

January 12, 2024

RESULT REPORT Q3 FY24 | Information Technology

Tata Consultancy Services

Inline operating performance; Deal booking robust at \$8.1bn

Result Synopsis

Tata Consultancy Services (TCS) reported inline operating performance for the quarter. It reported USD revenue growth of 1.0% QoQ (up 1.7% YoY in cc terms); while INR reported growth was 1.5% QoQ. The revenue growth was led by strong performance in Energy & Utilities (up 11.8% YoY cc terms) and Manufacturing (up 7.0% YoY cc terms). EBIT margin decreased by 83 bps QoQ to 23.4% led by seasonal furloughs. LTM attrition was down 160bps QoQ to 13.3%.

The near term demand environment remains challenging as clients remain cautious across verticals and are taking longer time for decision making. It has resulted in slowing down of discretionary IT projects and this continues to impact near term revenue performance. Also, it continues to work on utilizing Generative AI in select use cases for client related projects. The operating margin is expected to improve over next 2 quarters led by improving employee pyramid and falling employee attrition. We estimate revenue CAGR of 10.4% over FY23-26E with average EBIT margin of 24.8%. We maintain our ADD Rating on the stock with revised target price of Rs 4,175/share at 25x on FY26E EPS. The stock trades at PER of 25.8x/22.4x on FY25E/FY26E EPS.

Result Highlights

- Reported revenue of Rs 605.8bn, up 1.5% QoQ in INR terms (up 1.0% in USD terms). The cc growth was 1.7% YoY.
- The revenue growth was led by robust performance in verticals such as Manufacturing (up 7.0% YoY cc terms), Life Sciences & Healthcare (up 3.1% YoY cc terms), Regional Markets & Others (up 19.2% YoY cc terms) and Energy and Utilities (up 11.8% YoY cc terms).
- EBIT margin decreased by 83 bps QoQ to 23.4% led by increase in Cost of Equipment (up 154% QoQ).
- Deal booking decreased as it reported TCV of \$8.1bn for the quarter (vs \$11.2bn in Q2FY24). North America TCV at \$4.2 Bn; BFSI TCV at \$2.6 Bn, Consumer Business TCV at \$1.5 Bn.
- Net headcount addition was (5,680) employees in the quarter and closed at 603,305 employees. LTM attrition decreased by 160 bps QoQ to 13.3%.
- Declared dividend of Rs 27/ share (including special dividend of Rs 18/share); record date 19th January 2024.

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	605,830	603,234	601,030	0.4%	0.8%
EBITDA	154,300	162,270	160,980	-4.9%	-4.1%
EBITDA Margin (%)	25.47%	26.90%	26.78%	-143 bps	-131 bps
Adjusted PAT	110,580	116,196	115,440	-4.8%	-4.2%

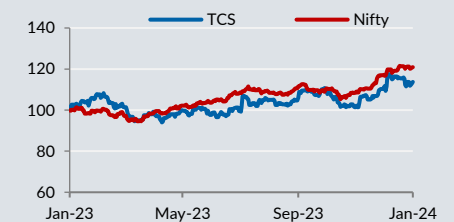
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 3,736
Target Price	: Rs 4,175
Potential Return	: + 11.8%

Stock data (as on January 11, 2024)

Nifty	21,647
52 Week h/l (Rs)	3929 / 3070
Market cap (Rs/USD mn)	13434140 / 161682
Outstanding Shares (mn)	3,618
6m Avg t/o (Rs mn):	6,583
Div yield (%):	3.4
Bloomberg code:	TCS IN
NSE code:	TCS

Stock performance



	1M	3M	1Y
Absolute return	2.5%	3.5%	12.2%

Shareholding pattern (As of Sep'23 end)

Promoter	72.3%
FII+DII	22.5%
Others	5.2%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	4,175	4,056

Δ in earnings estimates

	FY24E	FY25E	FY26E
EPS (New)	124.0	144.9	166.5
EPS (Old)	126.6	144.8	NA
% change	-2.0%	0.1%	NA

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Net Revenue	2,417,098	2,682,219	3,027,691
YoY Growth	7.2%	11.0%	12.9%
EBIDTA	633,619	742,975	854,026
YoY Growth	6.9%	17.3%	14.9%
PAT	458,735	536,083	616,020
YoY Growth	8.8%	16.9%	14.9%
ROE	47.4%	49.8%	51.8%
EPS	124	145	167
P/E	30.1	25.8	22.4
BV	278	303	340
P/BV	13.4	12.3	11.0

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Exhibit 2: Quarterly snapshot Console: Operating margin improved sequentially

Particulars	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	yoy%	qoq %	9MFY24	9MFY23	yoy%
Sales (\$ mn)	7,075	7,195	7,226	7,210	7,281	2.9	1.0	21,717	20,732	4.8
Sales(Rs mn)	582,290	591,620	593,810	596,920	605,830	4.0	1.5	1,796,560	1,662,960	8.0
EBITDA	155,540	157,730	149,980	157,450	154,300	-0.8	-2.0	461,730	434,870	6.2
EBITDA %	26.7	26.7	25.3	26.4	25.5	-124 bps	-91 bps	25.7	26.2	-45 bps
Depreciation	12,700	12,850	12,430	12,620	12,330	-2.9	-2.3	37,380	37,380	0.0
EBIT	142,840	144,880	137,550	144,830	141,970	-0.6	-2.0	424,350	397,490	6.8
EBIT Margin %	24.5	24.5	23.2	24.3	23.4	-110 bps	-83 bps	23.6	23.9	-28 bps
Other income	3,600	9,030	12,340	8,470	6,320	75.6	-25.4	27,130	17,670	53.5
PBT	146,440	153,910	149,890	153,300	148,290	1.3	-3.3	451,480	415,160	8.7
Tax	37,610	39,550	38,690	39,500	37,320	-0.8	-5.5	115,510	106,490	8.5
PAT	108,830	114,360	111,200	113,800	110,970	2.0	-2.5	335,970	308,670	8.8
Minority Interest	-370	-440	-460	-380	-390	5.4	2.6	-1,230	-1,120	9.8
PAT	108,460	113,920	110,740	113,420	110,580	2.0	-2.5	334,740	307,550	8.8
NPM (%)	18.6	19.3	18.6	19.0	18.3	-37 bps	-75 bps	18.6	18.5	14 bps

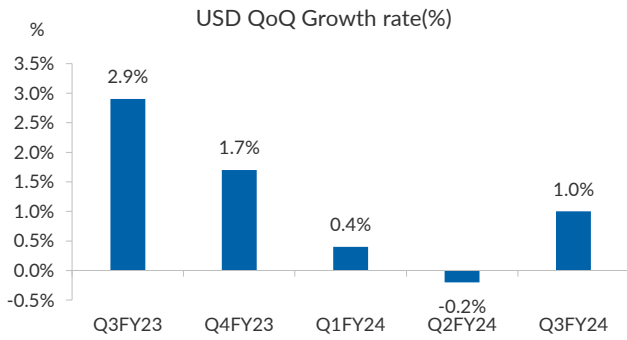
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- Historically deal signing remained in the range of \$7 Bn to \$8 Bn on a quarterly rate. Q3FY24 deal booking is the comfortable range.
- Book to Bill Ratio for the quarter stood at 1.1x (v/s 1.6x in Q2FY24).
- BFSI, Tech and Communication verticals showed signs of softness whereas growth was led by strong momentum in Healthcare, Manufacturing and Energy, Resources and Utilities verticals.
- Clients continue to prioritize investments that accelerate cost reduction, drive business agility and improve resiliency across the supply chain.
- EBIT Margin benefitted from +60bps internal cost optimization and currency depreciation offset by -80bps seasonal furloughs and subcon cost.
- LTM Attrition for the quarter stood at 13.3% and is near the historical range of 11% to 14%. Q4FY24 may witness further decline in attrition rate.
- Among major markets, the United Kingdom led with 8.1% growth; Continental Europe grew 0.5% and North America grew -3.0%. In emerging markets, India led with 23.4% growth.
- TCS has started delivering equipment and services to BSNL for network upgradation. BSNL deal is expected to ramp up in Q4FY24.
- BFSI vertical grew sequentially post adjustment to one of the furloughs and a major deal completion in North America geography.
- DSO increased to 67days vs 65 days as of Q2FY24.
- Margins may be positively impacted due to muted lateral hiring and onboarding of campus freshers.

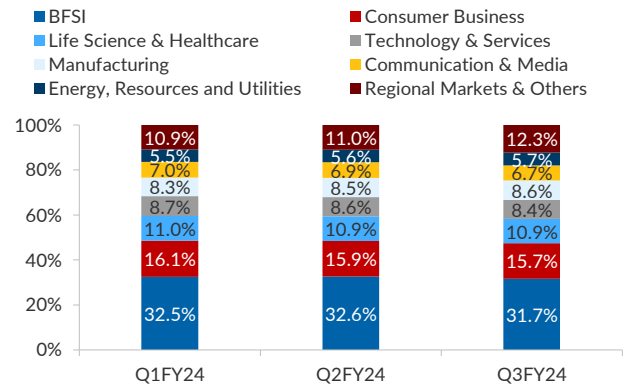
STORY IN CHARTS

Exhibit 3: Q3FY24 Revenue Growth increased due to ramping up of deals.



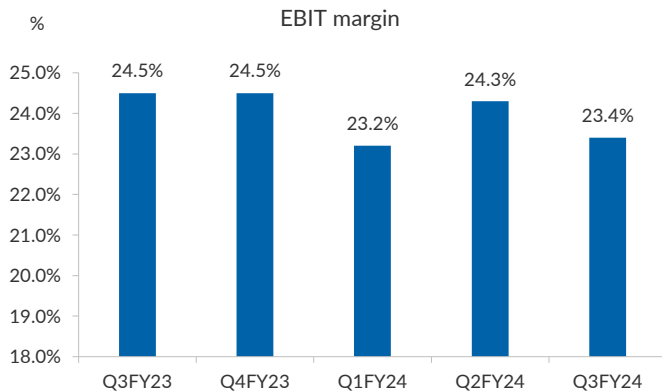
Source: Company, YES Sec

Exhibit 4: Revenue growth was led by Energy, Resources and Utilities & Manufacturing Vertical



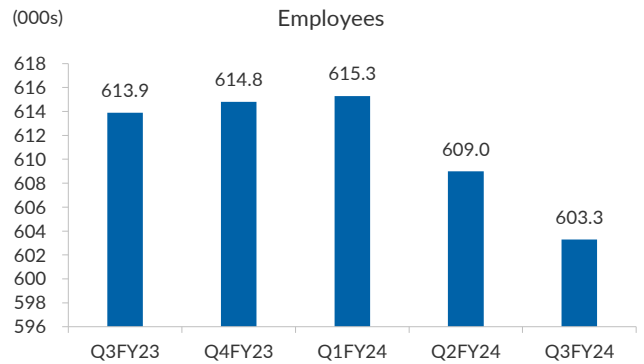
Source: Company, YES Sec

Exhibit 5: EBIT margin decreased for the quarter



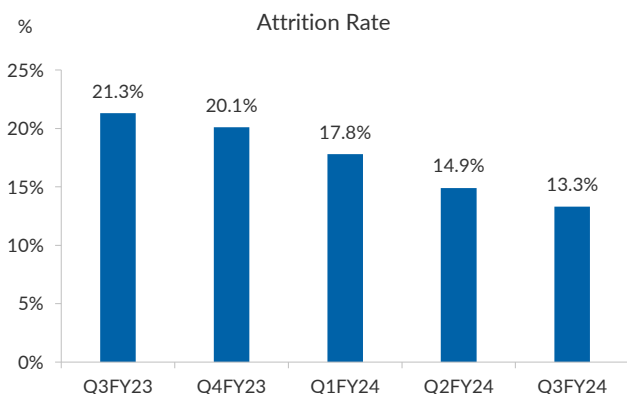
Source: Company, YES Sec

Exhibit 6: Headcount declined during the quarter



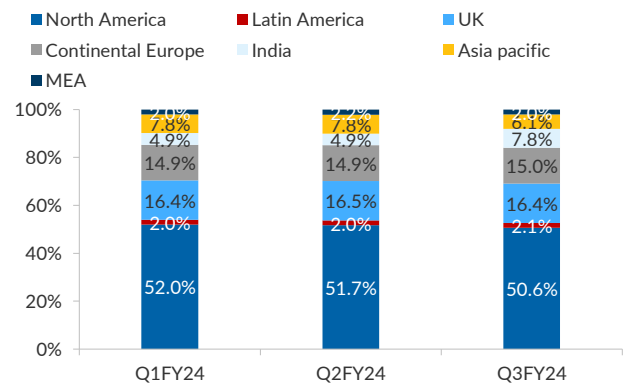
Source: Company, YES Sec

Exhibit 7: Attrition Rate decreased during the quarter



Source: Company, YES Sec

Exhibit 8: North Americas contribute highest to the overall revenue



Source: Company, YES Sec

FINANCIALS

Exhibit 9: Balance Sheet

Y/e March 31 (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share capital	3,700	3,660	3,660	3,660	3,660	3,660
Reserves & surplus	860,630	887,730	900,580	1,026,407	1,118,612	1,253,765
Shareholders' funds	864,330	891,390	904,240	1,030,067	1,122,272	1,257,425
Non-current liabilities	94,960	93,170	88,870	91,878	95,247	99,025
Long-term borrowings	65,030	63,680	62,030	62,030	62,030	62,030
Other non-current liabilities	29,930	29,490	26,840	29,848	33,217	36,995
Current liabilities	341,550	423,510	435,580	378,354	422,495	475,426
ST borrowings, Curr maturity	12,920	14,500	14,850	14,850	14,850	14,850
Other current liabilities	328,630	409,010	420,730	363,504	407,645	460,576
Total (Equity and Liabilities)	1,307,590	1,415,140	1,436,510	1,509,739	1,651,015	1,844,436
Non-current assets	314,790	332,040	333,810	347,165	350,797	348,306
Fixed assets (Net block)	201,490	207,160	198,910	200,427	190,492	172,413
Non-current Investments	2,130	2,230	2,660	2,926	3,219	3,540
Other non-current assets	111,170	122,650	132,240	143,812	157,087	172,352
Current assets	992,800	1,083,100	1,102,700	1,162,574	1,300,217	1,496,130
Cash & current investment	384,890	484,830	479,290	486,407	559,389	671,982
Other current assets	607,910	598,270	623,410	676,168	740,829	824,148
Total (Assets)	1,307,590	1,415,140	1,436,510	1,509,739	1,651,015	1,844,436

Source: Company, YES Sec

Exhibit 10: Income Statement

Y/e March 31 (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	1,641,770	1,917,540	2,254,580	2,417,098	2,682,219	3,027,691
Operating expenses	(1,188,490)	(1,386,970)	(1,661,980)	(1,783,479)	(1,939,244)	(2,173,665)
EBITDA	453,280	530,570	592,600	633,619	742,975	854,026
Depreciation	(40,650)	(46,040)	(50,230)	(52,090)	(63,584)	(71,774)
EBIT	412,630	484,530	542,370	581,529	679,391	782,252
Other income	24,970	32,340	26,700	36,168	39,065	43,024
Profit before tax	437,600	516,870	569,070	617,696	718,456	825,276
Tax (current + deferred)	(111,980)	(132,380)	(146,040)	(157,342)	(180,813)	(207,697)
Reported Profit / (Loss)	324,300	383,270	421,470	458,735	536,083	616,020
Adjusted net profit	324,300	383,270	421,470	458,735	536,083	616,020

Source: Company, YES Sec

Exhibit 11: Cash Flow Statement

Y/e March 31 (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	437,600	516,870	569,070	617,696	718,456	825,276
Depreciation	40,650	46,040	50,230	52,090	63,584	71,774
Change in working capital	(18,200)	73,240	(27,660)	(35,414)	(23,337)	(33,615)
Total tax paid	(97,820)	(115,140)	(125,770)	(232,111)	(178,147)	(204,565)
Cash flow from oper. (a)	362,230	521,010	465,870	402,262	580,556	658,871
Capital expenditure	(40,900)	(51,710)	(41,980)	(53,607)	(53,649)	(53,695)
Change in investments	(44,680)	(43,740)	(48,540)	(3,956)	(4,019)	(4,086)
Others	3,960	(13,820)	(12,890)	(10,580)	(12,253)	(14,213)
Cash flow from inv. (b)	(81,620)	(109,270)	(103,410)	(68,143)	(69,921)	(71,993)
Free cash flow (a+b)	280,610	411,740	362,460	334,119	510,634	586,877
Equity raised/(repaid)	(50)	(40)	-	-	-	-
Debt raised/(repaid)	(3,790)	230	(1,300)	-	-	-
Dividend (incl. tax)	(108,500)	(133,170)	(413,470)	(332,908)	(443,877)	(480,867)
Others	(186,150)	(222,460)	(1,340)	2,216	2,498	2,819
Cash flow from fin. (c)	(298,490)	(355,440)	(416,110)	(330,692)	(441,379)	(478,048)
Net chg in cash (a+b+c)	(17,880)	56,300	(53,650)	3,427	69,255	108,830

Source: Company, YES Sec

Exhibit 12: Ratio Analysis

Y/e March 31	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth(%)						
Revenue Growth	4.6	16.8	17.6	7.2	11.0	12.9
EBITDA Growth	7.6	17.1	11.7	6.9	17.3	14.9
EBIT Growth	7.0	17.4	11.9	7.2	16.8	15.1
Net Profit Growth	0.3	18.2	10.0	8.8	16.9	14.9
Profitability Ratios(%)						
EBITDA Margin	27.6	27.7	26.3	26.2	27.7	28.2
EBIT margin	25.1	25.3	24.1	24.1	25.3	25.8
Net Profit margin	19.8	20.0	18.7	19.0	20.0	20.3
RoA	32.8	35.6	38.0	39.5	43.0	44.8
RoE	38.0	43.7	46.9	47.4	49.8	51.8
RoCE	42.8	48.8	53.6	53.8	56.9	59.5
Liquidity Ratios						
Net debt/Equity (x)	(0.4)	(0.5)	(0.4)	(0.4)	(0.4)	(0.5)
Current ratio (x)	2.9	2.6	2.5	3.1	3.1	3.1
Quick ratio (x)	2.9	2.6	2.5	3.1	3.1	3.1
Valuation Ratios						
PER(x)	43.9	31.6	32.8	30.1	25.8	22.4
PCE(x)	39.0	28.2	29.3	27.1	23.0	20.1
Price/Book(x)	16.5	13.6	15.3	13.4	12.3	11.0
EV/EBITDA(x)	30.7	22.1	22.6	21.2	18.0	15.5

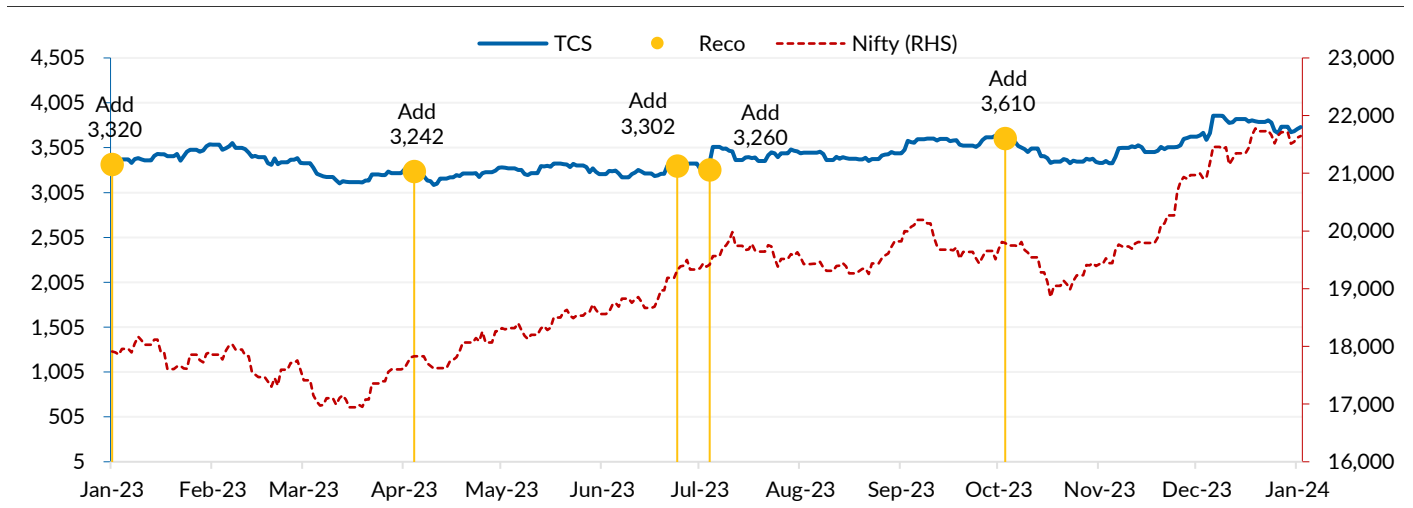
Source: Company, YES Sec

Exhibit 13: Dupont Analysis

Dupont Analysis	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net margin(%)	19.8	20.0	18.7	19.0	20.0	20.3
Asset turnover (x)	1.3	1.4	1.6	1.6	1.7	1.7
Leverage factor (x)	1.5	1.6	1.6	1.5	1.5	1.5
Return on Equity(%)	38.0	43.7	46.9	47.4	49.8	51.8

Source: Company, YES Sec

Recommendation Tracker



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SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.