

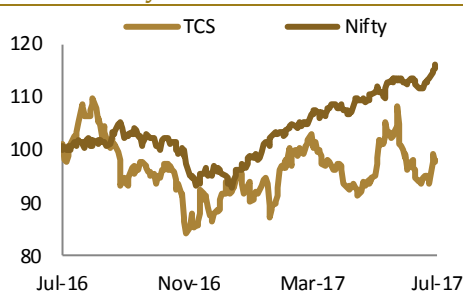
Market statistics

Current stock price (₹)	2,444
Shares O/S (cr.)	191.4
Mcap (₹ cr)	467,861
52W H/L (₹)	2,740/2,055
6m avg. volume	1,414,282
Bloomberg	TCS IN

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

TCS vs Nifty



Capital efficiency & valuations

Particulars	FY17	FY18E	FY19E
RoE (%)	32.6	29.9	31.9
EPS (₹)	133.8	133.4	151.4
CEPS (₹)	143.8	144.1	162.8
P/E (x)	18.1	18.3	16.1
P/BV (x)	5.4	4.5	3.9
EV/EBITDA (x)	14.6	14.8	12.6
Income growth (%)	8.6	5.4	12.6
EBITDA growth (%)	5.3	(1.6)	14.1
PAT growth (%)	8.3	(3.1)	13.5

TCS results were lower than expectations on the margin front. TCS' revenue increased 3.1% QoQ (2% in cc terms, volume growth of 3.5%), while the EBIT margin stood at 23.4%. EBIT margins declined 236bps 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.

Quarter details: Revenues at US\$4,591mn (3.1% QoQ) was higher-than our estimates (higher by 0.3%). Volume growth in the quarter stood at 3.5% QoQ as compared to 1.7% in the 4QFY17. EBIT margin stood at 23.4%. EBIT margins declined 236bps QoQ BFSI/Retail segment was up 2.3%/2% respectively. Growth drivers were Energy & Utilities (up 7.6% QoQ), Travel & Hospitality (7%), Life Sciences & Healthcare (4.7%). Most of the other verticals, contributed to the growth. TCS added 1, 4, 12 clients in US\$100mn+, US\$50mn+, US\$10mn+ bucket QoQ to take the count to 36, 85 and 322 respectively in Q1FY18. EBIT margins were down 236bps QoQ at 23.4%, 150bps dent on account of wage hike and 80bps due to currency fluctuation. TCS has declared an interim dividend of Rs.7/share. TCS for FY17 had declared a dividend of Rs47/share for FY17 (payout of ~41%).

Operating metrics - Details: Revenues were up 2% QoQ in constant currency terms Pricing was down 150bps QoQ. Growth was led by North America (up 1.7% QoQ in cc terms), while UK was up 0.7%. Continental Europe was up 5.9% QoQ. The long term target operating range of EBIT margin remains 26-28%. TCS announced that it closed 11 large deals during the quarter, spanning across verticals and geographies. Deals were won across verticals. TCS closed the quarter with a consolidated headcount of 385,809, 1,414 employees (net) left TCS. TCS would be absorbing freshers from campuses for FY18, 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 US\$868mn to its revenue, up 25% YoY.

Outlook: Management mentioned that deal pipeline is healthy and FY18 incrementally positive. TCS also indicated that it is reaping benefits of investments in areas like Continental Europe and Latin America. Retail vertical is expected to remain soft while BFSI is seeing positive trends. The company maintained decent growth outlook and demand commentary for FY17. Company expects to see positive traction in UK insurance business (Diligenta).

Changes in Management. Rajesh Gopinathan had been appointed as CEO and MD, TCS who took over from N. Chandrasekaran who has been appointed the Chairman of Tata Sons, effective 21st Feb, 2017. N Ganapathy Subramaniam, who was President, TCS Financial Solutions has been appointed as the President and COO of TCS 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 (including financial planning, control, revenue assurance and margin management).

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	1QFY17	4QFY17	1QFY18	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	4,362	4,452	4,591	3.1	5.2	In constant currency, revenues were up 2% QoQ. Volume growth of 3.5% QoQ, while pricing was down 1.5%.
Revenues	293,050	296,420	295,840	(0.2)	1.0	
- Operating costs	214,679	215,090	221,720	3.1	3.3	
EBITDA	78,371	81,330	74,120	(8.9)	(5.4)	
EBITDA margin (%)	26.7	27.4	25.1	(238)bps	(169)bps	Margin was down QoQ on account of currency fluctuations and higher wage costs.
- Interest expense	120	80	270	237.5	125.0	
- Depreciation	4,910	5,060	4,980	(1.6)	1.4	
+ Other income, net (incl forex)	9,750	9,970	9,590	(3.8)	(1.6)	
PBT	83,091	86,160	78,460	(8.9)	(5.6)	
- Taxes	19,920	19,940	18,960	(4.9)	(4.8)	
Effective tax rate (%)	24.0	23.1	24.2	102bps	19bps	Effective tax rate for FY18 to be ~23-24%
PAT	63,171	66,220	59,500	(10.1)	(5.8)	
Minority interest	-	-	-	-	-	
Consolidated profits	63,171	66,220	59,500	(10.1)	(5.8)	
Net Margin	21.6	22.3	20.1	(223)	(144)	
Reported PAT	63,171	66,220	59,500	(10.1)	(5.8)	

Source: Company

Exhibit 2: Change in estimates

` mn	FY18E			FY19E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	19,261	19,165	(0.5)	21,375	21,541	0.8
Revenue	1,271,246	1,243,024	(2.2)	1,410,723	1,400,175	(0.7)
EBITDA margin (%)	27.6	25.6	(200)bps	27.9	25.9	(200)bps
EPS (₹)	143.0	133.4	(6.7)	159.8	151.4	(5.3)

Source: Trust Research

Geography wise Revenues: Growth was led by North America (up 1.7% QoQ in cc terms), while UK was up 0.7%. Continental Europe was up 5.9% QoQ.

Exhibit 3: Geographical wise Performance

Geographical mix	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Americas	54.7	54.5	55.6	56.0	55.5	56.0	57.2	55.4	54.6
----->North America	52.8	52.7	53.5	54.0	53.5	54.0	55.0	53.3	52.5
----->Ibero America	1.9	1.8	2.1	2.0	2.0	2.0	2.2	2.1	2.1
Europe	27.1	27.2	26.8	26.1	26.3	25.6	24.4	25.5	26.4
----->UK	16.1	16.4	15.9	14.9	14.8	13.8	13.3	13.7	13.9
----->Continental Europe	11.0	10.8	10.9	11.2	11.5	11.8	11.1	11.8	12.5
India	6.4	6.5	6.0	5.9	6.2	5.8	6.3	6.8	7.0
Others	11.8	11.8	11.6	12.0	12.0	12.6	12.1	12.3	12.0
----->APAC	9.6	9.4	9.4	9.6	9.6	10.2	9.6	9.7	9.5
----->MEA	2.2	2.4	2.2	2.4	2.4	2.4	2.5	2.6	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: BFSI/Retail segment was up 2.3%/2% respectively. Growth drivers were Energy & Utilities (up 7.6% QoQ), Travel & Hospitality (7%), Life Sciences & Healthcare (4.7%).

Exhibit 4: Vertical wise Performance

Geographical mix	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
BFSI	33.3	33.6	33.9	32.9	32.9
Retail & CPG	13.5	13.0	13.0	12.3	12.2
Communication & Media	7.0	7.2	6.7	7.2	7.3
Manufacturing	7.3	7.3	7.4	7.4	7.5
Life Sciences & Healthcare	6.8	7.0	6.9	6.9	7.1
Energy & Utilities	3.6	3.7	3.6	3.7	4.0
Travel & Hospitality	3.2	3.3	3.2	3.4	3.5
Technology & Services	7.8	7.7	7.8	7.8	7.9
Regional Markets & Others	17.5	17.2	17.5	18.4	17.6
Total	100.0	100.0	100.0	100.0	100.0

Source: Company

Human Resources: TCS closed the quarter with a consolidated headcount of 385,809, 1,414 employees (net) left TCS. TCS would be absorbing freshers from campuses for FY18, 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	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Total employees	324,935	335,620	344,691	353,843	362,079	371,519	378,497	387,223	385,809
----->BPO (LTM)	15.9	16.2	15.9	15.5	13.6	12.9	12.2	11.5	11.6
Trainees	6,425	9,943	7,593	8,623	5,038	11,884	10,950	11,556	1,659
Laterals (India)	9,337	10,978	10,451	10,659	9,877	7,486	4,804	5,733	6,289
Gross addition	20,302	25,186	22,118	22,576	17,792	22,665	18,362	20,093	11,202
Net addition	5,279	10,685	9,071	9,152	8,236	9,440	6,978	8,726	(1,414)

Source: Company

Client Concentration and order intake: TCS added 1, 4, 12 clients in US\$100mn+, US\$50mn+, US\$10mn+ bucket QoQ to take the count to 36, 85 and 322 respectively in Q1FY18.

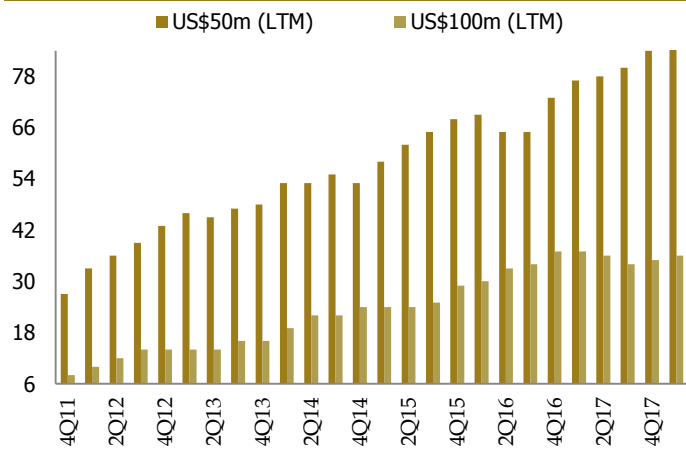
Exhibit 6: Client details

Vertical Mix	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
US\$1m (LTM)	804	819	838	829	847	859	880	897	905
US\$5m (LTM)	391	404	413	429	439	449	454	459	464
US\$10m (LTM)	268	274	281	298	298	295	300	310	322
US\$20m (LTM)	172	171	173	173	179	185	186	190	190
US\$50m (LTM)	69	65	65	73	77	78	80	84	85
US\$100m (LTM)	30	33	34	37	37	36	34	35	36

Source: Company, Trust Research

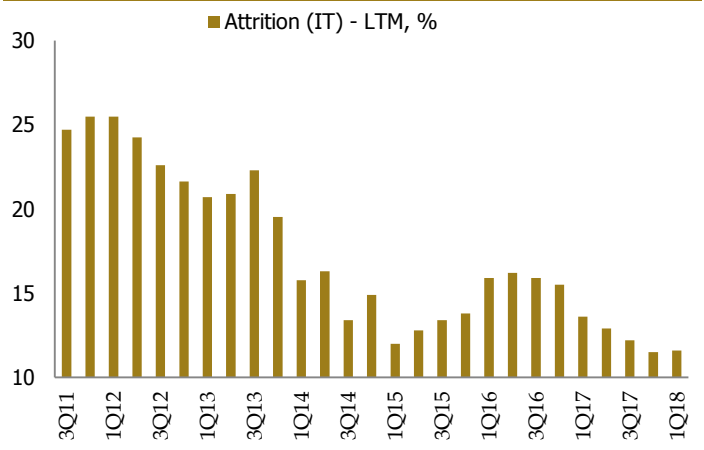


Exhibit 7: Client addition was decent



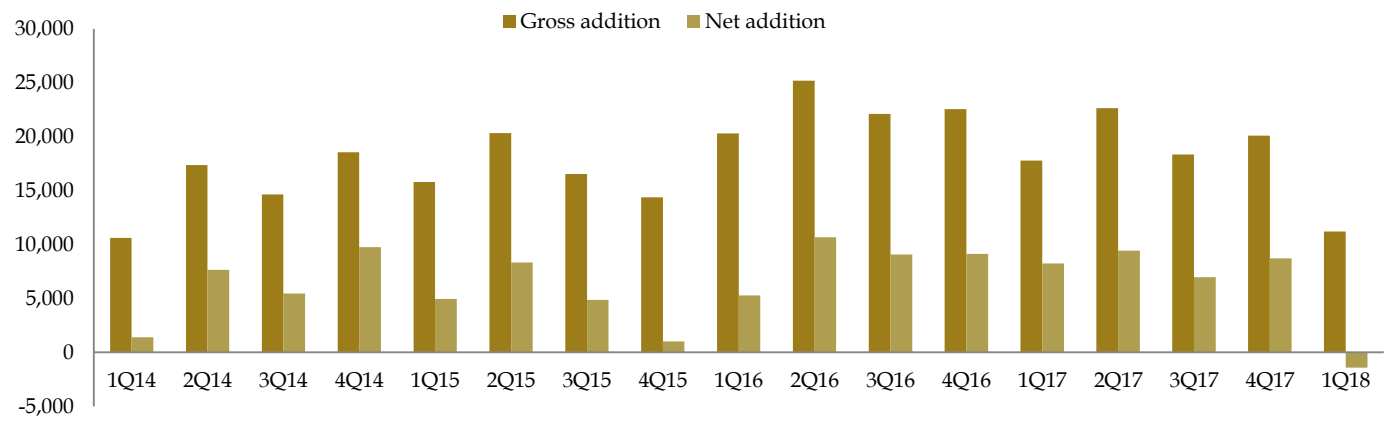
Source: Company, Trust

Exhibit 8: Attrition increased 10bps QoQ



Source: Company, Trust

Exhibit 9: TCS would be absorbing freshers from campuses for widening the employee pyramid further



Source: Company, Trust



Financials

Income Statement (₹ mn)

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Revenues	946,484	1,086,462	1,179,660	1,243,024	1,400,175
Op. Expenses	673,543	779,682	856,559	925,092	1,037,284
EBITDA	272,941	306,780	323,101	317,932	362,890
Other Income	32,532	30,833	42,210	39,860	43,860
Depreciation	18,698	18,879	19,870	20,543	21,770
EBIT	286,775	318,734	345,441	337,249	384,980
Interest	1,135	331	320	1,080	1,080
PBT	285,640	318,403	345,121	336,169	383,900
Tax	60,830	75,026	81,560	80,810	94,056
PAT	224,810	243,376	263,561	255,359	289,845
Minority + Ex. Ordin.	28,327	1,227	-	-	-
Adj Pat	196,483	242,149	263,561	255,359	289,845

Valuations Summary

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Per share (₹)					
EPS	113.8	122.9	133.8	133.4	151.4
CEPS	124.4	133.1	143.8	144.1	162.8
BVPS	293.7	371.4	448.2	537.4	624.5
DPS	79.0	43.5	47.0	49.0	55.0
Payout (%)	81.2	41.4	41.1	43.0	42.5
Valuation (x)					
P/E	22.5	20.6	18.1	18.3	16.1
P/BV	8.7	6.8	5.4	4.5	3.9
EV/EBITDA	18.4	15.9	14.6	14.8	12.6
Dividend Yield (%)	3.1	1.7	1.9	2.0	2.3
Return ratio (%)					
EBIDTA Margin	28.8	28.2	27.4	25.6	25.9
PAT Margin	20.8	22.3	22.3	20.5	20.7
ROAE	39.5	37.1	32.6	29.9	31.9
ROACE	43.0	48.1	42.4	39.2	42.2
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	5.5	5.9	6.2
Growth Ratios (%)					
Income growth	15.7	14.8	8.6	5.4	12.6
EBITDA growth	8.6	12.4	5.3	(1.6)	14.1
PAT growth	16.3	8.3	8.3	(3.1)	13.5
Turnover Ratios					
Inventory Days	-	-	-	-	-
Debtors Days	75	75	72	69	68
Payable days	39	38	29	27	26

Balance Sheet (₹ mn)

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Liabilities					
Equity Share Capital	1,959	1,970	1,970	1,914	1,914
Reserves & Surplus	572,808	729,920	881,180	1,026,794	1,193,454
Total Shareholders Fund	574,767	731,890	883,150	1,028,708	1,195,368
Minority Interest	9,136	3,540	3,660	3,660	3,660
Non-current liabilities	(5,900)	(7,820)	(6,450)	(5,478)	(3,941)
Long term Borrowings	1,143	830	710	710	710
Deferred tax liabilities	(26,150)	(20,770)	(18,860)	(18,860)	(18,860)
Other LT liab & prov	19,107	12,120	11,700	12,672	14,209
Current Liabilities	146,716	155,690	145,120	156,784	175,534
Short-term borrowings	2,434	1,620	2,180	2,180	2,180
Trade payables	88,318	75,410	62,790	68,431	76,731
Unearned & def revenue	10,623	13,590	13,980	15,207	17,051
Other cur liab. & Prov	45,340	65,070	66,170	70,966	79,573
Total Liabilities	724,719	883,300	1,025,480	1,183,675	1,370,622
Assets					
Non-current Assets	235,708	251,170	220,220	264,224	278,371
Fixed assets	117,909	119,240	117,880	121,408	122,638
Non-current investments	44,650	45,700	40,650	40,650	40,650
Other non-current assets	73,150	86,230	61,690	102,166	115,083
Current assets	489,011	632,130	805,260	919,451	1,092,251
Current investments	178,838	225,320	420,660	420,660	420,660
Trade receivables	204,399	240,730	226,840	238,388	268,527
Unbilled revenue	38,271	39,920	53,510	54,489	61,378
Cash & bank balances	18,622	62,950	35,970	134,397	261,129
Other curr fin. assets	27,142	40,990	45,050	47,678	53,705
Other current assets	21,739	22,220	23,230	23,839	26,853
Total Assets	724,719	883,300	1,025,480	1,183,675	1,370,622

Cash flow Statement

Year End-March	FY15	FY16	FY17	FY18E	FY19E
PBT	285,640	318,403	345,121	336,169	383,900
Depreciation	15,608	24,259	21,780	20,543	21,770
Others	(28,327)	(1,227)	-	-	-
CF before W.cap	272,921	341,434	366,901	356,712	405,670
Inc/dec in W.cap	190	62,588	(8,220)	43,603	38,698
Op CF after W.cap	272,731	278,846	375,121	313,109	366,972
Less Taxes	60,830	75,026	81,560	80,810	94,056
Net CF From Operations	211,902	203,819	293,561	232,299	272,916
Inc/(dec) in F.A + CWIP	31,191	20,210	18,511	24,071	23,000
(Pur)/sale of Investments	4,548	47,532	190,290	-	-
CF from Invst Activities	(35,739)	(67,742)	(208,800)	(24,071)	(23,000)
Loan Raised/(repaid)	2,842	(6,723)	560	-	-
Equity Raised	5,964	15,177	(3,955)	(56)	0
Dividend	181,034	100,203	108,346	109,745	123,184
CF from Fin Activities	(172,229)	(91,748)	(111,741)	(109,801)	(123,184)
Net inc/(dec) in cash	3,934	44,328	(26,981)	98,427	126,732
Op. bal of cash	14,687	18,622	62,951	35,970	134,397
Cl. balance of cash	18,622	62,950	35,970	134,397	261,129



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