



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

Analyst: Suraj Nandu (022) 67141412

## Q4 FY19 Result Update@ Dalal&Broacha

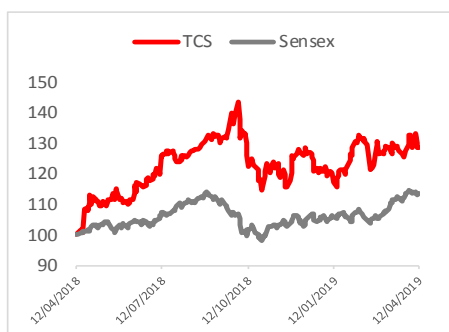
### BUY

Current Price	2014
Target Price	2311
Upside	14.7%
52 Week Range	1554/2273

### Key Share Data

Market Cap (Rs.Bn)	7853.92
Market Cap (US\$ Bn)	112.19
No of o/s shares (Mn)	
Face Value	1
Monthly Avg.	
Vol(BSE+NSE) Nos	3125.26
BSE Code	532540
NSE Code	TCS
Bloomberg	TCS:IN

### Price performance



### % Shareholding

	Dec-18	Sep-18
Promoters	72.05	72.05
Public	27.95	27.95
Others	0.00	0.00
<b>Total</b>	<b>100</b>	<b>100</b>

### Q4FY19 performance in line with estimates

- TCS' Q4FY19 numbers were in-line with our estimates
- Dollar revenue came in at \$5397 Mn, +2.8% qoq / +8.5% yoy / +0.3% vs our est. of \$5381 Mn
- INR Revenue stood at INR 380,100 Mn, +1.8% qoq / +18.5% yoy / +0.3% vs our est. of INR 379,071 Mn
- EBIT stood at INR 95,370 Mn, -0.3% qoq / +17.1% yoy / -0.4% vs our est. of INR 95,764 Mn
- EBIT margin at 25.1% vis-à-vis 25.6% / 25.4% in Q3FY19 / Q4FY18 and 20bps below our est.
- PAT stood at INR 81,260 Mn, +0.3% qoq / +17.7% yoy and +1.1% vs our estimate of INR 80,353 Mn
- EPS came in at INR 21.4 vs 21.6 in Q3FY19
- Digital continued to outperform with a 50.6% yoy growth and contributed 28.6% to total revenues

### Key Conference Call takeaways – Ensures that TCS is a 'must have' portfolio stock

(i) BFSI reported a healthy double digit growth at 11.4% yoy after 9 quarters (ii) Platforms are receiving solid demand traction: Ignio has 90 client implementations so far and 1.5 Bn technology resources managed; Ion platform also reported healthy performance (iii) Client buckets witnessed healthy additions across the board. \$100 Mn bracket saw 6 additions yoy, 2 additions in \$50 Mn+ bucket, 8 additions in \$20 Mn+ bucket and 21 additions in \$10 Mn bucket (iv) Innovation centers launched in alliance with clients paying off strongly. For example, algorithmic dynamic pricing model initiated with client has gained good traction in retail industry (v) Business 4.0 which was launched 18 months back has helped TCS differentiate their services (vi) Location independent agile model has enabled company to win large transformation projects (vii) Differentiated services and delivered growth through MFDM – machine first delivery model – integrating technology deep within the enterprise wherein humans and machines work together and deliver superior outcomes by offering machines the first right of refusal for all work (viii) TCV of total deals signed in Q4 is largest in the last 4 quarters at \$6.2 BN (ix) Macro uncertainty is not a concern for technology\*, for example UK which has seen peak of uncertainty and volatility has grown 22% YoY for TCS (x) Digital is no longer an industry specific phenomenon, it is widespread. For example, Media has been completely transformed to a digital based model (from Production to Distribution); Retail – from store to web to social media – same thing in banking and automotive (xi) \*Margins: \* Technology has a perennial demand with multi-year visibility and rate of change of technology keeps increasing which increase relevance to client if discipline is maintained. This is where margin confidence comes from (xii) Good condition as far as supply side is concerned (xiii) BFSI – Europe banking has been comparatively positive. Capital markets have been volatile. Insurance has reported solid growth (xiv) Retail - positive in the medium term as demand is strong but period to period volatility will continue (xv) Contrary to popular belief, Technology is not a commodity market as new service lines are continuously launched by TCS and therefore price erosion is limited. Price are highly stable and therefore TCS has been able to maintain margins.

### 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	16,30,922	11.4%	4,15,927	25.5%	3,54,717	21.7%	92.6	11.8%	30%	29%
FY21E	17,75,299	8.9%	4,50,782	25.4%	3,84,619	21.7%	100.5	8.4%	28%	27%

Source: Company, Dalal&Broacha Research



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### Broadbased performance coupled with steady margins

- **BFSI (31% of rev)** grew 11.6% yoy in cc terms, **Retail (16.2% of rev)** grew 9.9% yoy, **Lifesciences & Healthcare (7.7% of rev)** grew 18.2% yoy, **Manufacturing (7.2% of rev)** grew 9.2% yoy and **Communications & Media (7% of rev)** grew 10% yoy.
- Geographically, UK (15.9% of total revenue) outperformed with a 13.5% YoY growth, followed by Latin America (2% of revenue) with 8.5% yoy growth and Europe (14% of rev) at 7.8% yoy growth. North America (50.7% of rev) reported a healthy 9.6% yoy growth

### Q4FY19 Performance Review

YE March (Rs. mn)	Q4 FY19	Q3 FY19	Q-o-Q change %	Q4 FY18	Y-o-Y change %	Q4FY19 Est.	Deviation %
Total Revenue (USD Mn)	5,397	5,250	2.8%	4,972	8.5%	5,381	0.3%
Total Revenue (INR Mn)	3,80,100	3,73,380	1.8%	3,20,750	18.5%	3,79,071	0.3%
Less:							
Cost of Revenues	2,17,090	2,13,200	1.8%	1,81,220	19.8%	2,17,862	-0.4%
SG&A Expenses	62,280	59,350	4.9%	53,010	17.5%	60,255	3.4%
Total Expenditure	2,79,370	2,72,550	2.5%	2,34,230	19.3%	2,78,117	0.5%
EBIDTA	1,00,730	1,00,830	(0.1%)	86,520	16.4%	1,00,954	-0.2%
Less: Depreciation	5,360	5,190	3.3%	5,050	6.1%	5,190	3.3%
Operating Income	95,370	95,640	(0.3%)	81,470	17.1%	95,764	-0.4%
Other income (expense), net	11,650	11,470	1.6%	9,820	18.6%	10,424	11.8%
Profit Before Tax	1,07,020	1,07,110	(0.1%)	91,290	17.2%	1,06,189	0.8%
Total Tax	25,500	25,900	(1.5%)	22,040	15.7%	25,677	-0.7%
PAT before Minority Interest	81,520	81,210	0.4%	69,250	17.7%	80,512	1.3%
Minority Interest	260	160	N.A.	210	N.A.	159	
Profit After Tax	81,260	81,050	0.3%	69,040	17.7%	80,353	1.1%
Basic & Diluted EPS (Rs.)	21.4	21.6		36.1		21.4	0.1%
Basic & Diluted Outstanding (mn)	3,790	3,752		1,914		3,752	
Margin Analysis %			Change In bps		Change In bps		
EBIDTA Margin	26.5%	27.0%	-50	27.0%	-47	26.6%	-13
Operating Margin	25.1%	25.6%	-52	25.4%	-31	25.3%	-17
PBT Margin	28.2%	28.7%	-53	28.5%	-31	28.0%	14
NPM	21.4%	21.7%	-33	21.5%	-15	21.2%	18
Effective Tax Rate (%)	23.8%	24.2%	-35	24.1%	-32	24.2%	-35
Cost Analysis %			Change In bps		Change In bps		
Cost of Revenues/ Sales	57.1%	57.1%	1	56.5%	62	57.5%	-36
Other income/ PBT	10.9%	10.7%	18	10.8%	13	9.8%	107

Source: Company, Dalal & Broacha Research

### Valuation & Outlook

We believe that as far as Indian Technology sector landscape is concerned, TCS clearly has differentiated itself and developed an edge over peers through initiatives such as Business 4.0, Machine First Delivery Model, Innovation Centers, New service lines, Platforms and location independent agile offerings. While peers are struggling with growth and profitability, TCS is clearly in a league of its own. The company has overcome macro uncertainties and pricing pressure through innovative offerings and a transformed business model. The stock is currently trading at 21.7x and 20x FY20e / FY21e EPS. It is noteworthy that TCS will always command a premium in the Indian IT services space and therefore re-rate the stock to a **BUY with a target price of 2311, which is 23x FY21e EPS of 100.5.**



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Contact	Email ID	Contact No.	Sector
Mr. Kunal Bhatia	kunal.bhatia@dalal-broacha.com	022 67141442	Auto, Auto Ancillary, FMCG
Ms. CharulataGaidhani	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma /Healthcare
Ms. AbhilashaSatale	abhilasha.satale@dalal-broacha.com	022 67141135	Mid cap
Mr. Avinash Tanawde	avinash.tanawde@dalal-broacha.com	022 67141149	BFSI
Ms. Nidhi Babaria	nidhi.babaria@dalal-broacha.com	022 67141450	Associate
Mr. Suraj Nandu	suraj.nandu@dalal-broacha.com	022 67141438	Associate
Mr. Tanush Mehta	tanush.mehta@dalal-broacha.com	022 67141441	Associate

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021. Tel: 91-22- 2282 2992, 2287 6173, (D) 6630 8667 Fax: 91-22-2287 0092  
E-mail: research@dalalbroachaindia.com, equity.research@dalal-broacha.com