Tata Consulting Services

FC Open Project 23-24
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Hardik Chawla
UG B-Tech Civil 2Y

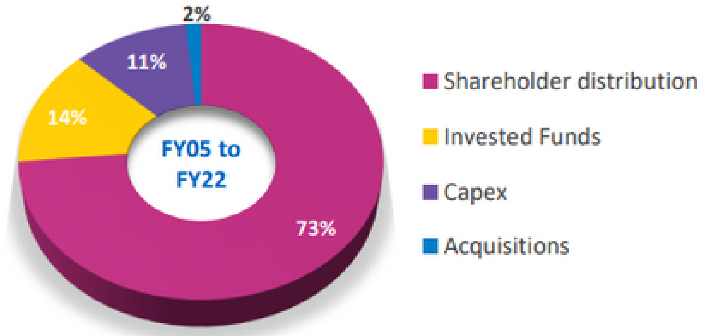
“Collaboration for Transformation”

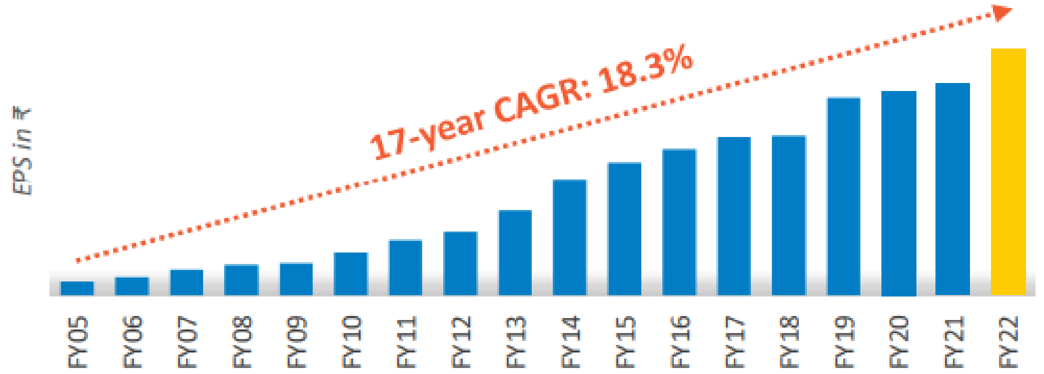
Helping you navigate your enterprise application landscape for success at scale

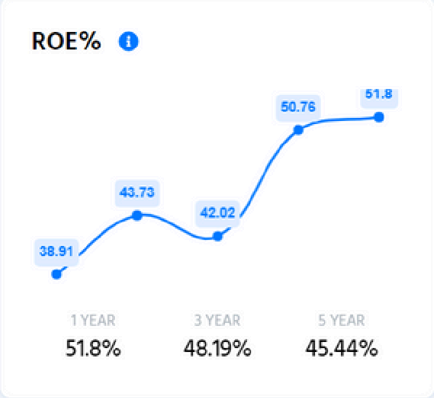
TCS is an IT services, consulting, and business solutions organization that has been partnering with many of the world’s largest businesses in their transformation journey for over 50 years. TCS offers a diverse array of services like Assurance services, Business process outsourcing, Consulting, IT Infrastructure services, Enterprise solutions, etc. Company with over **$100B** valuation, one of the biggest Indian Companies and the World’s **8th largest** IT company.

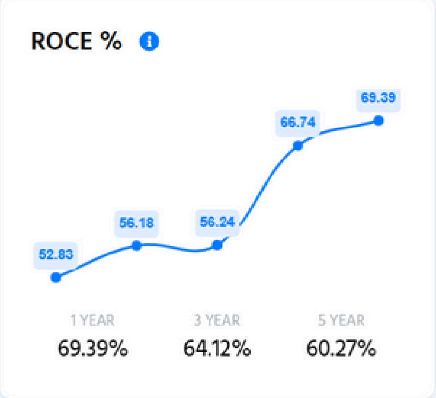
TCS allocates its capital for employee benefits, equipment and software licenses, and other expenses such as fees to external consultants, marketing and advertisement expenses, recruitment, training, etc. Their revenue for the fiscal year 2023 was **₹225,458 crore**, a growth of **17.6%** over the prior year. This growth came with an industry-leading operating margin of 24.1%. The net Margin was at 18.7%. The Earnings Per Share was at **₹115.19**, a growth of **11.2%** over the prior year. The Board has recommended a final dividend of **₹24** per share, bringing the total dividend for the year to **₹115 per share**. For the full year, the company’s shareholder payout was **₹42,079 crore**, 108.2% of the free cash flow during the year.

Capital Allocation







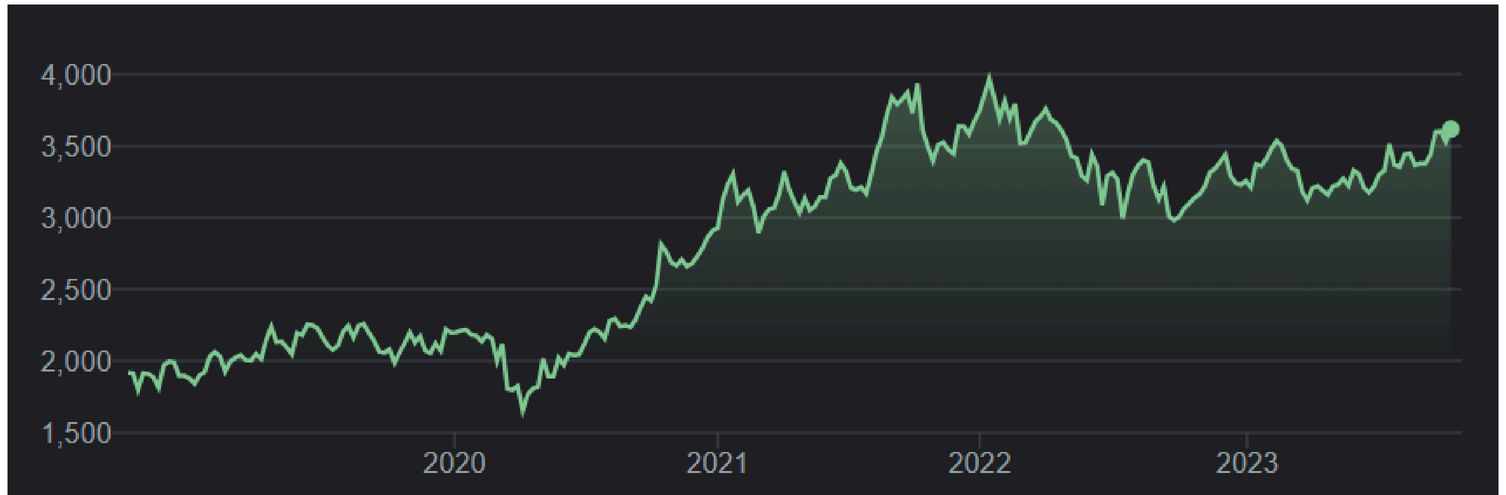


BUY

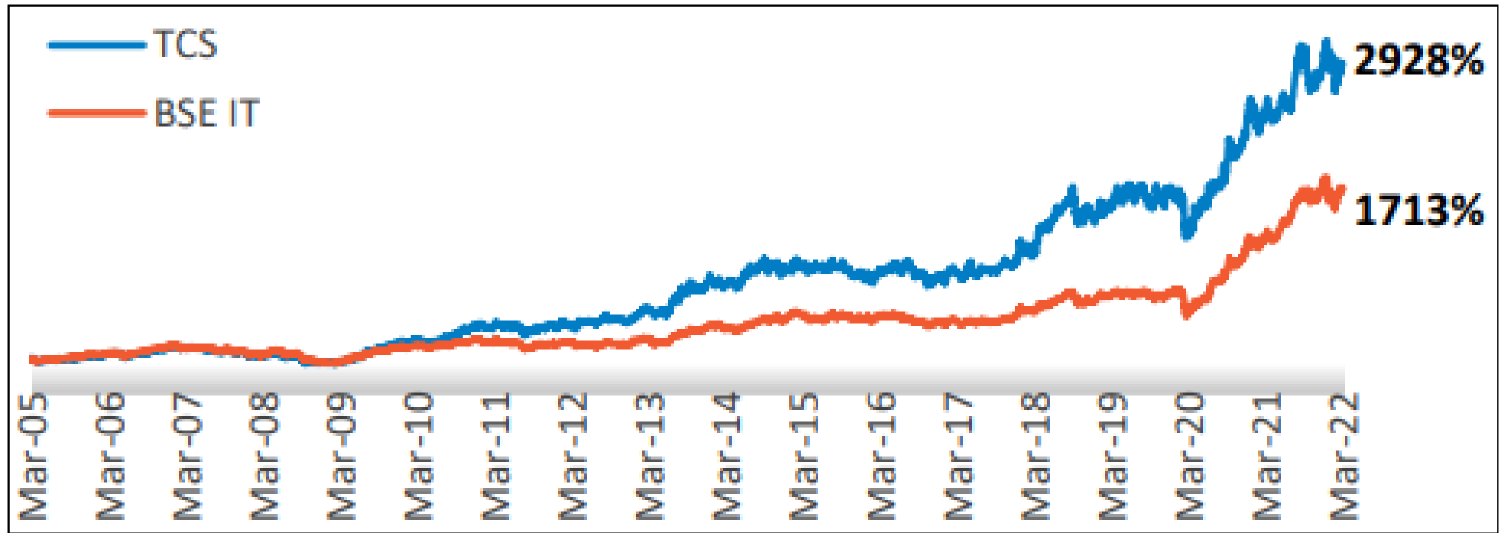
Price: 3,621.25 INR

Target Price: **2733.70**

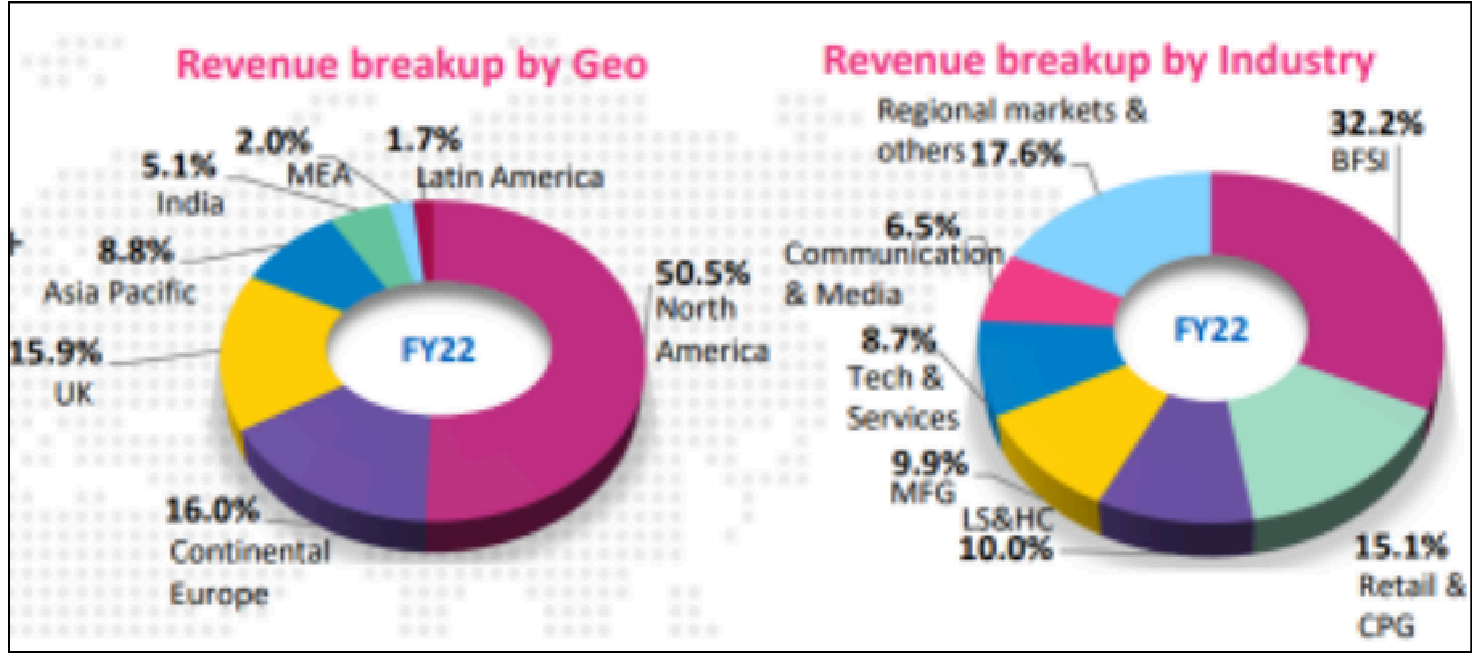
Price Performance



Open	3,591.00	Mkt cap	13.25LCr	CDP score	A-
High	3,634.95	P/E ratio	30.29	52-wk high	3,634.95
Low	3,575.05	Div yield	1.35%	52-wk low	3,005.00



- **What the bulls may have seen.** 1) Increased revenue in every quarter for the past 8 quarters. 2) ROCE, ROA, and ROE improved in the last 2 years. 3) The company has no or very little debt. 4) Strong Cash generating ability with a Free Cash Flow of 7,123 Crores.
- **Investment Thesis.** TCS is a fundamentally strong company with a history of impressive financials, operating in the IT services sector, which tends to be stable. However, ***the current market price of 3621.25 INR appears to be higher than its intrinsic value of 1846.16 INR***, based on the Discounted Cash Flow (DCF) method. For investors with financial obligations or a conservative risk profile, it is advisable to maintain their current TCS holdings but refrain from increasing exposure until the stock's valuation aligns more closely with its fundamentals. Investors with no immediate financial obligations may consider accumulating TCS shares gradually, anticipating potential long-term growth as the intrinsic value catches up with the market price.
- **Valuation.** 1) The Implied Share price of TCS using the Discounted Cash Flow method is **1,846.16** INR while the current share price of TCS is **3,621.25** INR (6 Oct, 3:30 pm IST), showing that the Stock is overvalued by **49%** with WACC (Weighted Average Cost of Capital) of **13.2%**. This assessment is based on an assumed IT sector growth rate of **8.2%**. 2) TCS has a PE ratio of **31.57** which is high and the stock is comparatively overvalued. 3) TCS appears to be trading at an EV-to-EBITDA ratio of **19.81**, while the industry median is **12.85**. EV-to-EBITDA ratio is higher than the industry median, it may suggest that the stock is relatively overvalued.
- **Risk and target price.** In the IT industry, where attrition rates are notably high and competition is fierce among many multinational corporations, a target price of **2733.70** INR is suggested for a fair valuation of the company. This target price may be particularly appealing to investors with a more conservative risk profile.



MARKET CAP	ENTERPRISE VALUE	NO. OF SHARES	PROFIT GROWTH
₹ 13,25,088.86 Cr.	₹ 13,20,545.86 Cr.	365.91 Cr	2.41%
P/E	**P/B**	**DIV. YIELD**	**PROMOTER HOLDING**
32.32	15.61	3.20%	72.30%
EPS	**SALES GROWTH**	**ROE**	**ROCE**
₹ 112.06	18.72%	51.80%	69.39%

PROFITABILITY RATIOS					
PBDIT Margin (%)	29.58	33.51	33.61	34.60	34.57
PBIT Margin (%)	27.51	31.31	31.37	32.54	33.18
PBT Margin (%)	27.15	31.01	30.08	31.97	33.04
Net Profit Margin (%)	20.54	23.81	22.77	25.33	24.40
Return on Networth / Equity (%)	52.46	49.48	41.39	44.72	38.10
Return on Capital Employed (%)	65.07	60.23	52.75	52.79	50.71
Return on Assets (%)	32.63	31.49	28.30	31.68	30.21
Total Debt/Equity (X)	0.00	0.00	0.00	0.00	0.00
Asset Turnover Ratio (%)	1.58	1.39	1.27	125.08	123.78