



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

Analyst: Mayank Babla (022) 67141412

## Q2 FY20 Result Update@ Dalal&Broacha

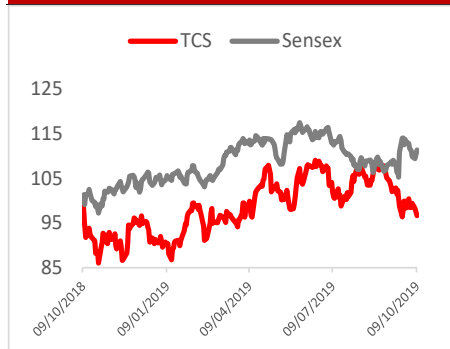
### HOLD

Current Price	2004
Target Price	2079
Upside	3.7%
52 Week Range	2,296/1,784

### Key Share Data

Market Cap (Rs.Bn)	7527.28
Market Cap (US\$ Bn)	106
No of o/s shares (Mn)	3,752.38
Face Value	1
Monthly Avg. Vol(BSE+NSE) ('000)	3203.19
BSE Code	532540
NSE Code	TCS
Bloomberg	TCS:IN

### Price performance



% Shareholding	Sept-19	Jun-19
Promoters	72.05	72.05
Public	27.95	27.95
Others	0	0
<b>Total</b>	<b>100</b>	<b>100</b>

### TCS Q2 FY20 frontline numbers were disappointing and way below our estimates

- USD revenue came in at \$ 5,517 Mn, up 0.6% qoq (vs. our expectation of 2.4% qoq growth) and 5.8% yoy and 1.7% below our estimate of \$5,614 Mn.

- Revenue in Rupee Terms was reported at INR 389,770 Mn, reporting a growth of 2.1% qoq and 5.8% yoy, and 1.4% below our estimate of INR 395,197 Mn

- EBITDA was reported at INR 102,250 Mn, +1.9% qoq and -0.5% yoy and 4.7% below our est. of INR 107,318 Mn. EBITDA margin came in at 26.2%, -10 bps qoq / -170 bps yoy and 100 bps below our estimate of 27.2%

- EBIT at INR 93,610 Mn, +1.5% qoq / -4.2% yoy and -5.6% below our est. EBIT margin at 24%, -20 bps qoq / -250 bps yoy and 110 bps below our estimates.

- PAT was recorded at INR 80,420 Mn, -1.1% qoq and +1.8% yoy and -5.4% below our estimate of INR 85,025 Mn. PAT margin was reported at 20.6%, below our estimate of 21.5%.

- Company delivered an EPS of INR 21.4 in Q2FY20 versus 21.7 in Q1FY20 and 20.6 in Q2FY19

### Segment-wise performance

- UK (15.6% of revenue) and Continental Europe (14.6% of revenue) outperformed with 13.3% and 16% qoq growth in cc terms respectively. North America decelerated in Q2 with a mere 5.3% qoq growth. Asia Pacific and Middle East were also laggards with 6.5% and 7.3% qoq cc growth

- Communications & Media (7% of topline) and Lifesciences & Healthcare (8.1% of topline) outperformed with a growth of 11.8% qoq and 16% qoq growth. Retail & CPG (14.8% of topline) and BFSI (31% of topline) were laggards with 4.8% and 8% growth qoq

### Concall Key Takeaways

- North America, Middle East, India and Asia Pacific market were underperformers in Q2 FY20 and recorded single digit growth of 5.3%, 7.3%, 7.7% and 6.5% respectively
- Furthermore, Capital Markets in North America and Banking in Europe dragged performance in Q2 FY20.
- Margins were impacted in process of capturing demand through increasing capacity and capabilities of Human Capital (company added 14,097 employees during the quarter). Management is hiring in such large numbers as they are mainly entry level staff who are being trained in a digital manner which is more efficient.
- Management stated that H2FY20 visibility is still not very strong and could see some headwinds from BFSI (BFSI contributes 31% to total revenue) and Retail & CPG (which contributes 14.8% to total).
- BFSI grew at 8% qoq in cc terms and Retail & CPG grew at a mere 4.8% qoq. Retail performance was below management expectations and came as a surprise.
- Management stated that although short term visibility was bleak, long term structural demand is intact which is evident in their client interactions and largest ever TCV signed of \$6.2 Bn (vs. 5.7 Bn in Q1 FY20)
- Digital (33.2% of revenue) grew at 27% qoq, below the last 4 quarter average rate of ~40% due to weakness across the markets and delay in decision making by clients. Volatility in the foreign markets mainly affected decision making in Digital Deals.

### Consolidated Financials (In INR Mn)

YE March	Net Sales	% Growth	EBIT	EBIT Margin(%)	PAT	PAT Margin (%)	EPS	EPS Growth (%)	ROE (%)	ROCE (%)
FY18	1,231,040	4.4%	305,020	24.8%	258,457	21.0%	67.5	1.7%	28%	28%
FY19	1,464,630	19.0%	374,500	25.6%	317,155	21.7%	82.8	22.7%	31%	30%
FY20E	1,570,054	7.2%	377,877	24.1%	326,340	20.8%	85.2	2.9%	28%	27%
FY21E	1,726,525	10.0%	422,258	24.5%	361,736	21.0%	94.5	10.8%	26%	26%

Source: Company, Dalal&Broacha Research



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### Quarterly Result Deviation Analysis

YE March (Rs. mn)	Q2 FY20	Q1 FY20	Q-o-Q change %	Q2 FY19	Y-o-Y change %	Q2FY20 Est.	Deviation %
Total Revenue (USD Mn)	5,517	5,485	0.6%	5,215	5.8%	5,614	-1.7%
Total Revenue (INR Mn)	389,770	381,720	2.1%	368,540	5.8%	395,197	-1.4%
Less:							
Cost of Revenues	224,100	221,020	1.4%	207,950	7.8%	224,253	-0.1%
SG&A Expenses	63,410	60,330	5.1%	57,810	9.7%	63,627	-0.3%
Total Expenditure	287,510	281,350	2.2%	265,760	8.2%	287,879	-0.1%
EBIDTA	102,260	100,370	1.9%	102,780	(0.5%)	107,318	-4.7%
Less: Depreciation	8,650	8,170	5.9%	5,070	70.6%	8,170	5.9%
EBIT	93,610	92,200	1.5%	97,710	(4.2%)	99,148	-5.6%
Other income (expense), net	11,680	14,180	(17.6%)	5,930	97.0%	12,093	-3.4%
Profit Before Tax	105,290	106,380	(1.0%)	103,640	1.6%	111,241	-5.3%
Total Tax	24,710	24,850	(0.6%)	24,370	1.4%	25,985	-4.9%
PAT before Minority Interest	80,580	81,530	(1.2%)	79,270	1.7%	85,255	-5.5%
Minority Interest	160	220	N.A.	260	N.A.	230	
Profit After Tax	80,420	81,310	(1.1%)	79,010	1.8%	85,025	-5.4%
Basic & Diluted EPS (Rs.)	21.4	21.7		20.6		22.7	-5.4%
Basic & Diluted Outstanding (mn)	3,752	3,752		3,829		3,752	
<b>Margin Analysis %</b>			<b>Change in bps</b>	<b>Change in bps</b>			
EBIDTA Margin	26.2%	26.3%	-6	27.9%	-165	27.2%	-92
Operating Margin	24.0%	24.2%	-14	26.5%	-250	25.1%	-107
PBT Margin	27.0%	27.9%	-86	28.1%	-111	28.1%	-113
NPM	20.6%	21.3%	-67	21.4%	-81	21.5%	-88
Effective Tax Rate (%)	23.5%	23.4%	11	23.5%	-5	23.4%	11
<b>Cost Analysis %</b>			<b>Change in bps</b>	<b>Change in bps</b>			
Cost of Revenues/ Sales	57.5%	57.9%	-41	56.4%	107	56.7%	75
Other income/ PBT	11.1%	13.3%	-224	5.7%	537	10.9%	22

### Valuation & Outlook

A subdued revenue growth due to slower growth in BFS and Retail & CPG and underperformance in Middle East and Emerging markets has made it unviable for TCS to achieve double digit revenue growth in FY20E. Further, a muted commentary for H2FY20 in BFS and Retail & CPG coupled with furloughs in Q3FY20 adds additional headwinds and restricts any possibility of a bounce-back in performance. The stock is currently trading at 23.5x and 21.2x FY20e and FY21e EPS. We believe that the stock will take a beating in the short term and remain under pressure until any green shoots in BFS and Retail segment are visible. **We downgrade our rating from ACCUMULATE previously to a HOLD and reduce our TP from INR 2,266 to INR 2,079 based on FY21e EPS.**



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YE March (Rs.mn)	Profit&LossA/c			
	FY18	FY19	FY20E	FY21E
Net Sales	1,231,040	1,464,630	1,570,054	1,726,525
Sales Growth%	4.4%	19.0%	7.2%	10.0%
Total Revenue	1,231,040	1,464,630	1,570,054	1,726,525
Less:				
Employees Cost	697,150	835,090	905,749	990,780
SG&A	208,730	234,490	252,309	281,424
Total Operating Exp	905,880	1,069,580	1,158,057	1,272,204
EBITDA	325,160	395,050	411,997	454,322
EBITDA Growth%	0.6%	21.5%	4.3%	10.3%
Less: Depreciation	20,140	20,550	34,120	32,064
Operating Profit	305,020	374,500	377,877	422,258
Growth%	0.6%	22.8%	0.9%	11.7%
Non-operating Income	35,900	41,130	49,790	51,796
Profit Before Tax	340,920	415,630	427,667	474,053
Tax	80,116	95,595	98,363	109,032
Minority Interest	2,347	2,880	2,964	3,285
Net Profit	258,457	317,155	326,340	361,736
Adjusted Profit	258,457	317,155	326,340	361,736
Diluted EPS Rs	67.5	82.8	85.2	94.5
Diluted EPS Growth%	-49.2%	22.7%	2.9%	10.8%

YE March (Rs.mn)	Key Ratios			
	FY18	FY19	FY20E	FY21E
<b>Key Operating Ratios</b>				
EBITDA Margin(%)	26.4%	27.0%	26.2%	26.3%
Tax/PBT(%)	23.5%	23.0%	23.0%	23.0%
Net Profit Margin(%)	21.0%	21.7%	20.8%	21.0%
RoE(%)	28.4%	31.4%	27.7%	26.4%
RoCE(%)	27.5%	30.4%	26.8%	25.7%
Current Ratio(x)	2.5x	2.5x	3.0x	3.3x
Dividend Payout(%)	41.4%	47.9%	47.9%	47.9%
Book Value Per Share(Rs.)	444.7	265.5	310.0	359.2
<b>Growth Indicators%</b>				
Growth in Gross Block(%)	8.8%	8.8%	8.1%	7.5%
Sales Growth(%)	4.4%	19.0%	7.2%	10.0%
EBITDA Growth(%)	0.6%	21.5%	4.3%	10.3%
Net Profit Growth(%)	(1.2%)	22.7%	2.9%	10.8%
Diluted EPS Growth(%)	(49.2%)	22.7%	2.9%	10.8%
<b>Turnover Ratios</b>				
Debtors (Days of sales)	94	94	94	94
Creditors	21	21	21	21
Inventory	0.1	0.1	0.1	0.1

YEMarch(Rs.mn)	ValuationRatios			
	FY18	FY19	FY20E	FY21E
P/E(x)	25.8x	24.2x	23.5x	21.2x
P/BV(x)	7.8x	7.5x	6.5x	5.6x
EV/EBITDA(x)	20.3x	19.2x	18.1x	16.2x
EV/Sales	5.4x	5.2x	4.7x	4.2x
MarketCap./Sales(x)	5.4x	5.2x	4.9x	4.4x
DividendYield(%)	1.4%	1.7%	1.8%	2.0%

YE March(Rs.mn)	Balance Sheet			
	FY18	FY19	FY20E	FY21E
<b>Liabilities</b>				
Equity Capital	1,910	3,820	3,820	3,820
Reserves & Surplus	849,370	1,012,827	1,182,983	1,371,595
Equity	851,280	1,016,647	1,186,803	1,375,415
Preference Share Capital				
Net Worth	851,280	1,016,647	1,186,803	1,375,415
Minority Interest	4,020	6,900	9,864	13,149
Deferred tax liability/(Asset)	11,700	11,700	11,700	11,700
Total Loans	2,350	2,350	2,350	2,350
Other Non Current Liabilities	11,850	14,099	15,113	16,620
Capital Employed	881,200	1,051,696	1,225,830	1,419,234
<b>Assets</b>				
Gross Block	227,200	247,200	267,200	287,200
Less:Depreciation	125,040	145,590	179,710	211,774
Net Block	102,160	101,610	87,490	75,426
Capital WIP	12,780	15,205	16,299	17,924
Investments	360,080	428,405	459,242	505,010
Intangible Assets	17,570	17,570	17,570	17,570
Others-A	115,200	161,109	172,706	189,918

YE March (Rs.mn)	Current Assets			
	FY18	FY19	FY20E	FY21E
Inventories	260	307	332	365
Sundry Debtors	316,290	376,306	403,393	443,595
Cash and Bank Balance	63,720	93,814	221,519	337,469
Loans and Advances	32,050	38,131	40,876	44,950
Other Current Assets	37,820	44,996	48,235	53,042
Total Current Assets	450,140	553,554	714,355	879,421
<b>Less: Current Liabilities</b>				
Sundry Creditors	50,940	60,145	65,121	71,539
Provisions	2,660	19,119	19,673	21,806
Other Current Liabilities	123,130	146,494	157,039	172,689
Total Current Liabilities	176,730	225,758	241,832	266,035
Capital Applied	881,200	1,051,696	1,225,830	1,419,234

YEMarch (Rs.mn)	Free Cash Flow Statement			
	FY18	FY19	FY20E	FY21E
EBITDA	305,020	374,500	377,877	422,258
Less: Adjusted Taxes	71,680	86,135	86,912	97,119
NOPLAT	233,340	288,365	290,965	325,138
Plus: Depreciation	20,140	20,550	34,120	32,064
Changes in Working Cap	7,718	17,382	13,903	20,284
Operating Cashflow	245,763	291,533	311,182	336,919
Less: Net Capex	19,100	22,425	21,094	21,624
Total FCF	208,143	216,745	277,242	295,115



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