

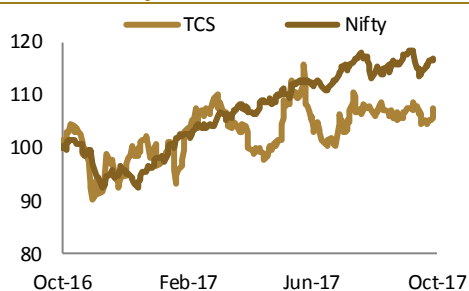
**Market statistics**

Current stock price (₹)	2,549
Shares O/S (cr.)	191.4
Mcap (₹ cr)	487,866
52W H/L (₹)	2,707/2,055
6m avg. volume	1,127,376
Bloomberg	TCS IN

**Shareholding pattern**

Promoters	73.57
Domestic Institution	5.67
Foreign Institution	16.58
Non-institution	4.18
of which more than 1%	
Life Insurance Corporation of India	4.03

**TCS vs Nifty**



**Capital efficiency & valuations**

Particulars	FY17	FY18E	FY19E
RoE (%)	32.6	30.1	31.3
EPS (₹)	133.8	134.6	148.1
CEPS (₹)	143.8	145.2	159.2
P/E (x)	18.1	18.9	17.2
P/BV (x)	5.4	4.7	4.1
EV/EBITDA (x)	14.6	15.1	13.3
Income growth (%)	8.6	3.9	9.4
EBITDA growth (%)	5.3	0.5	10.8
PAT growth (%)	8.3	(2.3)	10.0

TCS results were better than expectations on the margin front. TCS' revenue increased 3.2% QoQ (1.7% in cc terms, volume growth of 3.2%), while the EBIT margin stood at 25.1%. EBIT margins increased 171bps 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\$4,739mn (3.2% QoQ) in-line with our estimates. Volume growth in the quarter stood at 3.2% QoQ as compared to 3.5% in the 1QFY18. EBIT margin stood at 25.1%. EBIT margins increased 171bps QoQ. BFSI/Communication segment was up 1.9%/1.4% respectively. Growth drivers were Energy & Utilities (up 7.2% QoQ), Travel & Hospitality (8%), Life Sciences & Healthcare (3.6%). Most of the other verticals, contributed to the growth (with the exception of Retail & CPG). TCS added 1, 6, 6 clients in US\$100mn+, US\$50mn+, US\$20mn+ bucket QoQ to take the count to 37, 91 and 196 respectively in Q2FY18. TCS has declared an interim dividend of Rs.7/share (Rs14/share for 1HFY18). TCS for FY17 had declared a dividend of Rs47/share for FY17 (payout of ~41%).

**Operating metrics - Details:** Revenues were up 1.7% QoQ in constant currency terms Pricing was down 150bps QoQ. Growth - North America (up 1.4% QoQ in cc terms), while UK was up 2.5%. Continental Europe was up 5.3% 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 389,213, 3,404 employees (net) joined TCS. TCS would be absorbing freshers from campuses for FY18, while mentioning number of additions in FY18 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 33% 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 FY18. Company expects to see positive traction in UK insurance business (Diligenta).

**Changes in Management - playing well.** 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 21<sup>st</sup> 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.

ANALYST

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### Exhibit 1: Quarterly details

` mn	2QFY17	1QFY18	2QFY18	QoQ (%)	YoY (%)	Comments
<b>Revenues (in US\$ mn)</b>	<b>4,374</b>	<b>4,591</b>	<b>4,739</b>	<b>3.2</b>	<b>8.3</b>	In constant currency, revenues were up 1.7% QoQ. Volume growth of 3.1% QoQ, while pricing was down 1.5%.
Revenues	292,840	295,840	305,410	3.2	4.3	
- Operating costs	211,730	221,720	223,770	0.9	5.7	
<b>EBITDA</b>	<b>81,110</b>	<b>74,120</b>	<b>81,640</b>	<b>10.1</b>	<b>0.7</b>	
<b>EBITDA margin (%)</b>	<b>27.7</b>	<b>25.1</b>	<b>26.7</b>	<b>168bps</b>	<b>(97)bps</b>	Margin was up QoQ on account of tight
- Interest expense	50	270	70	(74.1)	40.0	Control on SG&A costs
- Depreciation	4,940	4,980	5,040	1.2	2.0	
+ Other income, net (incl forex)	10,570	9,590	8,190	(14.6)	(22.5)	
<b>PBT</b>	<b>86,690</b>	<b>78,460</b>	<b>84,720</b>	<b>8.0</b>	<b>(2.3)</b>	
- Taxes	20,660	18,960	20,120	6.1	(2.6)	
Effective tax rate (%)	23.8	24.2	23.7	(42)bps	(8)bps	Effective tax rate for FY18 to be ~23-24%
<b>Consolidated profits</b>	<b>66,030</b>	<b>59,500</b>	<b>64,600</b>	<b>8.6</b>	<b>(2.2)</b>	
Net Margin	22.5	20.1	21.2	104bps	(140)bps	
<b>Reported PAT</b>	<b>65,860</b>	<b>59,450</b>	<b>64,460</b>	<b>8.4</b>	<b>(2.1)</b>	

Source: Company

### Exhibit 2: Change in estimates

` mn	FY18E			FY19E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	19,165	18,939	(1.2)	21,541	20,628	(4.0)
Revenue	1,243,024	1,225,785	(1.4)	1,400,175	1,340,816	(4.0)
EBITDA margin (%)	25.6	26.5	85bps	25.9	26.8	95bps
EPS (₹)	133.4	134.6	0.9	151.4	148.1	(2.2)

Source: Trust Research

**Geography wise Revenues:** Growth - North America (up 1.4% QoQ in cc terms), while UK was up 2.5%. Continental Europe was up 5.3% QoQ.

### Exhibit 3: Geographical wise Performance

Geographical mix	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
<b>Americas</b>	54.5	55.6	56.0	55.5	56.0	57.2	55.4	54.6	54.1
---->North America	52.7	53.5	54.0	53.5	54.0	55.0	53.3	52.5	51.9
---->Ibero America	1.8	2.1	2.0	2.0	2.0	2.2	2.1	2.1	2.2
<b>Europe</b>	27.2	26.8	26.1	26.3	25.6	24.4	25.5	26.4	27.4
---->UK	16.4	15.9	14.9	14.8	13.8	13.3	13.7	13.9	14.0
---->Continental Europe	10.8	10.9	11.2	11.5	11.8	11.1	11.8	12.5	13.4
<b>India</b>	6.5	6.0	5.9	6.2	5.8	6.3	6.8	7.0	6.3
<b>Others</b>	11.8	11.6	12.0	12.0	12.6	12.1	12.3	12.0	12.2
---->APAC	9.4	9.4	9.6	9.6	10.2	9.6	9.7	9.5	9.8
---->MEA	2.4	2.2	2.4	2.4	2.4	2.5	2.6	2.5	2.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company



**Vertical wise Performance:** BFSI/Communication segment was up 1.9%/1.4% respectively. Growth drivers were Energy & Utilities (up 7.2% QoQ), Travel & Hospitality (8%), Life Sciences & Healthcare (3.6%).

#### Exhibit 4: Vertical wise Performance

Geographical mix	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
BFSI	33.3	33.6	33.9	32.9	32.9	33.0
Retail & CPG	13.5	13.0	13.0	12.3	12.2	11.9
Communication & Media	7.0	7.2	6.7	7.2	7.3	7.3
Manufacturing	7.3	7.3	7.4	7.4	7.5	7.5
Life Sciences & Healthcare	6.8	7.0	6.9	6.9	7.1	7.2
Energy & Utilities	3.6	3.7	3.6	3.7	4.0	4.2
Travel & Hospitality	3.2	3.3	3.2	3.4	3.5	3.8
Technology & Services	7.8	7.7	7.8	7.8	7.9	8.1
Regional Markets & Others	17.5	17.2	17.5	18.4	17.6	17.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company

**Human Resources:** TCS closed the quarter with a consolidated headcount of 389,213, 3,404 employees (net) joined TCS. TCS would be absorbing freshers from campuses for FY18, while mentioning number of additions in FY18 would be lower compared to earlier years as benefits of automation kick in.

#### Exhibit 5: Employee strength of TCS

Vertical Mix	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Total employees	335,620	344,691	353,843	362,079	371,519	378,497	387,223	385,809	389,213
----->BPO (LTM)	16.2	15.9	15.5	13.6	12.9	12.2	11.5	11.6	12.1
Trainees	9,943	7,593	8,623	5,038	11,884	10,950	11,556	1,659	6,722
Laterals (India)	10,978	10,451	10,659	9,877	7,486	4,804	5,733	6,289	5,421
Gross addition	25,186	22,118	22,576	17,792	22,665	18,362	20,093	11,202	15,868
Net addition	10,685	9,071	9,152	8,236	9,440	6,978	8,726	(1,414)	3,404

Source: Company

**Client Concentration and order intake:** TCS added 1, 6, 6 clients in US\$100mn+, US\$50mn+, US\$20mn+ bucket QoQ to take the count to 37, 91 and 196 respectively in Q2FY18.

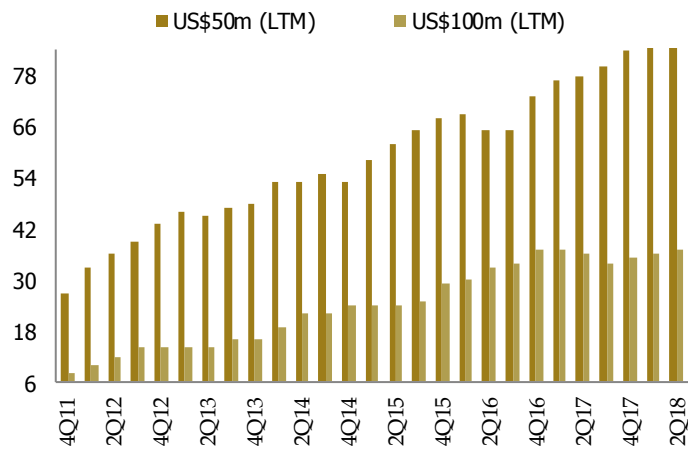
#### Exhibit 6: Client details

Vertical Mix	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
US\$1m (LTM)	819	838	829	847	859	880	897	905	933
US\$5m (LTM)	404	413	429	439	449	454	459	464	470
US\$10m (LTM)	274	281	298	298	295	300	310	322	328
US\$20m (LTM)	171	173	173	179	185	186	190	190	196
US\$50m (LTM)	65	65	73	77	78	80	84	85	91
US\$100m (LTM)	33	34	37	37	36	34	35	36	37

Source: Company, Trust Research

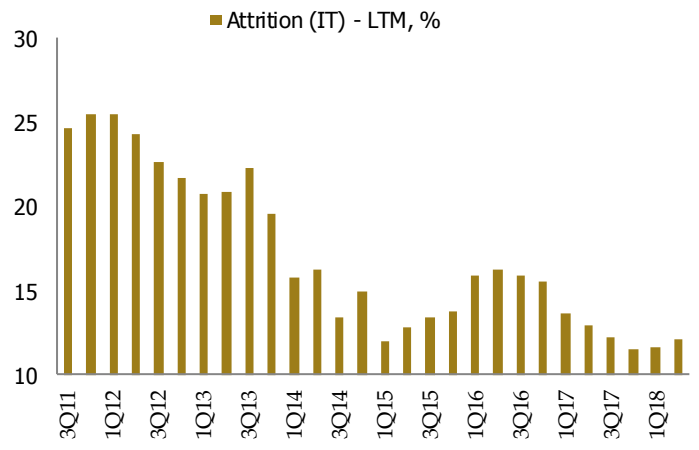


Exhibit 7: Client addition was decent



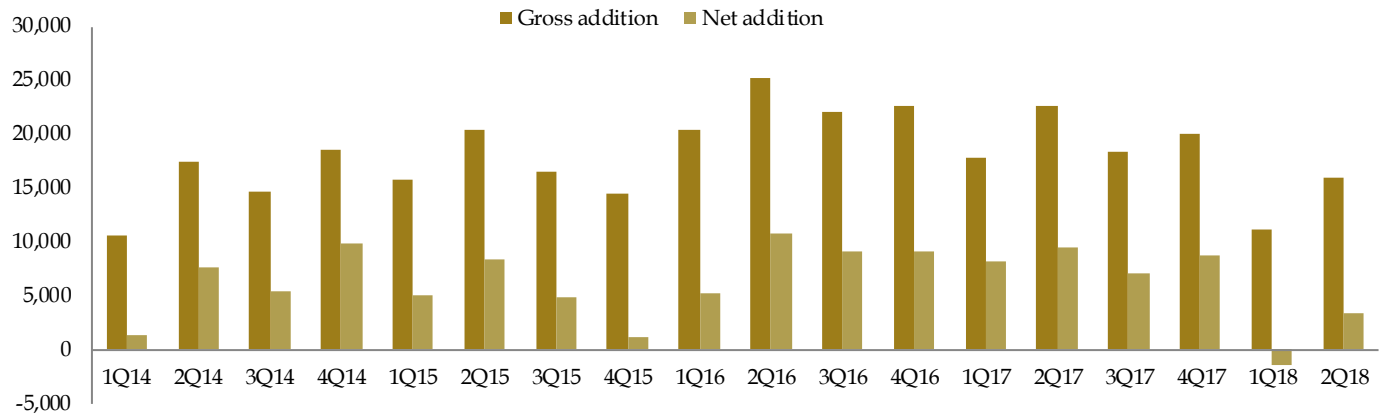
Source: Company, Trust

Exhibit 8: Attrition increased 50bps 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
<b>Revenues</b>	<b>946,484</b>	<b>1,086,462</b>	<b>1,179,660</b>	<b>1,225,785</b>	<b>1,340,816</b>
Op. Expenses	673,543	779,682	856,559	901,109	980,990
<b>EBITDA</b>	<b>272,941</b>	<b>306,780</b>	<b>323,101</b>	<b>324,676</b>	<b>359,826</b>
Other Income	32,532	30,833	42,210	34,910	37,260
Depreciation	18,698	18,879	19,870	20,239	21,344
EBIT	286,775	318,734	345,441	339,347	375,742
Interest	1,135	331	320	480	280
<b>PBT</b>	<b>285,640</b>	<b>318,403</b>	<b>345,121</b>	<b>81,245</b>	<b>91,988</b>
Tax	60,830	75,026	81,560	257,622	283,474
<b>PAT</b>	<b>224,810</b>	<b>243,376</b>	<b>263,561</b>	<b>1,225,785</b>	<b>1,340,816</b>
Minority + Ex. Ordin.	28,327	1,227	-	-	-
<b>Adj Pat</b>	<b>196,483</b>	<b>242,149</b>	<b>263,561</b>	<b>1,225,785</b>	<b>1,340,816</b>

### Valuations Summary

Year End-March	FY15	FY16	FY17	FY18E	FY19E
<b>Per share (₹)</b>					
EPS	113.8	122.9	133.8	134.6	148.1
CEPS	124.4	133.1	143.8	145.2	159.2
BVPS	293.7	371.4	448.2	538.6	622.3
DPS	79.0	43.5	47.0	49.0	55.0
Payout (%)	81.2	41.4	41.1	42.6	43.5
<b>Valuation (x)</b>					
P/E	22.5	20.6	18.1	18.9	17.2
P/BV	8.7	6.8	5.4	4.7	4.1
EV/EBITDA	18.4	15.9	14.6	15.1	13.3
Dividend Yield (%)	3.1	1.7	1.9	1.9	2.2
<b>Return ratio (%)</b>					
EBIDTA Margin	28.8	28.2	27.4	26.5	26.8
PAT Margin	20.8	22.3	22.3	21.0	21.1
ROAE	39.5	37.1	32.6	30.1	31.3
ROACE	43.0	48.1	42.4	39.4	41.3
<b>Leverage Ratios (x)</b>					
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	6.0	6.5
<b>Growth Ratios (%)</b>					
Income growth	15.7	14.8	8.6	3.9	9.4
EBITDA growth	8.6	12.4	5.3	0.5	10.8
PAT growth	16.3	8.3	8.3	(2.3)	10.0
<b>Turnover Ratios</b>					
Inventory Days	-	-	-	-	-
Debtors Days	75	75	72	69	68
Payable days	39	38	29	27	27

### Balance Sheet (₹ mn)

Year End-March	FY15	FY16	FY17	FY18E	FY19E
<b>Liabilities</b>					
Equity Share Capital	1,959	1,970	1,970	1,914	1,914
Reserves & Surplus	572,808	729,920	881,180	1,029,057	1,189,347
<b>Total Shareholders Fund</b>	<b>574,767</b>	<b>731,890</b>	<b>883,150</b>	<b>1,030,972</b>	<b>1,191,261</b>
Minority Interest	9,136	3,540	3,660	3,660	3,660
<b>Non-current liabilities</b>	<b>(5,900)</b>	<b>(7,820)</b>	<b>(6,450)</b>	<b>(5,806)</b>	<b>(4,712)</b>
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	12,344	13,438
<b>Current Liabilities</b>	<b>146,716</b>	<b>155,690</b>	<b>145,120</b>	<b>152,776</b>	<b>166,126</b>
Short-term borrowings	2,434	1,620	2,180	2,180	2,180
Trade payables	88,318	75,410	62,790	66,657	72,566
Unearned & def revenue	10,623	13,590	13,980	14,813	16,126
Other cur liab. & Prov	45,340	65,070	66,170	69,126	75,254
<b>Total Liabilities</b>	<b>724,719</b>	<b>883,300</b>	<b>1,025,480</b>	<b>1,181,602</b>	<b>1,356,336</b>
<b>Assets</b>					
<b>Non-current Assets</b>	<b>235,708</b>	<b>251,170</b>	<b>220,220</b>	<b>260,579</b>	<b>271,690</b>
Fixed assets	117,909	119,240	117,880	119,180	120,836
Non-current investments	44,650	45,700	40,650	40,650	40,650
Other non-current assets	73,150	86,230	61,690	100,749	110,204
<b>Current assets</b>	<b>489,011</b>	<b>632,130</b>	<b>805,260</b>	<b>921,022</b>	<b>1,084,646</b>
Current investments	178,838	225,320	420,660	420,660	420,660
Trade receivables	204,399	240,730	226,840	235,082	257,143
Unbilled revenue	38,271	39,920	53,510	53,733	58,775
Cash & bank balances	18,622	62,950	35,970	141,023	270,924
Other curr fin. assets	27,142	40,990	45,050	47,016	51,429
Other current assets	21,739	22,220	23,230	23,508	25,714
<b>Total Assets</b>	<b>724,719</b>	<b>883,300</b>	<b>1,025,480</b>	<b>1,181,602</b>	<b>1,356,336</b>

### Cash flow Statement

Year End-March	FY15	FY16	FY17	FY18E	FY19E
PBT	285,640	318,403	345,121	338,867	375,462
Depreciation	15,608	24,259	21,780	20,239	21,344
Others	(28,327)	(1,227)	-	-	-
<b>CF before W.cap</b>	<b>272,921</b>	<b>341,434</b>	<b>366,901</b>	<b>359,106</b>	<b>396,806</b>
Inc/dec in W.cap	190	62,588	(8,220)	41,469	28,732
Op CF after W.cap	272,731	278,846	375,121	317,637	368,074
Less Taxes	60,830	75,026	81,560	81,245	91,988
<b>Net CF From Operations</b>	<b>211,902</b>	<b>203,819</b>	<b>293,561</b>	<b>236,392</b>	<b>276,086</b>
Inc/(dec) in F.A + CWIP	31,191	20,210	18,511	21,540	23,000
(Pur)/sale of Investments	4,548	47,532	190,290	-	-
<b>CF from Invst Activities</b>	<b>(35,739)</b>	<b>(67,742)</b>	<b>(208,800)</b>	<b>(21,540)</b>	<b>(23,000)</b>
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	109,744	123,184
<b>CF from Fin Activities</b>	<b>(172,229)</b>	<b>(91,748)</b>	<b>(111,741)</b>	<b>(109,800)</b>	<b>(123,184)</b>
<b>Net inc/(dec) in cash</b>	<b>3,934</b>	<b>44,328</b>	<b>(26,981)</b>	<b>105,053</b>	<b>129,902</b>
Op. bal of cash	14,687	18,622	62,951	35,970	141,023
<b>Cl. balance of cash</b>	<b>18,622</b>	<b>62,950</b>	<b>35,970</b>	<b>141,023</b>	<b>270,924</b>



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