



Analyst: Mayank Babla (022) 67141412

Q3 FY20 Result Update@ Dalal&Broacha

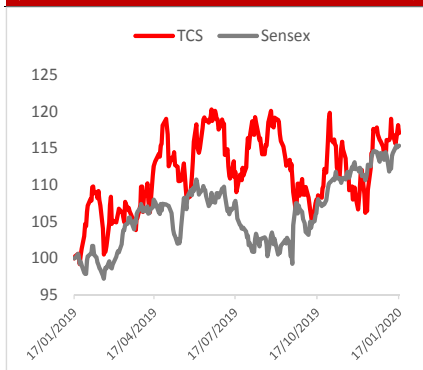
UNDERWEIGHT

Current Price	2218
Target Price	2114
Upside	-4.7%
52 Week Range	1871/2296

Key Share Data

Market Cap (Rs.Bn)	8322.98
Market Cap (US\$ Bn)	117.2
No of o/s shares (Mn)	3,752
Face Value	1
Monthly Avg.	
Vol(BSE+NSE)('000)	3518.05
BSE Code	532540
NSE Code	TCS
Bloomberg	TCS:IN

Price performance



% Shareholding	Dec-19	Sept-19
Promoters	72.05	72.05
Public	27.97	27.97
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 (%)	ROCE (%)	ROE (%)
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%	30%	31%
FY20E	1,575,658	7.6%	385,906	24.5%	323,368	20.5%	84.5	2.0%	31%	29%
FY21E	1,730,262	9.8%	431,529	24.9%	362,294	20.9%	94.6	12.0%	31%	29%
FY22E	1,890,867	9.3%	473,535	25.0%	404,626	21.4%	105.7	11.7%	30%	28%

TCS' Q3FY20 Result were in line with our estimates

USD revenue came in at \$5,586Mn, up 1.3% qoq (vs. our expectation of 0.8% qoq growth) and 6.4% yoy and 0.5% above our estimate of \$5560Mn.

Revenue in Rupee Terms was reported at 398,540INR Mn, reporting a growth of 2.3% qoq and 6.7% yoy, and 0.6% above our estimate of INR 396,007Mn

EBITDA was reported at INR 108,710Mn, +6.3% qoq and 7.8% yoy and 1.9% above our est. of INR 106,676Mn.

EBITDA margin came in at 27.3%, +110bps qoq / +30bps yoy and 40bps above our estimate of 26.9%

EBIT came in at INR 99,740Mn, +6.5% qoq / +4.3% yoy and +1.7% above our est. EBIT margin stood at 25%, +100bps qoq / -60bps yoy and 20bps above our estimates.

PAT was recorded at INR 81,180Mn, 0.9% qoq and 0.2% yoy and 3.3% below our estimate of INR 83,936Mn. PAT margin was reported at 20.4%, 80bps below our estimate of 21.2%.

EPS stood at INR 21.63 as against INR 21.4 QoQ and INR 21.6 YoY

Segment-Wise Performance

- Retail & CPG (15.2% of revenues), Life Sciences & Healthcare (8.3% of revenues) and Manufacturing (10% of revenues) led the pack with 4%, 3.8% and 3.3% QoQ respectively while BFSI (30.4% of revenues) and Communication & Media (7% of revenues) dragged growth with negative 0.7% and positive 1.3% growth respectively.
- After strong hirings in the last 2 quarters, there is a reduction in headcount by 4063 people. Attrition rate in I.T services for the quarter stood at 12.2%

Conference Call KTA

- Europe** (30.8% of revenues) led the pack with 3.3% QoQ growth with other geographies reporting a relatively softer growth in the range of 0.3-1.3% range.
- BFS performance was mixed with large banks in N. America tightening spend and banks in UK cutting spend due to Brexit anxiety while trends in Europe were positive. Insurance subvertical continues to display positive trends.
- Although BFSI is experiencing pressure in the near term, mid to long term trends are positive on the back of green shoots in geographical pockets such as Australia and Continental Europe and 200 bps market share gains amongst domestic peers (organic)
- Total order book for Q3 at \$6 Bn with N. America contributing \$3 Bn, BFSI contributing \$1.8 Bn (9MFY20 order book at \$6 Bn) and Retail orderbook of \$860 Mn
- Retail outperformed during the quarter due to growth in subverticals such as CPG, Travel & Hospitality. Headwinds in Retail were mainly from larger retailers in U.S due to financial stress. Expect these players to bottom out soon.
- Healthy client addition with \$100mn client bucket increased by 2, \$50mn bucket by 3
- Won several transformational deals in Lifesciences & Healthcare



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KTAs continued...

- Communications also showing traction with higher spend in Digital Analytics and Customer Experience
- Products & Platforms continue to report stellar growth with Ignio and Bancs as star performers of the portfolio
- Utilization & currency aided margin expansion in Q3FY20

Quarterly Reporting Analysis

YE March (Rs. mn)	Q3 FY20	Q2 FY20	Q-o-Q change %	Q3 FY19	Y-o-Y change %	Q3FY20 Est.	Deviation %
Total Revenue (USD Mn)	5,586	5,517	1.3%	5,250	6.4%	5,560	0.5%
Total Revenue (INR Mn)	398,540	389,770	2.3%	373,380	6.7%	396,007	0.6%
Less:							
Cost of Revenues	226,820	224,100	1.2%	213,200	6.4%	225,970	0.4%
SG&A Expenses	63,010	63,410	(0.6%)	59,350	6.2%	63,361	-0.6%
Total Expenditure	289,830	287,510	0.8%	272,550	6.3%	289,331	0.2%
EBIDTA	108,710	102,260	6.3%	100,830	7.8%	106,676	1.9%
Less: Depreciation	8,970	8,650	3.7%	5,190	72.8%	8,650	3.7%
EBIT	99,740	93,610	6.5%	95,640	4.3%	98,026	1.7%
Other income (expense), net	5,950	11,680	(49.1%)	11,470	(48.1%)	11,867	-49.9%
Profit Before Tax	105,690	105,290	0.4%	107,110	(1.3%)	109,893	-3.8%
Total Tax	24,260	24,710	(1.8%)	25,900	(6.3%)	25,790	-5.9%
PAT before Minority Interest	81,430	80,580	1.1%	81,210	0.3%	84,103	-3.2%
Profit After Tax	81,180	80,420	0.9%	81,050	0.2%	83,936	-3.3%
Basic & Diluted EPS (Rs.)	21.6	21.4		21.6		22.4	-3.3%
Basic & Diluted Outstanding (mn)	3,752	3,752		3,752		3,752	
Margin Analysis %			Change In bps		Change In bps		
EBIDTA Margin	27.3%	26.2%	104	27.0%	27	26.9%	34
Operating Margin	25.0%	24.0%	101	25.6%	-59	24.8%	27
PBT Margin	26.5%	27.0%	-49	28.7%	-217	27.8%	-123
NPM	20.4%	20.6%	-26	21.7%	-134	21.2%	-83
Effective Tax Rate (%)	23.0%	23.5%	-51	24.2%	-123	23.5%	-51
Cost Analysis %			Change In bps		Change In bps		
Cost of Revenues/Sales	56.9%	57.5%	-58	57.1%	-19	57.1%	-15
Other income/PBT	5.6%	11.1%	-546	10.7%	-508	10.8%	-517

- Margins improved by 10 bps qoq due to higher utilization (as TCS focused on execution during Q3) and better currency
- Q4 margins will depend on currency and state of deal wins in the current quarter.
- TCV of deal wins in the quarter stood at \$6 Bn, +1.6% yoy. If these deals are in transition state through Q4FY20 and currency does not help, margins may be softer in the next quarter

Geographical Revenue Mix

% of Total Revenue	Q1FY19	Q2FY19	Q3FY19	Q4FY19	FY 19	Q1FY20	Q2FY20	Q3FY20
Americas	51.0%	51.1%	51.2%	50.7%	51.0%	50.6%	50.6%	50.1%
UK	15.5%	15.6%	15.5%	15.9%	15.6%	15.8%	15.6%	15.9%
Europe	14.0%	14.0%	14.1%	14.1%	14.1%	14.3%	14.6%	14.9%
India	5.8%	5.6%	5.7%	5.8%	5.7%	6.0%	5.7%	5.7%
Asia pacific	9.6%	9.6%	9.4%	9.5%	9.5%	9.4%	9.4%	9.3%
Ibero America	1.9%	2.0%	2.0%	2.0%	2.0%	1.8%	1.9%	1.9%
MEA	2.2%	2.1%	2.1%	2.0%	2.1%	2.1%	2.2%	2.2%
Geography Revenue US\$ mn	Q1FY19	Q2FY19	Q3FY19	Q4FY19	FY 19	Q1FY20	Q2FY20	Q3FY20
Americas	2,576	2,665	2,688	2,736	10,666	2,775	2,792	2,799
Q-o-Q	3.2%	3.4%	0.9%	1.8%		1.4%	0.6%	0.3%
Y-o-Y	6.9%	8.3%	8.0%	9.6%	8.2%	7.7%	4.8%	4.1%
UK	783	814	814	858	3,268	867	861	888
Q-o-Q	3.6%	3.9%	0.0%	5.5%		1.0%	-0.7%	3.2%
Y-o-Y	22.7%	22.6%	20.6%	13.5%	19.7%	10.7%	5.8%	9.1%
Europe	707	730	740	761	2,938	784	805	832
Q-o-Q	0.2%	3.2%	1.4%	2.8%		3.1%	2.7%	3.3%
Y-o-Y	23.2%	15.0%	14.5%	7.8%	14.9%	10.9%	10.3%	12.4%
India	293	292	299	313	1,197	329	314	318
Q-o-Q	-5.0%	-0.3%	2.5%	4.6%		5.1%	-4.4%	1.3%
Y-o-Y	-8.8%	-2.2%	-0.8%	1.5%	-2.8%	12.3%	7.7%	6.4%
Asia pacific	485	501	494	513	1,992	516	519	519
Q-o-Q	0.5%	3.2%	-1.4%	3.9%		0.6%	0.6%	0.2%
Y-o-Y	11.2%	7.8%	8.5%	6.3%	8.4%	6.3%	3.6%	5.3%
Ibero America	96	104	105	108	413	99	105	106
Q-o-Q	-3.5%	8.7%	0.7%	2.8%		-8.5%	6.2%	1.3%
Y-o-Y	-0.5%	0.0%	-0.3%	8.5%	1.8%	2.9%	0.5%	1.1%
MEA	111	110	110	108	439	115	121	123
Q-o-Q	-10.6%	-1.4%	0.7%	-2.1%		6.7%	5.4%	1.3%
Y-o-Y	-3.2%	-3.7%	-4.0%	-13.2%	-6.1%	3.7%	10.8%	11.5%

- N. America reported a soft quarter due to tightening of spends by larger banks and large retailers
- Management witnessed certain stress in UK due to Brexit as well
- Spend by banks was robust in Continental Europe and Australia



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Industry % of Total Revenue	Q1FY19	Q2FY19	Q3FY19	Q4FY19	FY 19	Q1FY20	Q2FY20	Q3FY20
BFSI	31.1%	31.2%	30.8%	30.9%	31.0%	30.8%	31.0%	30.4%
Manufacturing	10.2%	9.8%	9.8%	9.6%	9.9%	9.8%	9.8%	10.0%
Communication & Media	7.1%	6.8%	6.9%	6.8%	6.9%	6.9%	7.0%	7.0%
Life science & Healthcare	7.3%	7.5%	7.6%	7.7%	7.5%	7.9%	8.1%	8.3%
Retail & Distribution	15.4%	15.4%	15.5%	15.1%	15.4%	15.0%	14.8%	15.2%
Technology & Services	9.0%	8.9%	8.7%	8.6%	8.8%	8.8%	8.7%	8.4%
Regional Market & Others	19.9%	20.4%	20.7%	21.3%	20.6%	20.8%	20.6%	20.7%
Total	100%	100%	100%	100%	100%	100%	100%	100%
Industry wise Trends (US\$ Mn)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	FY 19	Q1FY20	Q2FY20	Q3FY20
BFSI	1,571	1,627	1,617	1,668	6,483	1,689	1,710	1,698
Q-o-Q	0.3%	3.6%	-0.6%	3.1%		1.3%	1.2%	-0.7%
Y-o-Y	4.0%	4.0%	5.2%	6.5%	4.9%	7.5%	5.1%	5.0%
Manufacturing	515	511	515	518	2,059	538	541	559
Q-o-Q	40.0%	-0.8%	0.7%	0.7%		3.7%	0.6%	3.3%
Y-o-Y	49.6%	43.8%	41.4%	40.8%	43.8%	4.3%	5.8%	8.6%
Comms & Media	359	355	362	367	1,442	378	386	391
Q-o-Q	-2.5%	-1.1%	2.2%	1.3%		3.1%	2.0%	1.3%
Y-o-Y	7.0%	2.5%	6.6%	-0.3%	3.9%	5.5%	8.9%	7.9%
Life science & Healthcare	369	391	399	416	1,574	433	447	464
Q-o-Q	3.0%	6.1%	2.0%	4.2%		4.3%	3.1%	3.8%
Y-o-Y	13.1%	14.6%	14.2%	16.1%	14.5%	17.5%	14.3%	16.2%
Retail & Distribution	778	803	814	815	3,210	823	817	849
Q-o-Q	27.2%	3.2%	1.3%	0.1%		1.0%	-0.8%	4.0%
Y-o-Y	38.9%	42.4%	1.8%	33.3%	26.6%	5.8%	1.7%	4.3%
Technology & Services	455	464	457	464	1,840	483	480	469
Q-o-Q	17.2%	2.1%	-1.6%	1.6%		4.0%	-0.6%	-2.2%
Y-o-Y	25.3%	20.9%	19.3%	19.7%	21.2%	6.2%	3.4%	2.7%
Regional Market & Others	1,005	1,064	1,087	1,150	4,305	1,141	1,137	1,156
Q-o-Q	14.9%	5.8%	2.2%	5.8%		-0.8%	-0.4%	1.7%
Y-o-Y	24.4%	27.6%	35.1%	31.4%	29.6%	13.5%	6.8%	6.4%
Total	5,051	5,215	5,250	5,397	20,913	5,485	5,517	5,586
Q-o-Q	1.6%	3.2%	0.7%	2.8%		1.6%	0.6%	1.3%
Y-o-Y	47.7%	46.9%	38.6%	8.5%	9.6%	8.6%	5.8%	6.4%

- BFS reported a de-growth of -0.7% qoq in reported terms due to softness in spending by large US & UK banks
- Insurance growth was steady at 3-4% qoq
- Expect traction in Communications & Media, Lifesciences & Healthcare and Retail & Distribution going ahead

Valuation & Outlook

Although TCS reported Q3FY20 numbers in-line with our estimates, a mixed and often divergent performance between BFS (~30% of revenue) and Retail (15.2% of revenue) has resulted in a decelerating growth rate from Q4FY18 to Q3FY20 (USD\$ YoY growth has reduced from 11.7% in Q4FY18 to 6.4% in Q3FY20). While robust outlook in Retail & CPG, Comms and Lifesciences & Healthcare (totaling 30.5% of revenue) is a relief, BFS still appears to have a softer outlook as per management tone. TCS, undoubtedly, is the leader in the IT services domestic space not only by market share but also in terms of profitability. However, at CMP of INR 2218 and PE of 23.4x FY21e and 21x FY22e, it seems to be overvalued. **We believe that its fair value stands at 20x FY22e EPS of INR 105.7. Therefore, we revise our rating from HOLD earlier (in Q2FY20) to UNDERWEIGHT with a revised target price of INR 2,114** (Please note that we have rolled over estimates from FY21e to FY22e). Going ahead, we will keep a close eye on developments in the UK (w.r.t Brexit) and spending by large banks in the US as key variables for a ratings upgrade.



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Profit & Loss A/c					
YE March (Rs.mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	1,231,040	1,464,630	1,575,658	1,730,262	1,890,867
Sales Growth%	4.4%	19.0%	7.6%	9.8%	9.3%
Total Revenue	1,231,040	1,464,630	1,575,658	1,730,262	1,890,867
Less:					
Employees Cost	697,150	835,090	902,935	984,874	1,081,095
SG&A	208,730	234,490	252,056	282,033	304,411
Total Operating Exp	905,880	1,069,580	1,154,992	1,266,906	1,385,506
EBITDA	325,160	395,050	420,666	463,355	505,361
EBITDA Growth%	0.6%	21.5%	6.5%	10.1%	9.1%
Less: Depreciation	20,140	20,550	34,760	31,826	31,826
Operating Profit	305,020	374,500	385,906	431,529	473,535
Growth%	0.6%	22.8%	3.0%	11.8%	9.7%
Non-operating Income	35,900	41,130	37,866	43,257	56,726
Profit Before Tax	340,920	415,630	423,772	474,785	530,261
Tax	80,116	95,595	97,468	109,201	121,960
Minority Interest	2,347	2,880	2,937	3,290	3,675
Net Profit	258,457	317,155	323,368	362,294	404,626
Adjusted Profit	258,457	317,155	323,368	362,294	404,626
Diluted EPS Rs	67.5	82.8	84.5	94.6	105.7
Diluted EPS Growth%	-49.2%	22.7%	2.0%	12.0%	11.7%

Key Ratios

YE March (Rs.Mn)	FY18	FY19	FY20E	FY21E	FY22E
EBIT Margins %	24.8%	25.6%	24.5%	24.9%	25.0%
NPM(%)	21.0%	21.7%	20.5%	20.9%	21.4%
RoE(%)	28.4%	31.4%	26.6%	26.4%	26.2%
RoCE(%)	34.6%	34.4%	31.4%	31.1%	30.3%
BV/PerShareRs.	445	275	311	351	396

Valuation Ratios

P/E(x)	25.8x	26.8x	26.3x	23.4x	21.0x
EV/EBITDA	20.3x	20.8x	19.6x	17.5x	15.8x
P/BV(x)	7.8x	8.1x	6.9x	6.0x	5.2x
EV/Sales(x)	5.4x	5.6x	5.2x	4.7x	4.2x
MarketCap./Sales(x)	5.4x	5.8x	5.4x	4.9x	4.5x

Free Cash Flow Statement

YEMarch (Rs.mn)	FY18	FY19	FY20E	FY21E	FY22E
EBITDA	305,020	374,500	385,906	431,529	473,535
Less: Adjusted Taxes	71,680	86,135	88,758	99,252	108,913
NOPLAT	233,340	288,365	297,148	332,277	364,622
Plus: Depreciation	20,140	20,550	34,760	31,826	31,826
Operating Cashflow	245,763	336,543	271,612	344,252	376,071
Less: Net Capex	19,100	19,350	26,728	21,605	21,667
Total FCF	208,143	232,512	262,270	302,753	333,994

Balance Sheet					
YE March (Rs.mn)	FY18	FY19	FY20E	FY21E	FY22E
Liabilities					
Equity Capital	1,910	3,750	3,750	3,750	3,750
Reserves & Surplus	849,370	1,050,445	1,186,953	1,339,895	1,510,706
Equity	851,280	1,054,195	1,190,703	1,343,645	1,514,456
Preference Share Capital					
Net Worth	851,280	1,054,195	1,190,703	1,343,645	1,514,456
Minority Interest	4,020	6,900	9,837	13,127	16,802
Deferred tax liability/(Asset)	11,700	11,700	11,700	11,700	11,700
Total Loans	2,350	2,350	2,350	2,350	2,350
Other Non Current Liabilities	11,850	14,099	15,167	16,656	18,201
Capital Employed	881,200	1,089,244	1,229,758	1,387,478	1,563,510

Assets					
Gross Block	227,200	245,220	265,220	285,220	305,220
Less: Depreciation	125,040	141,110	175,870	207,696	239,523
Net Block	102,160	104,110	89,350	77,524	65,697
Capital WIP	12,780	9,630	16,358	17,963	19,630
Investments	360,080	293,300	460,881	506,103	553,080
Intangible Assets	17,570	18,790	18,790	18,790	18,790
Others-A	115,200	93,200	173,322	190,329	207,995

Current Assets					
Sundry Debtors	316,290	325,030	404,832	444,555	485,819
Cash and Bank Balance	63,720	282,234	218,504	299,792	396,211
Loans and Advances	32,050	80,290	41,022	45,047	49,229
Other Current Assets	37,820	103,400	48,407	53,157	58,091
Total Current Assets	450,140	791,054	713,098	842,914	989,747

Less: Current Liabilities					
Sundry Creditors	50,940	62,920	64,948	71,241	77,911
Provisions	2,660	2,390	19,494	21,840	24,392
Other Current Liabilities	123,130	155,530	157,599	173,063	189,127
Total Current Liabilities	176,730	220,840	242,041	266,144	291,429
Capital Applied	881,200	1,089,244	1,229,758	1,387,478	1,563,510

Key Ratios

YE March (Rs.mn)	FY18	FY19	FY20E	FY21E	FY22E
Key Operating Ratios					
EBITDA Margin(%)	26.4%	27.0%	26.7%	26.8%	26.7%
Tax/PBT(%)	23.5%	23.0%	23.0%	23.0%	23.0%
Net Profit Margin(%)	21.0%	21.7%	20.5%	20.9%	21.4%
RoE(%)	28.4%	31.4%	28.8%	28.6%	28.3%
RoCE(%)	27.5%	30.4%	31.4%	31.1%	30.3%
Current Ratio(x)	2.5x	3.6x	2.9x	3.2x	3.4x
Dividend Payout(%)	41.4%	36.0%	57.8%	57.8%	57.8%
Book Value Per Share(Rs.)	444.7	275.3	311.0	351.0	395.6
Growth Indicators%					
Growth in Gross Block(%)	8.8%	7.9%	8.2%	7.5%	7.0%
Sales Growth(%)	4.4%	19.0%	7.6%	9.8%	9.3%
EBITDA Growth(%)	0.6%	21.5%	6.5%	10.1%	9.1%
Net Profit Growth(%)	(1.2%)	22.7%	2.0%	12.0%	11.7%
Diluted EPS Growth(%)	(49.2%)	22.7%	2.0%	12.0%	11.7%



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