

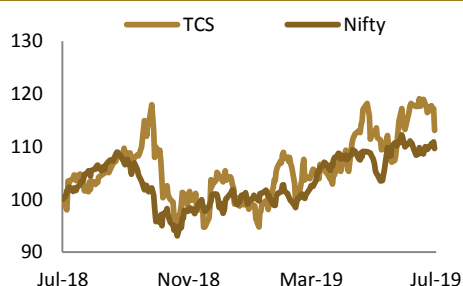
Market statistics

Current stock price (₹)	2,131
Shares O/S (cr.)	375.2
Mcap (₹ cr)	799,802
52W H/L (₹)	2,291/1,784
6m avg. volume	3,087,936
Bloomberg	TCS IN

Shareholding pattern

Promoters	72.05
Domestic Institution	7.83
Foreign Institution	15.80
Non-institution	4.32
of which more than 1%	

TCS vs Nifty



Capital efficiency & valuations

Particulars	FY19	FY20E	FY21E
RoE (%)	32.8	29.7	27.5
EPS (₹)	84.0	91.0	99.2
CEPS (₹)	89.6	99.8	108.5
P/E (x)	23.8	23.4	21.5
P/BV (x)	6.1	5.7	4.9
EV/EBITDA (x)	19.3	18.6	16.3
Income growth (%)	19.0	8.4	10.3
EBITDA growth (%)	21.5	9.0	11.1
PAT growth (%)	22.0	8.4	9.0

TCS results were lower on the revenue front as compared to our expectations. TCS' revenue increased 1.6% QoQ (10.6% YoY in cc terms), while the EBIT margin stood at 24.2% (taking into account wage hike and currency headwind). EBIT margins decreased 94bps 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\$5,485mn (+1.6% QoQ) lower than our estimates. Growth in cc stood at 10.6% YoY primarily led by 18.1% YoY growth in Life Sciences & Healthcare and 16.9% YoY growth in Regional Markets. Digital revenue (32.2% vs. 25% YoY) continued to show strong growth momentum, grew by 42.1% YoY on cc basis. EBIT margin of the company declined by 94bps QoQ to 24.2%, after taking into account a full quarter of wage hikes and unfavourable currency movements. Higher-than-expected other income and lower-than-expected tax expense, resulted in flattish QoQ net profit.

Operating metrics. Region wise, U.K. and continental Europe led the revenue growth in Q1FY20, with revenue growth of 16% YoY (on cc terms) and 15%, respectively. APAC growth was at 9.5% YoY. North America grew by 7.7% YoY. Client addition metrics - TCS added one client in US\$50mn+ revenue bracket, taking the total to 100. TCS added 12,356 (net) employees in Q1 to take the employee base to 436,641.

Outlook: Management remains confident of delivering double-digit revenue growth in FY20 on account of strong revenue growth in FY19, increasing IT spending in BFSI, retail along with markets such as Europe and robust deal wins in FY19. Total contract value of large deals in Q1FY20 stood at US\$5.7bn (after winning deals worth US\$22bn in FY19). Strong execution capability along with strong deal closures in FY19, Q1FY20 coupled with 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.).

Margin outlook: The management has maintained aspirational margin band of 26-28%, despite visa challenges (rejection of higher Visa applications and shortage of talents). Despite macro challenges, order book during the quarter remained strong in FY19 and Q1FY20, which indicates the company's product differentiation and rising client relevance.

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.

ANALYST

Naushil Shah

+91-22 4224 5125

naushil.shah@trustgroup.in


Exhibit 1: Quarterly details

` mn	1QFY19	4QFY19	1QFY20	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	5,051	5,397	5,485	1.6	8.6	In constant currency, revenues were up 10.6% YoY. TCV signed in 1Q20 is US\$5.7bn (~1.x bill-to-book)
Revenues	342,610	380,100	381,720	0.4	11.4	
- Operating costs	251,900	279,370	281,350	0.7	11.7	
EBITDA	90,710	100,730	100,370	(0.4)	10.6	
EBITDA margin (%)	26.5	26.5	26.3	(21)bps	(18)bps	Margin was dented wage hike and currency headwind
- Interest expense	170	280	2,570	817.9	1,411.8	
- Depreciation	4,930	5,360	8,170	52.4	65.7	
+ Other income, net (incl forex)	12,250	11,930	16,750	40.4	36.7	
PBT	97,860	107,020	106,380	(0.6)	8.7	
- Taxes	24,240	25,500	24,850	(2.5)	2.5	
Effective tax rate (%)	24.8	23.8	23.4	(47)bps	(141)bps	Effective tax rate for FY20 to be ~23-24%
Consolidated profits	73,620	81,520	81,530	0.0	10.7	
Net Margin	21.5	21.4	21.4	(9)bps	(13)bps	
Reported PAT	73,400	81,260	81,310	0.1	10.8	

Source: Company

Exhibit 2: Change in estimates

` mn	FY20E			FY21E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	23,134	22,839	(1.3)	25,651	25,208	(1.7)
Revenue	1,619,347	1,587,869	(1.9)	1,795,585	1,751,986	(2.4)
EBITDA margin (%)	26.9	27.1	20bps	27.2	27.3	10bps
EPS (₹)	94.0	91.0	(3.2)	103.2	99.2	(3.9)

Source: Trust Research

Geography wise Revenues: Region wise, U.K. and continental Europe led the revenue growth in Q1FY20, with revenue growth of 16% YoY (on cc terms) and 15%, respectively. APAC growth was at 9.5% YoY. North America grew by 7.7% YoY.

Exhibit 3: Geographical wise Performance

Geographical mix	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Americas	54.6	54.1	54.2	52.2	52.9	53.1	53.2	52.7	52.4
---->North America	52.5	51.9	52.0	50.2	51.0	51.1	51.2	50.7	50.6
---->Ibero America	2.1	2.2	2.2	2.0	1.9	2.0	2.0	2.0	1.8
Europe	26.4	27.4	27.6	29.4	29.5	29.6	29.6	30.0	30.1
---->UK	13.9	14.0	14.1	15.2	15.5	15.6	15.5	15.9	15.8
---->Continental Europe	12.5	13.4	13.5	14.2	14.0	14.0	14.1	14.1	14.3
India	7.0	6.3	6.3	6.2	5.8	5.6	5.7	5.8	6.0
Others	12.0	12.2	11.9	12.2	11.8	11.7	11.5	11.5	11.5
---->APAC	9.5	9.8	9.5	9.7	9.6	9.6	9.4	9.5	9.4
---->MEA	2.5	2.4	2.4	2.5	2.2	2.1	2.1	2.0	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 Life Sciences & Healthcare (in cc) stood at 18.1% YoY while Regional Markets grew 16.9%. BFSI was up 9.2% YoY, 8.4% YoY growth in communication and media vertical and 7.9% YoY growth in the Retail & CPG vertical.

Exhibit 4: Vertical wise Performance

Geographical mix	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
BFSI	31.1	31.2	30.8	30.9	30.8
Retail & CPG	15.4	15.4	15.5	15.1	15.0
Communication & Media	7.1	6.8	6.9	6.8	6.9
Manufacturing	10.2	9.8	9.8	9.6	9.8
Life Sciences & Healthcare	7.3	7.5	7.6	7.7	7.9
Technology & Services	9.0	8.9	8.7	8.6	8.8
Regional Markets & Others	19.9	20.4	20.7	21.3	20.8
Total	100.0	100.0	100.0	100.0	100.0
Digital	25.0	28.1	30.1	31.0	32.2

Source: Company

Human Resources: TCS closed the quarter with a consolidated headcount of 436,641, 12,356 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	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Total employees	385,809	389,213	390,880	394,998	400,875	411,102	417,929	424,285	436,641
---->BPO (LTM)	11.6	12.1	11.9	11.8	11.7	10.9	11.2	11.3	11.5
Trainees	1,659	6,722	5,933	NA	NA	NA	NA	NA	NA
Laterals (India)	6,289	5,421	3,672	NA	NA	NA	NA	NA	NA
Gross addition	11,202	15,868	12,534	NA	NA	NA	NA	NA	NA
Net addition	(1,414)	3,404	1,667	4,118	5,877	10,227	6,827	6,356	12,356

Source: Company

Client Concentration and order intake: TCS added 1 client in the US\$50mn+ bracket to take the total to 100, while it added 4, 13 and 19 clients in US\$20mn+, US\$10mn+ and US\$5mn+ bucket QoQ to take the count to 219, 384 and 551 respectively in Q1FY20.

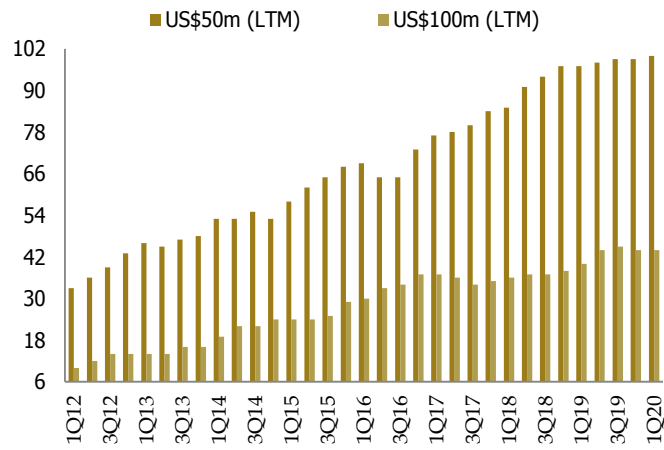
Exhibit 6: Client details

Vertical Mix	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
US\$1m (LTM)	905	933	941	963	978	989	996	1,008	1,014
US\$5m (LTM)	464	470	485	495	508	513	519	532	551
US\$10m (LTM)	322	328	337	350	355	365	370	371	384
US\$20m (LTM)	190	196	203	207	206	213	211	215	219
US\$50m (LTM)	85	91	94	97	97	98	99	99	100
US\$100m (LTM)	36	37	37	38	40	44	45	44	44

Source: Company, Trust Research

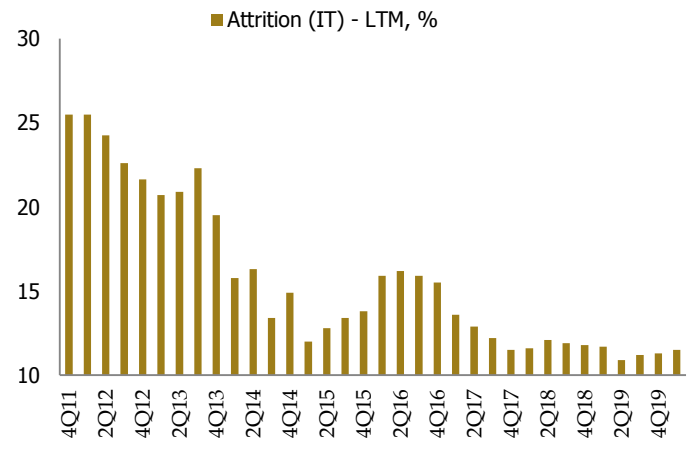


Exhibit 7: Client addition was weak this quarter



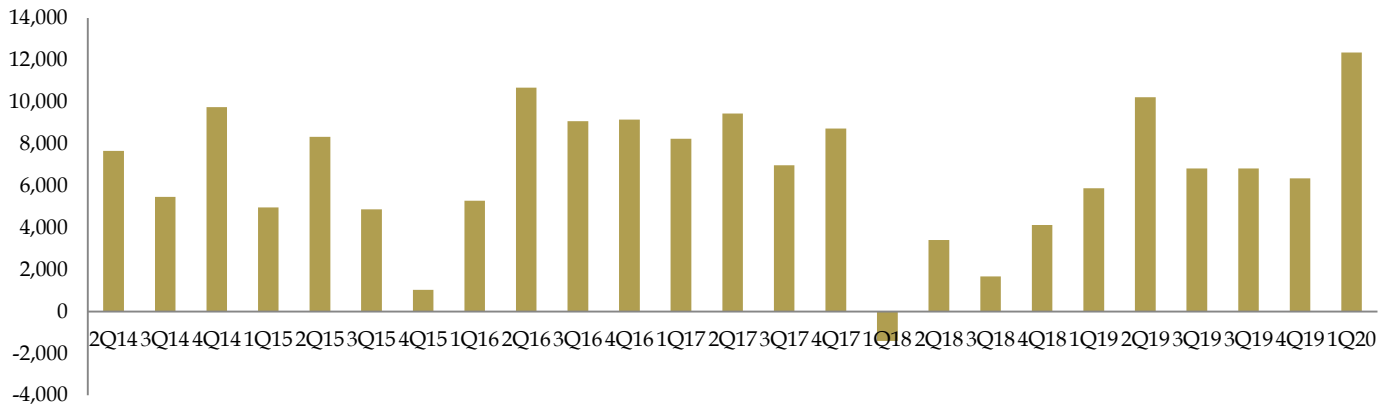
Source: Company, Trust

Exhibit 8: Attrition increased 20bps 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	FY19	FY20E	FY21E
Revenues	1,179,660	1,231,040	1,464,630	1,587,869	1,751,986
Op. Expenses	856,559	905,880	1,069,580	1,157,122	1,273,256
EBITDA	323,101	325,160	395,050	430,747	478,730
Other Income	42,210	36,420	43,110	54,250	50,250
Depreciation	19,870	20,140	20,550	32,448	34,698
EBIT	345,441	341,440	417,610	452,549	494,282
Interest	320	520	1,980	3,470	4,020
PBT	345,121	340,920	415,630	449,079	490,262
Tax	81,560	82,120	100,010	107,098	117,663
PAT	263,561	258,800	315,620	341,981	372,599
Minority + Ex. Ordin.	(170)	(400)	(480)	(480)	(480)
Adj Pat	263,391	258,400	315,140	341,501	372,119

Valuations Summary

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Per share (₹)					
EPS	66.8	65.6	84.0	91.0	99.2
CEPS	71.9	70.8	89.6	99.8	108.5
BVPS	224.1	263.3	325.3	376.6	432.4
DPS	23.5	25.0	30.0	34.0	37.0
Payout (%)	38.1	40.2	41.9	43.7	43.7
Valuation (x)					
P/E	28.2	28.8	23.8	23.4	21.5
P/BV	8.4	7.2	6.1	5.7	4.9
EV/EBITDA	22.8	22.6	19.3	18.6	16.3
Dividend Yield (%)	1.2	1.3	1.5	1.6	1.7
Return ratio (%)					
EBIDTA Margin	27.4	26.4	27.0	27.1	27.3
PAT Margin	22.3	21.0	21.5	21.5	21.2
ROAE	32.6	29.4	32.8	29.7	27.5
ROACE	42.4	38.6	43.2	39.2	36.4
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)	(0.5)	(0.5)
Current ratio	5.5	4.6	4.2	4.5	5.0
Growth Ratios (%)					
Income growth	8.6	4.4	19.0	8.4	10.3
EBITDA growth	5.3	0.6	21.5	9.0	11.1
PAT growth	8.3	(1.8)	22.0	8.4	9.0
Turnover Ratios					
Inventory Days	-	-	-	-	-
Debtors Days	72	71	68	68	68
Payable days	29	23	22	21	21

Balance Sheet (₹ mn)

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Liabilities					
Equity Share Capital	1,970	1,910	3,750	3,752	3,752
Reserves & Surplus	881,180	870,500	911,810	1,104,041	1,313,719
Total Shareholders Fund	883,150	872,410	915,560	1,107,793	1,317,472
Minority Interest	3,660	4,020	4,530	4,530	4,530
Non-current liabilities	(6,450)	(4,850)	3,280	5,146	7,214
Long term Borrowings	710	540	440	440	440
Deferred tax liabilities	(18,860)	(22,530)	(15,900)	(15,900)	(15,900)
Other LT liab & prov	11,700	17,140	18,740	20,606	22,674
Current Liabilities	145,120	178,280	220,840	239,530	263,552
Short-term borrowings	2,180	1,930	180	180	180
Trade payables	62,790	50,940	62,920	68,159	75,000
Unearned & def revenue	13,980	20,320	23,920	25,362	27,907
Other cur liab. & Prov	66,170	105,090	133,820	145,829	160,465
Total Liabilities	1,025,480	1,049,860	1,144,210	1,357,000	1,592,768
Assets					
Non-current Assets	220,220	237,620	222,900	279,336	283,127
Fixed assets	117,880	116,120	118,290	108,096	98,398
Non-current investments	40,650	41,850	40,730	40,730	40,730
Other non-current assets	61,690	79,650	63,880	130,510	143,999
Current assets	805,260	812,240	921,310	1,077,664	1,309,641
Current investments	420,660	377,630	345,190	395,190	445,190
Trade receivables	226,840	249,430	273,460	295,822	326,397
Unbilled revenue	53,510	66,860	51,570	56,554	62,399
Cash & bank balances	35,970	48,830	72,240	134,333	259,656
Other curr fin. assets	45,050	43,020	99,940	108,758	119,999
Other current assets	23,230	26,470	78,910	87,007	95,999
Total Assets	1,025,480	1,049,860	1,144,210	1,357,000	1,592,768

Cash flow Statement

Year End-March	FY17	FY18	FY19	FY20E	FY21E
PBT	345,121	340,920	415,630	449,079	490,262
Depreciation	21,780	16,470	27,180	32,448	34,698
Others	(170)	(400)	(480)	(480)	(480)
CF before W.cap	366,731	356,990	442,330	481,047	524,480
Inc/dec in W.cap	(8,220)	16,260	56,420	90,335	44,053
Op CF after W.cap	374,951	340,730	385,910	390,712	480,427
Less Taxes	81,560	82,120	100,010	107,098	117,663
Net CF From Operations	293,391	258,610	285,900	283,614	362,764
Inc/(dec) in F.A + CWIP	18,511	18,380	22,720	22,254	25,000
(Pur)/sale of Investments	190,290	(41,830)	(33,560)	50,000	50,000
CF from Invst Activities	(208,800)	23,450	10,840	(72,254)	(75,000)
Loan Raised/(repaid)	560	(60)	(1,340)	-	-
Equity Raised	(11,652)	(165,293)	(139,932)	2	(0)
Dividend	100,479	103,847	132,058	149,270	162,441
CF from Fin Activities	(111,571)	(269,200)	(273,330)	(149,267)	(162,441)
Net inc/(dec) in cash	(26,981)	12,860	23,410	62,093	125,323
Op. bal of cash	62,951	35,970	48,830	72,240	134,333
Cl. balance of cash	35,970	48,830	72,240	134,333	259,656



Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
Naren Shah	Head Of Equity		naren.shah@trustgroup.in	+91-22-4084-5074
Sales Trading & Dealing				
Rajesh Ashar	Sales Trader		rajesh.ashar@trustgroup.in	+91-22-4224-5123
Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
Sales				
Vijay Shah	Sales		vijay.shah@trustgroup.in	+91-22-4084-5090
Mayur Joshi	Sales		mayur.joshi@trustgroup.in	+91-22-4084-5028
Research Team				
Binyam Taddese	Analyst	Rates & Credit Research	binyam.taddese@trustgroup.in	+91-22-4224-5037
Naushil Shah	Analyst	Technology, Media & Telecom	naushil.shah@trustgroup.in	+91-22-4224-5125
Tushar Chaudhari	Analyst	Commodities, Auto & Mid-caps	tushar.chaudhari@trustgroup.in	+91-22-4224-5119

DISCLAIMER

We are committed to providing completely independent and transparent recommendations to help our clients reach a better decision. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendatory nature. The recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Trust Financial Consultancy Services Pvt. Ltd. has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. Trust Financial Consultancy Services Pvt. Ltd., its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of Trust Financial Consultancy Services Pvt. Ltd. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. Copyright in this document vests exclusively with Trust Financial Consultancy Services Pvt. Ltd.