

Market statistics

Current stock price (₹)	1,716
Shares O/S (cr.)	375.2
Mcap (₹ cr)	643,759
52W H/L (₹)	2,296/1,504
Bloomberg	TCS IN

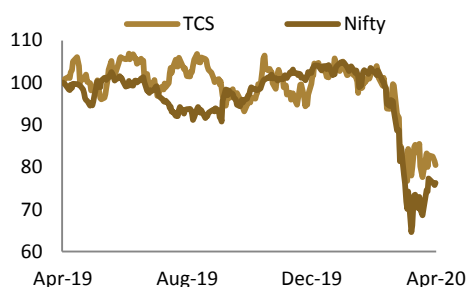
TCS results were lower on the revenue front, while we were positively surprised by the margin management amidst a weak revenue trajectory and falling utilisation. TCS' revenue decreased 2.5% QoQ (+3% YoY in cc terms), while the EBIT margin stood at 25.1% (helped by currency tailwind). EBIT margins increased 10bps QoQ. TCS won orders worth US\$8.9bn in 4Q (FY20 - US\$27bn, +23% YoY). Revenue decelerated in Q4FY20 itself as opposed to Q1/Q2FY21. We downgrade the stock to Hold and await for better entry point. We would get constructive once we believe TCS would return to its industry leading revenue growth alongwith sustainable profitability.

Shareholding pattern

Promoters	72.05
Domestic Institution	8.21
Foreign Institution	15.52
Non-institution	4.22
of which more than 1%	

Quarter details: Revenues at US\$5,444mn (down 2.5% QoQ) was lower-than our-estimates. Growth in cc stood at just 3% YoY primarily led by growth in Life Sciences & Healthcare (in cc) which grew 16.2% YoY while Regional Markets declined 0.7%. BFSI declined 1.3% YoY, 9.3% YoY growth in communication and media vertical and 4.2% YoY growth in the Retail & CPG vertical. EBIT margin increased by ~10bps QoQ to 25.1% helped by currency tailwind. U.K. and continental Europe led the revenue growth in Q4FY20, with revenue growth of 5.4% YoY (on cc terms) and 11.9%, respectively. APAC growth was at 3.5% YoY. North America grew by 0.2% YoY. TCS added 2 client in the US\$100mn+ bracket to take the total to 49. Around 90% of its employees are now enabled to WFH

TCS vs Nifty



Expect sharp revenue decline in Q1FY21E: TCS highlighted that Covid-19 outbreak has caused supply disruption and a material deterioration in the demand environment, which resulted in leakage of revenue in Q4FY20. The management believes that the impact on its revenues from the Covid-19 led crisis would be at par with GFC. Thus, management expects peak negative revenue impact in Q1FY21, which would be at the similar level (deviation of +/- few bps) during GFC. During GFC, the company's US\$ revenue had declined 5.8%/3.4% QoQ in Q3/Q4FY09 respectively. The decline in revenue would also be attributed to inability to get the work-from-home (WFH) approvals from large BFSI clients due to regulatory complexity and security reasons.

Capital efficiency & valuations

Particulars	FY20	FY21E	FY22E
RoE (%)	36.4	32.8	30.1
EPS (₹)	86.2	83.0	90.6
CEPS (₹)	95.9	94.2	102.9
P/E (x)	21.2	20.7	18.9
P/BV (x)	7.9	6.2	5.3
EV/EBITDA (x)	16.9	16.3	14.1
Income growth (%)	7.2	(2.2)	8.8
EBITDA growth (%)	6.6	(2.6)	9.2
PAT growth (%)	2.8	(3.5)	9.7

Deal wins remain strong: TCS reported strong deal wins of US\$8.9bn in 4Q (FY20 - US\$27bn, +23% YoY). TCS signed deals worth US\$5.3bn in North America, US\$2.4bn in the BFSI vertical and US\$3.1bn in the retail vertical. Further, the growth prospects in BFSI vertical remain tepid considering low interest rates across major economies. **BFSI vertical outlook:** For the past four quarters, growth in the BFSI vertical has been decelerating owing to tightening of spends by traditional banks.

Strategy to deal Covid-19 crisis: Management stated that it is working with four themes - operational that focuses on execution quality, feedback from customer, talent model and continued investment on reskilling to prepare employees for rapid shift & financial model.

Valuation: We have revised downward our earnings estimates for FY21E/FY22E factoring in a miss in its revenue and potential material deterioration in the demand environment. At CMP, the stock is trading at 20.7x/18.9x of its FY21/FY22 earnings estimates, which is expensive considering the fluid environment and deceleration in revenue growth in Q4FY20 itself as opposed to Q1/Q2FY21. Hence, we downgrade the stock to Hold and await for better entry point. We would get constructive once we believe TCS would return to its industry leading revenue growth alongwith sustainable profitability.

ANALYST

Naushil Shah

+91-22 4224 5125

naushil.shah@trustgroup.in


Exhibit 1: Quarterly details

₹ mn	4QFY19	3QFY20	4QFY20	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	5,397	5,586	5,444	(2.5)	0.9	In constant currency, revenues were up 3% YoY. TCV signed in 4Q20 is US\$8.9bn (~1.6.x bill-to-book)
Revenues	380,100	398,540	399,460	0.2	5.1	
- Operating costs	279,370	289,830	289,700	(0.0)	3.7	
EBITDA	100,730	108,710	109,760	1.0	9.0	
EBITDA margin (%)	26.5	27.3	27.5	20bps	98bps	Margin was helped currency tailwind
- Interest expense	280	2,230	2,510	12.6	796.4	
- Depreciation	5,360	8,970	9,510	6.0	77.4	
+ Other income, net (incl forex)	11,930	8,180	7,380	(9.8)	(38.1)	
PBT	107,020	105,690	105,120	(0.5)	(1.8)	
- Taxes	25,500	24,260	24,190	(0.3)	(5.1)	
Effective tax rate (%)	23.8	23.0	23.0	6bps	(82)bps	Effective tax rate for FY21 to be ~23-24%
Consolidated profits	81,520	81,430	80,930	(0.6)	(0.7)	
Net Margin	21.4	20.4	20.3	(17)bps	(119)bps	
Reported PAT	81,260	81,180	80,490	(0.8)	(0.9)	

Source: Company

Exhibit 2: Change in estimates

₹ mn	FY21E			FY22E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	23,969	21,022	(12.3)	26,184	22,862	(12.7)
Revenue	1,677,811	1,534,584	(8.5)	1,832,886	1,668,946	(8.9)
EBITDA margin (%)	27.5	26.7	(90)bps	27.9	26.6	(125)bps
EPS (₹)	96.0	83.0	(13.5)	105.8	90.6	(14.4)

Source: Trust Research

Geography wise Revenues: Region wise, U.K. and continental Europe led the revenue growth in Q4FY20, with revenue growth of 5.4% YoY (on cc terms) and 11.9%, respectively. APAC growth was at 3.5% YoY. North America grew by 0.2% YoY.

Exhibit 3: Geographical wise Performance

Geographical mix	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Americas	52.2	52.9	53.1	53.2	52.7	52.4	52.5	52.0	52.1
---->North America	50.2	51.0	51.1	51.2	50.7	50.6	50.6	50.1	50.3
---->Ibero America	2.0	1.9	2.0	2.0	2.0	1.8	1.9	1.9	1.8
Europe	29.4	29.5	29.6	29.6	30.0	30.1	30.2	30.8	31.2
---->UK	15.2	15.5	15.6	15.5	15.9	15.8	15.6	15.9	16.0
---->Continental Europe	14.2	14.0	14.0	14.1	14.1	14.3	14.6	14.9	15.2
India	6.2	5.8	5.6	5.7	5.8	6.0	5.7	5.7	5.5
Others	12.2	11.8	11.7	11.5	11.5	11.5	11.6	11.5	11.2
---->APAC	9.7	9.6	9.6	9.4	9.5	9.4	9.4	9.3	9.3
---->MEA	2.5	2.2	2.1	2.1	2.0	2.1	2.2	2.2	1.9
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 16.2% YoY while Regional Markets declined 0.7%. BFSI declined 1.3% YoY, 9.3% YoY growth in communication and media vertical and 4.2% YoY growth in the Retail & CPG vertical.

Exhibit 4: Vertical wise Performance

Geographical mix	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
BFSI	31.1	31.2	30.8	30.9	30.8	31.0	30.4	29.7
Retail & CPG	15.4	15.4	15.5	15.1	15.0	14.8	15.2	15.4
Communication & Media	7.1	6.8	6.9	6.8	6.9	7.0	7.0	7.2
Manufacturing	10.2	9.8	9.8	9.6	9.8	9.8	10.0	10.1
Life Sciences & Healthcare	7.3	7.5	7.6	7.7	7.9	8.1	8.3	8.8
Technology & Services	9.0	8.9	8.7	8.6	8.8	8.7	8.4	8.7
Regional Markets & Others	19.9	20.4	20.7	21.3	20.8	20.6	20.7	20.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Digital	25.0	28.1	30.1	31.0	32.2	33.2	NA	NA

Source: Company

Human Resources: TCS closed the quarter with a consolidated headcount of 448,464, i.e., 1,789 employees (net) joined TCS. TCS will absorb all the ~40,000 freshers to whom offers have been rolled out for FY21 in Q2/Q3, while overall employment has been frozen.

Exhibit 5: Employee strength of TCS

Vertical Mix	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Total employees	394,998	400,875	411,102	417,929	424,285	436,641	450,738	446,675	448,464
---->BPO (LTM)	11.8	11.7	10.9	11.2	11.3	11.5	11.6	12.2	12.1
Net addition	4,118	5,877	10,227	6,827	6,356	12,356	14,097	(4,063)	1,789

Source: Company

Client Concentration and order intake: TCS added 2 client in the US\$100mn+ bracket to take the total to 49, while it added 3, 8 and 8 clients in US\$50mn+, US\$20mn+ and US\$5mn+ bucket QoQ to take the count to 105, 240 and 565 respectively in Q4FY20.

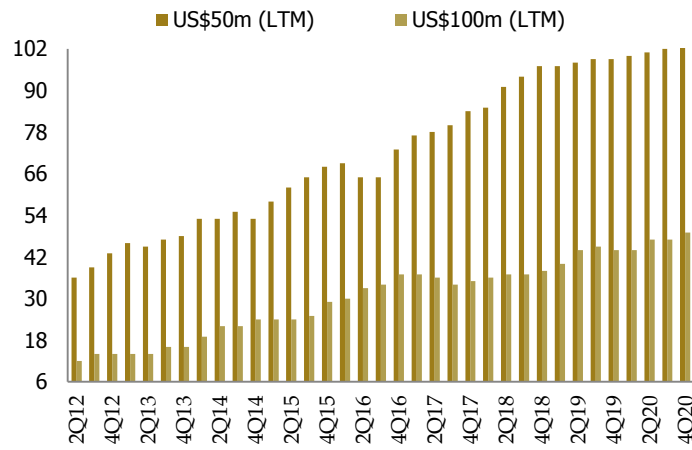
Exhibit 6: Client details

Vertical Mix	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
US\$1m (LTM)	963	978	989	996	1,008	1,014	1,032	1,053	1,072
US\$5m (LTM)	495	508	513	519	532	551	554	557	565
US\$10m (LTM)	350	355	365	370	371	384	398	395	391
US\$20m (LTM)	207	206	213	211	215	219	225	232	240
US\$50m (LTM)	97	97	98	99	99	100	101	102	105
US\$100m (LTM)	38	40	44	45	44	44	47	47	49

Source: Company, Trust Research

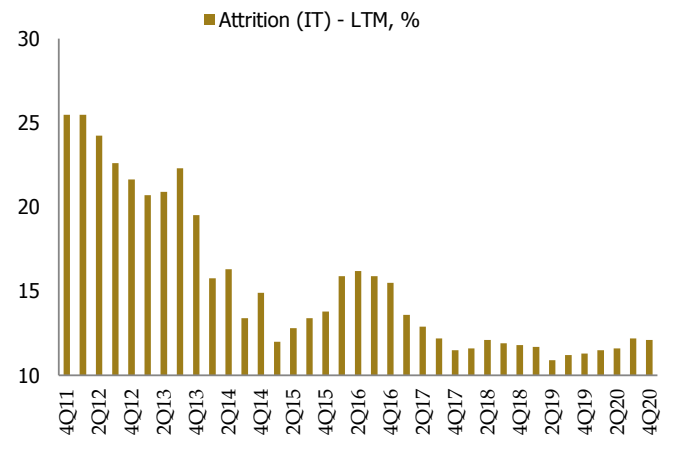


Exhibit 7: Client addition was strong this quarter



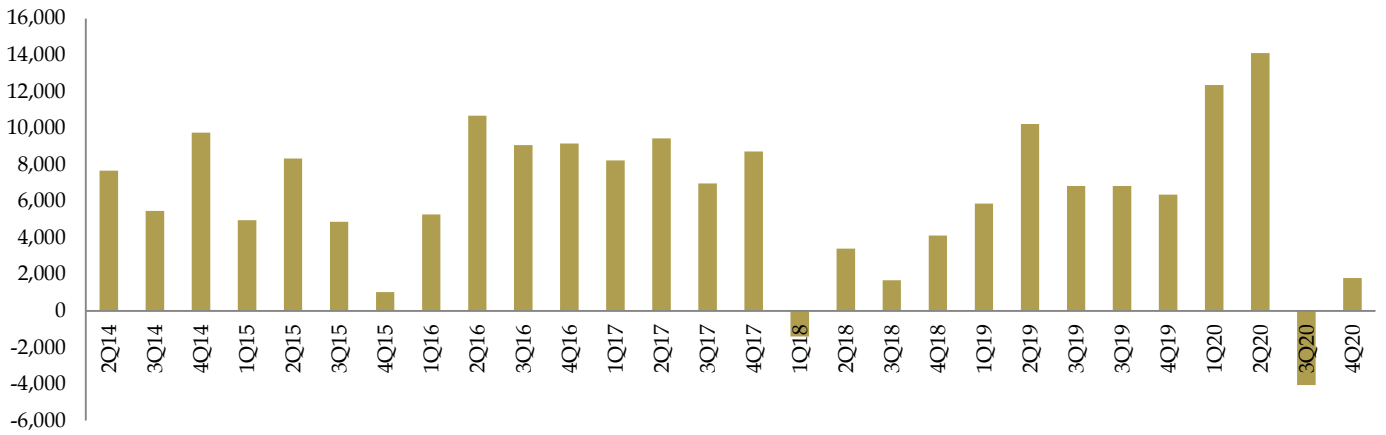
Source: Company, Trust

Exhibit 8: Attrition decreased 10bps QoQ



Source: Company, Trust

Exhibit 9: TCS to absorb all the offers that have been given out for FY21, however further employment frozen



Source: Company, Trust



Financials

Income Statement (₹ mn)

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Revenues	1,231,040	1,464,630	1,569,490	1,534,584	1,668,946
Op. Expenses	905,880	1,069,580	1,148,390	1,124,641	1,221,469
EBITDA	325,160	395,050	421,100	409,943	447,477
Other Income	36,420	43,110	45,920	42,020	44,020
Depreciation	20,140	20,550	35,300	40,291	44,341
EBIT	341,440	417,610	431,720	411,672	447,156
Interest	520	1,980	9,240	5,040	3,276
PBT	340,920	415,630	422,480	406,632	443,880
Tax	82,120	100,010	98,010	93,525	102,092
PAT	258,800	315,620	324,470	313,107	341,788
Minority + Ex. Ordin.	(400)	(480)	(1,070)	(1,760)	(1,760)
Adj Pat	258,400	315,140	323,400	311,347	340,028

Balance Sheet (₹ mn)

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Liabilities					
Equity Share Capital	1,910	3,750	3,750	3,752	3,752
Reserves & Surplus	870,500	911,810	858,650	1,033,898	1,220,265
Shareholders Fund	872,410	915,560	862,400	1,037,650	1,224,018
Minority Interest	4,020	4,530	6,230	6,230	6,230
Non-current liabilities	(4,850)	3,280	62,880	68,858	70,582
Long term Borrowings	540	440	69,060	69,060	69,060
Deferred tax liabilities	(22,530)	(15,900)	(20,230)	(20,230)	(20,230)
Other LT liab & prov	17,140	18,740	14,050	20,028	21,752
Current Liabilities	178,280	220,840	270,600	245,311	265,340
Short-term borrowings	1,930	180	12,680	12,680	12,680
Trade payables	50,940	62,920	67,400	66,246	71,950
Unearned & def revenue	20,320	23,920	29,150	24,650	26,772
Other cur liab. & Prov	105,090	133,820	161,370	141,736	153,939
Total Liabilities	1,049,860	1,144,210	1,202,110	1,358,049	1,566,170
Assets					
Non-current Assets	237,620	222,900	299,740	240,100	247,385
Fixed assets	116,120	118,290	122,210	123,762	124,421
Non-current investments	41,850	40,730	40,660	40,660	40,660
Other non-current assets	79,650	63,880	136,870	75,678	82,304
Current assets	812,240	921,310	902,370	1,117,949	1,318,785
Current investments	377,630	345,190	269,450	319,450	369,450
Trade receivables	249,430	273,460	305,320	378,391	388,659
Unbilled revenue	66,860	51,570	57,320	67,269	73,159
Cash & bank balances	48,830	72,240	86,460	100,579	231,460
Other curr fin. assets	43,020	99,940	101,630	147,152	150,891
Other current assets	26,470	78,910	82,190	105,109	105,166
Total Assets	1,049,860	1,144,210	1,202,110	1,358,049	1,566,170

Valuations Summary

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Per share (₹)					
EPS	65.6	84.0	86.2	83.0	90.6
CEPS	70.8	89.6	95.9	94.2	102.9
BVPS	263.3	325.3	229.8	276.5	326.2
DPS	25.0	30.0	73.0	31.0	35.0
Payout (%)	40.2	41.9	99.1	43.7	45.2
Valuation (x)					
P/E	28.8	23.8	21.2	20.7	18.9
P/BV	7.2	6.1	7.9	6.2	5.3
EV/EBITDA	22.6	19.3	16.9	16.3	14.1
Dividend Yield (%)	1.3	1.5	4.0	1.8	2.0
Return ratio (%)					
EBIDTA Margin	26.4	27.0	26.8	26.7	26.8
PAT Margin	21.0	21.5	20.6	20.3	20.4
ROAE	29.4	32.8	36.4	32.8	30.1
ROACE	38.6	43.2	46.1	39.7	36.7
Leverage Ratios (x)					
Total D/E	0.0	0.0	0.1	0.1	0.1
Net Debt/Equity	(0.5)	(0.5)	(0.3)	(0.3)	(0.4)
Current ratio	4.6	4.2	3.3	4.6	5.0
Growth Ratios (%)					
Income growth	4.4	19.0	7.2	(2.2)	8.8
EBITDA growth	0.6	21.5	6.6	(2.6)	9.2
PAT growth	(1.8)	22.0	2.8	(3.5)	9.2
Turnover Ratios					
Inventory Days	-	-	-	-	-
Debtors Days	71	65	67	81	84
Payable days	23	19	21	22	21

Cash flow Statement

Year End-March	FY18	FY19	FY20	FY21E	FY22E
PBT	340,920	415,630	422,480	406,632	443,880
Depreciation	16,470	27,180	30,970	40,291	44,341
Others	(400)	(480)	(1,070)	(1,760)	(1,760)
CF before W.cap	356,990	442,330	452,380	445,163	484,461
Inc/dec in W.cap	16,260	56,420	83,000	109,580	4,828
Op CF after W.cap	340,730	385,910	369,380	335,584	481,633
Less Taxes	82,120	100,010	98,010	93,525	102,092
Net CF From Operations	258,610	285,900	271,370	242,058	379,051
Inc/(dec) in F.A + CWIP	18,380	22,720	39,220	41,843	45,000
(Pur)/sale of Investments	(41,830)	(33,560)	(75,810)	50,000	50,000
CF from Invst Activities	23,450	10,840	36,590	(91,843)	(95,000)
Loan Raised/(repaid)	(60)	(1,340)	82,820	-	-
Equity Raised	(165,293)	(139,932)	(56,086)	2	0
Dividend	103,847	132,058	320,474	136,099	153,660
CF from Fin Activities	(269,200)	(273,330)	(293,740)	(136,097)	(153,660)
Net inc/(dec) in cash	12,860	23,410	14,220	14,119	130,881
Op. bal of cash	35,970	48,830	72,240	86,460	100,579
Cl. balance of cash	48,830	72,240	86,460	100,579	231,460

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Recommendation **Expected absolute returns (%) over 12 months**

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Hold 15% to -15%

Sell Less than -15%

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