

Tata Consultancy Services (TCS) HOLD

Mega deal wins and margin expansion key positive

Summary

TCS Q4FY24 profit numbers were above consensus estimates. While the macro is uncertain, TCS continues to win cost optimization, vendor consolidation and growth & transformation deal. The company has also won mega deals which is expected to ramp up in FY25E. We believe mega deals will contribute ~3% to company's topline. The company's order book for Q4 & FY24 stood at US\$13.2bn (1.8x books to bill) & 42.7bn (1.5x book to bill). This coupled with improvement in BFSI, traction in Gen AI, Cloud modernization, ERP modernization will lead to tailwind in revenue and margins. Hence, we have upgraded our EPS estimates by 0.8% & 3.7% for FY25E & FY26E. This has prompted us to revise target price upwards from Rs. 4,000 to Rs. 4,300 (26x FY26E EPS). However, considering the recent run up in price we maintain our HOLD rating on the stock.

Key Highlights and Investment Rationale

- Cloud, generative AI, Data key drivers of long term growth:** The IT industry is witnessing macro challenges especially in North America leading to project ramp downs, slowdown in discretionary spend and elongation of deal tenure. We believe these are short term demand pangs and 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 expand by 251 bps to 26.7% over FY24-FY26E.

TP	Rs4,300
CMP	Rs4,000
Potential upside/downside	7.5%
Previous Rating	HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	(4.6)	3.1	23.4
Rel to Sensex	(5.3)	0.7	0.4

V/s Consensus

EPS (Rs)	FY25E	FY26E
IDBI Capital	145	166
Consensus	141	157
% difference	2.8	5.6

Key Stock Data

Bloomberg/Reuters	TCS IN/ TCS.BO
Sector	IT Services
Shares o/s (mn)	3,618
Market cap. (Rs mn)	14,473,435
3-m daily avg Trd value (Rs mn)	2,233.6
52-week high / low	Rs4,254 / 3,070
Sensex / Nifty	74,245 / 22,519

Shareholding Pattern (%)

Promoters	72.4
FII	12.5
DII	9.5
Public	5.6

Financial snapshot

Year	FY22	FY23	FY24	FY25E	FY26E
Revenue	19,17,540	22,54,580	24,08,930	25,97,015	28,74,977
Change (yoy, %)	17	18	7	8	11
EBITDA	5,30,570	5,92,600	6,33,370	7,20,786	8,21,843
Change (yoy, %)	14	12	7	14	14
EBITDA Margin(%)	27.7	26.3	26.3	27.8	28.6
Adj.PAT	3,83,270	4,21,470	4,59,427	5,24,482	5,99,168
EPS (Rs)	105	115	126	145	166
Change (yoy, %)	16.6	10.0	9.4	15	14
PE(x)	38	34	31	28	24
Dividend Yield (%)	1.1	2.9	1.8	2	3
EV/EBITDA (x)	26	23	22	19	16
RoE (%)	43	46	50	52	44
RoCE (%)	51	56	60	62	54

Source: IDBI Capital Research

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Other Key Concall Highlights

- Q4FY24 Dollar revenue came in at \$7,363mn +1.1%/+2.3% QoQ/YoY; CC growth of 2.2% YoY. Growth in CC terms was led by United Kingdom led with 6.2% YoY growth; Asia Pacific grew 5.2% YoY while North America de-grew 2.3% YoY and Continental Europe decline by 2.0% YoY. In emerging markets, India increased 37.9% YoY growth, Middle East & Africa grew 10.7% YoY and Latin America grew 9.8% YoY.
- Segment wise growth was led by Energy, Resources and Utilities vertical which grew 7.3% YoY, Manufacturing which grew 9.7% YoY, Regional Markets grew 26% YoY and Life Sciences and Healthcare which grew 1.7% YoY. The Consumer Business Group de-grew 0.3% YoY, BFSI -3.2% YoY, Communications & Media -5.5% YoY and Technology & Services -5.6% YoY.
- Q4FY24 EBIT margin stood at 26% with expansion of 190bps which was led by improvement in reduced sub-con costs, productivity & better utilization, however, was offset by 90bps on account of higher 3rd party cost and travel expenses. A net 50bps expansion in FY24 EBIT margin was led by reducing sub-con costs, productivity, realization & support from currency.
- Order book TCV stood at \$13.2bn. It grew by 63% QoQ. Management stated deal conversion momentum to be same as last few quarters. BSNL deal would have incremental deal opportunity. Management also emphasized on good deals pipeline in market infrastructure sub-segment.
- **Demand environment:** Management expects volatility in short term demand due to continuous pressure in discretionary spends, macro-economic challenges, geopolitical uncertainty and higher inflation created lower demand than expected in deals. Segment wise; good demand in BFS within that insurance is doing well, green shoots is seen in consumer business, transportation is growing well, Healthy order book pipeline, Growth drivers of transformation deals are digital transformation, cloud migration, sustainability and integration of Gen AI and hyper personalization.
- On the margins front, TCS believes it has levers like improvement in utilization, lower sub-contracting cost 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 6,01,546 employees net addition of (-1759) with attrition rate at 12.5%.

Exhibit 1: Financial snapshot (Rs mn)

Year-end: March	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	YoY (%)
Revenues (US\$ mn)	7,363	7,281	1.1	7,195	2.3
Revenues	6,12,370	6,05,830	1.1	5,91,620	3.5
COGS	3,51,187	3,49,200	0.6	3,44,270	2.0
Gross profit	2,61,183	2,56,630	1.8	2,47,350	5.6
SG&A	89,890	1,02,330	(12.2)	89,620	0.3
EBITDA	1,71,293	1,54,300	11.0	1,57,730	8.6
Depreciation & amortization	12,460	12,330	1.1	12,850	(3.0)
EBIT	1,58,833	1,41,970	11.9	1,44,880	9.6
Other income	9,570	6,320	51.4	9,030	6.0
PBT	1,68,403	1,48,290	13.6	1,53,910	9.4
Tax	43,470	37,320	16.5	39,550	9.9
Minority interest	680	390	74.4	440	54.5
Net profit	1,25,020	1,10,580	13.1	1,13,920	9.7
Adjusted Net profit	1,24,340	1,10,580	12.4	1,13,920	9.1
Diluted EPS (Rs)	34.3	30.2	13.7	31.1	10.3
As % of net revenue					
Gross profit	42.7	42.4		41.8	
SG&A	14.7	16.9		15.1	
EBITDA	28.0	25.5		26.7	
EBIT	25.9	23.4		24.5	
Net profit	20.4	18.3		19.3	
Tax rate	25.8	25.2		25.7	

Revenue growth of 2.3%, YoY.

Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. estimates

Year to March	Q4FY24	Q4FY24E	Variance (%)
Revenue (US\$ mn)	7,363	7,383	(0.3)
Revenue (Rs mn)	6,12,370	6,12,784	(0.1)
EBIT (Rs mn)	1,58,833	1,47,338	7.8
EBIT margin (%)	25.9%	24.0%	189 bps
PAT (Rs mn)	1,24,340	1,16,147	7.1
PAT margin (%)	20.3%	19.0%	135 bps
EPS (Rs)	34.3	31.7	8.2

Source: Company; IDBI Capital Research

Exhibit 3: Earnings Revision

Year-end: March	FY25E			FY26E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (US\$ mn)	31,226	31,529	(1.0)	34,568	34584	(0.0)
Revenue (Rs bn)	25,97,015	26,16,877	(0.8)	28,74,977	2870497	0.2
EBIT margin (%)	25.8%	25.5%	35 bps	26.7%	25.70%	103 bps
EPS (Rs/sh)	144.9	143.8	0.8	165.5	159.6	3.7

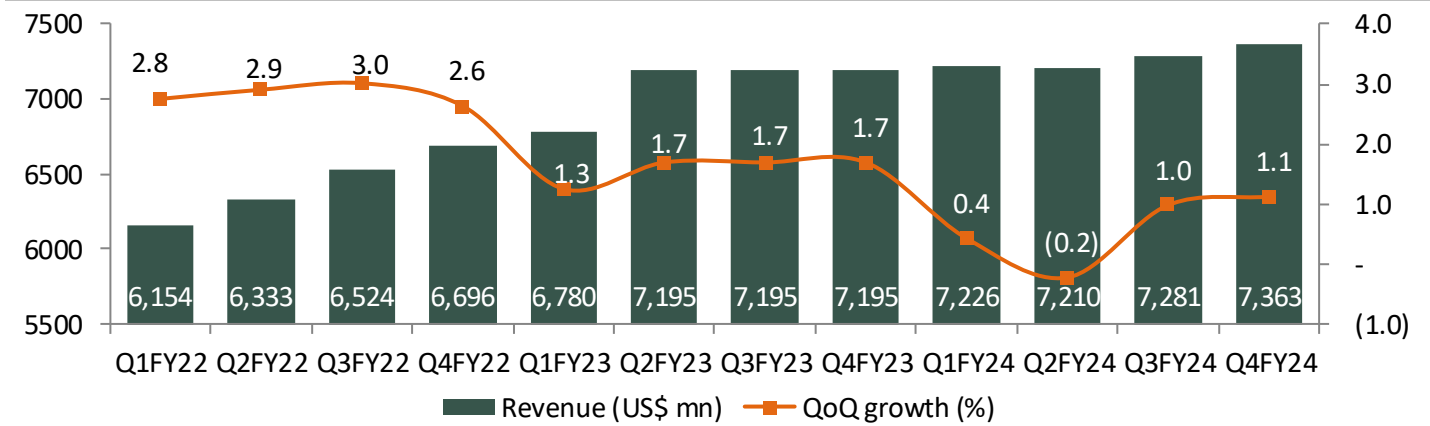
Source: Company; IDBI Capital Research

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

No. of large clients	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
USD1m+	1182	1196	1241	1241	1241	1196	1272	1288	1294
USD5m+	638	650	665	665	665	650	688	693	693
USD10m+	439	446	461	461	461	446	483	480	487
USD20m+	268	272	291	291	291	272	292	299	301
USD50m+	120	124	133	133	133	124	137	137	139
USD100m+	58	59	60	60	60	59	61	61	62

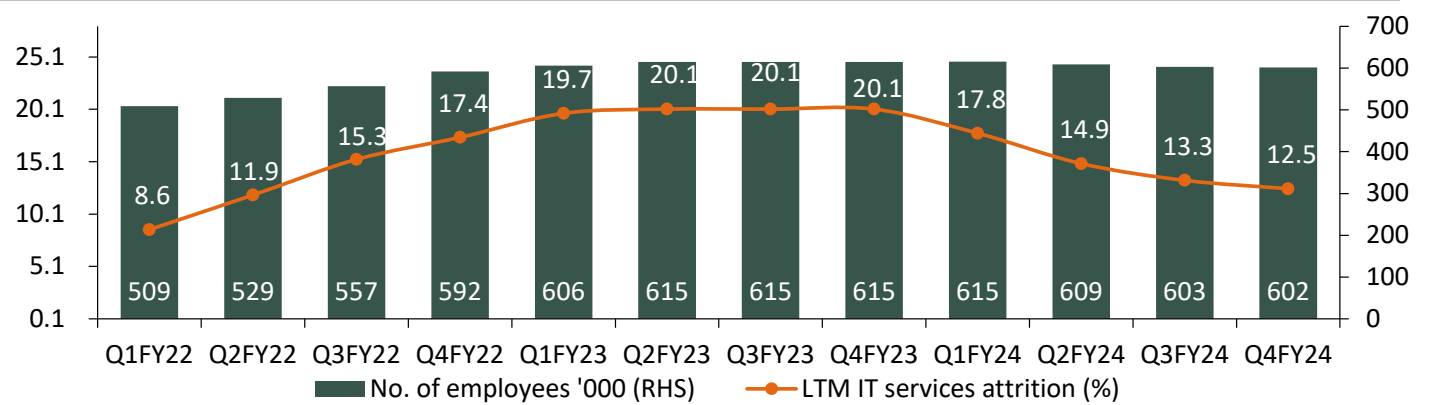
Source: Company; IDBI Capital Research

Exhibit 5: Q4FY24 revenue growth was below consensus estimates



Source: Company; IDBI Capital Research

Exhibit 6: Employee details and IT services attrition trend



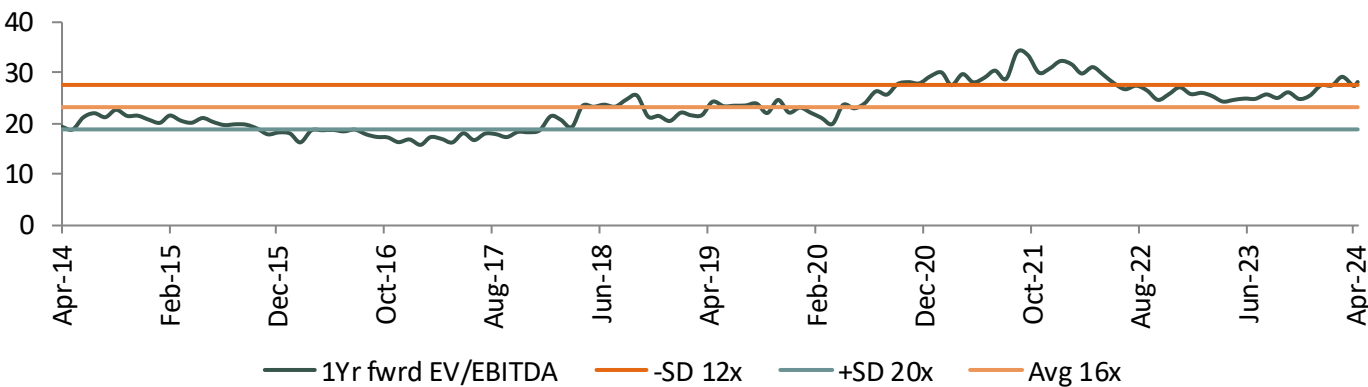
Source: Company; IDBI Capital Research

Exhibit 7: Revenue growth across various segments (%)

	% of revenue (%)	YoY in CC (%)
Total revenue		2.2%
by geography		
North America	50.0%	-1.2%
Latin America	2.0%	15.0%
UK	16.8%	10.8%
Continental Europe	14.6%	0.1%
India	6.7%	38.7%
Asia Pacific	7.8%	0.9%
MEA	2.1%	8.7%
by vertical		
BFSI	31.3%	-2.6%
Retail & CPG	15.7%	0.4%
Communication & Media	6.6%	-4.9%
Manufacturing	8.8%	9.8%
Life Sciences & Healthcare	10.9%	2.3%
Technology & Services	8.2%	-5.7%
Regional Markets & Others	12.9%	24.5%

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
Net sales	16,41,770	19,17,540	22,54,580	24,08,930	25,97,015	28,74,977
<i>Change (yoy, %)</i>	4.6	17	18	7	8	11
Operating expenses	(11,76,310)	(13,86,970)	(16,61,980)	(17,75,560)	(18,76,229)	(20,53,134)
EBITDA	4,65,460	5,30,570	5,92,600	6,33,370	7,20,786	8,21,843
<i>Change (yoy, %)</i>	10.5	14	12	7	14	14
<i>Margin (%)</i>	28.4	27.7	26.3	26.3	27.8	28.6
Depreciation	(40,650)	(46,040)	(50,230)	(49,493)	(49,493)	(53,279)
EBIT	4,24,810	4,84,530	5,42,370	5,83,877	6,71,293	7,68,564
Interest paid	(6,380)	(7,840)	(7,790)	(7,780)	(8,000)	(8,000)
Other income	29,610	40,180	34,490	44,220	44,220	47,468
Pre-tax profit	4,48,040	5,16,870	5,69,070	6,20,310	7,07,513	8,08,032
Tax	(1,14,580)	(1,32,380)	(1,46,040)	(1,58,980)	(1,81,831)	(2,07,664)
<i>Effective tax rate (%)</i>	25.6	25.6	25.7	25.6	25.7	25.7
Minority Interest	(1,320.0)	(1,220.0)	(1,560.0)	(1,910.0)	(1,200.0)	(1,200.0)
Net profit	3,32,140	3,83,270	4,21,470	4,59,420	5,24,482	5,99,168
Exceptional items	-	-	-	(7)	-	-
Adjusted net profit	3,32,140	3,83,270	4,21,470	4,59,427	5,24,482	5,99,168
<i>Change (yoy, %)</i>	2.7	15	10	9	14	14
EPS	89.8	104.7	115.2	126.0	144.9	165.5
DPS	37.0	43.0	115.0	72.5	85.0	100.0
<i>Dividend Payout (%)</i>	41.2	41.1	99.9	58	59	60

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Shareholders' funds	8,64,330	8,91,390	9,04,240	9,04,890	11,21,672	13,58,840
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	11,18,052	13,55,220
Total Debt	-	-	-	-	-	-
Other liabilities	49,110	52,720	55,260	59,600	59,600	59,600
Curr Liab & prov	3,48,090	4,26,880	4,36,120	4,57,670	4,93,404	5,46,214
Current liabilities	2,29,250	2,88,690	2,93,210	2,89,890	3,12,524	3,45,974
Provisions	1,18,840	1,38,190	1,42,910	1,67,780	1,80,880	2,00,240
Total liabilities	3,97,200	4,79,600	4,91,380	5,17,270	5,53,004	6,05,814
Total equity & liabilities	12,68,280	13,78,060	14,03,440	14,30,460	16,84,176	19,75,354
Net fixed assets	1,43,140	1,48,670	1,41,890	1,32,820	1,08,327	80,048
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	1,76,309	1,95,179
Current assets	9,96,370	10,88,210	11,07,910	11,31,290	13,96,730	16,97,316
Inventories	80	200	280	280	280	280
Sundry Debtors	3,69,900	4,20,100	5,03,020	5,37,200	5,79,144	6,41,130
Cash and Bank	3,98,830	4,98,730	4,92,480	4,64,700	6,78,116	9,01,818
Loans and advances	1,15,010	67,560	14,980	4,930	5,315	5,884
Total assets	12,68,280	13,78,060	14,03,440	14,30,460	16,84,176	19,75,354

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	7,07,513	8,08,032
Depreciation	21,420	23,130	30,220	28,330	49,493	53,279
Tax paid	(1,25,730)	(1,31,920)	(1,40,010)	(1,58,090)	(1,81,831)	(2,07,664)
Chg in working capital	45,460	75,920	(21,180)	(2,580)	(6,594)	(9,746)
Other operating activities	(1,99,302)	(1,97,021)	1,230	(36,093)	(22,465)	(33,200)
Cash flow from operations (a)	1,89,888	2,86,979	4,39,330	4,51,877	5,46,116	6,10,702
Capital expenditure	(26,160)	(28,660)	(23,440)	(19,260)	(25,000)	(25,000)
Chg in investments	30	(100)	(430)	(150)	-	-
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(26,130)	(28,760)	(23,870)	(19,410)	(25,000)	(25,000)
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	-	-	-	-	-	-
Cash flow from financing (c)	(1,37,718)	(1,58,319)	(4,21,710)	(4,60,247)	(3,07,700)	(3,62,000)
Net chg in cash (a+b+c)	26,040	99,900	(6,250)	(27,780)	2,13,416	2,23,702

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	233.7	244	247	248	310	375
Adj EPS (Rs)	89.8	104.7	115.2	126.0	144.9	165.5
Adj EPS growth (%)	4.2	17	10	9	15	14
EBITDA margin (%)	28.4	27.7	26.3	26.3	27.8	28.6
Pre-tax margin (%)	27.3	27.0	25.2	25.8	27.2	28.1
Net Debt/Equity (x)	-0.5	-0.6	-0.5	-0.5	-0.6	-0.7
ROCE (%)	46.4	52	57	60	62	54
ROE (%)	38.9	44	47	51	52	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	20.2	20.8

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)	45	38	35	32	28	24
Price/Book value (x)	17.1	16.4	16.2	16.1	12.9	10.7
EV/Net sales (x)	8.8	7.4	6.3	5.9	5.3	4.7
EV/EBITDA (x)	31	27	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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