



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

Analyst: Mayank Babla (022) 67141442

## Q2 FY19 Result Update@ Dalal &Broacha

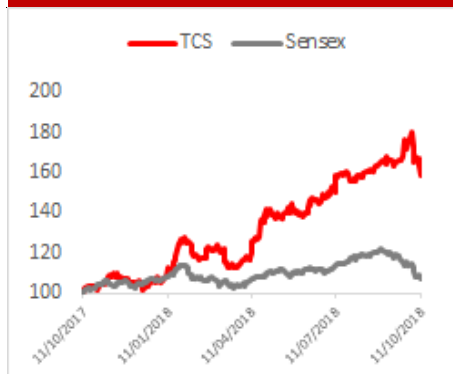
### BUY

Current Price	1,920
Target	2,202
Upside	14.6%
52 Week Range	1249/2273

### Key Share Data

Market Cap (Rs.bn)	7199.70
Market Cap (US\$ bn)	97293
No of o/s shares (mn)	3829
Face Value	1
Monthly Avg.	
Vol(BSE+NSE)'000 Nos	3177.39
BSE Code	532540
NSE Code	TCS
Bloomberg	TCS:IN

### Price performance



% Shareholding	Sep- 18	June-18
Promoters	72.05	71.92
Public	27.95	28.08
Others	0.00	0.00
<b>Total</b>	<b>100</b>	<b>100</b>

**TCS reported a strong set of numbers in Q2 FY19 which beat our as well as street estimates on the revenue front, while EBITDA and PAT were largely in line with our estimates.**

- USD revenue came in at \$5,215 Mn, up 3.2% qoq and 10% yoy and 0.2% above our estimate of \$5,202 Mn.

- Revenue in Rupee Terms was reported at INR 368,540 Mn, reporting a growth of 7.6% qoq and 20.7% yoy, beating our estimate of INR 364,613 Mn by 1.1%.

- EBIT was recorded at INR 97,710 Mn, up 13.9% qoq and 27.6% yoy. EBIT translated into an EBIT margin of 26.5% and in line with our estimates.

- PAT was recorded at INR 79,010 Mn, up 7.6% qoq and below our estimate of 79,869 Mn. PAT margin was reported at 21.4% versus 21.4% in Q1FY19 and marginally below our estimate of 21.9%. PAT was below our estimates largely due to lower Other Income.

### BFSI and Lifesciences & Healthcare drive growth and Digital business outperforms

- BFSI (31.2% of revenues) reported the highest growth over the last 8 quarters at 3.6% qoq and 4% yoy and followed through on the management's confidence during H1CY18

- Lifesciences & Healthcare led the growth pack with a 6.1% qoq and 14.6% yoy growth in reported terms

- Retail & CPG also reported healthy growth of 3.2% qoq

- In terms of Geography, US, UK and Europe reported healthy growth figures of 3.4%, 3.9% and 3.2% respectively.

### Key Concall Takeaways

(i) TCv of \$4.9 Bn in QFY19 (unchanged since Q1FY19) – Management is seeing high traction in US geography which has a TCv of \$2.4 Bn (ii) Retail (though structurally not out of the woods yet) and Lifesciences showing strong signs of growth Tech and Communications are slight volatile. Notably, Communications is going through massive changes which is an opportunity and risk. However, TCS is actively participating in Network Planning and Virtualization in Europe and Australia (iv) Company witnessed Margin expansion due to following 2 reasons (a) Efficiency – 0.3% benefit and (b) Currency contribution - 1.2%. At 26.5% EBIT margins, company is in comfortable space as per guided range (v) Ignio (automation platform) had 7 new wins in the quarter\* – new deal signings continue strongly (vi) Company undergoing complex internal transformation which is mainly on 2 fronts, that is, Agile Delivery model and Machine First philosophy

**Valuation & Outlook:** At CMP, the Stock is currently trading at 22.5x and 19.2x FY19E and FY20E EPS. TCS' Digital business (28% of rev) has consistently outperformed and BFSI segment bounced back as per management guidance. Management's confidence and company's pole position in the Indian IT Services space fuels our belief that the company commands premium valuations. The stock price corrected post Q2FY19 results and therefore we re-rate our recommendation from an ACCUMULATE earlier to a BUY with a target price of INR 2,202, which is 22x FY20E EPS of INR 100.

### Consolidated Financials (In INR Mn)

YE March	Net Sales	% Growth	EBIT	EBIT Margin(%)	PAT	PAT Margin (%)	EPS	PE (x)	ROE (%)	ROCE (%)
FY16	10,86,462	14.8%	2,87,901	26.5%	2,41,386	22.2%	122.8	28.4x	35%	34%
FY17	11,79,660	8.6%	3,03,240	25.7%	2,61,648	22.2%	132.8	26.2x	31%	30%
FY18	12,31,040	4.4%	3,05,020	24.8%	2,58,457	21.0%	135.0	25.8x	28%	28%
FY19E	14,85,871	20.7%	3,98,131	26.8%	3,27,057	22.0%	85.4	22.5x	32%	31%
FY20E	16,83,444	13.3%	4,43,332	26.3%	3,83,254	22.8%	100.1	19.2x	31%	30%

Source: Company, Dalal & Broacha Research

EPS impact due to Bonus Issue of Shares – Ex Date – 31<sup>st</sup> May 2018



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YE March (Rs. mn)	Q2 FY19	Q1 FY19	Q-o-Q change %	Q2 FY18	Y-o-Y change %	Q2FY19 Est.	Deviation %
<b>Total Revenue (USD Mn)</b>	<b>5,215</b>	<b>5,051</b>	<b>3.2%</b>	<b>4,739</b>	<b>10.0%</b>	<b>5,202</b>	<b>0.2%</b>
<b>Total Revenue (INR Mn)</b>	<b>3,68,540</b>	<b>3,42,610</b>	<b>7.6%</b>	<b>3,05,410</b>	<b>20.7%</b>	<b>3,64,613</b>	<b>1.1%</b>
<b>Less:</b>							
Cost of Revenues	2,07,950	1,96,850	5.6%	1,72,180	20.8%	2,01,789	3.1%
SG&A Expenses	57,810	55,050	5.0%	51,590	12.1%	60,890	-5.1%
<b>Total Expenditure</b>	<b>2,65,760</b>	<b>2,51,900</b>	<b>5.5%</b>	<b>2,23,770</b>	<b>18.8%</b>	<b>2,62,679</b>	<b>1.2%</b>
<b>EBIDTA</b>	<b>1,02,780</b>	<b>90,710</b>	<b>13.3%</b>	<b>81,640</b>	<b>25.9%</b>	<b>1,01,934</b>	<b>0.8%</b>
Less: Depreciation	5,070	4,930	2.8%	5,040	0.6%	4,930	2.8%
<b>Operating Income</b>	<b>97,710</b>	<b>85,780</b>	<b>13.9%</b>	<b>76,600</b>	<b>27.6%</b>	<b>97,004</b>	<b>0.7%</b>
Other income (expense), net	5,930	12,080	(50.9%)	8,120	(27.0%)	9,480	-37.4%
<b>Profit Before Tax</b>	<b>1,03,640</b>	<b>97,860</b>	<b>5.9%</b>	<b>84,720</b>	<b>22.3%</b>	<b>1,06,484</b>	<b>-2.7%</b>
Total Tax	24,370	24,240	0.5%	20,120	21.1%	26,376	-7.6%
<b>PAT before Minority Interest</b>	<b>79,270</b>	<b>73,620</b>	<b>7.7%</b>	<b>64,600</b>	<b>22.7%</b>	<b>80,108</b>	<b>-1.0%</b>
Minority Interest	260	220	N.A.	140	N.A.	239	
<b>Profit After Tax</b>	<b>79,010</b>	<b>73,400</b>	<b>7.6%</b>	<b>64,460</b>	<b>22.6%</b>	<b>79,869</b>	<b>-1.1%</b>
<b>Basic &amp; Diluted EPS (Rs.)</b>	<b>20.6</b>	<b>19.2</b>		<b>33.7</b>		<b>20.9</b>	<b>-1.1%</b>
Basic & Diluted Outstanding (mn)	3,829	3,829		1,914		3,829	
<b>Margin Analysis %</b>			<b>Change In bps</b>		<b>Change In bps</b>		
<b>EBIDTA Margin</b>	<b>27.9%</b>	<b>26.5%</b>	<b>141</b>	<b>26.7%</b>	<b>116</b>	<b>28.0%</b>	<b>-7</b>
Operating Margin	26.5%	25.0%	148	25.1%	143	26.6%	-9
<b>PBT Margin</b>	<b>28.1%</b>	<b>28.6%</b>	<b>-44</b>	<b>27.7%</b>	<b>38</b>	<b>29.2%</b>	<b>-108</b>
NPM	21.4%	21.4%	1	21.1%	33	21.9%	-47
<b>Effective Tax Rate (%)</b>	<b>23.5%</b>	<b>24.8%</b>	<b>-126</b>	<b>23.7%</b>	<b>-23</b>	<b>24.8%</b>	<b>-126</b>
<b>Cost Analysis %</b>			<b>Change In bps</b>		<b>Change In bps</b>		
<b>Cost of Revenues/ Sales</b>	<b>56.4%</b>	<b>57.5%</b>	<b>-103</b>	<b>56.4%</b>	<b>5</b>	<b>55.3%</b>	<b>108</b>
<b>Other income/ PBT</b>	<b>5.7%</b>	<b>12.3%</b>	<b>-662</b>	<b>9.6%</b>	<b>-386</b>	<b>8.9%</b>	<b>-318</b>

Source: Company, Dalal & Broacha Research

- Cash & Cash Equivalents stood at INR 7161 Mn and Investments stood at INR 36,008 Mn
- Attrition stood at 10.9% during the quarter
- EPS stood at INR 20.6 during the quarter
- Effective tax rate for the quarter stood at 23.5% in Q2FY19
- Notably the company added 4 clients in the \$100 Mn+ category



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### Profit & Loss Statement

YE March (Rs.mn)	FY16	FY17	FY18	FY19E	FY20E
<b>Net Sales</b>	10,86,462	11,79,660	12,31,040	14,85,871	16,83,444
Sales Growth%	14.8%	8.6%	4.4%	20.7%	13.3%
<b>Total Revenue</b>	10,86,462	11,79,660	12,31,040	14,85,871	16,83,444
Less:					
Employees Cost	5,95,490	6,54,300	6,97,150	8,33,216	9,34,555
SG&A	1,84,193	2,02,250	2,08,730	2,34,384	2,77,768
<b>Total Operating Exp</b>	7,79,682	8,56,550	9,05,880	10,67,600	12,12,323
<b>EBITDA</b>	3,06,780	3,23,110	3,25,160	4,18,271	4,71,121
EBITDA Growth%	24.4%	5.3%	0.6%	28.6%	12.6%
Less: Depreciation	18,879	19,870	20,140	20,140	27,789
<b>Operating Profit</b>	2,87,901	3,03,240	3,05,020	3,98,131	4,43,332
Growth%	26.3%	5.3%	0.6%	30.5%	11.4%
Non-operating	30,833	42,060	35,900	30,476	58,921
<b>Profit Before Tax</b>	3,18,403	3,45,130	3,40,920	4,28,606	5,02,252
Tax	74,825	81,106	80,116	98,579	1,15,518
Minority Interest	2,192	2,376	2,347	2,970	3,481
<b>Net Profit</b>	2,41,386	2,61,648	2,58,457	3,27,057	3,83,254
<b>Adjusted Profit</b>	2,41,386	2,61,648	2,58,457	3,27,057	3,83,254
Diluted EPS Rs	122.8	132.8	135.0	85.4	100.1
Diluted EPS Growth%	22.4%	8.2%	1.7%	-36.7%	17.2%

### Currency Assumptions:

We assume USD/INR at INR 68 over FY19E-FY20E and do not expect it to breach the INR 70 levels. However, a USD/INR rate of above 70 would invoke a re-rating on earnings.

### Free Cash Flow Statement

YEMarch (Rs.mn)	FY16	FY17	FY18	FY19E	FY20E
<b>EBITA</b>	2,87,901	3,03,240	3,05,020	3,98,131	4,43,332
Less: Adjusted Taxes	67,657	71,261	71,680	91,570	1,01,966
<b>NOPLAT</b>	2,20,244	2,31,979	2,33,340	3,06,561	3,41,366
Plus: Depreciation	18,879	19,870	20,140	20,140	27,789
Changes in Working Cap	38,640	6,334	7,718	17,687	24,423
<b>Operating Cashflow</b>	2,00,484	2,45,515	2,45,763	3,09,013	3,44,731
Less: Net Capex	21,259	19,440	19,100	26,630	22,581
<b>Total FCF</b>	1,61,125	2,42,465	2,08,143	2,22,525	2,95,418

### Ratio Analysis

YE March (Rs.mn)	FY16	FY17	FY18	FY19E	FY20E
<b>Key Operating Ratios</b>					
EBITDA Margin(%)	28.2%	27.4%	26.4%	28.1%	28.0%
Tax/PBT(%)	23.5%	23.5%	23.5%	23.0%	23.0%
Net Profit Margin(%)	22.2%	22.2%	21.0%	22.0%	22.8%
RoE(%)	34.8%	31.1%	28.4%	32.2%	31.3%
RoCE(%)	33.7%	30.2%	27.5%	31.2%	30.3%
Current Ratio(x)	2.6x	2.7x	2.5x	3.4x	3.8x
Dividend Payout(%)	47.5%	42.2%	41.5%	44.1%	44.1%
Book Value Per Share(Rs.)	361.5	437.5	444.7	270.1	326.0
<b>Growth Indicators%</b>					
Growth in Gross Block(%)	17.7%	8.2%	8.8%	8.8%	8.1%
Sales Growth(%)	14.8%	8.6%	4.4%	20.7%	13.3%
EBITDA Growth(%)	24.4%	5.3%	0.6%	28.6%	12.6%
Net Profit Growth(%)	22.9%	8.4%	(1.2%)	26.5%	17.2%
Diluted EPS Growth(%)	22.4%	8.2%	1.7%	(36.7%)	17.2%
<b>Turnover Ratios</b>					
Debtors (Days of sales)	94	87	94	87	87
Creditors	35	27	21	27	27
Inventory	0.1	0.1	0.1	0.1	0.1

### Balance Sheet

YE March(Rs.mn)	FY16	FY17	FY18	FY19E	FY20E
<b>Liabilities</b>					
Equity Capital	1,970	1,970	1,910	3,820	3,820
Reserves & Surplus	7,08,750	8,60,170	8,49,370	10,30,182	12,44,300
<b>Equity</b>	7,10,720	8,62,140	8,51,280	10,34,002	12,48,120
Preference Share Capital					
<b>Net Worth</b>	7,10,720	8,62,140	8,51,280	10,34,002	12,48,120
Minority Interest	3,550	3,660	4,020	6,990	10,471
Deferred tax	8,050	9,190	11,700	11,700	11,700
Liability/(Asset)					
Total Loans	1,960	2,710	2,350	2,710	2,710
Other Non Current					
Liabilities	11,720	11,310	11,850	14,246	16,140
<b>Capital Employed</b>	7,36,000	8,89,010	8,81,200	10,69,648	12,89,140
<b>Assets</b>					
Gross Block	1,93,080	2,08,910	2,27,200	2,47,200	2,67,200
Less: Depreciation	93,370	1,08,340	1,25,040	1,45,180	1,72,969
<b>Net Block</b>	99,710	1,00,570	1,02,160	1,02,020	94,231
Capital WIP	16,700	15,410	12,780	19,410	21,991
<b>Investments</b>	2,28,220	4,19,800	3,60,080	2,97,174	3,36,689
Intangible Assets	18,030	16,440	17,570	17,570	17,570
Others-A	1,20,960	93,500	1,15,200	1,63,446	1,85,179
<b>Current Assets</b>					
Inventories	160	210	260	262	297
Sundry Debtors	2,80,650	2,80,350	3,16,290	3,53,122	4,00,076
Cash and Bank Balance	66,450	39,390	63,720	2,30,769	3,63,376
Loans and Advances	27,430	29,090	32,050	36,641	41,513
Other Current Assets	32,650	37,760	37,820	47,562	53,886
<b>Total Current Assets</b>	4,07,340	3,86,800	4,50,140	6,68,355	8,59,148
<b>Less: Current Liabilities</b>					
Sundry Creditors	75,410	62,790	50,940	78,261	88,870
Provisions	1,550	1,050	2,660	19,716	23,104
Other Current Liabilities	78,000	79,670	1,23,130	1,00,350	1,13,694
<b>Total Current Liabilities</b>	1,54,960	1,43,510	1,76,730	1,98,327	2,25,668
<b>Capital Applied</b>	7,36,000	8,89,010	8,81,200	10,69,648	12,89,140



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