



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

Q1 FY20 Result Update@ Dalal&Broacha

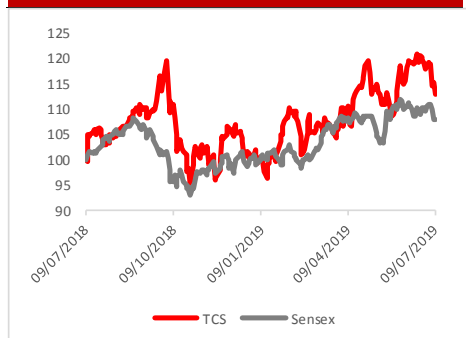
ACCUMULATE

Current Price	2,105
Target Price	2,266
Upside	7.6%
52 Week Range	2,292/1,784

Key Share Data

Market Cap (Rs.Bn)	7913.4
Market Cap (US\$ Bn)	115.4
No of o/s shares (Mn)	3,752
Face Value	1
Monthly Avg.	
Vol(BSE+NSE) ('000)	2,549
BSE Code	532540
NSE Code	TCS
Bloomberg	TCS:IN

Price performance



% Shareholding	June-19	Mar-19
Promoters	72.05	72.05
Public	27.95	27.95
Others	0	0
Total	100	100

Consolidated Financials (In INR Mn)

YE March	Net Sales	% Growth	EBIT	EBIT Margin(%)	PAT	PAT Margin (%)	EPS	EPS Growth (%)	ROE (%)	ROCE (%)
FY18	12,31,040	4.4%	3,05,020	24.8%	2,58,457	21.0%	67.5	1.7%	28%	28%
FY19	14,64,630	19.0%	3,74,500	25.6%	3,17,155	21.7%	82.8	22.7%	31%	30%
FY20E	15,86,713	8.3%	3,86,732	24.4%	3,40,081	21.4%	88.8	7.2%	29%	28%
FY21E	17,54,281	10.6%	4,41,593	25.2%	3,77,126	21.5%	98.5	10.9%	27%	27%

Source: Company, Dalal&Broacha Research

- TCS Q1 FY20 were largely in line with our estimates on the revenue and net profit front and below our estimate on the margin front.

- USD revenue came in at \$5,485 Mn, up 1.6% qoq (vs. our expectation of 2% sequential growth and street expectation of 2.6% growth) and 8.6% yoy and marginally below our estimate of \$5,507 Mn.

- Revenue in Rupee Terms was reported at INR 381,720 Mn, reporting a growth of 0.4% qoq and 11.4% yoy, in-line with our estimate of INR 382,906 Mn and 1% below street estimates INR 385,060 Mn.

- EBIT was recorded at INR 92,220 Mn, down 3.3% qoq and up 7.5% yoy and 3.1% below our est. of INR 95,107 Mn. EBIT translated into an EBIT margin of 24.2%, 60 bps below our estimate of 24.8%. However, margins were in-line with street estimate of 24.2%

- PAT was recorded at INR 81,310 Mn, up 0.1% qoq and +10.8% yoy. and -0.6% below our estimate of INR 81,815 Mn. PAT margin was reported at 21.3%, in line with our estimate of 21.4%.

- Company delivered an EPS of INR 21.6 in Q1FY20 versus 21.4 in Q4FY19 and 19.2 in Q1FY19

- Digital Revenues stood at 32% of revenues in Q2 and reported a growth of 42% yoy.

Conference Call Key Takeaways

(i) 16 new wins in Ignio, taking the total number of customers using the Automation platform to 300+ customers; BANCS registered 7 new wins and 5 go-lives; Optimera – Retail – 2 new ones; Omnistore – 1 new one; 3 new wins in Advanced Drug Development platform (ii) Client addition remained strong and broad based. Notably, company added 4 clients in the \$100 Mn category (iii) Margin headwind of 2.3% in Q1FY20 due to currency impact, which was offset by operational efficiencies (EBIT margin stood at 24.2%, -94 bps qoq and -88 bps yoy) (iv) Higher Other income (+21.7% qoq, +17% yoy) and lower tax helped bottom-line (v) Free Cash Flow of INR 75.54 Bn during the quarter (vi) Highest headcount addition 12000+ due to 3 reasons: a) focus on home grown talent b) preparing for strong demand in the medium to long term and therefore setting up capacity and capability to tune itself c) Strategic shift in the way the company is hiring and training talent from Physical to digitized training facility which is enabling the company to absorb such a large headcount. Management indicated that it is confident of consuming such a large talent base. (vii) Orders worth Total Contract Value of \$5.7 Bn (\$2.9 Bn in N. America and \$2 Bn from BFSI) were signed during the quarter vs \$4.7 Bn in Q1FY19 and \$6.2 Bn in Q4FY19 (viii) Demand weakness spoken about earlier in Q4FY19 *has materialized and therefore Q1FY20 was softer than expected (ix) Q2FY20 order bookings and performance will be critical in defining demand trend and deciding whether company will be able to achieve double digit growth in FY20 (x) BFS weakness (30.8% of revenues, +9.2% yoy down from 11.2% yoy growth in previous quarter) has been more pronounced than expected (xi) Retail (15% of revenue, 7.9% yoy growth down from 12.1% yoy growth in previous quarter) will recover next year (xii) Short term uncertainty in demand scenario. However, medium to long term demand is intact. Company is setting up capacity and capability to tune itself to that demand.



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(xiii) Any form of weakness in dollar can be a threat to margins going ahead (xiv) Lifesciences & Healthcare (7.9% of revenue) was the clear outperformer with 18% yoy growth (xv) Communication (6.9% of revenue and grew 8.4% yoy) – strong growth in media and information services space and strong across the geography (xvi) Manufacturing (9.8% of revenue and +5.5% yoy) is strong in America (Auto, non-auto, process Industry), below average in UK and Europe

Q1FY20 Performance Review

YE March (Rs. mn)	Q1 FY20	Q4 FY19	Q-o-Q change %	Q1 FY19	Y-o-Y change %	Q1FY20 Est.	Deviation %
Total Revenue (USD Mn)	5,485	5,397	1.6%	5,051	8.6%	5,507	-0.4%
Total Revenue (INR Mn)	3,81,720	3,80,100	0.4%	3,42,610	11.4%	3,82,906	-0.3%
Less:							
Cost of Revenues	2,21,020	2,17,090	1.8%	1,96,850	12.3%	2,19,204	0.8%
SG&A Expenses	60,330	62,280	(3.1%)	55,050	9.6%	61,648	-2.1%
Total Expenditure	2,81,350	2,79,370	0.7%	2,51,900	11.7%	2,80,852	0.2%
EBIDTA	1,00,370	1,00,730	(0.4%)	90,710	10.6%	1,02,054	-1.6%
Less: Depreciation	8,170	5,360	52.4%	4,930	65.7%	6,947	17.6%
Operating Income	92,200	95,370	(3.3%)	85,780	7.5%	95,107	-3.1%
Other income (expense), net	14,180	11,650	21.7%	12,080	17.4%	11,487	23.4%
Profit Before Tax	1,06,380	1,07,020	(0.6%)	97,860	8.7%	1,06,594	-0.2%
Total Tax	24,850	25,500	(2.5%)	24,240	2.5%	24,517	1.4%
PAT before Minority Interest	81,530	81,520	0.0%	73,620	10.7%	82,077	-0.7%
Minority Interest	220	260	N.A.	220	N.A.	262	
Profit After Tax	81,310	81,260	0.1%	73,400	10.8%	81,815	-0.6%
Basic & Diluted EPS (Rs.)	21.7	21.4		19.2		21.6	0.4%
Basic & Diluted Outstanding (mn)	3,752	3,790		3,829		3,790	
Margin Analysis %			Change in bps		Change in bps		
EBIDTA Margin	26.3%	26.5%	-21	26.5%	-18	26.7%	-36
Operating Margin	24.2%	25.1%	-94	25.0%	-88	24.8%	-68
PBT Margin	27.9%	28.2%	-29	28.6%	-69	27.8%	3
NPM	21.3%	21.4%	-8	21.4%	-12	21.4%	-7
Effective Tax Rate (%)	23.4%	23.8%	-47	24.8%	-141	23.0%	36
Cost Analysis %			Change in bps		Change in bps		
Cost of Revenues/ Sales	57.9%	57.1%	79	57.5%	45	57.2%	65
Other income/ PBT	13.3%	10.9%	244	12.3%	99	10.8%	255

Source: Company, Dalal & Broacha Research

Valuation & Outlook

TCS is currently trading at 23.9x and 21.5x FY20e / FY21e EPS. We expect stock price to come under slight pressure due to following reasons: \$ revenue growth was below street estimates (1.6% vs street expectation of 2.6%); management commentary on uncertainty in the Short Term and currency threat to operating margins. However, we believe that any weakness in the price should serve as a strong buying opportunity due to following reasons: 1) management confidence of healthy demand in the medium to long term, 2) robust revenue growth in Digital, 3) consistent wins in Platforms & products space 4) strong client additions and 5) healthy order bookings. **We assign an ACCUMULATE rating (and recommend a buy on dips strategy) on the stock with a target price of INR 2,266 on the stock. (reduced from earlier target price of INR 2,321 owing to currency weakness and short term cautious outlook)**



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YE March (Rs.mn)	Profit&LossA/c			
	FY18	FY19	FY20E	FY21E
Net Sales	12,31,040	14,64,630	15,86,713	17,54,281
Sales Growth%	4.4%	19.0%	8.3%	10.6%
Total Revenue	12,31,040	14,64,630	15,86,713	17,54,281
Less:				
Employees Cost	6,97,150	8,35,090	9,12,967	9,95,443
SG&A	2,08,730	2,34,490	2,54,334	2,89,456
Total Operating Exp	9,05,880	10,69,580	11,67,301	12,84,899
EBITDA	3,25,160	3,95,050	4,19,412	4,69,382
EBITDA Growth%	0.6%	21.5%	6.2%	11.9%
Less: Depreciation	20,140	20,550	32,680	27,789
Operating Profit	3,05,020	3,74,500	3,86,732	4,41,593
Growth%	0.6%	22.8%	3.3%	14.2%
Non-operating Income	35,900	41,130	58,943	52,628
Profit Before Tax	3,40,920	4,15,630	4,45,675	4,94,221
Tax	80,116	95,595	1,02,505	1,13,671
Minority Interest	2,347	2,880	3,089	3,425
Net Profit	2,58,457	3,17,155	3,40,081	3,77,126
Adjusted Profit	2,58,457	3,17,155	3,40,081	3,77,126
Diluted EPS Rs	67.5	82.8	88.8	98.5
Diluted EPS Growth%	-49.2%	22.7%	7.2%	10.9%

YEMarch (Rs.mn)	Free Cash Flow Statement			
	FY18	FY19	FY20E	FY21E
EBITDA	3,05,020	3,74,500	3,86,732	4,41,593
Less: Adjusted Taxes	71,680	86,135	88,948	1,01,566
NOPLAT	2,33,340	2,88,365	2,97,784	3,40,027
Plus: Depreciation	20,140	20,550	32,680	27,789
Changes in Working Cap	7,718	17,382	15,624	22,034
Operating Cashflow	2,45,763	2,91,533	3,14,840	3,45,782
Less: Net Capex	19,100	22,425	21,267	21,740
Total FCF	2,08,143	2,16,745	2,78,354	3,02,339

YEMarch(Rs.mn)	ValuationRatios			
	FY18	FY19	FY20E	FY21E
P/E(x)	25.8x	25.4x	23.7x	21.4x
P/BV(x)	7.8x	7.9x	6.7x	5.8x
EV/EBIDTA(x)	20.3x	20.2x	18.7x	16.5x
EV/Sales	5.4x	5.4x	4.9x	4.4x
MarketCap./Sales(x)	5.4x	5.5x	5.1x	4.6x
DividendYield(%)	1.4%	1.6%	1.7%	1.9%

YE March(Rs.mn)	Balance Sheet			
	FY18	FY19	FY20E	FY21E
Liabilities				
Equity Capital	1,910	3,820	3,820	3,820
Reserves & Surplus	8,49,370	10,12,827	11,90,148	13,86,784
Equity	8,51,280	10,16,647	11,93,968	13,90,604
Preference Share				
Net Worth	8,51,280	10,16,647	11,93,968	13,90,604
Minority Interest	4,020	6,900	9,989	13,414
Deferred tax	11,700	11,700	11,700	11,700
Total Loans	2,350	2,350	2,350	2,350
Other Non Current	11,850	14,099	15,274	16,887
Capital Employed	8,81,200	10,51,696	12,33,280	14,34,955
Assets				
Gross Block	2,27,200	2,47,200	2,67,200	2,87,200
Less:Depreciation	1,25,040	1,45,590	1,78,270	2,06,059
Net Block	1,02,160	1,01,610	88,930	81,141
Capital WIP	12,780	15,205	16,472	18,212
Investments	3,60,080	4,28,405	4,64,115	5,13,128
Intangible Assets	17,570	17,570	17,570	17,570
Others-A	1,15,200	1,61,109	1,74,538	1,92,971
Current Assets				
Inventories	260	307	335	369
Sundry Debtors	3,16,290	3,76,306	4,07,673	4,50,726
Cash and Bank Balance	63,720	93,814	2,18,437	3,31,723
Loans and Advances	32,050	38,131	41,310	45,673
Other Current Assets	37,820	44,996	48,747	53,895
Total Current Assets	4,50,140	5,53,554	7,16,501	8,82,385
Less: Current Liabilities				
Sundry Creditors	50,940	60,145	65,640	72,253
Provisions	2,660	19,119	20,501	22,734
Other Current Liabilities	1,23,130	1,46,494	1,58,705	1,75,465
Total Current Liabilities	1,76,730	2,25,758	2,44,846	2,70,453
Capital Applied	8,81,200	10,51,696	12,33,280	14,34,955

YE March (Rs.mn)	Key Ratios			
	FY18	FY19	FY20E	FY21E
Key Operating Ratios				
EBITDA Margin(%)	26.4%	27.0%	26.4%	26.8%
Tax/PBT(%)	23.5%	23.0%	23.0%	23.0%
Net Profit Margin(%)	21.0%	21.7%	21.4%	21.5%
RoE(%)	28.4%	31.4%	28.7%	27.3%
RoCE(%)	27.5%	30.4%	27.8%	26.5%
Current Ratio(x)	2.5x	2.5x	2.9x	3.3x
Dividend Payout(%)	41.4%	47.9%	47.9%	47.9%
Book Value Per Share(Rs.)	444.7	265.5	311.9	363.2
GrowthIndicators%				
Growth in Gross Block(%)	8.8%	8.8%	8.1%	7.5%
Sales Growth(%)	4.4%	19.0%	8.3%	10.6%
EBITDA Growth(%)	0.6%	21.5%	6.2%	11.9%
Net Profit Growth(%)	(1.2%)	22.7%	7.2%	10.9%
Diluted EPS Growth(%)	(49.2%)	22.7%	7.2%	10.9%
Turnover Ratios				
Debtors (Days of sales)	94	94	94	94
Creditors	21	21	21	21
Inventory	0.1	0.1	0.1	0.1



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