

October 10, 2021

RESULT REPORT Q2 FY22 | Sector: Information Technology

Tata Consultancy Services

Maintained operating margin in tough environment

Our view

Overall, we remain positive on the stock as the robust demand environment would help it to report double digit revenue growth for FY22/FY23. Deal booking remains strong and would help to sustain growth momentum. There are near term margin headwind in this supply constrained environment. However, we expect it to maintain stable margin of ~26% aided by positive operating leverage. We maintain BUY Rating in the stock with revised target price of Rs 4,395.

Result Highlights

- Reported revenue of Rs 468.7bn (\$6.3bn), (up 3.2% QoQ in INR terms; up 2.9% QoQ in USD terms) which was slightly below consensus estimate of 473bn.
- Constant currency revenue was up 4% QoQ(up 15.5% YoY). Growth was broad based across verticals. BFSI has touched \$2bn of quarterly revenue rate in the quarter.
- EBIT margin was up by 8 bps QoQ to 25.6.(broadly as per estimates), led by focus on operational efficiency, in this supply constrained environment.
- The demand environment remained strong as the deal booking for the quarter remained strong at \$7.6bn(up 25% YoY, excluding the large deal signed in Q2FY21).
- Attrition has picked up but the LTM attrition remained low at 11.9%, lowest in the industry. Net addition of ~19,690 employees to 5,28,748 employees at the end of quarter.
- Announced dividend of Rs 7/ share (Record date 19/10/21)

Valuation

The stock trades at PER of 29.5x on FY24E EPS. Robust deal booking and growing share of digital revenue provides strong visibility about revenue and margin outlook. Improved demand environment over next 2-3 years with stable margin and industry leading return ratios would support current valuation. We rollover to FY24 estimates and value the stock at 33x on FY24 earnings, arriving at target price of Rs 4,395/share

Exhibit 1: Result table

Particulars (Rs mn)	Q2FY22	Q2FY21	% yoy	Q1FY22	% qoq
Sales (\$ mn)	6,330	5,424	16.7	6,154	2.9
Sales (Rs mn)	468,670	401,350	16.8	454,110	3.2
EBITDA	131,150	102,950	27.4	126,640	3.6
EBITDA %	28.0	25.7	233 bps	27.9	10 bps
Depreciation	11,150	9,980	11.7	10,760	3.6
EBIT	120,000	92,970	29.1	115,880	3.6
EBIT Margin %	25.6	23.2	244 bps	25.5	9 bps
Other income	9,690	7,400	30.9	5,750	68.5
PBT	129,690	100,370	29.2	121,630	6.6
Tax	33,160	25,330	30.9	31,320	5.9
PAT	96,530	75,040	29	90,310	6.9
Minority Interest	(290)	(290)	0.0	-230	26.1
Adi PAT	96,240	74,750	28.7	90,080	6.8
NPM (%)	20.5	18.6	191 bps	19.8	70 bps

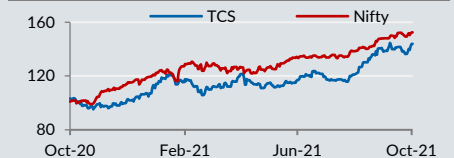
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 3,936
Target Price	: Rs 4,395
Potential Return	: 11.7%

Stock data (as on October 08, 2021)

Nifty	17,895
52 Week h/l (Rs)	3990 / 2600
Market cap (Rs/USD mn)	14558172 / 194125
Outstanding Shares (mn)	3,699
6m Avg t/o (Rs mn):	8,005
Div yield (%):	0.9
Bloomberg code:	TCS IN
NSE code:	TCS

Stock performance



	1M	3M	1Y
Absolute return	3.8%	22.9%	41.8%

Shareholding pattern (As of Jun'21 end)

Promoter	72.2%
FII+DII	23.3%
Others	4.5%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	3,600	4,395

Δ in earnings estimates

	FY22E	FY23E	FY24E
EPS (New)	104	118	133
EPS (Old)	103	117.7	132
% change	0.6%	0.6%	0.9%

Financial Summary

(Rs mn)	FY22E	FY23E	FY24E
Net Revenue	1,896,152	2,138,258	2,409,659
YoY Growth	15.5%	12.8%	12.7%
EBIDTA	540,843	621,797	700,719
YoY Growth	19.3%	15.0%	12.7%
PAT	388,689	444,195	499,843
YoY Growth	19.8%	14.3%	12.5%
ROE	42.3%	43.0%	42.2%
EPS	104	118	133
P/E	38.0	33.2	29.5
BV	259	292	339
P/BV	15.2	13.5	11.6

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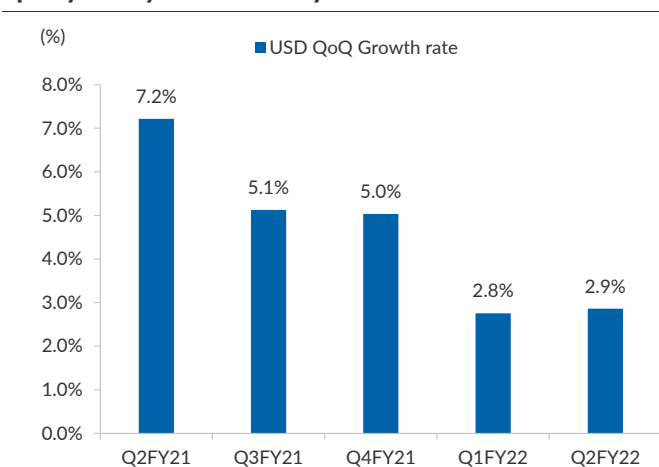
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KEY CON-CALL HIGHLIGHTS

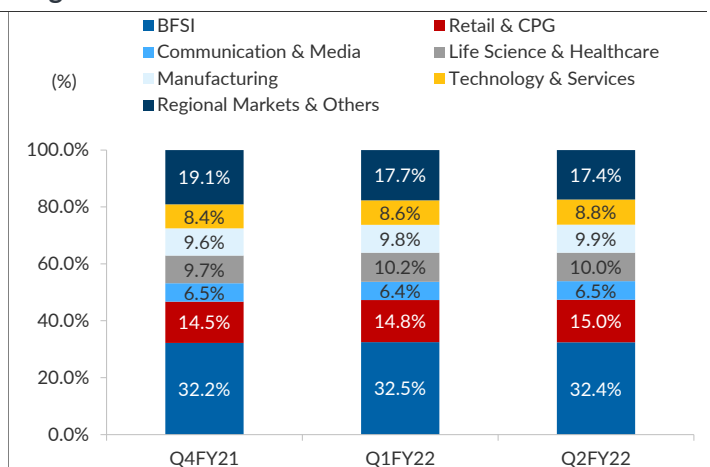
- Demand environment continues to be strong as excluding one mega deal of Q2FY21, the deal win rose 25% YoY in the quarter. It included healthy mix of mid and large size deals.
- Key areas of focus are a)E-commerce and customer experience; b)leveraging SAP S4/HANA, Salesforce cloud/ Oracle cloud. c) new age technologies and d) leveraging its AI/ML capabilities to meet demand
- The management expects that its capabilities in IoT, data analytics and cloud would help it to benefit from shift in the market towards these technologies
- The management expects the demand environment to remain strong over medium term driven by increased outsourcing; growth and transformation projects and investments in digital technologies.
- Geographically, the growth was led by North America; while Europe had soft quarter. Softness in Europe was due to the conclusion of a very large program, but the management expects the momentum to come back from Q1FY23E
- BFSI has touched \$2bn of quarterly revenue rate in the quarter; while in terms of verticals, Manufacturing vertical had leading YoY growth, around 20%YoY.
- Was able to maintain margin in this supply constrained environment (also had cross-currency headwind) with focus on operational efficiency. There was no wage hike in the quarter but there was increase in travel and subcontracting cost. Risks to margin remain over next two quarters in this supply environment.
- Expect hiring to remain elevated over next 2-3 quarters. Higher fresher intake has helped to manage the supply issue over last 2 quarters.
- Would continue to invest across domains to tap on growth opportunities in this sustained strong demand environment.
- Pricing at the portfolio level remains stable, though the legacy business continues to have pricing pressure.

Exhibit 2: Q2FY22 USD growth was below expectation, party led by cross country headwinds



Source: Company, YES Sec

Exhibit 3: Revenue growth was broad based across segments



Source: Company, YES Sec

FINANCIALS

Exhibit 4: Balance Sheet

Y/e March 31 (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Share capital	1,970	1,910	3,750	3,750	3,700	3,700	3,700	3,700
Reserves & surplus	881,180	870,500	911,810	837,510	860,630	967,885	1,093,122	1,270,255
Shareholders' funds	883,150	872,410	915,560	841,260	864,330	971,585	1,096,822	1,273,955
Non-current liabilities	21,600	29,380	29,600	90,900	94,960	98,346	102,143	106,406
Long-term borrowings	710	540	440	69,060	65,030	65,030	65,030	65,030
Other non-current liabilities	20,890	28,840	29,160	21,840	29,930	33,316	37,113	41,376
Current liabilities	145,120	178,280	220,840	270,600	341,550	306,169	342,621	383,800
ST borrowings, Curr maturity	2,180	1,930	180	12,680	12,920	12,920	12,920	12,920
Other current liabilities	142,940	176,350	220,660	257,920	328,630	293,249	329,701	370,880
Total (Equity and Liabilities)	1,053,530	1,084,090	1,170,530	1,208,990	1,307,590	1,383,920	1,550,476	1,774,122
Non-current assets	248,270	271,850	249,220	306,620	314,790	328,557	340,819	348,045
Fixed assets (Net block)	117,880	116,120	118,290	201,240	201,490	206,841	209,512	205,774
Non-current Investments	3,440	3,010	2,390	2,160	2,130	2,343	2,577	2,835
Other non-current assets	126,950	152,720	128,540	103,220	111,170	119,373	128,730	139,436
Current assets	805,260	812,240	921,310	902,370	992,800	1,055,362	1,209,658	1,426,077
Cash & current investment	456,630	426,460	417,430	358,060	384,890	367,498	442,602	582,817
Other current assets	348,630	385,780	503,880	544,310	607,910	687,865	767,055	843,259
Total (Assets)	1,053,530	1,084,090	1,170,530	1,208,990	1,307,590	1,383,920	1,550,476	1,774,122
Total debt	2,890	2,470	620	81,740	77,950	77,950	77,950	77,950
Capital employed	910,590	907,740	949,870	951,070	978,960	1,090,671	1,220,776	1,403,241

Source: Company, YES Sec

Exhibit 5: Income statement

Y/e March 31 (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net sales	1,179,660	1,231,040	1,464,630	1,569,490	1,641,770	1,896,152	2,138,258	2,409,659
Operating expenses	(856,550)	(905,880)	(1,069,580)	(1,148,390)	(1,188,490)	(1,355,309)	(1,516,461)	(1,708,939)
EBITDA	323,110	325,160	395,050	421,100	453,280	540,843	621,797	700,719
Depreciation	(19,870)	(20,140)	(20,550)	(35,300)	(40,650)	(44,985)	(50,689)	(57,123)
EBIT	303,240	305,020	374,500	385,800	412,630	495,858	571,108	672,987
Other income	41,890	35,900	41,130	36,680	24,970	28,087	27,115	29,391
Profit before tax	345,130	340,920	415,630	422,480	437,600	523,945	598,223	672,987
Tax (current + deferred)	(81,560)	(82,120)	(100,010)	(98,010)	(111,980)	(134,187)	(152,958)	(172,074)
Reported Profit / (Loss)	262,890	258,260	314,720	323,400	324,550	388,689	444,195	499,843
Adjusted net profit	262,890	258,260	314,720	323,400	324,550	388,689	444,195	499,843

Source: Company, YES Sec

Exhibit 6: Cash Flow Statement (Rs mn)

Y/e March 31 (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Profit before tax	345,130	340,920	415,630	422,480	437,600	523,945	598,223	672,987
Depreciation	19,870	20,140	20,550	35,300	40,650	44,985	50,689	57,123
Change in working capital	(26,364)	(3,830)	(86,250)	(13,620)	(18,200)	(69,008)	(44,991)	(37,318)
Total tax paid	(73,582)	(85,700)	(80,920)	(92,150)	(97,820)	(180,927)	(151,076)	(170,103)
Cash flow from oper. (a)	265,054	271,530	269,010	352,010	362,230	318,995	452,845	522,689
Capital expenditure	(18,508)	(18,380)	(22,720)	(118,250)	(40,900)	(50,336)	(53,360)	(53,385)
Change in investments	(195,352)	43,460	33,060	73,820	(44,680)	(3,129)	(3,179)	(3,232)
Others	28,685	(17,960)	15,770	6,040	3,960	(7,024)	(8,142)	(9,455)
Cash flow from inv. (b)	(185,174)	7,120	26,110	(38,390)	(81,620)	(60,489)	(64,681)	(66,072)
Free cash flow (a+b)	79,880	278,650	295,120	313,620	280,610	258,507	388,163	456,616
Equity raised/(repaid)	2	(50,880)	1,840	0	(50)	0	0	0
Debt raised/(repaid)	442	(420)	(1,850)	81,120	(3,790)	0	0	0
Dividend (incl. tax)	(109,470)	(107,260)	(197,573)	(320,497)	(108,500)	(281,434)	(318,958)	(322,710)
Others	(1,836)	(107,230)	(74,127)	(60,023)	(186,150)	2,619	2,954	3,335
Cash flow from fin. (c)	(110,863)	(265,790)	(271,710)	(299,400)	(298,490)	(278,815)	(316,004)	(319,376)
Net chg in cash (a+b+c)	(30,983)	12,860	23,410	14,220	(17,880)	(20,308)	72,159	137,241

Source: Company, YES Sec

Exhibit 7: Ratio Analysis

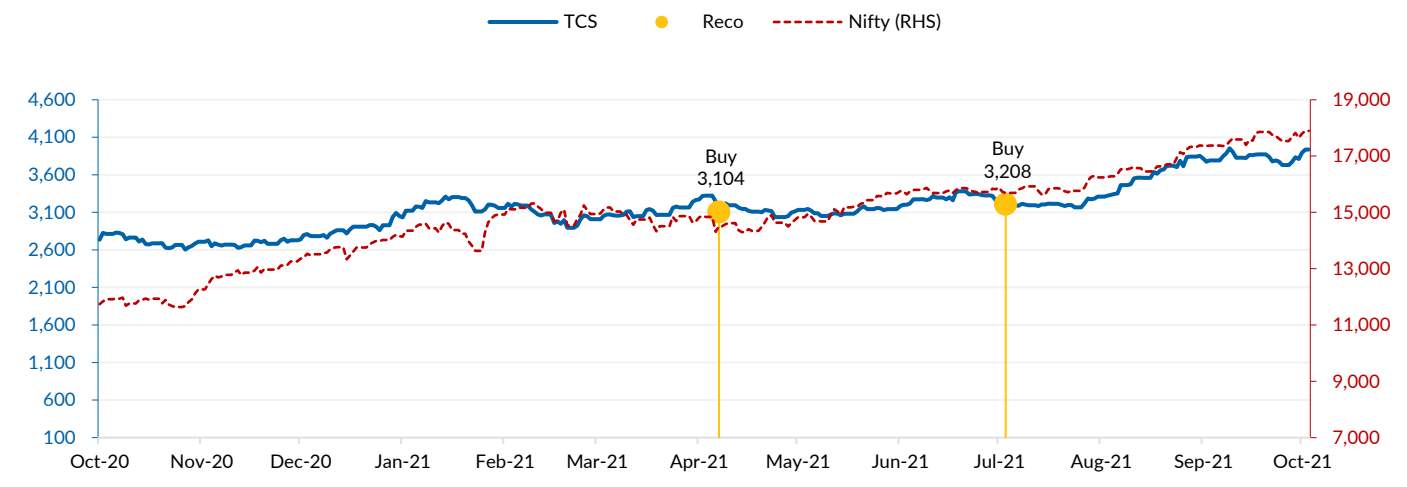
Y/e March 31	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Growth (%)								
Revenue Growth	8.6	4.4	19.0	7.2	4.6	15.5	12.8	12.7
EBITDA Growth	5.3	0.6	21.5	6.6	7.6	19.3	15.0	12.7
EBIT Growth	5.3	0.6	22.8	3.0	7.0	20.2	15.2	17.8
Net Profit Growth	8.6	(1.8)	21.9	2.8	0.4	19.8	14.3	12.5
Profitability Ratios(%)								
EBITDA Margin	27.4	26.4	27.0	26.8	27.6	28.5	29.1	29.1
EBIT margin	25.7	24.8	25.6	24.6	25.1	26.2	26.7	27.9
Net Profit margin	22.3	21.0	21.5	20.6	19.8	20.5	20.8	20.7
RoA	30.9	28.5	33.2	32.4	32.8	36.8	38.9	40.5
RoE	32.6	29.4	35.2	36.8	38.1	42.3	43.0	42.2
RoCE	36.3	33.5	40.3	40.6	42.8	47.9	49.4	51.3
Liquidity Ratios								
Net debt/Equity (x)	(0.5)	(0.5)	(0.5)	(0.3)	(0.4)	(0.3)	(0.3)	(0.4)
Current ratio (x)	5.5	4.6	4.2	3.3	2.9	3.4	3.5	3.7
Quick ratio (x)	5.5	4.6	4.2	3.3	2.9	3.4	3.5	3.7
Valuation Ratios								
PER(x)	NA	NA	NA	37.7	45.5	38.0	33.2	29.5
PCE(x)	NA	NA	NA	34.0	40.4	34.0	29.8	26.5
Price/Book(x)	NA	NA	NA	14.5	17.1	15.2	13.5	11.6
EV/EBITDA(x)	NA	NA	NA	28.3	31.9	26.8	23.2	20.4

Source: Company, YES Sec

Dupont Analysis	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net margin (%)	22.3	21.0	21.5	20.6	19.8	20.5	20.8	20.7
Asset turnover (x)	1.2	1.2	1.3	1.3	1.3	1.4	1.5	1.4
Leverage factor (x)	1.2	1.2	1.3	1.4	1.5	1.5	1.4	1.4
Return on Equity (%)	32.6	29.4	35.2	36.8	38.1	42.3	43.0	42.2

Source: Company, YES Sec

Recommendation Tracker



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