

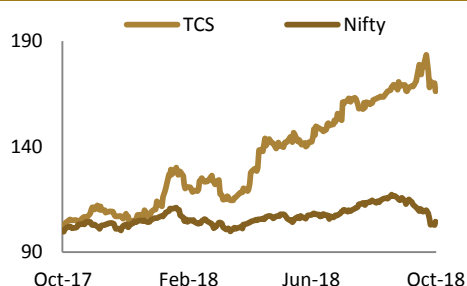
Market statistics

Current stock price (₹)	1,980
Shares O/S (cr.)	382.9
Mcap (₹ cr)	742,878
52W H/L (₹)	2,273/1,229
6m avg. volume	3,751,027
Bloomberg	TCS IN

Shareholding pattern

Promoters	72.05
Domestic Institution	7.50
Foreign Institution	16.05
Non-institution	4.42
of which more than 1%	

TCS vs Nifty



Capital efficiency & valuations

Particulars	FY18	FY19E	FY20E
RoE (%)	29.4	32.5	29.9
EPS (₹)	65.6	82.1	90.8
CEPS (₹)	70.8	87.5	96.7
P/E (x)	21.1	24.1	21.8
P/BV (x)	5.3	6.2	5.3
EV/EBITDA (x)	17.0	18.8	16.3
Income growth (%)	4.4	18.9	11.4
EBITDA growth (%)	0.6	23.8	12.9
PAT growth (%)	(1.8)	21.5	10.6

TCS results were slightly better than our expectations. TCS' revenue increased 3.2% QoQ (3.7% in cc terms), while the EBIT margin stood at 26.5%. EBIT margins increased 148bps 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\$5,215mn (+3.2% QoQ) slightly higher than our estimates. Growth in cc stood at 3.7% QoQ led primarily by growth acceleration in the Life Sciences & Healthcare (5.7% QoQ in cc terms), Regional Markets (7.3% QoQ), UK (6% QoQ) and Latin America (7.1% QoQ) along with broad-based growth in other verticals. EBIT margin stood at 26.5% led by operational efficiencies (30 BPS), rupee tailwind (120 BPS) and absence of wage revision. Retail & CPG vertical segment was up 3.4% while BFSI was up 3.5% QoQ in cc terms. Growth drivers were Life Sciences & Healthcare (5.7%) and Regional Markets & others (7.3%). TCS added 4, 1, 7 and 10 clients in US\$100mn+, US\$50mn+, US\$20mn+, US\$10mn+ bucket QoQ to take the count to 44, 98, 213 and 365 respectively in Q2FY19.

Operating metrics - Details Growth - UK (up 6% QoQ in cc terms), while North America was up 2.6%. Continental Europe was up 4.1% QoQ, while Latin America was up 7.1%. The long term target operating range of EBIT margin remains 26-28%. TCS announced that it has a total deal TCV of around US\$4.9bn (book-to-build ratio remains constant). TCS closed the quarter with a consolidated headcount of 411,102, 10,227 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 16.5% QoQ and 60% YoY on cc terms. The digital segment contributed 28% of the revenues (vs 25% in Q1FY19).

Outlook: Contrary to the usual trend, management has provided double digit YoY cc revenue growth guidance for H2FY19 and FY19. Management has cited that TCS is well positioned to achieve double-digit growth in FY19 despite weak seasonality in 2HFY19, driven by recovery in BFSI and retail, pick-up in outsourcing demand environment in Europe, strong recent deal wins and healthy deal pipeline. The structural shift in demand among financial clients (especially in North America) would be driven by lifting up the regulatory overhang and reduction in corporate tax rate, which should drive the investments in technologies. Further, the acceleration in digital investments is expected in the areas of wealth management, commercial banking and consumer facing businesses. Though retail is not structurally out of woods yet, management expects growth to continue as traditional retailers could embrace digital to face stiff competition from online retail players. Management stated that its early investments in Europe (Germany and France) have started yielding results. Further, management expects healthy growth in Europe to continue going ahead owing to the conversion of global sourcing models.

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	2QFY18	1QFY19	2QFY19	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	4,739	5,051	5,215	3.2	10.0	In constant currency, revenues were up 3.7% QoQ. TCV signed in 2Q19 is US\$4.9bn (~1x bill-to-book)
Revenues	305,410	342,610	368,540	7.6	20.7	
- Operating costs	223,770	251,900	265,760	5.5	18.8	
EBITDA	81,640	90,710	102,780	13.3	25.9	
EBITDA margin (%)	26.7	26.5	27.9	141bps	116bps	Margin was helped by INR depreciation: 120bps QoQ
- Interest expense	70	170	1,370	705.9	1,857.1	
- Depreciation	5,040	4,930	5,070	2.8	0.6	
+ Other income, net (incl forex)	8,190	12,250	7,300	(40.4)	(10.9)	
PBT	84,720	97,860	103,640	5.9	22.3	
- Taxes	20,120	24,240	24,370	0.5	21.1	
Effective tax rate (%)	23.7	24.8	23.5	(126)bps	(23)bps	Effective tax rate for FY19 to be ~23-24%
Consolidated profits	64,600	73,620	79,270	7.7	22.7	
Net Margin	21.2	21.5	21.5	2bps	36bps	
Reported PAT	64,460	73,400	79,270	8.0	23.0	

Source: Company

Exhibit 2: Change in estimates

` mn	FY19E			FY20E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	21,032	21,025	(0.0)	23,109	23,305	0.8
Revenue	1,413,485	1,463,845	3.6	1,548,297	1,631,333	5.4
EBITDA margin (%)	26.5	27.5	100bps	26.7	27.9	120bps
EPS (₹)	79.3	82.1	3.5	86.4	90.8	5.1

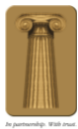
Source: Trust Research

Geography wise Revenues: Growth – UK (up 6% QoQ in cc terms), while North America was up 2.6%. Continental Europe was up 4.1% QoQ, while Latin America was up 7.1%.

Exhibit 3: Geographical wise Performance

Geographical mix	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Americas	56.0	57.2	55.4	54.6	54.1	54.2	52.2	52.9	53.1
---->North America	54.0	55.0	53.3	52.5	51.9	52.0	50.2	51.0	51.1
---->Ibero America	2.0	2.2	2.1	2.1	2.2	2.2	2.0	1.9	2.0
Europe	25.6	24.4	25.5	26.4	27.4	27.6	29.4	29.5	29.6
---->UK	13.8	13.3	13.7	13.9	14.0	14.1	15.2	15.5	15.6
---->Continental Europe	11.8	11.1	11.8	12.5	13.4	13.5	14.2	14.0	14.0
India	5.8	6.3	6.8	7.0	6.3	6.3	6.2	5.8	5.6
Others	12.6	12.1	12.3	12.0	12.2	11.9	12.2	11.8	11.7
---->APAC	10.2	9.6	9.7	9.5	9.8	9.5	9.7	9.6	9.6
---->MEA	2.4	2.5	2.6	2.5	2.4	2.4	2.5	2.2	2.1
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 3.4% while BFSI was up 3.5% QoQ in cc terms. Growth drivers were Life Sciences & Healthcare (5.7%) and Regional Markets & others (7.3%).

Exhibit 4: Vertical wise Performance

Geographical mix	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
BFSI	32.6	31.6	31.1	31.1	31.2
Retail & CPG	15.9	16.7	16.6	16.6	16.6
Communication & Media	7.1	7.1	7.1	7.1	6.9
Manufacturing	7.4	7.5	7.4	7.3	7.2
Life Sciences & Healthcare	7.2	7.3	7.2	7.3	7.5
Energy & Utilities	4.2	4.5	4.8	4.8	4.6
Technology & Services	8.0	7.9	7.8	7.7	7.6
Regional Markets & Others	17.6	17.4	18.0	18.1	18.4
Total	100.0	100.0	100.0	100.0	100.0

Source: Company

Human Resources: TCS closed the quarter with a consolidated headcount of 411,102, 10,227 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	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Total employees	371,519	378,497	387,223	385,809	389,213	390,880	394,998	400,875	411,102
---->BPO (LTM)	12.9	12.2	11.5	11.6	12.1	11.9	11.8	11.7	10.9
Trainees	11,884	10,950	11,556	1,659	6,722	5,933	NA	NA	NA
Laterals (India)	7,486	4,804	5,733	6,289	5,421	3,672	NA	NA	NA
Gross addition	22,665	18,362	20,093	11,202	15,868	12,534	NA	NA	NA
Net addition	9,440	6,978	8,726	(1,414)	3,404	1,667	4,118	5,877	10,227

Source: Company

Client Concentration and order intake: TCS added 4, 1, 7 and 10 clients in US\$100mn+, US\$50mn+, US\$20mn+, US\$10mn+ bucket QoQ to take the count to 44, 98, 213 and 365 respectively in Q2FY19.

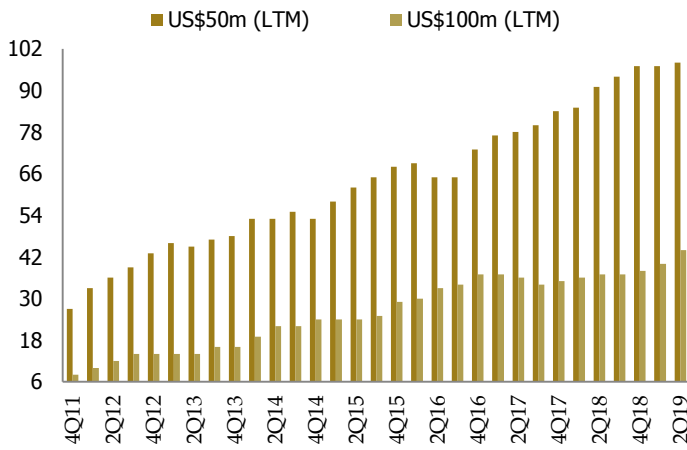
Exhibit 6: Client details

Vertical Mix	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
US\$1m (LTM)	859	880	897	905	933	941	963	978	989
US\$5m (LTM)	449	454	459	464	470	485	495	508	513
US\$10m (LTM)	295	300	310	322	328	337	350	355	365
US\$20m (LTM)	185	186	190	190	196	203	207	206	213
US\$50m (LTM)	78	80	84	85	91	94	97	97	98
US\$100m (LTM)	36	34	35	36	37	37	38	40	44

Source: Company, Trust Research

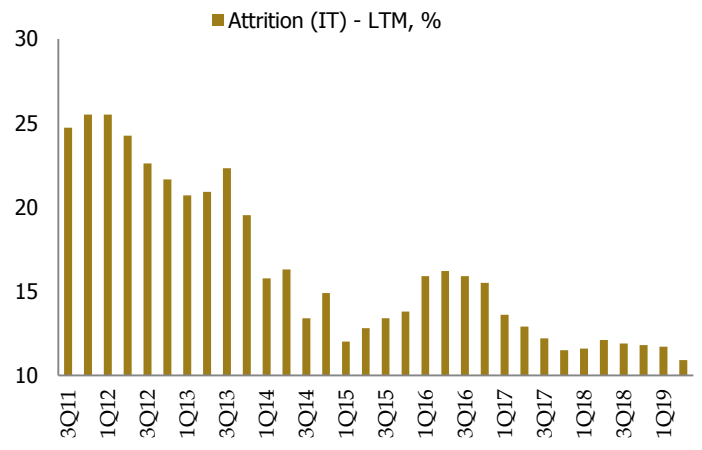


Exhibit 7: Client addition was decent



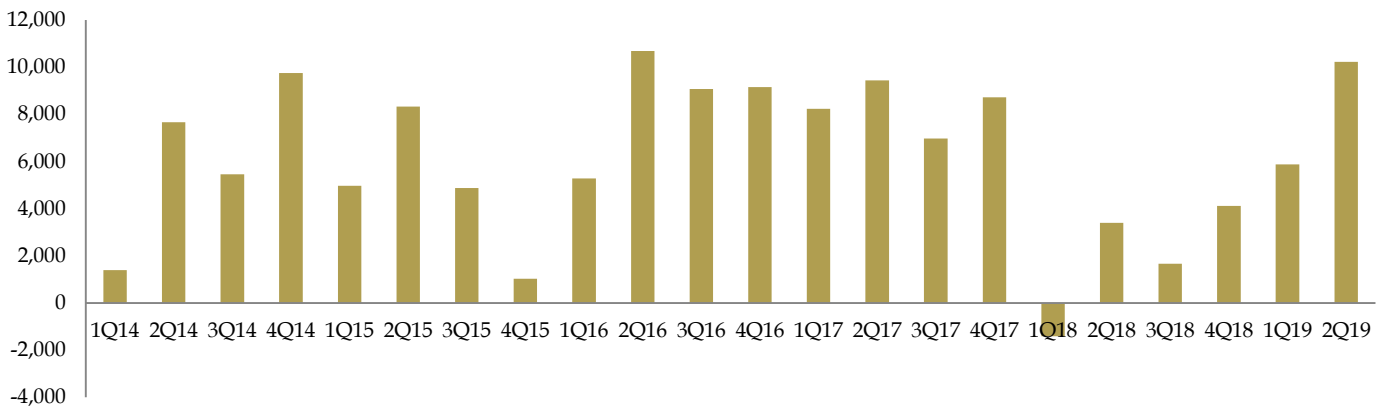
Source: Company, Trust

Exhibit 8: Attrition decreased 80bps 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	1,463,845	1,631,333
Op. Expenses	779,682	856,559	905,880	1,061,241	1,176,837
EBITDA	306,780	323,101	325,160	402,604	454,497
Other Income	30,833	42,210	36,420	34,900	35,900
Depreciation	18,879	19,870	20,140	20,400	22,470
EBIT	318,734	345,441	341,440	417,103	467,926
Interest	331	320	520	4,280	4,280
PBT	318,403	345,121	340,920	412,823	463,646
Tax	75,026	81,560	82,120	98,301	115,912
PAT	243,376	263,561	258,800	314,522	347,735
Minority + Ex. Ordin.	1,227	-	(400)	(220)	(220)
Adj Pat	242,149	263,561	258,400	314,302	347,515

Valuations Summary

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Per share (₹)					
EPS	61.4	66.8	65.6	82.1	90.8
CEPS	66.5	71.9	70.8	87.5	96.7
BVPS	185.7	224.1	263.3	320.4	374.9
DPS	21.8	23.5	25.0	28.0	31.0
Payout (%)	41.4	41.1	43.3	39.9	40.0
Valuation (x)					
P/E	20.6	18.1	21.1	24.1	21.8
P/BV	6.8	5.4	5.3	6.2	5.3
EV/EBITDA	15.9	14.6	17.0	18.8	16.3
Dividend Yield (%)	1.7	1.9	1.8	1.4	1.6
Return ratio (%)					
EBIDTA Margin	28.2	27.4	26.4	27.5	27.9
PAT Margin	22.3	22.3	21.0	21.5	21.3
ROAE	37.1	32.6	29.4	32.5	29.9
ROACE	48.1	42.4	38.6	42.9	40.0
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)	(0.5)
Current ratio	4.1	5.5	4.6	4.8	5.3
Growth Ratios (%)					
Income growth	14.8	8.6	4.4	18.9	11.4
EBITDA growth	12.4	5.3	0.6	23.8	12.9
PAT growth	8.3	8.3	(1.8)	21.5	10.6
Turnover Ratios					
Inventory Days	-	-	-	-	-
Debtors Days	75	72	71	70	69
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	3,829	3,829
Reserves & Surplus	729,920	881,180	870,500	1,059,380	1,268,033
Total Shareholders Fund	731,890	883,150	872,410	1,063,209	1,271,861
Minority Interest	3,540	3,660	4,020	4,020	4,020
Non-current liabilities	(7,820)	(6,450)	(4,850)	(1,637)	579
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	20,353	22,569
Current Liabilities	155,690	145,120	178,280	205,456	227,625
Short-term borrowings	1,620	2,180	1,930	1,930	1,930
Trade payables	75,410	62,790	50,940	58,150	64,484
Unearned & def revenue	13,590	13,980	20,320	23,260	25,794
Other cur liab. & Prov	65,070	66,170	105,090	122,115	135,417
Total Liabilities	883,300	1,025,480	1,049,860	1,271,047	1,504,085
Assets					
Non-current Assets	251,170	220,220	237,620	280,886	295,181
Fixed assets	119,240	117,880	116,120	118,720	119,249
Non-current investments	45,700	40,650	41,850	41,850	41,850
Other non-current assets	86,230	61,690	79,650	120,316	134,082
Current assets	632,130	805,260	812,240	990,162	1,208,904
Current investments	225,320	420,660	377,630	427,630	477,630
Trade receivables	240,730	226,840	249,430	292,769	326,267
Unbilled revenue	39,920	53,510	66,860	76,200	84,919
Cash & bank balances	62,950	35,970	48,830	105,331	221,762
Other curr fin. assets	40,990	45,050	43,020	56,147	62,572
Other current assets	22,220	23,230	26,470	32,084	35,755
Total Assets	883,300	1,025,480	1,049,860	1,271,047	1,504,085

Cash flow Statement

Year End-March	FY16	FY17	FY18	FY19E	FY20E
PBT	318,403	345,121	340,920	412,823	463,646
Depreciation	24,259	21,780	16,470	20,400	22,470
Others	(1,227)	-	(400)	(220)	(220)
CF before W.cap	341,434	366,901	356,990	433,004	485,897
Inc/dec in W.cap	62,588	(8,220)	16,260	81,699	41,692
Op CF after W.cap	278,846	375,121	340,730	351,305	444,205
Less Taxes	75,026	81,560	82,120	98,301	115,912
Net CF From Operations	203,819	293,561	258,610	253,004	328,293
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)	125,422	138,862
Dividend	100,203	108,346	111,980	56,501	116,431
CF from Fin Activities	(91,748)	(111,741)	(269,200)	48,830	105,331
Net inc/(dec) in cash	44,328	(26,981)	12,860	105,331	221,762
Op. bal of cash	18,622	62,951	35,970	412,823	463,646
Cl. balance of cash	62,950	35,970	48,830	20,400	22,470



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