DCF Valuation of Tata Consultancy Services (TCS)

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Objective

To estimate the intrinsic value per share of Tata Consultancy Services (TCS) using a 5-year Discounted Cash Flow (DCF) model.

Input Parameters

Parameter	Value
Growth Rate (g)	7.5%
Projection Horizon	5 years
EBIT Margin	25%
Tax Rate	25.6%
WACC	12.7%
D&A as % of Revenue	2%
CapEx as % of Revenue	1.7%
Change in NWC as % of Revenue	1%
Outstanding Shares	3,618,087,518
Net Debt (FY25)	-9860

Model Formulas

1. Revenue Forecast

$$\text{Revenue}_t = \text{Revenue}_{t-1} \times (1 + g)$$

2. EBIT

$$\text{EBIT}_t = \text{Revenue}_t \times \text{EBIT Margin}$$

3. NOPAT

$$\text{NOPAT}_t = \text{EBIT}_t \times (1 - \text{Tax Rate})$$

4. Depreciation & Amortization

$$\text{D\&A}_t = \text{Revenue}_t \times \text{D\&A\%}$$

5. Capital Expenditures

$$\text{CapEx}_t = \text{Revenue}_t \times \text{CapEx\%}$$

6. Change in Net Working Capital

$$\Delta\text{NWC}_t = \text{Revenue}_t \times \text{NWC\%}$$

7. Free Cash Flow

$$\text{FCF}_t = \text{NOPAT}_t + \text{D\&A}_t - \text{CapEx}_t - \Delta\text{NWC}_t$$

8. Discounted Free Cash Flows

$$\text{Discounted FCF}_t = \frac{\text{FCF}_t}{(1 + \text{WACC})^t}$$

9. Terminal Value

$$\text{TV} = \frac{\text{FCF}_5 \times (1 + g)}{\text{WACC} - g}$$

$$\text{Discounted Terminal Value} = \frac{\text{TV}}{(1 + \text{WACC})^5} = \boxed{746057.90 \, \text{Cr}}$$

10. Enterprise Value

$$\text{EV} = \sum_{t=1}^{5} \text{Discounted FCF}_t + \text{Discounted Terminal Value} = \boxed{EnterpriseValue \approx \text{Not Provided}}$$

11. Equity Value

$$\text{Equity Value} = \text{EV} - \text{Net Debt} = \boxed{954681.55 \, \text{Cr}}$$

12. Intrinsic Value per Share

$$\text{Intrinsic Value} = \frac{\text{Equity Value} \times 10^7}{\text{Outstanding Shares}} = \boxed{2637.27}$$

Interpretation

- If Intrinsic Value > Market Price: The stock is undervalued (consider buying).

- If Intrinsic Value < Market Price: The stock is overvalued (consider avoiding/selling).