

Market statistics

Current stock price (₹)	2,343
Shares O/S (cr.)	197.0
Mcap (₹ cr)	461,730
52W H/L (₹)	2,740/2,055
6m avg. volume	1,247,132
Bloomberg	TCS IN

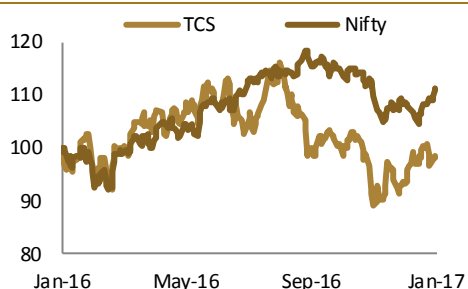
TCS results were better than expectations – on all fronts. TCS' revenue increased 0.3% QoQ (2% in cc terms, volume growth of 1%), while the EBIT margin stood at 26%. This was the best Q3 revenue growth QoQ in last three years. EBIT margins were flat QoQ. TCS maintained a decent demand growth environment for its services. We maintain our Hold recommendation on the stock on account of initiatives taken by TCS towards new technologies and recent large deal wins, but for the flux in the macro environment.

Shareholding pattern

Promoters	73.33
Domestic Institution	5.13
Foreign Institution	17.02
Non-institution	4.52
of which more than 1%	
Life Insurance Corporation of India	3.07

Quarter details: Revenues at US\$4,387mn (0.3% QoQ) was higher-than our estimates (higher by 0.2%). Volume growth in the quarter stood at 1% QoQ as compared to 1.3% in the 2QFY17. Company attributed higher-than-expectations revenue growth to bottoming weakness in the BFSI/Retail segment (up ~2% QoQ each), Energy & Utilities (up 5.8% QoQ) and India business (up 10.3% QoQ). Most of the other verticals, contributed to the growth. TCS added 1, 5, 5 clients in US\$20mn+, US\$10mn+, US\$5mn+ bucket QoQ to take the count to 186, 300 and 454 respectively in Q3FY17, while it lost 2 client in the US\$100mn+ to US\$50mn+ bracket. EBIT margins flat QoQ at 26%. TCS has declared an interim dividend of Rs.6.5/share

TCS vs Nifty



Operating metrics - Details: Revenues were up 2% QoQ in constant currency terms Pricing was up 100bps QoQ. Growth was led by Latin America (up 12.5% QoQ in cc terms), while North America grew 2.2%. UK was up 1.7% QoQ. The long term target operating range of EBIT margin remains 26-28%. TCS announced that it closed 9 large deals during the quarter, spanning across verticals and geographies. Deals were won across verticals. Manufacturing was up 2.1% while Communication and Media (-4.9%) and Life Science & Healthcare (-0.8%). TCS closed the quarter with a consolidated headcount of 378,497, a net addition of 6,978 from the previous quarter. TCS would be absorbing ~32,000 freshers from campuses for FY17, while mentioning number of additions in FY17 would be lower compared to earlier years as benefits of automation kick in. TCS indicated digital revenue contributed nearly 16.8% to its revenue, up 6.6% QoQ.

Capital efficiency & valuations

Particulars	FY16	FY17E	FY18E
RoE (%)	37.1	33.7	30.9
EPS (₹)	122.9	134.5	145.4
CEPS (₹)	133.1	144.5	156.0
P/E (x)	20.6	17.4	16.1
P/BV (x)	6.8	5.5	4.5
EV/EBITDA (x)	15.9	14.0	12.3
Income growth (%)	14.8	9.2	9.0
EBITDA growth (%)	12.4	6.0	10.5
PAT growth (%)	8.3	8.9	8.1

Outlook – 2H to be better than 1H: Management mentioned that deal pipeline is healthy and 2H would be better than the 1H this year. TCS also indicated that it is reaping benefits of investments in areas like Continental Europe and Latin America. Management also indicated that Latin America business, which had remained soft for quite some time has bottomed out and is expected to grow positively.

Changes in Management. Rajesh Gopinathan has been appointed as CEO and MD, TCS who takes over from N. Chandrasekaran who has been appointed the Chairman of Tata Sons, effective 21st Feb, 2017. N Ganapathy Subramaniam, who is currently President, TCS Financial Solutions as the President and COO and appointed him as a director on the board of TCS. Rajesh Gopinathan joined TCS in 2001. He was appointed CFO of TCS in Feb'2013. Prior to CFO, he was VP – Business Finance, responsible for financial management of company's individual operating units.

Valuation: TCS has decent revenue visibility – looking at deal wins, ramp ups, hiring pattern even in the tough environment. We maintain our Hold recommendation on the stock to account in for initiatives taken by TCS towards new technologies and large deal wins providing revenue visibility, coupled with a recent stock correction.

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Exhibit 1: Quarterly details

` mn	3QFY16	2QFY17	3QFY17	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	4,145	4,374	4,387	0.3	5.8	In constant currency, revenues were up 2% QoQ. Volume growth of 1% QoQ, while pricing was up 1%.
Revenues	273,640	292,840	297,350	1.5	8.7	
- Operating costs	196,171	211,730	215,060	1.6	9.6	
EBITDA	77,469	81,110	82,290	1.5	6.2	
EBITDA margin (%)	28.3	27.7	27.7	(2)bps	(64)bps	Margin was flat QoQ primarily on account of Better operational efficiencies.
- Interest expense	84	50	70	40.0	(16.3)	
- Depreciation	4,707	4,940	4,960	0.4	5.4	
+ Other income, net (incl forex)	7,074	10,570	11,920	12.8	68.5	
PBT	79,752	86,690	89,180	2.9	11.8	
- Taxes	18,501	20,660	21,040	1.8	13.7	
Effective tax rate (%)	23.2	23.8	23.6	(24)bps	39bps	Effective tax rate for FY17 to be ~23-24%
PAT	61,252	66,030	68,140	3.2	11.2	
Minority interest	156	-	-			
Consolidated profits	61,095	66,030	68,140	3.2	11.5	
Net Margin	22.3	22.5	22.9	37bps	59bps	
Reported PAT	61,095	66,030	68,140	3.2	11.5	

Source: Company

Exhibit 2: Change in estimates

` mn	FY17E			FY18E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	17,790	17,642	(0.8)	19,821	19,590	(1.2)
Revenue	1,174,720	1,186,050	1.0	1,288,379	1,292,950	0.4
EBITDA margin (%)	27.6	27.4	(15)bps	27.7	27.8	5bps
EPS (`)	133.1	134.5	1.1	145.0	145.4	0.3

Source: Trust Research

Geography wise Revenues: Growth was led by Latin America (up 12.5% QoQ in cc terms), while North America grew 2.2%. UK was up 1.7% QoQ.

Exhibit 3: Geographical wise Performance

Geographical mix	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Americas	54.0	54.5	54.7	54.5	55.6	56.0	55.5	56.0	57.2
----->North America	51.9	52.4	52.8	52.7	53.5	54.0	53.5	54.0	55.0
----->Ibero America	2.1	2.1	1.9	1.8	2.1	2.0	2.0	2.0	2.2
Europe	27.8	27.0	27.1	27.2	26.8	26.1	26.3	25.6	24.4
----->UK	16.1	15.9	16.1	16.4	15.9	14.9	14.8	13.8	13.3
----->Continental Europe	11.7	11.1	11.0	10.8	10.9	11.2	11.5	11.8	11.1
India	6.5	6.6	6.4	6.5	6.0	5.9	6.2	5.8	6.3
Others	11.7	11.9	11.8	11.8	11.6	12.0	12.0	12.6	12.1
----->APAC	9.7	9.8	9.6	9.4	9.4	9.6	9.6	10.2	9.6
----->MEA	2.0	2.1	2.2	2.4	2.2	2.4	2.4	2.4	2.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company



Vertical wise Performance: Company attributed higher-than-expectations revenue growth to bottoming weakness in the BFSI/Retail segment (up ~2% QoQ each), Energy & Utilities (up 5.8% QoQ). Manufacturing was up 2.1% while Communication and Media (-4.9%) and Life Science & Healthcare (-0.8%).

Exhibit 4: Vertical wise Performance

Geographical mix	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
BFSI	40.5	40.6	40.6	40.5	40.5	40.9	40.4	40.5	40.4
Communication & Media	11.6	10.8	11.1	10.8	10.9	10.8	11.3	11.4	10.6
Manufacturing	10.1	10.2	9.9	9.8	9.9	10.4	10.4	10.7	10.6
Retail & distribution	13.4	13.6	13.8	13.8	13.8	14.1	14.0	13.4	13.5
Hitech	5.9	6.0	5.8	5.9	6.0	5.6	5.4	5.4	5.4
Life sciences & health care	6.4	6.7	6.9	7.0	7.3	7.3	7.3	7.6	7.4
Transportation	3.5	3.4	3.5	3.6	3.6	3.7	3.9	3.9	3.8
Energy & utilities	4.2	3.9	4.0	4.0	4.1	4.1	4.2	4.3	4.5
Others	4.4	4.8	4.4	4.6	3.9	3.1	3.1	2.8	3.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Human Resources: TCS closed the quarter with a consolidated headcount of 378,497 a net addition of 6,978 from the previous quarter. TCS would be absorbing ~32,000 freshers from campuses for FY17, while mentioning number of additions in FY17 would be lower compared to earlier years as benefits of automation kick in.

Exhibit 5: Employee strength of TCS

Vertical Mix	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Total employees	318,625	319,656	324,935	335,620	344,691	353,843	362,079	371,519	378,497
----->BPO (LTM)	13.4	13.8	15.9	16.2	15.9	15.5	13.6	12.9	12.2
Trainees	5,529	5,569	6,425	9,943	7,593	8,623	5,038	11,884	10,950
Laterals (India)	6,129	5,853	9,337	10,978	10,451	10,659	9,877	7,486	4,804
Gross addition	16,561	14,395	20,302	25,186	22,118	22,576	17,792	22,665	18,362
Net addition	4,868	1,031	5,279	10,685	9,071	9,152	8,236	9,440	6,978

Source: Company

Client Concentration and order intake: TCS added 1, 5, 5 clients in US\$20mn+, US\$10mn+, US\$5mn+ bucket QoQ to take the count to 186, 300 and 454 respectively in Q3FY17, while it lost 2 client in the US\$100mn+ to US\$50mn+ bracket.

Exhibit 6: Client details

Vertical Mix	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
US\$1m (LTM)	764	791	804	819	838	829	847	859	880
US\$5m (LTM)	387	389	391	404	413	429	439	449	454
US\$10m (LTM)	249	261	268	274	281	298	298	295	300
US\$20m (LTM)	159	162	172	171	173	173	179	185	186
US\$50m (LTM)	65	68	69	65	65	73	77	78	80
US\$100m (LTM)	25	29	30	33	34	37	37	36	34

Source: Company, Trust Research

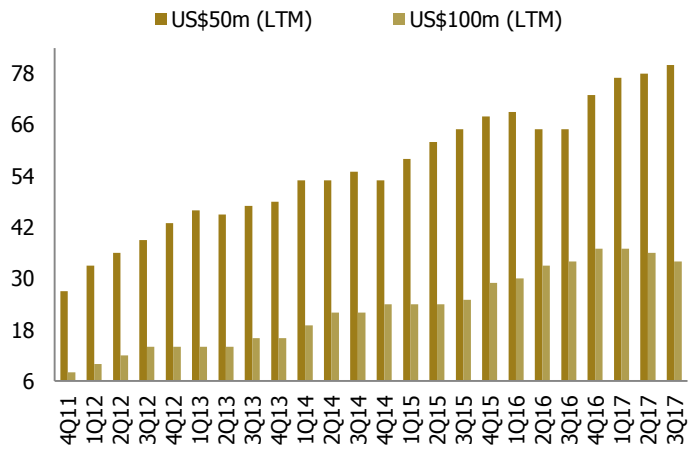


Exhibit 7: Service Offerings

Client concentration	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
---->ADM	39.5	40.1	40.3	40.0	39.7	39.4	38.5	38.4	37.2
---->Enterprise solutions (with Consulting)	19.1	18.6	18.0	17.5	17.4	17.1	17.7	17.8	17.5
---->Assurance services	8.5	8.4	8.5	8.7	8.6	8.8	8.8	9.0	9.0
Engineering & industrial services	4.5	4.5	4.5	4.5	4.5	4.7	4.8	4.8	4.9
Infrastructure services	14.3	14.5	14.7	14.7	15.2	15.2	15.5	15.7	16.8
Asset leverage solutions	2.4	2.3	2.5	3.2	2.8	3.2	3.2	2.6	3.0
Business process outsourcing	11.7	11.6	11.5	11.4	11.8	11.6	11.5	11.7	11.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

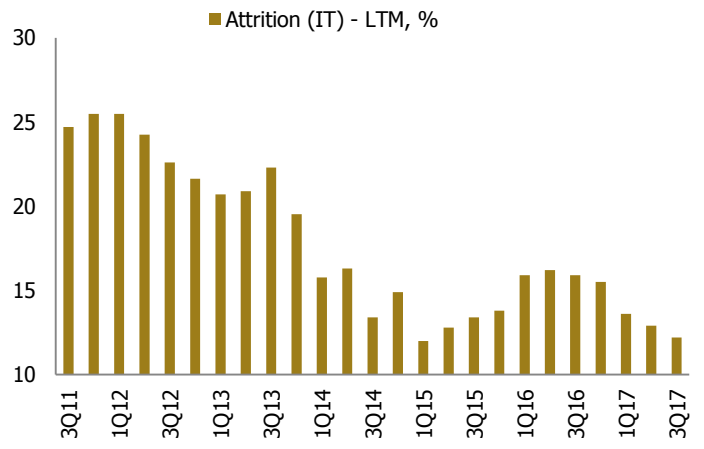
Source: Company

Exhibit 8: Clint addition slowed down



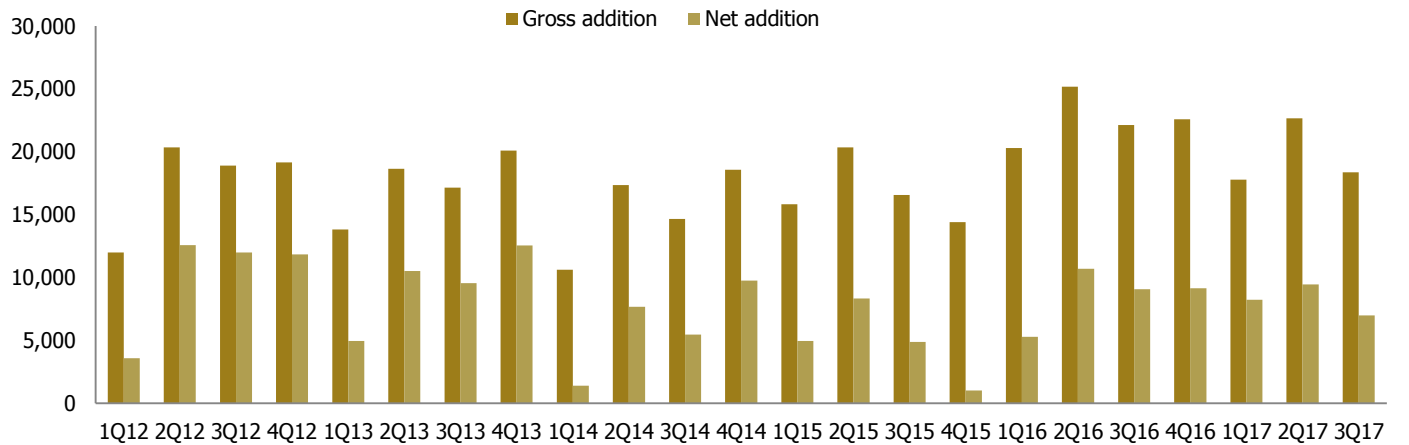
Source: Company, Trust

Exhibit 9: Attrition dipped 70bps QoQ



Source: Company, Trust

Exhibit 10: TCS would be absorbing ~32,000 freshers from campuses for FY17



Source: Company, Trust



Financials

Income Statement (` mn)

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
Revenues	946,484	1,086,462	1,186,050	1,292,950	1,452,003
Op. Expenses	673,543	779,682	860,858	933,457	1,044,119
EBITDA	272,941	306,780	325,192	359,493	407,885
Other Income	32,532	30,833	42,442	39,893	41,463
Depreciation	18,698	18,879	19,830	20,915	22,985
EBIT	286,775	318,734	347,803	378,470	426,363
Interest	1,135	331	310	280	280
PBT	285,640	318,403	347,493	378,190	426,083
Tax	60,830	75,026	82,507	91,742	106,521
PAT	224,810	243,376	264,986	286,448	319,562
Minority + Ex. Ord	28,327	1,227	-	-	-
Adj Pat	196,483	242,149	264,986	286,448	319,562

Valuations Summary

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
Per share (`)					
EPS	113.8	122.9	134.5	145.4	162.2
CEPS	124.4	133.1	144.5	156.0	173.8
BVPS	293.7	371.4	427.1	515.1	614.1
DPS	79.0	43.5	47.5	49.0	54.0
Payout (%)	81.2	41.4	41.3	39.4	39.0
Valuation (x)					
P/E	22.5	20.6	17.4	16.1	14.4
P/BV	8.7	6.8	5.5	4.5	3.8
EV/EBITDA	18.4	15.9	14.0	12.3	10.4
Dividend Yield (%)	3.1	1.7	2.0	2.1	2.3
Return ratio (%)					
EBIDTA Margin	28.8	28.2	27.4	27.8	28.1
PAT Margin	20.8	22.3	22.3	22.2	22.0
ROAE	39.5	37.1	33.7	30.9	28.7
ROACE	43.0	48.1	43.9	40.5	38.1
Leverage Ratios (x)					
Total D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.3)	(0.4)	(0.5)	(0.5)	(0.6)
Current ratio	3.3	4.1	4.7	5.3	5.8
Growth Ratios (%)					
Income growth	15.7	14.8	9.2	9.0	12.3
EBITDA growth	8.6	12.4	6.0	10.5	13.5
PAT growth	16.3	8.3	8.9	8.1	11.6
Turnover Ratios					
Inventory Days	-	-	-	-	-
Debtors Days	75	75	77	77	76
Payable days	39	38	36	35	34

Balance Sheet (` mn)

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
Liabilities					
Equity Share Capital	1,959	1,970	1,970	1,970	1,970
Reserves & Surplus	572,808	729,920	885,403	1,058,886	1,253,957
Total Shareholders Fund	574,767	731,890	887,373	1,060,856	1,255,927
Minority Interest	9,136	3,540	3,540	3,540	3,540
Non-current liab	(5,900)	(7,820)	(3,430)	(2,038)	84
Long term Borrowings	1,143	830	830	830	830
Deferred tax liabilities	(26,150)	(20,770)	(20,770)	(20,770)	(20,770)
Other LT liab & prov	19,107	12,120	16,510	17,902	20,024
Current Liabilities	146,716	155,690	169,075	183,197	204,723
Short-term borrowings	2,434	1,620	1,620	1,620	1,620
Trade payables	88,318	75,410	82,548	89,510	100,121
Unearned & def rev	10,623	13,590	14,151	15,345	17,164
Other cur liab. & Prov	45,340	65,070	70,755	76,723	85,818
Total Liabilities	724,719	883,300	1,056,557	1,245,555	1,464,274
Assets					
Non-current Assets	235,708	251,170	260,889	271,526	284,614
Fixed assets	117,909	119,240	117,705	119,556	119,571
Non-current invests	44,650	45,700	45,700	45,700	45,700
Other non-curr assets	73,150	86,230	97,484	106,270	119,343
Current assets	489,011	632,130	795,668	974,029	1,179,659
Current investments	178,838	225,320	225,320	225,320	225,320
Trade receivables	204,399	240,730	259,956	283,386	318,247
Unbilled revenue	38,271	39,920	45,492	49,593	55,693
Cash & bank balances	18,622	62,950	193,412	337,798	492,881
Other curr fin. assets	27,142	40,990	45,492	49,593	55,693
Other current assets	21,739	22,220	25,996	28,339	31,825
Total Assets	724,719	883,300	1,056,557	1,245,555	1,464,274

Cash flow Statement

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
PBT	285,640	318,403	347,493	378,190	426,083
Depreciation	15,608	24,259	19,830	20,915	22,985
Others	(28,327)	(1,227)	-	-	-
CF before W.cap	272,921	341,434	367,323	399,105	449,068
Inc/dec in W.cap	190	62,588	26,556	27,246	39,973
Op CF after W.cap	272,731	278,846	340,768	371,859	409,095
Less Taxes	60,830	75,026	82,507	91,742	106,521
Net CFO	211,902	203,819	258,260	280,117	302,574
Inc/(dec) in F.A	31,191	20,210	18,296	22,766	23,000
(Pur)/sale of Invests	4,548	47,532	-	-	-
CF from Invest Acts.	(35,739)	(67,742)	(18,296)	(22,766)	(23,000)
Loan Raised/(repaid)	2,842	(6,723)	-	-	-
Equity Raised	5,964	15,177	0	0	0
Dividend	181,034	100,203	109,503	112,965	124,492
CF from Fin Acts.	(172,229)	(91,748)	(109,503)	(112,965)	(124,492)
Net inc / (dec) in cash	3,934	44,328	130,461	144,386	155,083
Op. bal of cash	14,687	18,622	62,951	193,412	337,798
Cl. balance of cash	18,622	62,950	193,412	337,798	492,881



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