

Tata Consultancy Services

BUY

INDUSTRY	IT
CMP (as on 10 Jan 2019)	Rs 1,889
Target Price	Rs 2,430
Nifty	10,822
Sensex	36,107

KEY STOCK DATA

Bloomberg	TCS IN
No. of Shares (mn)	3,752
MCap (Rs bn) / (\$ mn)	7,087/100,441
6m avg traded value (Rs mn)	5,869

STOCK PERFORMANCE (%)

52 Week high / low	Rs 2,276 / 1,347		
	3M	6M	12M
Absolute (%)	(7.6)	0.7	34.6
Relative (%)	(11.5)	1.1	29.7

SHAREHOLDING PATTERN (%)

Promoters	72.05
FIs & Local MFs	7.44
FPIs	16.05
Public & Others	4.46

Source : BSE

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Strong deal momentum

TCS posted acceleration in revenue (in-line) supported by strong digital traction (53% YoY) and continued revival in BFSI. However, margins were lower on increased hiring and higher sub-contracting expense (both indicative of buoyant demand). Rev came at USD 5,250mn, 1.8/12.1% QoQ/YoY CC with digital at 30.1% of rev (USD 6.3bn rev annualised). EBIT% came at 25.6%, -90bps QoQ impacted by higher sub-con (-40bps impact) and APAT was in-line at Rs 81.21bn.

Our optimism on TCS is based on (1) Strong growth visibility backed by robust deal bookings (USD 5.9bn at 20% increase over 1Q-2Q and steady duration) & strong deal pipeline, (2) Scale and growth leadership in digital with increasing penetration in large accounts (strong growth across client buckets), (3) Revival in BFSI vertical and better outlook (outlook of double-digit exit rate for FY19E) supported by reduction in captive intensity, and (4) Efficient capital allocation (80-100% FCF as payout).

Book-to-bill improved significantly in 3Q to 1.12x from 0.95x (1Q-2Q avg). EPS est moderated marginally (~1%)

Financial Summary (Consolidated)

(Rs bn)	3QFY19	3QFY18	YoY (%)	2QFY19	QoQ (%)	FY17	FY18	FY19E	FY20E	FY21E
Net Revenue	373.38	309.04	20.8	368.54	1.3	1,179.66	1,231.04	1,474.60	1,673.10	1,850.76
EBIT	95.64	77.81	22.9	97.71	(2.1)	303.24	305.02	381.11	433.81	483.35
APAT	81.21	65.45	24.1	79.27	2.4	262.89	258.26	315.63	351.84	391.01
Diluted AEPS (Rs)	21.6	17.4	24.1	21.1	2.6	70.1	68.8	84.1	93.8	104.2
P/E (x)						27.0	27.4	22.5	20.1	18.1
EV / EBITDA (x)						20.5	20.5	16.6	14.5	12.9
RoE (%)						33.4	30.1	36.2	38.1	39.2

Source: Company, HDFC sec Inst Research

to factor lower EBIT% (elevated sub-con expense in the near-term) and we build 10/15% USD rev/EPS CAGR over FY18-21E. We have factored USD rev growth of 9.7%, 11.0% and 10.6% for FY19/20/21E, implying CQGR of 2.2/2.7/2.5% and steady EBIT margin at 25.8/25.9/26.1%. Maintain BUY with TP of Rs 2,430, at 24x Dec-20E EPS, supported by leading organic growth within tier-1 IT and >60% RoIC, >4% FCF yield & >3.5% dividend yield.

Highlights of the quarter

- TCS booked deals with TCV at USD 5.9bn which included USD 2bn from BFSI, USD 3bn from NorthAm. (2) Management maintained its 'double digit' rev outlook for 4Q (double-digit for 2H earlier). (3) IoT, Intelligent Automation driving new deals in digital and demand for digital at 'all-time high'. (4) Better traction in BFS in NorthAm and in Insurance in the Europe geography.
- Near-term outlook:** Strong deal bookings expected to drive growth.

Revenue came at USD 5,250mn, 1.8/12.1% QoQ/YoY in CC terms led by strong growth in Digital

Strongest 14-qtr YoY CC revenue growth

EBIT margin came at 25.6%, -90bps QoQ

Quarterly Consolidated Financials Snapshot

Particulars (Rs bn)	3QFY19	3QFY18	YoY (%)	2QFY19	QoQ (%)
Net Revenues (USD mn)	5,250	4,787	9.7	5,215	0.7
Net Revenues	373.38	309.04	20.8	368.54	1.3
Employee Expenses	199.94	164.58	21.5	195.25	2.4
SG&A And Other Operating Expenses	72.61	61.59	17.9	70.51	3.0
EBITDA	100.83	82.87	21.7	102.78	(1.9)
Depreciation	5.19	5.06	2.6	5.07	2.4
EBIT	95.64	77.81	22.9	97.71	(2.1)
Interest Cost	0.16	0.06	166.7	1.37	(88.3)
Other Income	11.63	8.70	33.7	7.30	59.3
PBT	107.11	86.45	23.9	103.64	3.3
Tax	25.90	21.00	23.3	24.37	6.3
APAT	81.21	65.45	24.1	79.27	2.4
E/o (adj for tax)	-	-	-	-	-
RPAT	81.21	65.45	24.1	79.27	2.4

Source: Company, HDFC sec Inst Research

Margin Analysis

Particulars	3QFY19	3QFY18	YoY (bps)	2QFY19	QoQ (bps)
Employee Expenses % Net Revenues	53.5	53.3	29	53.0	57
SG&A And Other Expenses % Net Revenues	19.4	19.9	(48)	19.1	31
EBITDA Margin (%)	27.0	26.8	19	27.9	(88)
EBIT Margin (%)	25.6	25.2	44	26.5	(90)
Tax Rate (%)	24.2	24.3	(11)	23.5	67
APAT Margin (%)	21.7	21.2	57	21.5	24

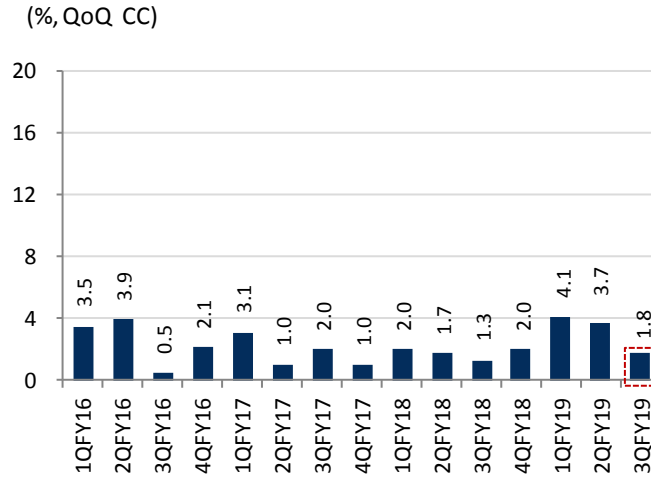
Source: Company, HDFC sec Inst Research

EBIT % declined 90bps to 25.6% on higher sub contracting and employee cost

LTM Attrition increased to 11.2% vs. 10.9% in 2Q

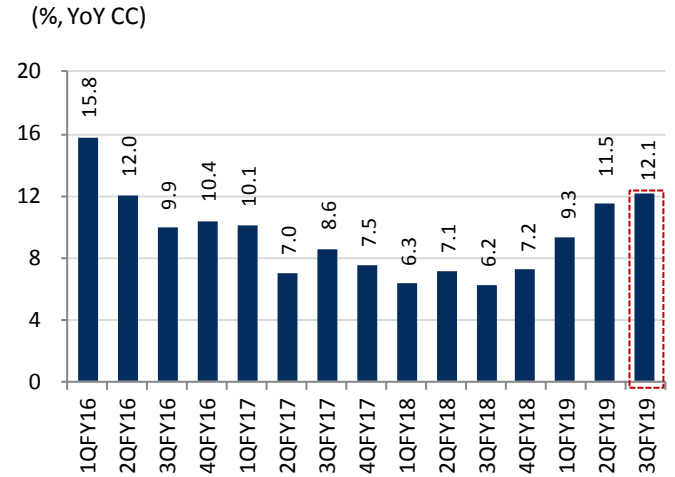
Digital stood at 30.1% of revenue and grew 52.7% YoY in CC terms

QoQ CC USD Revenue Growth Trajectory



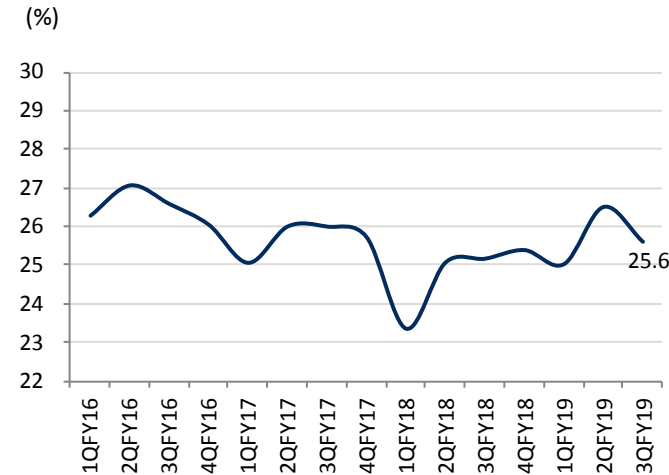
Source: Company, HDFC sec Inst Research

YoY CC USD Revenue Growth Trajectory



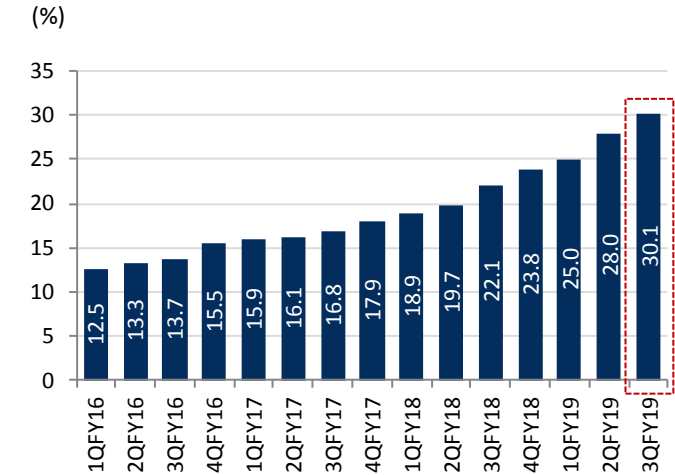
Source: Company, HDFC sec Inst Research

EBIT Margin Trajectory



Source: Company, HDFC sec Inst Research

Digital % Of Revenue



Source: Company, HDFC sec Inst Research

**BFSI (30.8% of rev)
accelerated to 8.6% YoY in 3Q
as compared to 6.1% YoY in
2Q**

**BFS accelerated in NorthAm &
Insurance accelerated in UK &
Europe**

**Growth in Retail vertical
driven by investments in back-
end (supply chain) and
supported by increased digital
spend by omni-channel
retailers**

Vertical Revenue Break-up

(% of revenue)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
BFSI	32.5	32.6	31.6	31.1	31.1	31.2	30.8
Retail & CPG	16.0	15.9	16.7	16.6	16.6	16.6	16.5
Communication & Media	7.1	7.1	7.1	7.1	7.1	6.9	6.9
Manufacturing	7.4	7.4	7.5	7.4	7.3	7.2	7.2
Life Sciences & Healthcare	7.1	7.2	7.3	7.2	7.3	7.5	7.6
Energy & Utilities	4.0	4.2	4.5	4.8	4.8	4.6	4.7
Technology & Services	7.9	8.0	7.9	7.8	7.7	7.6	7.6
Regional Markets & Others	18.0	17.6	17.4	18.0	18.1	18.4	18.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, HDFC Sec Inst Research

Vertical-wise Revenue Growth

(QoQ, %)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
BFSI	2.0	3.5	(2.1)	2.2	1.6	3.6	(0.6)
Retail & CPG	34.3	2.6	6.1	3.2	1.6	3.2	0.1
Communication & Media	1.7	3.2	1.0	3.9	1.6	0.3	0.7
Manufacturing	10.1	3.2	2.4	2.5	0.2	1.8	0.7
Life Sciences & Healthcare	(0.8)	4.8	2.4	2.4	3.0	6.1	2.0
Energy & Utilities	9.0	9.6	8.2	10.8	1.6	(1.1)	2.9
Technology & Services	4.6	4.1	(0.2)	2.5	0.3	1.9	0.7
Regional Markets & Others	0.7	0.9	(0.1)	7.4	2.2	5.0	2.3
Total	3.1	3.2	1.0	3.9	1.6	3.2	0.7

Source: Company, HDFC Sec Inst Research

Vertical-wise Revenue Growth (Constant Currency)

(YoY, % CC)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
BFSI	5.1	4.7	0.2	2.9	4.1	6.1	8.6
Retail & CPG	(3.4)	(1.4)	3.0	8.4	12.7	15.6	10.5
Communication & Media	11.6	9.5	16.9	8.9	9.5	8.0	10.8
Manufacturing	10.2	9.6	9.5	8.6	6.9	6.9	6.7
Life Sciences & Healthcare	10.7	10.3	13.5	12.6	12.1	14.7	15.7
Energy & Utilities	20.3	22.7	29.4	33.7	30.9	22.2	18.1
Technology & Services	8.2	10.1	9.6	7.7	6.7	5.8	5.8
Regional Markets & Others	5.5	6.9	2.2	1.8	11.8	19.8	22.6
Total	6.3	7.1	6.2	7.2	9.3	11.5	12.1

Source: Company, HDFC Sec Inst Research

Among geographies, growth was driven by Europe (29.6% of rev) and APAC (9.4% of rev) with UK/Continental Europe/APAC growth at 25.1/17.6/12.6% YoY CC

Geographic Revenue Break-up

(% of revenue)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Americas	54.6	54.1	54.2	52.2	52.9	53.1	53.2
North America	52.5	51.9	52.0	50.2	51.0	51.1	51.2
Latin America	2.1	2.2	2.2	2.0	1.9	2.0	2.0
Europe	26.4	27.4	27.6	29.4	29.5	29.6	29.6
UK	13.9	14.0	14.1	15.2	15.5	15.6	15.5
Continental Europe	12.5	13.4	13.5	14.2	14.0	14.0	14.1
India	7.0	6.3	6.3	6.2	5.8	5.6	5.7
Asia-Pacific	9.5	9.8	9.5	9.7	9.6	9.6	9.4
Middle East and Africa	2.5	2.4	2.4	2.5	2.2	2.1	2.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, HDFC Sec Inst Research

Geographic Revenue Growth

(QoQ, %)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Americas	1.6	2.3	1.2	0.0	3.0	3.6	0.9
North America	1.6	2.0	1.2	0.3	3.2	3.4	0.9
Latin America	3.1	8.1	1.0	(5.6)	(3.5)	8.7	0.7
Europe	6.8	7.1	1.8	10.6	1.9	3.6	0.7
UK	4.6	4.0	1.7	12.0	3.6	3.9	0.0
Continental Europe	9.2	10.7	1.8	9.3	0.2	3.2	1.4
India	6.2	(7.1)	1.0	2.2	(5.0)	(0.3)	2.5
Asia-Pacific	1.0	6.5	(2.1)	6.1	0.5	3.2	(1.4)
Middle East and Africa	(0.8)	(0.9)	1.0	8.2	(10.6)	(1.4)	0.7
Total	3.1	3.2	1.0	3.9	1.6	3.2	0.7

Source: Company, HDFC Sec Inst Research

Geographic Revenue Growth (Constant Currency)

(YoY, % CC)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
North America	3.5	3.6	2.8	4.9	7.0	8.1	8.2
Latin America	8.0	13.6	5.4	5.0	5.2	6.8	7.6
UK	6.3	9.2	8.2	10.7	18.7	22.8	25.1
Continental Europe	16.5	18.2	22.3	19.1	18.6	17.4	17.6
India	13.3	14.3	4.1	(2.3)	(4.7)	7.4	9.7
Asia-Pacific	4.7	4.1	6.2	8.6	10.8	12.5	12.6
Middle East and Africa	8.9	7.6	3.7	2.2	(3.6)	(4.4)	(3.3)
Total	6.3	7.1	6.2	7.2	9.3	11.5	12.1

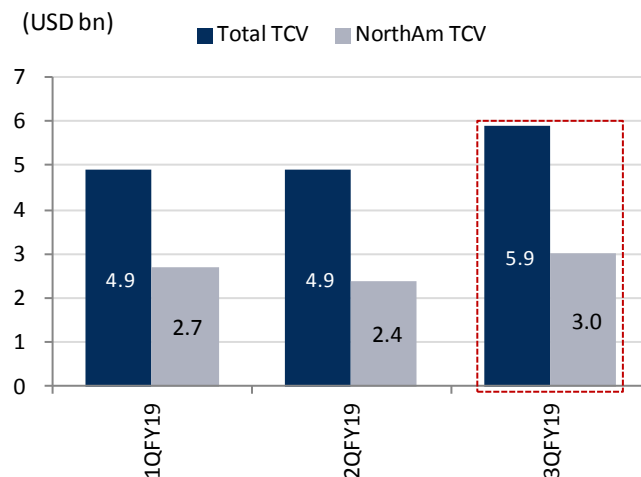
Source: Company, HDFC Sec Inst Research

Deal wins were robust, TCV at 5.9bn vs 4.9 bn in 2Q, NorthAm TCV at USD 3 bn, BFSI TCV at 2 bn, Retail TCV at USD 0.8 bn

Deal pipeline is strong and has expanded across geography

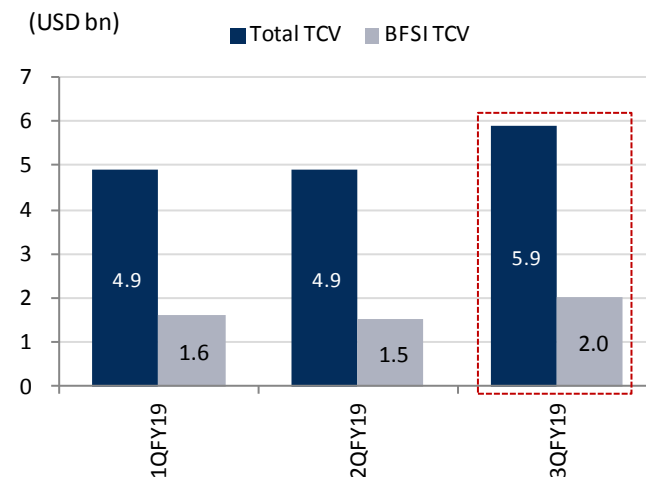
Strong acceleration in USD 100 mn client bucket

Total Deal TCV and NorthAm TCV Trend



Source: Company, HDFC sec Inst Research

Total Deal TCV and BFSI TCV Trend



Source: Company, HDFC sec Inst Research

Client Metrics

(Nos)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
>\$ 1 mn clients	905	933	941	963	978	989	996
>\$ 5 mn clients	464	470	485	495	508	513	519
>\$ 10 mn clients	322	328	337	350	355	365	370
>\$ 20 mn clients	190	196	203	207	206	213	211
>\$ 50 mn clients	85	91	94	97	97	98	99
>\$ 100 mn clients	36	37	37	38	40	44	45

Change In Estimates

Particulars	Earlier estimates	Revised estimates	% change
FY20E			
Revenue (USD mn)	23,178	23,237	0.3
Revenue (Rs bn)	1,668.84	1,673.10	0.3
EBIT (Rs bn)	441.52	433.81	(1.7)
EBIT margin (%)	26.5	25.9	(53) bps
EPS (Rs)	95.1	93.8	(1.4)
FY21E			
Revenue (USD mn)	25,645	25,705	0.2
Revenue (Rs bn)	1,846.47	1,850.76	0.2
EBIT (Rs bn)	488.11	483.35	(1.0)
EBIT margin (%)	26.4	26.1	(32) bps
EPS (Rs)	105.0	104.2	(0.7)

Source: HDFC sec Inst Research

Key Assumptions

Particulars	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Volume Growth (%)	16.7	8.6	7.1	8.5	6.4	6.9	8.1
Pricing Change (%)	(1.5)	(1.5)	(0.8)	0.1	3.1	3.9	2.4
USD Revenue Growth (%)	15.0	7.1	6.2	8.6	9.7	11.0	10.6
USD/INR Rate	61.25	65.67	67.12	64.49	70.44	72.00	72.00
EBIT Margin (%)	24.0	26.5	25.7	24.8	25.8	25.9	26.1

Source: Company, HDFC Sec Inst Research

Peer Set Comparison

Company	Mcap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	EPS (Rs)				P/E (x)				RoE (%)			
					FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
TCS	7,087	1,889	BUY	2,430	68.8	84.1	93.8	104.2	27.4	22.5	20.1	18.1	30.1	36.2	38.1	39.2
Infosys	2,957	680	BUY	830	33.9	37.7	42.2	47.4	20.1	18.0	16.1	14.3	24.5	24.5	26.0	26.5
Wipro	1,477	327	NEU	325	17.7	19.3	21.3	23.2	18.4	16.9	15.3	14.1	16.5	17.5	17.0	16.6
HCL Tech	1,303	936	BUY	1,255	64.8	74.8	82.8	89.8	14.5	12.5	11.3	10.4	25.3	26.2	25.6	24.3
TechM	619	695	BUY	830	42.7	47.0	52.0	56.6	16.3	14.8	13.4	12.3	21.5	20.8	20.1	19.3
Tier-1 IT AVG									19.3	16.9	15.2	13.9	23.6	25.0	25.4	25.2

Source: HDFC sec Inst Research

Consolidated Income Statement

Year ending March (Rs bn)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales (USD mn)	17,575	19,089	20,934	23,237	25,705
Growth (%)	6.2	8.6	9.7	11.0	10.6
Net Sales	1,179.66	1,231.04	1,474.60	1,673.10	1,850.76
Growth (%)	8.6	4.4	19.8	13.5	10.6
Employee Expenses	616.21	663.96	786.39	892.14	987.05
SG&A and Other Op Exp.	240.34	241.92	285.66	320.16	350.05
EBIDTA	323.11	325.16	402.55	460.80	513.67
EBIDTA (%)	27.4	26.4	27.3	27.5	27.8
EBIDTA Growth (%)	5.3	0.6	23.8	14.5	11.5
Depreciation	19.87	20.14	21.44	26.99	30.32
EBIT	303.24	305.02	381.11	433.81	483.35
Other Income	42.21	36.42	39.06	32.72	35.09
Interest	0.32	0.52	1.76	0.32	0.32
PBT	345.13	340.92	418.41	466.21	518.12
Tax (incl deferred)	81.56	82.12	101.96	113.61	126.26
RPAT	262.89	258.26	315.63	351.84	391.01
APAT	262.89	258.26	315.63	351.84	391.01
APAT Growth (%)	8.3	(1.8)	22.2	11.5	11.1
EPS (Rs)	70.1	68.8	84.1	93.8	104.2
EPS Growth (%)	8.3	(1.8)	22.2	11.5	11.1

Source: Company, HDFC sec Inst Research

Consolidated Balance Sheet

Year ending March (Rs bn)	FY17	FY18	FY19E	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital - Equity	1.97	1.91	3.75	3.75	3.75
Reserves	860.17	849.37	886.85	952.99	1,036.35
Total Shareholders' Funds	862.14	851.28	890.60	956.74	1,040.10
Minority Interest	3.66	4.02	4.49	5.25	6.10
Total Debt	2.71	2.35	3.18	3.18	3.18
Net Deferred Taxes	(19.09)	(22.79)	(9.19)	(9.19)	(9.19)
Long-term Provisions & Others	11.70	17.14	18.78	17.16	18.67
TOTAL SOURCES OF FUNDS	861.12	852.00	907.87	973.15	1,058.87
APPLICATION OF FUNDS					
Net Block	100.57	102.16	105.00	109.85	113.65
CWIP	15.41	12.78	16.71	16.71	16.71
Goodwill & Other Intangible Assets	16.44	17.57	18.48	19.76	21.01
Investments	11.69	9.92	11.69	11.69	11.69
LT Loans & Advances, Others	54.87	70.59	89.96	97.76	105.76
Total Non Current Assets	198.98	213.02	241.84	255.76	268.82
Debtors	226.84	250.37	286.84	325.45	360.01
Cash & Equivalents	457.85	428.68	405.98	430.83	481.34
Other Current Assets	120.57	136.40	190.18	202.17	214.48
Total Current Assets	805.26	815.45	883.00	958.46	1,055.84
Creditors	62.79	50.94	64.12	71.24	78.54
Other Current Liabilities & Provns	80.33	125.53	152.86	169.83	187.25
Total Current Liabilities	143.12	176.47	216.98	241.07	265.79
Net Current Assets	662.14	638.98	666.02	717.39	790.05
TOTAL APPLICATION OF FUNDS	861.12	852.00	907.87	973.15	1,058.87

Source: Company, HDFC sec Inst Research

Consolidated Cash Flow

Year ending March (Rs bn)	FY17	FY18	FY19E	FY20E	FY21E
Reported PBT	345.13	340.92	418.41	466.21	518.12
Non-operating & EO items	-	-	-	-	-
Interest expenses	0.32	0.52	1.76	0.32	0.32
Depreciation	19.87	20.14	21.44	26.99	30.32
Working Capital Change	(18.90)	(7.75)	(50.46)	(26.86)	(22.50)
Tax paid	(81.56)	(82.12)	(101.96)	(113.61)	(126.26)
OPERATING CASH FLOW (a)	264.86	271.71	289.19	353.04	399.99
Capex	(18.57)	(18.75)	(29.31)	(33.12)	(35.38)
Free cash flow (FCF)	246.29	252.96	259.88	319.93	364.61
INVESTING CASH FLOW (b)	10.18	(32.70)	(50.45)	(40.91)	(43.38)
Debt Issuance	0.75	(0.36)	0.83	-	-
Interest expenses	(0.32)	(0.52)	(1.76)	(0.32)	(0.32)
FCFE	246.72	252.08	258.95	319.61	364.30
Share capital Issuance	-	(0.06)	(0.08)	-	-
Dividend/ buyback	(109.47)	(271.99)	(265.72)	(285.37)	(307.32)
FINANCING CASH FLOW (c)	(109.04)	(272.92)	(266.72)	(285.69)	(307.64)
NET CASH FLOW (a+b+c)	166.00	(33.91)	(27.99)	26.45	48.98
Closing Cash & Equivalents	457.85	428.68	405.98	430.83	481.34

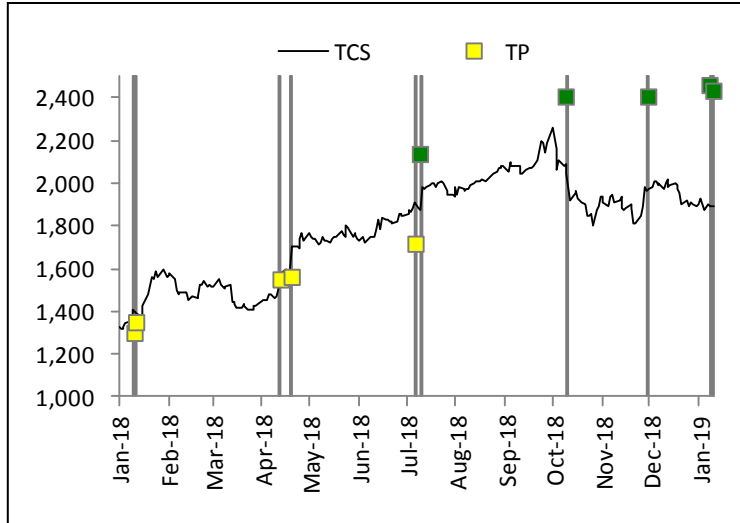
Source: Company, HDFC sec Inst Research

Key Ratios

	FY17	FY18	FY19E	FY20E	FY21E
PROFITABILITY (%)					
EBITDA Margin	27.4	26.4	27.3	27.5	27.8
APAT Margin	22.3	21.0	21.4	21.0	21.1
RoE	33.4	30.1	36.2	38.1	39.2
RoIC or Core RoCE	56.6	56.0	62.3	62.8	65.3
RoCE	33.6	30.2	36.0	37.4	38.5
EFFICIENCY					
Tax Rate (%)	23.6	24.1	24.4	24.4	24.4
Fixed Asset Turnover (x)	5.6	5.4	5.8	5.9	6.4
Debtors (days)	70	74	71	71	71
Other Current Asset (days)	37	40	47	44	42
Payables (days)	19	15	16	16	15
Other Current Liab & Prov (days)	25	37	38	37	37
Cash Conversion Cycle (days)	63	62	64	63	61
Net Debt/EBITDA (x)	(1.4)	(1.3)	(1.0)	(0.9)	(0.9)
Net Debt/Equity (x)	(0.5)	(0.5)	(0.5)	(0.4)	(0.5)
Interest Coverage (x)	948	587	217	1,363	1,518
PER SHARE DATA					
EPS (Rs/sh)	70.1	68.8	84.1	93.8	104.2
CEPS (Rs/sh)	75.4	74.2	89.8	101.0	112.3
DPS (Rs/sh)	23.5	26.0	24.0	65.0	70.0
BV (Rs/sh)	230	227	237	255	277
VALUATION					
P/E	27.0	27.4	22.5	20.1	18.1
P/BV	8.2	8.3	8.0	7.4	6.8
EV/EBITDA	20.5	20.5	16.6	14.5	12.9
OCF/EV (%)	3.7	4.0	3.6	4.9	5.7
FCF/EV (%)	3.4	3.7	3.1	4.4	5.2
FCFE/mkt cap (%)	3.2	3.4	2.9	4.1	4.8
Dividend Yield (%)	1.2	1.4	1.3	3.4	3.7

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
10-Jan-18	1,355	NEU	1,303
12-Jan-18	1,394	NEU	1,353
12-Apr-18	1,507	NEU	1,553
20-Apr-18	1,596	NEU	1,565
6-Jul-18	1,913	NEU	1,720
11-Jul-18	1,875	BUY	2,130
10-Oct-18	2,044	BUY	2,400
30-Nov-18	1,959	BUY	2,400
8-Jan-19	1,894	BUY	2,460
11-Jan-19	1,889	BUY	2,430

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH
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