

CMP: INR 4,253

Rating: Accumulate

Target Price: INR 4,839

Stock Info

BSE	532540
NSE	TCS
Bloomberg	TCS IN
Reuters	TCS.BO
Sector	IT
Face Value (INR)	1
Equity Capital (INR Cr)	362
Mkt Cap (INR Cr)	15,29,872
52w H/L (INR)	4,592/ 3,311
Avg Yearly Vol (in 000')	2,242

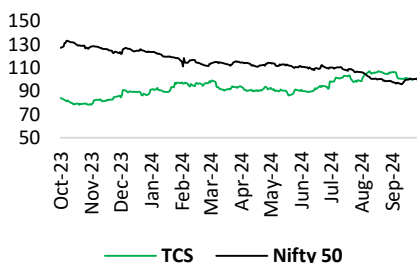
Shareholding Pattern %

(As on June, 2024)

Promoters	71.77
FII	12.7
DII	10.99
Public & Others	4.89

Stock Performance (%)	1m	3m	12m
TCS	-5.2%	9.2%	17.7%
NIFTY	4.2%	7.9%	25.1%

TCS Vs Nifty



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Tata Consultancy Services (TCS) Results Margin & PAT below our expectation while revenue is in line with estimate. Constant currency (CC) revenue growth is up 5.5% YoY/0.9% (in line with the estimate QoQ). USD Revenue growth +6.4% YoY/+2.2% QoQ to \$7,670 mn slightly above our estimate of \$ 7,620 mn driven by across the geography. Reported revenue of INR (up 2.63% QoQ/7.7% YoY) to INR 64,259 Cr above our estimates INR 63,917 Cr led by India (+95.2%), Middle East & Africa (+7.9%), Asia Pacific (+7.5%), Latin America (+6.8%). EBIT margin was down 60bps QoQ/-20 bps YoY at 24.07 % below our estimates of 24.73%. Consolidated PAT stood at INR 11,909 Cr, up by 5% YoY/-1.09% QoQ below with our estimate of INR 12,308 Cr. Order book TCV at \$8.6 Bn (Book to bill 1.1x); North America TCV at \$4.2 Bn; BFSI TCV at \$2.9 Bn, Consumer Business TCV at \$1.2 Bn. Clients \$100M+ up by 5; \$10M+ up by 8 & \$1M+ up by 35 YoY. Headcount: 612,724 606,998; Addition by 5,726 QoQ. LTM IT Services attrition rate slightly up 20 bps to 12.3%.

Investment Rationale

Steady deal pipeline: The deal pipeline remains near an all-time high, with deal bookings in the target range of \$7-9 billion. A couple of mega deals are expected to yield a book-to-bill ratio of 1.2x, which is a decent number. There are always a few mega deals in the pipeline

Visible Green Shoots in BFSI and Insurance Segments in NA: Expect the telecom vertical to recover once interest rates decrease in key markets. The company is seeing green shoots in BFSI in North America (NA). There were a few client-specific issues in the healthcare vertical that impacted its performance, as well as labor issues in the aerospace and auto manufacturing sectors. Similar trend is observed on the CMT side.

Margin led by expenses: Increased third-party expenses associated with ongoing transformations negatively impacted margins by 60 bps. Additionally, investments in talent and infrastructure contributed to a 70 bps decline. However, these effects were partially offset by favorable currency movements and the absence of one-time impacts from We expect margins to improve as the wage hike is behind them.

Outlook & Valuation: The company in line with the expectations in Q2FY25 on 0.9% QoQ CC growth, growth driven by BSNL ramp up (excluding India growth was 0.7% in USD term against 2.2% overall) and detecting signs of good demand in specific verticals. The catalyst for this development is attributed to growing confidence in the macro environment. The deal pipeline remains strong, although deal bookings were decent for Q2FY25 and it will be in the range of \$7-9Bn. The goal is to reach a 26% margin as soon as possible, with aspirations to exit FY25 at this level, although no specific timeline was provided. The margin recovery in H2FY25 will likely be driven by continued workforce optimization toward freshers and platforms. We expect our growth estimates for FY24-FY27E 6.7% in USD terms and a margin of 25.5%/25.8%/25.8% for FY25E/FY26E/FY27E. We value TCS at a PE of 27x its FY27E EPS of INR 179.2, resulting in a revised target price of INR 4,839 per share (Earlier TP;4,418 per share).We maintain our rating to an Accumulate on the stock.

Exhibit 1: Q2FY25 - Performance (Consolidated)

Particulars (INR Cr)	FY23	FY24	FY25E	FY26E	FY27E
Revenues (US\$ mn)	27,927	29,080	31,072	33,406	35,282
Net Sales	2,25,458	2,40,893	2,57,405	2,82,014	3,01,811
EBIT	54,237	59,311	65,590	72,721	78,260
EBIT Margin	24.06%	24.62%	25.48%	25.79%	25.93%
Net profit	42,147	45,908	52,472	59,078	64,882
EPS (INR)	115	129	145	163	179
ROE	46.21%	50.27%	52.48%	52.74%	53.72%
ROCE	44.60%	48.19%	48.94%	48.43%	48.34%
PE (x)	36.92	33.00	29.34	26.06	23.73

Exhibit 2: Q2FY25 - Quarterly Performance (Consolidated)

Consolidated Income Statement (INR Cr)	Q2FY25	Q1FY25	Q2FY24	Q-o-Q	Y-o-Y
Revenue (Mn USD)	7,670	7,505	7,210	2.20%	6.4%
Net Revenue	64,259	62,613	59,692	2.63%	7.7%
Employee Costs	36,654	36,416	35,123	0.65%	4.4%
Other Operating Expenses	10,874	9,535	8,823	14.04%	23.2%
Depreciation	1,266	1,220	1,263	3.77%	0.2%
EBIT	15,465	15,442	14,483	0.15%	6.8%
EBIT margin %	24.07%	24.66%	24.3%	-60bps	-20bps
Other Income	729	962	1,006	-24.22%	-27.5%
Finance Costs	162	173	159	-6.36%	1.9%
Exceptional Items	-	-	-		
PBT	16,032	16,231	15,330	-1.23%	4.6%
Tax Expense	4,077	4,126	3,950	-1.19%	3.2%
Effective Tax Rate %	25.4%	25.4%	25.8%	1bps	-34bps
Reported PAT	11,955	12,105	11,380	-1.24%	5.1%
MI & Associates	-46	-65	-38	-29.23%	21.1%
Consolidated PAT	11,909	12,040	11,342	-1.09%	5.0%
PAT Margin %	18.5%	19.2%	19.0%	-70bps	-47bps
EPS (INR)	32.9	33.3	31.0	-1.08%	6.2%

Source: Arian Research, Company Filings

Q2FY25 Conference Call Highlights

Demand: The demand environment has remained consistent since Q1, apart from specific client issues. Discretionary spending levels are unchanged. The BFSI vertical shows signs of recovery.

Clients are focusing on cost efficiency deals, with demand for discretionary projects yielding low immediate returns remaining subdued.

BFSI: U.S. financial institutions are committed to maintaining growth momentum amid recent Fed rate cuts. The pipeline for large transformational deals in BFSI remains strong.

Retail: Clients are adopting a cautious approach due to macroeconomic and geopolitical risks.

Manufacturing: The sector faces near-term challenges from labor and supply issues in auto and aerospace, though overall demand remains robust.

Lifesciences: Client-specific challenges in the U.S. are expected to stabilize by Q3, with growth anticipated in Q4. A client has reduced scope, leading to revenue decline.

GenAI: Deal wins are doubling each quarter, with a strong pipeline. GenAI engagements rose to 600 in Q2 from 275 in Q1.

- 86 engagements went into production in Q2, up from 8 in Q1.

- Easing inflation in major markets and positive expectations for the upcoming holiday season signal optimism for improved discretionary spending.

- Deal closure times have slightly increased, but demand remains steady.

- North America, Europe, and the UK are seeing solid growth in banking; capital markets are weak while insurance is growing well.

- A specific customer issue in the UK's BFSI sector does not reflect a broader environmental challenge.

- Supply chain issues in the auto and aerospace manufacturing sectors are affecting demand but are expected to be temporary, with demand anticipated to rise in future quarters.

Margin: Higher third-party expenses related to ongoing transformations impacted margins by -60 bps, while investments in talent and infrastructure resulted in a -70 bps impact, offset by favorable currency movements and the absence of one-time effects from Q1. The goal is to reach a 26% margin as soon as possible, with aspirations to exit FY25 at this level, although no specific timeline was provided.

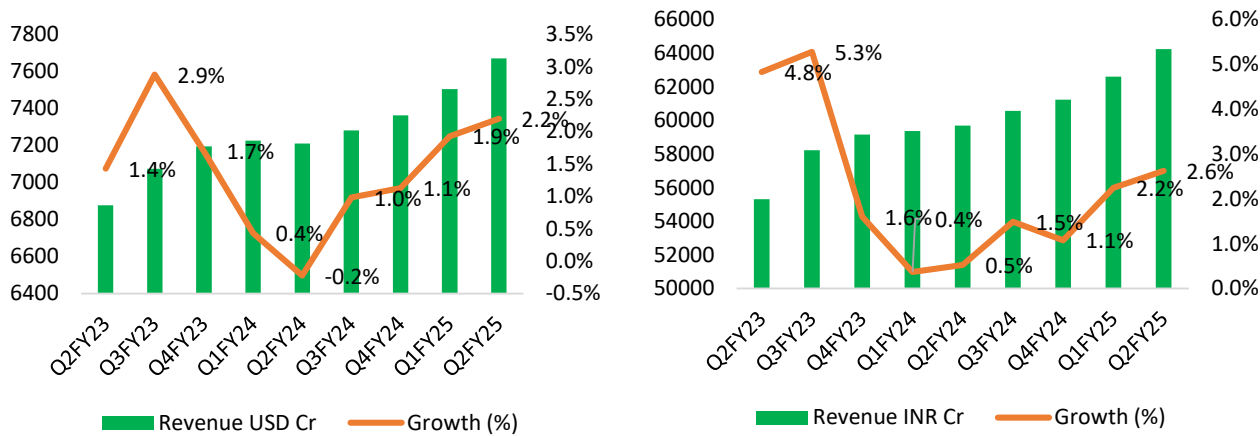
Deal: The deal pipeline is at an all-time high across all geographies and verticals.

Revenue: Confidence is strong that revenue will improve from Q4 onwards as macroeconomic conditions stabilize and client-specific challenges diminish.

Geography: North America's BFSI sector has seen widespread growth. Growth markets experienced higher-than-average company growth.

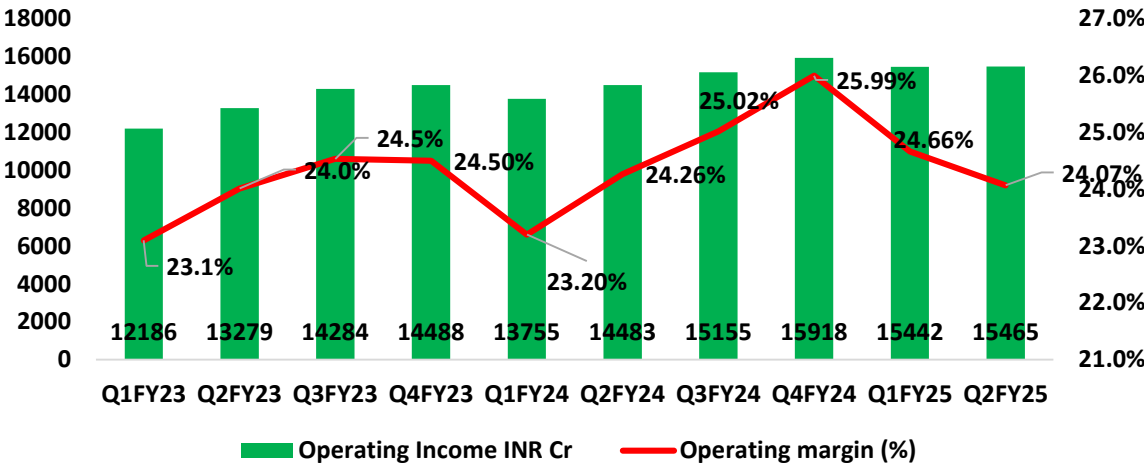
Furloughs in Q3 are expected to mirror last year's levels.

Exhibit 3: Decent Growth in line with estimates



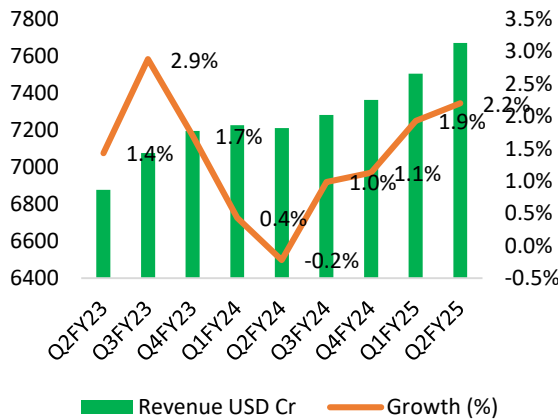
Source: Arihant Research, Company Filings

Exhibit 4: Margin expansion driven by cost optimization and reduced discretionary expenses.



Source: Arihant Research, Company Filings

Exhibit 5: Trend of Net margin sequentially



Source: Arihant Research, Company Filings

Exhibit 6: Total Employee Base has increased

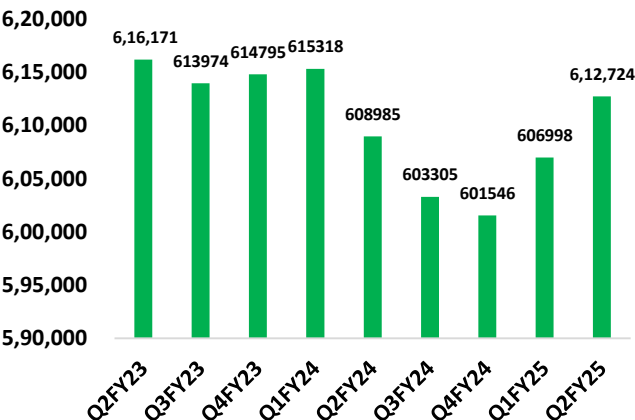


Exhibit 7: Operating Metrics

TCS OPERATING METRICS	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Revenue Distribution by Geography - New Classification						
Americas	54.0%	53.7%	52.7%	52.0%	51.4%	49.4%
North America	52.0%	51.7%	50.6%	50.0%	49.5%	47.6%
Latin America *	2.0%	2.0%	2.1%	2.0%	1.9%	1.8%
Europe	31.3%	31.4%	31.4%	31.4%	31.3%	31.6%
UK	16.4%	16.5%	16.4%	16.8%	16.9%	17.0%
Continental Europe	14.9%	14.9%	15.0%	14.6%	14.4%	14.6%
India	4.9%	4.9%	6.1%	6.7%	7.5%	8.9%
Asia Pacific	7.8%	7.8%	7.8%	7.8%	7.8%	8.0%
MEA	2.0%	2.2%	2.0%	2.1%	2.0%	2.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Revenue Distribution by Industry Domain	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
BFSI	32.5%	32.6%	31.7%	31.3%	30.9%	30.8%
Consumer Business	16.1%	15.9%	15.7%	15.7%	15.4%	15.1%
Communication & Media	7.0%	6.9%	6.7%	6.6%	6.2%	5.9%
Manufacturing	8.3%	8.5%	8.6%	8.8%	8.8%	8.6%
Life Science & Healthcare	11.0%	10.9%	10.9%	10.9%	11.0%	10.4%
Energy & Utilities	5.5%	5.6%	5.7%	5.6%	5.6%	5.7%
Technology & Services	8.6%	8.6%	8.4%	8.2%	8.1%	8.0%
Regional Markets & Others	11.0%	11.0%	12.3%	12.9%	14.0%	15.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Currency Mix (% of Revenue)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
USD	56.92%	56.92%	56.37%	54.94%	53.96%	53.96%	51.94%	51.50%	49.32%
GBP	12.29%	12.29%	12.69%	13.56%	14.34%	14.34%	14.67%	14.63%	14.86%
EUR	10.31%	10.31%	10.64%	11.07%	11.12%	11.12%	11.18%	11.02%	11.15%
OTHERS	20.48%	20.48%	20.30%	20.43%	20.58%	20.58%	22.21%	22.85%	24.67%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Average Realized Rates in INR	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
USD	80.42	80.42	82.3	82.23	82.79	83.21	83.16	83.43	83.78
GBP	92.46	92.46	98.05	100.4	103.81	104.24	105.13	105.43	110.23
EUR	79.86	79.86	85.06	88.44	89.53	90.06	90.07	89.71	92.41
Clients Contribution - New Classification	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
USD 1 mn clients *	1210	1217	1217	1241	1272	1272	1294	1310	1307
USD 5 mn clients *	650	658	658	665	688	688	693	697	710
USD 10 mn clients *	455	456	456	461	483	483	487	486	491
USD 20 mn clients *	283	290	290	291	292	292	301	300	298
USD 50 mn clients *	124	130	130	133	137	137	139	140	136
USD 100 mn clients *	59	59	59	60	61	61	62	63	66

* Last Twelve Months' services revenues; includes clients in India

TCS EMPLOYEE METRICS	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Total Headcount	6,16,171	6,13,974	6,14,795	6,15,318	6,08,985	6,03,305	6,01,546	6,06,998	6,12,724
Number of Nationalities of associates									
% of Women associates	35.80%	35.70%	35.70%	35.70%	35.80%	35.70%	35.60%	35.50%	35.50%

Source: Arianth Research, Company Filings

Key Financials

Income Statement (INR Cr)				
Year End-March	FY24	FY25E	FY26E	FY27E
Revenues (US\$ mn)	29,080	31,072	33,406	35,282
<i>Change (%)</i>	4.1%	6.9%	7.5%	5.6%
Revenues	2,40,893	2,57,405	2,82,014	3,01,811
<i>Change (%)</i>	6.8%	6.9%	9.6%	7.0%
Employee costs	1,40,131	1,44,147	1,57,928	1,69,316
Operation and other expenses	1,76,597	1,86,748	2,04,319	2,18,964
Total Operating Expenses	3,16,728	3,30,895	3,62,246	3,88,279
Depreciation	4,985	5,068	4,974	4,587
EBIT	59311	65590	72721	78260
EBIT Margin (%)	24.6%	25.5%	25.8%	25.9%
Interest	778	779	780	780
Other Income	4,422	5,749	7,473	9,715
PBT	62,955	70,560	79,414	87,195
Exceptional Items	958.00	-	-	-
PBT after exceptional Items	61,997	70,560	79,414	87,195
Tax	15,898	17,922	20,171	22,147
<i>Rate (%)</i>	25.8%	25.4%	25.4%	25.4%
PAT	46,099	52,637	59,243	65,047
Non-controlling interest	-191	-165	-165	-165
Consolidated PAT	45,908	52,472	59,078	64,882
<i>PAT Margin (%)</i>	19.1%	20.4%	21.0%	21.6%

Balance Sheet (INR Cr)				
Year End-March	FY24	FY25E	FY26E	FY27E
Sources of Funds				
Share Capital	362	362	362	362
Reserves & Surplus	90,127	98,797	1,10,816	1,19,588
Non controlling interest	830	830	830	830.00
Total Equity	91,319	99,989	1,12,008	1,20,780
Deferred Tax Liability (Net)	977	977	977	977
Capital Employed	1,00,345	1,09,040	1,21,096	1,29,898
Application of Funds				
Gross Block	35,969	40,671	45,654	51,249
Less: Depreciation	26,593	31,621	37,224	43,475
Net Block	9,376	9,050	8,430	7,774
CWIP	1,564	1,564	1,564	1,564
Financial Assets	12,016	10,705	10,924	11,100
Investments	281	300	329	352
Inventories	28	26	29	31
Sundry debtors	53,577	55,007	60,266	64,497
Cash and bank	13,286	19,431	22,040	35,763
Other Current Assets	14,612	17,441	19,773	21,579
Total Current assets	1,12,984	1,25,545	1,38,962	1,61,312
Total Current liabilities	46,104	48,974	49,988	52,423
Net Current assets	66,880	76,571	88,974	1,08,888
Capital Employed	1,00,345	1,09,040	1,21,096	1,29,898

Source: Arihant Research, Company filings

Key Financials

Cash Flow Statement (INR Cr)

Year End-March	FY24	FY25E	FY26E	FY27E
Profit for the Year	46,099	52,637	59,243	65,047
Depreciation	4,985	5,068	4,974	4,587
Finance Costs	778	779	780	780
Operating Profit before WC Changes	63,709	72,846	81,608	89,002
Operating Profit after WC Changes	56,827	76,408	87,203	95,044
Direct Taxes Paid & Exceptional Items	-12,489	-17,922	-20,171	-22,147
Cash Flow from Operating Activities	44,338	58,486	67,032	72,896
Cash Flow from Investing Activities	6,026	-1,795	-14,889	-587
Cash Flow from Financing Activities	-48,536	-46,276	-49,535	-58,585
Net Change in Cash & Cash Equivalents	1,828	10,415	2,608	13,724
Opening Cash & Cash Equivalents	7,123	9,016	19,431	22,040
Closing Cash & Cash Equivalents	9016	19431	22040	35763

Key Ratios

Year End-March	FY24	FY25E	FY26E	FY27E
Per share (INR)				
EPS	128.9	145.0	163.2	179.2
BVPS	249	276	309	334
Valuation (x)				
P/E	33.0	29.3	26.1	23.7
P/BV	16.9	15.4	13.7	12.7
Return ratio (%)				
EBITDA Margin	26.7%	26.3%	26.7%	27.5%
EBIT Margin	24.6%	25.5%	25.8%	25.9%
PAT Margin	19.1%	20.4%	21.0%	21.6%
ROE	50.3%	52.5%	52.7%	53.7%
ROCE	48.2%	48.9%	48.4%	48.3%
Leverage Ratio (%)				
Total D/E	0.1	0.1	0.1	0.1
Turnover Ratios				
Asset Turnover (x)	26.1	29.5	34.8	38.8
Inventory Days	5	5	5	5
Receivable Days	78	78	78	78

Source: Arihant Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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