

Tata Consultancy Services

11 July 2018

Reuters: TCS.BO; Bloomberg: TCS IN

All Engines Firing; Extrapolation To Wider Industry Would Be A Mistake

TCS' QoQ constant currency (CC) revenue growth of 4.1% in 1QFY19 was above our estimate of 2.5% and the street's ~3.5%. Strong 250bps of cross-currency headwind (versus our/street expectation of 150bps) curtailed USD revenue growth to 1.6% in QoQ terms. This is the strongest 1Q performance that TCS has delivered since FY15. Growth has been broad-based with BFSI sector growing 3.7% in CC terms. If one were to include platform-related business in BFSI (deals in insurance), the growth was 5.6%. Platform revenues are a part of 'Regional Markets & Others'. After indicating 'green shoots' in large US banks during 4QFY18, TCS witnessed growth in them in 1QFY19, something we were skeptical of as TCS indicated that it had just been invited to bid for projects (see our [note](#)). All other parts of BFSI were already doing well including Europe, US regional banks, etc. TCS expects BFSI momentum to sustain in the medium term. With this we believe TCS will likely register very low double-digit growth in FY19 in CC terms. This does not mean that the entire sector is out of the woods. While demand has been strong, as indicated in our updates in the past 12 months especially if one looks at Accenture order inflow (see [note](#)), it was lack of capabilities which was constraining growth for players of Indian origin. We believe TCS' investments in re-skilling, platforms, automation tools, TCS interactive, 'location independent agile' process methodology, etc is finally showing up in the numbers and leading to market share gain. Digital grew 9% QoQ in CC terms (45% YoY) and formed 25% revenues. EBIT margin of 25% (a drop of 40bps on QoQ basis) was above our expectation of 23.7%. The margin improvement, despite large cross-currency and salary headwinds (180bps came from salary alone), indicates very strong operational efficiency brought to bear during the quarter. This is where its 'location-independent agile' process that it has fine tuned and patented over the past four to five years (something we highlighted in our recent updates) has likely played a large role. Similarly, there seems to have been gains from automation and tight control over SG&A expenses. It appears that EBIT margin will improve through FY19 and is likely to go back into the 26%-28% aspiration band that TCS had talked about for a long time but has not been able to deliver for the past two years. EBIT margin improved partly because of growth coming back and partly because of operating efficiency and INR depreciation. Post strong 1QFY19, we have increased our USD revenue estimates by ~1% for each of FY20/FY21 and also increased our margin estimates slightly. This has led to an upgrade in our EPS estimates for FY20 and FY21 by about ~3% each. We have retained our Accumulate rating on TCS with a revised March 2019 target price of Rs1,862 (at a target P/E of 20.4x FY20E EPS, +1SD over the mean P/E multiple for the past five years). We like TCS from a growth perspective, but we believe the current valuation already captures that. While organic business momentum is not exactly great for them, we prefer Wipro and HCL Technologies on valuation.

TCS announces TCV number for the first time: TCS stated that overall TCV for order inflow in 1QFY19 was US\$4.9bn indicating a book-to-bill ratio of slightly less than 1. This TCV is inclusive of both new and renewal deals. This ratio was indicated to be in line with historical data, though it did not provide the same. 4QFY18 apparently witnessed highest ever order inflow in its history. TCS' book-to-bill ratio seems to be in line with that seen by Accenture, but significantly better than that of Infosys whose ratio was a poor 1:3 in FY18 (not sure whether we are comparing apples and oranges here). Out of the above TCV for BFSI amounting to US\$1.6bn, Retail and CPG share stood at US\$750mn. Geographically, US\$2.7bn of TCV came from North America. A lot of deal wins were on account of projects relating to core transformation.

Y/E March (Rsmn)	1QFY18	4QFY18	1QFY19	YoY (%)	QoQ (%)	1QFY19E	Deviation (%)
Net Sales (USD mn)	4,591	4,972	5,051	10.0	1.6	5,020	0.6
Net Sales	295,840	320,750	342,610	15.8	6.8	336,832	1.7
Software Expenses	172,910	185,240	200,830	16.1	8.4	200,337	0.2
% of Sales	58.4	57.8	58.6	-	-	59.5	-
Gross Margin	122,930	135,510	141,780	15.3	4.6	136,495	3.9
% of Sales	41.6	42.2	41.4	-	-	40.5	-
Operating Expenses	53,790	54,040	56,000	4.1	3.6	56,774	(1.4)
% of Sales	18.2	16.8	16.3	-	-	16.9	-
EBIT	69,140	81,470	85,780	24.1	5.3	79,721	7.6
EBIT Margin (%)	23.4	25.4	25.0	-	-	23.7	-
Other Income	9,320	9,820	12,080	29.6	23.0	11,887	1.6
PBT	78,460	91,290	97,860	24.7	7.2	91,608	6.8
Provision for Tax	18,960	22,040	24,240	27.8	10.0	22,444	8.0
Effective Tax Rate	24.2	24.1	24.8	-	-	24.5	-
Minority share in Profit / Loss	50	210	220	340.0	4.8	210	4.8
PAT (Reported)	59,450	69,040	73,400	23.5	6.3	68,954	6.4
NPM (%)	20.1	21.5	21.4	-	-	20.5	-

Source: Company, Nirmal Bang Institutional Equities Research

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ACCUMULATE

Sector: Information Technology

CMP: Rs1,876

Target price: Rs1,862

Downside: 1%

Girish Pai

Head of Research

girish.pai@nirmalbang.com

+91-22-6273 8017

Key Data

Current Shares O/S (mn)	3,828.6
Mkt Cap (Rsbn/US\$bn)	7,179/104.3
52 Wk H / L (Rs)	1,930/1,188
Daily Vol. (3M NSE Avg.)	4,472,611

Price Performance (%)

	1 M	6 M	1 Yr
TCS	7.2	34.4	51.5
Nifty Index	1.5	2.8	11.9

Source: Bloomberg

Exhibit 1: Key financials

Y/E March (Rsbn)	FY17	FY18	FY19E	FY20E	FY21E
Revenue (Rsbn)	1,180	1,231	1,439	1,610	1,686
YoY Growth %	8.6	4.4	16.9	11.9	4.7
EBIT (Rsbn)	303	305	371	419	424
% of sales	25.7	24.8	25.8	26.0	25.2
PAT (Rsbn)	263	258	316	343	355
YoY Growth %	8.6	(1.8)	22.2	8.5	3.7
FDEPS (Rs)	66.7	67.0	83.3	91.3	94.7
RoE (%)	32.4	29.3	36.6	36.3	31.0
RoCE (%)	33.7	30.7	36.8	37.9	32.3
RoIC (%)	60.8	57.3	62.5	64.6	63.0
P/E (x)	28.1	28.0	22.5	20.5	19.8
P/BV (x)	8.1	8.2	8.5	6.9	5.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in our estimates

	New			Old			Change (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
INR/USD	68.8	71.5	75.0	68.6	71.5	75.0	0.3	-	-
USD Revenue (USD mn)	20,894	22,511	22,475	20,935	22,361	22,325	(0.2)	0.7	0.7
Revenue (Rsbn)	1,439	1,610	1,686	1,437	1,599	1,674	0.1	0.7	0.7
EBIT (Rsbn)	371	419	424	365	407	412	1.6	3.0	3.1
EBIT Margin (%)	25.8	26.0	25.2	25.4	25.5	24.6			
PAT (Rsbn)	316	343	355	311	333	345	1.5	2.8	2.9
FDEPS (Rs)	83.3	91.3	94.7	82.1	88.8	92.0	1.4	2.8	2.9

Source: Company, Nirmal Bang Institutional Equities Research

View on the sector: We turned '**tactically positive**' on Indian IT services sector in March 2018 after having been negative on it for close to three years (see the report [here](#)). This change in stance has been driven by: (1) A modest growth pick-up because of a peaking developed market economic cycle in 2018 that has also been boosted by US tax reforms. (2) Large underweight institutional positioning in the sector. (3) Near-term negative news flow on 'financials' (a large overweight sector for institutions). (4) Better relative valuation (which is no longer as compelling as it was six months ago). When we upgraded the sector 80% of the upward revision in Target prices was due to P/E multiple expansion and only 20% had come revision in earnings. However after a highly anaemic INR depreciation versus the USD of 1.7% over FY15-FY18 (against a long-term annual depreciation of 5%-6% over the past 70 years), we believe that INR will start depreciating at its long-term rate (at the least) in the next three years- FY18-FY21. Thus, while we believe that revenue growth for the sector in USD terms will still be in the mid single-digit territory in the foreseeable future, earnings growth will likely pick up pace to mid-teen level over this time frame from a mid-single digit number between FY15-FY18 (see our [note](#) on upgrade of numbers due to INR depreciation). The higher P/E multiple will be supported by a rebound in earnings growth, return ratios and high return of capital to shareholders. Structural pressures that we have been harping on since April 2015 will continue to constrain revenue growth for the industry. These include value compression and cannibalisation from automation (which is reaching enterprise scale, in our view, countering upside from digital projects which are also scaling up) and movement to cloud, and a weaker but improving competitive position in 'new areas', insourcing, etc. These pressures have led to growth pick-up being pushed back to the last stage of this economic upcycle. The street is anticipating a uniform pick-up in growth over FY18-FY21E across Tier-1 companies. We disagree and believe that growth will be dispersed in FY19. In our coverage universe, we believe only TCS will witness any material pick-up in organic revenue growth in the Tier-1 space. Contrary to consensus expectations, we expect Infosys to disappoint on the growth front in FY19. We prefer large-caps over mid-caps at current valuations. Mid-caps may witness faster growth pick-up on a low base in FY19 (and from bombed-out margins in some cases), but would advise investors to focus on sustainability and not overpay for a riskier business model. Current valuations of mid-cap stocks factor in strong growth over a two to three-year time frame - which we believe is unlikely. Support will be provided by aggressive capital return policies of many companies in the medium term.

Exhibit 3: Vertical-based CC QoQ and YoY revenue growth in 1QFY19

Vertical	Contribution to revenues (%)	CC growth-QoQ (%)	CC growth-YoY (%)
BFSI	31.1	3.7	4.1
Manufacturing	7.3	2.3	6.9
Communication and Media	7.1	5.1	9.5
Life Science and Healthcare	7.3	4.3	12.1
Retail and CPG*	16.6	3.6	12.7
Technology and Services	7.7	2.4	6.7
Energy and Utilities	4.8	5.2	30.9
Regional Market & Others	18.1	5.9	11.8
Total	100.0	4.1	9.3

*Retail and CPG includes Travel and Hospitality due to reclassification and hence does not reflect the actual growth
 Source: Nirmal Bang Institutional Equities Research

Exhibit 4: Geography- based CC QoQ and YoY revenue growth in 1QFY19

Geography	Contribution to revenues (%)	CC growth-QoQ (%)	CC growth-YoY (%)
North America	51.0	3.7	7.0
Latin America	1.9	2.6	5.2
UK	15.5	8.2	18.7
Continental Europe	14.0	5.3	18.6
India	5.8	(1.0)	(4.7)
APAC	9.6	3.6	10.8
MEA	2.2	(4.6)	(3.6)
Total	100.0	4.1	9.3

Source: Nirmal Bang Institutional Equities Research

1QFY19 analyst call highlights

US BFSI space back to growth path

- The BFSI vertical grew 3.7%/4.1% on QoQ/YoY basis, respectively, in 1QFY19 in CC terms. The management stated that growth came in from all geographies in the vertical and from all types of customers. It stated that North America BFSI has finally started to recover. Large US Banks which had been a problem area also was indicated to have recovered. As regards Europe, the growth momentum continued. The management stated that growth in Europe came from: (1) Projects on “Change the business” part of existing clients, (2) Winning market share in Europe. It stated that the growth came in because of the differential positioning it enjoys due to its Business 4.0 framework. The management sounded positive on the medium-term growth visibility in the BFSI space.

Digital revenues grow faster at ~45% YoY

- TCS delivered strong ~45% YoY revenue growth in digital (CC terms) in FY18, which contributed 25% overall revenues in 1QFY19. The management sounded positive on the prospects for digital and expects it to be the future growth driver and a margin lever which will help it reach the band of 26%-28%. The management highlighted that digital deal sizes are increasing.
- It was indicated that a lot of digital revenues were coming in from its existing clients rather than new ones. The management also stated that it witnessed good traction in enterprise systems converting to cloud.

Ignio is becoming a critical element of its wins and a lot of pilots are being executed towards implementing block chain

- The management stated that cognitive automation software, Ignio, is faring well as customers begin to take on a more holistic approach to automation which involves shifting from robotic automation to intelligent automation. TCS stated that Ignio won seven new clients in 1QFY19.
- The management stated that TCS was witnessing a lot of initiatives from clients towards implementing block chain. As a result of this, a lot of pilots around the block chain technology are being implemented currently. It stated that TCS was in an advance stage discussion of implementing a full- fledged block chain technology project in the Indian business of one of its auto clients for bill discounting.

Strong operating margin despite a seasonally weak quarter

- EBIT margin in 1QFY19 stood at 25%, which is a decline of 40bps on QoQ basis and an expansion of ~165bps on YoY basis. The company posted such strong margins despite 1QFY19 witnessing wage hikes and almost 250bps of cross-currency headwind. The factors that had an impact on margins in 1QFY19 are: (1) Wage hike had a (180bps) impact. (2) Efficiency in business operations (increase in employee productivity) favourably impacted the margins by 70bps. (3) INR depreciation had a favourable impact on margin by another 70bps. With respect to net income margin, higher other income in 1QFY19 helped. The management stated that it was confident of achieving its EBIT margin guidance of 26%-28% as it has been able to offset the headwinds in the first quarter of the fiscal itself when normally it used to take longer.

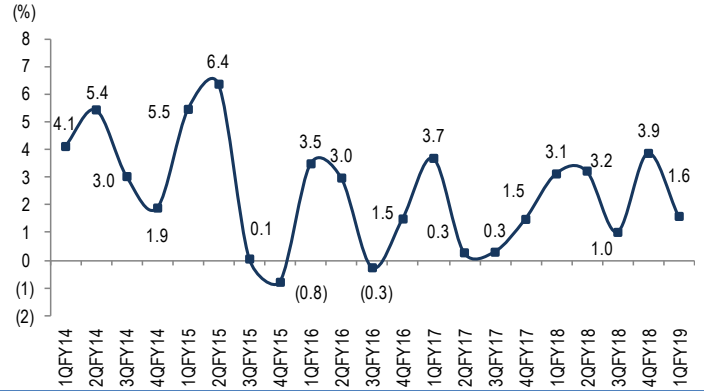
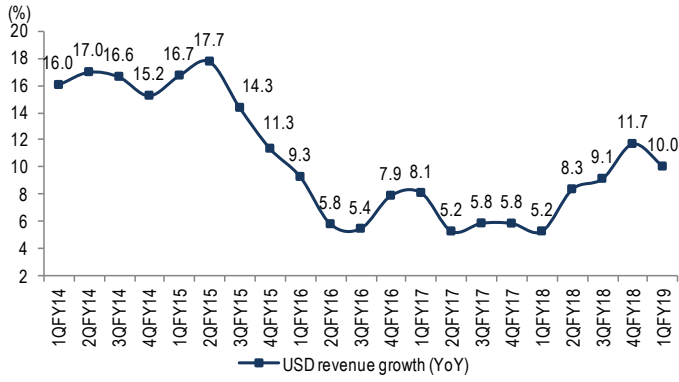
Organic growth is the way forward, acquisitions unlikely

- The management stated that it was open to looking at opportunities available to acquire niche players, if any. However, it stated that its key focus is to grow organically through up-skilling and re-skilling.

Miscellaneous

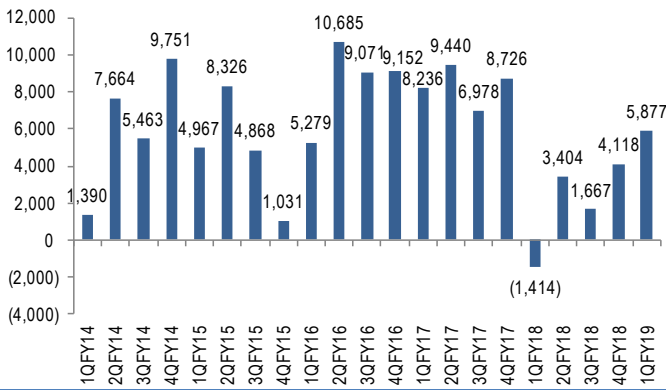
- TCS reported LTM attrition rate (including BPS) of 11.7% versus 11.8% in 4QFY18, while IT services attrition rate was 10.9%.
- TCS added 5,877 net employees during the quarter. Total employee count for the company stood at 4,00,875. The net addition is inclusive of freshers, lateral hires and those that have been rebadged from some of the large deals that it has done. On the talent development front, 264,000+ employees have been Digital-trained and 242,000+ Agile-trained.
- 2 clients were added in US\$100mn+ and 5/13/15 clients added in US\$10mn+/US\$5mn+/US\$1mn+ buckets, respectively, in 1QFY19.
- TCS has declared an interim dividend of Rs4/share in 1QFY19. The management stood by its target of returning 80%-100% of free cash flow or FCF to the shareholders.

Exhibit 5: USD revenue growth affected by cross-currency headwind



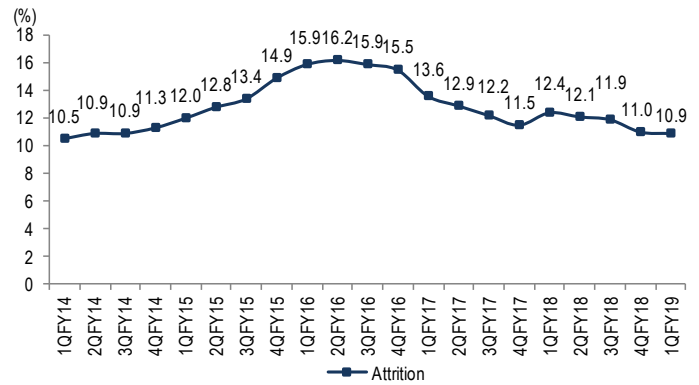
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Employee addition picks up



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Attrition rate is under control (%)



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Quarterly snapshot

Year to 31 March (Rsmn)	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
INR/USD	63.5	65.4	66.0	67.6	67.2	67.0	67.8	66.6	64.4	64.5	64.6	64.5	67.8
Revenue (USDmn)	4,036	4,156	4,145	4,207	4,362	4,374	4,387	4,452	4,591	4,739	4,787	4,972	5,051
Revenue	256,681	271,655	273,640	284,486	293,050	292,840	297,350	296,420	295,840	305,410	309,040	320,750	342,610
Gross margin	112,002	120,154	121,446	123,864	125,030	127,500	128,570	129,690	122,930	129,300	130,420	135,510	141,780
EBIT	67,484	73,535	72,762	74,119	73,470	76,170	77,330	76,270	69,140	76,600	77,810	81,470	85,780
Other income	7,711	6,751	6,990	9,051	9,630	10,520	11,850	9,890	9,320	8,120	8,640	9,820	12,080
PBT	75,195	80,286	79,753	83,170	83,100	86,690	89,180	86,160	78,460	84,720	86,450	91,290	97,860
Tax	17,468	19,356	18,501	19,702	19,920	20,660	21,040	19,940	18,960	20,120	21,000	22,040	24,240
PAT	57,089	60,552	61,095	63,412	63,170	65,860	67,780	66,080	59,450	64,460	65,310	69,040	73,400
Number of shares	-	-	-	-	3,941	3,941	3,941	3,941	3,941	3,829	3,829	3,829	3,829
EPS	-	-	-	-	16.0	16.7	17.2	16.8	15.1	16.8	17.1	18.0	19.2
YoY Growth (%)													
USD Revenue	9.3	5.8	5.4	7.9	8.1	5.2	5.8	5.8	5.2	8.3	9.1	11.7	10.0
INR Revenues	16.1	14.1	11.7	17.5	14.2	7.8	8.7	4.2	1.0	4.3	3.9	8.2	15.8
Gross profit	13.5	13.6	10.6	15.9	11.6	6.1	5.9	4.7	-1.7	1.4	1.4	4.5	15.3
EBIT	16.1	15.0	9.8	12.5	8.9	3.6	6.3	2.9	-5.9	0.6	0.6	6.8	24.1
Net profit	12.9	14.5	12.2	7.4	10.7	8.8	10.9	4.2	-5.9	-2.1	-3.6	4.5	23.5
QoQ Growth (%)													
USD Revenues	3.5	3.0	(0.3)	1.5	3.7	0.3	0.3	1.5	3.12	3.22	1.01	3.86	1.59
INR Revenues	6.0	5.8	0.7	4.0	3.0	(0.1)	1.5	(0.3)	(0.2)	3.2	1.2	3.8	6.8
EBIT	2.4	9.0	(1.1)	1.9	(0.9)	3.7	1.5	(1.4)	(9.3)	10.8	1.6	4.7	5.3
Net profit	(3.3)	6.1	0.9	3.8	(0.4)	4.3	2.9	(2.5)	(10.0)	8.4	1.3	5.7	6.3
Margins (%)													
Gross margin	43.6	44.2	44.4	43.5	42.7	43.5	43.2	43.8	41.6	42.3	42.2	42.2	41.4
EBIT	26.3	27.1	26.6	26.1	25.1	26.0	26.0	25.7	23.4	25.1	25.2	25.4	25.0
PAT	22.2	22.3	22.3	22.3	21.6	22.5	22.8	22.3	20.1	21.1	21.1	21.5	21.4
SGA	17.3	17.2	17.8	17.5	17.6	17.5	17.2	18.0	18.2	17.3	17.0	16.8	16.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Key metrics

	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
P and L (Rsmn)													
Revenue	256,681	271,655	273,640	284,486	293,050	292,840	297,350	296,420	295,840	305,410	309,040	320,750	342,610
EBITDA	67,484	73,535	72,762	74,119	73,470	76,170	77,330	76,270	69,140	76,600	77,810	81,470	85,780
PAT	57,089	60,552	61,095	63,412	63,170	65,860	67,780	66,080	59,450	64,460	65,310	69,040	73,400
Vertical Mix (%)													
BFSI	40.6	40.5	40.5	40.9	33.3	33.6	33.9	32.9	32.9	33.0	32.1	31.5	31.1
Manufacturing	9.9	9.8	9.9	10.4	7.3	7.3	7.4	7.4	7.5	7.5	7.6	7.4	7.3
Communication and Media	11.1	10.8	10.9	10.8	7.0	7.2	6.7	7.2	7.3	7.3	7.4	7.4	7.1
Life Sciences	6.9	7.0	7.3	7.3	6.8	7.0	6.9	6.9	7.1	7.2	7.3	7.2	7.3
Retail & Distribution	13.8	13.8	13.8	14.1	13.5	13.0	13.0	12.3	12.2	11.9	12.5	12.3	16.6
Hi-Tech	5.8	5.9	6.0	5.6	7.8	7.7	7.8	7.8	7.9	8.1	8.0	7.8	7.7
Travel and hospitality	3.5	3.6	3.6	3.7	3.2	3.3	3.2	3.4	3.5	3.8	3.8	4.0	-
Energy And Utility	4.0	4.0	4.1	4.1	3.6	3.7	3.6	3.7	4.0	4.2	4.5	4.8	4.8
Others	4.4	4.6	3.9	3.1	17.5	17.2	17.5	18.4	17.6	17.0	16.8	17.6	18.1
Horizontal Mix (%)													
Application Development & Maintenance	40.3	40	39.7	39.4	38.5	38.4	37.2	37.7	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines
Business Intelligence	0	0	0	0	0	0	0	0	0	0	0	0	0
Enterprise Solutions	15.1	15	17.4	17.1	17.7	17.8	17.5	17.3	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines
Assurance Services	8.5	8.7	8.6	8.8	8.8	9	9	9	9	9	9	9	9
Product Engineering Services	4.5	4.5	4.5	4.7	4.8	4.8	4.9	5	5	5	5	5	5
Infrastructure Management	14.7	14.7	15.2	15.2	15.5	15.7	16.8	16.2	16.2	16.2	16.2	16.2	16.2
Global Consulting	2.9	2.5	0	0	0	0	0	0	0	0	0	0	0
Asset Leveraged solutions	2.5	3.2	2.8	3.2	3.2	2.6	3	2.9	3	3	3	3	3
Business Process Outsourcing	11.5	11.4	11.8	11.6	11.5	11.7	11.6	11.9	0	0	0	0	0
Geographic Mix (%)													
North America	52.8	52.7	53.5	54.0	53.5	54.0	55.0	53.3	52.5	51.9	52.0	50.2	51.0
UK	16.1	16.4	15.9	14.9	14.8	13.8	13.3	13.7	13.9	14.0	14.1	15.2	15.5
Europe	11.0	10.8	10.9	11.2	11.5	11.8	11.1	11.8	12.5	13.4	13.5	14.2	14.0
India	6.4	6.5	6.0	5.9	6.2	5.8	6.3	6.8	7.0	6.3	6.3	6.2	5.8
APAC	9.6	9.4	9.4	9.6	9.6	10.2	9.6	9.7	9.5	9.8	9.5	9.7	9.6
Ibero America	1.9	1.8	2.1	2.0	2.0	2.0	2.2	2.1	2.1	2.2	2.2	2.0	1.9
MEA	2.2	2.4	2.2	2.4	2.4	2.4	2.5	2.6	2.5	2.4	2.4	2.5	2.2
Delivery (%)													
Offshore	0	0	0	0	0	0	0	0	0	0	0	0	0
Onsite	0	0	0	0	0	0	0	0	0	0	0	0	0
Project Type													
T&M	0	0	0	0	0	0	0	0	0	0	0	0	0
Fixed Price	0	0	0	0	0	0	0	0	0	0	0	0	0
Utilization (%) (including Trainees)	82.9	82.3	80.9	82	82	82	82	82	82	82	82	82	82
Number of Client													
\$100mn +	30	33	34	37	37	36	34	35	36	37	37	38	40
\$50mn +	69	65	65	73	77	78	80	84	85	91	94	97	97
Employee Number	324,935	335,620	344,691	353,843	362,079	371,519	378,497	387,223	385,809	389,213	390,880	394,998	400,875
Attrition (%)	15.9	16.2	15.9	15.5	13.6	12.9	12.2	11.5	12.4	12.1	11.9	11.0	10.9
Productivity Metrics (USD mn)													
Revenue	4,036	4,156	4,145	4,207	4,362	4,374	4,387	4,452	4,591	4,739	4,787	4,972	5,051
EBIT	1,061	1,125	1,102	1,096	1,093	1,138	1,131	1,146	1,073	1,188	1,205	1,263	1,264
PAT	898	926	926	938	940	984	990	992	923	1,000	1,012	1,070	1,082
Per Capita (Annualised) (USD)													
Revenue	49,684	49,532	48,101	47,558	48,188	47,093	46,362	45,989	47,599	48,703	48,987	50,350	50,400
EBIT	13,061	13,407	12,793	12,384	12,076	12,253	11,952	11,839	11,124	12,206	12,330	12,791	12,613
PAT	11,055	11,041	10,751	10,598	10,386	10,594	10,462	10,248	9,569	10,274	10,355	10,836	10,796
Digital (as %age of Revenue)	12.50%	13.30%	13.70%	15.50%	15.90%	16.10%	16.10%	17.90%	18.90%	19.70%	22.10%	23.80%	25.00%
Digital Revenue (USD mn)	505	553	568	652	694	704	706	797	868	934	1058	1183	1263
Non - Digital Revenue (USD mn)	3,532	3,603	3,577	3,555	3,668	3,670	3,681	3,655	3,723	3,805	3,729	3,789	3,788
QoQ Growth (%)													
Digital Revenue	-	10%	3%	14.8%	6.4%	1.5%	0.3%	12.8%	8.9%	7.6%	13.3%	11.9%	6.7%
Non - Digital Revenue	-	2%	-1%	-1%	3.2%	0.0%	0.3%	-0.7%	1.9%	2.2%	-2.0%	1.6%	0.0%
YoY Growth (%)													
Digital Revenue	-	-	-	-	37.5%	27.4%	24.4%	22.2%	25.1%	32.6%	49.8%	48.5%	45.5%
Non - Digital Revenue	-	-	-	-	3.9%	1.8%	2.9%	2.8%	1.5%	3.7%	1.3%	3.7%	1.7%

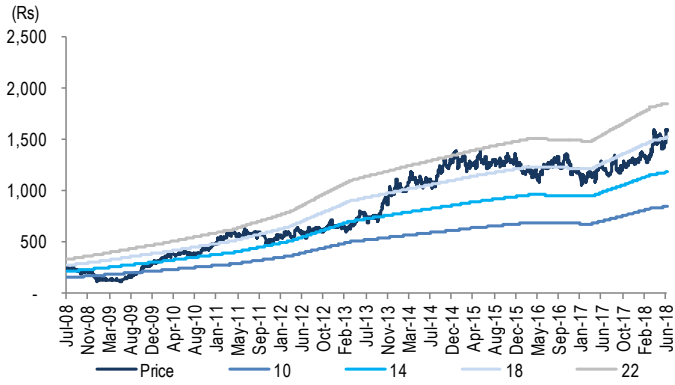
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: QoQ and YoY growth on various parameters for TCS

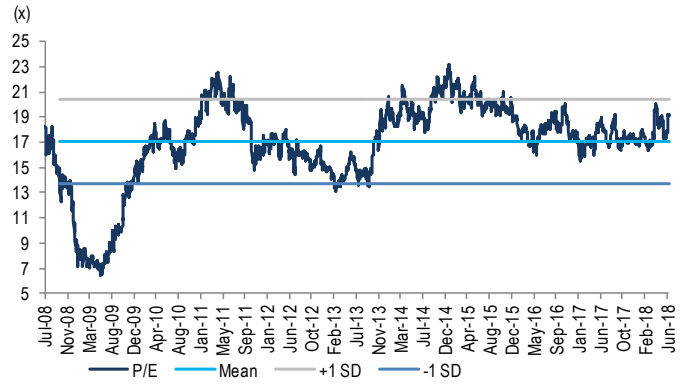
	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19					
QoQ Growth (%)																						
Geographical Data																						
Americas	5	4	2	0	4	3	1	2	3	1	2	(2)	2	2	1	0	3					
UK	5	3	(6)	(2)	5	5	(3)	(5)	3	(7)	(3)	5	5	4	2	12	4					
Europe	5	2	2	(6)	3	1	1	4	6	3	(6)	8	9	11	2	9	0					
India	7	10	0	1	0	5	(8)	(0)	9	(6)	9	10	6	(7)	1	2	(5)					
APAC	8	41	(4)	0	1	1	(0)	4	4	7	(6)	3	1	6	(2)	6	1					
Ibero America	5	(8)	11	(1)	(6)	(2)	16	(3)	4	0	10	(3)	3	8	1	(6)	(3)					
MEA	0	1	5	4	8	12	(9)	11	4	0	4	6	(1)	(1)	1	8	(11)					
Verticals																						
BFSI												1	1	(2)	3	4	(2)	2	0			
Manufacturing												0	2	1	5	3	2	1	0			
Communication and Media												3	(7)	9	5	3	2	4	(3)			
Life Science & Healthcare	For better visibility of trends in its core markets, the company has recast its vertical break-up of revenues by extracting out volatile, project-centric businesses such as India, MEA, APAC ex-Australia and products and platforms into a separate line item											3	(1)	1	6	5	2	2	3			
Retail and distribution												(3)	0	(4)	2	1	6	2	37			
Hi-Tech												(1)	2	1	4	6	(0)	1	0			
Travel and hospitality												3	(3)	8	6	12	1	9	(100)			
Energy and Utilities												3	(2)	4	11	8	8	11	2			
Regional Market & Others												(1)	2	7	(1)	(0)	(0)	9	4			
Services																						
Application Development & Maintenance	5	6	(2)	1	4	2	(1)	1	1	0	(3)	3	In the process of changing its service lines									
Enterprise Solutions	7	4	(1)	(1)	1	2	16	(0)	7	1	(1)	0										
Assurance Services	8	4	1	(2)	5	5	(1)	4	4	3	0	1										
Engineering and Industrial Services	(1)	9	(2)	(1)	3	3	(0)	6	6	0	2	4										
Infrastructure Services	11	16	4	1	5	3	3	1	6	2	7	(2)										
Global Consulting	(1)	6	16	(14)	(6)	(11)	0	0	0	0	0	0										
Asset Leveraged solutions	1	(2)	4	(5)	12	32	(13)	16	4	(19)	16	(2)										
Business Process Outsourcing	4	4	1	(2)	3	2	3	(0)	3	2	(1)	4										
YoY Growth (%)																						
Geographical Data																						
Americas	13	13	13	12	11	9	9	11	10	8	9	4	3	4	3	5	7					
UK	22	16	5	(1)	(1)	1	4	1	(1)	(11)	(11)	(3)	(1)	10	16	24	23					
Europe	41	21	15	2	0	(1)	(2)	9	13	15	8	11	14	23	33	34	23					
India	(3)	11	18	19	11	6	(3)	(4)	5	(6)	11	22	19	18	9	2	(9)					
APAC	29	67	50	47	38	(2)	2	6	8	14	8	7	4	4	8	12	11					
Ibero America	7	(3)	4	6	(6)	0	5	3	14	17	11	11	11	19	9	6	(0)					
MEA	11	12	4	11	20	34	16	23	18	5	20	15	10	8	5	7	(3)					
Verticals																						
BFSI												4	6	3	7	4						
Manufacturing												8	11	12	12	7						
Communication and Media												10	10	21	15	7						
Life Science & Healthcare	For better visibility of trends in its core markets, the company has recast its vertical break-up of revenues by extracting out volatile, project-centric businesses such as India, MEA, APAC ex-Australia and products and platforms into a separate line item											10	11	15	17	13						
Retail and distribution												(5)	(1)	5	12	50						
Hi-Tech												7	14	12	12	7						
Travel and hospitality												15	25	30	31	(100)						
Energy and Utilities												17	23	36	45	32						
Regional Market & Others												6	7	5	7	13						
Services																						
Application Development & Maintenance	13	14	9	9	8	4	6	6	3	1	(1)	1	In the process of changing its service lines									
Enterprise Solutions	23	19	12	9	4	2	19	20	27	25	6	7										
Assurance Services	24	16	14	11	8	10	7	13	12	9	11	8										
Engineering and Industrial Services	12	15	12	4	9	3	5	13	15	12	15	13										
Infrastructure Services	24	38	36	35	27	13	12	13	14	12	17	13										
Global Consulting	7	14	24	5	(1)	(17)	0	0	0	0	0	0										
Asset Leveraged solutions	17	0	19	(2)	9	47	23	50	38	(14)	13	(4)										
Business Process Outsourcing	17	15	11	7	6	4	6	8	8	8	4	9										

Source: Nirmal Bang Institutional Equities Research

Exhibit 11: P/E multiple charts

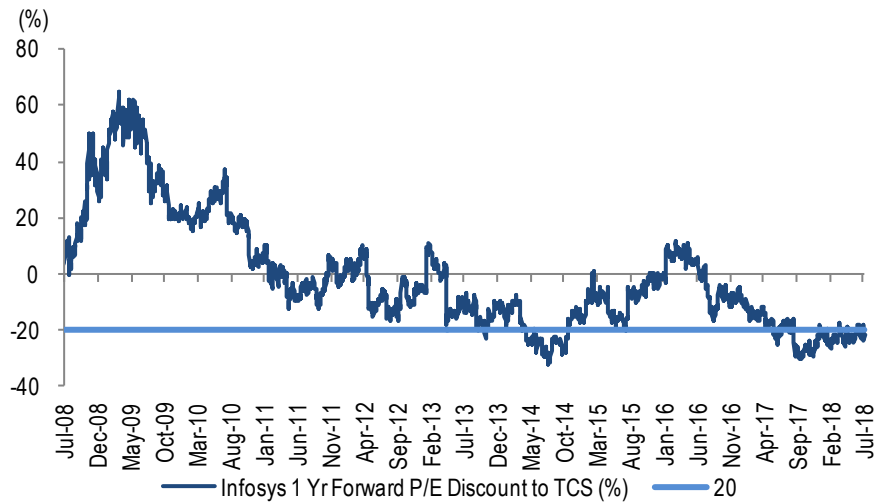


Source: Bloomberg, Nirmal Bang Institutional Equities Research



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 12: Premium discount chart with Infosys



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 13: Comparative valuation

	TCS	Infosys	Wipro	HCL Tech	TechMahindra	Mindtree	Persistent
Year Ending	March	March	March	March	March	March	March
Prices as on 10-Jul-2018	1,875.1	1,301.4	270.6	979.6	650.8	1,036.3	857.0
Currency	INR	INR	INR	INR	INR	INR	INR
Market Value (Rs Bn)	7,179	2,828	1,336	1,364	575	171	69
(US\$mn)	111,302	43,850	20,717	21,143	8,909	2,659	1,063
March 2019 Target Price	1,862	1,314	335	1,131	716	716	847
Upside/(downside)	-0.7%	1.0%	23.6%	15.5%	10.0%	-30.9%	-1.2%
Recommendation	Accumulate	Accumulate	Buy	Buy	Accumulate	Sell	Accumulate
FDEPS (Rs)							
FY17	66.7	66.0	17.5	60.6	31.6	24.9	37.7
FY18	67.0	65.0	16.8	63.0	42.7	34.4	40.4
FY19E	83.3	72.6	19.9	71.4	44.7	39.8	51.2
FY20E	91.3	80.5	23.4	79.1	50.0	50.1	59.3
FY21E	94.7	86.0	24.3	81.3	52.6	51.3	61.8
PE (x)							
FY17	28.1	19.7	15.5	16.2	20.6	41.6	22.7
FY18	28.0	20.0	16.1	15.5	15.3	30.2	21.2
FY19E	22.5	17.9	13.6	13.7	14.5	26.1	16.7
FY20E	20.5	16.2	11.6	12.4	13.0	20.7	14.5
FY21E	19.8	15.1	11.1	12.1	12.4	20.2	13.9
EV/EBITDA (x)							
FY17	22.1	14.0	10.2	12.1	12.7	22.7	14.8
FY18	21.9	13.8	11.7	11.1	11.1	21.8	14.1
FY19E	18.3	13.0	9.7	9.5	8.9	15.5	10.5
FY20E	16.3	11.5	8.1	8.3	8.0	12.4	8.6
FY21E	16.1	10.7	7.5	7.9	7.4	11.8	7.9
EV/Sales (x)							
FY17	6.1	3.8	2.1	2.7	1.8	3.1	2.3
FY18	5.8	3.7	2.2	2.5	1.7	2.9	2.2
FY19E	5.0	3.4	1.8	2.2	1.4	2.4	1.8
FY20E	4.4	3.1	1.6	1.9	1.2	2.1	1.5
FY21E	4.2	2.9	1.4	1.8	1.1	1.9	1.4
RoIC (%)							
FY17	60.8	51.1	28.8	46.2	26.2	27.8	31.1
FY18	57.3	44.9	24.5	38.9	25.8	32.9	29.7
FY19E	62.5	47.0	28.2	37.9	29.8	49.7	41.7
FY20E	64.6	49.8	32.3	37.2	31.0	59.9	47.2
FY21E	63.0	49.6	33.2	34.2	30.9	62.9	50.7

Source: Bloomberg, Nirmal Bang Institutional Equities Research

Financials

Exhibit 14: Income statement

Y/E March (Rsbn)	FY17	FY18	FY19E	FY20E	FY21E
Average INR/USD	67.1	64.5	68.8	71.5	75.0
Net Sales (USD mn)	17,575	19,089	20,894	22,511	22,475
-Growth (%)	6.2	8.6	9.5	7.7	(0.2)
Net Sales	1,180	1,231	1,439	1,610	1,686
-Growth (%)	8.6	4.4	16.9	11.9	4.7
Cost of Sales & Services	669	713	832	936	991
Gross Margin	511	518	607	674	695
% of sales	43.3	42.1	42.2	41.9	41.2
SG&A	208	213	236	255	271
% of sales	17.6	17.3	16.4	15.8	16.1
EBIT	303	305	371	419	424
EBIT Margin (%)	25.7	24.8	25.8	26.0	25.2
Other income (net)	42	36	49	36	47
PBT	345	341	420	455	472
-PBT margin (%)	29.3	27.7	29.2	28.3	28.0
Provision for tax	82	82	103	111	116
Effective tax rate (%)	23.6	24.1	24.6	24.5	24.5
Minority Interest	1	1	1	1	1
Net profit	263	258	316	343	355
-Growth (%)	8.6	(1.8)	22.2	8.5	3.7
-Net profit margin (%)	22.3	21.0	21.9	21.3	21.1
Average Shares outstanding-	3,941	3,829	3,790	3,752	3,752

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Balance sheet

Y/E March (Rsbn)	FY17	FY18	FY19E	FY20E	FY21E
Equity capital	2.0	1.9	3.8	3.8	3.8
Reserves & surplus	885	875	843	1,038	1,249
Net worth	887	876	847	1,042	1,253
Minority Interest	-	-	-	-	-
Other liabilities	21	29	26	29	29
Total loans	3	2	1	1	1
Total liabilities	911	908	873	1,071	1,283
Goodwill	38	39	39	39	39
Net block (incl. CWIP)	117	116	116	117	117
Investments	3	3	2	2	2
Deferred tax asset - net	28	34	32	36	36
Other non-current assets	62	76	75	79	80
Other current assets	485	427	451	454	455
Debtors	280	320	347	381	391
Cash & bank balance	36	49	46	46	46
Bank deposits	4	21	(22)	145	347
Total current assets	805	815	822	1,026	1,239
Total current liabilities	143	176	213	227	231
Net current assets	662	639	609	799	1,008
Total assets	911	908	873	1,071	1,283

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Cash flow

Y/E March (Rsbn)	FY17	FY18	FY19E	FY20E	FY21E
EBIT	303	305	371	419	424
(Inc./dec. in working capital)	6	(20)	(51)	(28)	(8)
Cash flow from operations	309	285	320	391	416
Other income	42	36	49	36	
Depreciation & amortisation	20	20	20	20	20
Financial expenses	-	-	-	-	-
Tax paid	(82)	(82)	(103)	(111)	(116)
Dividends paid	(112)	(116)	(136)	(147)	(144)
Net cash from operations	178	143	149	188	176
Capital expenditure	(19)	(19)	(20)	(21)	(21)
Net cash after capex	159	124	130	168	155
Inc./dec. in debt	0	(0)	(2)	-	-
(Inc./dec. in investments)	(192)	60	37	-	-
Equity issue/(Share Buyback)	-	(160)	(160)	-	-
Cash from financial activities	(191)	(101)	(124)	-	-
Others	5	5	(50)	(1)	46
Opening cash	67	40	69	24	191
Closing cash	40	69	25	191	393
Change in cash	(28)	29	(45)	167	201

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Key ratios

Y/E March	FY17	FY18	FY19E	FY20E	FY21E
Per Share (Rs)					
EPS	66.7	67.0	83.3	91.3	94.7
FDEPS	66.7	67.0	83.3	91.3	94.7
Dividend Per Share	23.5	25.1	29.7	32.5	32.0
Dividend Yield (%)	1.3	1.3	1.6	1.7	1.7
Book Value	231.6	228.9	221.2	272.2	327.3
Dividend Payout Ratio (excl DT)	42.4	37.2	35.7	35.6	33.8
Return ratios (%)					
RoE	32.4	29.3	36.6	36.3	31.0
RoCE	33.7	30.7	36.8	37.9	32.3
ROIC	60.8	57.3	62.5	64.6	63.0
Turnover Ratios					
Asset Turnover Ratio	1.1	1.1	1.3	1.2	1.1
Debtor Days (incl. unbilled Rev)	87	95	88	86	85
Working Capital Cycle Days	64	63	67	65	64
Valuation ratios (x)					
PER	28.1	28.0	22.5	20.5	19.8
P/BV	8.1	8.2	8.5	6.9	5.7
EV/EBTDA	22.1	21.9	18.3	16.3	16.1
EV/Sales	6.1	5.8	5.0	4.4	4.2
M-cap/Sales	6.1	5.8	5.0	4.5	4.3

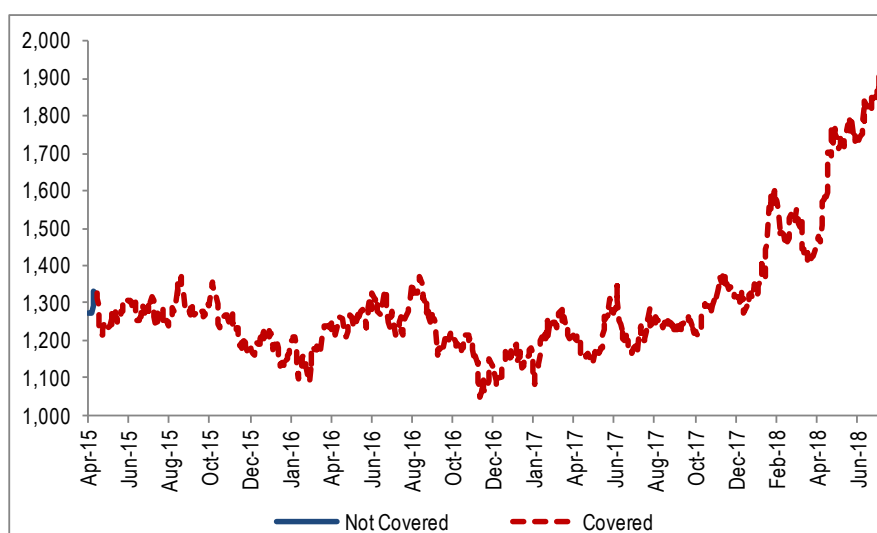
Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
13 April 2015	Sell	2,619	2,314
17 April 2015	Sell	2,574	2,325
10 July 2015	Sell	2,529	2,173
9 September 2015	Sell	2,540	2,173
5 October 2015	Sell	2,641	2,217
14 October 2015	Sell	2,599	2,248
8 January 2016	Under Review	2,398	-
13 January 2016	Under Review	2,327	-
14 March 2016	Sell	2,360	2,055
20 April 2016	Sell	2,520	2,089
15 July 2016	Sell	2,521	2,075
14 September 2016	Sell	2,359	2,041
14 October 2016	Sell	2,329	2,073
10 January 2017	Sell	2,304	1,952
13 January 2017	Sell	2,344	1,956
14 February 2017	Sell	2,414	1,983
21 February 2017	Sell	2,502	1,983
2 March 2017	Sell	2,477	1,983
19 April 2017	Sell	2,309	1,996
21 June 2017	Sell	2,443	1,923
14 July 2017	Sell	2,446	1,930
28 September 2017	Sell	2,475	1,908
13 October 2017	Sell	2,548	1,913
26 December 2017	Under Review	2,647	-
12 January 2018	Under Review	2,792	-
17 March 2018	Accumulate	2,829	3,155
20 April 2018	Accumulate	3,191	3,176
26 June 2018*	Accumulate	1,818	1,812
11 July 2018	Accumulate	1,876	1,862

* Post 1:1 Bonus

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 6273 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park,
 Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010