



TCS continued to report a stellar performance in Q4FY21 that marginally beat our estimates across revenue and profitability

- **\$ Revenue came in at \$ 5,989 Mn, +5% qoq / 10% yoy and 0.4% above our estimates**
- **INR revenue came in at INR 437,050 Mn, +4.7% qoq / +5.4% yoy and 3.4% above our estimates**
- **EBIT was reported at INR 117,340 Mn, +4.9% qoq / +17% yoy and 1.4% above our estimates**
- **EBIT translated into margins of 26.8%, vs 26.6% / 25.1% in Q3FY21 / Q4FY20 respectively and 20 bps above our estimates and highest margins in the last 9 quarters**
- **PAT came in at INR 92,460 Mn, +6.3% qoq / +14.9% yoy and 1% below our estimates**
- **EPS at INR 24.97 in Q4FY21 vs 23.2 / 21.5 in Q2FY21 / Q3FY20 respectively**
- **Company reported highest ever deal wins in a quarter at \$9.2 Bn +35% qoq / +3% yoy**
- Growth was broad-based across the verticals and primarily driven by BFSI at +7% qoq growth and Retail & CPG at +4%
- Company also declared a **final dividend of INR 15 per share**

Segmental Performance

Vertical Highlights:

Growth was primarily led by:

- **BFSI (32.2% of Revenue)** had a robust growth 7% QoQ followed by **Retail & CPG (14.5% of Revenue)**, **Lifesciences & Healthcare (9.7% of Revenue)** & **Manufacturing (9.6% of Revenue)** growing at 4%, 3.8% and 3.9% QoQ respectively.
- **Technology & Services (8.4% of Revenue)** returned to growth at 2.8% QoQ whereas **Communications & Media (6.5% of Revenue)** moderated at 1.8% QoQ. **Regional Markets & Others (19.1% of Revenue)** had a flattish growth of 1.7% sequentially.

Financial Summary

Y/E Mar (Rs mn)	FY 18	FY 19	FY 20	FY 21	FY 22E	FY 23E
Net sales	12,31,040	14,64,630	15,69,490	16,41,770	18,58,656	20,53,230
EBIT	3,05,020	3,74,500	3,85,800	4,24,810	4,83,084	5,31,169
Adjusted net profit	2,58,457	3,17,155	3,22,382	3,41,916	3,95,695	4,27,523
Free cash flow	2,08,143	2,24,013	2,07,759	3,19,840	3,18,893	3,62,873
EPS (Rs)	67.5	83.7	85.9	92.5	107.0	115.6
growth (%)		24%	3%	8%	16%	8%
P/E (x)	24.0	38.7	37.7	35.0	30.3	28.0
P/B (x)	7.3	13.7	14.5	13.6	11.5	9.8
EV/EBITDA (x)	18.9	30.8	28.9	25.7	23.1	20.9
D/E	-	-	-	-	-	-
ROCE (%)	27.5	33.1	28.8	33.1	33.4	31.3
RoE (%)	28.4	34.1	37.1	39.7	41.1	37.8
Dividend yield (%)	1.5	0.8	2.6	1.0	1.7	1.8

Source: Company

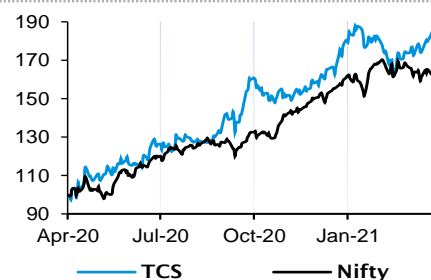
Rating	TP (Rs)	Up/Dn (%)
HOLD	3469	7

Market data

Current price	Rs	3,241
Market Cap (Rs.Bn)	(Rs Bn)	12009
Market Cap (US\$ Mn)	(US\$ Mn)	160101
Face Value	Rs	1
52 Weeks High/Low	Rs	3359/1678
Average Daily Volume	('000)	3010
BSE Code		532540
Bloomberg		TCS:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Mar-21	Dec-20
Promoters	72.19	72.05
Public	27.81	27.95
Others	0.00	0.00
Total	100	100

Source: BSE

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Geographical Highlights:

- Growth was led by major market **Continental Europe (16.8% of Revenue)** at 8.5% QoQ followed by **MEA (2% of Revenue)** & **North America (48.6% of Revenue)** growing at 4.2% QoQ & 3.9% QoQ respectively.
- **UK (16% of Revenue)** toned down its growth to 3.4% QoQ, **India (5.6% of Revenue)** moderated at 2.8% QoQ & **Latin America (1.6% of Revenue)** grew at 2.5% QoQ basis.

Conference Call Key Highlights

Operational Highlights

- **Margin Highlight: FY21 EBIT Margin stood at 25.9% & Net Margin was 20.3%** (excluding the one-time provision for legal expenses Rs. 1218 Crs.) Along with Revenue growth aiding the margin expansion, **control of other discretionary expenses, globally distributed model & overall currency movement has helped in margin growth.**
- DSO in \$ terms was 68 days improving by 1 day as against Q3.
- **Balance Sheet Metrics: Net CFO stood at Rs. 92.47 Bn** translating into 100% of the Net Income. **FCF stood at Rs. 80.85 Bn & FCF for FY21 stood at Rs. 379 Bn** growing at 17.5% YoY.
- **Employees & Attrition: Net Addition of 19,388 employees & attrition stood at 7.2% at an all time low on LTM basis.**
- **Demand Drivers: Core transformation continues to be around cloud migration, application modernization & data modernization.**

Operating Margins stood at 26.8% expanding by 0.2% QoQ & 17% YoY led by revenue growth, control of operating expenses & foreign currency movement.

Deal Win Momentum & Client Matrix

- TCS continued with its **Deal Win momentum** registering a **TCV of \$9.2 Billion**, highest ever during the quarter. Total Orderbook was \$31.6 Billion in FY21, growth of 17.1% YoY.
- Deal momentum was led by **BFSI registering \$3.9 Bn, Retail clocking in \$1.4 Bn and North America registering \$4.2 Bn.**
- Deal TCV consisted of **one large deal amounting to \$500-600 Mn.**
- **Client Matrix has shown some improvement in Q4 over the previous quarter** but at higher levels it remains flattish (due to revenue calculation on LTM basis).

Pipeline was more evenly distributed with a healthy mix of large & small deals. Strength of small deals has continued with its strong momentum since past 3 quarters.

Products & Platforms Performance

- Products & Platforms Portfolio performed well QoQ basis.
- **Ignio (Cognitive Automation Software) had 15 new customers & 7 go-lives.** Expansion of portfolio has allowed cross-selling and up-selling to the existing clients in Q4.
- Product Suite won 2 more awards & granted 3 more patents leading to a total of 14 patents granted to date.

Ignio added 50 customers in FY21 and a total of 200 customers for the year. Also onboarded 7 more re-selling partners to the channel partner program.

- **TCS BaNCS (flagship product suite of the financial services domain) had 5 new wins & 5 go-lives in Q4.** Platform is attracting diverse clients digital neo banks & existing banks launching new crypto banking products.
- In Lifesciences, award winning advanced drug development suite had 2 go-lives. HOBSS had 3 new wins & go-lives.
- **MasterKraft (Intelligent Automation Product Suite) had 8 new wins & 7 go lives.**

Vertical Highlights

- **BFSI** grew 7% QoQ & 13.3% YoY led by large deals as well as led by investments in enhancing customer experience, expansion into newer businesses & core transformation.
- **Retail** (CPG, Travel, Transportation & Hospitality) had a robust 4% sequential growth despite weakness in some of the sub-sectors such as Travel & Hospitality. Retail declined by -0.9% YoY basis due to the pandemic impact on the vertical.
- **Lifesciences & Healthcare** continued with its strong performance of 3.8% QoQ & 19.3% YoY. Over the last decade, Lifesciences has significantly outperformed growing from 4.5% of Revenue in FY11 to 9.8% of Revenue in FY21. In USD terms, Lifesciences Revenue has grown 5.9x with a 10-year CAGR of 19.5%.

Future Growth & Outlook

- With growth trending across the industry, **attrition is expected to inch up in FY22.**
- **Normalizing Operating expenses as economy starts to open up will be a key marginal headwind.**
- **Salary Hikes have been rolled out on 1st April, 2021** and will remain on its normal course of trajectory for the rest of the year.
- Much better visibility with **significant growth and momentum led by strong orderbook and robust deal pipeline in FY22. Normalized growth objective is double digit YoY growth.**
- **TCS' Growth and Transformation agenda over the next 3-4 years is based on strong upskilling and reskilling of workforce in Research, Innovation & Intellectual Property.**

Valuation & Outlook

TCS is currently trading at 30.3x / 28x FY22e / FY23e EPS. Despite being India's largest IT services provider, the company delivered solid revenue growth coupled with margin expansion. This is the 3rd quarter in the current fiscal that TCS has delivered 5% or more-dollar revenue growth and management has indicated that it is on path to achieve its double digit yoy growth objective. TCS continues to report healthy deal wins (in fact \$9.2 Bn of deal wins in Q4FY21 is the largest ever in a quarter) - which coupled with strong management outlook on overall tech industry and client spends reinstate our belief that growth in the IT services space is here to stay. **We therefore increase our dollar revenue growth and EPS estimates from 14.2% / 9.5% and INR 105 / INR 113.5 earlier to 15.6% / 10.5% and INR 107 / INR 115.6 for FY22e / FY23e. We recommend investors to HOLD the stock with an increased target price of INR 3,469 (earlier 3,356).**

Quartz Blockchain Solution had 2 new wins & 1 go-live. In retail, there was one win & one go-live for Omnistore.

BFSI, Lifesciences & Healthcare and Technology & Services are the only verticals that grew in FY21. Except for Travel & Hospitality, all other verticals are on a path of recovery.

TCS strong capabilities and inclination towards upskilling headcount is enabling the company to win deals against Legacy Consultants and enjoy industry leading growth and profitability.

Financial

Profit & Loss A/c						Balance Sheet					
YE March (Rs.mn)	FY19	FY20	FY21	FY22E	FY23E	YE March (Rs.mn)	FY19	FY20	FY21	FY22E	FY23E
Net Sales	14,64,630	15,69,490	16,41,770	18,58,656	20,53,230	Liabilities					
Sales Growth%	19.0%	7.2%	4.6%	13.2%	10.5%	Equity Capital	3,750	3,750	3,697	3,697	3,697
Total Revenue	14,64,630	15,69,490	16,41,770	18,58,656	20,53,230	Reserves & Surplus	8,90,710	8,37,510	8,78,174	10,40,430	12,15,736
Less:						Equity	8,94,460	8,41,260	8,81,871	10,44,127	12,19,433
Employees Cost	8,35,090	8,96,350	9,40,530	10,50,787	11,71,866	Net Worth	8,94,460	8,41,260	8,81,871	10,44,127	12,19,433
SG&A	2,34,490	2,52,040	2,35,780	2,93,052	3,18,463	Minority Interest	4,530	6,230	9,335	12,929	16,811
Total Operating Exp	10,69,580	11,48,390	11,76,310	13,43,839	14,90,328	DTL/(DTA)	10,420	7,790	7,790	7,790	7,790
EBITDA	3,95,050	4,21,100	4,65,460	5,14,817	5,62,902	Capital Employed	9,20,150	9,44,100	9,88,142	11,54,970	13,35,037
EBITDA Growth%	21.5%	6.6%	10.5%	10.6%	9.3%	Assets					
Less: Depreciation	20,550	35,300	40,650	31,733	31,733	Gross Block	2,42,790	2,64,440	2,84,440	3,04,440	3,24,440
Operating Profit	3,74,500	3,85,800	4,24,810	4,83,084	5,31,169	Less: Depreciation	1,39,170	1,55,030	1,95,680	2,27,413	2,59,146
Growth%	22.8%	3.0%	10.1%	13.7%	10.0%	Net Block	1,03,620	1,09,410	88,760	77,027	65,294
Non-operating Income	41,130	36,680	24,970	37,173	30,798	Capital WIP	9,630	9,060	9,477	10,729	11,852
Profit Before Tax	4,15,630	4,22,480	4,48,080	5,18,557	5,60,267	Investments	2,93,300	2,63,560	2,75,698	3,12,119	3,44,793
Tax	95,595	97,170	1,03,058	1,19,268	1,28,861	Intangible Assets	18,790	19,930	19,930	19,930	19,930
Minority Interest	2,880	2,928	3,105	3,594	3,883	Current Assets					
Net Profit	3,17,155	3,22,382	3,41,916	3,95,695	4,27,523	Sundry Debtors	3,25,030	3,62,640	3,79,341	4,29,454	4,74,411
Adjusted Profit	3,17,155	3,22,382	3,41,916	3,95,695	4,27,523	Cash and Bank Balance	1,12,090	82,720	1,05,375	1,82,465	2,82,862
Diluted EPS Rs	83.7	85.9	92.5	107.0	115.6	Total Current Assets	6,22,450	6,34,000	6,82,042	8,35,314	10,04,054
Diluted EPS Growth%	24.0%	2.7%	7.6%	15.7%	8.0%	Less: Current Liabilities					
						Sundry Creditors	62,920	67,400	69,039	78,871	87,469
						Total Current Liabilities	2,20,840	2,57,920	2,68,360	3,04,601	3,36,743
						Capital Applied	9,20,150	9,44,100	9,88,142	11,54,970	13,35,037
						Key Ratios					
						YE March (Rs.mn)	FY19	FY20	FY21	FY22E	FY23E
Key Ratios						Key Operating Ratios					
EBIT Margins %	25.6%	24.6%	25.9%	26.0%	25.9%	EBITDA Margin(%)	27.0%	26.8%	28.4%	27.7%	27.4%
NPM(%)	21.7%	20.5%	20.8%	21.3%	20.8%	Tax/PBT(%)	23.0%	23.0%	23.0%	23.0%	23.0%
RoE(%)	34.1%	30.5%	36.7%	36.6%	34.0%	Net Profit Margin(%)	21.7%	20.5%	20.8%	21.3%	20.8%
RoCE(%)	33.1%	28.8%	33.1%	33.4%	31.3%	RoE(%)	34.1%	37.1%	39.7%	41.1%	37.8%
BV/PerShareRs.	236	224	239	282	330	RoCE(%)	33.1%	28.8%	33.1%	33.4%	31.3%
						Current Ratio(x)	2.8x	2.5x	2.5x	2.7x	3.0x
						Dividend Payout(%)	36.0%	116.7%	41.3%	59.0%	59.0%
						Book Value Per Share(Rs.)	236.0	224.2	238.5	282.4	329.8
						Growth Indicators%					
						Growth in Gross Block(%)	6.9%	8.9%	7.6%	7.0%	6.6%
						Sales Growth(%)	19.0%	7.2%	4.6%	13.2%	10.5%
						EBITDA Growth(%)	21.5%	6.6%	10.5%	10.6%	9.3%
						Net Profit Growth(%)	22.7%	1.6%	6.1%	15.7%	8.0%
						Diluted EPS Growth(%)	24.0%	2.7%	7.6%	15.7%	8.0%

Source: Dalal & Broacha Research, Company

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