

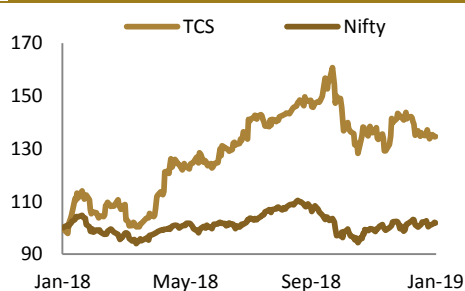
Market statistics

Current stock price (₹)	1,888
Shares O/S (cr.)	375.2
Mcap (₹ cr)	708,507
52W H/L (₹)	2,273/1,349
6m avg. volume	2,942,280
Bloomberg	TCS IN

Shareholding pattern

Promoters	72.05
Domestic Institution	7.48
Foreign Institution	16.05
Non-institution	4.42
of which more than 1%	

TCS vs Nifty



Capital efficiency & valuations

Particulars	FY19E	FY20E	FY21E
RoE (%)	32.8	30.7	28.1
EPS (₹)	82.4	93.1	102.5
CEPS (₹)	87.8	98.8	108.8
P/E (x)	22.9	20.3	18.4
P/BV (x)	5.9	5.0	4.3
EV/EBITDA (x)	18.1	15.8	13.7
Income growth (%)	18.7	10.7	11.0
EBITDA growth (%)	21.6	11.9	11.6
PAT growth (%)	22.0	12.9	10.1

TCS results were slightly lower than our expectations. TCS' revenue increased 0.7% QoQ (1.8% in cc terms), while the EBIT margin stood at 25.6%. EBIT margins decreased 90bps 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\$5,250mn (+0.7% QoQ) slightly lower than our estimates. Growth in cc stood at 1.8% QoQ primarily led by BFSI (8.6% cc), retail and CPG (10.5% cc), communication and media (10.8% cc) and regional markets (22.6% cc). Digital revenue continued to grow strongly at 52.7% YoY. EBIT margin declined by 90bps QoQ to 25.6%, owing to increased cost of doing business (subcontractor cost increased by 60bps QoQ), employee expenses (net addition of 6,827 employees during the quarter) and currency headwinds (50bps QoQ). Lower profitability was offset by higher-than-expected other income (93.4% QoQ), which resulted in 2.6% QoQ growth in net profit.

Operating metrics - Digital revenue growth remained strong at 52.7% YoY. Digital business contributed 31% to the revenue (28% in Q2FY19) in Q3FY19. However, revenue from the core business declined by 2.3% QoQ in Q3FY19. Region wise, U.K. and continental Europe led the revenue growth in Q3FY19, with cc revenue growth of 25.1% YoY and 17.6% YoY, respectively. APAC growth was at 12.6% YoY. North America grew by 8.2% YoY on cc terms on account of strong growth in BFSI. BFSI CC revenue growth accelerated to 8.6% YoY. Retail and CPG, energy and utilities (18.1% YoY cc) and life sciences and healthcare (15.7%) continued to drive revenue growth. Client addition metrics remained solid, with addition of one new client in \$100 mn+ revenue bracket.

Outlook: Management remains confident of delivering double-digit revenue growth in FY19 on account of strong revenue growth in 9MFY19, increasing IT spending in BFSI, retail along with markets such as Europe and robust deal wins in Q3FY19. Total contract value of large deals increased by 20.4% QoQ to US\$5.9bn during the quarter. Strong execution capability along with strong deal closures in CY18 and healthy deal pipeline would help TCS to maintain the revenue growth momentum in the medium term. Further, management highlighted that major verticals (except technology, manufacturing and communication) that constitute 70-80% of total revenue are in a strong growth trajectory. TCS sees huge opportunity in the BFSI vertical especially in North America and Europe in areas of cloud migration, micro services, payments, trading platforms and blockchain technologies. As spending is moving away from front-end to back-end, TCS expects a good demand environment in the retail vertical to continue going forward (though certain blips may happen owing to increasing bankruptcies in the U.S.). However, there would be pressure on margins across the industry owing to increased cost of doing business because of talent crunch and higher local hiring. We believe it would be transient in nature for TCS as it would rationalise the cost structure in the medium term given its execution capability.

Valuation: TCS management remains optimistic about its ability to deliver sustainable growth momentum in the medium-term. 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	3QFY18	2QFY19	3QFY19	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	4,787	5,215	5,250	0.7	9.7	In constant currency, revenues were up 1.8% QoQ. TCV signed in 2Q19 is US\$5.9bn (~1.1x bill-to-book)
Revenues	309,040	368,540	373,380	1.3	20.8	
- Operating costs	226,160	265,760	272,550	2.6	20.5	
EBITDA	82,880	102,780	100,830	(1.9)	21.7	
EBITDA margin (%)	26.8	27.9	27.0	(88)bps	19bps	Margin was dented by increased subcontractor costs: 60bps QoQ
- Interest expense	60	1,370	160	(88.3)	166.7	
- Depreciation	5,070	5,070	5,190	2.4	2.4	
+ Other income, net (incl forex)	8,700	7,300	11,630	59.3	33.7	
PBT	86,450	103,640	107,110	3.3	23.9	
- Taxes	21,000	24,370	25,900	6.3	23.3	
Effective tax rate (%)	24.3	23.5	24.2	67bps	(11)bps	Effective tax rate for FY19 to be ~23-24%
Consolidated profits	65,450	79,270	81,210	2.4	24.1	
Net Margin	21.2	21.5	21.7	24bps	57bps	
Reported PAT	65,450	79,270	81,210	2.4	24.1	

Source: Company

Exhibit 2: Change in estimates

` mn	FY19E			FY20E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	21,025	20,895	(0.6)	23,305	23,096	(0.9)
Revenue	1,463,845	1,460,646	(0.2)	1,631,333	1,616,701	(0.9)
EBITDA margin (%)	27.5	27.1	(40)bps	27.9	27.4	(45)bps
EPS (₹)	82.1	82.4	0.4	90.8	93.1	2.5

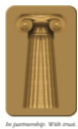
Source: Trust Research

Geography wise Revenues: Region wise, U.K. and continental Europe led the revenue growth in Q3FY19, with cc revenue growth of 25.1% YoY and 17.6% YoY, respectively. APAC growth was at 12.6% YoY. North America grew by 8.2% YoY on cc terms on account of strong growth in BFSI.

Exhibit 3: Geographical wise Performance

Geographical mix	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Americas	57.2	55.4	54.6	54.1	54.2	52.2	52.9	53.1	53.2
---->North America	55.0	53.3	52.5	51.9	52.0	50.2	51.0	51.1	51.2
---->Ibero America	2.2	2.1	2.1	2.2	2.2	2.0	1.9	2.0	2.0
Europe	24.4	25.5	26.4	27.4	27.6	29.4	29.5	29.6	29.6
---->UK	13.3	13.7	13.9	14.0	14.1	15.2	15.5	15.6	15.5
---->Continental Europe	11.1	11.8	12.5	13.4	13.5	14.2	14.0	14.0	14.1
India	6.3	6.8	7.0	6.3	6.3	6.2	5.8	5.6	5.7
Others	12.1	12.3	12.0	12.2	11.9	12.2	11.8	11.7	11.5
---->APAC	9.6	9.7	9.5	9.8	9.5	9.7	9.6	9.6	9.4
---->MEA	2.5	2.6	2.5	2.4	2.4	2.5	2.2	2.1	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: Growth in cc stood at 1.8% QoQ primarily led by BFSI (8.6% cc), retail and CPG (10.5% cc), communication and media (10.8% cc) and regional markets (22.6% cc).

Exhibit 4: Vertical wise Performance

Geographical mix	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
BFSI	31.6	31.1	31.1	31.2	30.8
Retail & CPG	16.7	16.6	16.6	16.6	16.5
Communication & Media	7.1	7.1	7.1	6.9	6.9
Manufacturing	7.5	7.4	7.3	7.2	7.2
Life Sciences & Healthcare	7.3	7.2	7.3	7.5	7.6
Energy & Utilities	4.5	4.8	4.8	4.6	4.7
Technology & Services	7.9	7.8	7.7	7.6	7.6
Regional Markets & Others	17.4	18.0	18.1	18.4	18.7
Total	100.0	100.0	100.0	100.0	100.0

Source: Company

Human Resources: TCS closed the quarter with a consolidated headcount of 417,929, 6,827 employees (net) joined TCS. TCS would be absorbing freshers from campuses for FY20, while mentioning number of additions in FY20 would be lower compared to earlier years as benefits of automation kick in.

Exhibit 5: Employee strength of TCS

Vertical Mix	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Total employees	378,497	387,223	385,809	389,213	390,880	394,998	400,875	411,102	417,929
---->BPO (LTM)	12.2	11.5	11.6	12.1	11.9	11.8	11.7	10.9	11.2
Trainees	10,950	11,556	1,659	6,722	5,933	NA	NA	NA	NA
Laterals (India)	4,804	5,733	6,289	5,421	3,672	NA	NA	NA	NA
Gross addition	18,362	20,093	11,202	15,868	12,534	NA	NA	NA	NA
Net addition	6,978	8,726	(1,414)	3,404	1,667	4,118	5,877	10,227	6,827

Source: Company

Client Concentration and order intake: TCS added 1, 1, 5 and 6 clients in US\$100mn+, US\$50mn+, US\$10mn+, US\$5mn+ bucket QoQ to take the count to 45, 99, 370 and 519 respectively in Q3FY19.

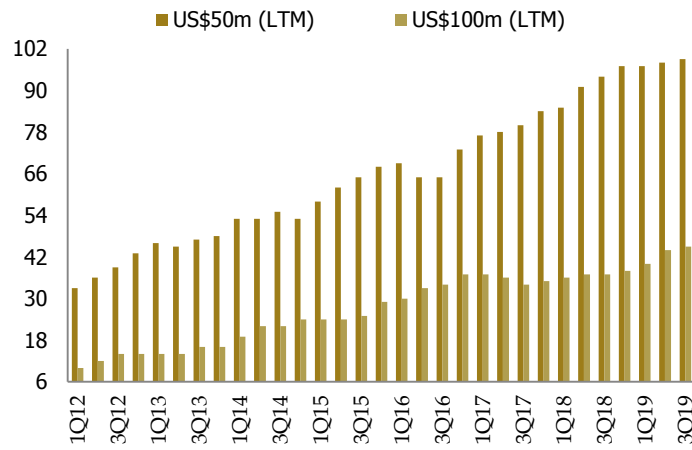
Exhibit 6: Client details

Vertical Mix	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
US\$1m (LTM)	880	897	905	933	941	963	978	989	996
US\$5m (LTM)	454	459	464	470	485	495	508	513	519
US\$10m (LTM)	300	310	322	328	337	350	355	365	370
US\$20m (LTM)	186	190	190	196	203	207	206	213	211
US\$50m (LTM)	80	84	85	91	94	97	97	98	99
US\$100m (LTM)	34	35	36	37	37	38	40	44	45

Source: Company, Trust Research

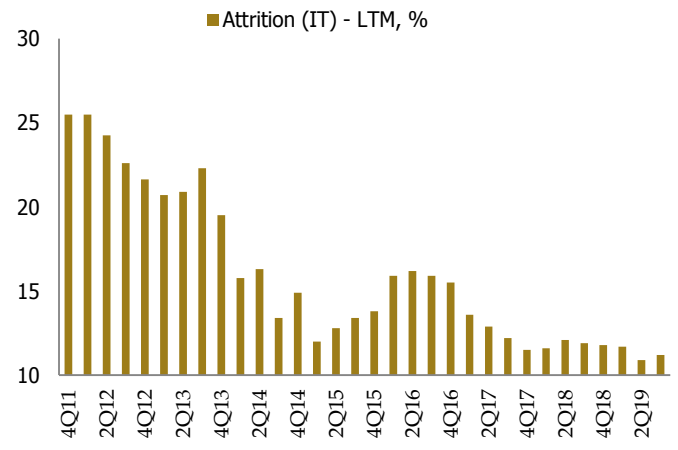


Exhibit 7: Client addition was decent



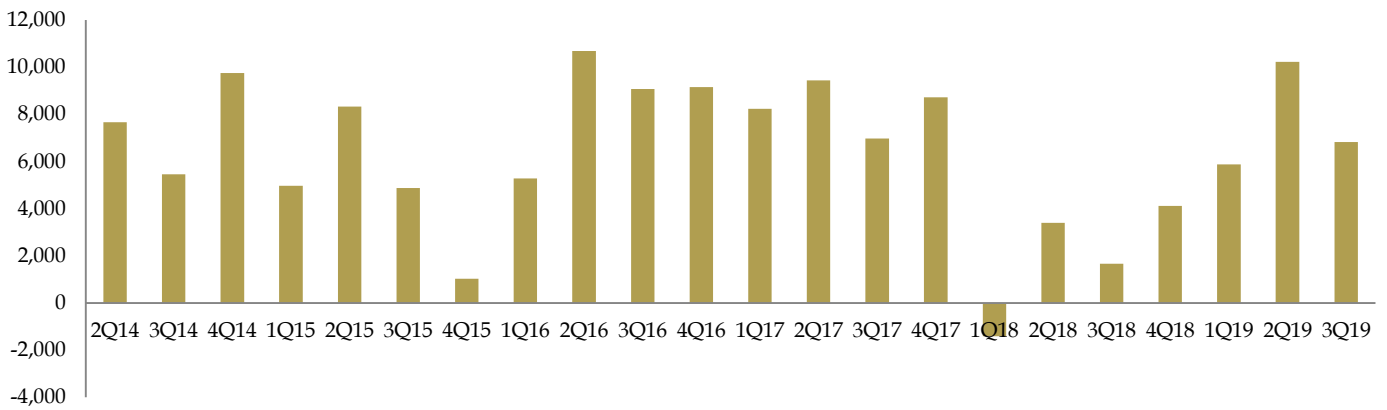
Source: Company, Trust

Exhibit 8: Attrition increased 30bps 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	FY17	FY18	FY19E	FY20E	FY21E
Revenues	1,179,660	1,231,040	1,460,646	1,616,701	1,793,932
Op. Expenses	856,559	905,880	1,065,201	1,174,097	1,300,029
EBITDA	323,101	325,160	395,445	442,605	493,903
Other Income	42,210	36,420	43,060	50,020	54,020
Depreciation	19,870	20,140	20,432	21,850	24,100
EBIT	345,441	341,440	418,074	470,775	523,823
Interest	320	520	1,860	640	640
PBT	81,560	82,120	100,529	113,682	130,796
Tax	263,561	258,800	315,684	356,453	392,387
PAT	(170)	(400)	(220)	-	-
Minority + Ex. Ordin.	263,391	258,400	315,464	356,453	392,387
Adj Pat	1,179,660	1,231,040	1,460,646	1,616,701	1,793,932

Balance Sheet (₹ mn)

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
Liabilities					
Equity Share Capital	1,970	1,910	3,829	3,829	3,829
Reserves & Surplus	881,180	870,500	1,060,543	1,282,613	1,531,659
Total Shareholders Fund	883,150	872,410	1,064,372	1,286,441	1,535,487
Minority Interest	3,660	4,020	4,020	4,020	4,020
Non-current liabilities	(6,450)	(4,850)	(1,561)	527	2,942
Long term Borrowings	710	540	540	540	540
Deferred tax liabilities	(18,860)	(22,530)	(22,530)	(22,530)	(22,530)
Other LT liab & prov	11,700	17,140	20,429	22,517	24,932
Current Liabilities	145,120	178,280	206,215	227,099	251,251
Short-term borrowings	2,180	1,930	1,930	1,930	1,930
Trade payables	62,790	50,940	58,367	64,334	71,234
Unearned & def revenue	13,980	20,320	23,347	25,734	28,494
Other cur liab. & Prov	66,170	105,090	122,571	135,102	149,592
Total Liabilities	1,025,480	1,049,860	1,273,045	1,518,088	1,793,700
Assets					
Non-current Assets	220,220	237,620	277,223	292,347	307,814
Fixed assets	117,880	116,120	115,320	117,617	118,517
Non-current investments	40,650	41,850	41,850	41,850	41,850
Other non-current assets	61,690	79,650	120,053	132,880	147,446
Current assets	805,260	812,240	995,822	1,225,741	1,485,886
Current investments	420,660	377,630	427,630	477,630	527,630
Trade receivables	226,840	249,430	292,129	323,340	358,786
Unbilled revenue	53,510	66,860	76,034	84,157	93,383
Cash & bank balances	35,970	48,830	111,990	243,169	397,959
Other curr fin. assets	45,050	43,020	56,025	62,010	68,808
Other current assets	23,230	26,470	32,014	35,435	39,319
Total Assets	1,025,480	1,049,860	1,273,045	1,518,088	1,793,700

Valuations Summary

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
Per share (₹)					
EPS	66.8	65.6	82.4	93.1	102.5
CEPS	71.9	70.8	87.8	98.8	108.8
BVPS	224.1	263.3	320.7	378.7	443.7
DPS	23.5	25.0	28.0	30.0	32.0
Payout (%)	38.1	40.2	39.8	37.7	36.5
Valuation (x)					
P/E	28.2	28.8	22.9	20.3	18.4
P/BV	8.4	7.2	5.9	5.0	4.3
EV/EBITDA	22.8	22.6	18.1	15.8	13.7
Dividend Yield (%)	1.2	1.3	1.5	1.6	1.7
Return ratio (%)					
EBIDTA Margin	27.4	26.4	27.1	27.4	27.5
PAT Margin	22.3	21.0	21.6	22.0	21.9
ROAE	32.6	29.4	32.8	30.7	28.1
ROACE	42.4	38.6	43.2	40.4	37.4
Leverage Ratios (x)					
Total D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.5)	(0.5)	(0.5)	(0.6)	(0.6)
Current ratio	5.5	4.6	4.8	5.4	5.9
Growth Ratios (%)					
Income growth	8.6	4.4	18.7	10.7	11.0
EBITDA growth	5.3	0.6	21.6	11.9	11.6
PAT growth	8.3	(1.8)	22.0	12.9	10.1
Turnover Ratios					
Inventory Days	-	-	-	-	-
Debtors Days	72	71	68	69	69
Payable days	29	23	22	22	21

Cash flow Statement

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
PBT	345,121	340,920	416,214	470,135	523,183
Depreciation	21,780	16,470	20,432	21,850	24,100
Others	(170)	(400)	(220)	-	-
CF before W.cap	366,731	356,990	436,425	491,985	547,283
Inc/dec in W.cap	(8,220)	16,260	79,601	38,595	43,355
Op CF after W.cap	374,951	340,730	356,824	453,390	503,928
Less Taxes	81,560	82,120	100,529	113,682	130,796
Net CF From Operations	293,391	258,610	256,295	339,708	373,133
Inc/(dec) in F.A + CWIP	18,511	18,380	19,632	24,147	25,000
(Pur)/sale of Investments	190,290	(41,830)	50,000	50,000	50,000
CF from Invst Activities	(208,800)	23,450	(69,632)	(74,147)	(75,000)
Loan Raised/(repaid)	560	(60)	-	-	-
Equity Raised	(11,652)	(165,293)	1,919	0	(0)
Dividend	100,479	103,847	125,421	134,383	143,342
CF from Fin Activities	(111,571)	(269,200)	(123,503)	(134,383)	(143,342)
Net inc/(dec) in cash	(26,981)	12,860	63,160	131,178	154,791
Op. bal of cash	62,951	35,970	48,830	111,990	243,169
Cl. balance of cash	35,970	48,830	111,990	243,169	397,959



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