



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

Q2 FY21 Result Update@ Dalal&Broacha

ACCUMULATE

Current Price	2737
Target Price	3088
Upside	12.8%
52 Week Range	2769/1504

Key Share Data

Market Cap (Rs.Bn)	10272
Market Cap (US\$ Bn)	140
No of o/s shares (Mn)	3752
Face Value	1
Monthly Avg.	
Vol(BSE+NSE)('000)	6431
BSE Code	532540
NSE Code	TCS
Bloomberg	TCS:IN

Price performance



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

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%	32.7x	33%	34%
FY20	1,569,490	7.2%	385,800	24.6%	322,382	20.5%	85.9	2.7%	31.9x	29%	37%
FY21E	1,605,296	2.3%	407,635	25.4%	334,540	20.8%	89.2	3.8%	30.7x	30%	36%
FY22E	1,795,007	11.8%	480,956	26.8%	386,252	21.5%	102.9	15.5%	26.6x	29%	35%

Source: Company, Dalal&Broacha Research

TCS reported a stellar performance in Q2FY21 with a big beat on our estimates on the revenue and profitability front coupled with healthy deal signings and strong outlook

- \$ Revenue came in at \$5,424 Mn, +7.2% qoq / -1.7% yoy and 2.5% above our estimates
- INR revenue came in at INR 401,350 Mn, +4.7% qoq / +3% yoy and 2% above our estimates
- EBIT was reported at INR 105,150 Mn, +16.2% qoq / +12.3% yoy and 6.3% above our estimates
- EBIT translated into margins of 26.2%, vs 23.6% / 24% in Q1FY21 / Q2FY21 respectively and 100 bps above our estimates and highest margins in the last 7 quarters
- PAT came in at INR 74,750 Mn, +6.7% qoq / -7.1% yoy and 5% below our estimates
- EPS at INR 19.9 in Q2FY21 vs 18.7 / 21.4 in Q1FY21 / Q2FY20 respectively
- TCV stood at \$8.6 Bn in Q2FY21 vs \$6.9 Bn in Q1FY21
- Growth was driven by BFSI at 6.2% qoq growth and Retail at 8.8% qoq growth
- TCS also announced a buyback of INR 16,000 Cr at INR 3,000 per share which is a proposal to buyback 5.33 Cr shares or 1.42% of the paid-up equity capital
- Company also declared a dividend of INR 12 per share with record date of 15/10/2020
- Management also indicated that salaries will be hiked from 01/10/2020

Segmental Highlights

- BFSI (31.9% of revenue) was up +6.2% qoq / -1.1% yoy in cc terms mainly due to traction in Capital Markets, Retail Banking and Mortgage sub-verticals
- Retail (14.6% of revenue) bounced back at 8.8% qoq and -5.7% yoy in cc terms due to surge in demand from essential retail in the field of ecommerce, data security and products and platforms (Optumera) and despite restrictions in non-essential retail
- Lifesciences & Healthcare (6.9% of topline) outperformed with +6.9% qoq and 17.2% yoy growth in cc terms
- Tech & Services (8.9% of revenue) reported a growth of 3.1% qoq in cc terms
- Comms (13% of revenue) was +0.6% qoq / -3.2% yoy in reported terms and -0.7% in cc terms
- All the markets showed healthy sequential growth with North America growing at 3.6%, UK growing at 3.8% and continental Europe growing 6.1% QoQ basis in CC terms.
- In the Emerging markets, India grew by 20%, Middle East grew at 8%, Latin America grew by 5.5% and Asia Pacific grew by 2.9% QoQ basis in CC terms.

Concall takeaways

- (a) **Products & Platforms continued to do well** as Ignio added 10 new logos and 12 customers went live; **BANCS** had 5 new wins go-lives in the quarter; **Quartz** had 2 new wins and go-live; **TCS HOBBS** had 2 new wins during the quarter; **Mastercraft** witnessed heightened demand with 12 new wins as application transformation was in focus
- (b) **Healthy client addition** with 2 new clients in \$100 Mn bucket and 3 new clients in the \$50 Mn bucket



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- (c) A couple of factors drove strong performance during the quarter: Quality of services, Vendor Consolidation and accelerated tech investments (especially in Customer Experience, Employee Experience and Operational Resilience). TCS' deep domain expertise, contextual knowledge and strong capabilities enabled strong deal wins.
- (d) TCV stood at \$8.6 billion which includes \$2.5 Bn of Phoenix deal win which was signed earlier but closed in the current quarter. BFSI had a total TCV of \$1.7 bn whereas Retail had a total TCV of \$1 bn. N. America had deal wins of \$3.2 Bn.
- (e) Recorded 10.2 Mn learning hours in Q2, a 29% qoq. Over 352K employees trained on digital capabilities and 10,000 contextual masters
- (f) Attrition at 8.9% is at an all-time low. Onboarded 8000 freshers in the current quarter and plan to continue this trend in the next quarter
- (g) Wage hike in Q3FY21
- (h) Recovery was faster than earlier estimated but management keeping a cautiously optimistic view
- (i) Management believes that current acceleration in tech spend (on Cloud and Core transformation) has enabled the push over a major hump in the tech phase. Once an enterprise clears this hump, incremental spend on tech is smoother and relatively smaller and therefore this is a multi-year unfolding of technology adoption

Q2FY21 Performance Review

YE March (Rs. mn)	Q2 FY21	Q1 FY21	Q-o-Q change %	Q2 FY20	Y-o-Y change %	Q2FY21 Est.	Deviation %
Total Revenue (USD Mn)	5,424	5,059	7.2%	5,517	(1.7%)	5,291	2.5%
Total Revenue (INR Mn)	401,350	383,220	4.7%	389,770	3.0%	393,313	2.0%
Less:							
Cost of Revenues	229,580	224,860	2.1%	224,100	2.4%	225,620	1.8%
SG&A Expenses	56,640	58,110	(2.5%)	63,410	(10.7%)	58,997	-4.0%
Total Expenditure	286,220	282,970	1.1%	287,510	(0.4%)	284,617	0.6%
EBIDTA	115,130	100,250	14.8%	102,260	12.6%	108,696	5.9%
Less: Depreciation	9,980	9,770	2.1%	8,650	15.4%	9,770	2.1%
EBIT	105,150	90,480	16.2%	93,610	12.3%	98,926	6.3%
Other income (expense), net	7,400	4,560	62.3%	11,680	(36.6%)	8,850	-16.4%
Profit Before Tax	112,550	95,040	18.4%	105,290	6.9%	106,726	5.5%
Total Tax	27,930	24,550	13.8%	24,710	13.0%	27,569	1.3%
PAT before Minority Interest	84,620	70,490	20.0%	80,580	5.0%	79,157	6.9%
Minority Interest	290	410	N.A.	160	N.A.	460	
Profit After Tax	84,330	70,080	20.3%	80,420	4.9%	78,697	7.2%
Basic & Diluted EPS (Rs.)	22.5	18.7	20.3%	21.4	4.9%	21.0	7.2%
Basic & Diluted Outstanding (mn)	3,752	3,752		3,752		3,752	
Margin Analysis %			Change In bps	Change In bps			
EBIDTA Margin	28.7%	26.2%	253	26.2%	245	27.6%	105
Operating Margin	26.2%	23.6%	259	24.0%	218	25.2%	105
PBT Margin	28.0%	24.8%	324	27.0%	103	27.1%	91
NPM	21.0%	18.3%	272	20.6%	38	20.0%	100
Effective Tax Rate (%)	24.8%	25.8%	-102	23.5%	135	25.8%	-102
Cost Analysis %			Change In bps	Change In bps			
Cost of Revenues/ Sales	57.2%	58.7%	-147	57.5%	-29	57.4%	-16
SG&A/Sales	14.1%	15.2%	-105	16.3%	-216	15.0%	-89

Source: Company, Dalal&Broacha Research

- Provided Rs. 1218 crores as an exceptional item pertaining to the legal claims which are being conducted in the US.
- Effective tax rate was 24.8% for the quarter.
- DSO in dollar terms was at 65 days which is an all-time low.
- Net Cash from Operations stood at Rs. 106.18 Bn which is 125.9% of Net Income.
- Free Cash Flow was Rs. 99.86 Bn up 25.6% YoY basis.
- Invested Funds as of 30 September, 2020 stood at 585.94 Bn.



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Geography Revenue US\$ mn	Q1FY20	Q2FY20	Q3FY20	Q4FY20	FY 20	Q1FY21	Q2FY21
Americas	2,775	2,792	2,799	2,738	11,104	2,600	2,707
Q-o-Q	1.4%	0.6%	0.3%	-2.2%		-5.0%	4.1%
Y-o-Y	7.7%	4.8%	4.1%	0.1%	4.1%	-6.3%	-3.0%
UK	867	861	888	871	3,487	774	841
Q-o-Q	1.0%	-0.7%	3.2%	-1.9%		-11.1%	8.6%
Y-o-Y	10.7%	5.8%	9.1%	1.5%	6.7%	-10.7%	-2.3%
Europe	784	805	832	827	3,250	789	884
Q-o-Q	3.1%	2.7%	3.3%	-0.6%		-4.6%	12.0%
Y-o-Y	10.9%	10.3%	12.4%	8.7%	10.6%	0.6%	9.8%
India	329	314	318	299	1,261	218	271
Q-o-Q	5.1%	-4.4%	1.3%	-6.0%		-27.3%	24.7%
Y-o-Y	12.3%	7.7%	6.4%	-4.3%	5.4%	-33.9%	-13.8%
Asia pacific	516	519	519	506	2,060	470	526
Q-o-Q	0.6%	0.6%	0.2%	-2.5%		-7.1%	11.8%
Y-o-Y	6.3%	3.6%	5.3%	-1.3%	3.4%	-8.7%	1.5%
Ibero America	99	105	106	98	408	86	92
Q-o-Q	-8.5%	6.2%	1.3%	-7.7%		-12.2%	7.2%
Y-o-Y	2.9%	0.5%	1.1%	-9.2%	-1.3%	-12.9%	-12.0%
MEA	115	121	123	103	463	96	103
Q-o-Q	6.7%	5.4%	1.3%	-15.8%		-7.1%	7.2%
Y-o-Y	3.7%	10.8%	11.5%	-4.2%	5.4%	-16.6%	-15.1%
% of Total Revenue	Q1FY20	Q2FY20	Q3FY20	Q4FY20	FY 20	Q1FY21	Q2FY21
Americas	50.6%	50.6%	50.1%	50.3%	50.4%	51.4%	49.9%
UK	15.8%	15.6%	15.9%	16.0%	15.8%	15.3%	15.5%
Europe	14.3%	14.6%	14.9%	15.2%	14.8%	15.6%	16.3%
India	6.0%	5.7%	5.7%	5.5%	5.7%	4.3%	5.0%
Asia pacific	9.4%	9.4%	9.3%	9.3%	9.4%	9.3%	9.7%
Ibero America	1.8%	1.9%	1.9%	1.8%	1.9%	1.7%	1.7%
MEA	2.1%	2.2%	2.2%	1.9%	2.1%	1.9%	1.9%

- All the markets showed healthy sequential growth with North America growing at 4.1%, UK growing at 8.6% and continental Europe growing 12% QoQ basis in reported terms.

- In the Emerging markets, India grew by 24.7%, Middle East grew at 7.2%, Latin America grew by 7.2% and Asia Pacific grew by 11.8% QoQ basis in reported terms

Industry wise Trends (US\$ Mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	FY 20	Q1FY21	Q2FY21
BFSI	1,689	1,710	1,698	1,617	6,715	1,583	1,730
Q-o-Q	1.3%	1.2%	-0.7%	-4.8%		-2.1%	9.3%
Y-o-Y	7.5%	5.1%	5.0%	-3.0%	3.6%	-6.3%	1.2%
Manufacturing	538	541	559	550	2,187	491	510
Q-o-Q	3.7%	0.6%	3.3%	-1.6%		-10.8%	3.9%
Y-o-Y	4.3%	5.8%	8.6%	6.1%	6.2%	-8.7%	-5.7%
Comms & Media	378	386	391	392	1,548	359	353
Q-o-Q	3.1%	2.0%	1.3%	0.2%		-8.4%	-1.8%
Y-o-Y	5.5%	8.9%	7.9%	6.8%	7.3%	-5.1%	-8.7%
Life science & Healthcare	433	447	464	479	1,823	486	532
Q-o-Q	4.3%	3.1%	3.8%	3.3%		1.4%	9.4%
Y-o-Y	17.5%	14.3%	16.2%	15.3%	15.8%	12.1%	18.9%
Retail & Distribution	823	817	849	838	3,327	708	792
Q-o-Q	1.0%	-0.8%	4.0%	-1.3%		-15.5%	11.8%
Y-o-Y	5.8%	1.7%	4.3%	2.9%	3.6%	-13.9%	-3.0%
Technology & Services	483	480	469	474	1,906	460	483
Q-o-Q	4.0%	-0.6%	-2.2%	0.9%		-2.8%	4.9%
Y-o-Y	6.2%	3.4%	2.7%	2.0%	3.6%	-4.6%	0.6%
Regional Market & Others	1,141	1,137	1,156	1,094	4,528	971	1,025
Q-o-Q	-0.8%	-0.4%	1.7%	-5.4%		-11.2%	5.5%
Y-o-Y	13.5%	6.8%	6.4%	-4.8%	5.2%	-14.9%	-9.8%
Total	5,485	5,517	5,586	5,444	22,032	5,059	5,424
Q-o-Q	1.6%	0.6%	1.3%	-2.5%		-7.1%	7.2%
Y-o-Y	8.6%	5.8%	6.4%	0.9%	5.4%	-7.8%	-1.7%
Industry % of Total Revenue	Q1FY20	Q2FY20	Q3FY20	Q4FY20	FY 20	Q1FY21	Q2FY21
BFSI	30.8%	31.0%	30.4%	29.7%	30.5%	31.3%	31.9%
Manufacturing	9.8%	9.8%	10.0%	10.1%	9.9%	9.7%	9.4%
Communication & Media	6.9%	7.0%	7.0%	7.2%	7.0%	7.1%	6.5%
Life science & Healthcare	7.9%	8.1%	8.3%	8.8%	8.3%	9.6%	9.8%
Retail & Distribution	15.0%	14.8%	15.2%	15.4%	15.1%	14.0%	14.6%
Technology & Services	8.8%	8.7%	8.4%	8.7%	8.7%	9.1%	8.9%
Regional Market & Others	20.8%	20.6%	20.7%	20.1%	20.6%	19.2%	18.9%

- Growth was driven by 2 largest verticals, i.e. BFSI and Retail

- In Retail segment, excluding the Travel & Hospitality impact there was a positive growth YoY basis

- Optumera is receiving good traction in the retail space



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Valuation & Outlook

TCS delivered a stellar quarter marked by broad-based growth across industries and verticals and coupled with a healthy margin expansion and strong commentary. Current performance reflects management's indication that this is the beginning of the unwinding of a multiyear technology transformation cycle marked by accelerated spend on Digital transformation as an imperative in the current pandemic. We believe in this incontrovertible phenomenon as tech spend as a % of revenue of global companies (especially banking, Technology services, non-discretionary retail) have witnessed a convincing increase over the last quarter. Additionally, we believe that this surge in demand can sustain based on management's commentary that this initial phase is the biggest hump as the required quantum of spend is higher and subsequent phases will require lower incremental spends as they use the initial phase as a lever towards AI, ML and automation.

TCS is currently trading at 30.7x / 26.6x FY21e / FY22e EPS. We revise our FY21 \$ revenue growth from -3.4% to -1.7%, EBITDA margin from 23.8% to 25.4% and EPS estimate from INR 83 to INR 89. We revise our FY22 \$ revenue growth from 11.9% to 14.4%, EBITDA margin from 25.5% to 26.8% and EPS estimate from INR 94.4 to INR 102.9 **Therefore, we upgrade our rating from Neutral to ACCUMULATE and upgrade our target price from 2078 to INR 3088 based on FY22e EPS.**



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Profit & Loss A/c					
YE March (Rs.mn)	FY18	FY19	FY20	FY21E	FY22E
Net Sales	1,231,040	1,464,630	1,569,490	1,605,296	1,795,007
Sales Growth%	4.4%	19.0%	7.2%	2.3%	11.8%
Total Revenue	1,231,040	1,464,630	1,569,490	1,605,296	1,795,007
Less:					
Employees Cost	697,150	835,090	896,350	926,257	1,003,914
SG&A	208,730	234,490	252,040	231,694	278,404
Total Operating Exp	905,880	1,069,580	1,148,390	1,157,952	1,282,318
EBITDA	325,160	395,050	421,100	447,345	512,689
EBITDA Growth%	0.6%	21.5%	6.6%	6.2%	14.6%
Less: Depreciation	20,140	20,550	35,300	39,710	31,733
Operating Profit	305,020	374,500	385,800	407,635	480,956
Growth%	0.6%	22.8%	3.0%	5.7%	18.0%
Non-operating Income	35,900	41,130	36,680	32,478	26,925
Profit Before Tax	340,920	415,630	422,480	438,413	506,181
Tax	80,116	95,595	97,170	100,835	116,422
Minority Interest	2,347	2,880	2,928	3,038	3,508
Net Profit	258,457	317,155	322,382	334,540	386,252
Adjusted Profit	258,457	317,155	322,382	334,540	386,252
Diluted EPS Rs	67.5	83.7	85.9	89.2	102.9
Diluted EPS Growth%	1.7%	24.0%	2.7%	3.8%	15.5%

Key Ratios					
YE March (Rs.Mn)	FY18	FY19	FY20	FY21E	FY22E
EBIT Margins %	24.8%	25.6%	24.6%	25.4%	26.8%
NPM(%)	21.0%	21.7%	20.5%	20.8%	21.5%
RoE(%)	28.4%	34.1%	30.5%	33.2%	31.4%
RoCE(%)	27.5%	33.1%	28.8%	30.2%	28.9%
BV/PerShareRs.	445	236	224	277	319

Valuation Ratios					
YEMarch(Rs.mn)	FY18	FY19	FY20	FY21E	FY22E
P/E(x)	25.8x	32.7x	31.9x	30.7x	26.6x
P/BV(x)	7.8x	11.6x	12.2x	9.9x	8.6x
EV/EBITDA(x)	20.3x	26.0x	24.4x	22.5x	19.5x
EV/Sales	5.4x	7.0x	6.5x	6.3x	5.6x
MarketCap./Sales(x)	5.4x	7.1x	6.5x	6.4x	5.7x
DividendYield(%)	1.4%	1.0%	3.1%	1.1%	1.9%

Free Cash Flow Statement					
YEMarch (Rs.mn)	FY18	FY19	FY20	FY21E	FY22E
EBITDA	305,020	374,500	385,800	407,635	480,956
Less: Adjusted Taxes	71,680	86,135	88,734	93,756	110,620
NOPLAT	233,340	288,365	297,066	313,879	370,336
Plus: Depreciation	20,140	20,550	35,300	39,710	31,733
Operating Cashflow	245,763	336,543	331,839	349,307	383,667
Less: Net Capex	19,100	18,860	40,520	20,207	21,095
Total FCF	208,143	224,013	207,759	317,703	324,482

Balance Sheet					
YE March(Rs.mn)	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	1,033,897	1,192,280
Equity	851,280	894,460	841,260	1,037,647	1,196,030
Net Worth	851,280	894,460	841,260	1,037,647	1,196,030
Capital Employed	881,200	920,150	944,100	1,143,687	1,306,433
Assets					
Gross Block	227,200	242,790	264,440	284,440	304,440
Less: Depreciation	125,040	139,170	155,030	194,740	226,473
Net Block	102,160	103,620	109,410	89,700	77,967
Capital WIP	12,780	9,630	9,060	9,267	10,362
Investments	360,080	293,300	263,560	269,573	301,430
Intangible Assets	17,570	18,790	19,930	19,930	19,930
Other non-current assets	115,200	93,200	166,060	176,583	197,451
Current Assets					
Sundry Debtors	316,290	325,030	362,640	370,913	414,747
Cash and Bank Balance	63,720	112,090	82,720	277,634	362,100
Loans and Advances	32,050	80,290	84,750	86,683	96,928
Total Current Assets	450,140	622,450	634,000	841,490	992,591
Less: Current Liabilities					
Sundry Creditors	50,940	62,920	67,400	67,961	75,260
Total Current Liabilities	176,730	220,840	257,920	262,856	293,297
Capital Applied	881,200	920,150	944,100	1,143,687	1,306,433

Key Ratios					
YE March (Rs.mn)	FY18	FY19	FY20	FY21E	FY22E
Key Operating Ratios					
EBITDA Margin(%)	26.4%	27.0%	26.8%	27.9%	28.6%
Tax/PBT(%)	23.5%	23.0%	23.0%	23.0%	23.0%
Net Profit Margin(%)	21.0%	21.7%	20.5%	20.8%	21.5%
RoE(%)	28.4%	34.1%	37.1%	35.6%	34.6%
RoCE(%)	27.5%	33.1%	28.8%	30.2%	28.9%
Current Ratio(x)	2.5x	2.8x	2.5x	3.2x	3.4x
Dividend Payout(%)	41.4%	36.0%	116.7%	41.3%	59.0%
Book Value Per Share(Rs.)	444.7	236.0	224.2	276.5	318.7
Growth Indicators%					
Growth in Gross Block(%)	8.8%	6.9%	8.9%	7.6%	7.0%
Sales Growth(%)	4.4%	19.0%	7.2%	2.3%	11.8%
EBITDA Growth(%)	0.6%	21.5%	6.6%	6.2%	14.6%
Net Profit Growth(%)	(1.2%)	22.7%	1.6%	3.8%	15.5%
Diluted EPS Growth(%)	1.7%	24.0%	2.7%	3.8%	15.5%



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