

RESEARCH
Tata Consultancy Services | Target: Rs 3,180 | +16% | BUY

Demand recovery drives outperformance

SUMMARY
Tata Consultancy Services

TCS' growth of 7.2% USD outperformed street's estimates. The growth was broad-based driven by BFSI and life-sciences, along with surprising growth in retail. The demand recovery for FY21 has happened earlier than expected. Adjusted EBIT margin stood at 26.2%, growing 260bps QoQ. US \$8.6bn TCV is back to 96% of pre-covid levels. TCS announced buyback of 53.3mn shares at Rs 3,000/share. Factoring in demand recovery and buyback, we increase FY22/FY23 EPS by ~19%/23%, raising our Sep'22 TP to Rs 3,180. BUY.

[Click here for the full report.](#)

TOP PICKS
LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	4,000
Cipla	Buy	850
GAIL	Buy	155
Petronet LNG	Buy	310
Tech Mahindra	Buy	910

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Chola Investment	Buy	280
Laurus Labs	Buy	1,200
Transport Corp	Buy	270
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.74	(5bps)	2bps	(79bps)
India 10Y yield (%)	6.03	2bps	9bps	(65bps)
USD/INR	73.46	(0.2)	(0.4)	(3.4)
Brent Crude (US\$/bbl)	42.65	3.3	0	(26.8)
Dow	27,773	(1.3)	(1.3)	6.1
Shanghai	3,218	(0.2)	(4.1)	10.5
Sensex	39,575	1.5	3.2	5.4
India FII (US\$ mn)	5 Oct	MTD	CYTD	FYTD
FII-D	(54.3)	(297.1)	(14,976.9)	(5,217.4)
FII-E	46.5	300.3	4,340.4	10,943.3

Source: Bank of Baroda Economics Research

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BUY

TP: Rs 3,180 | ▲ 16%

**TATA CONSULTANCY
SERVICES**

| IT Services

| 08 October 2020

Demand recovery drives outperformance

TCS' growth of 7.2% USD outperformed street's estimates. The growth was broad-based driven by BFSI and life-sciences, along with surprising growth in retail. The demand recovery for FY21 has happened earlier than expected. Adjusted EBIT margin stood at 26.2%, growing 260bps QoQ. US \$8.6bn TCV is back to 96% of pre-covid levels. TCS announced buyback of 53.3mn shares at Rs 3,000/share. Factoring in demand recovery and buyback, we increase FY22/FY23 EPS by ~19%/23%, raising our Sep'22 TP to Rs 3,180. BUY.

Ruchi Burde | Seema Nayak

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Recovery outperforms: TCS' QoQ growth of 7.2 % exceeded our expectation of 2.8% USD growth, registering its best QoQ growth in last twenty quarters. The recovery was driven by traction in BFSI, retail-cpg and life-sciences and healthcare which grew by 6.2%/8.8%/6.9%, cc, respectively. Cloud and digital demand lead to an earlier than expected demand recovery. TCS benefited from the vendor consolidation exercise of clients. The EBIT margin stood at 23.2%, impacted by ~Rs 1.2bn legal settlement for EPIC systems case vs. our estimate of 24.3%. Adjusted EBIT stood strong at 26.2%, growing by a stellar 260 bps QoQ. TCS will also be resuming its salary hike cycles for FY21.

TCV back to pre-covid levels; pipeline healthy: TCV stood strong at US\$ 8.6bn bouncing, back to pre-covid level of US\$ 8.9bn. It grew 25% QoQ and 34% YoY. Pipeline is an even mix of large and small deals. Excluding the Phoenix deal win, the TCV stood at US\$ 6.1bn. Management is confident of H2FY21 growth despite uncertainties and seasonal weakness of Q3.

Buyback approved: TCS' board approved buyback of 53.3mn equity shares for an aggregate amount not exceeding Rs 160bn being 1.42% of the total paid-up equity share capital, at Rs 3,000/ share. This is similar to TCS' previous buyback of Rs 160bn in FY18. Interim dividend of Rs 12/share has been announced.

Ticker/Price	TCS IN/Rs 2,736
Market cap	US\$ 140.1bn
Shares o/s	3,753mn
3M ADV	US\$ 152.4mn
52wk high/low	Rs 2,770/Rs 1,506
Promoter/FPI/DII	72%/17%/11%

Source: NSE

STOCK PERFORMANCE

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	1,464,630	1,569,490	1,673,534	2,135,763	2,487,379
EBITDA (Rs mn)	395,050	421,100	454,419	611,431	702,151
Adj. net profit (Rs mn)	315,240	323,400	327,360	450,338	517,277
Adj. EPS (Rs)	84.0	86.2	88.5	121.7	139.8
Adj. EPS growth (%)	25.3	2.6	2.7	37.6	14.9
Adj. ROAE (%)	35.5	37.0	36.7	44.3	42.2
Adj. P/E (x)	32.6	31.8	30.9	22.5	19.6
EV/EBITDA (x)	25.9	24.2	22.5	16.8	14.5

Source: Company, BOBCAPS Research



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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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