

CMP Rs. 2,824
TCS Ltd
 8th Oct. 2020

Bloomberg Code	TCS IN
No of share O/S (in crs)	375..24
Market Cap (in Rs. crs)	10,59,973
Face Value (in Rs.)	1
Dividend Yield (%)	2.74
52 Wk High/Low	2885/1504

Shareholding (%)	
Promoters	72.05
Institutional	23.81
Public	4.14
Total	100

Faster than expected rebound on all fronts.

Key Highlights:

TCS reported a strong broad-based rebound in revenue growth across industries and geographies after weak Q1FY21 with QoQ CC (Constant Currency) revenue growth of 4.8%. Consolidated Revenues in Q2FY21 stood at Rs 40,135 Cr which marked a YoY and QoQ growth of 3.0% and 4.7%, respectively. Operating margins increased to 28.7% on account of cost efficiency levers adopted, like decrease in other expenses by 27.3% YoY and 7.4% QoQ. Management said that Q2 played out slightly better than expectations and believes that demand recovery is sustainable. PAT margins declined YoY and stood at 18.7% in Q2FY21 as against 20.7% in Q2FY20, mainly on account reduced other income. The attrition rate stood at 8.9% for the current quarter, which is at an all time low.

Segmental Performance:

Business growth was mainly driven by the Life science & Retail segments, which reported QoQ CC revenue growth of 6.9% and 8.8%, respectively. The BFSI segment, which is the highest revenue contributor with a 40.2% share, grew at a QoQ rate of 6.2% (in CC terms) during the quarter. Barring Communications & Media, which declined 2.4% QoQ CC, all other industries posted growth in Q2FY20.

On the geographical front, all markets showed good sequential growth with Continental Europe growing by 6.1% YoY, North America by 3.6% YoY and UK by 3.8%. The emerging markets too grew well; India clocked a 20% growth, MEA grew by 8%, Latin America by 5.5% and Asia Pacific by 2.9% YoY. The company witnessed a decent client addition. Amongst the majors, it added 2 new clients in the US\$100 Mn+ band, 3 new clients in the US\$20 Mn+ band, 11 new clients in the US\$5 Mn+ band and 44 clients in the US\$1 Mn+ band.

**Other Key Highlights**

- TCS announced an interim dividend of Rs12 per share and Rs16,000 Crs buyback at Rs3,000 per share.
- 3% of the total workforce of the company is currently operating from the office premises for critical work.

Concall Highlights:

- Management saw demand recovery across verticals, with all verticals growing sequentially in CC terms, except Communication & Media.
- Management said that excluding the impact of the Travel and Hospitality sub verticals, Retail would have grown positively on a YoY basis.
- In terms of order book, the company witnessed deal wins of USD 8.6 bn during the quarter.
- Management is seeing a steady recovery in revenue growth and expects revenues to reach the pre-Covid levels latest by Q4FY21
- The company is seeing accelerated demand in the areas of Cloud, Cyber-Security and Customer & employee experience transformation and believes that its expertise in these areas should aid growth.
- Management quoted that TCS benefited from vendor consolidation opportunities in Q2 as the flight-to-quality gathered momentum. IT budgets across industries are likely to increase.
- Management believes that the EBIT margins at these levels are sustainable, going forward. Although the salary increment rollout from October 1, 2020, will adversely impact the margin; the upward trajectory of revenue growth will help in sustaining the margins.

Valuation

At the CMP of Rs. 2,824 the stock is trading at a 28.2x P/E with an estimated FY22 adjusted EPS of Rs. 100.28

Financial Summary

Net sales grew by 4.7% QoQ and 3.0% in CC terms YoY.

EBITDA Margins increased to 28.7% which was on account of a decline in other expenses

Other income for the quarter declined by 32.8% YoY and 52.8% on QoQ basis.

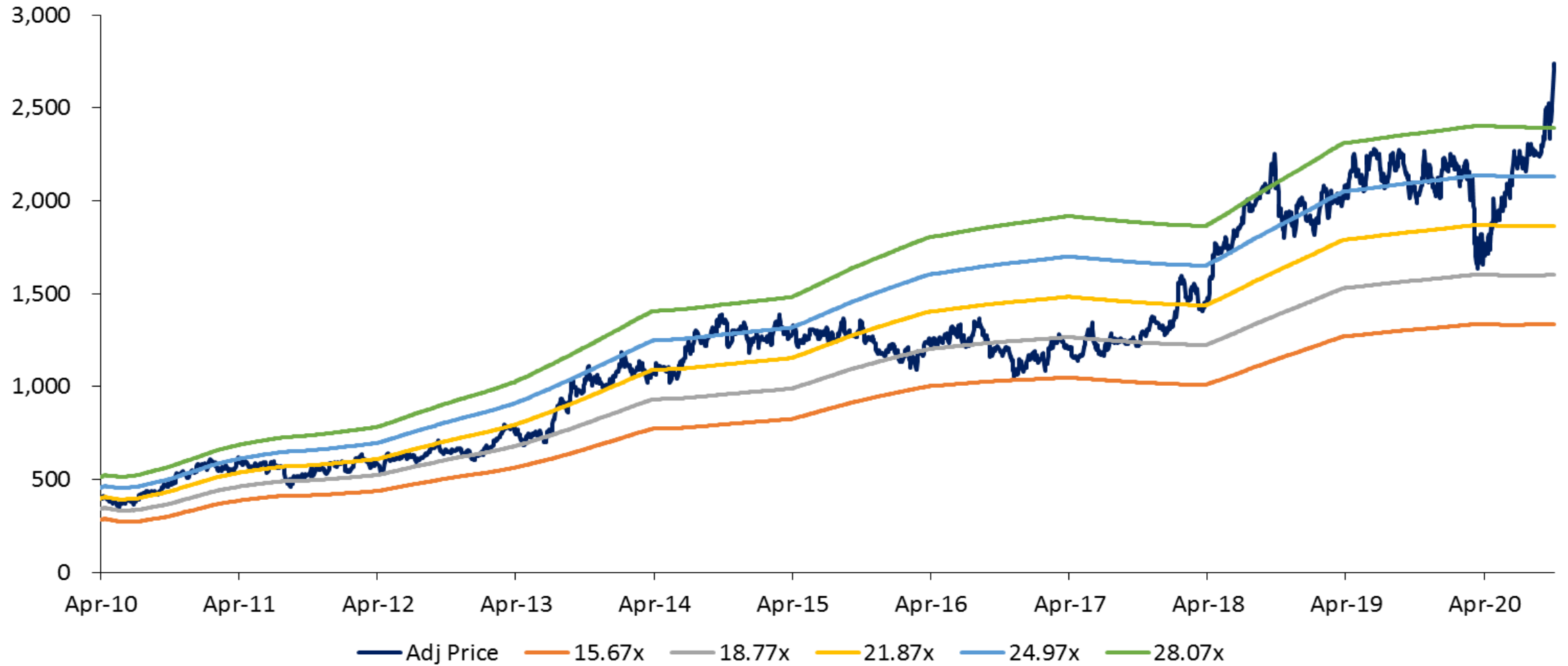
PAT margins declined to 18.6 due to reduced other income.

Figures are in Rs Cr	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	FY19	FY20	YoY (%)
Net Sales	40,135	38,977	3.0	38,322	4.7	1,46,463	1,56,949	7.2
Raw Material Cost	3,047	3,279	-7.1	3,063	-0.5	11,330	12,937	14.2
RM Cost to Sales (%)	7.6	8.4		8.0		7.7	8.2	
Employee Cost	22,665	21,470	5.6	22,093	2.6	78,246	85,952	9.8
Employee Cost to Sales (%)	56.5	55.1		57.7		53.4	54.8	
Operating Expenses	2,910	4,003		3,142		17,381	15,951	
OPEX to Sales (%)	7.3	10.3		8.2		11.9	10.2	
EBITDA	11,513	10,225	12.6	10,024	14.9	39,506	42,109	6.6
EBITDA Margin (%)	28.7	26.2		26.2		27.0	26.8	
Depreciation	998	864	15.5	976	2.3	2,056	3,529	71.6
Interest	174	193		142		198	924	
Other Income	914	1,361	-32.8	598	52.8	4,311	4,592	6.5
Other Income to Sales (%)	2.3	3.5		1.6		2.9	2.9	
Exceptional Income / Expenses	-1,218	0		0		0	0	
Profit Before Tax	10,037	10,529	-4.7	9,504	5.6	41,563	42,248	1.6
Tax Rate (%)	25.2	23.5		25.8		24.1	23.2	
Profit After Tax	7,475	8,042	-7.1	7,008	6.7	31,472	32,340	2.8
PAT Margin (%)	18.6	20.6		18.3		21.5	20.6	
Adjusted EPS (Rs)	19.9	21.4		18.7		83.9	86.2	
Shareholder's Funds	95,137	95,032				89,446	84,126	
BV per share (Rs)	253.7	253.4				238.5	224.3	
Net Debt	-46,980	-46,648				-41,921	-35,806	
Net Debt to Equity (x)	-0.5	-0.5				-0.5	-0.4	
Net Debt to EBITDA (x)	-1.1	-1.2				-1.1	-0.9	
CAPEX	-873	-831				-2,182	-3,088	
RoE (%)	32.2	34.1				35.2	38.4	
RoCE (%)	31.5	30.3				31.8	35.2	
P/E (x)	32.8	33.7				33.7	32.8	
P/B (x)	11.2	11.2				11.9	12.6	
EV/EBITDA (x)	20.5	18.3				17.9	15.4	

Segmental Performance

Year ending Mar	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	FY19	FY20
Dollar Revenue (\$ in Crs)	505.0	522.0	525.0	540.0	545.0	552.0	559.0	544.0	506.0	542.0	2,091.0	2,203.0
CC Revenue YoY Growth (%)	4.1	3.7	12.1	12.7	10.6	8.4	6.8	3.0	6.3	3.2	11.4	7.1
Geographical Revenue Breakup (%)												
America	52.9	53.1	53.2	52.7	52.4	52.5	52.0	52.1	53.1	52.5	53.0	52.3
Europe	29.5	19.6	29.6	30.0	30.1	30.2	30.8	31.2	30.9	30.2	29.7	30.6
Rest of the World	17.6	27.3	17.2	17.3	17.5	17.3	17.2	16.7	16.0	17.3	17.3	17.1
Verticalwise Break Up (%)												
Financial Services	31.1	31.2	30.8	30.9	30.8	31.0	30.4	29.7	31.5	31.3	31.0	30.5
Retail	15.4	15.4	15.5	15.1	15.0	14.8	15.2	15.4	14.0	14.9	16.5	15.2
Communication	7.1	6.8	6.9	6.8	6.9	7.0	9.5	7.2	6.9	6.9	7.0	7.0
Manufacturing	10.2	9.8	9.8	9.6	9.8	9.8	10.0	10.1	9.7	9.8	7.2	9.9
Others	36.2	36.8	37.0	37.6	37.5	37.4	34.9	37.6	37.9	37.1	38.3	37.4
Clientwise Break up (Nos.)												
\$1 Mn+	978	989	996	1,008	1,014	1,032	1,053	1,072	1,066	1,032	1,008	1,072
\$10 Mn+	355	365	370	371	384	398	395	391	382	398	355	391
\$50 Mn+	97	98	99	99	100	101	102	105	100	101	97	105
\$100 Mn+	40	44	45	44	44	47	47	49	48	47	40	49

1 year forward P/E band chart



Ventura Securities Limited (VSL) is a SEBI registered intermediary offering broking, depository and portfolio management services to clients. VSL is a member of BSE and NSE. VSL is a depository participant of NSDL. VSL states that no disciplinary action whatsoever has been taken by SEBI against it in last five years except administrative warning issued in connection with technical and venial lapses observed while inspection of books of accounts and records. Ventura Guaranty Limited is the holding Company of VSL; Ventura Commodities Limited and Ventura Allied Services Private Limited are subsidiaries of VSL. Research Analyst (RA) involved in the preparation of this research report and VSL, disclose that neither RA nor VSL nor its associates (i) have any financial interest in the company which is the subject matter of this research report (ii) holds ownership of one percent or more in the securities of subject company (iii) have any material conflict of interest at the time of publication of this research report (iv) have received any compensation from the subject company in the past twelve months (v) have managed or co-managed public offering of securities for the subject company in past twelve months (vi) have received any compensation for investment banking, merchant banking or brokerage services from the subject company in the past twelve months (vii) have received any compensation for products or services from the subject company in the past twelve months (viii) have received any compensation or other benefits from the subject company or third party in connection with the research report. RA involved in the preparation of this research report discloses that he / she has not served as an officer, director or employee of the subject company. RA involved in the preparation of this research report and VSL discloses that they have not been engaged in the market making activity for the subject company. Our sales people, dealers, traders and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein. We may have earlier issued or may issue in future, reports on the companies covered herein with recommendations/ information inconsistent or different than those made in this report. In reviewing this document, you should be aware that any or all of the foregoing, among other things, may give rise to or potential conflicts of interest. We may rely on information barriers, such as "Chinese Walls" to control the flow of information contained in one or more areas within us, or other areas, units, groups or affiliates of VSL. This report is for information purposes only and this document/material should not be construed as an offer to sell or the solicitation of an offer to buy, purchase or subscribe to any securities, and neither this document nor anything contained herein shall form the basis of or be relied upon in connection with any contract or commitment whatsoever. This document does not solicit any action based on the material contained herein. It is for the general information of the clients / prospective clients of VSL. VSL will not treat recipients as clients by virtue of their receiving this report. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of clients / prospective clients. Similarly, this document does not have regard to the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The securities discussed in this report may not be suitable for all investors. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Persons who may receive this document should consider and independently evaluate whether it is suitable for his/ her/their particular circumstances and, if necessary, seek professional/financial advice. And such person shall be responsible for conducting his/her/their own investigation and analysis of the information contained or referred to in this document and of evaluating the merits and risks involved in the securities forming the subject matter of this document. The projections and forecasts described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. Projections and forecasts are necessarily speculative in nature, and it can be expected that one or more of the estimates on which the projections and forecasts were based will not materialize or will vary significantly from actual results, and such variances will likely increase over time. All projections and forecasts described in this report have been prepared solely by the authors of this report independently for the Company. These projections and forecasts were not prepared with a view toward compliance with published guidelines or generally accepted accounting principles. No independent accountants have expressed an opinion or any other form of assurance on these projections or forecasts. You should not regard the inclusion of the projections and forecasts described herein as a representation or warranty by VSL, its associates, the authors of this report or any other person that these projections or forecasts or their underlying assumptions will be achieved. For these reasons, you should only consider the projections and forecasts described in this report after carefully evaluating all of the information in this report, including the assumptions underlying such projections and forecasts. The price and value of the investments referred to in this document/material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance. Future returns are not guaranteed and a loss of original capital may occur. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. We do not provide tax advice to our clients, and all investors are strongly advised to consult regarding any potential investment. VSL and the RA involved in the preparation of this research report and its associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report/document has been prepared by VSL, based upon information available to the public and sources believed to be reliable. No representation or warranty, express or implied is made that it is accurate or complete. VSL has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. The opinions expressed in this document/material are subject to change without notice and have no obligation to tell you when opinions or information in this report change. This report or recommendations or information contained herein do/does not constitute or purport to constitute investment advice in publicly accessible media and should not be reproduced, transmitted or published by the recipient. The report is for the use and consumption of the recipient only. This publication may not be distributed to the public /used by the public media without the express written consent of VSL. This report or any portion hereof may not be printed, sold or distributed without the written consent of VSL. This document does not constitute an offer or invitation to subscribe for or purchase or deal in any securities and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. This document is strictly confidential and is being furnished to you solely for your information, may not be distributed to the press or other media and may not be reproduced or redistributed to any other person. The opinions and projections expressed herein are entirely those of the author and are given as a part of the normal research activity of VSL and are given as of this date and are subject to change without notice. Any opinion, estimate or projection herein constitutes a view as of the date of this report and there can be no assurance that future results or events will be consistent with any such opinions, estimates or projection. This document has not been prepared by or in conjunction with or on behalf of or at the instigation of, or by arrangement with the company or any of its directors or any other person. Information in this document must not be relied upon as having been authorized or approved by the company or its directors or any other person. Any opinions and projections contained herein are entirely those of the authors. Neither the company nor its directors or any other person accepts any liability whatsoever for any loss arising from any use of this document or its contents or otherwise arising in connection therewith. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Securities Market.

Ventura Securities Limited

Corporate Office: 8th Floor, 'B' Wing, I Think Techno Campus, Pokhran Road no. 02, Off Eastern Express Highway, Thane (West) 400 607

SEBI Registration No.: INH00001634