

Technology

Q4FY21 result review
and reco change

Target price: Rs3,350

Earnings revision

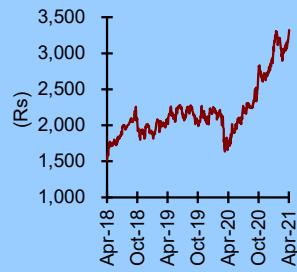
(%)	FY22E	FY23E
Sales	↑ 3.8	↑ 2.6
EBIT	↑ 5.1	↑ 0.6
EPS	↑ 4.9	↓ 0.7

Shareholding pattern

	Jun '20	Sep '20	Dec '20
Promoters	72.1	72.1	72.1
Institutional investors	23.8	23.8	23.5
MFs and other	2.5	2.8	2.7
FIs/Insurance.	5.4	5.0	4.9
FPI	15.9	16.0	15.9
Others	4.1	4.1	4.4

Source: www.nseindia.com

Price chart



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INDIA



Tata Consultancy Services

HOLD

Downgrade from ADD

Rs3,247

Downgrade cycle ahead?

Reported growth and margins were in-line with our / consensus estimates. As we reach the fag end of the recovery leg, organic growth (2.6% QoQ, CC, our estimate) reverted more or less towards pre-Covid baseline levels for March quarter. This corroborates our argument that industry growth is unlikely to witness a meaningful acceleration (vs pre-Covid) over medium term as is expected by the street. On expected lines, deal win TCV (US\$9.2bn) remained healthy and the management reiterated double-digit growth outlook for FY22. Given the good pace of vaccination in core markets like US / UK, potential resumption of costs related to marketing events / onsite travel (in H2FY22) is a key thing to watch out for. As we rebase our exchange rate estimates (now INR / US\$ = 75 / 76 for FY22 / FY23E), FY22E EPS witnesses ~5% upgrade even as FY23E EPS remains largely stable. We downgrade the stock to HOLD (from ADD earlier) with an unchanged TP of Rs3,350 (implying 30x FY23E EPS). Tactically, in the context of 2nd wave in India, TCS should command relative investor interest given (1) low / no disruption to IT and (2) perception of the stock as a cash proxy during heavy market volatility.

- **In-line revenue growth and margins.** Revenue growth of 4.2% QoQ (CC) is in-line with expectations. Of this, we estimate ~1.6% contribution from captive takeover deals which ramped up during this quarter. It should be noted that organic revenue growth of 2.6% QoQ (CC, our estimate) was more or less in-line with pre-Covid growth rates for March quarter. Outside BFSI (includes inorganic), verticals like retail (+4% QoQ, CC), manufacturing (+3.9% QoQ, CC) and Healthcare (+3.8% QoQ, CC) have delivered good sequential growth. While the former two were aided by a low base, healthcare vertical continued its strong performance throughout the year.

EBIT margins expanded ~20bps QoQ, in-line with expectations. Utilisation dip on account of strong headcount addition, lower margin revenue from acquired captives and strong increase in other expenses seem to be the key margin headwinds. Continued restrictions on travel and offshorisation could have been the key tailwinds.

- **Sharp INR depreciation to cushion near-term margin headwinds.** On expected lines, deal win TCV (US\$9.2n) remained healthy and the management reiterated double-digit growth outlook for FY22. Given the good pace of vaccination in core markets like US / UK, potential resumption of costs related to marketing events / onsite travel (in H2FY22) is a key thing to watch out for. As we rebase our exchange rate estimates (now INR / US\$ = 75 / 76 for FY22 / FY23E), FY22E EPS witnesses ~5% upgrade even as FY23E EPS remains largely stable. We downgrade the stock to HOLD (from ADD earlier) with an unchanged TP of Rs3,350 (implying 30x FY23E EPS).

Market Cap	Rs12009bn/US\$160.4bn
Reuters/Bloomberg	TCS.BO/TCS IN
Shares Outstanding (mn)	3,699.1
52-week Range (Rs)	3322/1716
Free Float (%)	27.9
FII (%)	15.9
Daily Volume (US\$'000)	1,45,848
Absolute Return 3m (%)	2.4
Absolute Return 12m (%)	85.9
Sensex Return 3m (%)	(3.1)
Sensex Return 12m (%)	55.3

Year to March	FY21	FY22E	FY23E	FY24E
Revenue (Rs mn)	16,41,770	19,00,192	20,79,563	22,46,431
Net Income (Rs mn)	3,33,880	3,89,892	4,04,350	4,38,023
EPS (Rs)	86.5	105.4	109.3	118.4
% Chg YoY	0.4	21.8	3.7	8.3
P/E (x)	37.6	30.8	29.7	27.4
CEPS (Rs)	97.3	117.9	123.0	133.2
EV/E (x)	25.4	21.5	20.4	18.9
Dividend Yield (%)	1.2	2.2	2.6	3.1
RoCE (%)	32.5	35.8	35.1	37.1
RoE (%)	37.1	41.9	40.7	43.2

Table 1: TCS – Q4FY21 result review (IFRS)

(Rs mn, year ending March 31)

	Q4FY21	Q3FY21	Q4FY20	% chg (QoQ)	% chg (YoY)
Revenues (US\$ mn)	5,989	5,702	5,444	5.0	10.0
Re/\$	73.0	73.7	73.4	(1.0)	(0.5)
Net Sales	4,37,050	4,20,150	3,99,460	4.0	9.4
Cost of revenues	2,48,600	2,37,490	2,24,410	4.7	10.8
SGA expenses	60,440	60,590	65,290	(0.2)	(7.4)
Total Expenses	3,09,040	2,98,080	2,89,700	3.7	6.7
EBITDA	1,28,010	1,22,070	1,09,760	4.9	16.6
Depreciation	10,670	10,230	9,510	4.3	12.2
EBIT	1,17,340	1,11,840	1,00,250	4.9	17.0
Other Income	7,930	5,080	4,870	56.1	62.8
Recurring pre-tax income	1,25,270	1,16,920	1,05,120	7.1	19.2
Taxation	32,450	29,650	24,190	9.4	34.1
Minority Interest	360	260	440	38.5	(18.2)
Recurring Net Income	92,460	87,010	80,490	6.3	14.9
Extraordinary items	25.0	23.2	21.5	7.8	16.5
Reported Net Income					
Recurring EPS					
Ratios (%)					
EBITDA margin	29.3	29.1	27.5		
EBIT margin	26.8	26.6	25.1		
Effective tax rate	25.9	25.4	23.0		
Recurring Net profit margins	21.2	20.7	20.1		

Source: Company data, I-Sec research

Table 2: Q4FY21 actuals vs estimates

	Mar-21A	Dec-20	QoQ	Mar-20	YoY	Mar-21E	vs ISec est.	Consensus	chg
CC Growth	4.2%	4.1%	10 bps	-1.4%	560 bps	4.4%	-20 bps	4.1%	10 bps
Net sales (US\$ mn)	5,989	5,702	5.0%	5,444	10.0%	5,987	0%	5,978	0.2%
Rs mn									
Net sales	4,37,050	4,20,150	4.0%	3,99,460	9.4%	4,36,196	0.2%	4,35,935	0.3%
EBIT	1,17,340	1,11,840	4.9%	1,00,250	17.0%	1,17,439	-0.1%	1,16,395	0.8%
EBIT margins	26.8%	26.6%	20 bps	25.1%	180 bps	26.9%	-10 bps	26.7%	10 bps
Recurring net Income	92,460	87,010	6.3%	80,490	14.9%	92,057	0.4%	92,418	0.0%
Net Income margin	21.2%	20.7%	40 bps	20.1%	100 bps	21.1%	10 bps	21.2%	0 bps
EPS (Rs/share)	25.0	23.2	7.7%	21.5	16.4%	24.9	0.3%	25.0	0.0%

Source: Company data, I-Sec research

Table 3: Change in estimates

	Revised		Change		Change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
INR/USD	75.0	76.0	73.0	74.5	2.7%	2.0%
USD Revenue - m	25,336	27,363	25,087	27,207	1.0%	0.6%
Growth (%)	14.3	8.0	13.4	8.5	80bps	-50bps
EBIT margin - Overall (%)	26.1	25.0	25.8	25.5	30bps	-50bps
PAT (INR B)	390	404	372	407	4.9%	-0.7%
EPS	105.4	109.3	100.5	110.1	4.9%	-0.7%

Source: Company data, I-Sec research

Financial summary

Table 4: Profit and loss statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Revenues (US\$ mn)	22,174	25,336	27,363	29,558
Operating Revenues (Sales)	16,41,770	19,00,192	20,79,563	22,46,431
Operating Expenses	11,76,310	13,57,923	15,09,387	16,29,917
EBITDA	4,65,460	5,42,269	5,70,176	6,16,514
% margin	28.4	28.5	27.4	27.4
Depreciation & Amortisation	40,650	46,391	50,770	54,844
EBIT	4,24,810	4,95,878	5,19,406	5,61,670
% margin	25.9	26.1	25.0	25.0
Other Income	24,970	29,400	28,959	32,199
Recurring PBT	4,49,780	5,25,278	5,48,364	5,93,869
Add: Extraordinaries	0	0	0	0
Less: Taxes	1,14,580	1,33,946	1,42,575	1,54,406
Add: Earnings in Affiliates	0	0	0	0
Less: Minority Interest	1,320	1,440	1,440	1,440
Net Income (Reported)	3,33,880	3,89,892	4,04,350	4,38,023
Recurring Net Income	3,33,880	3,89,892	4,04,350	4,38,023
Exceptional items	-9,580	0	0	0
Reported Net Income	3,24,300	3,89,892	4,04,350	4,38,023

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Net Worth	8,85,550	9,73,415	10,11,928	10,16,053
Minority Interest & Others	1,01,710	1,03,150	1,04,590	1,06,030
Loans	0	0	0	0
Capital Employed	9,87,260	10,76,565	11,16,518	11,22,083
Net Block	1,97,680	2,01,810	2,06,331	2,11,214
Intangibles	44,280	44,280	44,280	44,280
Other LT assets	86,140	86,140	86,140	86,140
Curr. Assets	10,00,710	11,39,646	12,12,395	12,47,792
Debtors	4,10,700	5,05,603	5,47,633	5,85,422
Cash & Bank Balance	3,62,310	3,70,501	3,76,344	3,50,809
Other Current Assets	2,27,700	2,63,541	2,88,418	3,11,561
Current Liab. & Prov	3,41,550	3,95,312	4,32,627	4,67,342
Net Current Assets	6,59,160	7,44,334	7,79,768	7,80,449
Application of Funds	9,87,260	10,76,565	11,16,518	11,22,083

Source: Company data, I-Sec research

Table 6: Quarterly trend

(Rs mn, year ending March 31)

	Jun-20	Sep-20	Dec-20	Mar-21
Net sales	3,83,220	4,01,350	4,20,150	4,37,050
% growth (YoY)	0.4	3.0	5.4	9.4
EBITDA	1,00,250	1,15,130	1,22,070	1,28,010
Margin (%)	26.2	28.7	29.1	29.3
Other income	4,560	7,400	5,080	7,930
Extraordinaries Inc / (Loss)	0	-9,580	0	0
Recurring Net Income	70,080	84,330	87,010	92,460

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
CF from Operations	4,65,460	5,42,269	5,70,176	6,16,514
Cash for Working Capital	(7,000)	(76,983)	(29,591)	(26,217)
Net Operating CF	3,43,880	3,31,340	3,98,010	4,35,891
Net Purchase of FA	(31,390)	(50,521)	(55,290)	(59,727)
Free Cashflow	3,12,490	2,80,819	3,42,720	3,76,164
Net Purchase of Invest.	(7,130)	-	-	-
Net Cash from Invest.	(49,090)	(50,521)	(55,290)	(59,727)
Proceeds from LTB/STB	4,060	-	-	-
Others	77,636	29,400	28,959	32,199
Dividend Payments	(3,53,816)	(3,02,028)	(3,65,836)	(4,33,899)
Cashflow from Fin.	(2,72,120)	(2,72,628)	(3,36,878)	(4,01,699)
Net Cash flow	22,670	8,191	5,842	(25,535)

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY21	FY22E	FY23E	FY24E
Per Share Data (Rs)				
Diluted Recurring EPS	86.5	105.4	109.3	118.4
Recurring Cash EPS	97.3	117.9	123.0	133.2
Dividend per share (DPS)	38.0	71.0	86.0	102.0
Book Value per share (BV)	236.2	263.2	273.6	274.7

Growth Ratios (%)

Operating Income (Sales) - US\$	0.6	14.3	8.0	8.0
Operating Income (Sales)	7.2	7.2	7.2	7.2
EBITDA	10.5	16.5	5.1	8.1
Recurring Net Income	3.2	16.8	3.7	8.3
Diluted Recurring EPS	0.4	21.8	3.7	8.3
Diluted Recurring CEPS	1.8	21.2	4.3	8.3

Valuation Ratios (x)

P/E	37.6	30.8	29.7	27.4
P/CEPS	33.4	27.6	26.4	24.4
P/BV	13.8	12.4	11.9	11.8
EV / EBITDA	25.4	21.5	20.4	18.9
EV / Sales	7.2	6.1	5.6	5.2

Operating Ratios

Software Development Expenses/Sales (%)	59.2	58.6	59.7	59.8
SG&A/Sales (%)	15.0	15.3	15.4	15.2
Other Income / PBT (%)	5.6	5.6	5.3	5.4
Effective Tax Rate (%)	25.5	25.5	26.0	26.0
Fixed Asset Turnover (x) on average	8.3	9.4	10.1	10.6
Receivables (days)	91	97	96	95

Return/Profitability Ratios (%)

Recurring Net Income Margins	19.8	20.5	19.4	19.5
RoIC	51.3	55.5	53.2	55.0
RoCE	32.5	35.8	35.1	37.1
RoNW	37.1	41.9	40.7	43.2
Dividend Payout Ratio	51.4	78.8	92.0	100.8
Dividend Yield	1.2	2.2	2.6	3.1
EBITDA Margins	28.4	28.5	27.4	27.4
EBIT Margins	25.9	26.1	25.0	25.0

Source: Company data, I-Sec research

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