

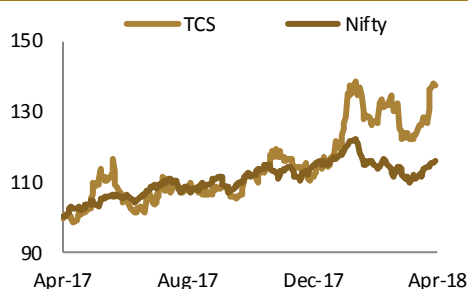
Market statistics

Current stock price (₹)	3,191
Shares O/S (cr.)	191.4
Mcap (₹ cr)	610,782
52W H/L (₹)	3,255/2,255
6m avg. volume	1,664,591
Bloomberg	TCS IN

Shareholding pattern

Promoters	71.92
Domestic Institution	6.98
Foreign Institution	16.88
Non-institution	4.22
of which more than 1%	

TCS vs Nifty



Capital efficiency & valuations

Particulars	FY18	FY19E	FY20E
RoE (%)	29.4	30.3	27.9
EPS (₹)	135.0	151.6	164.5
CEPS (₹)	145.7	162.7	176.7
P/E (x)	21.1	21.1	19.4
P/BV (x)	5.3	5.1	4.4
EV/EBITDA (x)	17.0	16.7	14.8
Income growth (%)	4.4	11.2	9.4
EBITDA growth (%)	0.6	11.9	10.1
PAT growth (%)	(1.8)	12.3	8.5

TCS results were slightly better than our expectations. TCS' revenue increased 3.9% QoQ (2% in cc terms, volume growth of 2%), while the EBIT margin stood at 25.4%. EBIT margins increased 22bps 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 stretched valuations.

Quarter details: Revenues at US\$4,972mn (3.9% QoQ) better than our estimates. Volume growth in the quarter stood at 2% QoQ as compared to 1.6% in the 3QFY18 (strongest volume growth in the last 3 years). EBIT margin stood at 25.4%. EBIT margins increased 22bps QoQ. Retail & CPG vertical segment was up 0.8%. Growth drivers were Energy & Utilities (up 6.9% QoQ), Travel & Hospitality (5.1%), Life Sciences & Healthcare (1.3%) and Communication & Media (1.5%). TCS added 1, 3, 4, 13 clients in US\$100mn+, US\$50mn+, US\$20mn+, US\$10mn+ bucket QoQ to take the count to 38, 97, 207 and 350 respectively in Q4FY18. TCS has declared a final dividend of Rs.29/share (Rs50/share for FY18), payout of 43%. TCS for FY17 had declared a dividend of Rs47/share for FY17 (payout of ~41%). TCS declared a 1:1 bonus.

Operating metrics - Details: Revenues were up 2% QoQ in constant currency terms. Pricing was flat QoQ. Growth - UK (up 6.3% QoQ), while North America was up just 0.2%. Continental Europe was up 4.5% QoQ, while Latin America was down 7.8%. The long term target operating range of EBIT margin remains 26-28%. TCS announced that it closed 15 large deals during the quarter, spanning across verticals and geographies. Deals were won across verticals. TCS closed the quarter with a consolidated headcount of 394,884, 4,118 employees (net) joined TCS. TCS would be absorbing freshers from campuses for FY19, 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\$1,183mn to its revenue, up 10.2% QoQ.

Outlook: Management mentioned that deal pipeline is healthy and FY19 incrementally positive. TCS also indicated that it is reaping benefits of investments in areas like Continental Europe and Latin America. Retail vertical turned around while BFSI is couple of quarters away from seeing positive trends. The company maintained decent growth outlook and demand commentary for FY19. 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 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 movement.

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Exhibit 1: Quarterly details

` mn	4QFY17	3QFY18	4QFY18	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	4,452	4,787	4,972	3.9	11.7	In constant currency, revenues were up 2% QoQ. Volume growth of 2% QoQ, while pricing was flat.
Revenues	296,420	309,040	320,750	3.8	8.2	
- Operating costs	215,090	226,160	234,230	3.6	8.9	
EBITDA	81,330	82,880	86,520	4.4	6.4	
EBITDA margin (%)	27.4	26.8	27.0	16bps	(46)bps	Margin was flat QoQ on account of tight Equipment
- Interest expense	80	60	120	100.0	50.0	Software costs
- Depreciation	5,060	5,070	5,050	(0.4)	(0.2)	
+ Other income, net (incl forex)	9,970	8,700	9,940	14.3	(0.3)	
PBT	86,160	86,450	91,290	5.6	6.0	
- Taxes	19,940	21,000	22,040	5.0	10.5	
Effective tax rate (%)	23.1	24.3	24.1	(15)bps	100bps	Effective tax rate for FY19 to be ~23-24%
Consolidated profits	66,220	65,450	69,250	5.8	4.6	
Net Margin	22.3	21.2	21.6	41bps	(75)bps	
Reported PAT	66,220	65,450	69,040	5.5	4.3	

Source: Company

Exhibit 2: Change in estimates

` mn	FY19E			FY20E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	20,837	21,061	1.1	22,920	23,031	0.5
Revenue	1,354,393	1,368,934	1.1	1,489,827	1,497,008	0.5
EBITDA margin (%)	26.6	26.6	-	26.7	26.8	10bps
EPS (₹)	149.0	151.6	1.7	161.9	164.5	1.6

Source: Trust Research

Geography wise Revenues: Growth – UK (up 6.3% QoQ), while North America was up just 0.2%. Continental Europe was up 4.5% QoQ, while Latin America was down 7.8%.

Exhibit 3: Geographical wise Performance

Geographical mix	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Americas	56.0	55.5	56.0	57.2	55.4	54.6	54.1	54.2	52.2
---->North America	54.0	53.5	54.0	55.0	53.3	52.5	51.9	52.0	50.2
---->Ibero America	2.0	2.0	2.0	2.2	2.1	2.1	2.2	2.2	2.0
Europe	26.1	26.3	25.6	24.4	25.5	26.4	27.4	27.6	29.4
---->UK	14.9	14.8	13.8	13.3	13.7	13.9	14.0	14.1	15.2
---->Continental Europe	11.2	11.5	11.8	11.1	11.8	12.5	13.4	13.5	14.2
India	5.9	6.2	5.8	6.3	6.8	7.0	6.3	6.3	6.2
Others	12.0	12.0	12.6	12.1	12.3	12.0	12.2	11.9	12.2
---->APAC	9.6	9.6	10.2	9.6	9.7	9.5	9.8	9.5	9.7
---->MEA	2.4	2.4	2.4	2.5	2.6	2.5	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: Retail & CPG vertical segment was up 0.8%. Growth drivers were Energy & Utilities (up 6.9% QoQ), Travel & Hospitality (5.1%), Life Sciences & Healthcare (1.3%) and Communication & Media (1.5%).

Exhibit 4: Vertical wise Performance

Geographical mix	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
BFSI	33.6	33.9	32.9	32.9	33.0	32.1	31.5
Retail & CPG	13.0	13.0	12.3	12.2	11.9	12.5	12.3
Communication & Media	7.2	6.7	7.2	7.3	7.3	7.4	7.4
Manufacturing	7.3	7.4	7.4	7.5	7.5	7.6	7.4
Life Sciences & Healthcare	7.0	6.9	6.9	7.1	7.2	7.3	7.2
Energy & Utilities	3.7	3.6	3.7	4.0	4.2	4.5	4.8
Travel & Hospitality	3.3	3.2	3.4	3.5	3.8	3.8	4.0
Technology & Services	7.7	7.8	7.8	7.9	8.1	8.0	7.8
Regional Markets & Others	17.2	17.5	18.4	17.6	17.0	16.8	17.6
Total	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 394,884, 4,118 employees (net) joined TCS. TCS would be absorbing freshers from campuses for FY19, 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	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Total employees	353,843	362,079	371,519	378,497	387,223	385,809	389,213	390,880	394,998
----->BPO (LTM)	15.5	13.6	12.9	12.2	11.5	11.6	12.1	11.9	11.8
Trainees	8,623	5,038	11,884	10,950	11,556	1,659	6,722	5,933	NA
Laterals (India)	10,659	9,877	7,486	4,804	5,733	6,289	5,421	3,672	NA
Gross addition	22,576	17,792	22,665	18,362	20,093	11,202	15,868	12,534	NA
Net addition	9,152	8,236	9,440	6,978	8,726	(1,414)	3,404	1,667	4,118

Source: Company

Client Concentration and order intake: TCS added 1, 3, 4, 13 clients in US\$100mn+, US\$50mn+, US\$20mn+, US\$10mn+ bucket QoQ to take the count to 38, 97, 207 and 350 respectively in Q4FY18.

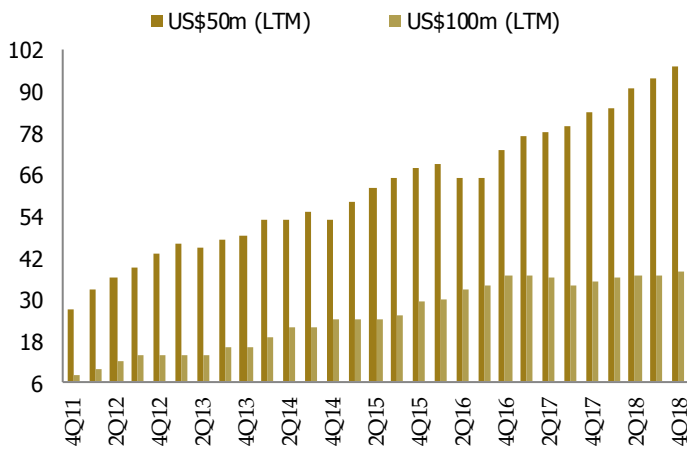
Exhibit 6: Client details

Vertical Mix	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
US\$1m (LTM)	829	847	859	880	897	905	933	941	963
US\$5m (LTM)	429	439	449	454	459	464	470	485	495
US\$10m (LTM)	298	298	295	300	310	322	328	337	350
US\$20m (LTM)	173	179	185	186	190	190	196	203	207
US\$50m (LTM)	73	77	78	80	84	85	91	94	97
US\$100m (LTM)	37	37	36	34	35	36	37	37	38

Source: Company, Trust Research

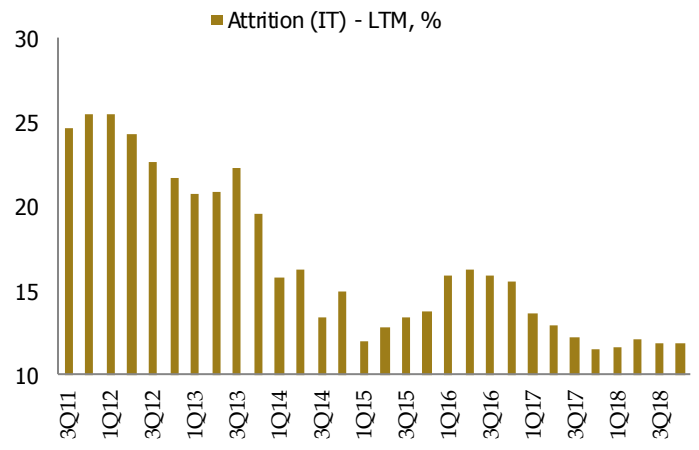


Exhibit 7: Client addition was decent



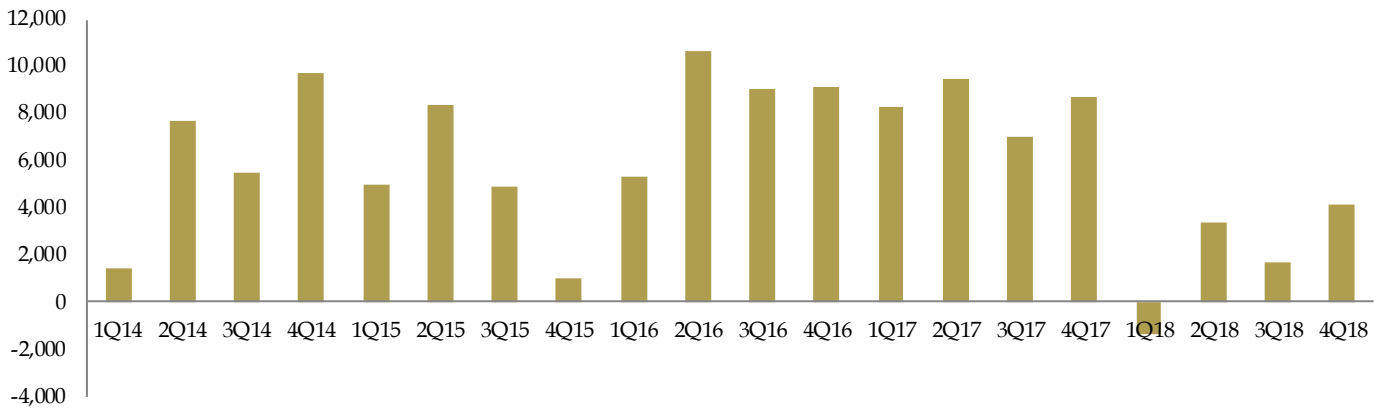
Source: Company, Trust

Exhibit 8: Attrition decreased 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	FY16	FY17	FY18	FY19E	FY20E
Revenues	1,086,462	1,179,660	1,231,040	1,368,934	1,497,008
Op. Expenses	779,682	856,559	905,880	1,005,051	1,096,503
EBITDA	306,780	323,101	325,160	363,884	400,505
Other Income	30,833	42,210	36,420	42,260	43,260
Depreciation	18,879	19,870	20,140	20,871	22,941
EBIT	318,734	345,441	341,440	385,272	420,824
Interest	331	320	520	480	480
PBT	318,403	345,121	340,920	384,792	420,344
Tax	75,026	81,560	82,120	94,274	105,086
PAT	243,376	263,561	258,800	290,518	315,258
Minority + Ex. Ordin.	1,227	-	(400)	(400)	(400)
Adj Pat	242,149	263,561	258,400	290,118	314,858

Valuations Summary

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Per share (₹)					
EPS	122.9	133.8	135.0	151.6	164.5
CEPS	133.1	143.8	145.7	162.7	176.7
BVPS	371.4	448.2	537.8	625.6	721.1
DPS	43.5	47.0	50.0	54.5	59.0
Payout (%)	41.4	41.1	43.3	42.1	42.0
Valuation (x)					
P/E	20.6	18.1	21.1	21.1	19.4
P/BV	6.8	5.4	5.3	5.1	4.4
EV/EBITDA	15.9	14.6	17.0	16.7	14.8
Dividend Yield (%)	1.7	1.9	1.8	1.7	1.8
Return ratio (%)					
EBIDTA Margin	28.2	27.4	26.4	26.6	26.8
PAT Margin	22.3	22.3	21.0	21.2	21.0
ROAE	37.1	32.6	29.4	30.3	27.9
ROACE	48.1	42.4	38.6	40.0	37.0
Leverage Ratios (x)					
Total D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.4)	(0.5)	(0.5)	(0.5)	(0.6)
Current ratio	4.1	5.5	4.6	5.0	5.4
Growth Ratios (%)					
Income growth	14.8	8.6	4.4	11.2	9.4
EBITDA growth	12.4	5.3	0.6	11.9	10.1
PAT growth	8.3	8.3	(1.8)	12.3	8.5
Turnover Ratios					
Inventory Days	-	-	-	-	-
Debtors Days	75	72	71	70	70
Payable days	38	29	28	28	27

Balance Sheet (₹ mn)

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Liabilities					
Equity Share Capital	1,970	1,970	1,910	1,914	1,914
Reserves & Surplus	729,920	881,180	870,500	1,038,554	1,221,268
Total Shareholders Fund	731,890	883,150	872,410	1,040,468	1,223,182
Minority Interest	3,540	3,660	4,020	4,020	4,020
Non-current liabilities	(7,820)	(6,450)	(4,850)	(2,715)	(961)
Long term Borrowings	830	710	540	540	540
Deferred tax liabilities	(20,770)	(18,860)	(22,530)	(22,530)	(22,530)
Other LT liab & prov	12,120	11,700	17,140	19,275	21,029
Current Liabilities	155,690	145,120	178,280	194,679	212,218
Short-term borrowings	1,620	2,180	1,930	1,930	1,930
Trade payables	75,410	62,790	50,940	55,071	60,082
Unearned & def revenue	13,590	13,980	20,320	22,028.51	24,033
Other cur liab. & Prov	65,070	66,170	105,090	115,650	126,173
Total Liabilities	883,300	1,025,480	1,049,860	1,236,452	1,438,460
Assets					
Non-current Assets	251,170	220,220	237,620	272,614	283,199
Fixed assets	119,240	117,880	116,120	118,249	118,307
Non-current investments	45,700	40,650	41,850	41,850	41,850
Other non-current assets	86,230	61,690	79,650	112,515	123,042
Current assets	632,130	805,260	812,240	963,838	1,155,260
Current investments	225,320	420,660	377,630	427,630	477,630
Trade receivables	240,730	226,840	249,430	273,787	299,402
Unbilled revenue	39,920	53,510	66,860	71,259.60	77,926
Cash & bank balances	62,950	35,970	48,830	108,651	210,072
Other curr fin. assets	40,990	45,050	43,020	52,507	57,419
Other current assets	22,220	23,230	26,470	30,004	32,811
Total Assets	883,300	1,025,480	1,049,860	1,236,452	1,438,460

Cash flow Statement

Year End-March	FY16	FY17	FY18	FY19E	FY20E
PBT	318,403	345,121	340,920	384,792	420,344
Depreciation	24,259	21,780	16,470	20,871	22,941
Others	(1,227)	-	(400)	(400)	(400)
CF before W.cap	341,434	366,901	356,990	405,264	442,885
Inc/dec in W.cap	62,588	(8,220)	16,260	56,108	31,235
Op CF after W.cap	278,846	375,121	340,730	349,155	411,650
Less Taxes	75,026	81,560	82,120	94,274	105,086
Net CF From Operations	203,819	293,561	258,610	254,881	306,564
Inc/(dec) in F.A + CWIP	20,210	18,511	18,380	23,000	23,000
(Pur)/sale of Investments	47,532	190,290	(41,830)	50,000	50,000
CF from Invst Activities	(67,742)	(208,800)	23,450	(73,000)	(73,000)
Loan Raised/(repaid)	(6,723)	560	(60)	-	-
Equity Raised	15,177	(3,955)	(157,160)	4	(0)
Dividend	100,203	108,346	111,980	122,065	132,143
CF from Fin Activities	(91,748)	(111,741)	(269,200)	(122,060)	(132,143)
Net inc/(dec) in cash	44,328	(26,981)	12,860	59,821	101,421
Op. bal of cash	18,622	62,951	35,970	48,830	108,651
Cl. balance of cash	62,950	35,970	48,830	108,651	210,072



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