

Tata Consultancy Services

15 April 2019

Reuters: TCS.BO; Bloomberg: TCS IN

In-line 4QFY19: FY20 Growth And Margin Picture Not Yet Settled

TCS' 4QFY19 performance was broadly in line with a positive surprise coming from the BFSI vertical, which after nine quarters, delivered double-digit (DD) growth. This was out of line with commentary given by TCS a month ago (see our note [here](#)). TCS "hopes" to sustain its DD constant currency (CC) revenue growth shown in FY19 going into FY20 and also deliver EBIT margin close to its aspirational target of 26%-28%. TCS emphasised the strong 4Q exit growth rate along with its broad nature as reasons for its "hope". We believe only a 3% plus growth (QoQ) in each of 1Q and 2Q of FY20 would help settle the issue. The reason we question DD growth sustenance in FY20 is because FY19 did not witness large deals like those that TCS signed in 2HFY18. Those likely contributed 200bps-250bps to its 11.4% CC YoY growth in FY19. While there is no data in public domain, we guesstimate 4QFY18 TCv was likely a lot larger than US\$6.2bn clocked in 4QFY19. We, therefore, believe TCS may miss DD growth by 100bps-200bps. On margins, a closer examination of puts and takes does not give much comfort. A large part of salary-related hit that TCS took in FY19 was offset by INR depreciation benefits (150bps-200bps). If salary hikes are similar to FY19 and INR depreciates only by our estimated 3% for FY20, we believe TCS may have trouble delivering a margin in line with that of FY19. We, therefore, lower our EBIT margin estimate for FY20 by 110bps to 24.8%. While we expect Infosys to grow its revenues a tad faster than that of TCS in FY20, its EBIT margin will likely be ~260bps lower. The strengths of TCS in automation, platforms, a stable workforce, 'location-independent agile' methodology, etc help to keep its margins among industry's best. Post 4QFY19, we retain Sell rating on TCS with a March 2020 target price of Rs1,614 (at a target P/E of 16.5x FY21E EPS, 1 SD below the mean for the past five years). This target P/E (highest in our universe) is reflective of the strong position that TCS holds through: (1) Breadth and depth in service lines, geographies and verticals. (2) Ability to stitch together integrated offerings. (3) Significant lead in automation skills. (4) Strong and stable base of experienced employees with contextual knowledge. (5) Strong platform and agile delivery capabilities. We prefer TCS followed by Infosys and HCLT within our coverage universe over the next 12-24 months. The P/E compression trade between TCS and Infosys will stall as investors grapple with likely margin of Infosys in FY20.

TCS hesitant to call out a double-digit FY20 as there are some wrinkles in demand: While TCS keeps pointing to the UK as an example for macro not impacting demand (it grew 22% CC YoY in FY19 despite noise around Brexit), TCS did admit to some customers holding back. It indicated client-specific problems with some large BFS customers both in the US and Europe – likely in capital market area. It indicated that retail vertical may turn soft in FY20. Automobile and Hi-tech manufacturing were other areas indicated to likely see softness.

TCV cannot be taken for granted: As stated in our recent note ([TCV, Value Compression and Margins Key](#)) TCV by itself does not translate into revenues. As seen in previous slowdowns, customers tend to rework contracts at a short notice and also decide not to ramp up already signed contracts if they feel financially stressed. What needs to be watched is whether customers are willing to follow through with their spending plans, even if there is a slowdown. The other thing to keep track of is the extent of value compression in existing book of business because of automation and annual productivity gain promised by vendors to customers.

INR depreciation need not be a tailwind forever: In its defence of the margin band of 26%-28%, TCS has been pointing to depreciation of INR versus developed market currencies being an intrinsic positive element of Indian IT services sector. But this requires a high inflation scenario in India. Over FY14-FY19, CPI inflation was ~4.3% against the ~10% during the FY09-FY14 timeframe. This led to the INR's depreciation of just ~2.8% during the recent period versus ~5.5% during the earlier period. A government focused on low inflation will require the sector to rework its cost structure as the INR will likely not be a sustainable tailwind anymore.

SELL
Sector: Information Technology

CMP: Rs2,015

Target price: Rs1,614

Downside: 20%

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Key Data

Current Shares O/S (mn)	3,752.4
Mkt Cap (Rsbn/US\$bn)	7,556.4/109.2
52 Wk H / L (Rs)	2,276/1,504
Daily Vol. (3M NSE Avg.)	3,254,101

Price Performance (%)

	1 M	6 M	1 Yr
TCS	0.1	5.0	28.3
Nifty Index	3.0	11.2	11.3

Source: Bloomberg

Y/E Mar (Rsmn)	4QFY18	3QFY19	4QFY19	YoY (%)	QoQ (%)	4QFY19E	Deviation (%)
Net Sales (USD mn)	4,972	5,250	5,397	8.5	2.8	5,366	0.6
Net Sales	3,20,750	3,73,380	3,80,100	18.5	1.8	3,78,283	0.5
Software Expenses	1,85,240	2,17,350	2,21,400	19.5	1.9	2,19,524	0.9
% of Sales	57.8	58.2	58.2	-	-	58.0	-
Gross Margin	1,35,510	1,56,030	1,58,700	17.1	1.7	1,58,759	(0.0)
% of Sales	42.2	41.8	41.8	-	-	42.0	-
Operating Expenses	54,040	60,390	63,330	17.2	4.9	60,994	3.8
% of Sales	16.8	16.2	16.7	-	-	16.1	-
EBIT	81,470	95,640	95,370	17.1	(0.3)	97,765	(2.4)
EBIT Margin (%)	25.4	25.6	25.1	-	-	25.8	-
Other Income	9,820	11,470	11,650	18.6	1.6	9,979	16.7
PBT	91,290	1,07,110	1,07,020	17.2	(0.1)	1,07,744	(0.7)
Provision for Tax	22,040	25,900	25,500	15.7	(1.5)	26,397	(3.4)
Effective Tax Rate	24.1	24.2	23.8	-	-	24.5	-
Minority share in Profit / Loss	210	160	260	23.8	62.5	160	62.5
PAT (Reported)	69,040	81,050	81,260	17.7	0.3	81,187	0.1
NPM (%)	21.5	21.7	21.4	-	-	21.5	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Key financials

Y/E March (Rsbn)	FY17	FY18	FY19	FY20E	FY21E
Revenue (Rsbn)	1,180	1,231	1,465	1,637	1,705
YoY Growth %	8.6	4.4	19.0	11.8	4.1
EBIT (Rsbn)	303	305	375	406	424
% of sales	25.7	24.8	25.6	24.8	24.9
PAT (Rsbn)	263	258	315	350	367
YoY Growth %	8.6	(1.8)	21.9	11.3	4.7
FDEPS (Rs)	66.7	67.0	83.1	93.4	97.8
ROE (%)	32.4	29.3	35.0	34.4	30.0
ROCE (%)	33.7	30.7	35.7	34.2	30.3
Pre Tax ROIC (%)	60.8	57.3	61.8	59.4	58.9
P/E (x)	30.2	30.1	24.3	21.6	20.6
P/BV (x)	8.7	8.8	8.4	6.9	5.8

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	70.1	72.0	74.5	70.0	72.0	74.5	0.2	-	-
USD revenues (US\$ mn)	20,913	22,736	22,883	20,871	22,673	22,847	0.2	0.3	0.2
Revenues (Rsbn)	1,465	1,637	1,705	1,459	1,633	1,702	0.4	0.3	0.2
EBIT (Rsbn)	375	406	424	376	423	438	(0.5)	(3.9)	(3.3)
EBIT Margin (%)	25.6	24.8	24.9	25.8	25.9	25.7	-	-	-
PAT (Rsbn)	315	350	367	314	345	365	0.2	1.5	0.4
FDEPS (Rs)	83.1	93.4	97.8	82.9	92.0	97.4	0.2	1.5	0.4

Source: Company, Nirmal Bang Institutional Equities Research

View on Indian IT services sector: We downgraded the Indian IT sector (see our report: [Street Is Not Factoring Even A Soft Landing; We Downgrade](#)) on 27 December 2018 based on: (1) Consensus not factoring in significantly softer growth in FY21 as the best demand environment since 2008-09 is largely behind us with corporate capex in both the US and Europe likely to have peaked in 2018. (2) The US BFSI space could witness pressure on margins from a flattened/inverted yield curve and probably a more hostile regulatory environment through a split Congress in the US. (3) Pressure on cost structure because of tariffs levied on imports from China impacting US manufacturers. (4) Front-office capabilities in digital still elusive for Indian IT services players, leading to inability to tap into the marketing budgets of customers in a material way. The focus has been on the technology intensive back-end of digital where we believe the field is relatively more crowded. (5) 'Automation at scale' in legacy services eating into growth coming in from new services. This is driven by explosive growth in both intelligent and robotic process automation software industry. (6) Factoring in lower INR depreciation benefits than estimated earlier (Refer: [Incorporating New INR Estimate](#)). (7) Capital return to shareholders not being as potent a stock driver as it was earlier as the cash hoard is shrinking after two to three rounds of buyback over the past three years. (8) Talent pressure in the US in new-age services because of a tighter H1-B visa regime. We were planning the downgrade a quarter or two down the road, but the global macro set-up has turned weaker far more quickly than we anticipated, hastening this move. While some of the 'relative' factors such as investor positioning, valuation, and earnings revision momentum - partly the reasons for turning 'tactically positive in March 2018 - still exist, we believe they are unlikely to carry as much importance with investors as deteriorating fundamentals would over FY19-FY21. While many of our competitors are expecting a better FY20 versus FY19, we believe that is unlikely. We probably had the best macro environment that the industry has seen in the past 10 years in 2018 and incrementally we only see a deterioration which should crimp spending by customers. More importantly, we reiterate our no-industry-growth-in-FY21 call initiated in March 2018. We base this scenario on an explicit expectation of a soft landing in the US (0%-1.5% real GDP growth) in 2020. We believe consensus is expecting mid-high single-digit revenue growth in FY21 for the industry, implicitly assuming continued robust growth in the US (2%-2.5%). It is our belief that the street will converge with our no-growth expectations over time. Until the market prices in this scenario, we believe technical factors are not likely to hold the sector up. A hard landing (recession) - not our current base case - could lead to single-digit negative growth for the sector. Just as outperformance of the sector in 2018 was driven largely by P/E multiple expansion in the belief that growth is going to accelerate, we believe the downside in 2019 will be driven by P/E multiple deflation as investors begin to re-calibrate growth expectations lower over FY19-FY21. We prefer large-caps over mid-caps. The faster growth shown by select mid-caps is a case of 'rising tide lifting all boats', a smaller base and lower exposure to legacy services. But as digital demand shifts from the front to back, we believe that traditional large Indian companies will be in a better position to capture the market. We would advise investors to focus on sustainability and not overpay for a riskier business model - some companies have seen client concentration rising over the past two years.

Exhibit 3: Vertical-based USD QoQ and YoY revenue growth in 4QFY19

Vertical	Contribution to revenues (%)	Growth-QoQ (%)	Growth-YoY (%)
BFSI	30.8	2.8	6.1
Manufacturing	7.2	2.8	5.6
Communication and Media	6.9	2.8	1.2
Life Science and Healthcare	7.7	4.2	16.1
Retail and CPG	16.2	0.9	43.0
Hi-Tech	7.4	0.1	3.0
Energy and Utilities	4.6	0.6	4.0
Regional Market & Others	19.2	5.5	18.4
Total	100.0	2.8	8.5

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

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

Geography	Contribution to revenues (%)	Growth-QoQ (%)	Growth-YoY (%)
North America	50.7	1.8	9.6
Latin America	2.0	2.8	8.5
UK	15.9	5.5	13.5
Europe	14.1	2.8	7.8
India	5.8	4.6	1.5
APAC	9.5	3.9	6.3
MEA	2.0	(2.1)	(13.2)
Total	100.0	2.8	8.5

Source: Nirmal Bang Institutional Equities Research

Valuation discussion

We have a Sell rating on TCS as we expect growth to decelerate in FY21 to a stall pace on the back of a soft-landing scenario of the US economy in 2020 (0%-1.5% real GDP growth). We believe this would lead to a P/E de-rating. We believe TCS at current valuation on a 12-month forward EPS is at +1 SD over 10-year mean and factors in good growth likely in FY20 but does not factor in a weak FY21 that we are anticipating.

4QFY19 analyst call highlights

Above estimate revenue quarter, though a tad disappointing in margin terms

- QoQ constant currency (CC) revenue growth of 2.4% in 4QFY19 beat our estimates by 40bps. In USD terms, revenues stood at US\$5.39bn, a YoY growth of 8.5%. For the full year, USD revenues stood at \$20.91bn with YoY growth of 9.6%. For the full year, the revenue growth was 11.4% in CC terms and 19% in INR terms. 4Q EBIT margin of 25.1% (a decrease of 50bps on QoQ basis) was 70bps below our estimate and was below the 26%-28% band of EBIT margin it aspires for. We believe that it will unlikely hit that band in FY20, especially as INR depreciation benefits may not be as large, and regular salary hikes and regular investments will be required in sales, talent transformation and localisation.

Broad-based growth across verticals

- TCS witnessed broad-based growth across both verticals and geographies, unlike Infosys which had its growth entirely dominated by Telecom vertical – likely because of the Verizon deal where as many verticals have displayed QoQ weakness. BFSI, Energy and Utilities and Retail verticals grew 11.6%, 11.3% and 9.9% on YoY basis, respectively, in 4QFY19 in CC terms. The growth was, however, majorly driven by Life Sciences and Healthcare and Regional Markets and Others verticals which grew by a stellar 18.2%/20.8% YoY, respectively, in CC terms. For 4QFY19, the demand from Europe geography has been positive. Within the BFSI vertical, Insurance has seen broader demand and growth, whereas Capital Markets witnessed volatility (as indicated by Infosys too). Despite the headwinds in the BFSI vertical, the double-digit YoY growth indicates that TCS has gained some market share from its competitors, being a likely beneficiary of vendor consolidation.

Digital revenue growth continues at 46.4%

- TCS delivered strong ~46.4% YoY revenue growth in digital (CC terms), contributing 31% to overall revenues in 4QFY19, up ~1pps from 3QFY19. TCS sounded positive on the prospects of digital and highlighted the rising demand across all verticals. TCS indicated that digital deal sizes are increasing as it is moving to the core. For the full year, 28.6% of its revenues were from digital engagements, a growth of 50.6%.

Vertical commentary

- While major industry players are indicating weak BFSI demand (Accenture and Cognizant Technology Solutions), TCS has managed to show a good trajectory of double-digit growth in the vertical on YoY basis. The vertical grew 11.6% in CC YoY terms, accelerating from ~8.6% in 3QFY19. This is a result of continued investment (especially in its platforms) and scale benefits being in favour of TCS. Growth was driven by Insurance and BFS in Europe. Manufacturing, which has been facing headwinds because of global slowdown in automobile sales, also witnessed a decent growth of 9.2% YoY, in CC terms.

Good growth from the US and UK

- North America grew 9.9% YoY in CC terms and the UK grew by a stellar 21.3% YoY in CC terms. Asia Pacific grew 11.5% YoY in CC terms. The management, however, maintains that emerging markets are volatile at this point, given the current macro-economic scenario.

Steady TCV growth rate continues

- 4QFY19 witnessed very strong deal closures, better than the previous three quarters in FY19. TCV for order inflow in 4QFY19 was US\$6.2bn, ~5% higher than that in 3QFY19 (US\$5.9bn). Despite pockets of volatility in BFSI and Automotive, the management indicated a robust pipeline for the future.

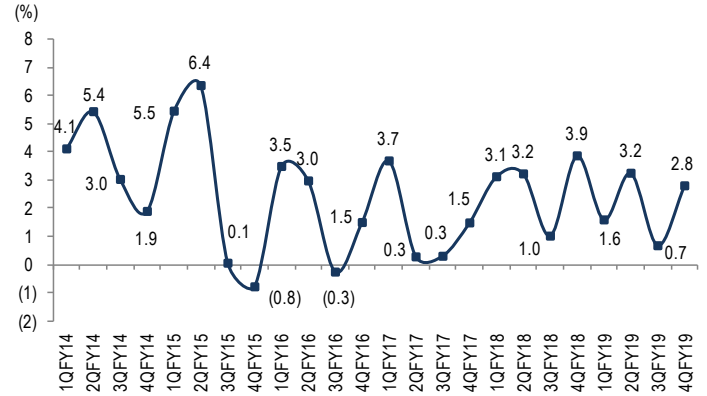
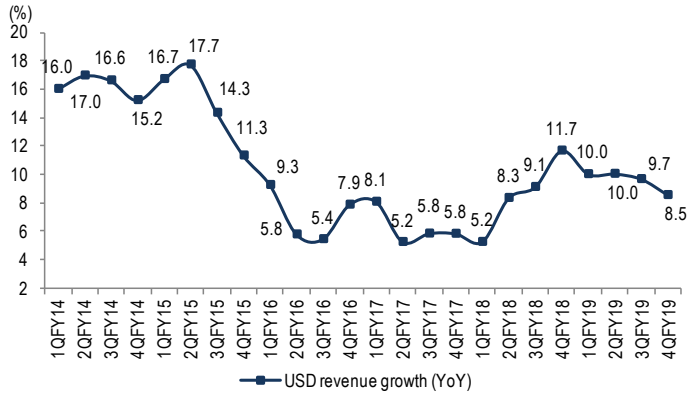
Ignio and Ion – IP see continued momentum

- As per the management, Ignio-TCS' cognitive automation software is doing very well and is expanding from IT operations into business operations. It currently manages over 1.5mn technology resources autonomously for over 90 clients across the world. Also, MasterCraft - the digital platform to automate and manage IT processes - is becoming more relevant as agile and devops adoption demands see uptick.

Miscellaneous

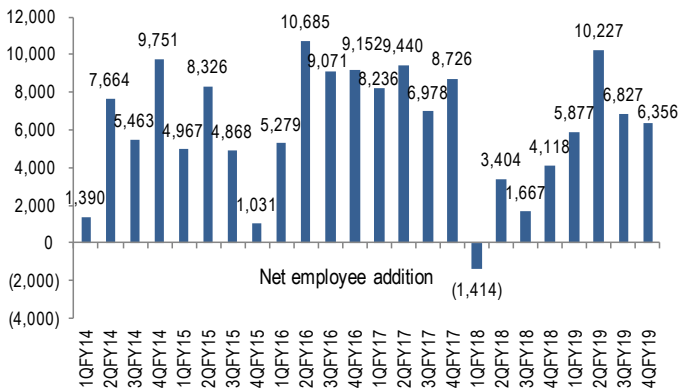
- TCS reported LTM attrition rate (in IT services) of 11.3%, which increased marginally from 3QFY19. TCS has managed to have industry-low attrition rate.
- TCS added 6,356 net employees during the quarter – which is on the higher side as 4Q is seasonally a weak quarter. Total employee count stood at 4,24,285. The net addition is inclusive of freshers, lateral hires and those that have been rebadged from some of the large deals it has done. As of FY19, 311,000 employees got trained on digital technology and over 3,48,000 employees on Agile methods. TCS indicated that it has given offers to 30,000 freshers.
- One client got deducted from the US\$100mn+ bucket and 1/13/12 number of clients were added in US\$10mn+/US\$5mn+/US\$1mn+ buckets, respectively, in 4QFY19, QoQ. The 1mn+ bracket has crossed the 1,000-mark, standing at 1,008.
- Free cash flow in FY19 was Rs295bn. The total cash returned to shareholders through both dividends and buybacks stood at 93% of FY19 free cash flow.

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



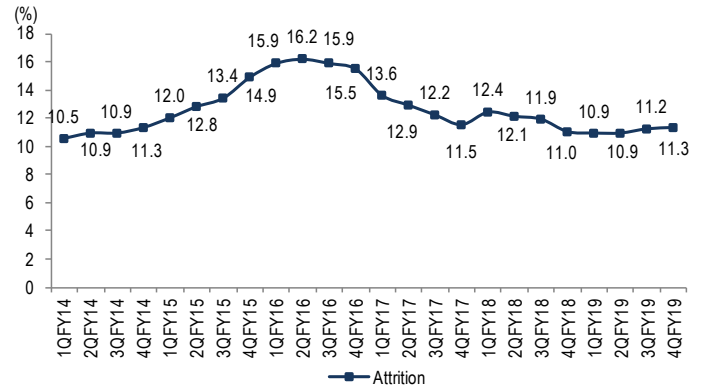
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Employee addition picks up on YoY basis



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Attrition rate increasing, but still under control (%)



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Quarterly snapshot

Year to 31 March	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
INR/USD	67.6	67.2	67.0	67.8	66.6	64.4	64.5	64.6	64.5	67.8	70.0	72.2	70.4
Reevenue (in USDmn)	4,207	4,362	4,374	4,387	4,452	4,591	4,739	4,787	4,972	5,051	5,215	5,250	5,397
(Rsmn)													
Revenue	284,486	293,050	292,840	297,350	296,420	295,840	305,410	309,040	320,750	342,610	368,540	373,380	380,100
Gross margin	123,864	125,030	127,500	128,570	129,690	122,930	129,300	130,420	135,510	141,780	156,540	156,030	158,700
EBIT	74,119	73,470	76,170	77,330	76,270	69,140	76,600	77,810	81,470	85,780	97,710	95,640	95,370
Other income	9,051	9,630	10,520	11,850	9,890	9,320	8,120	8,640	9,820	12,080	5,930	11,470	11,650
PBT	83,170	83,100	86,690	89,180	86,160	78,460	84,720	86,450	91,290	97,860	103,640	107,110	107,020
Tax	19,702	19,920	20,660	21,040	19,940	18,960	20,120	21,000	22,040	24,240	24,370	25,900	25,500
PAT	63,412	63,170	65,860	67,780	66,080	59,450	64,460	65,310	69,040	73,400	79,010	81,050	81,260
Number of shares	3,941	3,941	3,941	3,941	3,941	3,941	3,829	3,829	3,829	3,829	3,829	3,752	3,752
EPS	16.1	16.0	16.7	17.2	16.8	15.1	16.8	17.1	18.0	19.2	20.6	21.6	21.7
YoY Growth													
USD Revenue	7.9	8.1	5.2	5.8	5.8	5.2	8.3	9.1	11.7	10.0	10.0	9.7	8.5
INR Revenues	17.5	14.2	7.8	8.7	4.2	1.0	4.3	3.9	8.2	15.8	20.7	20.8	18.5
Gross profit	15.9	11.6	6.1	5.9	4.7	(1.7)	1.4	1.4	4.5	15.3	21.1	19.6	17.1
EBIT	12.5	8.9	3.6	6.3	2.9	(5.9)	0.6	0.6	6.8	24.1	27.6	22.9	17.1
Net profit	7.4	10.7	8.8	10.9	4.2	(5.9)	(2.1)	(3.6)	4.5	23.5	22.6	24.1	17.7
QoQ Growth													
USD Revenues	1.5	3.7	0.3	0.3	1.5	3.12	3.22	1.01	3.86	1.59	3.2	0.7	2.8
INR Revenues	4.0	3.0	(0.1)	1.5	(0.3)	(0.2)	3.2	1.2	3.8	6.8	7.6	1.3	1.8
EBIT	1.9	(0.9)	3.7	1.5	(1.4)	(9.3)	10.8	1.6	4.7	5.3	13.9	(2.1)	(0.3)
Net profit	3.8	(0.4)	4.3	2.9	(2.5)	(10.0)	8.4	1.3	5.7	6.3	7.6	2.6	0.3
Margins (%)													
Gross margin	43.5	42.7	43.5	43.2	43.8	41.6	42.3	42.2	42.2	41.4	42.5	41.8	41.8
EBIT	26.1	25.1	26.0	26.0	25.7	23.4	25.1	25.2	25.4	25.0	26.5	25.6	25.1
PAT	22.3	21.6	22.5	22.8	22.3	20.1	21.1	21.1	21.5	21.4	21.4	21.7	21.4
SGA	17.5	17.6	17.5	17.2	18.0	18.2	17.3	17.0	16.8	16.3	16.0	16.2	16.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Key metrics

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
P and L (Rsmn)													
Revenue	284,486	293,050	292,840	297,350	296,420	295,840	305,410	309,040	320,750	342,610	368,540	373,380	380,100
EBITDA	74,119	73,470	76,170	77,330	76,270	69,140	76,600	77,810	81,470	85,780	97,710	95,640	95,370
PAT	63,412	63,170	65,860	67,780	66,080	59,450	64,460	65,310	69,040	73,400	79,010	81,050	81,260
Vertical Mix (%)													
BFSI	40.9	33.3	33.6	33.9	32.9	32.9	33.0	32.1	31.5	31.1	31.2	30.8	30.8
Manufacturing	10.4	7.3	7.3	7.4	7.4	7.5	7.5	7.6	7.4	7.3	7.2	7.2	7.2
Communication and Media	10.8	7.0	7.2	6.7	7.2	7.3	7.3	7.4	7.4	7.1	6.9	6.9	6.9
Life Sciences	7.3	6.8	7.0	6.9	6.9	7.1	7.2	7.3	7.2	7.3	7.5	7.6	7.7
Retail & Distribution	14.1	13.5	13.0	13.0	12.3	12.2	11.9	12.5	12.3	16.6	16.6	16.5	16.2
Hi-Tech	5.6	7.8	7.7	7.8	7.8	7.9	8.1	8.0	7.8	7.7	7.6	7.6	7.4
Travel and hospitality	3.7	3.2	3.3	3.2	3.4	3.5	3.8	3.8	4.0	-	-	-	-
Transportation													
Energy And Utility	4.1	3.6	3.7	3.6	3.7	4.0	4.2	4.5	4.8	4.8	4.6	4.7	4.6
Media & Entertainment													
Others	3.1	17.5	17.2	17.5	18.4	17.6	17.0	16.8	17.6	18.1	18.4	18.7	19.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Horizontal Mix (%)													
Application Development & Maintenance	39.4	38.5	38.4	37.2	37.7	The company has stopped reporting the numbers							
Business Intelligence	0	0	0	0	0								
Enterprise Solutions	17.1	17.7	17.8	17.5	17.3								
Assurance Services	8.8	8.8	9	9	9								
Product Engineering Services	4.7	4.8	4.8	4.9	5								
Infrastructure Management	15.2	15.5	15.7	16.8	16.2								
Global Consulting	0	0	0	0	0								
Asset Leveraged solutions	3.2	3.2	2.6	3	2.9								
Business Process Outsourcing	11.6	11.5	11.7	11.6	11.9								
Total	100.0	100.0	100.0	100.0	100.0								
Geographic Mix (%)													
North America	54.0	53.5	54.0	55.0	53.3	52.5	51.9	52.0	50.2	51.0	51.1	51.2	50.7
UK	14.9	14.8	13.8	13.3	13.7	13.9	14.0	14.1	15.2	15.5	15.6	15.5	15.9
Europe	11.2	11.5	11.8	11.1	11.8	12.5	13.4	13.5	14.2	14.0	14.0	14.1	14.1
India	5.9	6.2	5.8	6.3	6.8	7.0	6.3	6.3	6.2	5.8	5.6	5.7	5.8
APAC	9.6	9.6	10.2	9.6	9.7	9.5	9.8	9.5	9.7	9.6	9.6	9.4	9.5
Ibero America	2.0	2.0	2.0	2.2	2.1	2.1	2.2	2.2	2.0	1.9	2.1	2.0	2.0
MEA	2.4	2.4	2.4	2.5	2.6	2.5	2.4	2.4	2.5	2.2	2.1	2.1	2.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.1	100.0	100.0
Number of Client													
\$100mn +	37	37	36	34	35	36	37	37	38	40	44	45	44
\$50mn +	73	77	78	80	84	85	91	94	97	97	98	99	99
Employee Number	353,843	362,079	371,519	378,497	387,223	385,809	389,213	390,880	394,998	400,875	411,102	417,929	424,285
Net Addition	9,152	8,236	9,440	6,978	8,726	(1,414)	3,404	1,667	4,118	5,877	10,227	6,827	6,356
Attrition (%)	15.5	13.6	12.9	12.2	11.5	12.4	12.1	11.9	11.0	10.9	10.9	11.2	11.3

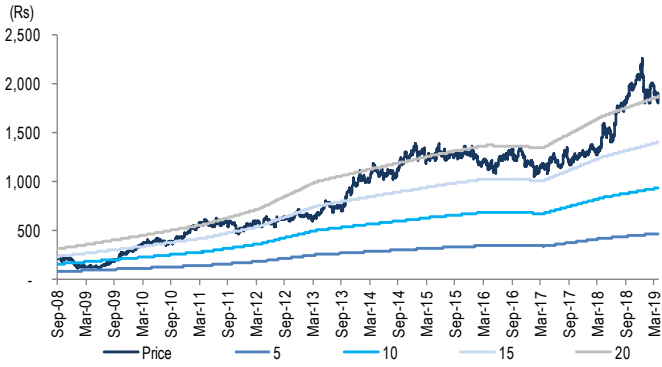
Source: Company, Nirmal Bang Institutional Equities Research

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

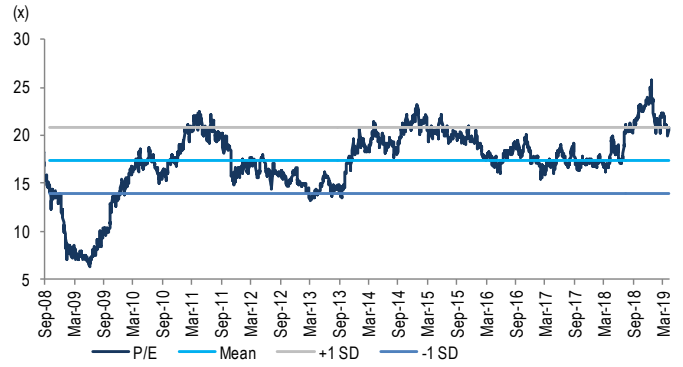
	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
QoQ Growth (%)																	
Revenue	(1)	3	3	0	1	4	0	0	1	3	3	1	4	2	3	1	3
Geographical Data																	
Americas	0	4	3	1	2	3	1	2	(2)	2	2	1	0	3	3	1	2
UK	(2)	5	5	(3)	(5)	3	(7)	(3)	5	5	4	2	12	4	4	0	5
Europe	(6)	3	1	1	4	6	3	(6)	8	9	11	2	9	0	3	1	3
India	1	0	5	(8)	(0)	9	(6)	9	10	6	(7)	1	2	(5)	(0)	2	5
APAC	0	1	1	(0)	4	4	7	(6)	3	1	6	(2)	6	1	3	(1)	4
Ibero America	(1)	(6)	(2)	16	(3)	4	0	10	(3)	3	8	1	(6)	(3)	14	(4)	3
MEA	4	8	12	(9)	11	4	0	4	6	(1)	(1)	1	8	(11)	(1)	1	(2)
Verticals																	
BFSI							1	1	(2)	3	4	(2)	2	0	4	(1)	3
Manufacturing							0	2	1	5	3	2	1	0	2	1	3
Communication and Media							3	(7)	9	5	3	2	4	(3)	0	1	3
Life Science & Healthcare							3	(1)	1	6	5	2	2	3	6	2	4
Retail and distribution							(3)	0	(4)	2	1	6	2	37	3	0	1
Hi-Tech							(1)	2	1	4	6	(0)	1	0	2	1	0
Travel and hospitality							3	(3)	8	6	12	1	9	0	0	0	0
Energy and Utilities							3	(2)	4	11	8	8	11	2	(1)	3	1
Regional Market & Others							(1)	2	7	(1)	(0)	(0)	9	4	5	2	6
Services																	
Application Development & Maintenance	1	4	2	(1)	1	1	0	(3)	3								
Enterprise Solutions	(1)	1	2	16	(0)	7	1	(1)	0	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	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	(2)	5	5	(1)	4	4	3	0	1								
Engineering and Industrial Services	(1)	3	3	(0)	6	6	0	2	4								
Infrastructure Services	1	5	3	3	1	6	2	7	(2)								
Global Consulting	(14)	(6)	(11)	0	0	0	0	0	0								
Asset Leveraged solutions	(5)	12	32	(13)	16	4	(19)	16	(2)								
Business Process Outsourcing	(2)	3	2	3	(0)	3	2	(1)	4								
YoY Growth (%)																	
Revenue	14	11	9	6	5	8	8	5	6	6	5	8	9	12	10	10	10
Geographical Data																	
Americas	12	11	9	9	11	10	8	9	4	3	4	3	5	7	8	8	10
UK	(1)	(1)	1	4	1	(1)	(11)	(11)	(3)	(1)	10	16	24	23	23	21	14
Europe	2	0	(1)	(2)	9	13	15	8	11	14	23	33	34	23	15	15	8
India	19	11	6	(3)	(4)	5	(6)	11	22	19	18	9	2	(9)	(2)	(1)	2
APAC	47	38	(2)	2	6	8	14	8	7	4	4	8	12	11	8	9	6
Ibero America	6	(6)	0	5	3	14	17	11	11	11	19	9	6	(0)	5	(0)	9
MEA	11	20	34	16	23	18	5	20	15	10	8	5	7	(3)	(4)	(4)	(13)
Verticals																	
BFSI										4	6	3	7	4	4	5	6
Manufacturing										8	11	12	12	7	6	4	6
Communication and Media										10	10	21	15	7	4	2	1
Life Science & Healthcare										10	11	15	17	13	15	14	16
Retail and distribution										(5)	(1)	5	12	50	54	45	43
Hi-Tech										7	14	12	12	7	3	4	3
Travel and hospitality										15	25	30	31	0	0	0	0
Energy and Utilities										17	23	36	45	32	21	15	4
Regional Market & Others										6	7	5	7	13	19	22	18
Services																	
Application Development & Maintenance	9	8	4	6	6	3	1	(1)	1								
Enterprise Solutions	9	4	2	19	20	27	25	6	7								
Assurance Services	11	8	10	7	13	12	9	11	8								
Engineering and Industrial Services	4	9	3	5	13	15	12	15	13								
Infrastructure Services	35	27	13	12	13	14	12	17	13								
Global Consulting	5	(1)	(17)	0	0	0	0	0	0								
Asset Leveraged solutions	(2)	9	47	23	50	38	(14)	13	(4)								
Business Process Outsourcing	7	6	4	6	8	8	8	4	9								

Source: Nirmal Bang Institutional Equities Research

Exhibit 11: P/E multiple charts

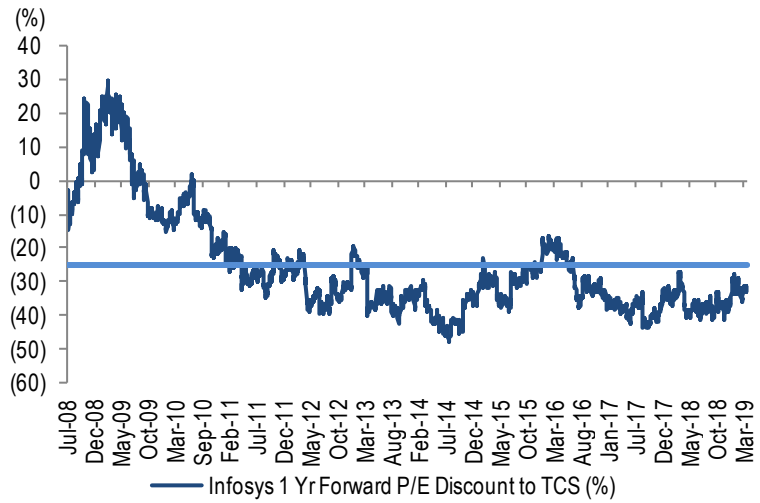


Source: Bloomberg, Nirmal Bang Institutional Equities Research



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 12: P/E premium/(discount) chart of Infosys versus TCS



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 12-Apr-19	2,015	748	283	1,083	785	976	611
Currency	INR	INR	INR	INR	INR	INR	INR
Market Value (Rs Bn)	7,713	3,250	1,399	1,473	692	161	49
(US\$m)	107,120	45,141	19,437	20,465	9,617	2,242	679
March 2020 Target Price	1,614	601	209	1,076	587	554	489
Upside/(downside)	-19.9%	-19.7%	-26.2%	-0.7%	-25.3%	-43.2%	-19.9%
Recommendation	Sell	Sell	Sell	Accumulate	Sell	Sell	Sell
FDEPS (Rs)							
FY18	67.0	32.5	16.8	62.9	42.8	34.7	40.4
FY19E	83.1	36.0	18.5	74.4	50.1	46.2	44.2
FY20E	93.4	38.9	17.8	83.4	56.2	54.2	57.2
FY21E	97.8	40.4	18.1	87.0	59.3	56.0	59.3
PE (x)							
FY18	30.1	23.0	16.9	17.2	18.3	28.1	15.1
FY19E	24.3	20.8	15.3	14.6	15.7	21.1	13.8
FY20E	21.6	19.2	15.9	13.0	14.0	18.0	10.7
FY21E	20.6	18.5	15.7	12.5	13.3	17.4	10.3
EV/EBITDA (x)							
FY18	23.6	16.1	13.8	11.2	13.8	19.5	10.7
FY19E	19.1	14.6	11.2	9.2	9.8	13.6	8.7
FY20E	18.0	13.5	9.2	8.2	8.8	11.0	6.8
FY21E	17.3	12.9	8.8	7.7	8.3	10.3	6.1
EV/Sales (x)							
FY18	6.2	4.3	2.6	2.5	2.1	2.6	1.7
FY19E	5.2	3.7	2.2	2.1	1.8	2.1	1.5
FY20E	4.7	3.4	1.9	1.9	1.6	1.8	1.2
FY21E	4.5	3.2	1.8	1.8	1.5	1.7	1.1
Pre Tax ROIC (%)							
FY18	57.3	44.9	24.5	38.9	25.8	32.9	29.7
FY19E	61.8	47.5	29.2	37.3	36.3	47.6	41.4
FY20E	59.4	49.4	35.4	34.1	38.1	51.3	49.9
FY21E	58.9	48.2	35.8	30.1	38.7	53.2	53.5

Source: Bloomberg, Nirmal Bang Institutional Equities Research

Financials

Exhibit 14: Income statement

Y/E March (Rsbn)	FY17	FY18	FY19	FY20E	FY21E
Average INR/USD	67.1	64.5	70.1	72.0	74.5
Net Sales (USD mn)	17,575	19,089	20,913	22,736	22,883
-Growth (%)	6.2	8.6	9.6	8.7	0.6
Net Sales	1,180	1,231	1,465	1,637	1,705
-Growth (%)	8.6	4.4	19.0	11.8	4.1
Cost of Sales & Services	669	713	852	961	1,006
Gross Margin	511	518	613	676	699
% of sales	43.3	42.1	41.9	41.3	41.0
SG&A	208	213	239	270	275
% of sales	17.6	17.3	16.3	16.5	16.1
EBIT	303	305	375	406	424
EBIT Margin (%)	25.7	24.8	25.6	24.8	24.9
Other income (net)	42	36	41	57	61
PBT	345	341	416	463	485
-PBT margin (%)	29.3	27.7	28.4	28.3	28.4
Provision for tax	82	82	100	112	117
Effective tax rate (%)	23.6	24.1	24.1	24.1	24.1
Minority Interest	1	1	1	1	1
Net profit	263	258	315	350	367
-Growth (%)	8.6	(1.8)	21.9	11.3	4.7
-Net profit margin (%)	22.3	21.0	21.5	21.4	21.5
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	FY19	FY20E	FY21E
Equity capital	2.0	1.9	3.8	3.8	3.8
Reserves & surplus	885	875	916	1,115	1,323
Net worth	887	876	920	1,118	1,327
Minority Interest	-	-	-	-	-
Other liabilities	21	29	29	32	33
Total loans	3	2	1	1	1
Total liabilities	911	908	950	1,151	1,361
Goodwill	38	39	40	40	40
Net block (incl. CWIP)	117	116	117	116	117
Investments	3	3	2	2	2
Deferred tax asset - net	28	34	26	29	30
Other non-current assets	62	76	59	61	62
Other current assets	485	427	470	476	478
Debtors	280	320	330	385	397
Cash & bank balance	36	49	72	72	72
Bank deposits	4	21	54	206	402
Total current assets	805	815	926	1,138	1,350
Total current liabilities	143	176	221	236	241
Net current assets	662	639	706	903	1,109
Total assets	911	908	950	1,151	1,361

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Cash flow

Y/E March (Rsbn)	FY17	FY18	FY19	FY20E	FY21E
EBIT	303	305	375	406	424
(Inc./dec. in working capital)	6	(20)	(50)	(47)	(11)
Cash flow from operations	309	285	325	359	413
Other income	42	36	41	57	61
Depreciation & amortisation	20	20	25	18	18
Financial expenses	-	-	-	-	-
Tax paid	(82)	(82)	(100)	(112)	(117)
Dividends paid	(112)	(116)	(136)	(152)	(158)
Net cash from operations	178	143	155	170	217
Capital expenditure	(19)	(19)	(26)	(18)	(19)
Net cash after capex	159	124	129	152	198
Inc./(dec.) in debt	0	(0)	(2)	-	-
(Inc./dec. in investments)	(192)	60	67	-	-
Equity issue/(Share Buyback)	-	(160)	(160)	-	-
Cash from financial activities	(191)	(101)	(95)	-	-
Others	5	5	23	(1)	(1)
Opening cash	67	40	69	127	278
Closing cash	40	69	126	278	474
Change in cash	(28)	29	57	151	197

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Key ratios

Y/E March	FY17	FY18	FY19	FY20E	FY21E
Per Share (Rs)					
EPS	66.7	67.0	83.1	93.4	97.8
FDEPS	66.7	67.0	83.1	93.4	97.8
Dividend Per Share	23.5	25.1	29.9	33.6	35.0
Dividend Yield (%)	1.2	1.2	1.5	1.7	1.7
Book Value	231.6	228.9	240.3	292.1	346.6
Dividend Payout Ratio (excl DT)	42.4	37.2	36.0	36.0	35.8
Return ratios (%)					
RoE	32.4	29.3	35.0	34.4	30.0
RoCE	33.7	30.7	35.7	34.2	30.3
Pre Tax ROIC (%)	60.8	57.3	61.8	59.4	58.9
Turnover Ratios					
Asset Turnover Ratio	1.1	1.1	1.3	1.2	1.1
Debtor Days (incl. unbilled Rev)	87	95	82	86	85
Working Capital Cycle Days	64	63	72	74	74
Valuation ratios (x)					
PER	30.2	30.1	24.3	21.6	20.6
P/BV	8.7	8.8	8.4	6.9	5.8
EV/EBTDA	23.8	23.6	19.1	18.0	17.3
EV/Sales	6.5	6.2	5.2	4.7	4.5
M-cap/Sales	6.5	6.3	5.3	4.7	4.5

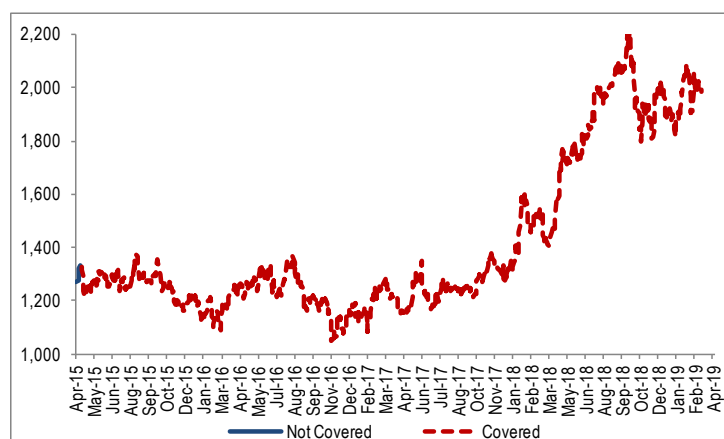
Source: Company, Nirmal Bang Institutional Equities Research

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
05 October 2018	Accumulate	2,063	2,145
12 October 2018	Accumulate	1,980	2,120
27 December 2018	Sell	1,892	1,712
7 January 2019	Sell	1,877	1,533
11 January 2019	Sell	1,883	1,545
18 March 2019	Sell	2,040	1,607
19 March 2019	Sell	2,023	1,607
15 April 2019	Sell	2,015	1,614

* Post 1:1 Bonus

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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