

## Surprise change at top; smooth transition expected...

**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 40%) & payouts (~70%)

### Event highlights:

- TCS informed the stock exchanges that its CEO & MD Rajesh Gopinathan decided to step down from the company to pursue his other interests. The board has nominated K Krithivasan as CEO designate with effect from March 16, 2023
- Mr Krithivasan, has been with TCS for the last 34 years, currently working as President & Global head of BFSI vertical
- Mr Gopinathan will continue with TCS till September 15, 2023 for a smooth transition and support to his successor

**What should investors do?** TCS' share price has grown by ~2.3x over the past five years (from ~₹ 1,413 in March 2018 to ~₹ 3,185 levels in March 2023).

- We maintain our **BUY** rating on the stock

**Target Price and Valuation:** We value TCS at ₹ 3,780 i.e. 26x P/E on FY25E EPS.

### Key triggers for future price performance:

- The new organisation structure, which is aimed at increasing customer stickiness, is expected to enhance market share gains
- Increase in outsourcing in Europe, vendor consolidation and deal pipeline leading to rupee revenue CAGR of 11.0% over FY22-25E
- We expect margins to improve from FY23 onwards due to utilisation improvement and moderation of sub-contractor costs. We build in margin expansion of 110 bps over FY23-25E
- Double-digit return ratios, strong cash generation and healthy payout

**Alternate Stock Idea:** Apart from TCS, in our IT coverage we also like Infosys.

- Key beneficiary of improved digital demand, industry leading revenue growth and healthy capital allocation prompt us to be positive
- We have a BUY rating with a target price of ₹ 1,730



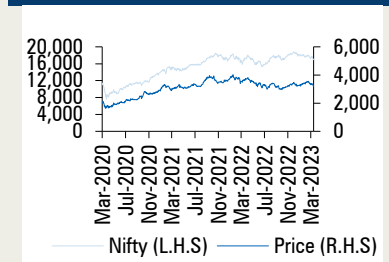
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	11,65,710
Total Debt (₹ Crore)	7,818
Cash and equivalents (₹ Crore)	48,483
EV (₹ Crore)	11,35,016
52 week H/L	3836/ 2927
Equity capital (₹ Crore)	366
Face value	₹ 1

### Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	72.3	72.3	72.3	72.3
FII	14.1	13.5	13.1	12.9
DII	7.8	8.4	8.6	9.3
Others	5.7	5.8	6.1	5.4

### Price Chart



### Recent event & key risks

- Rajesh Gopinathan resigned as MD & CEO, K Krithivasan appointed as CEO designate
- **Key Risk:** (i) Lower than expected profits (ii) Deteriorating TCY

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### Key Financial Summary

Financials	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Net Sales	1,64,177	1,91,754	12.9	2,23,822	2,41,326	2,62,389	11.0
EBITDA	46,546	53,057	13.2	59,089	65,882	72,157	10.8
EBITDA Margins (%)	28.4	27.7		26.4	27.3	27.5	
Net Profit	32,430	38,327	9.9	43,347	48,815	53,174	11.5
EPS (₹)	86.7	104.7	9.9	118.5	133.4	145.3	
P/E	36.3	30.4		26.9	23.9	21.9	
RoNW (%)	37.5	43.0		42.6	41.5	39.5	
RoCE (%)	45.9	51.4		50.1	49.3	47.5	

## Event highlights

- **Rajesh Gopinathan (RG)** informed that he has decided to step down from his role of MD & CEO to pursue his other interests after completing over 22 years of service with the company. He was appointed as CEO in 2017 for a term of five years. His term was renewed for a further five years in FY22,
- Prior to his appointment as CEO, he had served as the company’s CFO between 2013 and 2017. The company further informed that Mr Gopinathan will continue till September 15, 2023 for a smooth and efficient transition
- TCS appointed **K Krithivasan (KK)** the current BFSI head as the CEO designate. He will be appointed as MD & CEO from the next financial year i.e. FY24
- KK has been associated with the company for over 34 years having joined the company in 1989 and is currently the head of the BFSI vertical, which is the largest revenue contributing vertical of the company (31.5% in Q3FY23). KK holds a Bachelor’s degree in Mechanical Engineering from the University of Madras and has a Master’s Degree in Industrial & Management Engineering from IIT Kanpur. Over the last three decades of his association with TCS he has held various leadership roles in delivery, customer relationship management, large program management and sales

### TCS - ESG Disclosure Score\*

Score	FY20	FY21	FY22
Environmental	18.3	18.3	19.7
Social	12.3	12.3	12.3
Governance	91.1	91.1	91.1
<b>Overall ESG Score</b>	<b>40.7</b>	<b>40.7</b>	<b>41.1</b>

*Source: Bloomberg, ICICI Direct Research, \*Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures*

## Press conference highlights

- RG indicated that the company has been on a strong footing since he took over. He also indicated that the company registered strong growth of 15% in FY22 and 14.8% in 9MFY23 and has brought the volatility of the pandemic to a fair state. He indicated that the company is looking to achieve a milestone of US\$28 bn revenues in FY23. He mentioned that high inflationary environment and other challenges are a part of business cycles and the company continues to aspire to grow in these challenging times
- RG indicated that he has been discussing on and off with Chandra (Tata Group Chairman N Chandrasekaran) about his aspiration to do different things. He indicated that he made a decision a week ago and communicated the same to the chairman. He also assured that he is available for any help to the new CEO at any point of time, even beyond his last date of September 15, 2023
- He indicated that he wished to take some downtime once the transition happens and work on some ideas that he is currently contemplating. He also mentioned that it was not appropriate for him to work on those ideas while handling such a big responsibility of being CEO & MD of a large organisation like TCS, which requires more than 100% of his attention
- RG has indicated that he is open to a role in an advisory capacity in the Tata Group but nothing is on the table as of now
- On KK’s appointment, RG mentioned that TCS has a culture of transparent conversations and the board has a visibility of the large part of leadership at the company. There have been constant interactions of the chairman with the leadership team. There is a core leadership team of 10-15 people at the TCS level and the chairman knows all of them professionally and personally since they have been part of the company for a long time. He also mentioned that the Chairman is likely to comment further on the same in due course
- On COO change wherein N Ganapathy Subramaniam the current COO who will likely retire in FY24, he mentioned that there is sufficient time for that event to unfold
- On the tenure of KK, RG mentioned the retirement age for an executive director is 65 years at TCS and KK has a long runway for the same. He also mentioned that the appointment of the KK as a CEO likely to be for five years
- On strategy, KK mentioned that he does not see any material change in the strategy, going forward, as the core strategy of the company to stay close to customers and nurture the talent for the next phase of growth remains. He also mentioned that if the market situation changes materially, he will calibrate the strategy as per demand environment
- He indicated that whenever there is a challenging environment, it provides new opportunities for growth. He also mentioned that he did not see any

pause of digital transformation programs from clients as macroeconomic challenges may bring in disturbances for couple of quarters but in the long-term, clients may prompt to spend more on technology. He indicated that he understands some businesses at TCS beyond BFSI well and does not expect challenges in terms of taking inputs from RG to finetune his learnings

- As far as BFSI vertical is concerned, KK mentioned that there is credible leadership available at this vertical to take over role of BFSI head as and when he moves to the CEO role. He also mentioned that he will discuss with the Chairman and RG on the same in due course and expects smooth transition there. He also mentioned that there are certain non-BFSI leaders in the organisation who are also well versed with this vertical. Hence, a wide talent pool is available for the next leadership

## Financial summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Total operating Income</b>	<b>1,91,754</b>	<b>2,23,822</b>	<b>2,41,326</b>	<b>2,62,389</b>
Growth (%)	16.8	16.7	7.8	8.7
COGS (employee expenses)	1,11,053	1,31,607	1,41,417	1,53,497
S,G&A expenses	27,644	33,126	34,027	36,734
Total Operating Expenditure	1,38,697	1,64,733	1,75,444	1,90,232
<b>EBITDA</b>	<b>53,057</b>	<b>59,089</b>	<b>65,882</b>	<b>72,157</b>
Growth (%)	14.0	11.4	11.5	9.5
Depreciation	4,604	4,924	5,309	5,773
Other Income less interest	3,234	4,026	4,677	4,677
PBT	51,687	58,191	65,250	71,061
Total Tax	13,238	14,722	16,312	17,765
Minority Interest	122	122	122	122
<b>PAT</b>	<b>38,327</b>	<b>43,347</b>	<b>48,815</b>	<b>53,174</b>
Growth (%)	18.2	13.1	12.6	8.9
EPS (₹)	104.7	118.5	133.4	145.3

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit before Tax	51,687	58,191	65,250	71,061
Add: Depreciation	4,604	4,924	5,309	5,773
(Inc)/dec in Current Assets	1,092	-4,108	-5,016	-6,035
Inc/(dec) in CL and Provisions	8,124	4,715	3,734	4,493
Taxes paid	-13,238	-14,722	-16,312	-17,765
<b>CF from operating activities</b>	<b>49,332</b>	<b>45,436</b>	<b>48,951</b>	<b>53,512</b>
(Inc)/dec in Investments	-1,100	-152	-368	-442
(Inc)/dec in Fixed Assets	-3,835	-4,476	-4,827	-5,248
Others	2,937	3,563	4,014	4,014
<b>CF from investing activities</b>	<b>-1,998</b>	<b>-1,066</b>	<b>-1,180</b>	<b>-1,676</b>
Inc/(dec) in loan funds	0	0	0	0
Dividend paid & dividend tax	-34,123	-30,720	-33,093	-36,198
Others	-1,498	0	0	0
<b>CF from financing activities</b>	<b>-35,621</b>	<b>-30,720</b>	<b>-33,093</b>	<b>-36,198</b>
Net Cash flow	11,713	13,651	14,677	15,638
Exchange difference	0	0	0	0
Opening Cash	7,705	21,042	34,693	49,370
<b>Closing cash and Bank</b>	<b>21,042</b>	<b>34,693</b>	<b>49,370</b>	<b>65,008</b>

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Liabilities</b>				
Equity Capital	366	366	366	366
Reserve and Surplus	88,773	1,01,400	1,17,122	1,34,098
Share Premium	0	0	0	0
Total Shareholders funds	89,139	1,01,766	1,17,488	1,34,464
Total debt	7,818	10,273	10,411	10,577
Other liabilities & Provisions	2,359	2,703	2,783	2,879
Deferred tax liability(net)	590	590	590	590
Minority Interest / Others	707	829	951	1,073
<b>Total Liabilities</b>	<b>1,00,613</b>	<b>1,16,161</b>	<b>1,32,223</b>	<b>1,49,583</b>
<b>Assets</b>				
Net assets & CWIP	20,716	19,592	19,109	18,584
Goodwill	1,787	1,787	1,787	1,787
Other non current assets	10,501	10,653	11,021	11,463
Debtors	34,219	41,082	44,294	48,160
Loans and Advances	6,456	11,191	12,066	13,119
Other Current Assets	19,352	11,863	12,790	13,907
Current Investments	30,262	30,262	30,262	30,262
Cash	18,221	34,693	49,370	65,008
Trade Payable	8,045	10,715	11,554	12,562
OCL & Provisions	32,856	34,245	36,923	40,145
<b>Application of Funds</b>	<b>1,00,613</b>	<b>1,16,162</b>	<b>1,32,224</b>	<b>1,49,583</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Per share data (₹)</b>				
Adjusted EPS (Diluted)	104.7	118.5	133.4	145.3
BV per share	243.5	278.0	321.0	367.4
DPS	93.3	84.0	90.4	98.9
Cash Per Share	49.8	94.8	134.9	177.6
<b>Operating Ratios (%)</b>				
EBIT margins	25.3	24.2	25.1	25.3
PBT Margins	27.0	26.0	27.0	27.1
PAT Margin	20.0	19.4	20.2	20.3
Debtor days	65	67	67	67
Creditor days	15	17	17	17
<b>Return Ratios (%)</b>				
RoE	43.0	42.6	41.5	39.5
RoCE	51.4	50.1	49.3	47.5
RoIC	92.9	105.8	115.2	122.2
<b>Valuation Ratios (x)</b>				
P/E	30.4	26.8	23.8	21.9
EV / Net Sales	5.9	5.0	4.5	4.1
Market Cap / Sales	6.1	5.2	4.8	4.4
<b>Solvency Ratios</b>				
Debt / EBITDA	0.1	0.2	0.2	0.1
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	1.5	1.4	1.4	1.4
Quick Ratio	1.5	1.4	1.4	1.4

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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