

Retail Equity Research

Tata Consultancy Services Limited

IT Services

BSE CODE: 532540

NSE CODE: TCS

Bloomberg CODE: TCS:IN

SENSEX: 80,717

BUY

12 Months Investment Period

Rating as per Large Cap

CMP Rs. 4,175 TARGET Rs. 4,821 RETURN 15% 
(Closing: 16-07-24)

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Strong business in India; stable order book

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 utility.

- Revenue in Q1FY25 grew 5.4% YoY in rupee terms, +3.9% in dollar terms and 4.4% in constant currency (cc). Resilient growth across major geographies aided the revenue growth. However, verticals saw muted performance.
- EBITDA margin improved YoY on better productivity and utilisation.
- The company delivered stable performance in Q1FY25. But the performance is expected to get a further boost through strengthening its workforce and enhanced order book through new deals wins. Overall, the company is expecting a pickup in demand in medium term. Hence, we retain our BUY rating with a revised target price of Rs. 4,821 using a target multiple of 30x P/E on FY26E adj. EPS.

Indian business outperformed, North America edged down

In Q1FY25, TCS's consolidated revenue grew 5.4% YoY to Rs. 62,613cr (up 3.9% in dollar terms and 4.4% in cc terms). Resilient growth across major geographies aided the revenue growth. Revenue from North America grew sequentially in cc terms after five quarters (down 1.1% YoY in cc terms). Indian business delivered strong growth momentum with 61.8% YoY growth. Resilient growth in IT services spend in the UK lifted revenue from the country by 6% YoY. The trend is expected to remain going forward. BFSI revenue declined 0.9% YoY in cc terms owing to escalations in client transformations priorities. Life sciences grew 4% YoY in cc terms driven by steady demand from the sector. In Q1FY25, EBITDA margin widened 130bps YoY to 26.6% driven by better productivity, improved utilisation and a decline in subcontractor expenses. However, these were offset by higher employee cost (+3.6% YoY) owing to annual wage hikes and increased cost of equipment and software licences. As a result, Reported PAT clocked 8.9% YoY growth to Rs. 12,105cr.

Stable order book

In Q1FY25, TCS clocked muted order book TCV of \$8.3bn, including \$4.6bn from North America, \$2.7bn from BFSI and \$1.1bn from the consumer business. The management indicated that order book was impacted by deferment of some orders and expressed confidence that they will be booked in Q2FY25. Further, client metrics delivered strong growth in Q1FY25 with addition of at least one new client sequentially in all categories.

Key concall highlights

- Headcount reached 606,998 with net addition of 5,452 employees in Q1FY25. TCS would continue to recalibrate its hiring strategies as per demand outlook.
- In Q1FY25, LTM attrition rate stood at 12.1%, down 40bps QoQ, staying in TCS's comfort range of 11-13% as indicated by the management.
- The management expects FY25 to be better than FY24 overall, with growth across geographies and verticals.

Valuation

Muted performance in the North American business (52% of overall top line) requires close watch. Further, revenue from BFSI and the consumer business segment was periodically influenced by the transformation in client priorities for cost optimisation. These challenges are expected to cool down in upcoming period and deliver growth across geographies and verticals. Overall, the company is expecting a pickup in demand in medium term. Hence, we retain our BUY rating with a revised target price of Rs. 4,821 using a target multiple of 30x P/E on FY26E adj. EPS.

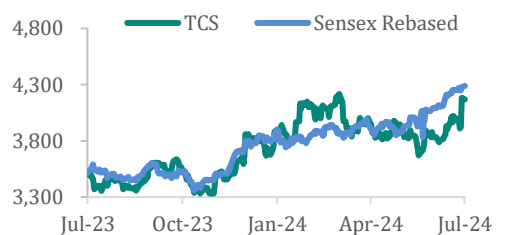
Company Data

Market Cap (cr)	Rs. 1,508,019
Enterprise Value (cr)	Rs. 1,501,596
Outstanding Shares (cr)	361.8
Free Float	28.0%
Dividend Yield	1.8%
52 week high	Rs. 4,254
52 week low	Rs. 3,313
6m average volume (lacs)	29.4
Beta	0.6
Face value	Rs. 1

Shareholding (%)	Q2FY24	Q3FY24	Q4FY24
Promoters	72.3	72.4	71.8
FII's	12.5	12.5	12.7
MFs/Insti	10.1	10.1	10.7
Public	5.0	4.9	4.7
Others	0.2	0.1	0.1
Total	100.0	100.0	100.0
Promoters' pledge	0.5	0.5	0.2

Price Performance	3 Month	6 Month	1 Year
Absolute Return	5.7%	6.8%	18.7%
Absolute Sensex	9.9%	10.0%	22.1%
Relative Return*	-4.2%	-3.2%	-3.4%

*over or under performance to benchmark index



Consolidated (cr)	FY24A	FY25E	FY26E
Sales	240,893	260,489	283,422
Growth (%)	6.8	8.1	8.8
EBITDA	64,296	71,026	78,251
EBITDA Margin (%)	26.7	27.3	27.6
Adj. PAT	46,866	52,128	58,134
Growth (%)	11.2	11.2	11.5
Adj. EPS	128.5	144.1	160.7
Growth (%)	11.6	12.1	11.5
P/E	30.2	28.9	25.9
P/B	15.7	15.7	14.7
EV/EBITDA	22.0	21.1	19.1
ROE (%)	50.9	54.3	56.7
D/E	0.1	0.1	0.1

Quarterly Financials (Consolidated)

Profit & Loss Account

Rs. cr	Q1FY25	Q1FY24	YoY Growth (%)	Q4FY24	QoQ Growth (%)
Revenue	62,613	59,381	5.4	61,237	2.2
EBITDA	16,662	14,998	11.1	17,164	(2.9)
EBITDA margins	26.6	25.3	130bps	28.0	(140bps)
Depreciation	1,220	1,243	(1.9)	1,246	(2.1)
EBIT	15,442	13,755	12.3	15,918	(3.0)
Interest	173	163	6.1	226	(23.5)
Other Income	962	1,397	(31.1)	1,157	(16.9)
Exceptional Items	-	-	-	-	-
Share of profit from Associate	-	-	-	-	-
PBT	16,231	14,989	8.3	16,849	(3.7)
Tax	4,126	3,869	6.6	4,347	(5.1)
Reported PAT	12,105	11,120	8.9	12,502	(3.2)
Minority Interest	65	46	41.3	68	(4.4)
PAT att. to shareholders	12,040	11,074	8.7	12,434	(3.2)
Adjustments	-	-	-	-	-
Adj. PAT	12,040	11,074	8.7	12,434	(3.2)
No. of shares	361.8	366.0	(1.1)	361.8	(0.0)
Adj. EPS (Rs.)	33.3	30.3	10.0	34.4	(3.2)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	261,623	283,906	260,489	283,422	(0.4)	(0.2)
EBITDA	71,070	77,748	71,026	78,251	(0.1)	0.6
Margins (%)	27.2	27.4	27.3	27.6	10bps	20bps
Adj. PAT	52,739	58,226	52,128	58,134	(1.2)	(0.2)
Adj. EPS	145.8	160.9	144.1	160.7	(1.2)	(0.2)

PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Revenue	191,754	225,458	240,893	260,489	283,422
% change	16.8	17.6	6.8	8.1	8.8
EBITDA	53,057	59,259	64,296	71,026	78,251
% change	14.0	11.7	8.5	10.5	10.2
Depreciation	4,604	5,022	4,985	5,008	5,177
EBIT	48,453	54,237	59,311	66,018	73,075
Interest	784	779	778	755	732
Other Income	4,018	3,449	3,464	4,689	5,668
PBT	51,687	56,907	61,997	69,952	78,011
% change	18.1	10.1	8.9	12.8	11.5
Tax	13,238	14,604	15,898	17,607	19,635
Tax Rate (%)	25.6	25.7	25.6	25.2	25.2
Reported PAT	38,449	42,303	46,099	52,345	58,375
PAT att. to common shareholders	38,327	42,147	45,908	52,128	58,134
Adjustments	-	-	958	-	-
Adj PAT	38,327	42,147	46,866	52,128	58,134
% change	13.9	10.0	11.2	11.2	11.5
No. of shares (cr)	369.9	365.9	364.7	361.8	361.8
Adj EPS (Rs.)	103.6	115.2	128.5	144.1	160.7
% change	15.2	11.2	11.6	12.1	11.5
DPS (Rs.)	43.0	115.0	73.0	79.2	88.4

CASH FLOW

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Net inc. + Depn.	43,053	47,325	51,084	57,353	63,552
Non-cash adj.	932	(887)	(2,787)	(22,128)	(23,693)
Changes in W.C	(4,036)	(4,473)	(3,959)	(2,838)	(2,663)
C.F. Operation	39,949	41,965	44,338	32,387	37,195
Capital exp.	(2,452)	(2,495)	(2,185)	(3,386)	(3,684)
Change in inv.	(640)	7	5,657	(91)	(91)
Other invest.CF	2,195	2,527	2,554	2,981	2,754
C.F - Investment	(897)	39	6,026	(496)	(1,022)
Issue of equity	(18,067)	18	(17,046)	-	-
Issue/repay debt	-	-	-	(250)	(250)
Dividends paid	(13,375)	(41,410)	(25,218)	(28,671)	(31,973)
Other finance.CF	(2,139)	(6,486)	(6,272)	(650)	(608)
C.F - Finance	(33,581)	(47,878)	(48,536)	(29,570)	(32,831)
Chg. in cash	5,630	(5,365)	1,893	2,320	3,342
Closing cash	12,488	7,123	9,016	11,336	14,678

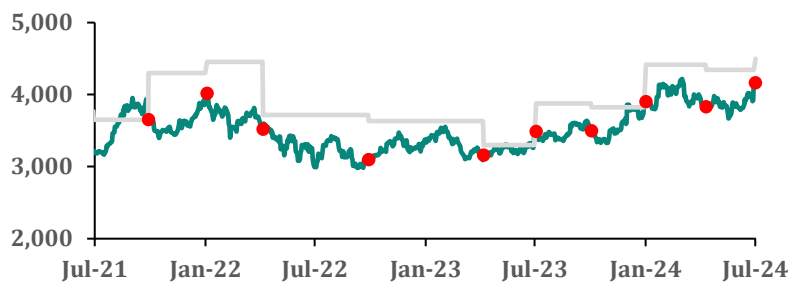
BALANCE SHEET

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	18,221	11,032	13,286	15,606	18,948
Accounts Receivable	34,074	41,049	44,434	47,669	51,299
Inventories	20	28	28	29	31
Other Cur. Assets	55,995	58,161	55,236	56,117	57,932
Investments	223	266	281	372	463
Gross Fixed Assets	30,300	32,344	34,529	37,915	41,600
Net Fixed Assets	10,774	10,230	9,376	7,676	6,102
CWIP	1,205	1,234	1,564	1,642	1,724
Intangible Assets	10,524	10,285	10,228	11,068	11,991
Def. Tax (Net)	5,691	5,890	5,003	5,541	6,179
Other Assets	4,787	5,476	7,013	6,474	6,015
Total Assets	141,514	143,651	146,449	152,193	160,685
Current Liabilities	40,901	42,073	44,599	44,421	46,271
Provisions	-	-	-	-	-
Debt Funds	8,390	8,041	8,386	8,136	7,886
Other Liabilities	2,377	2,331	2,145	2,250	2,375
Equity Capital	366	366	362	362	362
Reserves & Surplus	88,773	90,058	90,127	95,978	102,503
Shareholder's Fund	89,139	90,424	90,489	96,340	102,865
Minority Interest	707	782	830	1,047	1,289
Total Liabilities	141,514	143,651	146,449	152,193	160,685
BVPS (Rs.)	241	247	248	266	284

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab. & Return					
EBITDA margin (%)	27.7	26.3	26.7	27.3	27.6
EBIT margin (%)	25.3	24.1	24.6	25.3	25.8
Net profit mgn.(%)	20.1	18.8	19.1	20.1	20.6
ROE (%)	43.1	46.8	50.9	54.3	56.7
ROCE (%)	49.3	54.6	59.5	62.6	65.2
W.C & Liquidity					
Receivables (days)	64.9	66.5	67.3	66.8	66.1
Inventory (days)	0.2	0.3	0.3	0.3	0.3
Payables (days)	97.9	104.3	111.2	111.9	112.4
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	1.8
Int. coverage ratio (x)	61.8	69.6	76.2	87.5	99.8
Adj. debt/equity (x)	0.1	0.1	0.1	0.1	0.1
Valuation					
EV/Sales (x)	7.2	5.2	5.9	5.8	5.3
EV/EBITDA (x)	25.9	19.8	22.0	21.1	19.1
P/E (x)	36.1	27.8	30.2	28.9	25.9
P/BV (x)	15.5	13.0	15.7	15.7	14.7

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
12-Oct-22	BUY	3,635
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

Investment Rating Criteria

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.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Not rated/Neutral- The analyst has no investment opinion on the stock under review

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