

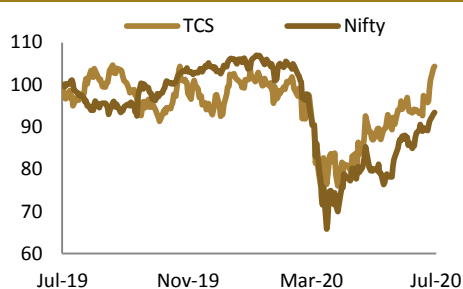
Market statistics

| | |
|-------------------------|-------------|
| Current stock price (₹) | 2,222 |
| Shares O/S (cr.) | 375.2 |
| Mcap (₹ cr) | 833,645 |
| 52W H/L (₹) | 2,302/1,504 |
| Bloomberg | TCS IN |

Shareholding pattern

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

TCS vs Nifty



Capital efficiency & valuations

| Particulars | FY20 | FY21E | FY22E |
|-------------------|------|-------|-------|
| RoE (%) | 36.4 | 32.5 | 30.3 |
| EPS (₹) | 86.2 | 82.7 | 92.5 |
| CEPS (₹) | 95.9 | 93.9 | 104.8 |
| P/E (x) | 21.2 | 26.9 | 24.0 |
| P/BV (x) | 7.9 | 8.0 | 6.7 |
| EV/EBITDA (x) | 16.9 | 20.3 | 18.2 |
| Income growth (%) | 7.2 | 0.0 | 8.5 |
| EBITDA growth (%) | 6.6 | 0.8 | 10.0 |
| PAT growth (%) | 2.8 | (3.8) | 11.8 |

TCS reported lower-than-expected numbers. Constant currency (cc) revenue declined 6.3% YoY, owing to supply-side constraints (accounting for 20% of the total impact) and subdued demand. Barring life-science verticals (grew at 13.8% YoY), all other verticals showed declines. EBIT margin contracted by 150bps QoQ to 23.6%, owing to a sharp decline in revenue, partially offset by INR depreciation and efficiency measures. The management re-iterated earlier expectations of a recovery in revenue growth from Q2FY21E as supply-side constrains evaporate and demand surges for digital infrastructure solution and higher expenditure around core transformation. We maintain our Hold recommendation and await for better entry point. The stock has rallied c.25% over last 3 months and is trading at expensive valuations.

Quarter details: TCS reported lower-than-expected performance including significant miss on OPM. The company reported a decline of 6.3% YoY in cc revenue due to supply-side constraints (accounting for 20% of total impact) and demand compression from all the vertical with exception to life science and healthcare. In US\$ terms, revenue declined by 7.1% QoQ / 7.8% YoY. EBIT margin declined 150 bps QoQ to 23.6%, owing to a sharp decline in revenue. Margin headwind was partially offset by INR tailwind and efficiency measures.

Expect recovery from Q2FY21; deal wins remains strong: The management reiterated its earlier expectations of a recovery in revenue growth from Q2FY21E given the absence of supply-side constrains and a surge in demand for digital infrastructure solutions and core transformation. The management stated that the COVID-19 impact has bottomed out and recovery would be faster as compared to the post-GFC period. TCS would be benefited from three broad spending themes by customers- (1) Smart secure workplace and collaboration - many customers have been investing in implementing more secure workplace and collaboration tools, (2) customer experience - there are sharp changes in customer behavior and (3) core transformation - the pandemic highlighted the need of operational resilience and agility within the enterprise.

Impact of H1-B visa: US President signed a proclamation suspending entry into the US for nonimmigrant visa holders like H-1B and L till the end of CY20. The suspension is not applicable to valid visa holders as of the date of proclamation. TCS expects that the temporary suspension would adversely impact revenue.

Large deal wins: Strong deal wins continued in Q1FY21, with deal TCVs of US\$6.9bn (vs US\$8.9bn in Q4FY20). The book-to-bill ratio was at 1.36x in Q1FY21 vs 1.63x in Q4FY20. It remained higher than average US\$6.1bn of past eight quarters. TCS signed deals worth US\$3.3bn in North America, US\$2.1bn in the BFSI vertical and US\$0.9bn in the retail vertical. Large deals are coming from the accelerated adoption of digital infrastructure and core transformation. Management indicated no reduction in the deal value or average deal tenure. Though some of the transformation program was paused in last quarter due to COVID-19, those projects have started. Deal pipeline remains balanced in terms of size / speed, while actual deal closure remained polarised.

Valuation: We tweak our earnings estimates for FY21E/FY22E factoring in a miss in revenue/margin while resetting US\$-INR assumptions. At CMP, the stock is trading at 26.9x/24x of its FY21E/FY22E earnings, which is expensive. We maintain our Hold and await for better entry point.

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Exhibit 1: Quarterly details

| ₹ mn | 1QFY20 | 4QFY20 | 1QFY21 | QoQ (%) | YoY (%) | Comments |
|----------------------------------|----------------|----------------|----------------|-----------------|----------------|--|
| Revenues (in US\$ mn) | 5,485 | 5,444 | 5,059 | (7.1) | (7.8) | In constant currency, revenue was down 6.3% YoY cc. TCV signed in 1Q21 is US\$6.9bn (~1.4x bill-to-book) |
| Revenues | 381,720 | 399,460 | 383,220 | (4.1) | 0.4 | |
| - Operating costs | 281,350 | 289,700 | 282,970 | (2.3) | 0.6 | |
| EBITDA | 100,370 | 109,760 | 100,250 | (8.7) | (0.1) | |
| EBITDA margin (%) | 26.3 | 27.5 | 26.2 | (132)bps | (13)bps | Margin was helped currency tailwind and operational efficiencies. |
| - Interest expense | 2,570 | 2,510 | 1,420 | (43.4) | (44.7) | |
| - Depreciation | 8,170 | 9,510 | 9,770 | 2.7 | 19.6 | |
| + Other income, net (incl forex) | 16,750 | 7,380 | 5,980 | (19.0) | (64.3) | |
| PBT | 106,380 | 105,120 | 95,040 | (9.6) | (10.7) | |
| - Taxes | 24,850 | 24,190 | 24,550 | 1.5 | (1.2) | |
| Effective tax rate (%) | 23.4 | 23.0 | 25.8 | 282bps | 247bps | ETR to remain ~23-24% |
| Consolidated profits | 81,530 | 80,930 | 70,490 | (12.9) | (13.5) | |
| Net Margin | 21.4 | 20.3 | 18.4 | (187)bps | (296)bps | |
| Reported PAT | 81,310 | 80,490 | 70,080 | (12.9) | (13.8) | |

Source: Company

Exhibit 2: Change in estimates

| ₹ mn | FY21E | | | FY22E | | |
|-------------------|-----------|-----------|-------|-----------|-----------|-------|
| | Old | New | %Chg | Old | New | %Chg |
| Revenue (US\$ mn) | 21,022 | 20,875 | (0.7) | 22,862 | 22,708 | (0.7) |
| Revenue | 1,534,584 | 1,569,509 | 2.3 | 1,668,946 | 1,703,105 | 2.0 |
| EBITDA margin (%) | 26.7 | 27.0 | 30bps | 26.6 | 27.4 | 80bps |
| EPS (₹) | 83.0 | 82.7 | (0.4) | 90.6 | 92.5 | 2.1 |

Source: Trust Research

Geography wise Revenues: Demand contraction was broad-based by geography. Other than Europe (+2.7%) and Latin America (+0.2%), growth declined in all other markets: North America -6.1% YoY, U.K. (-8.5%), India (-27.6%), Asia Pacific (-3.2%) and MEA (-11.7%).

Exhibit 3: Geographical wise Performance

| Geographical mix | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 | Q1FY21 |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Americas | 52.9 | 53.1 | 53.2 | 52.7 | 52.4 | 52.5 | 52.0 | 52.1 | 53.1 |
| ---->North America | 51.0 | 51.1 | 51.2 | 50.7 | 50.6 | 50.6 | 50.1 | 50.3 | 51.4 |
| ---->Ibero America | 1.9 | 2.0 | 2.0 | 2.0 | 1.8 | 1.9 | 1.9 | 1.8 | 1.7 |
| Europe | 29.5 | 29.6 | 29.6 | 30.0 | 30.1 | 30.2 | 30.8 | 31.2 | 30.9 |
| ---->UK | 15.5 | 15.6 | 15.5 | 15.9 | 15.8 | 15.6 | 15.9 | 16.0 | 15.3 |
| ---->Continental Europe | 14.0 | 14.0 | 14.1 | 14.1 | 14.3 | 14.6 | 14.9 | 15.2 | 15.6 |
| India | 5.8 | 5.6 | 5.7 | 5.8 | 6.0 | 5.7 | 5.7 | 5.5 | 4.3 |
| Others | 11.8 | 11.7 | 11.5 | 11.5 | 11.5 | 11.6 | 11.5 | 11.2 | 11.7 |
| ---->APAC | 9.6 | 9.6 | 9.4 | 9.5 | 9.4 | 9.4 | 9.3 | 9.3 | 9.8 |
| ---->MEA | 2.2 | 2.1 | 2.1 | 2.0 | 2.1 | 2.2 | 2.2 | 1.9 | 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 13.8% YoY. Other than that, all other industry verticals showed declines: BFSI declined 4.9% YoY, Retail & CPG vertical declined 12.9%, Communication and media declined 3.6%, Manufacturing declined 7.1% and Technology & Services declined 4% YoY.

Exhibit 4: Vertical wise Performance

| Geographical mix | Q2FY19 | Q3FY19 | Q4FY19 | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 | Q1FY21 |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| BFSI | 31.2 | 30.8 | 30.9 | 30.8 | 31.0 | 30.4 | 29.7 | 31.3 |
| Retail & CPG | 15.4 | 15.5 | 15.1 | 15.0 | 14.8 | 15.2 | 15.4 | 14.0 |
| Communication & Media | 6.8 | 6.9 | 6.8 | 6.9 | 7.0 | 7.0 | 7.2 | 7.1 |
| Manufacturing | 9.8 | 9.8 | 9.6 | 9.8 | 9.8 | 10.0 | 10.1 | 9.7 |
| Life Sciences & Healthcare | 7.5 | 7.6 | 7.7 | 7.9 | 8.1 | 8.3 | 8.8 | 9.6 |
| Technology & Services | 8.9 | 8.7 | 8.6 | 8.8 | 8.7 | 8.4 | 8.7 | 9.1 |
| Regional Markets & Others | 20.4 | 20.7 | 21.3 | 20.8 | 20.6 | 20.7 | 20.1 | 19.2 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Digital | 28.1 | 30.1 | 31.0 | 32.2 | 33.2 | NA | NA | NA |

Source: Company

Human Resources: TCS closed the quarter with a consolidated headcount of 443,676, i.e., 4,788 employees (net) left 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 | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 | Q1FY21 |
|-----------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Total employees | 400,875 | 411,102 | 417,929 | 424,285 | 436,641 | 450,738 | 446,675 | 448,464 | 443,676 |
| ---->BPO (LTM) | 11.7 | 10.9 | 11.2 | 11.3 | 11.5 | 11.6 | 12.2 | 12.1 | 11.1 |
| Net addition | 5,877 | 10,227 | 6,827 | 6,356 | 12,356 | 14,097 | (4,063) | 1,789 | (4,788) |

Source: Company

Client Concentration and order intake: TCS lost 1 client in the US\$100mn+ bracket to take the total to 48, while it lost 5, 10 and 9 clients in US\$50mn+, US\$20mn+ and US\$10mn+ bucket QoQ to take the count to 100, 230 and 382 respectively in Q1FY21.

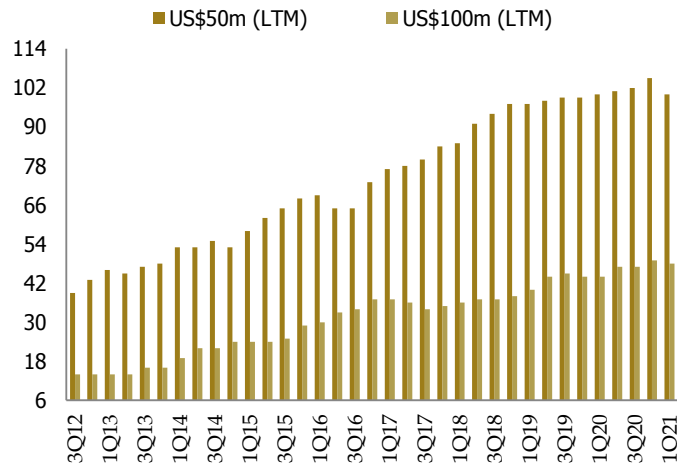
Exhibit 6: Client details

| Vertical Mix | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 | Q1FY21 |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| US\$1m (LTM) | 978 | 989 | 996 | 1,008 | 1,014 | 1,032 | 1,053 | 1,072 | 1,066 |
| US\$5m (LTM) | 508 | 513 | 519 | 532 | 551 | 554 | 557 | 565 | 564 |
| US\$10m (LTM) | 355 | 365 | 370 | 371 | 384 | 398 | 395 | 391 | 382 |
| US\$20m (LTM) | 206 | 213 | 211 | 215 | 219 | 225 | 232 | 240 | 230 |
| US\$50m (LTM) | 97 | 98 | 99 | 99 | 100 | 101 | 102 | 105 | 100 |
| US\$100m (LTM) | 40 | 44 | 45 | 44 | 44 | 47 | 47 | 49 | 48 |

Source: Company, Trust Research

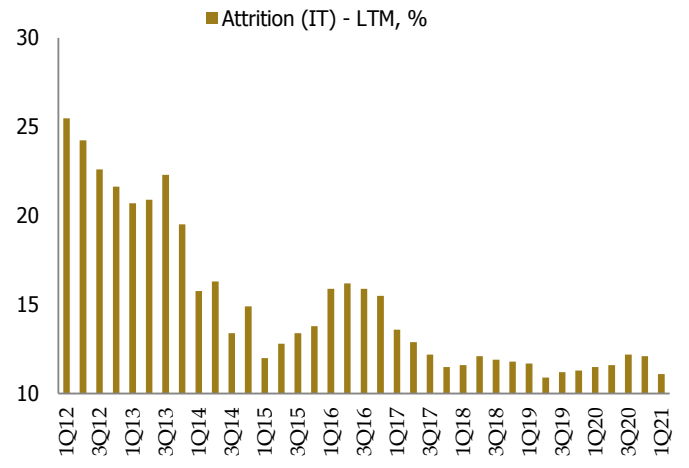


Exhibit 7: Client addition was strong this quarter



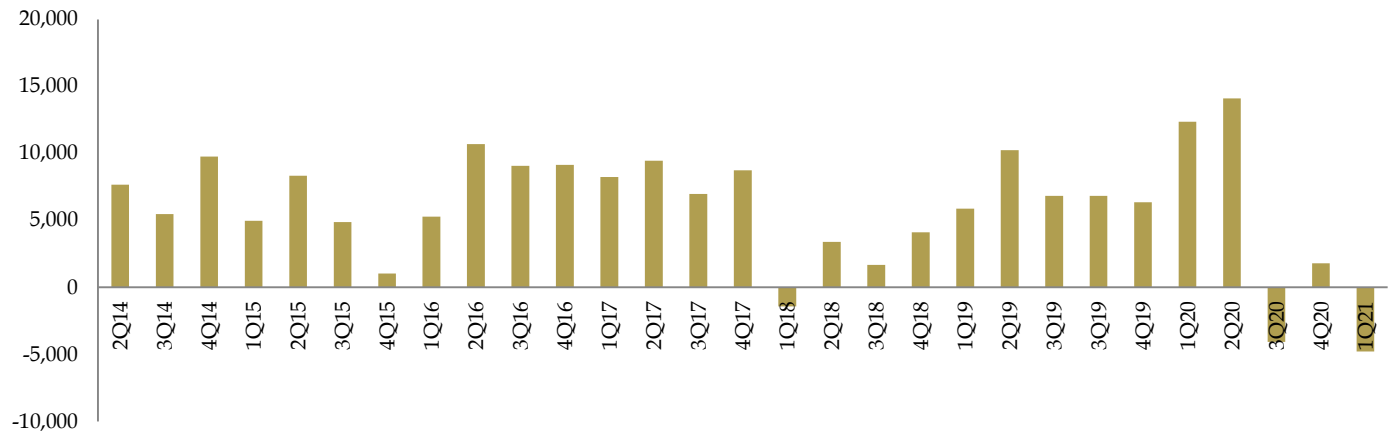
Source: Company, Trust

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 | 1,569,509 | 1,703,105 |
| Op. Expenses | 905,880 | 1,069,580 | 1,148,390 | 1,145,012 | 1,236,324 |
| EBITDA | 325,160 | 395,050 | 421,100 | 424,497 | 466,780 |
| Other Income | 36,420 | 43,110 | 45,920 | 29,020 | 33,520 |
| Depreciation | 20,140 | 20,550 | 35,300 | 40,265 | 44,315 |
| EBIT | 341,440 | 417,610 | 431,720 | 413,252 | 455,985 |
| Interest | 520 | 1,980 | 9,240 | 4,480 | 2,912 |
| PBT | 340,920 | 415,630 | 422,480 | 408,772 | 453,073 |
| Tax | 82,120 | 100,010 | 98,010 | 96,708 | 104,207 |
| PAT | 258,800 | 315,620 | 324,470 | 312,064 | 348,866 |
| Minority + Ex. Ordin. | (400) | (480) | (1,070) | (1,640) | (1,640) |
| Adj Pat | 258,400 | 315,140 | 323,400 | 310,424 | 347,226 |

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 | 1,037,740 | 1,238,623 |
| Shareholders Fund | 872,410 | 915,560 | 862,400 | 1,041,493 | 1,242,376 |
| Minority Interest | 4,020 | 4,530 | 6,230 | 6,230 | 6,230 |
| Non-current liabilities | (4,850) | 3,280 | 62,880 | 69,221 | 70,847 |
| 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 | 20,391 | 22,017 |
| Current Liabilities | 178,280 | 220,840 | 270,600 | 249,525 | 268,413 |
| Short-term borrowings | 1,930 | 180 | 12,680 | 12,680 | 12,680 |
| Trade payables | 50,940 | 62,920 | 67,400 | 67,446 | 72,825 |
| Unearned & def revenue | 20,320 | 23,920 | 29,150 | 25,096 | 27,098 |
| Other cur liab. & Prov | 105,090 | 133,820 | 161,370 | 144,303 | 155,811 |
| Total Liabilities | 1,049,860 | 1,144,210 | 1,202,110 | 1,366,468 | 1,587,865 |
| Assets | | | | | |
| Non-current Assets | 237,620 | 222,900 | 299,740 | 240,888 | 248,161 |
| Fixed assets | 116,120 | 118,290 | 122,210 | 122,827 | 123,512 |
| Non-current investments | 41,850 | 40,730 | 40,660 | 40,660 | 40,660 |
| Other non-current assets | 79,650 | 63,880 | 136,870 | 77,400 | 83,989 |
| Current assets | 812,240 | 921,310 | 902,370 | 1,125,580 | 1,339,705 |
| Current investments | 377,630 | 345,190 | 269,450 | 319,450 | 369,450 |
| Trade receivables | 249,430 | 273,460 | 305,320 | 365,502 | 349,953 |
| Unbilled revenue | 66,860 | 51,570 | 57,320 | 68,800 | 74,657 |
| Cash & bank balances | 48,830 | 72,240 | 86,460 | 113,826 | 284,347 |
| Other curr fin. assets | 43,020 | 99,940 | 101,630 | 150,501 | 153,979 |
| Other current assets | 26,470 | 78,910 | 82,190 | 107,501 | 107,319 |
| Total Assets | 1,049,860 | 1,144,210 | 1,202,110 | 1,366,468 | 1,587,865 |

Valuations Summary

| Year End-March | FY18 | FY19 | FY20 | FY21E | FY22E |
|----------------------------|-------|-------|-------|-------|-------|
| Per share (₹) | | | | | |
| EPS | 65.6 | 84.0 | 86.2 | 82.7 | 92.5 |
| CEPS | 70.8 | 89.6 | 95.9 | 93.9 | 104.8 |
| BVPS | 263.3 | 325.3 | 229.8 | 278.6 | 332.2 |
| DPS | 25.0 | 30.0 | 73.0 | 35.0 | 39.0 |
| Payout (%) | 40.2 | 41.9 | 99.1 | 42.3 | 42.1 |
| Valuation (x) | | | | | |
| P/E | 28.8 | 23.8 | 21.2 | 26.9 | 24.0 |
| P/BV | 7.2 | 6.1 | 7.9 | 8.0 | 6.7 |
| EV/EBITDA | 22.6 | 19.3 | 16.9 | 20.3 | 18.2 |
| Dividend Yield (%) | 1.3 | 1.5 | 4.0 | 1.6 | 1.8 |
| Return ratio (%) | | | | | |
| EBIDTA Margin | 26.4 | 27.0 | 26.8 | 27.0 | 27.4 |
| PAT Margin | 21.0 | 21.5 | 20.6 | 19.8 | 20.4 |
| ROAE | 29.4 | 32.8 | 36.4 | 32.5 | 30.3 |
| ROACE | 38.6 | 43.2 | 46.1 | 39.7 | 37.0 |
| 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) | (0.5) |
| Current ratio | 4.6 | 4.2 | 3.3 | 4.5 | 5.0 |
| Growth Ratios (%) | | | | | |
| Income growth | 4.4 | 19.0 | 7.2 | 0.0 | 8.5 |
| EBITDA growth | 0.6 | 21.5 | 6.6 | 0.8 | 10.0 |
| PAT growth | (1.8) | 22.0 | 2.8 | (3.8) | 11.8 |
| Turnover Ratios | | | | | |
| Inventory Days | - | - | - | - | - |
| Debtors Days | 71 | 65 | 67 | 78 | 77 |
| Payable days | 23 | 19 | 21 | 21 | 21 |

Cash flow Statement

| Year End-March | FY18 | FY19 | FY20 | FY21E | FY22E |
|---------------------------------|------------------|------------------|------------------|------------------|------------------|
| PBT | 340,920 | 415,630 | 422,480 | 408,772 | 453,073 |
| Depreciation | 16,470 | 27,180 | 30,970 | 40,265 | 44,315 |
| Others | (400) | (480) | (1,070) | (1,640) | (1,640) |
| CF before W.cap | 356,990 | 442,330 | 452,380 | 447,397 | 495,748 |
| Inc/dec in W.cap | 16,260 | 56,420 | 83,000 | 101,109 | (20,322) |
| Op CF after W.cap | 340,730 | 385,910 | 369,380 | 346,288 | 516,070 |
| Less Taxes | 82,120 | 100,010 | 98,010 | 96,708 | 104,207 |
| Net CF From Operations | 258,610 | 285,900 | 271,370 | 249,580 | 411,864 |
| Inc/(dec) in F.A + CWIP | 18,380 | 22,720 | 39,220 | 40,883 | 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 | (90,883) | (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 | 131,333 | 146,343 |
| CF from Fin Activities | (269,200) | (273,330) | (293,740) | (131,331) | (146,343) |
| Net inc/(dec) in cash | 12,860 | 23,410 | 14,220 | 27,366 | 170,521 |
| Op. bal of cash | 35,970 | 48,830 | 72,240 | 86,460 | 113,826 |
| Cl. balance of cash | 48,830 | 72,240 | 86,460 | 113,826 | 284,347 |

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|----------------|--|
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