



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141442

## Q2 FY18 Result Update@ Dalal &Broacha

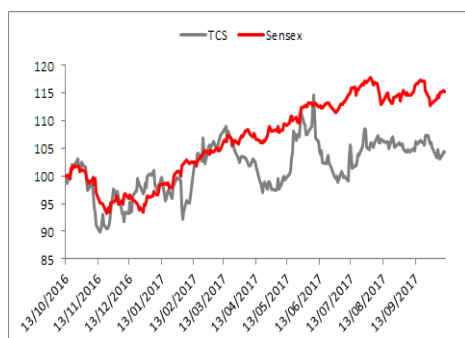
### ACCUMULATE

Current Price	2,546
52 Week Range	2707/2054

### Key Share Data

Market Cap (Rs.bn)	4878.65
Market Cap (US\$ mn)	75056.27
No of o/s shares (mn)	1914
Face Value	1
Monthly Avg.	
Vol(BSE+NSE) Nos	927716
BSE Code	532540
NSE Code	TCS
Bloomberg	TCS IN

### Price performance



% Shareholding	Sept-17	June-17
Promoters	73.57	73.57
Institutions	22.26	22.23
Others		
<b>Total</b>	<b>100</b>	<b>100</b>

### Revenue in-line whereas profitability driven by higher execution, productivity and currency tailwinds

- TCS reported a USD revenue of \$4,739 Mn, in Q2FY18 which was largely in-line with our estimates of \$4,759 Mn. Rupee revenue was reported at INR 305,410 Mn, in-line with our estimates of INR 305,919 Mn
- The company reported an EBIT of INR 76,600 Mn, up 10.8% qoq and 0.6% yoy and 2% above our estimates of INR 75,116 Mn. EBIT margins were reported at 25.1%, up by 168 bps qoq mainly due to higher execution and productivity which led to a 220 bps in margins and off-set of 50 bps due to rupee appreciation against the dollar.
- PAT was reported at INR 64,460 Mn, up 8.4% qoq and down 2.1% yoy and in-line with our estimate of INR 64,350 Mn.

### Robust growth in Digital and Volumes drove Q2 performance

- Digital revenues continued to outperform with a 31% yoy growth and now contribute 19.7% of overall revenues. Company reported 3.2% volumes and an improvement in realizations as well which resulted in higher than estimated EBIT margins.
- As far as Verticals are concerned Travel & Hospitality (3.8% of revenues), Energy & Utilities (4.2% of revenues) and Life Sciences & Healthcare (7.2% of revenues) led the pack with a growth of 8%, 7.2% and 3.6% qoq in CC terms. BFSI (33% of overall revenues) grew at 3.5% qoq in reported terms.
- Client wins were impressive with 1 client addition in \$100 Mn+ category followed by 6 each in \$50 Mn+, \$20 Mn+ and \$10 Mn+ category.
- TCS reorganized service lines earlier this year and transition was successfully completed in Q2 with good growth across Consulting, Cognitive Business Operations, IoT and Enterprise Application Services

### Key Concall Takeaways

- Products & Platforms continue to witness traction with robust wins for BANCS, TCS ADD (for Lifescience & Healthcare), TCS HOBBS (OSS/BSS solutions) and Ignio (Automation Platform)
- FCF stood at INR 53.2 Bn and company declared an interim dividend of INR 7 per share
- In Digital, management experienced heightened response in IoT and Cloud Implementation & Integration
- Retail (11.9% of revenues) remained flat in the quarter, however, management is experiencing increased demand from Traditional (brick & mortar retailers) for transforming towards interconnected retail.
- With regards to BFSI, most banks have completed wave 1 of tech adoption and are in process for embarking on wave 2 involving interconnected experiences through AI, Automation and Analytics. Size of deals are steadily expanding.

### Valuation & Outlook:

Stock is currently trading at 17.9x and 16.1x FY18E and FY19E EPS. We have a neutral rating on the stock with a target price of INR 2,534.

### Consolidated Financials (in INR Mn)

Year	Net Sales	% Growth	EBIT	EBIT (%)	PAT	% Growth	EPS	PE (x)	ROE (%)	ROCE (%)
FY16	1,086,462	14.8%	287,901	26.5%	241,386	22.9%	122.8	20.7x	34.8%	33.7%
FY17	1,179,660	8.6%	303,240	25.7%	261,648	8.4%	132.8	19.2x	31.2%	30.2%
FY18E	1,250,681	6.0%	324,822	26.0%	272,393	4.1%	142.3	17.9x	29.7%	28.7%
FY19E	1,384,504	10.7%	363,442	26.3%	303,211	11.3%	158.4	16.1x	29.9%	28.8%

Source: Company, Dalal & Broacha Research



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YE March (Rs. mn)	Q2 FY18	Q1 FY18	Q-o-Q change %	Q2 FY17	Y-o-Y change %	Q4 FY17 Est.	Deviation %
<b>Total Revenue (USD Mn)</b>	<b>4,739</b>	<b>4,591</b>	<b>3.2%</b>	<b>4,374</b>	<b>8.3%</b>	<b>4,759</b>	<b>-0.4%</b>
<b>Total Revenue (INR Mn)</b>	<b>305,410</b>	<b>295,840</b>	<b>3.2%</b>	<b>292,840</b>	<b>4.3%</b>	<b>305,919</b>	<b>-0.2%</b>
<b>Less:</b>							
Cost of Revenues	172,180	169,140	1.8%	161,710	6.5%	173,510	-0.8%
SG&A Expenses	51,590	52,580	(1.9%)	50,020	3.1%	52,312	-1.4%
<b>Total Expenditure</b>	<b>223,770</b>	<b>221,720</b>	<b>0.9%</b>	<b>211,730</b>	<b>5.7%</b>	<b>225,823</b>	<b>-0.9%</b>
<b>EBIDTA</b>	<b>81,640</b>	<b>74,120</b>	<b>10.1%</b>	<b>81,110</b>	<b>0.7%</b>	<b>80,096</b>	<b>1.9%</b>
Less: Depreciation	5,040	4,980	1.2%	4,940	2.0%	4,980	1.2%
<b>Operating Income</b>	<b>76,600</b>	<b>69,140</b>	<b>10.8%</b>	<b>76,170</b>	<b>0.6%</b>	<b>75,116</b>	<b>2.0%</b>
Other income (expense), net	8,120	9,320	(12.9%)	5,100	59.2%	9,638	
<b>Profit Before Tax</b>	<b>84,720</b>	<b>78,460</b>	<b>8.0%</b>	<b>86,690</b>	<b>(2.3%)</b>	<b>84,754</b>	<b>0.0%</b>
Total Tax	20,120	18,960	6.1%	20,660	(2.6%)	20,341	-1.1%
<b>PAT before Minority Interest</b>	<b>64,600</b>	<b>59,500</b>	<b>8.6%</b>	<b>66,030</b>	<b>(2.2%)</b>	<b>64,413</b>	<b>0.3%</b>
Minority Interest	140	50	N.A.	170	N.A.	62	
<b>Profit After Tax</b>	<b>64,460</b>	<b>59,450</b>	<b>8.4%</b>	<b>65,860</b>	<b>(2.1%)</b>	<b>64,350</b>	<b>0.2%</b>
<b>Basic &amp; Diluted EPS (Rs.)</b>	<b>33.7</b>	<b>30.2</b>	<b>11.6%</b>	<b>33.4</b>	<b>0.7%</b>	<b>32.9</b>	<b>2.3%</b>
Basic & Diluted Outstanding (mn)	1,914	1,970		1,970		1,956	
<b>Margin Analysis %</b>			<b>Change In bps</b>		<b>Change In bps</b>		
<b>EBIDTA Margin</b>	<b>26.7%</b>	<b>25.1%</b>	<b>168</b>	<b>27.7%</b>	<b>-97</b>	<b>26.2%</b>	<b>55</b>
Operating Margin	25.1%	23.4%	171	26.0%	-93	24.6%	53
<b>PBT Margin</b>	<b>27.7%</b>	<b>26.5%</b>	<b>122</b>	<b>29.6%</b>	<b>-186</b>	<b>27.7%</b>	<b>4</b>
NPM	21.1%	20.1%	101	22.5%	-138	21.0%	7
<b>Effective Tax Rate (%)</b>	<b>23.7%</b>	<b>24.2%</b>	<b>-42</b>	<b>23.8%</b>	<b>-8</b>	<b>24.0%</b>	<b>-25</b>
<b>Cost Analysis %</b>			<b>Change In bps</b>		<b>Change In bps</b>		
<b>Cost of Revenues/ Sales</b>	<b>56.4%</b>	<b>57.2%</b>	<b>-80</b>	<b>55.2%</b>	<b>116</b>	<b>56.7%</b>	<b>-34</b>
Other income/ PBT	9.6%	11.9%	-229	12.2%	-261	11.4%	-179



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