	1,58,980	1,75,051	1,91,776	2,09,615
Minority interest	(1,560)	(1,910)	(2,216)	(2,393)	(2,585)
Income from JV/Associates	0	0	0	0	0
Reported PAT	4,21,470	4,59,080	5,09,714	5,57,894	6,09,819
PAT growth (%)	10.0	8.9	11.0	9.5	9.3
Adjusted PAT	4,21,470	4,59,080	5,09,714	5,57,894	6,09,819
Diluted EPS (Rs)	115.2	126.9	140.9	154.2	168.5
Diluted EPS growth (%)	10.0	10.2	11.0	9.5	9.3
DPS (Rs)	115.0	73.0	90.0	99.0	107.0
Dividend payout (%)	99.8	57.5	63.9	64.2	63.5
EBITDA margin (%)	26.3	26.3	27.2	27.6	27.6
EBIT margin (%)	24.1	24.2	25.3	25.5	25.5
Effective tax rate (%)	25.7	25.6	25.5	25.5	25.5
NOPLAT (pre-IndAS)	4,03,182	4,33,894	4,87,443	5,28,030	5,72,288
Shares outstanding (mn)	3,659.1	3,618.1	3,618.1	3,618.1	3,618.1

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	5,69,070	6,19,970	6,86,981	7,52,063	8,22,018
Others (non-cash items)	49,490	50,180	49,475	58,417	63,236
Taxes paid	(1,46,040)	(1,58,980)	(1,75,051)	(1,91,776)	(2,09,615)
Change in NWC	(43,870)	(75,940)	(27,436)	(34,804)	(40,941)
Operating cash flow	4,45,030	4,69,320	5,33,970	5,83,900	6,34,698
Capital expenditure	(30,610)	(26,470)	(49,475)	(59,417)	(64,236)
Acquisition of business	0	0	0	0	0
Interest & dividend income	30,930	38,220	34,430	45,297	55,846
Investing cash flow	(32,780)	27,340	(1,19,625)	(2,59,417)	(64,236)
Equity raised/(repaid)	(41,740)	(2,10,050)	0	0	0
Debt raised/(repaid)	0	0	0	0	0
Payment of lease liabilities	(15,150)	(16,140)	(360)	0	0
Interest paid	0	0	0	0	0
Dividend paid (incl tax)	(4,14,100)	(2,52,180)	(3,25,628)	(3,58,191)	(3,87,135)
Others	5,090	640	0	0	0
Financing cash flow	(4,65,900)	(4,77,730)	(3,25,988)	(3,58,191)	(3,87,135)
Net chg in Cash	(53,650)	18,930	88,357	(33,707)	1,83,327
OCF	4,45,030	4,69,320	5,33,970	5,83,900	6,34,698
Adj. OCF (w/o NWC chg.)	4,88,900	5,45,260	5,61,405	6,18,704	6,75,639
FCFF	4,14,420	4,42,850	4,84,494	5,24,483	5,70,462
FCFE	4,37,560	4,73,290	5,11,195	5,61,780	6,18,308
OCF/EBITDA (%)	75.1	74.1	75.9	76.1	76.3
FCFE/PAT (%)	103.8	103.1	100.3	100.7	101.4
FCFF/NOPLAT (%)	102.8	102.1	99.4	99.3	99.7

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	3,660	3,620	3,620	3,620	3,620
Reserves & Surplus	9,21,760	9,22,500	11,06,586	13,06,289	15,28,973
Net worth	9,25,420	9,26,120	11,10,206	13,09,909	15,32,593
Minority interests	7,820	8,300	10,516	12,909	15,494
Deferred tax liability (net)	(24,850)	(23,920)	(26,770)	(27,770)	(28,770)
Total debt	76,880	80,210	79,850	79,850	79,850
Total liabilities & equity	9,85,270	9,90,710	11,73,802	13,74,898	15,99,167
Net tangible fixed assets	1,15,950	1,12,240	1,12,240	1,13,240	1,14,240
Net intangible assets	8,670	5,100	5,100	5,100	5,100
Net ROU assets	75,600	78,860	78,860	78,860	78,860
Capital WIP	0	0	0	0	0
Goodwill	40,060	39,890	39,890	39,890	39,890
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	4,88,440	4,68,250	6,26,757	7,93,049	9,76,376
Current assets (ex-cash)	6,96,200	7,47,690	7,92,960	8,50,639	9,18,395
Current Liab. & Prov.	4,39,650	4,61,320	4,82,005	5,05,880	5,33,694
NWC (ex-cash)	2,56,550	2,86,370	3,10,956	3,44,759	3,84,700
Total assets	9,85,270	9,90,710	11,73,802	13,74,898	15,99,167
Net debt	(4,11,560)	(3,88,040)	(5,46,907)	(7,13,199)	(8,96,526)
Capital employed	9,85,270	9,90,710	11,73,802	13,74,898	15,99,167
Invested capital	4,96,830	5,22,460	5,47,046	5,81,849	6,22,790
BVPS (Rs)	252.9	256.0	306.8	362.0	423.6
Net Debt/Equity (x)	(0.4)	(0.4)	(0.5)	(0.5)	(0.6)
Net Debt/EBITDA (x)	(0.7)	(0.6)	(0.8)	(0.9)	(1.1)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	59.1	63.5	64.2	59.6	55.8

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	34.1	30.9	27.9	25.4	23.3
P/CE(x)	30.4	27.9	25.4	23.0	21.1
P/B (x)	15.5	15.3	12.8	10.8	9.3
EV/Sales (x)	6.2	5.7	5.3	4.8	4.4
EV/EBITDA (x)	23.5	21.8	19.4	17.6	16.0
EV/EBIT(x)	25.7	23.7	20.9	19.0	17.3
EV/IC (x)	28.1	26.4	25.0	23.2	21.4
FCFF yield (%)	2.9	3.1	3.4	3.7	4.0
FCFE yield (%)	3.0	3.3	3.6	4.0	4.4
Dividend yield (%)	2.9	1.9	2.3	2.5	2.7
DuPont-RoE split					
Net profit margin (%)	18.7	19.1	19.7	20.1	20.3
Total asset turnover (x)	2.3	2.4	2.4	2.2	2.0
Assets/Equity (x)	1.1	1.1	1.1	1.1	1.0
RoE (%)	45.9	49.6	50.1	46.1	42.9
DuPont-RoIC					
NOPLAT margin (%)	17.9	18.0	18.8	19.0	19.0
IC turnover (x)	4.7	4.7	4.8	4.9	5.0
RoIC (%)	83.4	85.1	91.2	93.5	95.0
Operating metrics					
Core NWC days	41.5	43.4	43.9	45.2	46.6
Total NWC days	41.5	43.4	43.9	45.2	46.6
Fixed asset turnover	9.2	10.1	11.0	11.8	12.7
Opex-to-revenue (%)	73.7	73.7	72.8	72.4	72.4

Source: Company, Emkay Research

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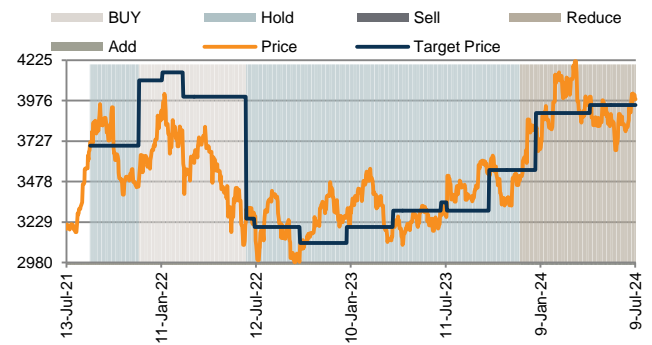
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
01-Jul-24	3,978	3,950	Reduce	Dipeshkumar Mehta
09-Jun-24	3,894	3,950	Reduce	Dipeshkumar Mehta
03-Jun-24	3,703	3,950	Reduce	Dipeshkumar Mehta
27-May-24	3,847	3,950	Reduce	Dipeshkumar Mehta
13-Apr-24	4,001	3,950	Reduce	Dipeshkumar Mehta
31-Mar-24	3,876	3,900	Reduce	Dipeshkumar Mehta
01-Mar-24	4,094	3,900	Reduce	Dipeshkumar Mehta
12-Jan-24	3,883	3,900	Reduce	Dipeshkumar Mehta
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

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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