

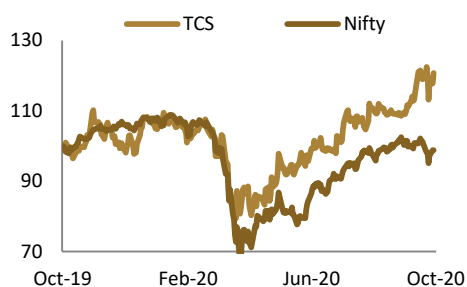
**Market statistics**

Current stock price (₹)	2,737
Shares O/S (cr.)	375.2
Mcap (₹ cr)	1,027,178
52W H/L (₹)	2,769/1,504
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	34.0	32.1
EPS (₹)	86.2	86.5	97.8
CEPS (₹)	95.9	97.6	109.6
P/E (x)	21.2	31.6	28.0
P/BV (x)	7.9	9.8	8.3
EV/EBITDA (x)	16.9	24.1	22.0
Income growth (%)	7.2	2.8	9.3
EBITDA growth (%)	6.6	5.1	9.5
PAT growth (%)	2.8	0.5	12.9

**TCS impressed with stronger-than-expected revenue growth and margin expansion along with strong deal wins. The company reported a constant currency revenue growth of 4.8% QoQ. Adjusted EBIT margin improved by 260 bps QoQ to 26.2% (back to its aspirational range). Strong deal wins continued in Q2FY21, with deal TCVs of US\$8.6bn. TCS will be at the forefront of the transformation journey of clients backed by its full spectrum of offerings. Full valuations lead to an unchanged stock view. We maintain Hold.**

**Quarter details:** TCS reported sequential cc revenue growth rate of 4.8% QoQ (3.2% decline YoY). Revenues grew 7.2% QoQ to US\$5.4bn. Revenue growth was broad-based across verticals (except communications) and geographies. Revenue growth was led by wallet share gains and increased tech spending by clients. Spending was driven by the need for better customer & employee experience and greater business & operational resilience. EBIT margin increased 260 bps QoQ. TCS has announced wage revision for all employees starting October 1, 2020.

**Outlook:** TCS indicated that recovery in demand is sustainable and not purely driven by pent-up demand. The quality of client conversations and deal pipeline are better compared to the recent past. TCS indicated that recovery in revenues was pulled forward by a quarter and recovery in margins was pulled forward by a couple of quarters. Strong demand is broad-based, driven by urgency of technology transformation agenda. TCS indicated that health risks from the pandemic and risks to economic growth continue to exist though.

**Large deal wins:** Strong deal wins continued in Q2FY21, with TCVs of US\$8.6 bn (US\$6.9bn in Q1FY21). The book-to-bill ratio was 1.59x in Q2FY21 (1.36x in Q1FY21). Excluding Phoenix deal of US\$2.5 billion, deal TCVs remained flat as compared to average US\$6.2bn of past nine quarters. TCS signed deals worth US\$3.2bn in North America, US\$1.7bn in the BFSI vertical and US\$1bn in the retail vertical. The deal pipeline remains balanced in terms of size and speed and remains strong.

**Buyback of equity shares through tender route at Rs3,000/share:** TCS has announced buyback of 53.3mn share at Rs3,000/share for an amount of Rs160 bn excluding taxes. Shares bought back will represent 1.42% of outstanding shares. The buyback will be through the tender route.

**TCS perspective on IT spending acceleration:** TCS indicated that the company is positioned at the start of the initial phase of a multi-year technology transformation cycle. Companies have been forced to accelerate investments in building a strong digital foundation and for collaboration, security and resiliency. IT budgets will expand as a consequence. TCS indicated that cloud migration and adoption of SaaS technologies is the first phase of digital transformation leading to reduction in legacy IT estate. TCS' view is akin to our view of pull forward in digital transformation spending of organizations. Core modernization is an important component of this transformation and is a large opportunity in which TCS is well-positioned to benefit.

**Valuation:** We raise our earnings estimates for FY21E/FY22E by 5% and 6% respectively. At CMP, the stock is trading at 31.6x/28x of its FY21E/FY22E earnings, which is expensive. We maintain our Hold and await for better entry point.

ANALYST

Naushil Shah

+91-22 4224 5125

naushil.shah@trustgroup.in


**Exhibit 1: Quarterly details**

₹ mn	2QFY20	1QFY21	2QFY21	QoQ (%)	YoY (%)	Comments
<b>Revenues (in US\$ mn)</b>	<b>5,517</b>	<b>5,059</b>	<b>5,424</b>	<b>7.2</b>	<b>(1.7)</b>	<b>In constant currency, revenue was up 4.7% QoQ cc. TCV signed in 2Q21 is US\$8.6bn (~1.6x bill-to-book)</b>
Revenues	3,89,770	3,83,220	4,01,350	4.7	3.0	
- Operating costs	2,87,510	2,82,970	2,86,220	1.1	(0.4)	
<b>EBITDA</b>	<b>1,02,260</b>	<b>1,00,250</b>	<b>1,15,130</b>	<b>14.8</b>	<b>12.6</b>	
<b>EBITDA margin (%)</b>	<b>26.2</b>	<b>26.2</b>	<b>28.7</b>	<b>253bps</b>	<b>245bps</b>	<b>Margin was helped higher utilization, cross-currency tailwind, strong revenue trajectory and operational efficiencies.</b>
- Interest expense	1,930	1,420	1,740	22.5	(9.8)	
- Depreciation	8,650	9,770	9,980	2.1	15.4	
+ Other income, net (incl forex)	13,610	5,980	9,140	52.8	(32.8)	
<b>PBT</b>	<b>1,05,290</b>	<b>95,040</b>	<b>1,12,550</b>	<b>18.4</b>	<b>6.9</b>	
- Taxes	24,710	24,550	25,330	3.2	2.5	
Effective tax rate (%)	23.5	25.8	22.5	(333)bps	(96)bps	ETR to remain ~23-24%
<b>Consolidated profits</b>	<b>80,580</b>	<b>70,490</b>	<b>87,220</b>	<b>23.7</b>	<b>8.2</b>	
Net Margin	20.7	18.4	21.7	334bps	106bps	
<b>Reported PAT</b>	<b>80,420</b>	<b>70,080</b>	<b>74,750</b>	<b>6.7</b>	<b>(7.1)</b>	

Source: Company

**Exhibit 2: Change in estimates**

₹ mn	FY21E			FY22E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	20,875	21,688	3.9	22,708	23,841	5.0
Revenue	1,569,509	1,613,957	2.8	1,703,105	1,764,140	3.6
EBITDA margin (%)	27.0	27.4	40bps	27.4	27.5	10bps
EPS (₹)	82.7	86.5	4.6	92.5	97.8	5.7

Source: Trust Research

**Geography wise Revenues:** Demand contraction was broad-based by geography. Growth Drivers: Continental Europe (+6.1%) and Latin America (+5.5%) and MEA (+8%) grew faster than company average.

**Exhibit 3: Geographical wise Performance**

Geographical mix	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
<b>Americas</b>	53.1	53.2	52.7	52.4	52.5	52.0	52.1	53.1	51.6
---->North America	51.1	51.2	50.7	50.6	50.6	50.1	50.3	51.4	49.9
---->Ibero America	2.0	2.0	2.0	1.8	1.9	1.9	1.8	1.7	1.7
<b>Europe</b>	29.6	29.6	30.0	30.1	30.2	30.8	31.2	30.9	31.8
---->UK	15.6	15.5	15.9	15.8	15.6	15.9	16.0	15.3	15.5
---->Continental Europe	14.0	14.1	14.1	14.3	14.6	14.9	15.2	15.6	16.3
<b>India</b>	5.6	5.7	5.8	6.0	5.7	5.7	5.5	4.3	5.0
<b>Others</b>	11.7	11.5	11.5	11.5	11.6	11.5	11.2	11.7	11.6
---->APAC	9.6	9.4	9.5	9.4	9.4	9.3	9.3	9.8	9.7
---->MEA	2.1	2.1	2.0	2.1	2.2	2.2	1.9	1.9	1.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company



**Vertical wise Performance:** Growth in Life Sciences & Healthcare (in cc) stood at 6.9% QoQ. BFSI increased 6.2% QoQ, Retail & CPG vertical grew 8.8%, Communication and media declined 2.4%, Manufacturing increased 1.4% and Technology & Services increased 3.1% YoY.

#### Exhibit 4: Vertical wise Performance

Geographical mix	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
BFSI	30.8	30.9	30.8	31.0	30.4	29.7	31.3	31.9
Retail & CPG	15.5	15.1	15.0	14.8	15.2	15.4	14.0	14.6
Communication & Media	6.9	6.8	6.9	7.0	7.0	7.2	7.1	6.5
Manufacturing	9.8	9.6	9.8	9.8	10.0	10.1	9.7	9.4
Life Sciences & Healthcare	7.6	7.7	7.9	8.1	8.3	8.8	9.6	9.8
Technology & Services	8.7	8.6	8.8	8.7	8.4	8.7	9.1	8.9
Regional Markets & Others	20.7	21.3	20.8	20.6	20.7	20.1	19.2	18.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Digital</b>	30.1	31.0	32.2	33.2	NA	NA	NA	NA

Source: Company

**Human Resources:** TCS closed the quarter with a consolidated headcount of 453,540, i.e., 9,864 employees (net) joined TCS. TCS will absorb all the ~40,000 freshers to whom offers have been rolled out for FY21.

#### Exhibit 5: Employee strength of TCS

Vertical Mix	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Total employees	411,102	417,929	424,285	436,641	450,738	446,675	448,464	443,676	453,540
---->BPO (LTM)	10.9	11.2	11.3	11.5	11.6	12.2	12.1	11.1	9.8
Net addition	10,227	6,827	6,356	12,356	14,097	(4,063)	1,789	(4,788)	9,864

Source: Company

**Client Concentration and order intake:** TCS added 1 client in the US\$100mn+ bracket to take the total to 49, while it lost 3 and 2 clients in US\$50mn+ and US\$20mn+ bucket QoQ to take the count to 97 and 228 respectively in Q2FY21.

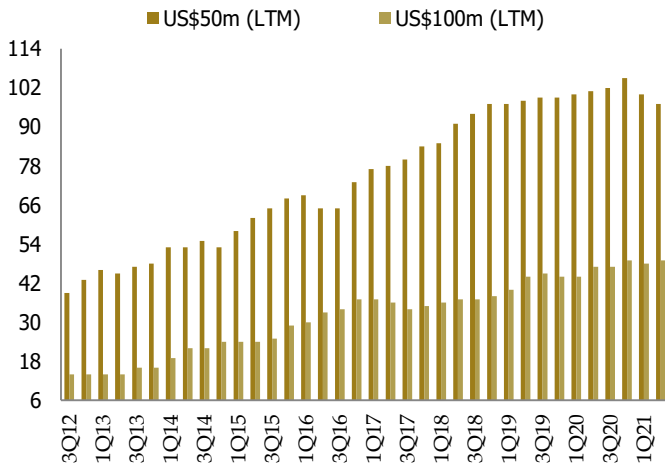
#### Exhibit 6: Client details

Vertical Mix	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
US\$1m (LTM)	989	996	1,008	1,014	1,032	1,053	1,072	1,066	1,076
US\$5m (LTM)	513	519	532	551	554	557	565	564	565
US\$10m (LTM)	365	370	371	384	398	395	391	382	386
US\$20m (LTM)	213	211	215	219	225	232	240	230	228
US\$50m (LTM)	98	99	99	100	101	102	105	100	97
US\$100m (LTM)	44	45	44	44	47	47	49	48	49

Source: Company, Trust Research

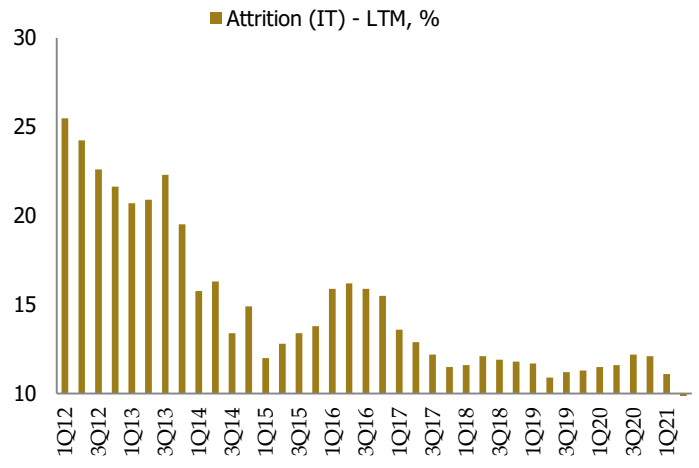


Exhibit 7: Client addition: US\$100mn buckets adds 1



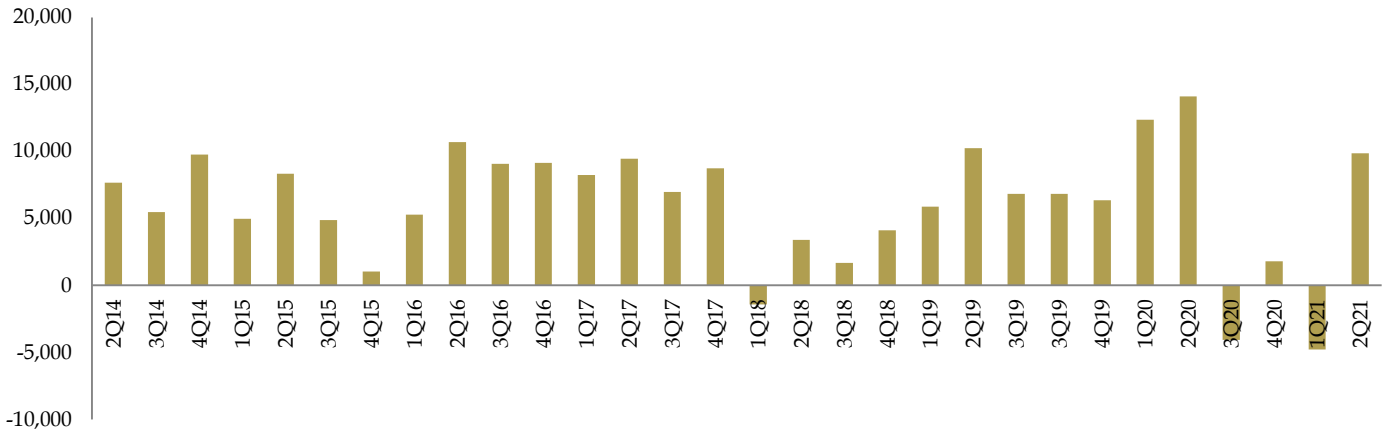
Source: Company, Trust

Exhibit 8: Attrition decreased 220bps QoQ



Source: Company, Trust

Exhibit 9: TCS to absorb all the offers that have been given out for FY21



Source: Company, Trust



## Financials

### Income Statement (₹ mn)

Year End-March	FY19	FY20	FY21E	FY22E	FY23E
<b>Revenues</b>	<b>1,464,630</b>	<b>1,569,490</b>	<b>16,13,957</b>	<b>17,64,140</b>	<b>19,25,944</b>
Op. Expenses	1,069,580	1,148,390	11,71,525	12,79,605	13,91,545
<b>EBITDA</b>	<b>395,050</b>	<b>421,100</b>	<b>4,42,432</b>	<b>4,84,535</b>	<b>5,34,399</b>
Other Income	43,110	45,920	29,970	39,900	44,400
Depreciation	20,550	35,300	40,240	43,187	44,187
<b>EBIT</b>	<b>417,610</b>	<b>431,720</b>	<b>4,32,162</b>	<b>4,81,248</b>	<b>5,35,612</b>
Interest	1,980	9,240	6,040	3,360	2,184
<b>PBT</b>	<b>415,630</b>	<b>422,480</b>	<b>4,26,122</b>	<b>4,77,888</b>	<b>5,33,428</b>
Tax	100,010	98,010	1,00,142	1,09,914	1,22,688
<b>PAT</b>	<b>315,620</b>	<b>324,470</b>	<b>3,25,980</b>	<b>3,67,974</b>	<b>4,10,739</b>
Minority + Ex. Ordin.	(480)	(1,070)	(13,460)	(1,160)	(1,160)
<b>Adj Pat</b>	<b>315,140</b>	<b>323,400</b>	<b>312,520</b>	<b>366,814</b>	<b>409,579</b>

### Balance Sheet (₹ mn)

Year End-March	FY19	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>					
Equity Share Capital	3,750	3,750	3,752	3,752	3,752
Reserves & Surplus	911,810	858,650	10,25,750	12,16,201	14,38,161
<b>Shareholders Fund</b>	<b>915,560</b>	<b>862,400</b>	<b>10,29,502</b>	<b>12,19,953</b>	<b>14,41,913</b>
Minority Interest	4,530	6,230	6,230	6,230	6,230
<b>Non-current liabilities</b>	<b>3,280</b>	<b>62,880</b>	<b>69,693</b>	<b>71,617</b>	<b>73,611</b>
Long term Borrowings	440	69,060	69,060	69,060	69,060
Deferred tax liabilities	(15,900)	(20,230)	(20,230)	(20,230)	(20,230)
Other LT liab & prov	18,740	14,050	20,863	22,787	24,781
<b>Current Liabilities</b>	<b>220,840</b>	<b>270,600</b>	<b>2,55,009</b>	<b>2,77,365</b>	<b>3,00,520</b>
Short-term borrowings	180	12,680	12,680	12,680	12,680
Trade payables	62,920	67,400	69,008	75,374	81,968
Unearned & def revenue	23,920	29,150	25,677	28,046	30,500
Other cur liab. & Prov	133,820	161,370	1,47,644	1,61,265	1,75,373
<b>Total Liabilities</b>	<b>1,144,210</b>	<b>1,202,110</b>	<b>13,60,434</b>	<b>15,75,166</b>	<b>18,22,275</b>
<b>Assets</b>					
<b>Non-current Assets</b>	<b>222,900</b>	<b>299,740</b>	<b>2,41,140</b>	<b>2,50,360</b>	<b>2,60,152</b>
Fixed assets	118,290	122,210	1,20,888	1,22,701	1,24,514
Non-current investments	40,730	40,660	40,660	40,660	40,660
Other non-current assets	63,880	136,870	79,592	86,999	94,978
<b>Current assets</b>	<b>921,310</b>	<b>902,370</b>	<b>11,19,293</b>	<b>13,24,807</b>	<b>15,62,123</b>
Current investments	345,190	269,450	3,19,450	3,69,450	4,19,450
Trade receivables	273,460	305,320	3,75,853	3,62,495	3,95,742
Unbilled revenue	51,570	57,320	70,749	77,332	84,425
Cash & bank balances	72,240	86,460	87,934	2,44,867	3,67,018
Other curr fin. assets	99,940	101,630	1,54,763	1,59,498	1,74,126
Other current assets	78,910	82,190	1,10,545	1,11,165	1,21,361
<b>Total Assets</b>	<b>1,144,210</b>	<b>1,202,110</b>	<b>13,60,434</b>	<b>15,75,166</b>	<b>18,22,275</b>

### Valuations Summary

Year End-March	FY19	FY20	FY21E	FY22E	FY23E
<b>Per share (₹)</b>					
EPS	84.0	86.2	86.5	97.8	109.2
CEPS	89.6	95.9	97.6	109.6	121.0
BVPS	325.3	229.8	278.9	329.6	388.8
DPS	30.0	73.0	42.0	47.0	50.0
Payout (%)	41.9	99.1	48.5	48.1	45.8
<b>Valuation (x)</b>					
P/E	23.8	21.2	31.6	28.0	25.1
P/BV	6.1	7.9	9.8	8.3	7.0
EV/EBITDA	19.3	16.9	24.1	22.0	19.6
Dividend Yield (%)	1.5	4.0	1.5	1.7	1.8
<b>Return ratio (%)</b>					
EBIDTA Margin	27.0	26.8	27.4	27.5	27.7
PAT Margin	21.5	20.6	20.1	20.8	21.3
ROAE	32.8	36.4	34.0	32.1	30.4
ROACE	43.2	46.1	41.5	39.2	37.4
<b>Leverage Ratios (x)</b>					
Total D/E	0.0	0.1	0.1	0.1	0.0
Net Debt/Equity	(0.5)	(0.3)	(0.3)	(0.4)	(0.5)
Current ratio	4.2	3.3	4.3	4.7	5.2
<b>Growth Ratios (%)</b>					
Income growth	19.0	7.2	2.8	9.3	9.2
EBITDA growth	21.5	6.6	5.1	9.5	10.3
PAT growth	22.0	2.8	0.5	12.9	11.6
<b>Turnover Ratios</b>					
Inventory Days	-	-	-	-	-
Debtors Days	65	67	69	68	68
Payable days	19	21	21	21	20

### Cash flow Statement

Year End-March	FY19	FY20	FY21E	FY22E	FY23E
<b>PBT</b>	<b>415,630</b>	<b>422,480</b>	<b>4,26,122</b>	<b>4,77,888</b>	<b>5,33,428</b>
Depreciation	27,180	30,970	40,240	43,187	43,187
Others	(480)	(1,070)	(1,280)	(1,160)	(1,160)
<b>CF before W.cap</b>	<b>442,330</b>	<b>452,380</b>	<b>4,65,082</b>	<b>5,19,915</b>	<b>5,75,455</b>
Inc/dec in W.cap	56,420	83,000	1,16,950	(18,295)	47,996
Op CF after W.cap	385,910	369,380	3,48,132	5,38,210	5,27,459
Less Taxes	100,010	98,010	1,00,142	1,09,914	1,22,688
<b>Net CF From Operations</b>	<b>285,900</b>	<b>271,370</b>	<b>2,47,989</b>	<b>4,28,296</b>	<b>4,04,770</b>
Inc/(dec) in F.A + CWIP	22,720	39,220	38,918	45,000	45,000
(Pur)/sale of Investments	(33,560)	(75,810)	50,000	50,000	50,000
<b>CF from Invst Activities</b>	<b>10,840</b>	<b>36,590</b>	<b>(88,918)</b>	<b>(95,000)</b>	<b>(95,000)</b>
Loan Raised/(repaid)	(1,340)	82,820	-	-	-
Equity Raised	(139,932)	(56,086)	2	0	(0)
Dividend	132,058	320,474	1,57,600	1,76,362	1,87,619
<b>CF from Fin Activities</b>	<b>(273,330)</b>	<b>(293,740)</b>	<b>(1,57,598)</b>	<b>(1,76,362)</b>	<b>(1,87,619)</b>
<b>Net inc/(dec) in cash</b>	<b>23,410</b>	<b>14,220</b>	<b>1,474</b>	<b>1,56,934</b>	<b>1,22,151</b>
Op. bal of cash	48,830	72,240	86,460	87,934	2,44,867
<b>Cl. balance of cash</b>	<b>72,240</b>	<b>86,460</b>	<b>87,934</b>	<b>2,44,867</b>	<b>3,67,018</b>

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

Buy                              More than 15%

Hold                             15% to -15%

Sell                              Less than -15%

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