



**Strong Digital Demand!!**

19<sup>th</sup> April, 2017

**CMP:** Rs.2,308  
**Target Price:** Rs.2,505  
**Recommendation:** HOLD

**Stock Info**

BSE Group	A
BSE Code	532540
NSE Symbol	TCS
Bloomberg	TCS.IN
Reuters	TCS.BO
BSE Sensex	29,293
NSE Nifty	9,094

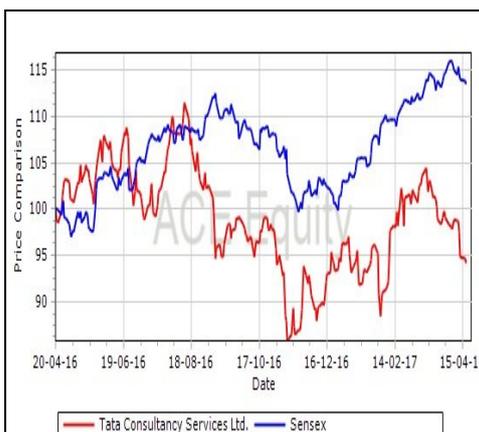
**Market Info**

Market Capital	Rs.450,439,cr
Equity Capital	Rs.197.0cr
Avg. Trading Vol.	12,86,980
52 Wk High/ Low	2744/2051
Face Value	Rs.1

**Shareholding Pattern (%) Dec (2016)**

Promoters	73.3
Domestic Institutions	5.4
Foreign Institutions	17.0
Public & Others	4.3

**Price VS Sensex Chart**



■ **Dollar Revenue increased by 1.5% QoQ, and 5.8% YoY:**

TCS has delivered a steady set of numbers with increase in revenue by 1.5% qoq to \$4,452 mn. Rupee revenues decreased by 0.3% qoq to Rs. 29,642 cr. LTM attrition down further QoQ to 10.5% in IT services. Digital revenues at 15.5% in Q4 were driven by demand for business agility. Operating Income stood at Rs7,627 crore; Growth of 3.0% Y-o-Y and declined by 1.4% Q-o-Q. Operating Margin stood at 27.4%.

■ **Segmental share remains fairly stable:**

Revenue mix among verticals more or less remained stable with BFSI and Retail & Distribution segments contributing 40.9% and 14.1% to the top line. Manufacturing segment's share in total revenues was marginally decreased to 10.4% from 10.6%. Major geographical share remained more or less stable with share of North America, UK and Continental Europe at 54.0%, 14.9% and 11.2% respectively.

■ **Operating profits:**

Management indicated a payout of 80% of the FCF, going ahead (as compared to 76% in the last 4 years.) While BFSI is expected to improve slightly on improving deal pipeline for TCS going ahead. Company has recorded an operating profit of Rs 7,627 cr. EBIT margin during the quarter stood at 25.7% vs 26.01% QoQ. EBITDA margin during the quarter stood constant at 27.40% vs 27.70%. PAT reported during the quarter was at 6,622 cr.

■ **Key Wins in Digital Services and Solutions in Q4**

- Selected by a large global financial company to provide end-to-end ADM services.
- Selected by India's large public sector General Insurance Company for its technology transformation engagement to enable faster decision making and quick time to market.
- Chosen by a North American retailer to optimize supplier collaboration systems using Artificial Intelligence.
- Chosen by North American industrial company to drive their cloud transformation strategy.
- Selected by a large global financial services company to provide end to end ADM services.

■ **Outlook:**

We believe that incoming of Rajesh gopinath as CEO will drive the TCS to new way and company will improve its performance with consistent client wins and cautious about global scenario. We are optimistic on company's transformation on digital platform. We have valued stock at P/E(x) of 15x to its FY19E earnings and have arrived at fair value of Rs 2,505 per share. We have 'HOLD' rating on the stock.

■ **Financials:**

Y/E March (Rs. In Crore)	FY16	FY17	FY18E	FY19E
Net Revenue	108646	127362	146466	168436
Growth %	15%	17%	15%	15%
EBIDTA	30590	35155	37484	40483
EBIDTA Margin	28%	27.6%	28%	28%
Net Profit	24292	27034	29859	32248
Growth %	22%	11%	10%	8%
EPS	123	137	152	167
P/E	20.4	16.5	14.8	13.5
ROE	37.2	38.9	35.0	31.1

Source: Company data, Arianth Research



## Quarterly Results:

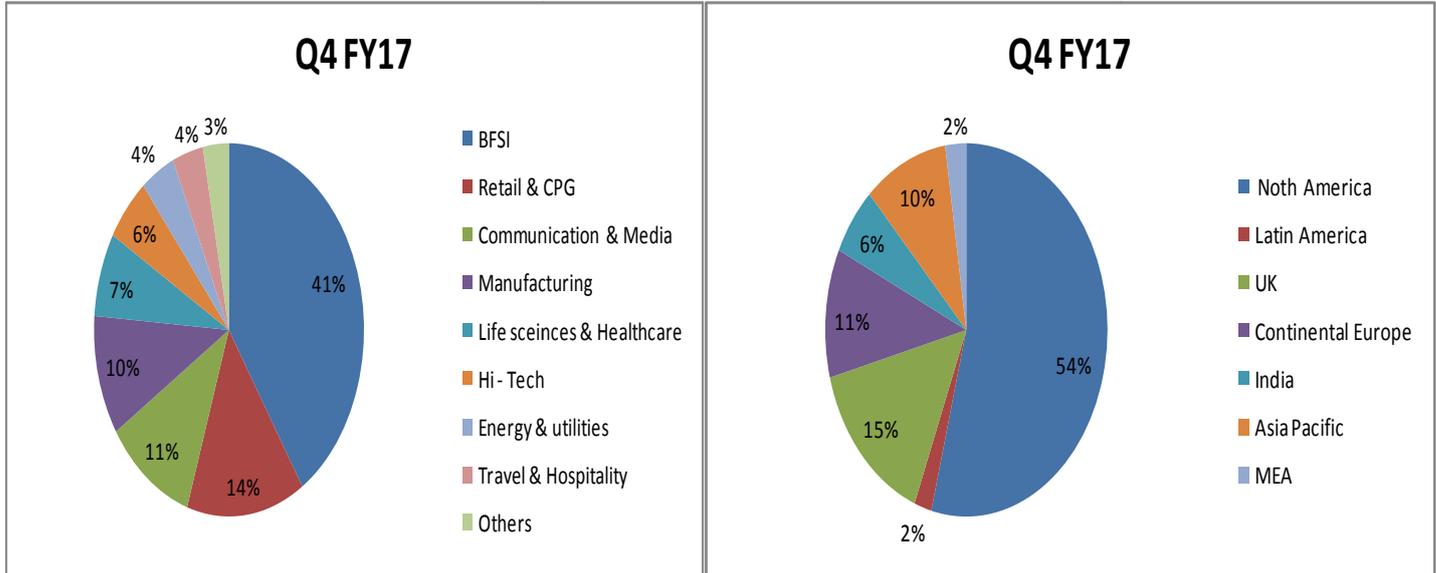
Particulars (Rs. Cr)	Q4FY17	Q3FY17	QoQ%	Q4FY16	YoY%
Information technology and consultancy services	29642	29735	-0.3%	28449	4%
Total Income	29642	29735		28449	
Employee cost	15692	15275		14423	
Gross Profit	13950	14460		14026	
Gross Margin%	47.1%	48.6%		49%	
Other expenses	5818	6231		6119	
EBITDA	8132	8229	-1.2%	7907	3%
EBITDA Margin	27.4%	27.7%		28%	
Depreciation	505	496		495	
EBIT	7627	7733	-1.37%	7412	3%
EBIT Margin	25.73%	26.01%		26%	
Interest	8	7	14.29%	10	-20%
Other Income	997	1192		915	
PBT	8616	8918	-3.39%	8317	4%
Tax paid	1994	2104		1970	
Effective tax rate%	23%	24%		24%	
Net Profit	6622	6814		6347	
EPS	33.61	34.58	-2.82%	32.21	4%

Source: Company data, Arihant Research



**Break-up of Markets**

**Domain Break-up**



**Currency Mix and Average Realized Rates in INR**

	Average Rates		% of Revenue	
	Q3FY17	Q4FY17	Q3FY17	Q4FY17
USD	67.78	66.58	58.21%	56.26%
GBP	83.79	82.87	11.40%	11.86%
EUR	72.18	71.1	7.92%	8.00%
Others			22.47%	23.88%
<b>Total</b>			<b>100%</b>	<b>100%</b>



Profit and Loss statement				
Particulars (Rs. In Crore)	FY16	FY17E	FY18E	FY19E
Information technology services	108646	123957	133873	144583
<b>Total</b>	<b>108646</b>	<b>127362</b>	<b>146466</b>	<b>168436</b>
Employee costs	41769	46368	49533	53496
Operation and other expenses	36287	45838	46856	50604
Total Operating Expenses	78056	92206	96389	104100
<b>EBIDTA</b>	<b>30590</b>	<b>35155</b>	37484	40483
EBIDTA Margin	28.2%	27.6%	28%	28%
Depreciation	1948	1995	2410	2602
EBIT	28642	33160	35075	37881
Interest	20	32	35	38
Other Income	3054	3677	4016	4337
<b>PBT</b>	<b>31676</b>	<b>36806</b>	39056	42181
Tax	7301	9569	8983	9702
Minority Interest & other	83	202	214	231
<b>PAT</b>	<b>24292</b>	<b>27034</b>	29859	32248
Growth (%)	22%	11%	10%	8%
<b>EPS</b>	<b>123.3</b>	<b>137.2</b>	152	167

Cash Flow Statement				
Particulars (Rs. In Crore)	FY16	FY17E	FY18E	FY19E
<b>Profit before taxes</b>	31676	38006	39056	42181
Add:- Depreciation	1948	1995	2410	2602
Change in Working Capital	-6592	-13445	11386	15607
Cash generated from operations	26968	26385	30080	29176
Taxes paid	-7301	-8654	-8983	-9702
Net cash flow from operating activities	17732	17832	21097	19475
Purchase of fixed assets	-2338	-2378	-990	-857
Others	818	1018	898	898
Net cash flow from investing activities	-2128	-1560	-1888	-1755
<b>Dividend paid, including dividend tax</b>	<b>-10425</b>	<b>-11908</b>	<b>-14000</b>	<b>-14000</b>
Other	-7500	-7900	-7600	-7600
Net cash used in financing activities	<b>-18635</b>	<b>-19408</b>	<b>-21600</b>	<b>-22500</b>
Net Cash Flow	-1096	-3236	6592	4921
<b>Opening Cash balance</b>	<b>18556</b>	<b>6785</b>	18948	25540
Closing Cash balance	6785	18948	25540	30461

Balance Sheet				
Particulars (Rs. In Crore)	FY16	FY17E	FY18E	FY19E
Shareholder's funds				
Share Capital	197	197	197	197
Reserves & Surplus	65164	69299	85159	103406
<b>Total</b>	<b>65361</b>	<b>69497</b>	85356	103603
Minority Interest	502	472	350	350
Total Non Current Liabilities	1546	1640	1707	2072
Total Current Liabilities	21976	14894	15364	18649
<b>Total Liabilities</b>	<b>89384</b>	<b>86503</b>	<b>102777</b>	<b>124674</b>
Net Block	9156	9720	10710	11567
Capital Work-in-Progress	3241	3561	4268	5180
Goodwill on consolidation	1901	1656	1707	2072
Total Non Current Assets	26317	25576	29995	33000
Cash and bank balance	6785	18948	25540	30461
Total Current Assets	63067	60927	72782	91674
<b>Total Assets</b>	<b>89384</b>	<b>86503</b>	<b>102777</b>	<b>124674</b>

Key Ratios				
Particulars	FY16	FY17E	FY18E	FY19E
EPS	123.3	137.2	152.5	167.1
Book Value	331.7	355.1	435.8	528.9
DPS	46	52	52	52
Payout %	37	38	34	31
Dividend Yield %	1.9	2.1	2.1	2.1
P/E	20.4	16.5	14.8	13.5
EBIDTA Margin	28%	28%	28%	28%
PBT Margin	29%	29%	27%	25%
PAT Margin	22%	22%	22%	22%
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	2.87	4.09	4.74	4.92
ROE	37.2	38.9	35.0	31.1

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**Stock Rating Scale**

	<b>Absolute Return</b>
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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