

**RESEARCH**
**Tata Consultancy Services | Target: Rs 4,630 | +18% | BUY**

Management confident of strong medium-term demand

**SUMMARY**
**Tata Consultancy Services**

- Q2 revenue grew 2.9% QoQ USD, in line with our estimate of 3%; TCV was healthy at US\$ 7.6bn
- EBIT margin at 25.6% came in below estimates due to supply pressure, higher subcontracting costs and increased depreciation
- We lower FY22/FY23 EPS by 3%/4% post Q2 and revise our Sep'22 TP to Rs 4,630 (vs. Rs 4,800); retain BUY

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**Daily macro indicators**

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.57	5bps	25bps	79bps
India 10Y yield (%)	6.27	(1bps)	10bps	25bps
USD/INR	74.79	0.3	(2.3)	(2.1)
Brent Crude (US\$/bbl)	81.95	1.1	13.5	89.1
Dow	34,755	1.0	(1.7)	22.3
Shanghai	3,568	0.9	(1.5)	10.9
Sensex	59,678	0.8	2.4	48.5
India FII (US\$ mn)	06-Oct	MTD	CYTD	FYTD
FII-D	(14.1)	20.0	95.0	2,122.3
FII-E	(105.0)	624.0	9,153.9	1,827.6

Source: Bloomberg

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**BUY**  
 TP: Rs 4,630 | ▲ 18%

**TATA CONSULTANCY SERVICES**

Technology & Internet

09 October 2021

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**In-line revenue:** TCS's Q2FY22 revenue grew 2.9% USD/4% CC, in line with our estimate of 3% USD/4% CC. Growth was backed by a pickup in the technology & services (+5.3% QoQ USD), telecom (+4.5%), retail (+4.3%) and manufacturing (+4%) verticals. The hi-tech vertical growth was driven by the NXP Semiconductor deal. Geography-wise, North America and Latin America grew the most. India grew 14.1% QoQ USD, recovering from the 15.6% QoQ decline in Q1FY22.

**Miss on margins:** EBIT margin stood at 25.6% (+10bps QoQ), below our estimate of 26.3% due to expensive backfilling costs from increased attrition amid a widespread supply crunch. Employee cost and SG&A were stable QoQ as a percentage of revenue, but depreciation increased 3.6% QoQ (in INR terms). Subcontracting costs rose 30bps QoQ (8.6% of revenue). Net margin was at 20.5%.

**Deal pipeline robust; more small-to-midsized wins:** Deal win TCV at US\$ 7.6bn declined 7% QoQ (-12% YoY) and consisted entirely of small-to-midsized contracts, per management. In contrast, Q2FY21 had a US\$ 2.6bn deal – excluding this large deal from the base quarter, TCV was up 25% YoY. The pipeline is healthy and has a similar mix of small and midsized engagements. BFSI/retail TCV were at US\$ 2.1bn/1.2bn. MFDM and TCS Cognix powered five large deal wins for digital transformation of operations. Q2 had several wins in the area of cloud transformation as well.

**Strong, sustainable demand ahead:** Management emphasised that growth visibility remains strong in the medium term and looks sustainable over an extended period. The three broad demand themes are increasing outsourcing, digitising/transforming operating models, and growth & transformation agendas. Cloud migration is another key demand driver.

**Reiterate BUY:** We lower FY22/FY23/FY24 EPS by 3%/4%/4% to factor in the Q2 margin miss and a continued tight supply environment for the next couple of quarters. Our Sep'22 TP stands revised to Rs 4,630 (vs. Rs 4,800), based on an unchanged one-year forward P/E of 36.5x. Reiterate BUY based on the Q2 revenue pickup, robust TCV and management's optimism on demand.

**Key changes**

Target	Rating
▼	◀ ▶

Ticker/Price	TCS IN/Rs 3,936
Market cap	US\$ 197.0bn
Free float	28%
3M ADV	US\$ 113.9mn
52wk high/low	Rs 3,990/Rs 2,600
Promoter/FPI/DII	72%/17%/11%

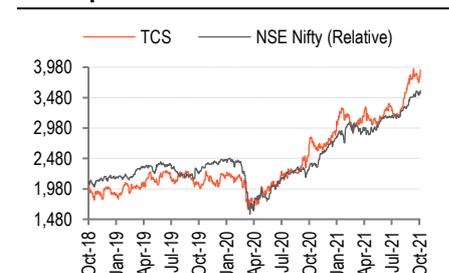
Source: NSE | Price as of 8 Oct 2021

**Key financials**

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	1,641,770	1,897,907	2,181,215
EBITDA (Rs mn)	465,460	528,904	615,714
Adj. net profit (Rs mn)	336,480	382,624	442,959
Adj. EPS (Rs)	90.9	103.4	119.7
Consensus EPS (Rs)	90.9	107.2	119.2
Adj. ROAE (%)	39.2	39.4	37.4
Adj. P/E (x)	43.3	38.1	32.9
EV/EBITDA (x)	31.6	27.9	23.9
Adj. EPS growth (%)	5.5	13.7	15.8

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



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### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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