

Market statistics

Current stock price (₹)	1,877
Shares O/S (cr.)	382.9
Mcap (₹ cr)	718,624
52W H/L (₹)	1,930/1,167
6m avg. volume	717,896
Bloomberg	TCS IN

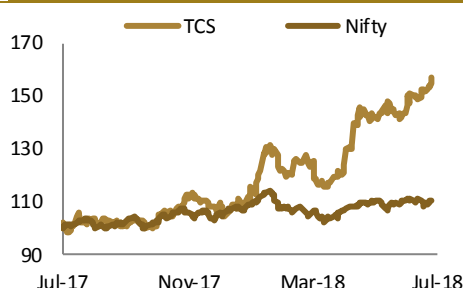
TCS results were better than our expectations. TCS' revenue increased 1.6% QoQ (4.1% in cc terms), while the EBIT margin stood at 25%. EBIT margins decreased 40bps QoQ. TCS maintained a decent demand growth environment for its services. We maintain our Hold recommendation on the stock on account of initiatives taken by TCS towards new technologies and recent large deal wins, but for stretched valuations.

Shareholding pattern

Promoters	71.92
Domestic Institution	6.70
Foreign Institution	16.95
Non-institution	4.43
of which more than 1%	

Quarter details: Revenues at US\$5,051mn (1.6% QoQ) slightly lower than our estimates. Growth in cc stood at 4.1% QoQ ((highest in last 15 quarters) led primarily by growth acceleration in the BFSI segment (3.7% QoQ in cc terms vs 0.4% in Q4FY18) and North America (3.7% QoQ vs 0.2% in Q4FY18) along with broad-based growth in other verticals. EBIT margin stood at 25% on account of wage hike (-180bps), helped by currency benefits (70 bps) and operational efficiencies (70bps). EBIT margins decreased 40bps QoQ. Retail & CPG vertical segment was up 3.6% while BFSI was up 3.7% QoQ in cc terms. Growth drivers were Energy & Utilities (up 5.2% QoQ), Life Sciences & Healthcare (4.3%) and Communication & Media (5.1%). TCS added 2, 5, 13, 15 clients in US\$100mn+, US\$10mn+, US\$5mn+, US\$1mn+ bucket QoQ to take the count to 40, 355, 508 and 978 respectively in Q1FY19.

TCS vs Nifty



Operating metrics - Details: Growth - UK (up 8.2% QoQ in cc terms), while North America was up 3.7%. Continental Europe was up 5.3% QoQ, while Latin America was up 2.6%. The long term target operating range of EBIT margin remains 26-28%. TCS announced that it has a total deal TCV of around \$4.9 bn (book-to-build ratio remains constant), out of which retail and North America have US\$759mn and US\$2.7bn respectively. TCS closed the quarter with a consolidated headcount of 400,875, 5,877 employees (net) joined TCS. TCS would be absorbing freshers from campuses for FY19, while mentioning number of additions in FY19 would be lower compared to earlier years as benefits of automation kick in. The digital segment has reported yet another quarter of robust performance, revving up 9.1% QoQ and 44.8% YoY on cc terms. The digital segment contributed 25% of the revenues (vs 23.8% in Q4FY18).

Capital efficiency & valuations

Particulars	FY18	FY19E	FY20E
RoE (%)	29.4	31.6	28.8
EPS (₹)	65.6	79.3	86.4
CEPS (₹)	70.8	84.8	92.4
P/E (x)	21.1	23.7	21.7
P/BV (x)	5.3	5.9	5.1
EV/EBITDA (x)	17.0	19.2	17.0
Income growth (%)	4.4	4.9	5.4
EBITDA growth (%)	0.6	14.8	9.5
PAT growth (%)	(1.8)	17.6	8.9

Outlook: Management mentioned that deal pipeline is healthy and FY19 incrementally positive. TCS management remains optimistic that BFSI vertical (~31% of revenues) is expected to continue its growth momentum in the medium-term on the back of strong deal wins in Q1FY19 (TCV of US\$1.6bn), improving macro environment in North America, rising demand from the wealth management space and horizontal expansion of banks across the regions. The retail vertical is witnessing strong traction led by embracing of digital technologies by the traditional retailers, though the structural headwinds (store closures and bankruptcies) still remain a concern for the continued growth momentum.

Valuation: TCS management remains optimistic about its ability to deliver sustainable growth momentum in the medium-term. TCS also expects strong revenue growth from European banks and communication vertical to continue. 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	1QFY18	4QFY18	1QFY19	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	4,591	4,972	5,051	1.6	10.0	In constant currency, revenues were up 4.1% QoQ. TCV signed in 1Q19 is US\$4.9bn (~1x bill-to-book)
Revenues	295,840	320,750	342,610	6.8	15.8	
- Operating costs	221,720	234,230	251,900	7.5	13.6	
EBITDA	74,120	86,520	90,710	4.8	22.4	
EBITDA margin (%)	25.1	27.0	26.5	(50)bps	142bps	Margin was helped by INR depreciation: 70bps QoQ
- Interest expense	270	120	170	41.7	(37.0)	
- Depreciation	4,980	5,050	4,930	(2.4)	(1.0)	
+ Other income, net (incl forex)	9,590	9,940	12,250	23.2	27.7	
PBT	78,460	91,290	97,860	7.2	24.7	
- Taxes	18,960	22,040	24,240	10.0	27.8	
Effective tax rate (%)	24.2	24.1	24.8	63bps	60bps	Effective tax rate for FY19 to be ~24-25%
Consolidated profits	59,500	69,250	73,620	6.3	23.7	
Net Margin	20.1	21.6	21.5	(10)bps	138bps	
Reported PAT	59,450	69,040	73,400	6.3	23.5	

Source: Company

Exhibit 2: Change in estimates

` mn	FY19E			FY20E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	21,061	21,032	(0.1)	23,031	23,109	0.3
Revenue	1,368,934	1,413,485	3.3	1,497,008	1,548,297	3.4
EBITDA margin (%)	26.6	26.5	(5)bps	26.8	26.7	(5)bps
EPS (₹)	75.8	79.3	4.6	82.3	86.4	5.0

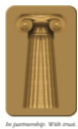
Source: Trust Research

Geography wise Revenues: Growth – UK (up 8.2% QoQ in cc terms), while North America was up 3.7%. Continental Europe was up 5.3% QoQ, while Latin America was up 2.6%.

Exhibit 3: Geographical wise Performance

Geographical mix	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Americas	55.5	56.0	57.2	55.4	54.6	54.1	54.2	52.2	52.9
---->North America	53.5	54.0	55.0	53.3	52.5	51.9	52.0	50.2	51.0
---->Ibero America	2.0	2.0	2.2	2.1	2.1	2.2	2.2	2.0	1.9
Europe	26.3	25.6	24.4	25.5	26.4	27.4	27.6	29.4	29.5
---->UK	14.8	13.8	13.3	13.7	13.9	14.0	14.1	15.2	15.5
---->Continental Europe	11.5	11.8	11.1	11.8	12.5	13.4	13.5	14.2	14.0
India	6.2	5.8	6.3	6.8	7.0	6.3	6.3	6.2	5.8
Others	12.0	12.6	12.1	12.3	12.0	12.2	11.9	12.2	11.8
---->APAC	9.6	10.2	9.6	9.7	9.5	9.8	9.5	9.7	9.6
---->MEA	2.4	2.4	2.5	2.6	2.5	2.4	2.4	2.5	2.2
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 3.6% while BFSI was up 3.7% QoQ in cc terms. Growth drivers were Energy & Utilities (up 5.2% QoQ), Life Sciences & Healthcare (4.3%) and Communication & Media (5.1%).

Exhibit 4: Vertical wise Performance

Geographical mix	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
BFSI	32.5	32.6	31.6	31.1	31.1
Retail & CPG	16.0	15.9	16.7	16.6	16.6
Communication & Media	7.1	7.1	7.1	7.1	7.1
Manufacturing	7.4	7.4	7.5	7.4	7.3
Life Sciences & Healthcare	7.1	7.2	7.3	7.2	7.3
Energy & Utilities	4.0	4.2	4.5	4.8	4.8
Technology & Services	7.9	8.0	7.9	7.8	7.7
Regional Markets & Others	18.0	17.6	17.4	18.0	18.1
Total	100.0	100.0	100.0	100.0	100.0

Source: Company

Human Resources: TCS closed the quarter with a consolidated headcount of 400,875, 5,877 employees (net) joined TCS. TCS would be absorbing freshers from campuses for FY19, while mentioning number of additions in FY19 would be lower compared to earlier years as benefits of automation kick in.

Exhibit 5: Employee strength of TCS

Vertical Mix	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Total employees	362,079	371,519	378,497	387,223	385,809	389,213	390,880	394,998	400,875
----->BPO (LTM)	13.6	12.9	12.2	11.5	11.6	12.1	11.9	11.8	11.7
Trainees	5,038	11,884	10,950	11,556	1,659	6,722	5,933	NA	NA
Laterals (India)	9,877	7,486	4,804	5,733	6,289	5,421	3,672	NA	NA
Gross addition	17,792	22,665	18,362	20,093	11,202	15,868	12,534	NA	NA
Net addition	8,236	9,440	6,978	8,726	(1,414)	3,404	1,667	4,118	5,877

Source: Company

Client Concentration and order intake: TCS added 2, 5, 13, 15 clients in US\$100mn+, US\$10mn+, US\$5mn+, US\$1mn+ bucket QoQ to take the count to 40, 355, 508 and 978 respectively in Q1FY19.

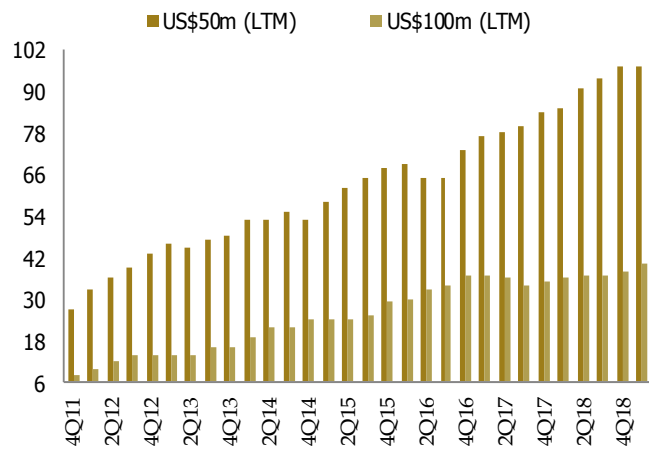
Exhibit 6: Client details

Vertical Mix	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
US\$1m (LTM)	847	859	880	897	905	933	941	963	978
US\$5m (LTM)	439	449	454	459	464	470	485	495	508
US\$10m (LTM)	298	295	300	310	322	328	337	350	355
US\$20m (LTM)	179	185	186	190	190	196	203	207	206
US\$50m (LTM)	77	78	80	84	85	91	94	97	97
US\$100m (LTM)	37	36	34	35	36	37	37	38	40

Source: Company, Trust Research

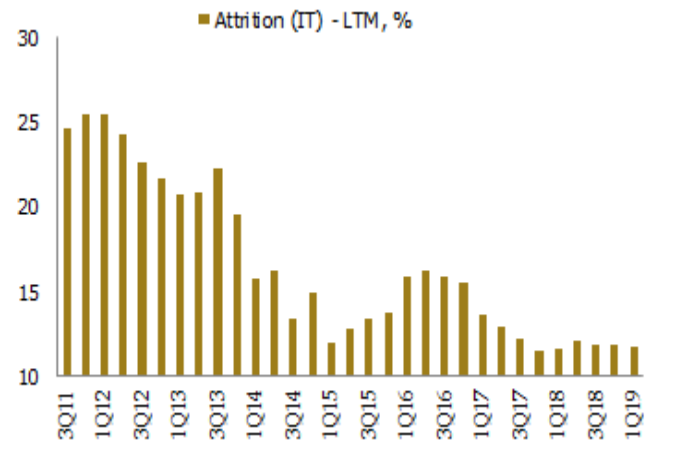


Exhibit 7: Client addition was decent



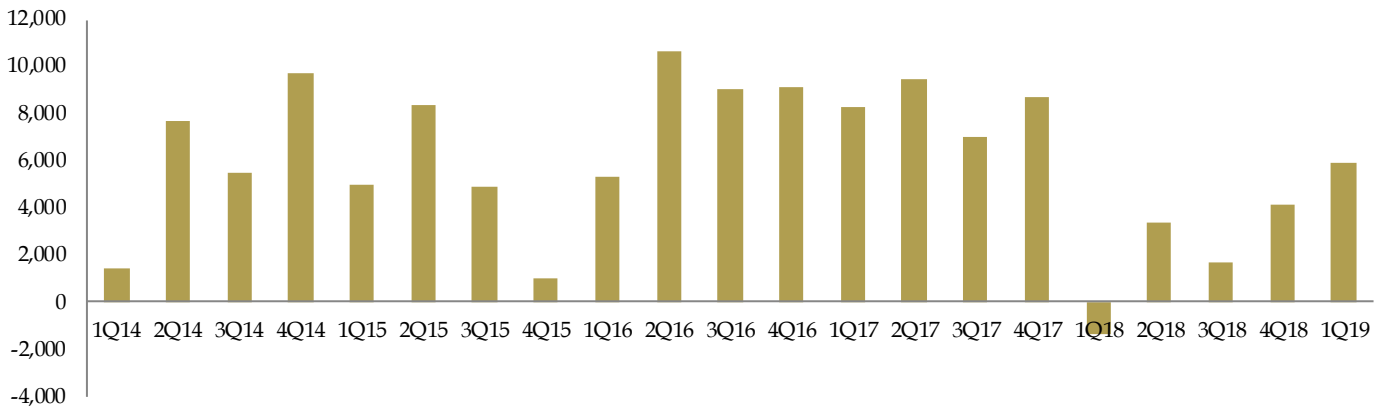
Source: Company, Trust

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	1,413,485	1,548,297
Op. Expenses	779,682	856,559	905,880	1,038,412	1,134,815
EBITDA	306,780	323,101	325,160	375,072	413,482
Other Income	30,833	42,210	36,420	50,500	51,500
Depreciation	18,879	19,870	20,140	20,168	22,238
EBIT	318,734	345,441	341,440	405,404	442,744
Interest	331	320	520	680	680
PBT	318,403	345,121	340,920	404,724	442,064
Tax	75,026	81,560	82,120	100,251	110,516
PAT	243,376	263,561	258,800	304,474	331,548
Minority + Ex. Ordin.	1,227	-	(400)	(880)	(880)
Adj Pat	242,149	263,561	258,400	303,594	330,668

Valuations Summary

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Per share (₹)					
EPS	61.4	66.8	65.6	79.3	86.4
CEPS	66.5	71.9	70.8	84.8	92.4
BVPS	185.7	224.1	263.3	317.6	368.8
DPS	21.8	23.5	25.0	28.0	30.0
Payout (%)	41.4	41.1	43.3	41.3	40.6
Valuation (x)					
P/E	20.6	18.1	21.1	23.7	21.7
P/BV	6.8	5.4	5.3	5.9	5.1
EV/EBITDA	15.9	14.6	17.0	19.2	17.0
Dividend Yield (%)	1.7	1.9	1.8	1.5	1.6
Return ratio (%)					
EBIDTA Margin	28.2	27.4	26.4	26.5	26.7
PAT Margin	22.3	22.3	21.0	21.5	21.4
ROAE	37.1	32.6	29.4	31.6	28.8
ROACE	48.1	42.4	38.6	41.9	38.4
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	0.0	0.0
Growth Ratios (%)					
Income growth	14.8	8.6	4.4	4.9	5.4
EBITDA growth	12.4	5.3	0.6	14.8	9.5
PAT growth	8.3	8.3	(1.8)	17.6	8.9
Turnover Ratios					
Inventory Days	-	-	-	-	-
Debtors Days	75	72	71	70	69
Payable days	38	29	28	27	26

Balance Sheet (₹ mn)

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Liabilities					
Equity Share Capital	1,970	1,970	1,910	3,829	3,829
Reserves & Surplus	729,920	881,180	870,500	1,048,671	1,244,956
Total Shareholders Fund	731,890	883,150	872,410	1,052,499	1,248,784
Minority Interest	3,540	3,660	4,020	4,020	4,020
Non-current liabilities	(7,820)	(6,450)	(4,850)	(2,075)	(226)
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	19,915	21,764
Current Liabilities	155,690	145,120	178,280	201,078	219,566
Short-term borrowings	1,620	2,180	1,930	1,930	1,930
Trade payables	75,410	62,790	50,940	56,899	62,182
Unearned & def revenue	13,590	13,980	20,320	22,759.72	24,873
Other cur liab. & Prov	65,070	66,170	105,090	119,489	130,581
Total Liabilities	883,300	1,025,480	1,049,860	1,255,522	1,472,144
Assets					
Non-current Assets	251,170	220,220	237,620	276,979	288,821
Fixed assets	119,240	117,880	116,120	118,952	119,714
Non-current investments	45,700	40,650	41,850	41,850	41,850
Other non-current assets	86,230	61,690	79,650	116,177	127,257
Current assets	632,130	805,260	812,240	978,543	1,183,323
Current investments	225,320	420,660	377,630	427,630	477,630
Trade receivables	240,730	226,840	249,430	282,697	309,659
Unbilled revenue	39,920	53,510	66,860	73,578.66	80,596
Cash & bank balances	62,950	35,970	48,830	109,441	222,115
Other curr fin. assets	40,990	45,050	43,020	54,216	59,387
Other current assets	22,220	23,230	26,470	30,980	33,935
Total Assets	883,300	1,025,480	1,049,860	1,255,522	1,472,144

Cash flow Statement

Year End-March	FY16	FY17	FY18	FY19E	FY20E
PBT	318,403	345,121	340,920	404,724	442,064
Depreciation	24,259	21,780	16,470	20,168	22,238
Others	(1,227)	-	(400)	(880)	(880)
CF before W.cap	341,434	366,901	356,990	424,012	463,422
Inc/dec in W.cap	62,588	(8,220)	16,260	66,646	32,849
Op CF after W.cap	278,846	375,121	340,730	357,366	430,573
Less Taxes	75,026	81,560	82,120	100,251	110,516
Net CF From Operations	203,819	293,561	258,610	257,115	320,057
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)	1,919	0
Dividend	100,203	108,346	111,980	125,423	134,383
CF from Fin Activities	(91,748)	(111,741)	(269,200)	(123,505)	(134,383)
Net inc/(dec) in cash	44,328	(26,981)	12,860	60,611	112,674
Op. bal of cash	18,622	62,951	35,970	48,830	109,441
Cl. balance of cash	62,950	35,970	48,830	109,441	222,115



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