

Strong Digital Demand!!

19th 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

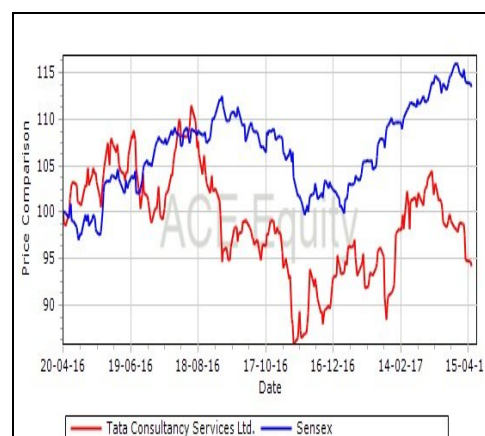
Market Info

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, Arihant Research



Quarterly Results:

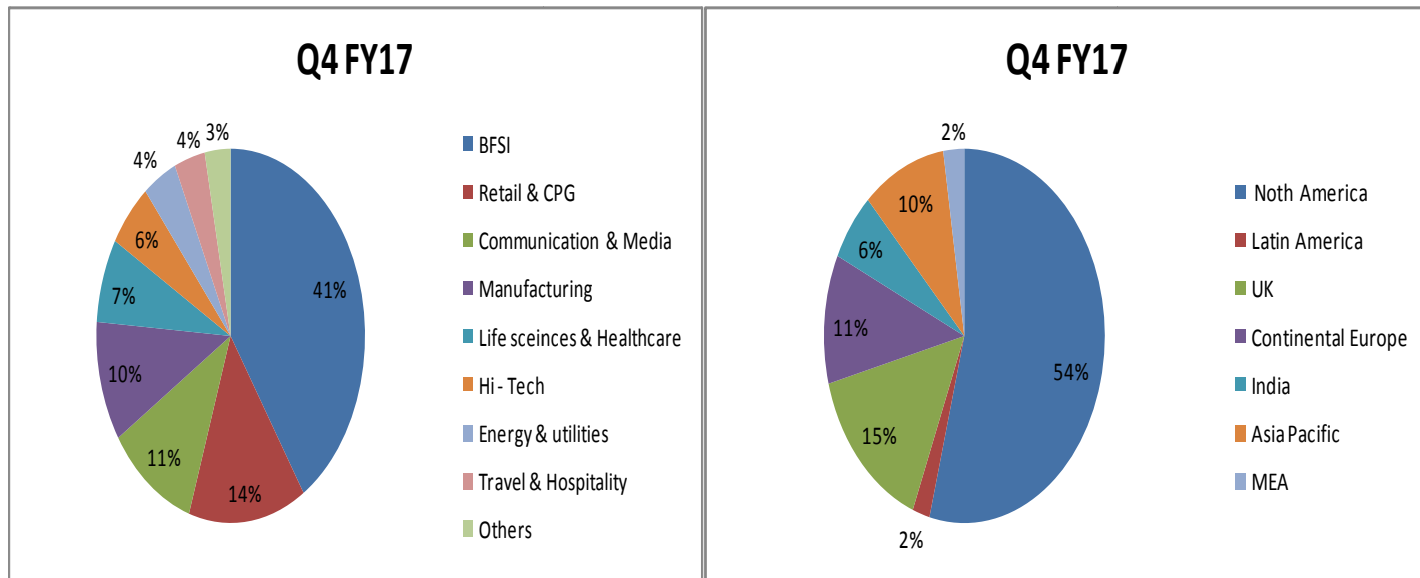
Particulars (Rs. Cr)	Q4FY17	Q3FY17	QoQ%	Q4FY16	YoY%
Information technology and consultancy services	29642	29735	-0.3%	28449	4%
Total Income	29642	29735		28449	
Employee cost	15692	15275		14423	
Gross Profit	13950	14460		14026	
Gross Margin%	47.1%	48.6%		49%	
Other expenses	5818	6231		6119	
EBITDA	8132	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%
Total			100%	100%



Profit and Loss statement

Particulars (Rs. In Crore)	FY16	FY17E	FY18E	FY19E
Information technology services	108646	123957	133873	144583
Total	108646	127362	146466	168436
Employee costs	41769	46368	49533	53496
Operation and other expenses	36287	45838	46856	50604
Total Operating Expenses	78056	92206	96389	104100
EBIDTA	30590	35155	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
PBT	31676	36806	39056	42181
Tax	7301	9569	8983	9702
Minority Interest & other	83	202	214	231
PAT	24292	27034	29859	32248
Growth (%)	22%	11%	10%	8%
EPS	123.3	137.2	152	167

Cash Flow Statement

Particulars (Rs. In Crore)	FY16	FY17E	FY18E	FY19E
Profit before taxes	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
Dividend paid, including dividend tax	-10425	-11908	-14000	-14000
Other	-7500	-7900	-7600	-7600
Net cash used in financing activities	-18635	-19408	-21600	-22500
Net Cash Flow	-1096	-3236	6592	4921
Opening Cash balance	18556	6785	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
Total	65361	69497	85356	103603
Minority Interest	502	472	350	350
Total Non Current Liabilities	1546	1640	1707	2072
Total Current Liabilities	21976	14894	15364	18649
Total Liabilities	89384	86503	102777	124674
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
Total Assets	89384	86503	102777	124674

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

**Arihant Research Desk**Email: research@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate park ,
Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road
Chakala, Andheri (E).
Mumbai – 400093
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

Arihant House
E-5 Ratlam Kothi
Indore - 452003, (M.P.)
Tel: (91-731) 3016100
Fax: (91-731) 3016199

Stock Rating Scale

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

Research Analyst Registration No.

INH000002764

Contact

SMS: 'Arihant' to 56677

Websitewww.arihantcapital.com**Email Id**research@arihantcapital.com**Disclaimer:**

This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

ARIHANT capital markets ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880