

Retail Equity Research

Tata Consultancy Services Limited

IT Services

BSE CODE: 532540

NSE CODE: TCS

Bloomberg CODE: TCS:IN

SENSEX: 36,052

HOLD

12M Investment period

Rating as per Large Cap

CMP Rs. 2,234

TARGET Rs. 2,361

RETURN 6% ↑

(Closing: 15-07-20)

KEY CHANGES:

TARGET ↑

RATING ↓

EARNINGS ↓

Subdued Q1, Recovery from Q2 expected

Tata Consultancy Services, a division of Tata Sons Limited, is a global IT services organization that provides a comprehensive range of IT services to its clients in diverse industries. The Company, caters to finance and banking, insurance, telecommunication, transportation, retail, manufacturing, pharmaceutical, and utility industries.

- Q1FY21 revenue dropped 6.3% YoY (on constant currency CC basis) to Rs. 38,322cr, owing to decline in BFSI (-4.9% YoY), Communication, Media & Tech. (-3.6% YoY) and Retail & Consumer (-12.5% YoY).
- EBIT margin shrank ~60bps YoY to 23.6% and EBIT stood at Rs. 9,048cr (-1.9% YoY) on higher employee expenses (+6.2% YoY).
- The subdued quarter was impacted by softness in business activities along with supply side constraints, which are expected to normalize going forward. We thereby downgrade our rating to HOLD on the stock with a revised target price of Rs. 2,361 based on 25x FY22E adj. EPS.

Topline subdued, softness across segments

Q1FY21 revenue declined by 6.3% YoY on CC basis (+0.4% YoY) to Rs. 38,322cr, of which ~20% impact (on CC basis) was related to supply side disruptions. At segment level, BFSI dropped 4.9% YoY on CC basis (+2.0% YoY), owing to constrained business activity in UK and Canada. Communication, Media & Tech. businesses also fell 3.6% YoY on CC basis (+4.2% YoY), as major entertainment events were cancelled and advertising revenue took a hit. Retail & Consumer segment was the worst impacted, declining 12.5% YoY on CC basis (-7.9% YoY), as retail, travel and transportation had no activity during the quarter. EBIT fell 1.9% YoY to Rs. 9,048cr, with EBIT margin shrinking ~60bps YoY to 23.6% on higher employee costs (+6.2% YoY). PAT also dropped 13.8% YoY to Rs. 7,008cr, on sharp decline in other income (-64.3% YoY).

Key concall highlights

- Geographically, TCS saw growth in Conti. Europe (+2.7% YoY) and Latin America (+0.2% YoY), while all other regions registered a decline: NA (-6.1% YoY), UK (-8.5% YoY), India (-27.6% YoY), APAC (-3.2% YoY) and MEA (-11.7% YoY).
- During Q1FY21, the company has applied for 108 new patents, taking the total to 5,324. The number of patents granted till date stood at 1,471.
- On service revenues basis, company's client count (YoY) in the \$100mn+ range rose by 4 to 48, in the \$20mn+ up by 11 to 230, and \$5mn+ up by 13 to 564.

Robust contract wins, BFSI remains key driver

During the quarter, TCS signed USD 6.9bn worth of contracts, of which BFSI and Retail stood at USD 2.1bn and USD 0.9bn, respectively. Management believes the negative impact from the pandemic bottomed out during the quarter and expects the growth to pick up from Q2FY21 onwards. Management indicated that the collection during the quarter was better-than-expected with support from Government and Institutions provided to impacted companies. The outlook also remains positive with recovery expected from Europe followed by US.

Valuation

We expect the supply side constraints to be resolved and growth to pick-up in the upcoming quarters. The recovery in BFSI should be seen from Q2FY21 onwards whereas Retail segment might take some time to recover. However, given limited upside, we downgrade our rating to HOLD with a revised target price of Rs. 2,361 based on 25.0x FY22E adj. EPS.

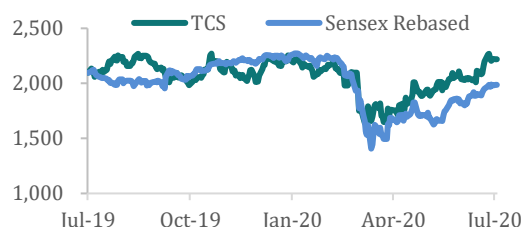
Company Data

Market Cap (cr)	Rs. 832,864
Enterprise Value (cr)	Rs. 833,980
Outstanding Shares (cr)	375.2
Free Float	26.0%
Dividend Yield	3.3%
52 week high	Rs. 2,302
52 week low	Rs. 1,504
6m average volume (lacs)	2.0
Beta	0.6
Face value	Rs. 1

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	72.1	72.1	72.1
FII's	15.9	15.7	15.9
MFs/Insti	8.1	8.1	8.1
Public	3.5	3.5	3.5
Others	0.5	0.6	0.6
Total	100.0	100.0	100.0
Promoters' pledge	2.9	2.9	2.9

Price Performance	3 Month	6 Month	1 Year
Absolute Return	26.6%	1.3%	5.8%
Absolute Sensex	19.6%	-12.3%	-5.3%
Relative Return*	7.0%	13.6%	11.1%

*over or under performance to benchmark index



Consolidated (Rs. cr)	FY20A	FY21E	FY22E
Sales	156,949	160,126	174,042
Growth (%)	7.2	2.0	8.7
EBITDA	42,109	42,421	46,707
EBITDA Margin (%)	26.8	26.5	26.8
Adj. PAT	32,340	31,125	35,436
Growth (%)	2.8	(3.8)	13.9
Adj. EPS	86.2	82.9	94.4
Growth (%)	3.8	(3.8)	13.9
P/E	21.1	26.8	23.5
P/B	8.1	9.9	9.9
EV/EBITDA	16.2	19.7	17.9
ROE (%)	38.4	37.0	42.0
D/E	0.1	0.1	0.1

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Revenue	38,322	38,172	0.4	39,946	(4.1)
EBITDA	10,622	11,712	(9.3)	11,714	(9.3)
EBITDA margins	27.7	30.7	(300bps)	29.3	(160bps)
Depreciation	976	817	19.5	951	2.6
EBIT	9,048	9,220	(1.9)	10,025	(9.7)
Interest	142	257	(44.7)	251	(43.4)
Other Income	598	1,675	(64.3)	738	(19.0)
Exceptional Items	-	-	-	-	-
PBT	9,504	10,638	(10.7)	10,512	(9.6)
Tax	2,455	2,485	(1.2)	2,419	1.5
Share of profit from Associate	-	-	-	-	-
Minority Interest	41	22	86.4	44	(6.8)
Reported PAT	7,008	8,131	(13.8)	8,049	(12.9)
Adjustments	-	-	-	-	-
Adj. PAT	7,008	8,131	(13.8)	8,049	(12.9)
No. of shares	375.2	375.2	-	375.2	-
Adj. EPS (Rs.)	18.7	21.7	(13.8)	21.5	(12.9)

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs. cr	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	175,687	190,979	160,126	174,042	(8.9)	(8.9)
EBITDA	45,539	49,244	42,421	46,707	(6.8)	(5.2)
Margins (%)	25.9	25.8	26.5	26.8	57bps	105bps
Adj. PAT	37,455	41,167	31,125	35,436	(16.9)	(13.9)
Adj. EPS	99.8	109.7	82.9	94.4	(16.9)	(13.9)

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	123,104	146,463	156,949	160,126	174,042
% change	4.4	19.0	7.2	2.0	8.7
EBITDA	32,516	39,506	42,109	42,421	46,707
% change	0.6	21.5	6.6	0.7	10.1
Depreciation	2,014	2,056	3,529	3,622	3,853
EBIT	30,502	37,450	38,580	38,799	42,854
Interest	52	198	924	540	390
Other Income	3,642	4,311	4,592	2,402	3,829
PBT	34,092	41,563	42,248	40,660	46,293
% change	(1.2)	21.9	1.6	(3.8)	13.9
Tax	8,212	10,001	9,801	9,433	10,739
Tax Rate (%)	24.1	24.1	23.2	23.2	23.2
Reported PAT	25,826	31,472	32,340	31,125	35,436
Adj*	-	-	-	-	-
Adj PAT	25,826	31,472	32,340	31,125	35,436
% change	(1.8)	21.9	2.8	(3.8)	13.9
No. of shares (cr)	384.9	379.0	375.2	375.2	375.2
Adj EPS (Rs.)	67.1	83.1	86.2	82.9	94.4
% change	0.6	23.8	3.8	(3.8)	13.9
DPS (Rs.)	12.5	30.0	73.0	49.8	56.7
CEPS (Rs.)	72.3	88.5	95.6	92.6	104.7

BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	7,161	12,848	9,666	6,575	4,106
Accounts Receivable	24,943	27,346	30,532	30,349	31,328
Inventories	26	10	5	6	4
Other Cur. Assets	49,094	51,927	50,034	50,905	51,456
Investments	301	239	216	1,355	2,210
Gross Fixed Assets	22,720	24,522	26,899	30,262	33,917
Net Fixed Assets	10,216	10,411	10,941	10,681	10,483
CWIP	1,278	963	906	906	906
Intangible Assets	1,757	1,879	9,987	10,443	10,877
Def. Tax (Net)	7,580	6,673	5,290	4,528	5,155
Other Assets	3,940	2,647	3,322	3,880	3,880
Total Assets	106,296	114,943	120,899	119,627	120,405
Current Liabilities	17,647	22,084	25,792	26,123	27,507
Provisions	26	-	-	-	-
Debt Funds	738	331	8,465	6,965	5,965
Other Liabilities	2,355	2,629	1,893	1,727	1,812
Equity Capital	191	375	375	375	375
Reserves & Surplus	84,937	89,071	83,751	83,711	83,903
Shareholder's Fund	85,128	89,446	84,126	84,086	84,278
Minority Interest	402	453	623	726	843
Total Liabilities	106,296	114,943	120,899	119,627	120,405
BVPS (Rs.)	221	236	224	224	225

CASH FLOW

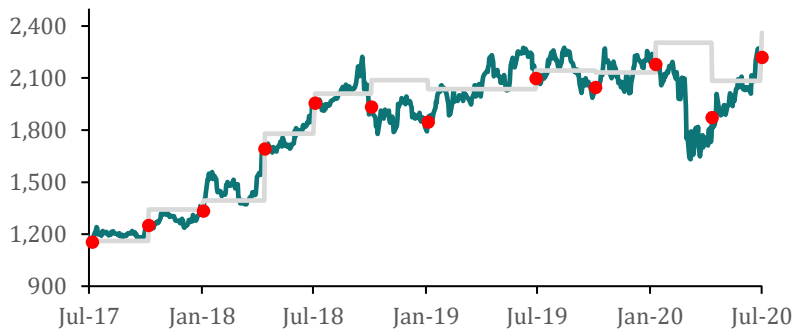
Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	27,840	33,528	35,869	34,747	39,289
Non-cash adj.	(130)	(3,564)	(656)	(13,076)	(13,624)
Changes in W.C	(2,643)	(1,371)	(2,844)	332	(387)
C.F. Operation	25,067	28,593	32,369	22,003	25,278
Capital exp.	(1,804)	(1,954)	(2,377)	(3,363)	(3,655)
Change in inv.	2,058	1,091	7,916	(1,139)	(854)
Other invest.CF	2,632	2,459	3,026	(252)	(1,062)
C.F - Investment	2,886	1,596	8,565	(4,753)	(5,571)
Issue of equity	(16,000)	(16,000)	-	-	-
Issue/repay debt	(19)	(181)	-	(1,500)	(1,000)
Dividends paid	(10,760)	(11,472)	(37,702)	(18,675)	(21,262)
Other finance.CF	(106)	(244)	(2,213)	(166)	85
C.F - Finance	(26,885)	(27,897)	(39,915)	(20,341)	(22,177)
Chg. in cash	1,068	2,292	1,422	(3,091)	(2,469)
Closing cash	7,161	12,848	9,666	6,575	4,106

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	26.4	27.0	26.8	26.5	26.8
EBIT margin (%)	24.8	25.6	24.6	24.2	24.6
Net profit mgn.(%)	21.0	21.5	20.6	19.4	20.4
ROE (%)	30.3	35.2	38.4	37.0	42.0
ROCE (%)	35.4	41.5	41.4	42.3	47.0
W.C & Liquidity					
Receivables (days)	74.0	68.1	71.0	69.2	65.7
Inventory (days)	0.4	0.1	0.1	0.1	0.1
Payables (days)	86.5	86.9	91.2	91.4	91.3
Current ratio (x)	4.6	4.2	3.3	3.2	3.0
Quick ratio (x)	3.8	3.1	2.5	2.3	2.1
Turnover & Leverage					
Gross asset T.O (x)	5.6	6.2	6.1	5.6	5.4
Total asset T.O (x)	1.2	1.3	1.3	1.3	1.5
Int. coverage ratio (x)	586.6	189.1	41.8	71.8	109.9
Adj. debt/equity (x)	0.0	0.0	0.1	0.1	0.1
Valuation					
EV/Sales (x)	4.4	5.1	4.3	5.2	4.8
EV/EBITDA (x)	16.7	18.9	16.2	19.7	17.9
P/E (x)	21.2	24.1	21.1	26.8	23.5
P/BV (x)	6.4	8.5	8.1	9.9	9.9



Recommendation Summary



Dates	Rating	Target
16-Jul-18	HOLD	2,011
16-Oct-18	HOLD	2,087
16-Jan-19	HOLD	2,036
11-Jul-19	HOLD	2,144
16-Oct-19	HOLD	2,132
22-Jan-20	HOLD	2,304
13-Apr-20	BUY	2,084
15-Jul-20	HOLD	2,361

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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