

CMP: ₹ 3700

Target: ₹ 4120 (11%)

Target Period: 12 months

April 12, 2022

HOLD

Long tail of attrition...

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%)

Q4FY22 Results: TCS reported its Q4FY22 results.

- US\$ revenues grew 2.6% QoQ to \$6,696 million, up 14.3% YoY in CC terms
- EBIT margins were flat at 25.0% for the quarter
- The company's TCV was at US\$11.3 billion (bn) at Q4FY22

What should investors do? TCS' share price has grown by ~3.3x over the past five years (from ~₹ 1,097 in January 2017 to ~₹ 3,700 levels in April 2022).

- We revise our rating on the stock from BUY to HOLD

Target Price and Valuation: We value TCS at ₹ 4,120 i.e. 31x P/E on FY24E EPS

Key triggers for future price performance:

- TCS is key beneficiary of multi-year growth (15-20%) in digital technologies
- Increase in outsourcing in Europe, vendor consolidation and deal pipeline leading to revenue CAGR of 12.2% over FY22-24E
- We expect margins to be under pressure till FY24, resulting in margin contraction of 30 bps in FY22-24E
- Double-digit return ratios, strong cash generation and healthy payout

- **Alternate Stock Idea:** Besides 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
- BUY with a target price of ₹ 2,300



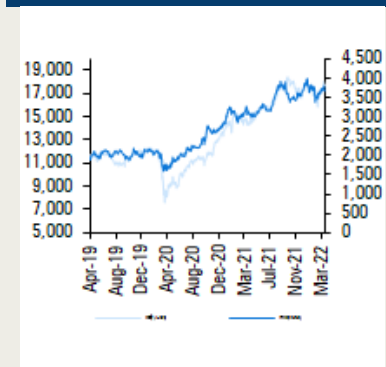
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	1,369,000.0
Total Debt (₹ Crore)	7,818.0
Cash and equivalents (₹ Crore)	48,483.0
EV (₹ Crore)	1,338,306.0
52 week H/L	4045/ 3004
Equity capital (₹ Crore)	366
Face value	₹ 1

Shareholding pattern

	Mar-21	Jun-21	Sep-21	Dec-21
Promoters	72.2	72.2	72.2	72.2
FII	15.6	15.4	15.4	15.0
DII	7.8	7.8	7.8	7.8
Others	4.4	4.6	4.7	5.1

Price Chart



Recent event & key risks

- Buyback at ₹ 4,500 per share
- **Key Risk:** i) Higher-than-expected revenues, ii) Higher-than-expected margin pressure amid supply side challenges

Research Analyst

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Key Financial Summary

Financials	FY20	FY21	FY22P	5 year CAGR (FY17-22P)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	156,949	164,177	191,754	12.9	217,523	242,564	12.5
EBITDA	42,110	46,546	53,057	13.2	59,819	65,977	11.5
EBITDA Margins (%)	26.8	28.4	27.7		27.5	27.2	
Net Profit	32,340	32,430	38,327	9.9	43,671	48,670	12.7
EPS (₹)	86.2	86.7	104.7	9.9	119.3	133.0	
P/E	42.8	42.1	35.3		31.0	27.8	
RoNW (%)	38.4	37.5	43.0		43.2	41.5	
RoCE (%)	44.4	45.9	51.4		50.8	49.5	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

- TCS reported 2.6% QoQ growth to US\$6,696 million (mn) while it grew 11.8% on a YoY basis. The company reported 14.3% YoY growth in CC terms for Q4. For FY22, TCS reported revenues of US\$25.707 billion (bn), up 15.9% over FY21, CC growth of 15.4% over FY21
- In terms of revenues by geographies (in CC terms), the North America market (53% of mix), grew 18.7% YoY while UK and Continental Europe reported relatively muted growth of +13% and 10% YoY, respectively. Asia Pacific, India and MEA regions grew 5.5%, 7.0% and 7.3% YoY, respectively
- Vertical wise, BFSI, retail & healthcare grew 12.9%, 22.1% and 16.4% YoY while manufacturing, technology & services and media grew 19.0%, 18.0% and 18.7% YoY, respectively
- As per the management, the demand environment continues to be strong as reflected in the deal pipeline. The management indicated that in a scenario where clients are facing cost pressure, technology spend is the last area to get hit since technology spend is now looked as a solution enabler vs. being discretionary spend earlier
- Attrition was at 17.4% (up from 15.3% in the previous quarter) but the management indicated that quarterly annualised attrition has started tapering down. The company added 35,209 associates in Q4, taking the total to 592195. It is the highest quarterly addition ever. For FY22, it added more than 1 lakh employees, which is 2.5x net adds it did in FY21
- The company's TCW for the quarter was at US\$11.3 bn. However, TCS indicated that it includes two large deals of US\$1 bn each (as per our understanding, second phase of Passport Seva could be one of those large deals, which was won by TCS as per media reports) while the adjusted number is US\$9.3 bn. The company indicated that steady state deal win number for the quarter could be in the range of US\$8-8.5 bn, going forward
- EBIT margin for the quarter was flat QoQ at 25%. There was -90 bps impact due to supply side challenges. It was mitigated by operating efficiency (not quantified) and +10 bps currency benefit. The company indicated that there would be volatility in margins in the near to medium term due to supply side challenges but maintained long term aspirational EBIT margin guidance band of 26-28%
- TCS indicated that it is planning to hire 40,000 freshers in FY23, which would help in pyramid optimisation
- The company indicated that growth in continental Europe for the quarter was muted due to some re-allocation in client budget in the region due to emergence of multiple scenarios on account of current geopolitical headwinds. TCS indicated that growth in the regions would moderate till the issues settle down
- TCS indicated that the current digital transformation opportunity has three horizons where horizon 1 pertains to moving one's onsite applications to cloud, which is currently playing out. There are further opportunities, which are termed as Horizon 2 (cloud native application development) and Horizon 3 (end to end ecosystem play for sectors like pharma, manufacturing, etc)
- The company indicated that it has formed a new operating model for the future wherein employees are being aligned to the new structure. The rationale for the new operating structure is to be able to align the right people for management of customer lifecycle and strengthen their position as a preferred partner in case of vendor consolidation from the client's side

Peer comparison

Exhibit 1: Peer Comparison

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
HCL Tech (HCLTEC)	1,134	1,430	HOLD	307,675	48.0	54.9	59.6	23.6	20.7	19.0	23.0	25.1	26.2	19.5	21.1	21.9
Infosys (INFTEC)	1,766	2,300	BUY	742,910	56.0	63.3	71.7	31.6	27.9	24.6	34.5	36.4	38.4	28.2	29.8	31.4
TCS (TCS)	3,700	4,120	HOLD	1,353,849	104.7	119.3	133.0	35.3	31.0	27.8	51.4	50.8	49.5	43.0	43.2	41.5
Tech M (TECMAH)	1,448	1,850	BUY	140,721	64.7	76.8	86.2	22.4	18.8	16.8	22.8	24.4	24.4	20.4	21.4	21.2
Wipro (WIPRO)	571	750	BUY	312,981	21.8	25.6	28.8	26.2	22.3	19.8	22.5	26.2	29.0	21.6	25.4	28.5

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Revenue	50,591	50,419	43,705	15.8	48,885	3.5	Revenue growth was broad based. Growth in Continental Europe was lower due to current geopolitical issues
Employee expenses	29,364	29,344	24,860	18.1	28,401	3.4	
Gross Margin	21,227	21,075	18,845	12.6	20,484	3.6	
Gross margin (%)	42.0	41.8	43.1	-116 bps	41.9	6 bps	
SG&A expenses	7,382	7,311	6,044	22.1	7,051	4.7	
EBITDA	13,845	13,764	12,801	8.2	13,433	3.1	
EBITDA Margin (%)	27.4	27.3	29.3	-192 bps	27.5	-11 bps	
Depreciation	1,217	1,260	1,067	14.1	1,196	1.8	
EBIT	12,628	12,504	11,734	7.6	12,237	3.2	
EBIT Margin (%)	25.0	24.8	26.8	-189 bps	25.0	-7 bps	EBIT margin was flat QoQ. There was -90 bps impact due to supply side challenges, which was mitigated by operating efficiency and +10 bps due to currency
Other income (less interest)	736	954	793	-7.2	954	-22.9	
PBT	13,364	13,458	12,527	6.7	13,191	1.3	
Tax paid	3,405	3,432	3,245	4.9	3,385	0.6	
Reported PAT	9,926	9,989	9,246	7.4	9,769	1.6	
Adjusted PAT	9,926	9,989	9,246	7.4	9,769	1.6	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ (Crore)	FY23E			FY24E			Comments
	old	New	% Change	Old	New	% Change	
Revenue	215,347	217,523	1.0	236,655	242,564	2.5	We revise revenue estimate on strong TCV for FY22
EBIT	55,344	54,598	-1.3	61,057	60,641	-0.7	
EBIT Margin (%)	25.7	25.1	-60 bps	25.8	25.0	-80 bps	We trim margins due to supply side pressure, which are expected to have a longer tail
PAT	44,738	43,671	-2.4	49,882	48,670	-2.4	
EPS (₹)	120.8	119.3	-2.4	134.7	133.0	-2.4	

Source: Company, ICICI Direct Research

Key Metrics

Exhibit 4: Geography wise break-up

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Revenue by geography (%)					
North America	48.6	49.4	50.3	50.7	51.6
Latin America	1.6	1.6	1.6	1.7	1.7
UK	16.0	16.3	16.1	15.6	15.6
Continental Europe	16.8	16.7	15.9	16.0	15.5
India	5.6	4.6	5.1	5.5	5.1
Asia Pacific	9.4	9.3	9.0	8.6	8.5
MEA	2.0	2.1	2.0	1.9	2.0
Growth QoQ (%)					
North America	4.0	4.4	4.8	3.8	4.5
Latin America	-1.1	2.8	2.9	9.5	2.6
UK	7.0	4.7	1.6	-0.2	2.6
Continental Europe	8.9	2.1	-2.0	3.7	-0.6
India	5.0	-15.6	14.1	11.1	-4.8
Asia Pacific	1.8	1.7	-0.4	-1.6	1.4
MEA	5.0	7.9	-2.0	-2.1	8.0

Source: Company, ICICI Direct Research

Continental Europe has shown de-growth in the quarter due to geopolitical issues

Exhibit 5: Vertical wise break-up

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Revenue by verticals (%)					
BFSI	32.2	32.5	32.4	32.1	31.9
Retail & CPG	14.5	14.8	15.0	15.1	15.4
Communication and Media	6.5	6.4	6.5	6.5	6.7
Manufacturing	9.7	10.2	9.9	9.9	10.0
Life Sciences & Healthcare	9.6	9.8	10.0	9.9	10.0
Technology & services	8.4	8.6	8.8	8.7	8.7
Regional markets & others	19.1	17.7	17.4	17.8	17.3
Growth QoQ (%)					
BFSI	8.1	3.7	2.6	2.1	2.0
Retail & CPG	5.0	4.9	4.3	3.7	4.7
Communication and Media	3.4	1.2	4.5	3.0	5.8
Manufacturing	6.1	8.1	-0.1	3.0	3.7
Life Sciences & Healthcare	2.9	4.9	5.0	2.0	3.7
Technology & services	2.6	5.2	5.3	1.8	2.6
Regional markets & others	2.4	-4.8	1.2	5.4	-0.2

Source: Company, ICICI Direct Research

BFSI, Retail & CPG as well as manufacturing & Life sciences drive growth

Exhibit 6: Client & human resource matrix

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Client metrics					
USD 1 mn+ clients	1096	1118	1138	1175	1182
USD 5 mn+ clients	569	586	609	619	638
USD 10 mn+ clients	387	405	417	426	439
USD 20 mn+ clients	228	241	247	255	268
USD 50 mn+ clients	101	105	114	118	120
USD 100 mn+ clients	48	50	54	58	58
Headcount, Attrition					
Total Employees	488649	509058	528748	556986	592195
Attrition, LTM (IT Services)	7.2	8.6	11.9	15.3	17.4

Source: Company, ICICI Direct Research

Attrition rose 210 bps QoQ

Financial summary

Exhibit 7: Profit and loss statement					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
Total operating Income	164,177	191,754	217,523	242,564	
Growth (%)	4.6	16.8	13.4	11.5	
COGS (employee expenses)	94,053	111,053	127,251	142,385	
S,G&A expenses	23,578	27,644	30,453	34,201	
Total Operating Expenditure	117,631	138,697	157,704	176,586	
EBITDA	46,546	53,057	59,819	65,977	
Growth (%)	10.5	14.0	12.7	10.3	
Depreciation	4,065	4,604	5,221	5,336	
Other Income less interest	2,497	3,234	4,026	4,677	
PBT	44,978	51,687	58,625	65,318	
Total Tax	11,198	13,238	14,832	16,525	
Minority Interest	132	122	122	122	
PAT	32,430	38,327	43,671	48,670	
Growth (%)	0.3	18.2	13.9	11.4	
EPS (₹)	86.7	104.7	119.3	133.0	
PAT	32,430	38,327	43,671	48,670	
EPS - Reported (₹)	86.7	104.7	119.3	133.0	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
Profit before Tax	44,978	51,687	58,625	65,318	
Add: Depreciation	4,065	4,604	5,221	5,336	
(Inc)/dec in Current Assets	(1,766)	1,092	(2,303)	(7,175)	
Inc/(dec) in CL and Provisions	2,629	8,124	3,371	5,341	
Taxes paid	(2,106)	(13,238)	(14,832)	(16,525)	
CF from operating activities	38,802	49,332	46,518	48,281	
(Inc)/dec in Investments	(7,728)	(1,100)	(20)	(526)	
(Inc)/dec in Fixed Assets	(3,139)	(3,835)	(4,350)	(4,851)	
Others	2,738	2,937	3,563	4,014	
CF from investing activities	(8,129)	(1,998)	(807)	(1,363)	
Inc/(dec) in loan funds	0	0	0	0	
Dividend paid & dividend tax	(30,576)	(34,123)	(31,625)	(32,572)	
Others	(722)	(1,498)	0	0	
CF from financing activities	(32,634)	(35,621)	(31,625)	(32,572)	
Net Cash flow	(1,961)	11,713	14,085	14,346	
Exchange difference	0	0	0	0	
Opening Cash	9,666	7,705	21,042	35,127	
Closing cash and Bank	7,705	21,042	35,127	49,472	

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
Liabilities					
Equity Capital	370	366	366	366	
Reserve and Surplus	86,063	88,773	100,818	116,916	
Share Premium	0	0	0	0	
Total Shareholders funds	86,433	89,139	101,184	117,282	
Total debt	7,795	7,818	10,224	10,421	
Other liabilities & Provisions	2,226	2,359	2,674	2,789	
Deferred tax liability(net)	767	590	590	590	
Minority Interest / Others	675	707	829	951	
Total Liabilities	97,896	100,613	115,501	132,033	
Assets					
Net assets & CWIP	20,149	20,716	19,169	18,684	
Goodwill	1,798	1,787	1,787	1,787	
Other non current assets	9,204	10,501	10,521	11,047	
Debtors	30,134	34,219	39,926	44,522	
Loans and Advances	11,491	6,456	10,876	12,128	
Other Current Assets	19,494	19,352	11,529	12,856	
Current Investments	29,160	30,262	30,262	30,262	
Cash	9,329	18,221	35,127	49,472	
Trade Payable	7,860	8,045	10,414	11,613	
OCL & Provisions	25,003	32,856	33,281	37,112	
Application of Funds	97,896	100,613	115,502	132,033	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
Per share data (₹)					
Adjusted EPS (Diluted)	86.7	104.7	119.3	133.0	
BV per share	233.6	243.5	276.5	320.4	
DPS	21.0	93.3	86.4	0.0	
Cash Per Share	25.2	49.8	96.0	135.2	
Operating Ratios (%)					
EBIT margins	25.9	25.3	25.1	25.0	
PBT Margins	27.4	27.0	27.0	26.9	
PAT Margin	19.8	20.0	20.1	20.1	
Debtor days	67	65	67	67	
Creditor days	17	15	17	17	
Return Ratios (%)					
RoE	37.5	43.0	43.2	41.5	
RoCE	45.9	51.4	50.8	49.5	
RoIC	71.5	92.9	109.0	116.0	
Valuation Ratios (x)					
P/E	42.1	35.3	31.0	27.8	
EV / Net Sales	8.2	6.9	6.0	5.4	
Market Cap / Sales	8.3	7.1	6.3	5.6	
Solvency Ratios					
Debt / EBITDA	0.2	0.1	0.2	0.2	
Debt / Equity	0.1	0.1	0.1	0.1	
Current Ratio	1.9	1.5	1.4	1.4	
Quick Ratio	1.9	1.5	1.4	1.4	

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct coverage universe (IT)

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
HCL Tech (HCLTEC)	1,134	1,430	HOLD	307,675	48.0	54.9	59.6	23.6	20.7	19.0	23.0	25.1	26.2	19.5	21.1	21.9
Infosys (INFTEC)	1,766	2,300	BUY	742,910	56.0	63.3	71.7	31.6	27.9	24.6	34.5	36.4	38.4	28.2	29.8	31.4
TCS (TCS)	3,700	4,120	HOLD	1,353,849	104.7	119.3	133.0	35.3	31.0	27.8	51.4	50.8	49.5	43.0	43.2	41.5
Tech M (TECMAH)	1,448	1,850	BUY	140,721	64.7	76.8	86.2	22.4	18.8	16.8	22.8	24.4	24.4	20.4	21.4	21.2
Wipro (WIPRO)	571	750	BUY	312,981	21.8	25.6	28.8	26.2	22.3	19.8	22.5	26.2	29.0	21.6	25.4	28.5
LTI (LTINFC)	6,066	8,050	BUY	106,290	136.4	168.8	191.3	44.5	35.9	31.7	33.0	34.0	32.5	27.6	28.5	27.2
Mindtree (MINCON)	4,230	5,055	HOLD	69,713	89.8	109.2	126.4	47.1	38.7	33.5	36.0	36.3	35.2	28.2	28.2	27.1
Coforge (NIITEC)	4,311	5,300	HOLD	26,256	115.2	146.7	163.1	37.4	29.4	26.4	28.6	30.9	29.7	25.0	27.1	25.9
TeamLease (TEASER)	3,936	4,500	BUY	6,729	68.2	101.0	125.1	57.7	39.0	31.5	16.3	19.9	20.3	15.7	18.7	19.0
Infoedge (INFEDG)	4,881	5,800	BUY	61,341	37.1	51.0	55.1	131.6	95.8	88.6	13.1	16.7	16.7	9.9	12.6	12.6

Source: Company, ICICI Direct Research

RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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