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Record TCV wins and resilient margin show...

About the stock: Tata Consultancy Services (TCS) is one of the leading IT service providers with a presence in BFSI, communication, manufacturing, retail & hi tech.

- Consistent organic revenue growth and industry leading margins (>25%)
- Stable management, robust return ratios (RoCE >60%) & payouts (~70%)

Q4FY24 Performance: TCS reported largely inline revenue growth but higher than expected margin growth in Q4FY24. The company reported revenue growth of 1.1% QoQ & 2.2% YoY in CC terms while in rupee terms its revenue grew by 1.1% QoQ & 3.5% YoY. EBIT margin of the company grew by 100 bps QoQ to 26% aided by declining subcon cost, improved utilization & operating leverage. TCS reported a PAT margin of 20.3%, up 110 bps QoQ. The company reported record TCV wins of US\$ 13.2 bn, up 63% QoQ & 32% YoY during the quarter.

Investment Rationale:

- **FY25 revenues to be better than FY24:** TCS mentioned that discretionary spending deferrals continues but it expects the same to pick up in few quarters. The company has won robust deal wins & the management has indicated that revenue growth will be better compared to last fiscal year. We however believe that the growth will be back ended and expect dollar revenue to grow by 6.6% & 10.1% in FY25E & FY26E respectively. We, thus, expect revenue to grow at CAGR of 8.3% between FY24-26E compared to CAGR of 8.8% between FY19-24.
- **Record deal wins will aid to maintain growth:** TCS in Q4FY24 won record TCV wins of US\$13.2 bn bringing the total TCV win for FY24 to US\$ 42.7 bn compared to US\$ 34.1 bn in FY23. We believe that the company is well placed to continue winning deals of cost optimization & transformation (cloud, Gen AI, etc) nature. The company's Gen AI projects will drive the growth in future and its pipeline of Gen AI projects has doubled in Q4FY24 to US\$ 900 mn.
- **Focus to sustain & improve margins going forward:** The company achieved EBIT margin of 26% in Q4FY24 despite the headwinds from the BSNL deal. TCS EBIT margin for FY24 came at 24.6% and it aspires to achieve & maintain its EBIT margins in the band of 26-28% in the medium term. The company indicated that pricing will be key lever with other levers of improved utilization, pyramid optimization & lower subcon cost also contributing. We believe that margin expansion will be gradual and its margins will improve from 24.2% in FY24 to 26.2% in FY26E.

Rating and Target Price

- TCS is well placed among the large peers to sustain its medium and long-term growth momentum driven by large deal wins and margin expansion.
- We assign HOLD, given and value it at target price of ₹ 4,330; at 27x P/E on FY26E EPS.

Key Financial Summary

Financials	FY22	FY23	FY24	5 year CAGR (FY19-24)	FY25E	FY26E	2 year CAGR (FY24-26E)
Net Sales	1,91,754	2,25,458	2,40,893	10.5	2,58,743	2,86,635	9.1
EBITDA	53,057	59,260	63,337	9.9	70,757	81,118	13.2
EBITDA Margins (%)	27.7	26.3	26.3		27.3	28.3	
Net Profit	38,327	42,147	45,908	7.8	50,442	58,046	12.4
EPS	104.7	115.2	125.9		139.4	160.5	
P/E	38.1	34.6	31.4		28.6	24.9	
RoNW (%)	43.0	46.6	50.7		48.1	47.2	
RoCE (%)	51.4	56.0	60.9		58.2	57.7	

Source: Company, ICICI Direct Research



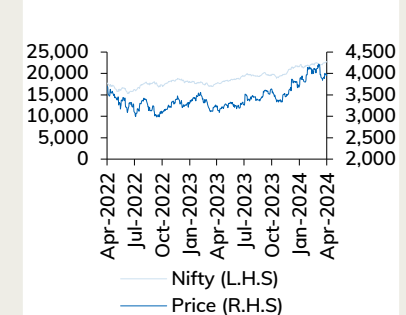
Particulars

Particular	Amount
Market Cap (₹ Crore)	14,20,126
Total Debt (₹ Crore)	8,021
Cash & equiv. (₹ Crore)	40,497
EV (₹ Crore)	13,87,650
52 week H/L	4254/ 3070
Equity capital (₹ Crore)	362
Face value	1.0

Shareholding pattern

	Mar-23	Jun-23	Sep-23	Dec-23
Promoters	72.3	72.3	72.3	72.4
FII	12.7	12.5	12.5	12.5
DII	9.6	9.9	10.1	10.1
Others	5.3	5.4	5.2	5.0

Price Chart



Key risks

- Delay in recovery from US market;
- Lower than expected margin growth

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Performance highlights and outlook

- **Revenue Performance:** TCS in Q4FY24 reported revenue of US\$ 7,363 mn, up 1.1% QoQ & 2.3% YoY while in CC terms it reported a growth of 1.1% QoQ & 2.2% YoY. In rupee terms the revenue came at ₹ 61,237 crore, up 1.1% QoQ & 3.5% YoY. For FY24 the company reported revenue of US\$ 29,080 mn, up 4.1% while in CC terms it reported growth of 3.4% implying currency gains of 70 bps.
- **Geography performance:** Geography wise in Q4 the revenue growth was led by regional markets with India region reporting growth of 37.9% YoY in CC terms followed MEA region which reported growth of 10.7% YoY. UK region (16.8% of mix) reported a growth of 6.2% YoY while US region (50% of mix) continue to remain weak declining by 2.3% YoY.
- **Segment performance:** Segment wise in CC terms on YoY basis Manufacturing & Regional markets led the growth reporting a growth of 9.7% & 26% respectively. BFSI (31.3% of mix) continue to remain stressed and declined for 3rd successive quarter while Retail too declined for 2nd successive quarter. The management however indicated that it has witnessed green shoots of demand in Insurance & Retail segment. The company also mentioned that Retail segment witnessed growth on sequential basis & it grew by 1.1% QoQ in dollar terms.
- **Margin performance:** TCS reported strong margin growth during the quarter. The company's EBIT margin expanded by 100 bps QoQ to 26% aided by 190 bps tailwinds from lower subcon cost, improving utilization & operating leverage mitigated by the headwinds of 90 bps of increased travel cost & higher 3rd party expenses. Sub con cost declined by 190 bps QoQ to 4.9% during the quarter. The company reported PAT margin of 20.3% in Q4.

For FY24 the company reported an EBIT margin of 24.2% (adj. margin excl. one settlement exp. came at 24.6%) compared to 24.1% in FY23. The company's PAT margin came at 19.1% compared to 18.7% in FY23.

- **Deal Wins:** TCS reported record TCV wins of US\$ 13.2 bn in Q4 bringing the total TCS wins in FY24 to US\$ 42.7bn, up 25.2%. The company mentioned that the deal wins include 1 mega deal. The company's TCV wins from US/BFSI/Retail came at US\$ 5.7/4.1/1.7 bn respectively. The company mentioned that it has not witnessed any major changes in renewals to new wins in TCS wins but indicated that in the revenue mix the contribution of new revenue is coming higher implying that the revenue leakages continue.

On Gen AI projects, the company mentioned that it has won more than 200 engagements in AI in FY24. The company further mentioned that its Gen AI pipeline has doubled during the quarter to US\$ 900 mn.

- **Demand Outlook:** On the demand front, the company reiterated that the clients continue to reprioritize their spends based on RoI of the projects. The company also mentioned that discretionary spends & strategic transformation projects are assessed at multiple levels and are hence cautious on the demand recovery which is expected to be soon. The company further mentioned that it is witnessing some green shoots within the sub segments of most verticals like insurance, wealth management, payments, airlines & transportation. The company also mentioned that Gen AI projects are being discussed with clients and the clients are exploring the LLM which would be most beneficial for them. The company also mentioned that it expects the regional markets of India, APAC & MEA will continue to grow at faster pace compared to other markets.

The company however mentioned that based on deal wins it expects FY25 to be better than FY24.

- **Margin Guidance/Aspiration:** The company reiterated its aspiration to reach & maintain its margin band of 26-28% in the medium to long terms. The company indicated that pricing will be the key lever to achieve the margin band along with other levers like utilization, pyramid optimization & subcon costs. The company indicated that the current environment is not conducive to immediate price hike but it will achieve the same by renegotiating price hike at renewals & taking the new projects at

incremental price. The company mentioned that its margin in Q1FY25 will see headwinds by wage hike which will be rolled out from April. The company indicated that the top performers will be awarded double digit wage hikes while others will be given hike in the band of 4.5-7%.

- **Attrition & Employee addition:** The company's attrition during the quarter further declined by 80 bps QoQ to 12.5% while on YoY basis it declined by 760 bps. The company net employees during the quarter declined by 1,759 bringing the total employee strength to 601,546. The company also mentioned that it has started its fresher hiring program.
- **COO retirement:** N. G. Subramaniam the company's COO has retired in May after 14 years of service in the company and the company mentioned that it is not planning to appoint a new COO. The company further mentioned that the responsibilities of the outgoing COO will be distributed among the company.
- **Dividend:** The company in Q4FY24 declared dividend of ₹ 28 per share bringing the total dividend payout for FY24 to ₹ 73 per share compared to ₹ 115 in FY23.

Exhibit 1: Quarter Performance

	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	Comments
Revenue (US\$ mn)	7,363	7,195	2.3	7,281	1.1	In CC terms Revenue grew 1.1% QoQ & 2.2% YoY
Revenue (₹ crore)	61,237	59,162	3.5	60,583	1.1	In YoY CC terms; vertical wise, revenue growth was led by Manufacturing & Regional markets reporting growth of 9.7% & 26% while geography wise the growth was led by India region reporting growth of 37.9%.
Employee expenses	35,084	34,427	1.9	34,920	0.5	
Gross Margin	26,153	24,735	5.7	25,663	1.9	
Gross margin (%)	42.7	41.8	90 bps	42.4	35 bps	
SG&A expenses	8,989	8,962	0.3	9,275	-3.1	
EBITDA	17,164	15,773	8.8	16,388	4.7	
EBITDA Margin (%)	28.0	26.7	137 bps	27.1	98 bps	
Depreciation	1,246	1,285	-3.0	1,233	1.1	
EBIT	15,918	14,488	9.9	15,155	5.0	
EBIT Margin (%)	26.0	24.5	151 bps	25.0	98 bps	EBIT margin improved by 100 bps QoQ due to the tailwinds of 190 bps of lower subcon cost, improved utilization & operating leverage mitigated by the headwinds of higher travel cost & higher 3rd party expenses.
Other income (less interest)	931	903	3.1	632	47.3	
PBT	16,849	15,391	9.5	14,829	13.6	
Tax paid	4,347	3,955	9.9	3,732	16.5	
Reported PAT	12,434	11,392	9.1	11,058	12.4	
Adjusted PAT	12,434	11,392	9.1	11,058	12.4	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E
Total operating Income	2,25,458	2,40,893	2,58,743	2,86,635
Growth (%)	17.6	6.8	7.4	10.8
COGS (employee expenses)	1,32,448	1,39,775	1,49,440	1,62,809
S,G&A expenses	33,750	37,781	38,546	42,709
Total Operating Expenditure	1,66,198	1,77,556	1,87,986	2,05,518
EBITDA	59,260	63,337	70,757	81,118
Growth (%)	11.7	6.9	11.7	14.6
Depreciation	5,023	4,984	5,175	6,019
Other Income less interest	2,670	3,644	2,447	3,138
PBT	56,907	61,997	68,029	78,236
Total Tax	14,604	15,898	17,347	19,950
Minority Interest	156	191	240	240
PAT	42,147	45,908	50,442	58,046
Growth (%)	10.0	8.9	9.9	15.1
EPS (₹)	115.2	125.9	139.4	160.5
PAT	42,147	45,908	50,442	58,046
EPS - Reported (₹)	115.2	125.9	139.4	160.5

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E
Profit before Tax	56,907	61,997	68,029	78,236
Add: Depreciation	5,022	4,985	5,175	6,019
(Inc)/dec in Current Assets	-7,455	-6,793	-5,371	-8,393
Inc/(dec) in CL and Provisions	3,238	-89	3,811	5,455
Taxes paid	-12,966	-12,489	-17,347	-19,950
CF from operating activities	41,965	44,338	51,850	58,229
(Inc)/dec in Investments	7	5,657	-2,807	-828
(Inc)/dec in Fixed Assets	-3,061	-2,647	-3,881	-4,300
Others	3,093	3,016	2,447	3,138
CF from investing activities	39	6,026	-4,242	-1,990
Inc/(dec) in loan funds	-5,752	-1,614	0	0
Dividend paid & dividend tax	-41,347	-25,137	-36,169	-39,800
Others	-779	-21,785	0	0
CF from financing activities	-47,878	-48,536	-36,169	-39,800
Net Cash flow	-5,874	1,828	11,440	16,439
Exchange difference	509	65	0	0
Opening Cash	12,488	7,123	9,016	20,456
Closing cash and Bank	7,123	9,016	20,456	36,895

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E
Liabilities				
Equity Capital	366	362	362	362
Reserve and Surplus	90,058	90,127	1,04,400	1,22,646
Share Premium	0	0	0	0
Total Shareholders funds	90,424	90,489	1,04,762	1,23,008
Total debt	7,688	8,021	8,133	8,307
Other liabilities & Provisions	1,892	1,533	1,928	2,045
Deferred tax liability(net)	792	977	977	977
Minority Interest / Others	782	830	1,070	1,310
Total Liabilities	1,01,578	1,01,850	1,16,870	1,35,647
Assets				
Net assets & CWIP	19,891	19,336	18,042	16,322
Goodwill	2,806	1,832	1,832	1,832
Other non current assets	10,501	12,297	15,104	15,932
Debtors	41,198	44,434	47,727	52,871
Loans and Advances	1,333	642	690	764
Other Current Assets	20,158	27,411	29,442	32,616
Current Investments	40,806	31,481	31,481	31,481
Cash	7,123	9,016	20,456	36,895
Trade Payable	10,515	9,981	10,721	11,876
OCL & Provisions	31,723	34,618	37,183	41,192
Application of Funds	1,01,578	1,01,850	1,16,870	1,35,647

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios

(Year-end March)	FY23	FY24	FY25E	FY26E
Per share data				
Adjusted EPS (Diluted)	115.2	125.9	139.4	160.5
BV per share	247.1	250.0	289.4	339.8
DPS	115.0	73.0	100.0	110.0
Cash Per Share	19.5	24.9	56.5	101.9
Operating Ratios (%)				
EBIT margins	24.1	24.2	25.3	26.2
PBT Margins	25.2	25.7	26.3	27.3
PAT Margin	18.7	19.1	19.5	20.3
Debtor days	67	67	67	67
Creditor days	17	15	15	15
Return Ratios (%)				
RoE	46.6	50.7	48.1	47.2
RoCE	56.0	60.9	58.2	57.7
RoIC	101.1	95.1	101.0	111.6
Valuation Ratios (x)				
P/E	34.5	31.4	28.6	24.8
EV / Net Sales	6.2	5.9	5.4	4.8
Market Cap / Sales	6.4	6.0	5.6	5.0
Solvency Ratios				
Debt / EBITDA	0.1	0.1	0.1	0.1
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	1.5	1.6	1.6	1.6
Quick Ratio	1.5	1.6	1.6	1.6

Source: Company, ICICI Direct Research

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