



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141442

Q3 FY18 Result Update@ Dalal &Broacha

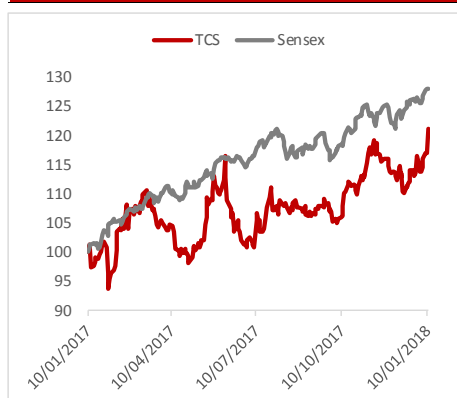
ACCUMULATE

Current Price	2,790
52 Week Range	2820/2154

Key Share Data

Market Cap (Rs.bn)	5,283
Market Cap (US\$ mn)	81
No of o/s shares (mn)	1,970
Face Value	1
Monthly Avg.	
Vol(BSE+NSE) Nos	1,060,976
BSE Code	532540
NSE Code	TCS
Bloomberg	TCS IN

Price performance



% Shareholding	Dec-17	Sept-17
Promoters	73.57	73.57
Public	26.43	26.43
Others	-	-
Total	100	100

Q3 Performance marginally below our estimates; nevertheless, best Q3 delivery over last 3 years

- TCS reported Q3FY18 numbers which were marginally below our estimates but delivered the highest performance in a December quarter (which is usually marked by furloughs) in the last 3 years
- Revenue in dollar terms was reported at \$4,787 Mn, up 1% qoq but -0.1% below our estimate of \$4,791 Mn. In INR terms, the company reported revenues of INR 309,040 Mn, up 1.2% qoq and 3.9% yoy and -0.3% below our estimate of 310,109 Mn
- EBIT stood at INR 77,810 Mn, up 1.6% qoq and 0.6% yoy but -1.3% below our estimate of INR 78,843 Mn. EBIT margins stood at 25.2% versus our estimate of 25.4%
- PAT was reported at INR 65,310 Mn, up 1.3% qoq and down -3.6% yoy and -3% below our estimate of INR 67,317 Mn mainly due to lower Other Income. PAT margin was reported at 21.1%, status quo qoq and down -166 bps yoy.
- Digital Revenues stood at 22% of topline in Q3.

Europe outperforms and performance of retail segment bounces back

- Europe (13.5% of revenues) outperformed for the 4th straight quarter with 1.8% qoq growth followed by UK at 1.7% qoq growth and US at 1.2% qoq growth.
- Retail (12.5% of rev) bounced back in the quarter with a 6.1% qoq growth while Energy & Utilities (4.5% of rev) grew 8.2% qoq. Mfg (7.6% to rev) and Telecom (7.4% of rev) grew at 2.4% respectively.
- BFSI performance continued to be lumpy and volatile with de-growth of 1.7% qoq
- Digital revenues continued to report robust growth with 13.5% qoq growth and stood at 22% of revenues in Q3.
- Notable client additions were in \$50-100 Mn category and \$20-50 Mn where the company added 5 and 4 clients respectively.

Key Concall Takeaways

(i) Banking & Financial Services segment continues to display laggard performance mainly due to lower tech spending in the US, a recovery and steady growth is still a few quarters away (ii) Insurance segment looks promising and should continue to deliver going ahead (iii) Retail performed well and company is witnessing a noticeable change in tech spending by traditional retailers. TCS won a major Digital Transformation deal from Marks & Spencer in Q3 (iv) Tech spending in Europe, specifically France, Germany and the Nordic region is growing phenomenally. Company expects Europe as market to outgrow UK as well. Growth in Europe is broad-based across services (v) Company is witnessing increase in depth of Digital deals rather than width and plans to improve on the same.

Valuation & Outlook:

Stock is currently trading at 19x and 17.1x FY19E and FY20E EPS. We have a neutral rating on the stock with a target price of INR 2,765.

Consolidated Financials (In INR Mn)

YE March	Net Sales	% Growth	EBIT	EBIT (%)	PAT	% Growth	EPS	PE (x)	ROE (%)	ROCE (%)
FY16	1,086,462	14.8%	287,901	26.3%	241,386	22.9%	122.8	22.7x	34.8%	33.7%
FY17	1,179,660	8.6%	303,240	5.3%	261,648	8.4%	132.8	21.0x	31.1%	30.2%
FY18E	1,227,635	4.1%	304,484	0.4%	257,342	-1.6%	134.4	20.8x	28.3%	27.4%
FY19E	1,343,109	9.4%	331,408	8.8%	280,774	9.1%	146.7	19.0x	28.9%	28.0%
FY20E	1,473,074	9.7%	369,789	11.6%	312,729	11.4%	163.4	17.1x	27.8%	26.9%

Source: Company, Dalal & Broacha Research



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YE March (Rs. mn)	Q3 FY18	Q2 FY18	Q-o-Q change %	Q3 FY17	Y-o-Y change %	Q3 FY17 Est.	Deviation %
Total Revenue (USD Mn)	4,787	4,739	1.0%	4,387	9.1%	4,792	-0.1%
Total Revenue (INR Mn)	309,040	305,410	1.2%	297,350	3.9%	310,109	-0.3%
Less:							
Cost of Revenues	174,610	172,180	1.4%	165,140	5.7%	173,507	0.6%
SG&A Expenses	51,550	51,590	(0.1%)	49,920	3.3%	52,719	-2.2%
Total Expenditure	226,160	223,770	1.1%	215,060	5.2%	226,226	0.0%
EBIDTA	82,880	81,640	1.5%	82,290	0.7%	83,883	-1.2%
Less: Depreciation	5,070	5,040	0.6%	4,960	2.2%	5,040	0.6%
Operating Income	77,810	76,600	1.6%	77,330	0.6%	78,843	-1.3%
Other income (expense), net	8,640	8,120	6.4%	11,850	(27.1%)	9,923	-12.9%
Profit Before Tax	86,450	84,720	2.0%	89,180	(3.1%)	88,767	-2.6%
Total Tax	21,000	20,120	4.4%	21,040	(0.2%)	21,304	-1.4%
PAT before Minority Interest	65,450	64,600	1.3%	68,140	(3.9%)	67,463	-3.0%
Minority Interest	140	140	N.A.	360	N.A.	146	
Profit After Tax	65,310	64,460	1.3%	67,780	(3.6%)	67,317	-3.0%
Basic & Diluted EPS (Rs.)	34.1	32.7	4.3%	34.4	(0.8%)	35.2	-3.0%
Basic & Diluted Outstanding (mn)	1,914	1,970		1,970		1,914	
Margin Analysis %			Change In bps		Change In bps		
EBIDTA Margin	26.8%	26.7%	9	27.7%	-86	27.0%	-23
Operating Margin	25.2%	25.1%	10	26.0%	-83	25.4%	-25
PBT Margin	28.0%	27.7%	23	30.0%	-202	28.6%	-65
NPM	21.1%	21.1%	3	22.8%	-166	21.7%	-57
Effective Tax Rate (%)	24.3%	23.7%	54	23.6%	70	24.0%	29
Cost Analysis %			Change In bps		Change In bps		
Cost of Revenues/ Sales	56.5%	56.4%	12	55.5%	96	56.0%	55
Other income/ PBT	10.0%	9.6%	41	13.3%	-329	11.2%	-119

Source: Company, Dalal & Broacha Research

- The company's FCF in Q3FY18 stood at INR 74,110 Mn and Cash & Cash Equivalents stood at INR 405,910 Mn
- Dividend of INR 7 per share was declared during the quarter
- Attrition stood at 11.1% during the quarter, a marginal drop of 20 bps qoq
- EPS stood at INR 34.1 during the quarter, a growth of 4.3% qoq and -0.8% yoy. 9MFY18 EPS stood at INR 98.1 versus 99.1 in 9MFY17
- Effective tax rate for the quarter stood at 24.3% vs 24% in Q3FY17. One can expect certain tax savings from FY19E onwards on account of change in tax structure in the US



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Profit & Loss Statement

YE March (Rs.mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	1,086,462	1,179,660	1,227,635	1,343,109	1,473,074
Sales Growth%	14.8%	8.6%	4.1%	9.4%	9.7%
Total Revenue	1,086,462	1,179,660	1,227,635	1,343,109	1,473,074
Less:					
Employees Cost	595,490	654,300	693,640	762,308	826,767
SG&A	184,193	202,250	209,351	224,299	250,423
Total Operating Exp	779,682	856,550	902,991	986,608	1,077,190
EBITDA	306,780	323,110	324,644	356,502	395,884
EBITDA Growth%	24.4%	5.3%	0.5%	9.8%	11.0%
Less: Depreciation	18,879	19,870	20,160	25,094	26,095
Operating Profit	287,901	303,240	304,484	331,408	369,789
Growth%	26.3%	5.3%	0.4%	8.8%	11.6%
Non-operating Income	30,833	42,060	34,966	38,950	42,719
Profit Before Tax	318,403	345,130	339,449	370,358	412,508
Tax	74,825	81,106	79,771	87,034	96,939
Minority Interest	2,192	2,376	2,337	2,550	2,840
Net Profit	241,386	261,648	257,342	280,774	312,729
Adjusted Profit	241,386	261,648	257,342	280,774	312,729
Diluted EPS Rs	122.8	132.8	134.4	146.7	163.4
Diluted EPS Growth%	22.4%	8.2%	1.2%	9.1%	11.4%

Free Cash Flow Statement

YEMarch (Rs.mn)	FY16	FY17	FY18E	FY19E	FY20E
EBITA	287,901	303,240	304,484	330,358	367,917
Less: Adjusted Taxes	67,657	71,261	71,554	77,634	86,461
NOPLAT	220,244	231,979	232,930	252,724	281,457
Plus: Depreciation	18,879	19,870	20,160	26,144	27,967
Changes in Working Cap	38,640	6,334	(8,977)	14,922	16,689
Operating Cashflow	200,484	245,515	262,067	263,946	292,734
Less: Net Capex	21,259	19,440	20,627	21,508	21,698
Total FCF	161,125	243,095	198,019	227,178	253,828

Ratio Analysis

YEMarch (Rs.mn)	FY16	FY17	FY18E	FY19E	FY20E
Key Operating Ratios					
EBITDA Margin(%)	28.2%	27.4%	26.4%	26.5%	26.9%
Tax/PBT(%)	23.5%	23.5%	23.5%	23.5%	23.5%
Net Profit Margin(%)	22.2%	22.2%	21.0%	20.8%	21.1%
RoE(%)	34.8%	31.1%	28.3%	28.9%	27.7%
RoCE(%)	33.7%	30.2%	27.4%	28.0%	26.8%
Current Ratio(x)	2.6x	2.7x	3.1x	2.4x	2.5x
Dividend Payout(%)	47.5%	42.2%	50.4%	50.4%	50.4%
Book Value Per Share(Rs.)	361.5	437.5	433.5	506.1	586.8
GrowthIndicators%					
Growth in Gross Block(%)	17.7%	8.2%	9.6%	8.7%	8.0%
Sales Growth(%)	14.8%	8.6%	4.1%	9.4%	9.7%
EBITDA Growth(%)	24.4%	5.3%	0.5%	9.8%	11.0%
Net Profit Growth(%)	22.9%	8.4%	(1.6%)	8.8%	11.2%
Diluted EPS Growth(%)	22.4%	8.2%	1.2%	8.8%	11.2%
Turnover Ratios					
Debtors (Days of sales)	94	87	87	87	87
Creditors	35	27	27	27	27
Inventory	0.1	0.1	0.1	0.1	0.1

Balance Sheet

YE March(Rs.mn)	FY16	FY17	FY18E	FY19E	FY20E
Liabilities					
Equity Capital	1,970	1,970	1,914	1,914	1,914
Reserves & Surplus	708,750	860,170	827,931	966,930	1,121,484
Equity	710,720	862,140	829,845	968,844	1,123,398
Net Worth	710,720	862,140	829,845	968,844	1,123,398
Minority Interest	3,550	3,660	5,997	8,540	11,367
Deferred tax liability/(Asset)	8,050	9,190	9,190	9,190	9,190
Total Loans	1,960	2,710	2,710	2,710	2,710
Other Non Current Liabilities	11,720	11,310	11,770	12,877	14,123
Capital Employed	736,000	889,010	859,512	1,002,161	1,160,788
Assets					
Gross Block	193,080	208,910	228,910	248,910	268,910
Less: Depreciation	93,370	108,340	128,500	154,644	182,611
Net Block	99,710	100,570	100,410	94,266	86,299
Capital WIP	16,700	15,410	16,037	17,545	19,243
Investments	228,220	419,800	368,290	470,088	589,230
Intangible Assets	18,030	16,440	16,440	16,440	16,440
Others-A	120,960	91,400	135,040	147,742	162,038
Current Assets					
Inventories	160	210	221	242	264
Sundry Debtors	280,650	280,350	291,751	319,194	350,081
Cash and Bank Balance	66,450	40,020	25,282	39,247	49,630
Loans and Advances	27,430	29,090	30,273	33,121	36,325
Other Current Assets	32,650	39,230	40,825	44,666	48,988
Total Current Assets	407,340	388,900	388,353	436,469	485,288
Less: Current Liabilities					
Sundry Creditors	75,410	62,790	66,194	72,324	78,964
Provisions	1,550	1,050	15,954	17,357	19,300
Other Current Liabilities	78,000	79,670	82,910	90,709	99,486
Total Current Liabilities	154,960	143,510	165,059	180,390	197,750
Capital Applied	736,000	889,010	859,512	1,002,161	1,160,788



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