



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

Q1 FY21 Result Update@ Dalal&Broacha

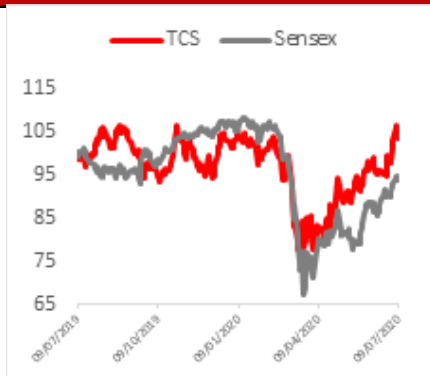
Neutral

Current Price	2204
Target Price	2078
Upside	-5.7%
52 Week Range	1504/2302

Key Share Data

Market Cap (Rs.Bn)	8271.57
Market Cap (US\$ Bn)	110.10
No of o/s shares (Mn)	3753
Face Value	1
Monthly Avg.	
Vol(BSE+NSE)('000)	3889
BSE Code	532540
NSE Code	TCS
Bloomberg	TCS:IN

Price performance



% Shareholding	Jun-20	Mar-20
Promoters	72.05	72.05
Public	27.95	27.95
Others	0.00	0.00
Total	100	100

TCS reported a weak set of numbers in Q1FY21 on account of greater than expected impact of COVID-19. However, management commentary provides silver lining stating that COVID impact has bottomed out and recovery is on the cards

- \$ Revenue came in at \$5060 Mn, -7.1% qoq / -7.7% yoy and -0.9% vs. our estimates
- INR revenue came in at INR 383,220 Mn, -4.1% qoq / +0.4% yoy and 1.1% below our estimates
- EBIT was reported at INR 90,480 Mn, -9.7% qoq / -1.9% yoy and 3% below our estimates
- EBIT translated into margins of 23.6%, vs 25.1% / 24.2% in Q4FY20 / Q1FY20 respectively and 60 bps below our estimates
- PAT came in at INR 70,080 Mn, -12.9% qoq / -13.8% yoy and 12.2% below our estimates
- EPS at INR 18.7 in Q1FY21 vs 21.5 / 21.7 in Q4FY20 / Q1FY20 respectively

Segmental Performance

- Barring Lifesciences & Healthcare vertical (9.6% of total revenue), all verticals reported a qoq and yoy de-growth
- **Lifesciences & Healthcare (9.6% of revenue)** grew 1.4% qoq and 12.1% yoy in reported terms (+13.8% yoy in ccterms).
 - **Retail & CPG (14% of revenue)** was impacted maximum with a -15.5% qoq / -13.9% yoy degrowth (-12.9% yoy in cc terms)
 - **BFS (31.3% of revenue)** reported a degrowth of -2.1% qoq and -6.3% yoy in reported terms (-4.9% yoy in ccterms)

Key Highlights

- TCV stood at the \$6.9 Bn vs \$8.9 Bn in Q4FY20 and \$5.7 Bn in Q1FY20. Company signed \$2.1 Bn in BFSI and \$0.9 Bn in Retail. \$3.3 Bn deal came from North America
- Employee headcount stood at 443,676 in Q1FY21, a reduction of 4788 employees
- OCF to Net Income stood at 132%, reflecting strong collection during the quarter despite COVID
- FCF for Q1FY21 stood at INR 86,680 Mn
- As of Q1FY21, company's cash and investments stood at INR 511.1 Bn

Highlights of the Conference Call

(i) COVID impact has bottomed out with recovery on the cards hereon (ii) BFSI was impacted due to softness in UK and Canada, however performance was better than expected (iii) Retail vertical was impacted due to lockdowns, Manufacturing due to production halt and Media & Comms was impacted due to cancellation of sporting events (iv) Products & platforms reported a robust quarter with healthy wins in Ignio (8 new logos), BANCs (7 wins), HOBBS (4 wins) and Quartz (4 wins) (v) Management saw increased spending and client demand towards 3 broad themes: Smart and Secure Collaborative work Tools, Customer Experience Focus shifting from offline to Online and Core Digital Transformation in which enterprises need to transform to a leaner, digital and agile business model which involve Automation, AI and Machine Learning (vi) Management sees economy improving slowly with first green shoots in Europe (vii) Large deal closures in Q1 were largely the deals which were pent up from Q4FY20 (viii) Secure Borderless Workspaces (SBWS) has been a huge success as it executed 32 transformational deals and attracted several clients (ix) UK and Airlines industry have yet to bottom out (x) Impact in the current quarter came from Supply Side (20% of the de-growth), Pricing as well as deal deferrals (few deals deferred to consequent quarters and few deferred indefinitely). However, supply side problems largely resolved in the current quarter and therefore should bounce-back next quarter.

Consolidated Financials (In INR Mn)

YE March	Net Sales	% Growth	EBIT	EBIT Margin(%)	PAT	PAT Margin (%)	EPS	EPS Growth (%)	P/E	ROCE (%)	ROE (%)
FY18	1,231,040	4.4%	305,020	24.8%	258,457	21.0%	67.5	1.7%	25.8x	28%	28%
FY19	1,464,630	19.0%	374,500	25.6%	317,155	21.7%	83.7	24.0%	26.3x	33%	34%
FY20	1,569,490	7.2%	385,800	24.6%	322,382	20.5%	85.9	2.7%	25.7x	29%	37%
FY21E	1,612,657	2.8%	364,311	22.6%	302,877	18.8%	80.7	-6.1%	27.3x	32%	33%
FY22E	1,804,492	11.9%	439,189	24.3%	354,489	19.6%	94.5	17.0%	23.3x	34%	32%

Source: Company, Dalal&Broacha Research



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(xi) BFSI had tailwinds from Insurance and Mortgage industry and therefore remained resilient compared to management expectations (xii) Learning activity saw a strong 20% spike in the current quarter (xiii) Launched Omni Store Scan & Go which enables scanning of products across aisles and checkout with contactless payment (xiv) Launched Optumera Fashion for predicting success of new clothing in terms of preferences and pricing and Optumera Promotion to determine the most effective promotion strategies

Q1FY21 Performance Review

YE March (Rs. mn)	Q1 FY21e	Q4 FY20	Q-o-Q change %	Q1 FY20	Y-o-Y change %	Q1FY21 Est.	Deviation %
Total Revenue (USD Mn)	5,059	5,444	(7.1%)	5,485	(7.8%)	5,106	-0.9%
Total Revenue (INR Mn)	383,220	399,460	(4.1%)	381,720	0.4%	387,378	-1.1%
Less:							
Cost of Revenues	224,860	224,410	0.2%	221,020	1.7%	224,460	0.2%
SG&A Expenses	58,110	65,290	(11.0%)	60,330	(3.7%)	58,107	0.0%
Total Expenditure	282,970	289,700	(2.3%)	281,350	0.6%	282,567	0.1%
EBIDTA	100,250	109,760	(8.7%)	100,370	(0.1%)	104,811	-4.4%
Less: Depreciation	9,770	9,510	2.7%	8,170	19.6%	11,103	-12.0%
EBIT	90,480	100,250	(9.7%)	92,200	(1.9%)	93,708	-3.4%
Other income (expense), net	4,560	4,870	(6.4%)	14,180	(67.8%)	11,621	-60.8%
Profit Before Tax	95,040	105,120	(9.6%)	106,380	(10.7%)	104,279	-8.9%
Total Tax	24,550	24,190	1.5%	24,850	(1.2%)	23,984	2.4%
PAT before Minority Interest	70,490	80,930	(12.9%)	81,530	(13.5%)	80,295	-12.2%
Minority Interest	410	440	N.A.	220	N.A.	437	
Profit After Tax	70,080	80,490	(12.9%)	81,310	(13.8%)	79,859	-12.2%
Basic & Diluted EPS (Rs.)	18.7	21.5		21.7	(13.8%)	21.3	-12.2%
Margin Analysis %			Change In bps		Change In bps		
EBIDTA Margin	26.2%	27.5%	-132	26.3%	-13	27.1%	-90
Operating Margin	23.6%	25.1%	-149	24.2%	-54	24.2%	-58
PBT Margin	24.8%	26.3%	-152	27.9%	-307	26.9%	-212
NPM	18.3%	20.1%	-186	21.3%	-301	20.6%	-233
Effective Tax Rate (%)	25.8%	23.0%	282	23.4%	247	23.0%	283
Cost Analysis %			Change In bps		Change In bps		
Cost of Revenues/ Sales	58.7%	56.2%	250	57.9%	78	57.9%	73
Other income/ PBT	4.8%	4.6%	17	13.3%	-853	11.1%	-635

Source: Company, Dalal&Broacha Research

- \$Revenue was 0.9% below our expectations
- Margins were largely impacted due to revenue decline but were offset by currency tailwinds
- Worst of COVID impact seems to be behind us
- Quarter saw strong OCF to Net Profit at 132% as well as FCF generation

Industry wise Trends (US\$ Mn)	Q2FY19	Q3FY19	Q4FY19	FY 19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	FY 20	Q1FY21
BFSI	1,627	1,617	1,668	6,483	1,689	1,710	1,698	1,617	6,715	1,583
Q-o-Q	3.6%	-0.6%	3.1%		1.3%	1.2%	-0.7%	-4.8%		-2.1%
Y-o-Y	4.0%	5.2%	6.5%	4.9%	7.5%	5.1%	5.0%	-3.0%	3.6%	-6.3%
Manufacturing	511	515	518	2,059	538	541	559	550	2,187	491
Q-o-Q	-0.8%	0.7%	0.7%		3.7%	0.6%	3.3%	-1.6%		-10.8%
Y-o-Y	43.8%	41.4%	40.8%	43.8%	4.3%	5.8%	8.6%	6.1%	6.2%	-8.7%
Comms & Media	355	362	367	1,442	378	386	391	392	1,548	359
Q-o-Q	-1.1%	2.2%	1.3%		3.1%	2.0%	1.3%	0.2%		-8.4%
Y-o-Y	2.5%	6.6%	-0.3%	3.9%	5.5%	8.9%	7.9%	6.8%	7.3%	-5.1%
Life science & Healthcare	391	399	416	1,574	433	447	464	479	1,823	486
Q-o-Q	6.1%	2.0%	4.2%		4.3%	3.1%	3.8%	3.3%		1.4%
Y-o-Y	14.6%	14.2%	16.1%	14.5%	17.5%	14.3%	16.2%	15.3%	15.8%	12.1%
Retail & Distribution	803	814	815	3,210	823	817	849	838	3,327	708
Q-o-Q	3.2%	1.3%	0.1%		1.0%	-0.8%	4.0%	-1.3%		-15.5%
Y-o-Y	42.4%	1.8%	33.3%	26.6%	5.8%	1.7%	4.3%	2.9%	3.6%	-13.9%
Technology & Services	464	457	464	1,840	483	480	469	474	1,906	460
Q-o-Q	2.1%	-1.6%	1.6%		4.0%	-0.6%	-2.2%	0.9%		-2.8%
Y-o-Y	20.9%	19.3%	19.7%	21.2%	6.2%	3.4%	2.7%	2.0%	3.6%	-4.6%
Regional Market & Others	1,064	1,087	1,150	4,305	1,141	1,137	1,156	1,094	4,528	971
Q-o-Q	5.8%	2.2%	5.8%		-0.8%	-0.4%	1.7%	-5.4%		-11.2%
Y-o-Y	27.6%	35.1%	31.4%	29.6%	13.5%	6.8%	6.4%	-4.8%	5.2%	-14.9%
Total	5,215	5,250	5,397	20,913	5,485	5,517	5,586	5,444	22,032	5,059
Q-o-Q	3.2%	0.7%	2.8%		1.6%	0.6%	1.3%	-2.5%		-7.1%
Y-o-Y	46.9%	38.6%	8.5%	9.6%	8.6%	5.8%	6.4%	0.5%	5.4%	-7.8%
Industry % of Total Revenue	Q2FY19	Q3FY19	Q4FY19	FY 19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	FY 20	Q1FY21
BFSI	31.2%	30.8%	30.9%	31.0%	30.8%	31.0%	30.4%	29.7%	30.5%	31.3%
Manufacturing	9.8%	9.8%	9.6%	9.9%	9.8%	9.8%	10.0%	10.1%	9.9%	9.7%
Communication & Media	6.8%	6.9%	6.8%	6.9%	6.9%	7.0%	7.0%	7.2%	7.0%	7.1%
Life science & Healthcare	7.5%	7.6%	7.7%	7.5%	7.9%	8.1%	8.3%	8.8%	8.3%	9.6%
Retail & Distribution	15.4%	15.5%	15.1%	15.4%	15.0%	14.8%	15.2%	15.4%	15.1%	14.0%
Technology & Services	8.9%	8.7%	8.6%	8.8%	8.8%	8.7%	8.4%	8.7%	8.7%	9.1%
Regional Market & Others	20.4%	20.7%	21.3%	20.6%	20.8%	20.6%	20.7%	20.1%	20.6%	19.2%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

- BFSI proved to be surprisingly resilient during the quarter and saw strong demand from Insurance and Mortgage industry
- Lifesciences and Healthcare continued to report a solid performance in Q1FY20 and should remain resilient going ahead
- Impact in Airlines, Hospitality and UK are yet to be bottom out



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Geography Revenue US\$ mn	Q2FY19	Q3FY19	Q4FY19	FY 19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	FY 20	Q1FY21
Americas	2,665	2,688	2,736	10,666	2,775	2,792	2,799	2,738	11,104	2,600
Q-o-Q	3.4%	0.9%	1.8%		1.4%	0.6%	0.3%	-2.2%		-5.0%
Y-o-Y	8.3%	8.0%	9.6%	8.2%	7.7%	4.8%	4.1%	0.1%	4.1%	-6.3%
UK	814	814	858	3,268	867	861	888	871	3,487	774
Q-o-Q	3.9%	0.0%	5.5%		1.0%	-0.7%	3.2%	-1.9%		-11.1%
Y-o-Y	22.6%	20.6%	13.5%	19.7%	10.7%	5.8%	9.1%	1.5%	6.7%	-10.7%
Europe	730	740	761	2,938	784	805	832	827	3,250	789
Q-o-Q	3.2%	1.4%	2.8%		3.1%	2.7%	3.3%	-0.6%		-4.6%
Y-o-Y	15.0%	14.5%	7.8%	14.9%	10.9%	10.3%	12.4%	8.7%	10.6%	0.6%
India	292	299	313	1,197	329	314	318	299	1,261	218
Q-o-Q	-0.3%	2.5%	4.6%		5.1%	-4.4%	1.3%	-6.0%		-27.3%
Y-o-Y	-2.2%	-0.8%	1.5%	-2.8%	12.3%	7.7%	6.4%	-4.3%	5.4%	-33.9%
Asia pacific	501	494	513	1,992	516	519	519	506	2,060	470
Q-o-Q	3.2%	-1.4%	3.9%		0.6%	0.6%	0.2%	-2.5%		-7.1%
Y-o-Y	7.8%	8.5%	6.3%	8.4%	6.3%	3.6%	5.3%	-1.3%	3.4%	-8.7%
Ibero America	104	105	108	413	99	105	106	98	408	86
Q-o-Q	8.7%	0.7%	2.8%		-8.5%	6.2%	1.3%	-7.7%		-12.2%
Y-o-Y	0.0%	-0.3%	8.5%	1.8%	2.9%	0.5%	1.1%	-9.2%	-1.3%	-12.9%
MEA	110	110	108	439	115	121	123	103	463	96
Q-o-Q	-1.4%	0.7%	-2.1%		6.7%	5.4%	1.3%	-15.8%		-7.1%
Y-o-Y	-3.7%	-4.0%	-13.2%	-6.1%	3.7%	10.8%	11.5%	-4.2%	5.4%	-16.6%
% of Total Revenue	Q2FY19	Q3FY19	Q4FY19	FY 19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	FY 20	Q1FY21
Americas	51.1%	51.2%	50.7%	51.0%	50.6%	50.6%	50.1%	50.3%	50.4%	51.4%
UK	15.6%	15.5%	15.9%	15.6%	15.8%	15.6%	15.9%	16.0%	15.8%	15.3%
Europe	14.0%	14.1%	14.1%	14.1%	14.3%	14.6%	14.9%	15.2%	14.8%	15.6%
India	5.6%	5.7%	5.8%	5.7%	6.0%	5.7%	5.7%	5.5%	5.7%	4.3%
Asia pacific	9.6%	9.4%	9.5%	9.5%	9.4%	9.4%	9.3%	9.3%	9.4%	9.3%
Ibero America	2.0%	2.0%	2.0%	2.0%	1.8%	1.9%	1.9%	1.8%	1.9%	1.7%
MEA	2.1%	2.1%	2.0%	2.1%	2.1%	2.2%	2.2%	1.9%	2.1%	1.9%

- Europe is seeing some early green shoots

- North America saw deal wins of \$3.3 Bn out of the \$6.9 Bn during the quarter

- India was maximum impacted, followed by UK, America and Europe

Valuation & Outlook

TCS is currently trading at 27.3x / 23.3x FY21e / FY22e EPS. Q1FY21 performance was below ours as well as street estimates, however an encouraging management commentary and a more resilient than expected BFSI performance provided the silver lining in an otherwise washout quarter. Based on a weak Q1FY21, we revise our FY21e full year EPS estimates downwards from INR 85.6 to INR 80.7 whereas FY22e will be a bounce-back year and maintain our EPS estimate of INR 94.5. **Given that the worst is behind for the company and recovery is on the cards, we increase our target multiple from 20x (when COVID struck) to 22x (last 1 year average multiple).** At 23.3x FY22e EPS, we believe that TCS is marginally overvalued and will return/settle to its fair value multiple (given that the stock rallied from INR 1716 on Q4FY20 results to peak of INR 2297 on July 7th 2020 which is ~34% rally). Therefore, although we increase our TP from INR 1,870 earlier (Q4FY20 update) to INR 2,078, we assign a NEUTRAL rating on the stock.



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YE March (Rs.mn)	Profit & Loss A/c				
	FY18	FY19	FY20	FY21E	FY22E
Net Sales	1,231,040	1,464,630	1,569,490	1,612,657	1,804,492
Sales Growth%	4.4%	19.0%	7.2%	2.8%	11.9%
Total Revenue	1,231,040	1,464,630	1,569,490	1,612,657	1,804,492
Less:					
Employees Cost	697,150	835,090	896,350	946,640	1,032,183
SG&A	208,730	234,490	252,040	249,946	288,719
Total Operating Exp	905,880	1,069,580	1,148,390	1,196,586	1,320,902
EBITDA	325,160	395,050	421,100	416,071	483,591
EBITDA Growth%	0.6%	21.5%	6.6%	-1.2%	16.2%
Less: Depreciation	20,140	20,550	35,300	51,760	44,402
Operating Profit	305,020	374,500	385,800	364,311	439,189
Growth%	0.6%	22.8%	3.0%	-5.6%	20.6%
Non-operating Income	35,900	41,130	36,680	34,308	27,067
Profit Before Tax	340,920	415,630	422,480	396,919	464,556
Tax	80,116	95,595	97,170	91,291	106,848
Minority Interest	2,347	2,880	2,928	2,751	3,219
Net Profit	258,457	317,155	322,382	302,877	354,489
Adjusted Profit	258,457	317,155	322,382	302,877	354,489
Diluted EPS Rs	67.5	83.7	85.9	80.7	94.5
Diluted EPS Growth%	1.7%	24.0%	2.7%	-6.1%	17.0%

YE March(Rs.mn)	Balance Sheet				
	FY18	FY19	FY20	FY21E	FY22E
Liabilities					
Equity Capital	1,910	3,750	3,750	3,750	3,750
Reserves & Surplus	849,370	890,710	837,510	1,015,310	1,160,668
Equity	851,280	894,460	841,260	1,019,060	1,164,418
Net Worth	851,280	894,460	841,260	1,019,060	1,164,418
Total Loans (Lease Liabilities)	2,350	440	81,740	81,740	81,740
Capital Employed	881,200	920,150	944,100	1,124,845	1,274,289
Assets					
Gross Block	227,200	242,790	264,440	284,440	304,440
Less: Depreciation	125,040	139,170	155,030	206,790	251,192
Net Block	102,160	103,620	109,410	77,650	53,248
Capital WIP	12,780	9,630	9,060	9,309	10,417
Investments	360,080	293,300	263,560	270,809	303,023
Intangible Assets	17,570	18,790	19,930	19,930	19,930
Other non-current assets	115,200	93,200	166,060	177,392	198,494
Current Assets					
Sundry Debtors	316,290	325,030	362,640	372,614	416,939
Cash and Bank Balance	63,720	112,090	82,720	269,028	351,761
Loans and Advances	32,050	80,290	84,750	87,081	97,440
Total Current Assets	450,140	622,450	634,000	835,472	985,585
Less: Current Liabilities					
Sundry Creditors	50,940	62,920	67,400	70,229	77,525
Total Current Liabilities	176,730	220,840	257,920	265,717	296,408
Capital Applied	881,200	920,150	944,100	1,124,845	1,274,289

YE March (Rs.Mn)	Key Ratios				
	FY18	FY19	FY20	FY21E	FY22E
EBIT Margins %	24.8%	25.6%	24.6%	22.6%	24.3%
NPM(%)	21.0%	21.7%	20.5%	18.8%	19.6%
RoE(%)	28.4%	34.1%	30.5%	30.5%	29.6%
RoCE(%)	27.5%	33.1%	28.8%	27.7%	27.3%
BV/PerShareRs.	445	236	224	272	310
Valuation Ratios					
P/E(x)	25.8x	26.3x	25.7x	27.3x	23.3x
EV/EBITDA	20.3x	20.9x	19.6x	19.4x	16.5x
P/BV(x)	7.8x	9.3x	9.8x	8.1x	7.1x
EV/Sales(x)	5.4x	5.6x	5.3x	5.0x	4.4x
MarketCap./Sales(x)	5.4x	5.7x	5.3x	5.1x	4.6x

YEMarch (Rs.mn)	Free Cash Flow Statement				
	FY18	FY19	FY20	FY21E	FY22E
EBITDA	305,020	374,500	385,800	364,311	439,189
Less: Adjusted Taxes	71,680	86,135	88,734	83,792	101,013
NOPLAT	233,340	288,365	297,066	280,520	338,175
Plus: Depreciation	20,140	20,550	35,300	51,760	44,402
Operating Cashflow	245,763	336,543	331,839	328,962	363,878
Less: Net Capex	19,100	18,860	40,520	20,249	21,107
Total FCF	208,143	224,013	207,759	295,414	303,927

YE March (Rs.mn)	Key Ratios				
	FY18	FY19	FY20	FY21E	FY22E
Key Operating Ratios					
EBITDA Margin(%)	26.4%	27.0%	26.8%	25.8%	26.8%
Tax/PBT(%)	23.5%	23.0%	23.0%	23.0%	23.0%
Net Profit Margin(%)	21.0%	21.7%	20.5%	18.8%	19.6%
RoE(%)	28.4%	34.1%	37.1%	32.6%	32.5%
RoCE(%)	27.5%	33.1%	28.8%	27.7%	27.3%
Current Ratio(x)	2.5x	2.8x	2.5x	3.1x	3.3x
Dividend Payout(%)	41.4%	36.0%	116.7%	41.3%	59.0%
Book Value Per Share(Rs.)	444.7	236.0	224.2	271.6	310.3
Growth Indicators%					
Growth in Gross Block(%)	8.8%	6.9%	8.9%	7.6%	7.0%
Sales Growth(%)	4.4%	19.0%	7.2%	2.8%	11.9%
EBITDA Growth(%)	0.6%	21.5%	6.6%	(1.2%)	16.2%
Net Profit Growth(%)	(1.2%)	22.7%	1.6%	(6.1%)	17.0%
Diluted EPS Growth(%)	1.7%	24.0%	2.7%	(6.1%)	17.0%



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