

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	3,247
12 month price target (INR)	4,176
Market cap (INR bn/USD bn)	12,009/160.1
Free float/Foreign ownership (%)	28.0/15.9
What's Changed	
Target Price	—
Rating/Risk Rating	—

QUICK TAKE

Click or tap here to enter text.

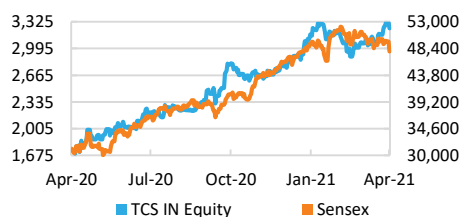
	Above	In line	Below
Profit		•	
Margins		•	
Revenue Growth		•	
Overall		•	

FINANCIALS

(INR bn)

Year to March	FY20A	FY21A	FY22E	FY23E
Revenue	1,570	1,642	1,858	2,026
EBITDA	421	465	538	604
Adjusted profit	323	343	391	439
Diluted EPS (INR)	86.2	91.4	104.2	116.9
EPS growth (%)	3.8	6.0	14.0	12.2
RoAE (%)	36.4	39.7	42.8	42.4
P/E (x)	35.5	35.5	31.2	27.8
EV/EBITDA (x)	25.2	25.2	21.4	19.0
Dividend yield (%)	1.1	1.1	2.1	2.1

PRICE PERFORMANCE



Explore:



Financial model



Podcast



Corporate access



Video

Momentum continues

TCS delivered yet another robust performance--Q4FY21 revenue grew 5.0% QoQ (in USD) and 4.2% (in cc), slightly above Street's expectation of 4.8% and 4.1%, respectively. Margin at 26.8% was higher than Street's 26.6% estimate. Revenue growth and margin were slightly below our estimates, which were highest on the Street. The company has also declared a dividend of INR15/share.

Q4FY21 order book was at USD9.2bn--highest ever. LTM IT services attrition level was at the lowest ever of 7.2%. It added 19,388 employees during the quarter--highest ever. We continue to remain confident of strong growth trajectory for the next few years. Maintain 'BUY' with unchanged TP of INR4,176 as we roll forward to Q2FY23E.

All verticals/geographies continue to grow

All verticals continued to fire, growing QoQ. TCS posted robust growth of 7%/4%/3.8%/3.9%/2.8%/1.8% QoQ for BFSI/Retail & CPG/ Life sciences & Healthcare/ Manufacturing/ Technology & Services/ Communications & Media. All geographies also posted sequential growth led by major markets of North America/ Continental Europe/UK which grew 3.9%/8.5%/3.4%. Order book for FY21 was USD31.6bn, up 17.1% YoY, the highest since the company started reporting this metric. FY21 revenue fell 0.8% in cc terms as disruptions in the first quarter hampered operations.

Upcycle to sustain

Operating margin for Q4FY21 was 26.8%, up 20bps QoQ (Street estimate 26.6%). Full year operating margin was 25.9% and net profit margin was 20.3%, excluding the legal claim provision. DSO was 68 days, down 1 QoQ. Free cash flow for FY21 was INR379.7bn, up 17.5% YoY. Core transformation, cloud migration, data and application modernization are likely to remain key drivers going ahead as well and the company is well positioned for a multi-year technology upcycle going ahead. A strong order book coupled with a robust pipeline is likely to impart strong revenue visibility going ahead, in our view.

Outlook and valuations: Bright prospects; maintain 'BUY'

TCS delivered a strong set of numbers for third quarter in a row, highlighting our thesis of multi-year technology upcycle. Demand for core transformation continues to remain strong and coupled with exemplary execution is likely to drive strong earnings. We maintain 'BUY/SO' with an unchanged TP of INR4,176 (40x Q2FY23E).

Financials

Year to March	Q4FY21	Q4FY20	% Change	Q3FY21	% Change
Net Revenue	4,37,050	3,99,460	9.4	4,20,150	4.0
EBITDA	1,28,010	1,09,760	16.6	1,22,080	4.9
Adjusted Profit	92,460	80,490	14.9	87,010	6.3
Diluted EPS (INR)	24.6	21.5	14.9	23.2	6.3

Financial Statements

Income Statement (INR mn)

Year to March	FY20A	FY21A	FY22E	FY23E
Total operating income	15,69,5740	16,41,770	18,58,274	20,26,186
Cost of revenues	8,96,350	9,22,070	10,34,919	11,23,813
Gross Profit	6,73,224	7,19,700	8,23,354	9,02,373
SG&A	2,52,040	2,54,230	2,85,813	2,98,434
EBITDA	4,21,184	4,65,470	5,37,541	6,03,939
Depreciation	35,300	40,660	34,652	37,766
EBIT	3,85,884	4,24,810	5,02,889	5,66,173
Add: Other income	36,680	31,340	20,291	20,595
Profit before tax	4,22,564	4,56,150	5,23,180	5,86,768
Prov for tax	98,010	1,11,980	1,30,795	1,46,692
Less: Other adj	0	0	0	0
Reported profit	3,23,484	3,42,850	3,90,945	4,38,636
Less: Excp.item (net)	0	0	0	0
Adjusted profit	3,23,484	3,42,850	3,90,945	4,38,636
Diluted shares o/s	3,752	3,752	3,752	3,752
Adjusted diluted EPS	86.2	91.4	104.2	116.9
DPS (INR)	28.0	36.0	67.0	67.0
Tax rate (%)	23.2	24.5	25.0	25.0

Important Ratios (%)

Year to March	FY20A	FY21A	FY22E	FY23E
Employees cost	12.9	12.1	11.0	11.0
Other cost	3.7	4.3	4.3	4.0
Depreciation (% of rev)	2.2	2.5	1.9	1.9
EBITDA margin (%)	26.8	28.4	28.9	29.8
Net profit margin (%)	20.6	20.9	21.0	21.6
Revenue growth (% YoY)	7.2	4.6	13.2	9.0
EBITDA growth (% YoY)	6.6	10.5	15.5	12.4
Adj. profit growth (%)	2.8	6.0	14.0	12.2

Assumptions (%)

Year to March	FY20A	FY21A	FY22E	FY23E
GDP (YoY %)	5.0	(6.0)	7.0	6.0
Repo rate (%)	4.4	3.5	3.5	4.0
USD/INR (average)	70.7	75.0	73.0	72.0
Yield on cash & eqv (%)	10.5	8.7	3.3	2.9
Tax rate as % of PBT	23.2	24.8	25.0	25.0
Capex (INR mn)	23,770.0	26,820.0	31,104.5	62,342.1
Receivable (days)	80.5	81.1	75.9	80.8
Payable (days)	103.9	121.2	123.3	124.4
Cash conversion cycle	(23.3)	(40.1)	(47.4)	(43.6)

Valuation Metrics

Year to March	FY20A	FY21A	FY22E	FY23E
Diluted P/E (x)	36.2	35.5	31.2	27.8
Price/BV (x)	13.6	14.1	12.7	11.0
EV/EBITDA (x)	27.2	25.2	21.4	19.0
Dividend yield (%)	0.9	1.1	2.1	2.1

Source: Company and Edelweiss estimates

Balance Sheet (INR mn)

Year to March	FY20A	FY21A	FY22E	FY23E
Share capital	3,750	3,700	3,700	3,700
Reserves	8,58,650	8,60,630	9,57,556	11,02,172
Shareholders funds	8,62,400	8,64,330	9,61,256	11,05,872
Minority interest	6,230	6,750	6,750	6,750
Borrowings	90,300	87,290	87,290	87,290
Trade payables	2,70,600	3,41,550	3,57,420	4,08,504
Other liabs & prov	7,790	7,670	7,670	7,670
Total liabilities	12,37,320	13,07,590	14,20,385	16,16,087
Net block	1,19,380	1,11,100	1,07,553	1,32,129
Intangible assets	38,500	17,980	17,980	17,980
Capital WIP	0	9,260	9,260	9,260
Total fixed assets	1,57,880	1,38,340	1,34,793	1,59,369
Non current inv	2,160	2,130	42,130	82,130
Cash/cash equivalent	3,47,860	3,60,180	5,79,323	6,24,573
Sundry debtors	3,62,640	3,66,620	4,05,770	4,91,645
Loans & advances	1,99,060	2,66,000	84,050	84,050
Other assets	1,67,720	1,74,320	1,74,320	1,74,320
Total assets	12,37,320	13,07,590	14,20,385	16,16,087

Free Cash Flow (INR mn)

Year to March	FY20A	FY21A	FY22E	FY23E
Reported profit	3,23,484	3,42,850	3,90,945	4,38,636
Add: Depreciation	35,300	40,660	34,652	37,766
Interest (net of tax)	0	0	0	0
Others	43,446	(210)	(2,00,641)	(18,995)
Less: Changes in WC	48,320	(4,720)	(1,58,670)	34,791
Operating cash flow	3,53,910	3,88,020	3,83,626	4,22,616
Less: Capex	(23,770)	(26,820)	(31,105)	(62,342)
Free cash flow	3,30,140	3,61,200	3,52,522	3,60,274

Key Ratios

Year to March	FY20A	FY21A	FY22E	FY23E
RoE (%)	36.4	39.7	42.8	42.4
RoCE (%)	11.2	11.9	13.0	13.0
Inventory days	0	0	0	0
Receivable days	81	81	76	81
Payable days	104	121	123	124
Working cap (% sales)	0	0	0	0
Gross debt/equity (x)	0.1	0.1	0.1	0.1
Net debt/equity (x)	(0.3)	(0.3)	(0.5)	(0.5)
Interest coverage (x)	0	0	0	0

Valuation Drivers

Year to March	FY20A	FY21A	FY22E	FY23E
EPS growth (%)	3.8	6.0	14.0	12.2
RoE (%)	36.4	39.7	42.8	42.4
EBITDA growth (%)	6.6	10.5	15.5	12.4
Payout ratio (%)	32.5	39.4	64.3	57.3

Earnings call: Key highlights

- Continued strength in demand for core transformation services, market share gains and large deal ramp up power strong sequential and YoY growth.
- All verticals posted strong sequential growth. BFSI was driven by large deals, expanding into new business and core transformation. Retail cluster clocked good growth despite continued weakness in the sub-sector. Life science and healthcare over the past decade has overall outperformed.
- Constant currency revenue was up 4.2% QoQ and 5.9% YoY.
- In Q4, TCS had 48 clients in the USD100mn+ range, 101 clients in USD50mn+, 228 clients in USD20mn+, 387 clients in USD10mn+, 569 clients in the USD5mn+ bucket and 1,096 clients in the USD1mn+ band.
- Net CFO was INR92.5bn, which was 100% of net income; free cash flow was INR80.9bn vs INR80.7bn in Q4FY20. The board has recommended a final dividend of INR15 per share, taking total to INR37 for the full year.
- Employees have spent a total of 43mn learning hours in FY21. LTM attrition was 7.2% (all time low) and it is expected to increase with growth inching up.
- In the medium to long term, the technology journey which customers are embarking on will drive revenue growth for the next three-five years.
- Net addition of 19,388; total headcount stood at 488,649.
- All markets showed good sequential growth, with North America growing 3.9%, UK 3.4% and Continental Europe 8.5%. Emerging Markets also grew well, with India growing 2.8%, MEA 4.2%, Latin America 2.5% and Asia Pacific 1.0%.
- The company was earlier bagging smaller deals; now the USD9.2bn order book has a good mix of large versus small deal. Its largest deal is USD500-600bn vs USD2bn last year, so this time it is quite spread out.
- Pricing remains stable on overall portfolio level.

Exhibit 1: Quarterly Financial Snapshot

Year to March	Q4FY21	Q3FY21	% Change	Q4FY20	% Change	FY21A	FY22E	FY23E
Total revenues	4,37,050	4,20,150	4.0	3,99,460	9.4	16,41,770	18,58,274	20,26,186
Cost of revenues	2,36,250	2,34,310	0.8	2,24,410	5.3	9,22,070	10,34,919	11,23,813
Gross profit	2,00,800	1,85,840	8.0	1,75,050	14.7	7,19,700	8,23,354	9,02,373
SG&A	72,790	63,760	14.2	65,290	11.5	2,54,230	2,85,813	2,98,434
EBITDA	1,28,010	1,22,080	4.9	1,09,760	16.6	4,65,470	5,37,541	6,03,939
Depreciation & amortization	10,670	10,240	4.2	9,510	12.2	40,660	34,652	37,766
EBIT	1,17,340	1,11,840	4.9	1,00,250	17.0	4,24,810	5,02,889	5,66,173
Less: Interest expense	1,830	1,740						
Other income	9,310	6,910	34.7	4,870	91.2	31,340	20,291	20,595
Add: Prior period								
Add: Exceptional items								
PBT	1,24,820	1,17,010	6.7	1,05,120	18.7	4,56,150	5,23,180	5,86,768
Tax	32,450	29,650	9.4	24,190	34.1	1,11,980	1,30,795	1,46,692
Minority interest	360	260	38.5	440	(18.2)	1,320	1,440	1,440
Add: Share of profits from associates								
Reported profit	92,010	87,100	1.8	80,490	14.3	3,42,850	3,90,945	4,38,636
Adjusted profit	92,460	87,010	6.3	80,490	14.9	3,42,850	3,90,945	4,38,636
Diluted shares (mn)	3,752	3,752	0.0	3,752	0.0	3,752	3,752	3,752
EPS (INR) diluted	24.6	23.2	6.3	21.5	14.9	91.4	104.2	116.9
as % of net revenues								
Gross profit	45.9	44.2		43.8		43.8	44.3	44.5
SG&A	16.7	15.2		16.3		15.5	15.4	14.7
EBITDA	29.3	29.1		27.5		28.4	28.9	29.8
Adjusted profit	21.2	20.7		20.1		20.9	21.0	21.6
Reported profit	21.1	20.7		20.1		20.9	21.0	21.6
Tax rate	26.0	25.3		23.0		24.5	25.0	25.0

Source: Company, Edelweiss Research

Company Description

TCS is one of India's largest and oldest IT companies. It commenced operations way back in 1968 and caters to a range of industries such as banking and financial services, insurance, manufacturing, telecommunications, retail, and transportation. With a presence in 42 countries, TCS boasts a large and diversified client base. TCS' headcount (including subsidiaries) stands at 453,540.

Investment Theme

As India's largest and oldest IT services firm, TCS is well-positioned to benefit from the growing demand for offshore IT services. Considering its greater experience than peers in implementing large, complex, and mission-critical projects, the company is a serious contender for large deals. A portfolio of turnkey services offerings, traction in emerging markets, ability to roll up, improving sales and marketing prowess, and willingness to take multiple big bets (different go-to-market models) are among the key drivers that should help TCS sustain its hi-growth trajectory in the long run.

Key Risks

Key risks to our investment theme include: 1) double-dip recession in a major market, the US, and a prolonged slowdown in Europe; 2) sharp cross-currency movements and the INR's appreciation against USD, Euro and GBP; 3) pricing pressure; 4) lower margins; and 5) adverse impact of the US immigration bill.

Additional Data

Management

CEO	R. Gopinathan
CFO	V Ramakrishnan
COO	G Subramaniam
Other	
Auditor	Deloitte Haskins & Sells

Holdings – Top 10*

	% Holding		% Holding
Tata Sons	72.16	Invesco Ltd	0.83
Life Insurance	3.99	SBI Funds Manag	0.79
Jpmorgan Chase	1.04	First State Inv	0.72
Vanguard group	0.98	Axis Asset Mana	0.50
BlackRock Inc	0.86	Standard Life A	0.38

*Latest public data

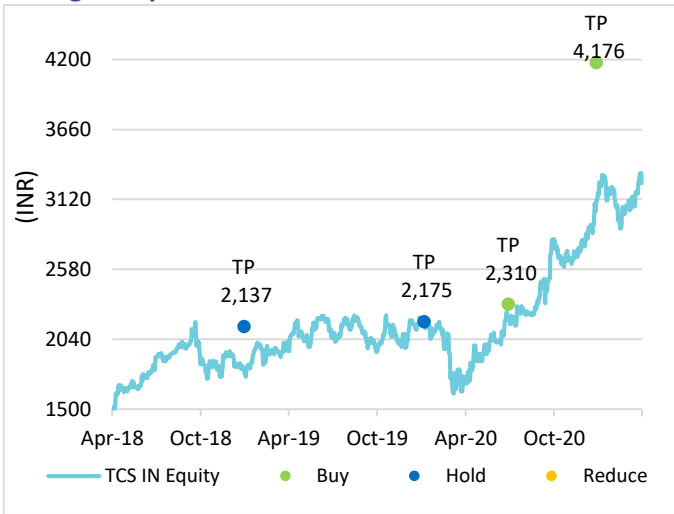
Recent Company Research

Date	Title	Price	Reco
08-Feb-21	Tech upcycle continues to benefit; <i>Company Update</i>	3214.1	Buy
08-Jan-21	Techolution: Huge upcycle to continue; <i>Result Update</i>	3120.9	Buy
24-Nov-20	Giant reiterates tech upcycle; <i>Company Update</i>	2724.25	Buy

Recent Sector Research

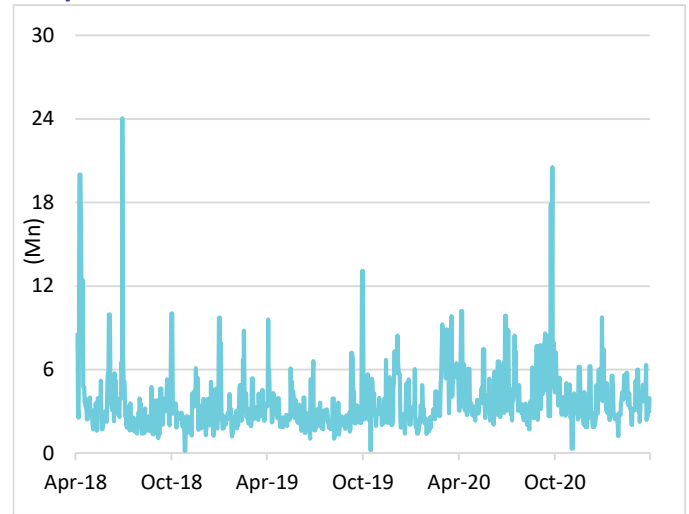
Date	Name of Co./Sector	Title
01-Apr-21	IT	Q4FY21: Surprise spree likely to sustain; <i>Sector Update</i>
18-Mar-21	IT	Accenture: Robust outsourcing results; <i>Sector Update</i>
04-Mar-21	Wipro	Good acquisition; integration key; <i>Edel Flash</i>

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	165	60	17	242
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	196	52	5	253

* stocks under review

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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