

**RESEARCH**
**TATA CONSULTANCY SERVICES | TARGET: Rs 4,120 | +6% | HOLD**

Strong deal flow but near-term softness to continue

**SUMMARY**
**TATA CONSULTANCY SERVICES**

- TCS gained market share through vendor consolidation/cost optimisation programmes
- Operating margin was strong on a 26% QoQ basis; order book stood at all-time high of US\$ 13.2bn
- Maintain HOLD with a new TP of Rs 4,120 as the discretionary demand climate remains volatile

[Click here for the full report.](#)
**Daily macro indicators**

Indicator	12-Apr	15-Apr	Chg (%)
US 10Y yield (%)	4.52	4.60	8bps
India 10Y yield (%)	7.18	7.18	0bps
USD/INR	83.42	83.45	0.0
Brent Crude (US\$/bbl)	90.5	90.1	(0.4)
Dow	37,983	37,735	(0.7)
Hang Seng	16,722	16,600	(0.7)
Sensex	74,245	73,400	(1.1)
India FII (US\$ mn)	10-Apr	12-Apr	Chg (\$ mn)
FII-D	165.4	(211.8)	(377.2)
FII-E	388.2	(952.1)	(1,340.2)

Source: Bank of Baroda Economics Research



**HOLD**  
 TP: Rs 4,120 | ▲ 6%

**TATA CONSULTANCY SERVICES**

Technology & Internet

16 April 2024

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**Emerging market to drive FY25 topline:** TCS posted a topline of US\$ 7,363mn, up 1.1% YoY CC, driven by regional markets. The deal with BSNL will likely play a crucial role in driving TCS's FY25 revenue growth as 80% of the BSNL network of 4G/5G rollout is yet to be completed. TCS's deal market share comes from several vendor consolidation programmes, mostly due to cost optimisation backed by IaaS. While Accenture has clearly mentioned the impact on its consulting portfolio business, TCS has bagged a large share of new/shorter deal bookings.

**Robust deal TCV in Q4FY24:** According to TCS, it booked its highest-ever deals in one quarter – US\$ 13.2bn (absolute and book-to-bill terms) – due to solid traction in SAP S/4 HANA, Salesforce, ServiceNow and Oracle cloud platforms. The large delta in FY24 bookings came from Aviva, BSNL (US\$ 1bn+ TCV, Q2) and JLR (US\$ 1bn+ TCV, Q2). TCS witnessed its second highest-ever deal bookings for North America after eight quarters. Europe stayed strong on the back of successful acquisitions in UK/Continental Europe and bagged many deals like Enento Group, Akzo Nobel, Aviva, etc.

**Strong execution beats the Street's estimate:** Operating margin expanded by ~100bps on a 190bps improvement from lower subcon cost, improved productivity and better utilisation which was partially offset by 90bps of higher third-party cost and travel expenses. Despite the drop in headcount and lower fresher intake in FY24, the company focused on higher training/higher learning hours which will help recalibrate the employee pyramid.

**Maintain HOLD:** TCS emphasised its cost optimisation agenda was serving it well compared to its peers with higher consulting exposure in their services portfolios. TCS expects Q4FY24 deal TCVs along with BSNL to drive its growth momentum in FY25. We believe better FCF yield, strong deal wins and better execution will lead to better revenue visibility and demand valuation premium over Tier-I IT companies. TCS is trading at 27.6x/25.4x FY25E/FY26E EPS. We retain our HOLD rating and continue to value the stock at 27x FY26E EPS (in line with its five-year average), for a new TP of Rs 4,120 (old TP of Rs 4,050).

**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	TCS IN/Rs 3,873
Market cap	US\$ 170.6bn
Free float	28%
3M ADV	US\$ 122.8mn
52wk high/low	Rs 4,255/Rs 3,070
Promoter/FPI/DII	72%/17%/11%

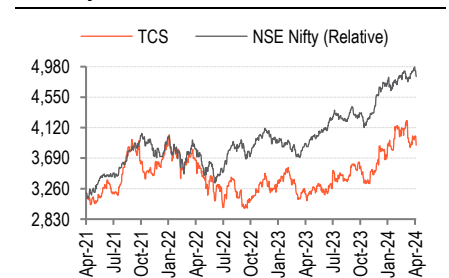
Source: NSE | Price as of 16 Apr 2024

**Key financials**

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	24,08,930	25,84,597	28,14,642
EBITDA (Rs mn)	6,53,070	6,99,107	7,61,331
Adj. net profit (Rs mn)	4,72,940	5,08,236	5,52,509
Adj. EPS (Rs)	129.3	140.4	152.6
Consensus EPS (Rs)	129.3	138.1	147.5
Adj. ROAE (%)	51.8	50.1	45.1
Adj. P/E (x)	30.0	27.6	25.4
EV/EBITDA (x)	21.5	20.1	18.4
Adj. EPS growth (%)	9.0	8.6	8.7

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

**Stock performance**



Source: NSE



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**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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