

**RESEARCH**
**Tata Consultancy Services | Target: Rs 3,890 | +19% | BUY**

India contraction plays spoilsport; core market growth intact

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

- TCS reported 2.4% QoQ cc growth (vs. est. of 3.5%), impacted by contraction in India geography. Core market growth was intact at 4.1%.
- TCV remained robust at US\$8.1bn, highest ever TCV for first quarter. BFSI led the TCV pack with deal wins worth US\$2.2bn
- We tweak FY22/FY23 EPS lower by 5-6%, retain BUY with revised Jun'22 TP of Rs3,890 set at updated target P/E to 29.6x

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**Daily macro indicators**

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.32	(3bps)	(24bps)	65bps
India 10Y yield (%)	6.17	(1bps)	14bps	39bps
USD/INR	74.62	(0.1)	(2.2)	0.5
Brent Crude (US\$/bbl)	73.43	(1.5)	2.1	69.6
Dow	34,682	0.3	(0.2)	33.0
Shanghai	3,554	0.7	(1.1)	4.4
Sensex	53,055	0.4	1.8	46.0
<b>India FI</b> <b>(US\$ mn)</b>	<b>06-Jul</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-D	(119.5)	(57.8)	(3,224.6)	(1,197.4)
FII-E	139.4	(152.7)	7,931.5	605.2

Source: Bank of Baroda Economics Research

**BOBCAPS Research**

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**BUY**

TP: Rs 3,890 | ▲ 19%

**TATA CONSULTANCY SERVICES**

| IT Services

| 09 July 2021

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**Core market growth intact:** TCS reported QoQ revenue growth of 2.4% CC/2.7% USD, underperforming our (3.5% CC/4% USD) and street's estimates on soft India and emerging geography performance. Core markets grew 4.1% QoQ cc, which was more in-line with markets and our estimates. However, overall demand is robust, as indicated by its highest-ever first quarter TCV of US\$ 8.1bn, up 17%YoY on a strong base of US\$ 6.9bn in Q1FY21. BFSI was leading with US\$2.2bn TCV, followed by retail which achieved its highest TCV ever of US\$1.5bn.

**Covid impacted verticals recover:** Vertical-wise, BFSI posted robust growth of 3.7% QoQ USD. Covid impacted verticals such as: manufacturing and RCPG both recovered by ~5% USD each and life sciences was leading at 8%. Geographically, UK, North America and Europe grew the most at 2-4.7% QoQ USD. India- hit by second wave, contracted 15.6% USD, QoQ. The robust secular showing in core markets indicates the strong demand from the multiyear demand growth cycle wherein we expect TCS to be the prime beneficiary.

**Record hiring:** With a highest ever net hiring of 20,409, TCS crossed the 500,000 employees milestone. TCS plans to hire more than 40,000 freshers in FY22 (similar to last year). In an environment where digital talent is in short supply, having a cushion of adequate digital talent will help TCS be prepared for a rise in demand.

**Stable margin:** EBIT margin stood at 25.5%, down 130bps QoQ, almost in-line with our estimate of 25.9%. The 130bps QoQ impact was due to mix of annual wage hike and few pre-pandemic costs rising up. We are optimistic of TCS maintaining its margin in the aspirational range of 26-28% in the upcoming quarters as it will showcase the best talent retention among peers.

**Retain BUY:** The subdued growth this quarter has been the result of adversely impacted India geography. However, this India business is not lost, it has simply been deferred. Also, we expect TCS to have the best margin defence against rising pre-covid costs and a supply pressures. Maintain BUY with a new TP of Rs3,890.

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### Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	TCS IN/Rs 3,259
Market cap	US\$ 163.7bn
Free float	28%
3M ADV	US\$ 99.7mn
52wk high/low	Rs 3,400/Rs 2,125
Promoter/FPI/DII	72%/17%/11%

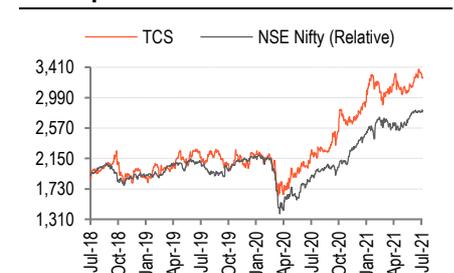
Source: NSE | Price as of 8 Jul 2021

### Key financials

Y/E 31 Mar	FY20A	FY21A	FY22E
Total revenue (Rs mn)	1,569,490	1,641,770	2,026,582
EBITDA (Rs mn)	421,100	465,460	590,316
Adj. net profit (Rs mn)	323,400	336,480	435,024
Adj. EPS (Rs)	86.2	90.9	117.6
Consensus EPS (Rs)			
Adj. ROAE (%)	37.0	39.2	44.2
Adj. P/E (x)	38.0	36.0	27.9
EV/EBITDA (x)	29.0	26.3	20.8
Adj. EPS growth (%)	2.6	5.5	29.3

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



Source: NSE



## Disclaimer

### 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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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