

# Tata Consultancy Services (TCS) **HOLD**

Growth on way with macro a key factor for rebound

## Summary

TCS Q1FY25 numbers were in-line with consensus estimates. While the macro still seems to be uncertain in the near term, TCS continues to win cost optimization, vendor consolidation and growth & transformation deals. The company has also won mega deals in BFSI (\$ 2.1bn), consumer business (\$1.1bn) and region wise; North America (\$4.6bn). The company's order book at US\$8.3 bn saw a decline due to delayed deal conversion for this quarter (1.1x books to bill v/s 1.8x previous quarter). It is expected to ramp up in Q2FY25 which would help in the topline to improve. Improvement in BFSI, traction in Gen AI (\$1.5bn pipeline), Cloud modernization, ERP modernization will lead to tailwind in revenue and margins. Hence, we have revised our EPS estimates to Rs. 142 & 160 (v/s 145 & 166) for FY25E & FY26E respectively. This has prompted us to maintain target price at Rs. 4,300 and we maintain HOLD rating on the stock.

## Key Highlights and Investment Rationale

- Cloud, generative AI, Data key drivers of long term growth:** We believe longer term tech spend trajectory remains robust led by cloud, AI, data and generative AI. Further, TCS will be a key beneficiary in challenging as well as robust macro considering its client profile, ability to win large deals and robust demand pipeline. The company is also seeing strong traction in generative AI which could be a major driver of multi-year tech spend.
- Margins to improve:** Improvement in utilization, higher realization, automation and pyramid rationalization will drive margins. Hence, we expect margins to be in range of 27.3% to 27.8% over FY25-FY26E.

<b>TP</b>	<b>Rs4,300</b>
<b>CMP</b>	<b>Rs3,923</b>
Potential upside/downside	10%
Previous Rating	HOLD

## Price Performance (%)

	-1m	-3m	-12m
Absolute	1.8	(1.5)	19.9
Rel to Sensex	(2.7)	(8.0)	(1.9)

## V/s Consensus

EPS (Rs)	FY25E	FY26E
IDBI Capital	142	160
Consensus	142	157
% difference	0.3	2.1

## Key Stock Data

Bloomberg/Reuters	TCS IN/ TCS.BO
Sector	IT Services
Shares o/s (mn)	3,618
Market cap. (Rs mn)	14,192,672
3-m daily avg Trd value (Rs mn)	410.0
52-week high / low	Rs4,254 / 3,250
Sensex / Nifty	79,897 / 24,316

## Shareholding Pattern (%)

Promoters	71.8
FII	12.7
DII	10.0
Public	5.5

## Financial snapshot

Year	FY22	FY23	FY24	FY25E	FY26E
Revenue	19,17,540	22,54,580	24,08,930	25,90,276	28,53,823
Change (yoy, %)	17	18	7	8	10
EBITDA	5,30,570	5,92,600	6,33,370	7,06,420	7,94,241
Change (yoy, %)	14	12	7	12	12
EBITDA Margin(%)	27.7	26.3	26.3	27.3	27.8
Adj.PAT	3,83,270	4,21,470	4,59,427	5,13,284	5,78,144
EPS (Rs)	105	115	126	142	160
Change (yoy, %)	16.6	10.0	9.4	13	13
PE(x)	38.0	34.5	31.6	28	25
Dividend Yield (%)	1.1	2.9	1.8	2	3
EV/EBITDA (x)	26.5	23.7	22.2	19.4	17.0
RoE (%)	43.7	46.9	50.8	51	44
RoCE (%)	51.8	56.5	60	61	53

Source: IDBI Capital Research

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### Other Key Concall Highlights

- Dollar revenue for Q1FY25 stood at \$7,505mn +1.9%/+3.9% QoQ/YoY; CC growth of 4% YoY. The growth was broad based across the segments and verticals (except TMI). Majorly, it was driven by; India +14.5%/ 61% QoQ/YoY geo-wise and segment wise Regional markets & others grew 10.6%/ 33.4% QoQ/YoY.
- On margins front, it remained almost flat with 30bps of dip QoQ at 24.7%. The negative impact was led by 170bps of wage hike and increase in third party expenses which got positively offset by operating efficiency, better productivity and reduction in sub-con cost.
- Order book TCV stood at \$8.3bn. TCV declined 37% QoQ led by large deals elongation by few weeks or months and would convert in Q2FY25. Delayed conversion of deal was due to prevalent uncertainty in macro environment.
- **Demand environment:** Management expects uncertainty in macro environment to continue. Revaluation of deals is still seen at clients end and IT budget thinning on the cost of AI deals. Segment wise; BFS has seen some recovery within that insurance is doing well, demand in the segment would pickup once macro shows rebound. Technology segment; clients are still cautious on transformation deal and would see recovery once the macros improve, TMI to continue to be in pressure and 5G would drive growth ahead. Healthy order book pipeline, Growth drivers of transformation deals are digital transformation, cloud migration, sustainability and integration & adoption of Gen AI and hyper personalization.
- TCS believes it has levers like improvement in utilization, lower sub-contracting cost (however, seems to be bottomed out), productivity and pyramid optimization which can aid in margin expansion going forward. We believe this will help the company achieve aspirational 26-28% margins.
- Total headcount for the quarter stood at 6,06,998 employees net addition of 5,452 with attrition rate at 12.1%. Management emphasized on recalibrating the workforce as and when required.

**Exhibit 1: Financial snapshot (Rs mn)**

Year-end: March	Q1FY25	Q4FY24	QoQ (%)	Q1FY24	YoY (%)
<b>Revenues (US\$ mn)</b>	<b>7,505</b>	<b>7,363</b>	<b>1.9</b>	<b>7,226</b>	<b>3.9</b>
<b>Revenues</b>	<b>6,26,130</b>	<b>6,12,370</b>	<b>2.2</b>	<b>5,93,810</b>	<b>5.4</b>
COGS	3,67,210	3,51,187	4.6	3,49,730	5.0
Gross profit	2,58,920	2,61,183	(0.9)	2,44,080	6.1
SG&A	92,300	89,890	2.7	94,100	(1.9)
<b>EBITDA</b>	<b>1,66,620</b>	<b>1,71,293</b>	<b>(2.7)</b>	<b>1,49,980</b>	<b>11.1</b>
Depreciation & amortization	12,200	12,460	(2.1)	12,430	(1.9)
EBIT	1,54,420	1,58,833	(2.8)	1,37,550	12.3
Other income	7,890	9,570	(17.6)	12,340	(36.1)
PBT	1,62,310	1,68,403	(3.6)	1,49,890	8.3
Tax	41,260	43,470	(5.1)	38,690	6.6
Minority interest	650	680	(4.4)	460	41.3
Net profit	1,20,400	1,24,253	(3.1)	1,10,740	8.7
<b>Adjusted Net profit</b>	<b>1,20,400</b>	<b>1,24,253</b>	<b>(3.1)</b>	<b>1,10,740</b>	<b>8.7</b>
<b>Diluted EPS (Rs)</b>	<b>33.3</b>	<b>34.3</b>	<b>(3.2)</b>	<b>30.3</b>	<b>9.9</b>
<b>As % of net revenue</b>					
Gross profit	41.4	42.7		41.1	
SG&A	14.7	14.7		15.8	
EBITDA	26.6	28.0		25.3	
EBIT	24.7	25.9		23.2	
Net profit	19.2	20.3		18.6	
Tax rate	25.4	25.8		25.8	

Source: Company; IDBI Capital Research

Revenue growth of 3.9%, YoY.

**Exhibit 2: Actual vs. estimates**

Year to March	Q1FY25	Q1FY25E	Variance (%)
Revenue (US\$ mn)	7,505	7,510	(0.1)
Revenue (Rs mn)	6,26,130	6,26,431	(0.0)
EBIT (Rs mn)	1,54,420	1,56,366	(1.2)
EBIT margin (%)	24.7	25.0	-30 bps
PAT (Rs mn)	1,24,340	1,22,444	1.5
PAT margin (%)	19.9	19.5	31 bps
EPS (Rs)	33.3	33.8	(1.6)

Source: Company; IDBI Capital Research

**Exhibit 3: Earnings Revision**

Year-end: March	FY25E			FY26E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (US\$ mn)	31,048	31,226	(0.6)	34,207	34568	(1.0)
Revenue (Rs bn)	25,90,276	25,97,015	(0.3)	28,53,823	2874977	(0.7)
EBIT margin (%)	25.4%	25.8%	-43 bps	26.0%	26.70%	-74 bps
EPS (Rs/sh)	141.8	144.9	(2.1)	159.7	159.6	0.1

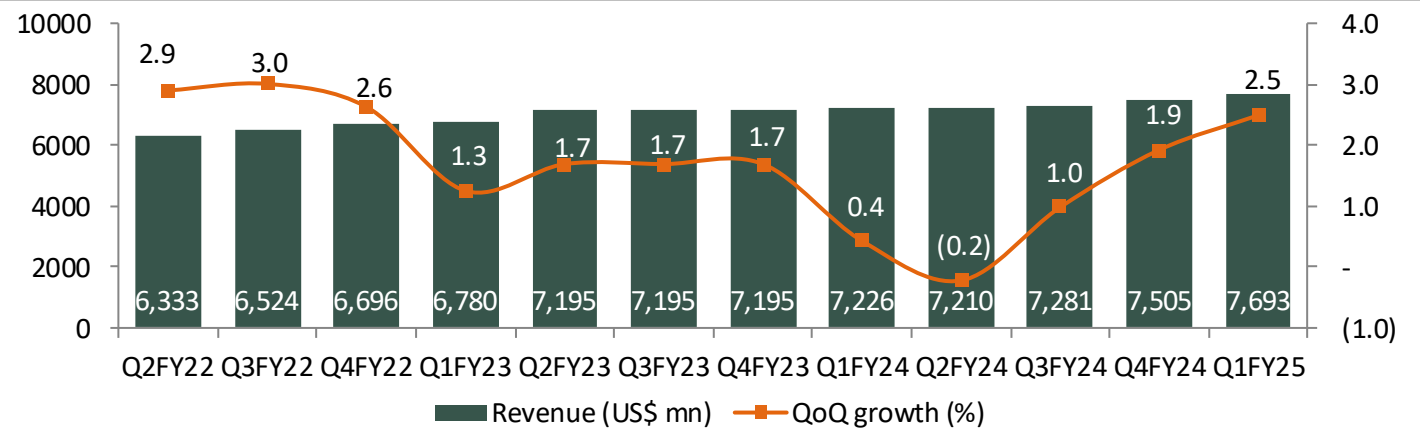
Source: Company; IDBI Capital Research

**Exhibit 4: QoQ increase in number of clients across all sizes**

No. of large clients	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
USD1m+	1196	1241	1241	1241	1268	1272	1288	1294	1310
USD5m+	650	665	665	665	677	688	693	693	697
USD10m+	446	461	461	461	468	483	480	487	486
USD20m+	272	291	291	291	296	292	299	301	300
USD50m+	124	133	133	133	137	137	137	139	140
USD100m+	59	60	60	60	60	61	61	62	63

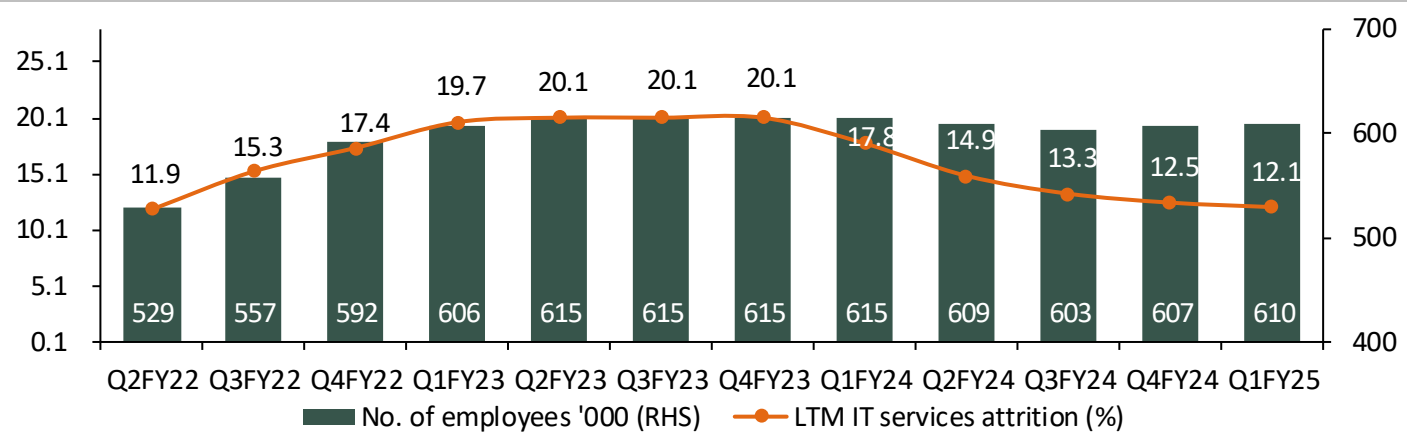
Source: Company; IDBI Capital Research

**Exhibit 5: Q1FY25 revenue growth was in-line with consensus estimates**



Source: Company; IDBI Capital Research

**Exhibit 6: Employee details and IT services attrition trend**



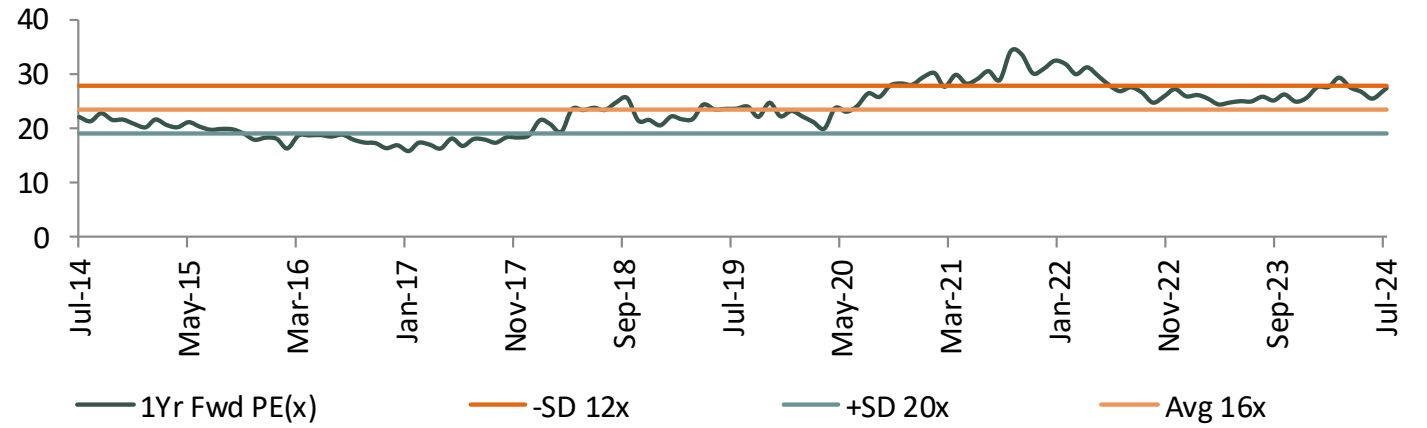
Source: Company; IDBI Capital Research

**Exhibit 7: Revenue growth across various segments (%)**

	% of revenue (%)	YoY in CC (%)
<b>Total revenue</b>		<b>4%</b>
<b>by geography</b>		
North America	49.5%	0.4%
Latin America	1.9%	0.2%
UK	16.9%	8.7%
Continental Europe	14.4%	1.9%
India	7.5%	61.4%
Asia Pacific	7.8%	5.4%
MEA	2.0%	5.4%
<b>by vertical</b>		
BFSI	30.9%	-1.3%
Retail & CPG	15.4%	-0.7%
Communication & Media	6.2%	-8.0%
Manufacturing	8.8%	10.1%
Life Sciences & Healthcare	11.0%	3.9%
Technology & Services	8.1%	-3.3%
Regional Markets & Others	14.0%	33.4%

Source: Company; IDBI Capital Research

**Exhibit 8: One-year forward PER trend**



Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Net sales</b>	<b>16,41,770</b>	<b>19,17,540</b>	<b>22,54,580</b>	<b>24,08,930</b>	<b>25,90,276</b>	<b>28,53,823</b>
<i>Change (yoy, %)</i>	4.6	17	18	7	8	10
Operating expenses	(11,76,310)	(13,86,970)	(16,61,980)	(17,75,560)	(18,83,856)	(20,59,582)
<b>EBITDA</b>	<b>4,65,460</b>	<b>5,30,570</b>	<b>5,92,600</b>	<b>6,33,370</b>	<b>7,06,420</b>	<b>7,94,241</b>
<i>Change (yoy, %)</i>	10.5	14	12	7	12	12
<i>Margin (%)</i>	28.4	27.7	26.3	26.3	27.3	27.8
Depreciation	(40,650)	(46,040)	(50,230)	(49,493)	(49,394)	(53,279)
<b>EBIT</b>	<b>4,24,810</b>	<b>4,84,530</b>	<b>5,42,370</b>	<b>5,83,877</b>	<b>6,57,026</b>	<b>7,40,962</b>
Interest paid	(6,380)	(7,840)	(7,790)	(7,780)	(7,730)	(8,000)
Other income	29,610	40,180	34,490	44,220	43,006	46,775
<b>Pre-tax profit</b>	<b>4,48,040</b>	<b>5,16,870</b>	<b>5,69,070</b>	<b>6,20,310</b>	<b>6,92,302</b>	<b>7,79,737</b>
Tax	(1,14,580)	(1,32,380)	(1,46,040)	(1,58,980)	(1,77,468)	(2,00,392)
<i>Effective tax rate (%)</i>	25.6	25.6	25.7	25.6	25.6	25.7
Minority Interest	(1,320.0)	(1,220.0)	(1,560.0)	(1,910.0)	(1,550.0)	(1,200.0)
<b>Net profit</b>	<b>3,32,140</b>	<b>3,83,270</b>	<b>4,21,470</b>	<b>4,59,420</b>	<b>5,13,284</b>	<b>5,78,144</b>
Exceptional items	-	-	-	(7)	-	-
<b>Adjusted net profit</b>	<b>3,32,140</b>	<b>3,83,270</b>	<b>4,21,470</b>	<b>4,59,427</b>	<b>5,13,284</b>	<b>5,78,144</b>
<i>Change (yoy, %)</i>	2.7	15	10	9	12	13
EPS	89.8	104.7	115.2	126.0	141.8	159.7
DPS	37.0	43.0	115.0	72.5	85.0	100.0
<i>Dividend Payout (%)</i>	41.2	41.1	99.9	58	60	63



**Balance Sheet**

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Shareholders' funds</b>	<b>8,64,330</b>	<b>8,91,390</b>	<b>9,04,240</b>	<b>9,04,890</b>	<b>11,10,474</b>	<b>13,26,618</b>
Share capital	3,699	3,660	3,660	3,620	3,620	3,620
Reserves & surplus	8,60,631	8,87,730	9,00,580	9,01,270	11,06,854	13,22,998
<b>Total Debt</b>	-	-	-	-	-	-
Other liabilities	49,110	52,720	55,260	59,600	59,600	59,600
<b>Curr Liab &amp; prov</b>	<b>3,48,090</b>	<b>4,26,880</b>	<b>4,36,120</b>	<b>4,57,670</b>	<b>4,92,124</b>	<b>5,42,195</b>
Current liabilities	2,29,250	2,88,690	2,93,210	2,89,890	3,11,713	3,43,428
Provisions	1,18,840	1,38,190	1,42,910	1,67,780	1,80,411	1,98,766
<b>Total liabilities</b>	<b>3,97,200</b>	<b>4,79,600</b>	<b>4,91,380</b>	<b>5,17,270</b>	<b>5,51,724</b>	<b>6,01,795</b>
<b>Total equity &amp; liabilities</b>	<b>12,68,280</b>	<b>13,78,060</b>	<b>14,03,440</b>	<b>14,30,460</b>	<b>16,72,048</b>	<b>19,39,463</b>
Net fixed assets	1,43,140	1,48,670	1,41,890	1,32,820	1,08,426	80,147
Investments	2,130	2,230	2,660	2,810	2,810	2,810
Other non-curr assets	1,26,640	1,38,950	1,50,980	1,63,540	1,75,851	1,93,743
<b>Current assets</b>	<b>9,96,370</b>	<b>10,88,210</b>	<b>11,07,910</b>	<b>11,31,290</b>	<b>13,84,960</b>	<b>16,62,763</b>
Inventories	80	200	280	280	280	280
Sundry Debtors	3,69,900	4,20,100	5,03,020	5,37,200	5,77,641	6,36,413
Cash and Bank	3,98,830	4,98,730	4,92,480	4,64,700	6,68,210	8,73,116
Loans and advances	1,15,010	67,560	14,980	4,930	5,301	5,840
<b>Total assets</b>	<b>12,68,280</b>	<b>13,78,060</b>	<b>14,03,440</b>	<b>14,30,460</b>	<b>16,72,048</b>	<b>19,39,463</b>

**Cash Flow Statement**

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	4,48,040	5,16,870	5,69,070	6,20,310	6,92,302	7,79,737
Depreciation	21,420	23,130	30,220	28,330	49,394	53,279
Tax paid	(1,25,730)	(1,31,920)	(1,40,010)	(1,58,090)	(1,77,468)	(2,00,392)
Chg in working capital	45,460	75,920	(21,180)	(2,580)	(6,358)	(9,240)
Other operating activities	(1,99,302)	(1,97,021)	1,230	(36,093)	(22,465)	(33,200)
<b>Cash flow from operations (a)</b>	<b>1,89,888</b>	<b>2,86,979</b>	<b>4,39,330</b>	<b>4,51,877</b>	<b>5,35,405</b>	<b>5,90,184</b>
Capital expenditure	(26,160)	(28,660)	(23,440)	(19,260)	(25,000)	(25,000)
Chg in investments	30	(100)	(430)	(150)	-	-
Other investing activities	-	-	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(26,130)</b>	<b>(28,760)</b>	<b>(23,870)</b>	<b>(19,410)</b>	<b>(25,000)</b>	<b>(25,000)</b>
Equity raised/(repaid)	(53)	(39)	-	(1,94,557)	-	-
Debt raised/(repaid)	-	-	-	-	-	-
Dividend (incl. tax)	(1,36,865)	(1,57,380)	(4,20,900)	(2,64,260)	(3,07,700)	(3,62,000)
Chg in minorities	(800)	(900)	(810)	(1,430)	-	-
Other financing activities	-	-	-	-	-	-
<b>Cash flow from financing (c)</b>	<b>(1,37,718)</b>	<b>(1,58,319)</b>	<b>(4,21,710)</b>	<b>(4,60,247)</b>	<b>(3,07,700)</b>	<b>(3,62,000)</b>
<b>Net chg in cash (a+b+c)</b>	<b>26,040</b>	<b>99,900</b>	<b>(6,250)</b>	<b>(27,780)</b>	<b>2,02,705</b>	<b>2,03,184</b>

### Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	233.7	244	247	248	307	366
Adj EPS (Rs)	89.8	104.7	115.2	126.0	141.8	159.7
Adj EPS growth (%)	4.2	17	10	9	13	13
EBITDA margin (%)	28.4	27.7	26.3	26.3	27.3	27.8
Pre-tax margin (%)	27.3	27.0	25.2	25.8	26.7	27.3
Net Debt/Equity (x)	-0.5	-0.6	-0.5	-0.5	-0.6	-0.7
ROCE (%)	46.4	52	57	60	61	53
ROE (%)	38.9	44	47	51	51	44

### DuPont Analysis

Asset turnover (x)	1.3	1.4	1.6	1.7	1.7	1.5
Leverage factor (x)	1.4	1.5	1.5	1.6	1.5	1.5
Net margin (%)	20.2	20.0	18.7	19.1	19.8	20.3

### Working Capital & Liquidity ratio

Inventory days	0	0	0	0	0	0
Receivable days	82	80	81	81	81	81
Payable days	24	21	23	21	21	21

### Valuations

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
PER (x)	44	38	35	32	28	25
Price/Book value (x)	17.0	16.3	16.1	16.0	13.0	10.8
EV/Net sales (x)	9	7	6	6	5	5
EV/EBITDA (x)	31	26	24	22	19	17
Dividend Yield (%)	0.9	1.1	2.9	1.8	2.1	2.5

Source: Company; IDBI Capital Research



# Notes

Dealing

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**Key to Ratings Stocks:****BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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