

Finance Club- Open project 23-24

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Agenda

- Company Overview
- SWOT Analysis
- Capital Allocation
- Piotroski Score
- Customer Base and Revenue Split
- Growth Opportunities
- Pricing Analysis

Company Overview

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 journeys for over 50 years.

TCS offers a diverse array of services. They are as follows:

- Assurance services
- Business process outsourcing
- Consulting
- IT infrastructure services
- Enterprise solutions
- Application development
- Capacity planning
- Payment processing
- Enterprise software
- Technology education services etc.



Initiatives

A dedicated Incubation team at the corporate level and within their business groups evaluates as many as 3,000 start-up ideas a year.

TCS's Co-Innovation Network (COIN) is a platform that brings together experts from the start-up, research, academics, and corporate worlds to work on collaborative innovations

TCS's iON, extending cloud-based services to small and medium businesses

Projects and Contribution

SBI Banking Software is designed by TCS

TCS has been responsible for setting up and managing Passport Seva Kendras (PSKs) across India since 2008.

Selected by Payments Canada, the country's largest payment organization, to transform its payment system operations and help implement the real-time payment system allowing to initiate and receive funds in seconds.

Worked for Phillips Domestic Appliances in its journey to be a standalone company.



Former CEOs of TCS [edit]

- [F. C. Kohli](#), co-founder and first CEO and MD of TCS from 1968 to 1996, known as "Father of Indian IT Industry"
- [Subramaniam Ramadorai](#), CEO and MD of TCS from 1996 to 2009, and Vice - Chairman till 6 October 2014
- [Natarajan Chandrasekaran](#), COO, Executive Director, and CEO of TCS from 2009 to 2017
- [Rajesh Gopinathan](#), CEO and MD of TCS from 2017 to May 2023
- [K. Krishivasan](#), CEO and MD of TCS from June 1 2023^[138]

Company Overview

- The Company was founded as Tata Computer Systems in 1968 by a division of Tata Sons Limited. It is subsidiary of Tata Group and operates in 46 countries worldwide. (As of June 9, 2023)



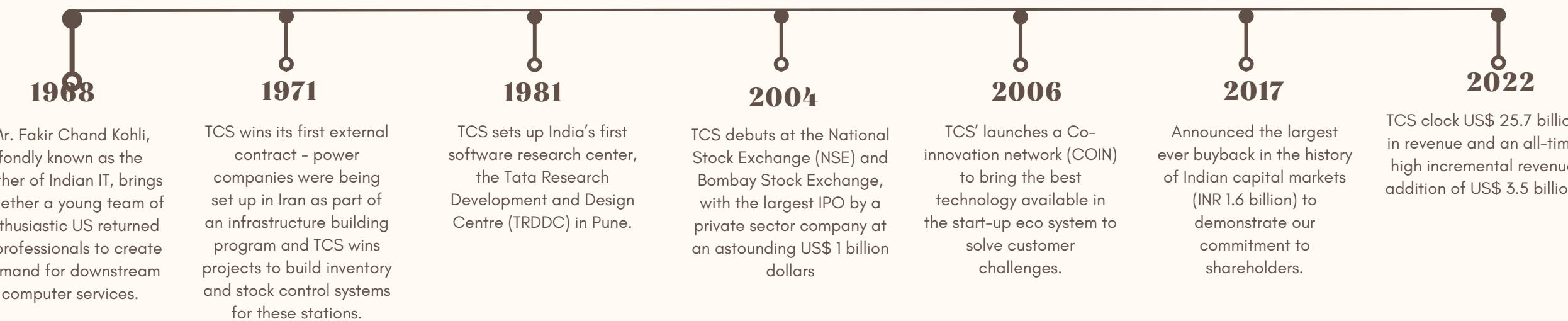
TCS campus at [SIPCOT, Chennai, Tamil Nadu](#)

Type	Public
Industry	Information technology Consulting Outsourcing
Founded	1968; 55 years ago

Revenue	▲ ₹228,907 crore (US\$29 billion) ^[1] (2023)
Operating income	▲ ₹59,259 crore (US\$7.4 billion) ^[1] (2023)
Net income	▲ ₹42,147 crore (US\$5.3 billion) ^[1] (2023)
Total assets	▲ ₹143,651 crore (US\$18 billion) ^[2] (2023)
Total equity	▲ ₹91,206 crore (US\$11 billion) ^[2] (2023)
Number of employees	614,795 ^[3] (March 2023)

Areas of Innovation

- They are continued to explore quantum computing.
- Genome and metagenomic analysis to personalize medicine.
- Security and privacy by design so that more control stays with the individual.
- Deep Computing architectures.
- Model-Driven adaptive enterprises.
- Behavior modelling and simulation are few other areas of innovation.



Facts about the company

- Company with over \$100B valuation, one of the biggest Indian companies.
- World's 8th largest IT Company.
- At 8.63%, TCS's Attrition rate lowest among IT Giants, as of August 19, 2021.
- They have brought down their absolute carbon footprint by 71% over base year 2016.

SWOT (Without Financials)

S (Strengths)	W (Weaknesses)	O (Opportunities)	T (Threats)
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- Extensive Global **Reach** Strong
- **Brand Reputation Robust**
- **service** portfolio Investment in
- innovation: TCS's COIN, dedicated incubation team at corporate level Committed to
- **employee development:** Invests heavily in employee training and development
- Diversified customer base:** TCS
- supports customers in a wide range of industries, including banking, finance, retail, telecommunications, and media & entertainment

- **Legal Disputes:** TCS filed a lawsuit against Epic System in 2014 for suspected abuse of private information. TCS was found guilty in 2016 and was charged \$940 million in damages. This incident had a negative impact on the company's image
- The TCS's subsidiary **Diligenta** continuously operated below par.
- Still **hasn't cracked China market** strongly compared to Accenture, IBM, and Cognizant.

- Emerging interests in **cloud computing**
- Investment in **new technologies**

- **Competition** is fierce
- High rate of **attrition** in IT Industry
- Large Multinational corporations

SWOT (With Financials)



- Increasing **revenue** every quarter for past 8 quarters
- **ROCE, ROA and ROE** improving in last 2 years
- Company with no or very less **debt**
- Strong cash generating ability from core business.

- High promoter stock **pledges**
- Decline in net profit with falling profit margin

- Stocks near **52 Week High** with Significant Volumes i.e., trading near its highest price over the past 52 weeks.

Capital Allocation

Capital Allocation or Expenses

- Employee benefit expenses.
- Cost of equipment and software license: Raw materials, sub-assemblies, consumed equipment and software licenses purchased.
- Other expenses: Fees to external consultants, Facility expenses, travel expense, Communication expenses, marketing and advertisement expenses, recruitment, training and entertainment expenses, Tax expenses etc.

Expenses					
Employee benefit expenses	14	127,522	107,554		
Cost of equipment and software licences	15(a)	1,881	1,163		
Finance costs	16	779	784		
Depreciation and amortisation expense		5,022	4,604		
Other expenses	15(b)	36,796	29,980		
TOTAL EXPENSES		1,72,000	1,44,085		
PROFIT BEFORE TAX		56,907	51,687		
Tax expense					
Current tax	17	14,757	13,654		
Deferred tax	17	(153)	(416)		
TOTAL TAX EXPENSE		14,604	13,238		

Future Capital Allocation Strategy

Significantly investing in building AI Capabilities which include products and platforms that are AI Powered.

Leveraging partnerships to design and orchestrate a completely indigenous software defined 4G / 5G network stack.

Investing in research areas in collaboration with our global academic partners and start up ecosystem.

On top of these current focus areas, technologies like 5G, IoT, generative AI, virtual reality / metaverse, digital twin and others are also likely to attract investments in the short to medium term.

Acquisition / Goodwill

- Goodwill of ₹685 crore and ₹646 crore as at March 31, 2023 and 2022, respectively, has been allocated to the TCS business in France. The remaining amount of goodwill of ₹1,173 crore and ₹1,141 crore as at March 31, 2023 and 2022, respectively, has been evaluated based on the cash flow forecasts of the related Cash Generating units (CGU's) and the recoverable amounts of these CGUs exceeded their carrying amounts

Name	Acquisition date	Activities	Country of HQ	Price
CMC Limited	October 2001	IT Services	India	\$33.9m
Airline Financial Support Services India (AFSI)	January 2004	BPO	India	\$5.1m
Aviation Software Development Consultancy India (ASDC)	March 2004	IT Services	India	\$3.1m
Phoenix Global Solutions	May 2004	Business Process Outsourcing	India	\$130m
Swedish Indian IT Resources AB (SITAR)	May 2005	IT Services	Sweden	\$4.8m
Pearl Group	October 2005	Insurance	United Kingdom	\$94.7m
Financial Network Services (FNS)	October 2005	Core Banking Product	Australia	\$26m
Comicrom	November 2005	Banking BPO	Chile	\$23m
Tata Infotech	February 2006	IT Services	India	\$259.2m
TCS Management	November 2006	IT Services	Australia	\$13m
TKS-Teknosoft	November 2006	Banking Product	Chile	\$80.4m
Citigroup Global Services Limited	December 2008	Captive BPO of Citigroup Inc.	India	\$512m
Supervalu Services India	September 2010	Captive IT/BPO unit of Supervalu Inc. in India	India	\$100m
Computational Research Laboratories	August 2012	High Performance Computing	India	\$34m

Capital Allocation

Capital Allocation or Expenses

Salaries, incentives and allowances

Contributions to provident and other funds

Staff welfare expenses

Year ended March 31, 2023	Year ended March 31, 2022
1,14,359	96,263
9,644	8,450
3,519	2,841
1,27,522	1,07,554

Employee benefit obligations consist of the following:

Raw materials, sub-assemblies and components consumed

Year ended March 31, 2023	Year ended March 31, 2022
37	29
1,846	1,137
1,883	1,166

Equipment and software licences purchased

Fees to external consultants

Facility expenses

Travel expenses

Communication expenses

Bad debts and advances written off, allowance for doubtful trade receivables and advances (net)

Other expenses

Year ended March 31, 2023	Year ended March 31, 2022
21,337	17,409
2,655	2,139
2,675	1,589
2,246	2,050
140	135
7,743	6,658
36,796	29,980

Interest on lease liabilities

Interest on tax matters

Other interest costs

Year ended March 31, 2023	Year ended March 31, 2022
492	519
46	218
241	47
779	784

Dividend

- The Board has recommended a final dividend of **₹24 per share**, bringing the total dividend for the year to **₹115 per share for FY 23**.
- For the full year, the company's shareholder payout was **₹42,079 crore**, 108.2% of the free cash flow during the year

Earnings per equity share:- Basic and diluted (₹)	26.79	29.13	26.48	106.88	103.24
Dividend per share (Par value ₹1 each)	-	-	-	-	-
Interim dividend on equity shares (₹)	-	75.00	-	91.00	21.00
Final dividend on equity shares (₹)	24.00	-	22.00	24.00	22.00
Total dividend on equity shares (₹)	24.00	75.00	22.00	115.00	43.00
Total equity dividend percentage	2,400	7,500	2,200	11,500	4,300

Financial Overview of FY 23

- Revenue** = 225,458 Cr; **Revenue Growth** = 17.6%
- OPM** = 24.1% **NPM** = 18.7% **EPS** = 115.19 Rs; **EPS**
- growth** = 11.2%
-

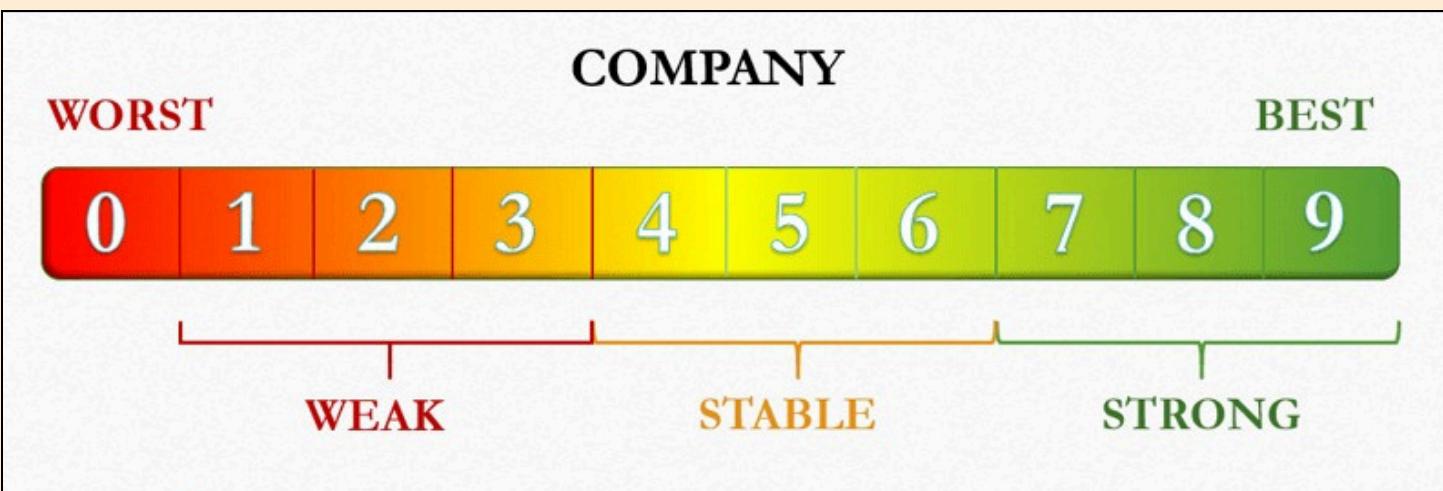
North America grew **24.2%**, UK grew **11.4%** and Continental Europe grew **9.2%**. Among emerging markets, Latin America grew **24.8%**, India grew **14.9%**, Middle East & Africa grew **12.5%** while Asia Pacific grew **7.1%**

Piotroski Score

The Piotroski score is a discrete score between zero and nine that reflects nine criteria used to determine the strength of a firm's financial position.

The Piotroski score is used to determine the best value stocks, with nine being the best and zero being the worst.

If a company has a score of 8 or 9, it is considered a strong value. If the score adds up to between 0-2 points, the stock is considered weak



Evaluation Criteria

- Positive net income (1 point)
- Positive return on assets (ROA) in the current year (1 point)
- Positive operating cash flow in the current year (1 point)
- Cash flow from operations being greater than net Income (quality of earnings) (1 point)
- Lower amount of long term debt in the current period, compared to the previous year (decreased leverage) (1 point)
- Higher current ratio this year compared to the previous year (more liquidity) (1 point)
- No new shares were issued in the last year (lack of dilution) (1 point).
- A higher gross margin compared to the previous year (1 point)
- A higher asset turnover ratio compared to the previous year (1 point)

Parameter	Value		Remark	Score
	2022	2023		
Net Income	38,449	42,795	Positive Net Income	1
Return on assets	27.08	29.34	Positive ROA in the current year	1
Net Operating cash flow	39,949	41,965	Positive net operating cash flow	1
Cash flow from operations being greater than net Income or not	42,795 > 41,965		Net cash flow from operations is less than the net income	0
Long Term Debts	6,368	6,203	Lower amount of long term debt compared to the previous year	1
Current Ratio	2.56	2.53	Lower Current Ratio this year compared to previous year	0
New Shares	3,69,88,32,195	3,65,90,51,373	No new shares were issued	1
Gross profit margin	26.4	24.86	Lower gross profit margin compared to previous year	0
Asset turnover ratio	0.27	0.3	Increased asset turnover ratio compared to previous year	1
Piotroski Score 6 (out of 9)				
Evaluation Stable				

Customer and Revenue Split

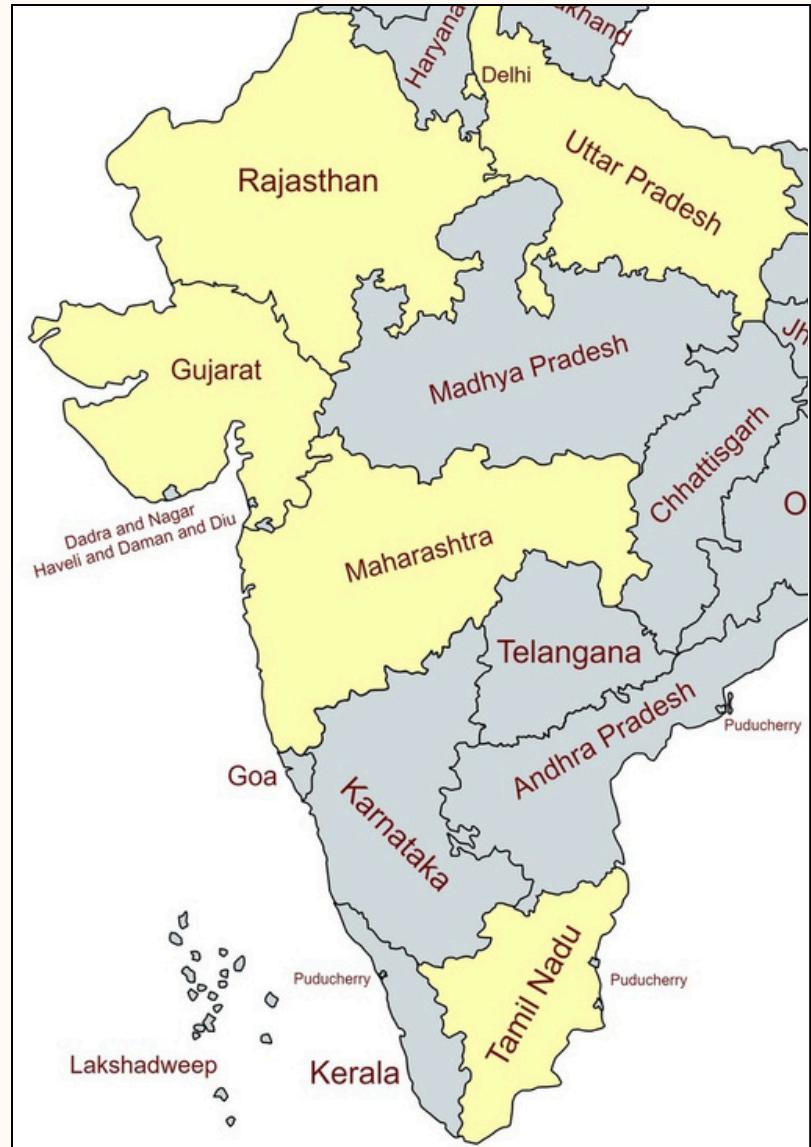


The company's Geographical presence outside India:

Bahrain, Israel, China, UAE, Indonesia, Hong Kong, Japan, Malaysia, Philippines, Saudi Arabia, Singapore, South Korea, Singapore, Taiwan, Thailand, Qatar, Australia, Africa, South Africa, Europe, Belgium, Denmark, Finland, France, Germany, Hungary, Iceland, Republic of Ireland, Italy, Luxemborg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, North America, Canada, Mexico, United States, South America, Argentina, Brazil, Chile, Colombia, Ecuador, Peru, Uruguay.

The company's Geographical presence in India:

Jaipur, Chennai, Pune, Ahmedabad, Baroda, Mysore, Hyderabad, New Delhi, Gurgaon, Mumbai, Lucknow, Nagpur.



Customer Base

The Business Segments comprise:

- Banking, Financial Services and Insurance
- Manufacturing
- Retail and Consumer Business
- Communication, Media and Technology
- Life Sciences and Healthcare
- Others such as Energy, Resources and Utilities, s-Governance and Products.

- The Company has its **maximum client base** in the **US**
- Their Second Biggest service receiver is the **UK**, followed closely by **Europe**
- India, being the base of this esteemed company does not have a very high percentage as a service recipient.

Customer and Revenue Split

Revenue in FY 22-23

Sources of Revenue

IT Consulting Services (90% Contribution)

- Application of Development and support
- Enterprise solution

License sale

- Charges fees to organizations to use their software on a Reucrring or subscription basis
- Revenue from sale of distinct internally developed software and manufactured systems and third party softwares.
- Providing IT equipments and assets..

Revenue from time and material and job contracts is recognised on output basis measured by units delivered, efforts expended, number of transactions processed, etc.

Consultancy services
Sale of equipment and software licences

(₹ crore)	
Year ended March 31, 2023	Year ended March 31, 2022
2,23,332	1,90,289
2,126	1,465
2,25,458	1,91,754

Revenue split based on different customer segments

Year ended March 31, 2023

Year ended March 31, 2023	Banking, Financial Services and Insurance	Manufacturing	Retail and Consumer Business	Communication, Media and Technology	Life Sciences and Healthcare	Others	Total
Revenue from operations	86,127	21,236	37,506	37,653	24,605	18,331	2,25,458
Segment result	22,345	5,842	9,636	10,667	6,894	3,875	59,259
Total unallocable expenses							5,801
Operating income							53,458
Other income							3,449
Profit before tax							56,907
Tax expense							14,604
Profit for the year							42,303
Depreciation and amortisation expense (unallocable)							5,021
Significant non-cash items (allocable)	32	6	6	5	25	65	139

Bonus Points

The business model of TCS mainly depends upon the IT Services Exports which means company **profit increases when rupee devalues** against the dollar.

35-40% of Project cost is taken by TCS for service offering

Revenue split based on Geography

Americas
North America
Latin America
Europe
United Kingdom
Continental Europe
Asia Pacific
India
Middle East and Africa

Year ended March 31, 2023		Year ended March 31, 2022
1,20,336	96,865	
4,000	3,207	
33,861	30,399	
33,575	30,743	
18,132	16,927	
11,271	9,805	
4,283	3,808	
2,25,458	1,91,754	

Growth Opportunities

Current Market Scenario

- The Indian IT market is divided into four main segments: **IT services, software products, engineering services, and hardware.**
- The IT services segment is the largest and accounts for over 50% of the market, followed by software products and engineering services. The hardware segment is relatively small and accounts for less than 10% of the market.
- Digital transformation due to **COVID-19 pandemic**, accelerated adoption of digital technologies in India. This has led to a surge in demand for IT services such as cloud computing, cybersecurity, and data analytics.
- Despite the growing demand for IT services, the Indian IT industry is facing a **talent shortage**, particularly in emerging technologies such as AI and ML. The pandemic has also led to a shift towards **remote work**, with many IT companies adopting a hybrid work model

Growth Opportunities

- To accrue benefits from a higher share of services in the global economy, it would be imperative to focus on **diversification** of our services exports by increasing our competency **in other emerging services**
- Sectors that can provide this opportunity include tourism, tele-medicine, medical value tourism, audio visual services with focus on mobile gaming and construction and engineering with focus on digital engineering services.
- The immersive internet is the next stage in evolution of the video call with the rise of **metaverse**.
- In addition to the global tech-giants racing to build on the emerging metaverse concept, leading Indian firms are announcing the development of the metaverse as well.

TCS Strategic Responses to Emerging Opportunities

Opportunity / Threat



- Greater interest in using technology to drive business growth

- Accelerated adoption of public cloud

- Greater acceptance of as-a-Service platforms

- Operations optimization to fund transformation

- Pandemic-forced remote working

TCS Approach



- Focused on developing contextual knowledge and applying that for inside-out transformations.
- Continued investments in R&I, Pace Ports, and IP.
- Dedicated practice with domain experts to bring together TCS' differentiated capabilities from across the organization to stitch together comprehensive solutions.
- Proactive pitching of solutions to customers' most pressing business problems.
- New brand tagline 'Building on Belief' to strengthen positioning as a G&T partner.

- Launched dedicated business units with end to end capabilities on each of the hyperscaler platforms.
- Continued investment by each of these units in skills, certifications, credentials, IP and accelerators.
- Articulated the multi-horizon cloud transformation framework.
- Made available TCS products and solutions on public clouds.

- Strengthened alliances and launched new offerings around the popular and new SaaS products.
- Helped Independent Software Vendor' clients upgrade their products to launch new SaaS versions.
- Partnering with product manufacturers to help launch innovative as-a-Service offerings using TCS Bring Things to Life IoT framework.

TCS IP:

- Launched SaaS versions of in-house product portfolio; made available on hyperscaler platforms.
- Used IP portfolio to launch new platforms that bundle IP and shared services on the cloud.

- Launched the Machine First™ Delivery Model, embedding automation deep within the enterprise to drive greater efficiencies.
- Launched the TCS Cognix™ hyper-automation suite with pre-built solutions for business and IT operations transformation.

- Launched the Secure Borderless Workspaces™ operating model.
- Announced Vision 25x25, heralding a new hybrid working model for the longer term.
- Implemented 'talent clouds', staffing projects using AI to match skills, regardless of location.

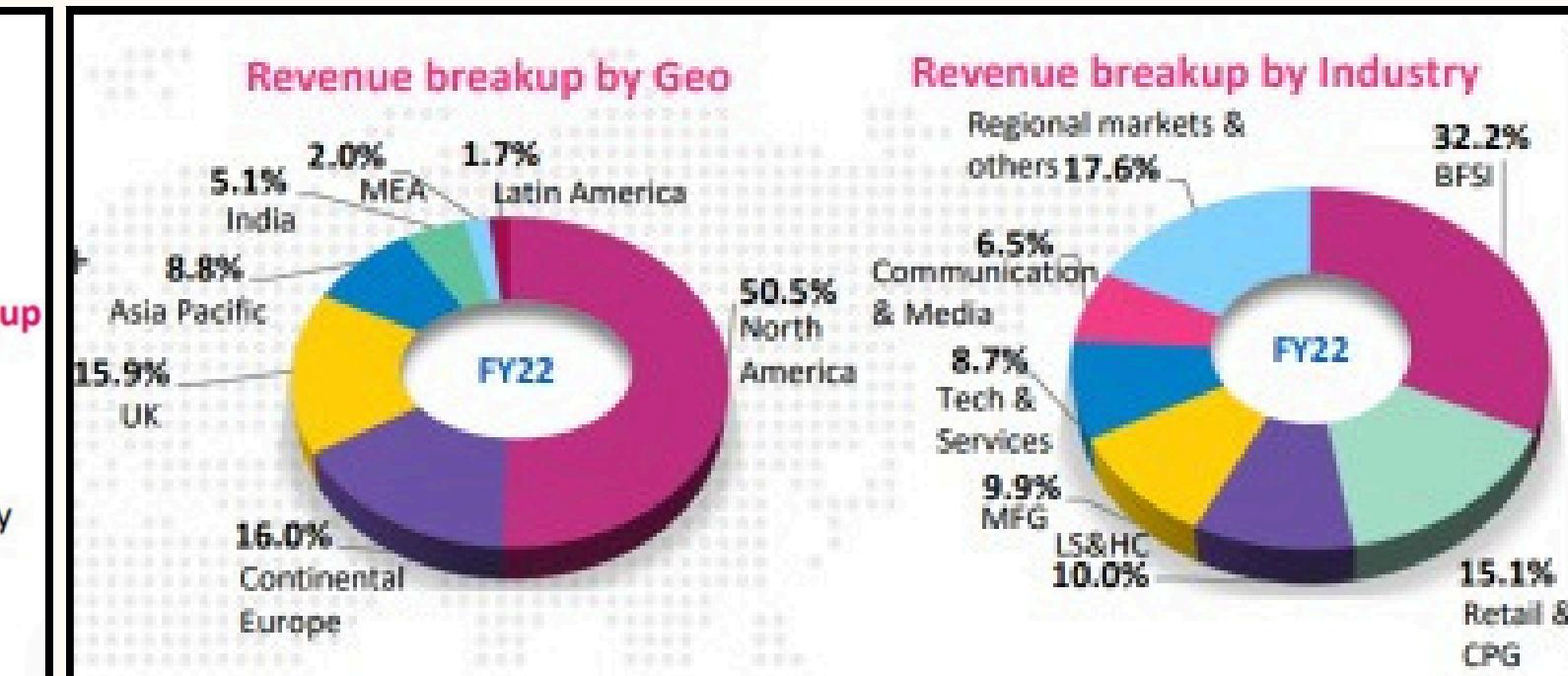
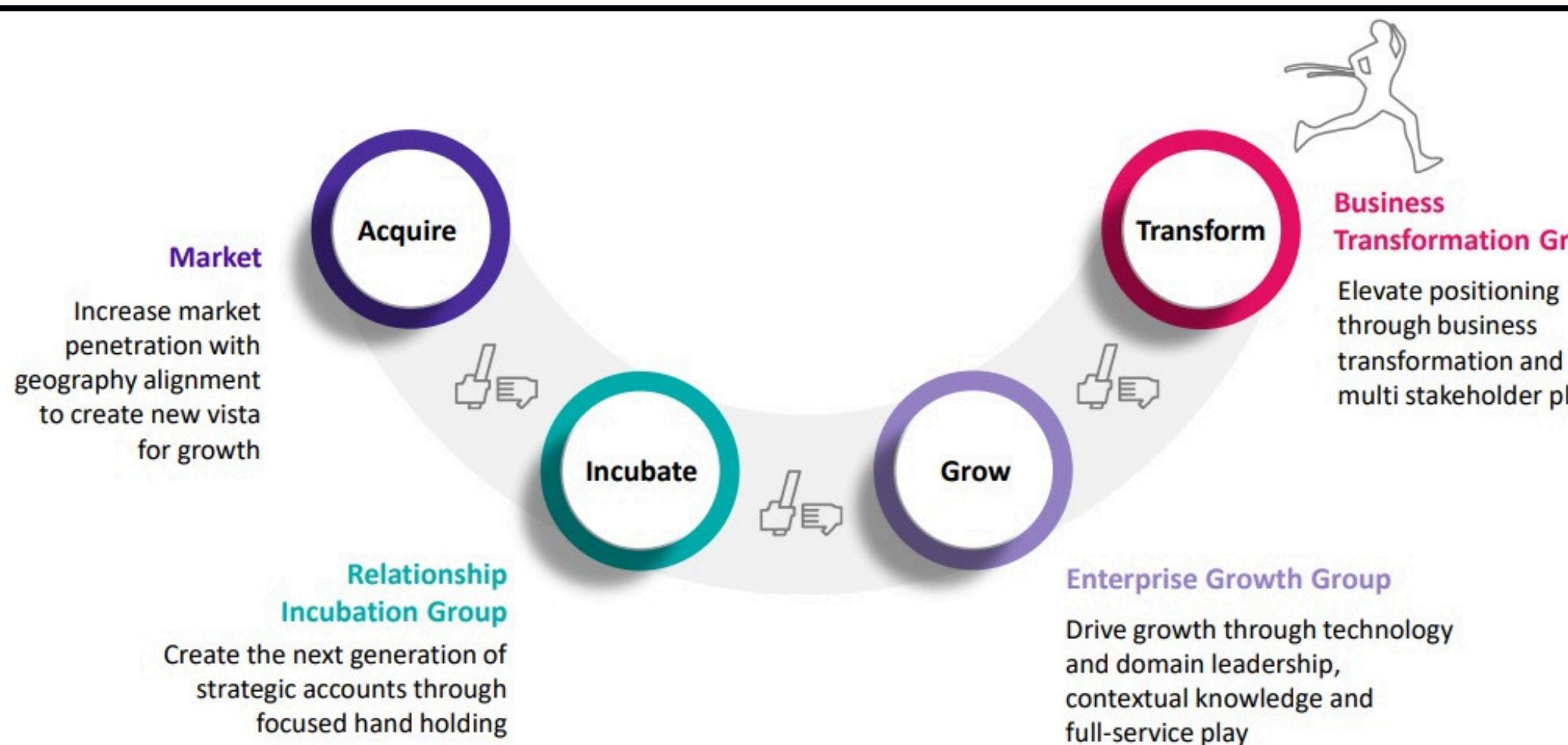
Growth Opportunities

Total Addressable Market (TAM)

- TCS works with leading corporations across the world - typically Fortune 1000 or Global 2000 corporations and the public sector. In India, TCS works with departments of the Government of India, various state governments, systemically important entities and the private sector.
- The contribution of exports as a percentage of TCS's Standalone Turnover is 94.3%

TAM - Market Served by the Entity

Locations	Number	
National (No. of States)	28 States and 8 Union Territories	
International (No. of Countries)	53	
Location	Number of offices (Delivery offices)	Total
National	Delivery centers – 111, Offices – 9	120
International	Delivery centers – 73, Offices – 112	185



Long-Term Growth Strategy of TCS

Source: https://www.tcs.com/content/dam/tcs/pdf/discover-tcs/investor-relations/management-commentary/ir_presentations/TCS_Investor_Relations_Presentation_3Q23.pdf

Pricing Analysis

Share Price Overview

3,537.75 	TODAY'S HIGH ₹ 3,548	TODAY'S LOW ₹ 3,477.30	52 WEEK HIGH ₹ 3,633.75	52 WEEK LOW ₹ 3,005
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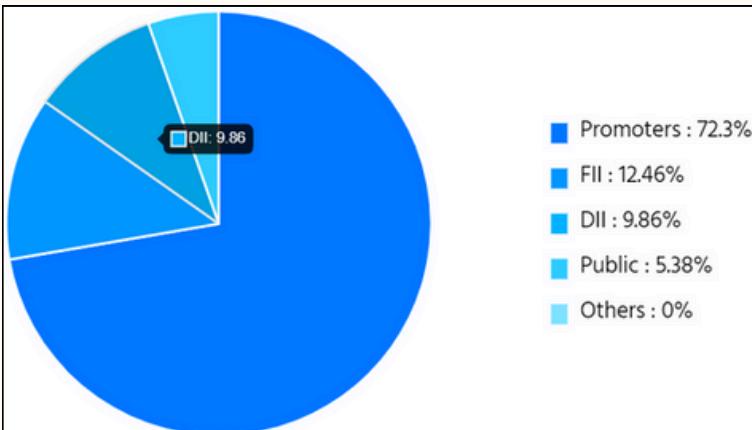
Valuation Metrics

DIV. YIELD 	ENTERPRISE VALUE 	NO. OF SHARES 
3.26 %	₹ 12,89,937.90 Cr.	365.91 Cr.
P/E 	P/B 	FACE VALUE 
31.57	15.25	₹ 1

Comparison with Industry Peers

COMPANY	PRICE ₹.	MCAP ₹.	P/B	P/E	EPS ₹.	EV/EBITDA
TCS	3,537.75	12,94,480.90	15.25	31.57	112.06	21.92
Infosys	1,444.35	5,99,460.73	8.23	24.65	58.60	16.52
HCL Tech.	1,239.55	3,36,372.36	7.77	29.57	41.92	19.33
Wipro	404.90	2,11,430.69	4.01	22.14	18.28	14.13
LTI Mindtree	5,186.20	1,53,466.80	9.22	40.40	128.39	26.34
Tech Mahindra	1,205	1,17,548.24	4.63	32.63	36.93	20.79

Shareholding Pattern



Promoter Pledging %		
DATE	PROMOTER %	PLEDGE %
Jun 2023	72.3	0.48
Mar 2023	72.3	0.48
Dec 2022	72.3	0.48
Sep 2022	72.3	0.48
Jun 2022	72.3	0.48

Insights

- PE ratio:** Price to Earnings' ratio, which indicates for every rupee of earnings how much an investor is willing to pay for a share. TCS has a PE ratio of 31.57 which is high and stock is comparatively overvalued .

- Debt to equity ratio:** TCS has a D/E ratio of 0 which means that the company has low proportion of debt in its capital.

- Dividend Yield:** The current year dividend for TCS is Rs 115 and the yield is 3.26 %.

Price and PE History



Back to Agenda

Thank You !!

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Krish Sharma
UG-Civil 2nd Year

