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TATA CONSULTANCY SERVICES

| IT Services

| 10 January 2025

'25 may be better than '24 but not by much. Macro a challenge

- 3QFY25 broadly in line. International growth weaker than expected. 4Q TCV must be a bumper one for FY25 to match FY24
- BSNL backfilling risk lower than expected. Discretionary pick-up macro driven. Current 'higher for longer interest rates' not a good backdrop
- New INR/USD est. drives modest EPS upgrade. Underperformance in last 6 months and reduced BSNL risk could be near term stock driver

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Broadly in line: Revenue falls a tad short, but margins are a tad better. Seasonality comes into play. Flattish CC QoQ growth is India driven (non BSNL work). USD QoQ revenue decline of 1.7% was impacted by 2.7% international revenue decline (~90% of revenue) and 8.2% India revenue increase. International revenue was down due to seasonality. But India strength and international weakness has been greater than expected.

Discretionary spend pick up expectation is macro driven and is therefore iffy: TCS sounded more positive on discretionary spend (sees 'early signs' of a broader pick up beyond BFSI) but this seems to be dependent on a soft-landing scenario with inflation and interest rates coming off. It is also based on its conversations with clients. This is not reflected in 3Q numbers yet. As we state in our recent reinitiation report (**Slow is the (new/old) normal**) the macro has changed materially since Sept 2024. And may adversely impact demand.

TCV pick up is good but 4Q must be a bumper one for FY25 to equal FY24: 9MFYTD TCV is down 8% and 4Q number must be ~US\$16bn (FY25 quarterly average is US\$9bn) for FY25 TCV to equal that of FY24. Lack of mega deals has been an issue in FY25. The bumper TCV in FY24 has not helped much as customers postponed execution and focused on ROI.

Decision cycle time has reduced: Compared to previous quarters decision cycles are lower by a few weeks and clients are talking about shift towards discretionary spending, The conversion to revenue may happen faster if there is more discretionary spending.

Better outlook for 2025 is based on growth pickup in international markets: TCS expects a broader pick up across sectors except Healthcare and Life sciences. Manufacturing is expected to recover with a lag. BFSI and retail seem to be firing.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	TCS IN/Rs 4,039
Market cap	US\$ 170.2bn
Free float	28%
3M ADV	US\$ 107.1mn
52wk high/low	Rs 4,592/Rs 3,592
Promoter/FPI/DII	72%/13%/11%

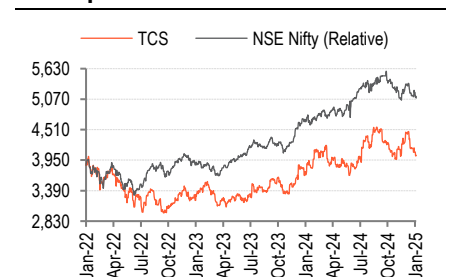
Source: NSE | Price as of 9 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	24,08,930	25,60,046	27,89,302
EBITDA (Rs mn)	6,42,950	6,86,553	7,54,145
Adj. net profit (Rs mn)	4,65,850	4,97,021	5,51,353
Adj. EPS (Rs)	128.8	137.4	152.4
Consensus EPS (Rs)	128.8	137.9	154.5
Adj. ROAE (%)	51.0	51.4	52.0
Adj. P/E (x)	31.4	29.4	26.5
EV/EBITDA (x)	22.5	21.1	19.2
Adj. EPS growth (%)	11.8	6.7	10.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Other key points

The EBIT Margin of 24.5% was better than expected by 40bps QoQ and higher than our estimate by the same amount. Seems to have offset impact of the cross-currency headwinds and seasonality. Ran a tighter ship with people number being tactically reduced by ~5300 QoQ. Utilization and pyramid apparently played their parts

TCV for the quarter was strong and broad-based at \$10.2 bn. Significant large deal wins across various markets and industries led to double-digit growth in TCV YoY, despite the absence of mega deal wins. North America TCV was at US\$5.9 billion, BFSI TCV was at US\$3.2 billion, and consumer business accounted for US\$1.3 billion.

Customer priorities in 3Q were centered around cost optimization, business transformation, Gen AI, and cloud services.

Technology modernization, SAP S/4HANA transformations, cloud engagements, data foundation for AI, and cybersecurity remained key areas of client investment.

Sectoral comments around demand and 3Q performance

- Signs of revival in discretionary spending were noted in BFSI and retail sectors, with growth expected in manufacturing, life sciences, and healthcare.
- BFSI in North America showed growth QoQ on a CC basis, with large BFSI accounts in North America contributing to this growth. In BFSI, AI/Gen AI adoption is high
- Consumer Business Group showed sequential growth, driven by improvements in retail across major markets. There are early signs of a recovery in discretionary spending in retail
- In the technology and software industry, client IT budgets remained flat, but TCS saw growth, particularly in foundational AI technology and semiconductor partnerships
- Manufacturing saw softness due to macroeconomic and industry-specific challenges, but a strong deal pipeline was noted in areas such as smart manufacturing and software-defined vehicles. Sector is expected to bottom out in 4Q and should begin to see growth thereafter
- The CME industry faced challenges due to technology-driven cost optimization but showed signs of IT spending recovery, especially in growth markets
- Optimism seen for the High-tech sector. Many semiconductor players and hyper scalers are planning to increase their spending in the coming year, and Gen AI and GPU investments are already progressing. There are opportunities in this sector, especially on the services side rather than just hardware or capital expenditures
- In the life sciences and healthcare verticals, there is still some policy uncertainty in the US that is impacting discretionary spending. Once policy clarity emerges, discretionary spending is expected to return in this sector

- For auto and aero, slow recovery is possible, though there is some revival happening in North America for the auto sector. In aerospace, the order book suggests growth potential, but labor market and supply chain issues have been affecting the sector. As these stabilize, demand should improve in aerospace

TCS expects 4Q to be a growth quarter QoQ particularly in international markets. As BSNL ramps down (but slower than expected and would last well into 1HFY26) and regional markets along with global market growth recover from furlough impacts - these factors should contribute to overall growth.

The aspiration for margins to reach 26% by 4Q remains, but the company has not committed to this target.

The decline in BSNL could be a potential margin lever for 4Q, as the company is 70% complete with the contract. The reduction in third-party costs will help, and product mix will also be a lever for margin growth moving into FY26

The early signs of revival are evident across multiple verticals and geographies. Deal wins have increased in BFSI, CBG, and several other sectors, with Europe performing exceptionally well. There is a positive mix of deals, including optimization, application modernization, cloud projects, and data-focused initiatives.

The BSNL project, which is 70% complete, will begin tapering off starting in 4Q, with a possibility of extending into 1Q or 2Q of the next fiscal year. The reduction in revenue from BSNL is expected to happen gradually over these quarters. The BSNL deal size (higher than previously anticipated) and its longevity reduces the backfilling risk connected with this large customer that the market was fearing

TCS will be participating in the 5G RFP for BSNL, since they have successfully executed the 4G project. However, TCS says it is too early to call whether the BSNL deal will be extended in the next fiscal year

The Board recommended a dividend of INR76 per share, comprising an interim dividend of INR10 and a special dividend of INR66 per share. Looks like the capital allocation policy is Cognizant of the new taxation norms which factors dividends over buybacks.

View on the Indian IT services sector: We reinitiated coverage on the Indian IT Services with UW stance through a report on 1 January, 2025 (**Slow is the (new/old) normal**).

Current valuations are disconnected with fundamentals. Since 1 June 2024, Nifty IT has outperformed Nifty significantly. However, consensus earnings for FY25 and FY26 have not moved much during this period. It has been an entirely PE expansion story. Tier-1 and Tier-2 Indian IT services stocks are trading at +1 SD and +2 SD above their five-year means respectively. The PE premium of Tier-2 to Tier-1 is at its historic peak.

Current high PE multiples imply sharp growth pickup in FY25-FY27E. We think it will be slower. We do not believe structurally Indian IT services industry will see the pandemic's 'compressed transformation' type of demand in the foreseeable future. We believe the industry's structural USD organic revenue growth from here on will be lower than the ~7% CAGR – seen during FY15-FY20.

10-year study of valuations and earnings growth indicates that Indian IT stocks are currently trading at +2.1 SD to +18.3 SD higher valuations compared to the mean multiples during the FY15-FY20 period. Yes, we would admit that certain companies have undergone a structural change for the better, but not to the extent that the bulls assume and not all of them.

Multiple speed breakers post FY25 drives our underweight stance

- Trump policies raise uncertainty. The tariffs, the conditional tax breaks, the immigration push back, DOGE, etc all point to uncertainty in the coming days which may delay decision making.
- Higher for longer interest rate environment: One of reasons for optimism around the Indian IT service sector in recent quarters has been the view that US would achieve a soft landing in 2025 (which we define as 0.5- 1.5% real GDP growth) and that Fed Funds rate would be gradually lowered from the recent peak of 5.25-5.5%, driven by lower inflation. This, the market felt, was the apt environment for a broader pick up in discretionary spending beyond that of North American BFSI sector, especially after two muted years when the constant refrain from vendors for the weak growth was of 'macro uncertainty'. However, recent inflation prints, stronger GDP growth, and a higher fiscal deficit have raised concerns. With US 10-year yields rising to 4.7% from a September 2024 low of 3.6%, there are fears that sustained high interest rates could reduce IT outsourcing demand, particularly in sectors like BFSI and Telecom, and dampen US consumption in areas like housing, autos and retail.
- Covid-induced pull forward of demand requires a multi-year unwind. We think there were excesses during the compressed transformation phase which are yet to be fully unwound.
- Gen AI – value compressive in the near term: Gen AI has significantly boosted revenue in semiconductors, data centers, and hyper scalers, but IT services have seen limited benefits. ROI remains a top concern arise due to heavy investment in surrounding services

- Massive hyper scaler AI capex should accentuate re-alignment in IT spend: Software players, including hyperscalers, are increasing capex on AI-related data centers. This will drive higher pricing, forcing enterprises to allocate more IT spend to cloud/SaaS
- Indian Tier-1 companies now face higher competition from Accenture, Tier-2 players, and Cognizant, likely slowing their growth compared to FY15-FY20. This is besides the fact that by FY25, Tier-1 revenue will reach \$85bn, double that in FY15. Due to the higher base now, growth may not be as rapid as it was when the base was lower
- The weak TCV for certain players in 1HFY25 and lack of any mega deal announcements in recent quarters points to a brewing growth problem for FY26

How we are valuing companies: We are using PE methodology and using TCS as our industry benchmark. The target PE multiple used for TCS is 24.6x (which is the average PE multiple of TCS over the last 5 years less 1SD). This is by no means pessimistic. 24.6x is higher than the 23.6x multiple which was the mean multiple of the FY15-FY20 time frame when revenue growth was ~150bps faster. During the Global Financial Crisis (GFC) downturn, the stock traded in the single digit PE multiple territory. We are using a 1SD discount to the five-year PE as we believe that industry and TCS will see a 'slower for longer' growth situation.

Why use a PE multiple that is 1SD lower than 5-year mean of TCS:

Through our choice of the benchmark Target PE multiple, we seek to capture the probability of downside risks to consensus growth expectations for FY26/FY27.

While the strong consensus estimates seem to imply a soft-landing macro scenario in the US, the higher probability event is a 'no landing, higher-for-longer interest rate' scenario which we believe has a 50-60% probability. The probability of a recession is also not insignificant (20% based on Bloomberg estimates).

Some of the speed breakers are industry/technology related, and some are related to the macro and policy environment especially in the US which is the key market for Indian IT services firms. Besides the US, we believe the European market macro looks quite bad (Europe – including UK – forms about 30-40% of revenue for Indian IT services firms) and corporate IT spending would be muted

Tier- 2 valuation reflects growth gap between it and Tier-1:

The Tier-2 set have been taking away market share from the Tier-1 set due to better execution and also due to their smaller size. And unlike in the past cycles, they have performed better than the Tier-1 largely due to better management teams.

However, the current PE premium to the Tier-1s is excessive as we believe that to deliver on the high consensus revenue growth expectations, they may be taking on more cost take out projects which are likely to impact their margins adversely.

Fig 1 – Quarterly Results: comparison of actuals with estimates

Y/E Mar (Rs mn)	3QFY24	2QFY25	3QFY25	YoY (%)	QoQ (%)	3QFY25E	Deviation (%)
Net Sales (US\$ mn)	7,281	7,670	7,539	3.5	(1.7)	7,643	(1.4)
Net Sales	6,05,830	6,42,590	6,39,730	5.6	(0.4)	6,45,055	(0.8)
Software Expenses	3,58,710	3,97,200	3,91,390	9.1	(1.5)	3,98,392	(1.8)
% of Sales	59.2	61.8	61.2			61.8	
Gross Margin	2,47,120	2,45,390	2,48,340	0.5	1.2	2,46,663	0.7
% of Sales	40.8	38.2	38.8			38.2	
Operating Expenses	95,570	90,740	91,770	(4.0)	1.1	91,012	0.8
% of Sales	15.8	14.1	14.3			14.1	
EBIT	1,51,550	1,54,650	1,56,570	3.3	1.2	1,55,651	0.6
EBIT Margin (%)	25.0	24.1	24.5			24.1	
Other Income	7,150	5,670	10,090	41.1	78.0	8,196	23.1
PBT	1,58,700	1,60,320	1,66,660	5.0	4.0	1,63,847	1.7
Provision for Tax	40,960	40,770	42,220	3.1	3.6	41,667	1.3
Effective Tax Rate	25.8	25.4	25.3			25.4	
Minority share in Profit / Loss	390	460	640	64.1	39.1	460	39.1
Less: One-off Items	9,580	0	0	0.0		0	
Reported PAT	1,17,350	1,19,090	1,23,800	5.5	4.0	1,21,720	1.7
PAT Adjusted	1,17,350	1,19,090	1,23,800	5.5	4.0	1,21,720	1.7
NPM (%)	19.4	18.5	19.4			18.9	

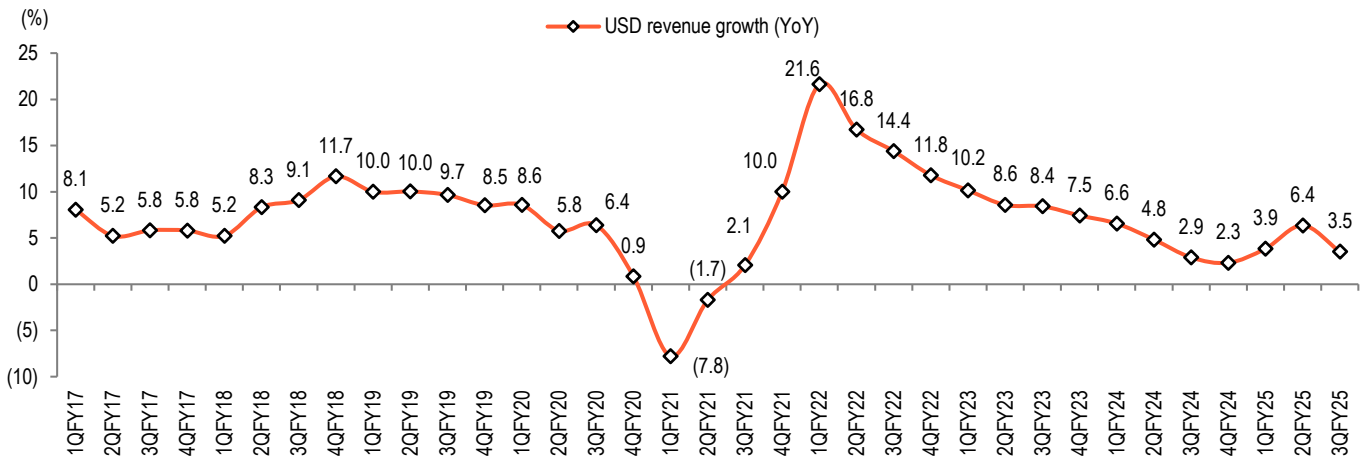
Source: Company, BOBCAPS Research

Fig 2 – Revised estimates

	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
INR/USD	84.5	87.3	89.3	84.1	85.4	86.6	0.5	2.1	3.1
USD Revenue (USD mn)	30,291	31,965	34,040	30,580	32,363	34,463	(0.9)	(1.2)	(1.2)
USD Revenue Growth (%)	4.2	5.5	6.5	5.2	5.8	6.5			
Revenue (Rs bn)	2,560	2,789	3,038	2,572	2,765	2,985	(0.5)	0.9	1.8
EBIT (Rs bn)	634	698	767	634	690	751	0.1	1.1	2.2
EBIT Margin (%)	24.8	25.0	25.3	24.6	25.0	25.2			
PAT (Rs bn)	497	551	606	494	541	589	0.6	1.9	2.9
FDEPS (Rs)	137.4	152.4	167.5	136.6	149.5	162.8	0.6	1.9	2.9

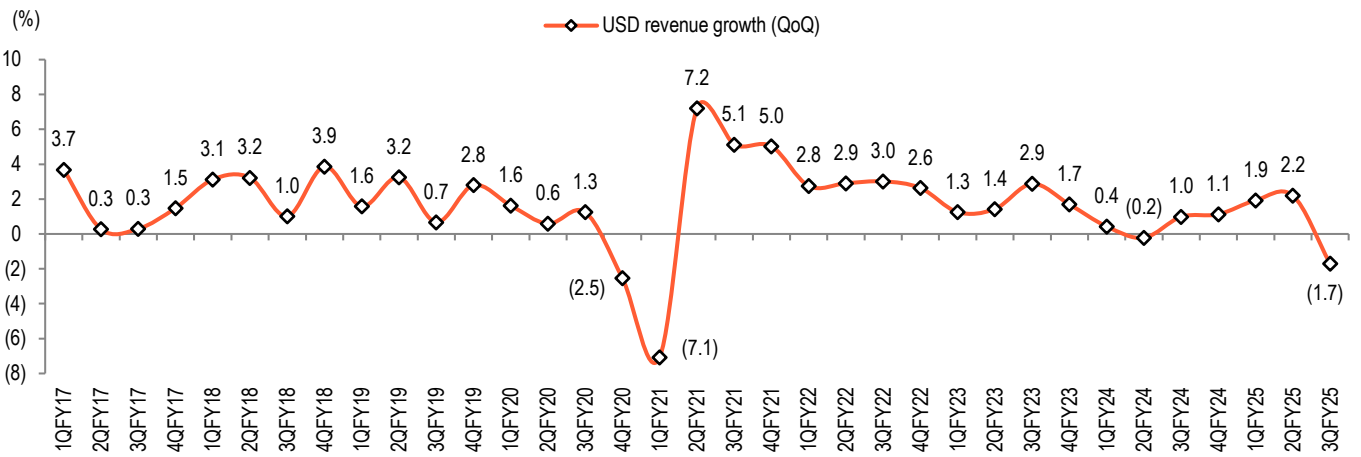
Source: BOBCAPS Research

Fig 3 – US\$ revenue growth rate (YoY)



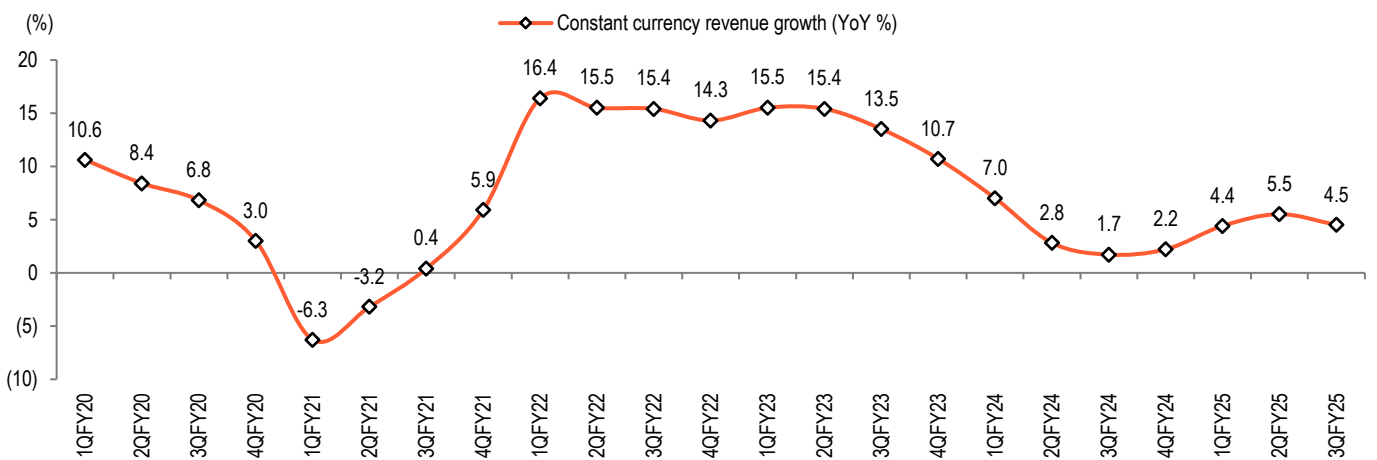
Source: Company, BOBCAPS Research

Fig 4 – US\$ revenue growth rate (QoQ)



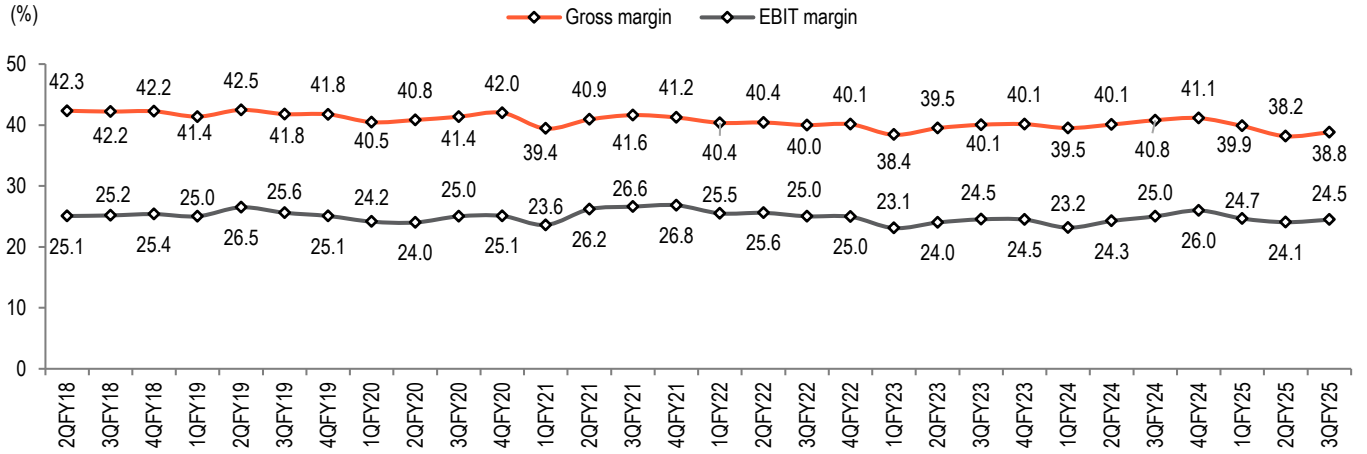
Source: Company, BOBCAPS Research

Fig 5 – CC Revenue Growth (YoY)



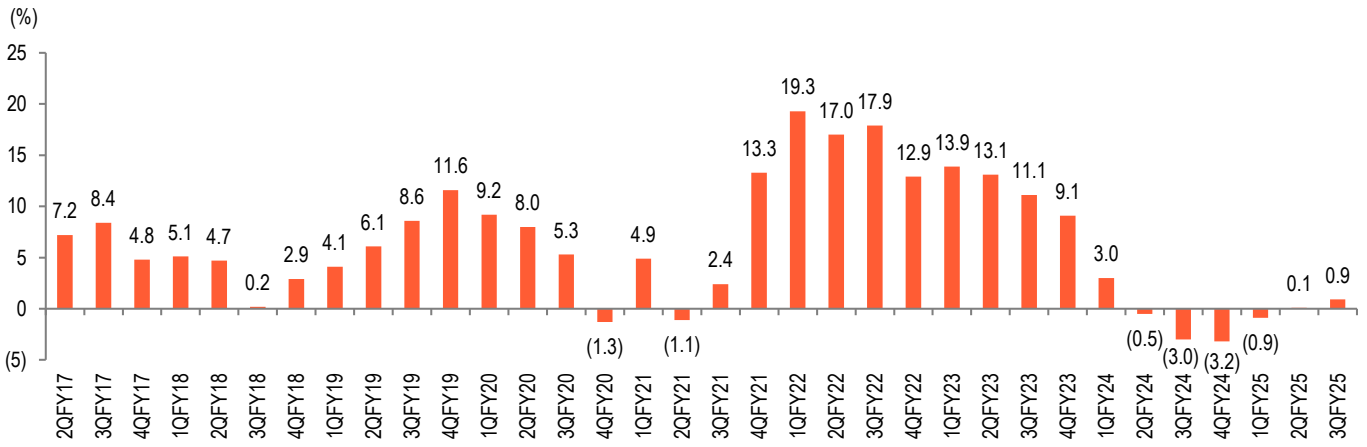
Source: Company, BOBCAPS Research

Fig 6 – Gross and EBIT margin trend



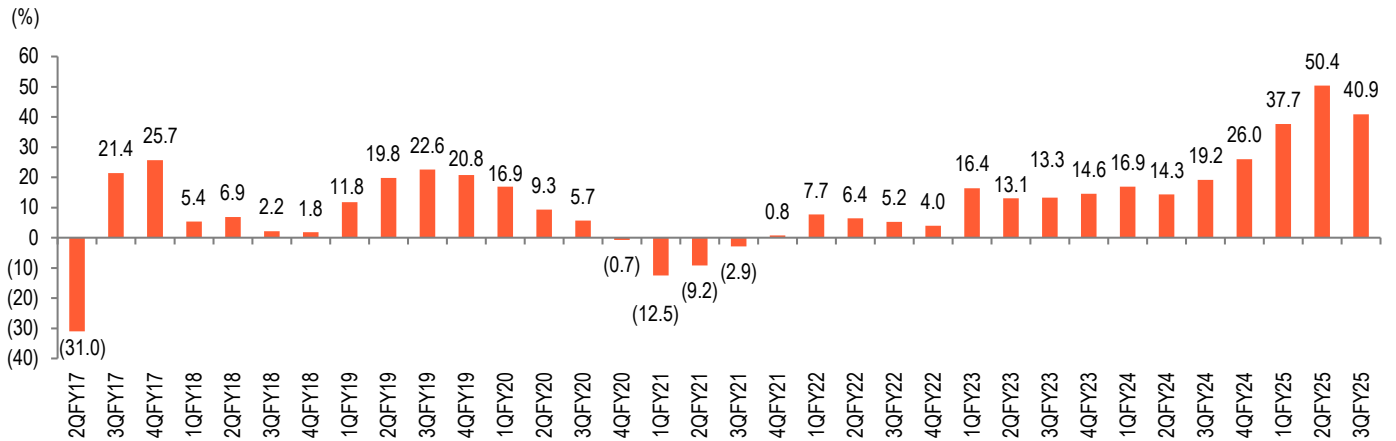
Source: Company, BOBCAPS Research

Fig 7 – CC BFSI Vertical Growth (YoY)



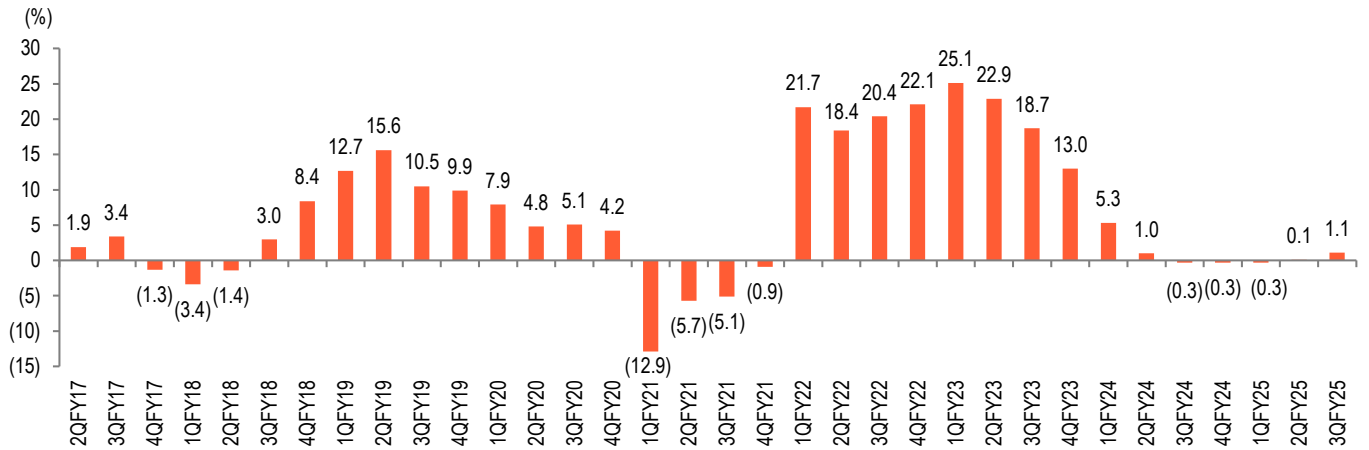
Source: Company, BOBCAPS Research

Fig 8 – CC Regional Market and Others Vertical Growth (YoY)



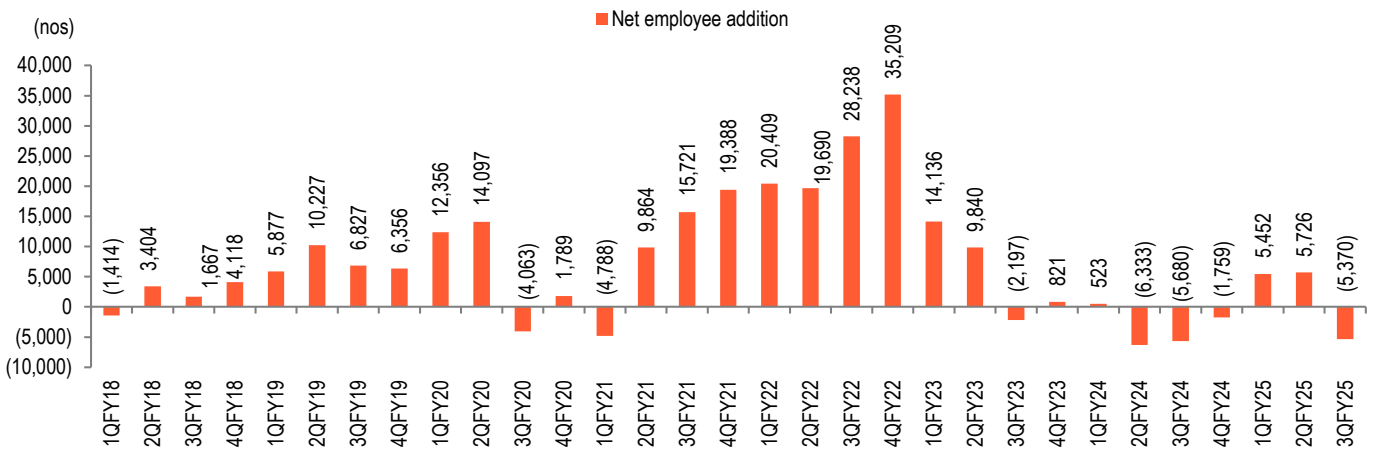
Source: Company, BOBCAPS Research

Fig 9 – CC Retail and CPG Vertical Growth (YoY)



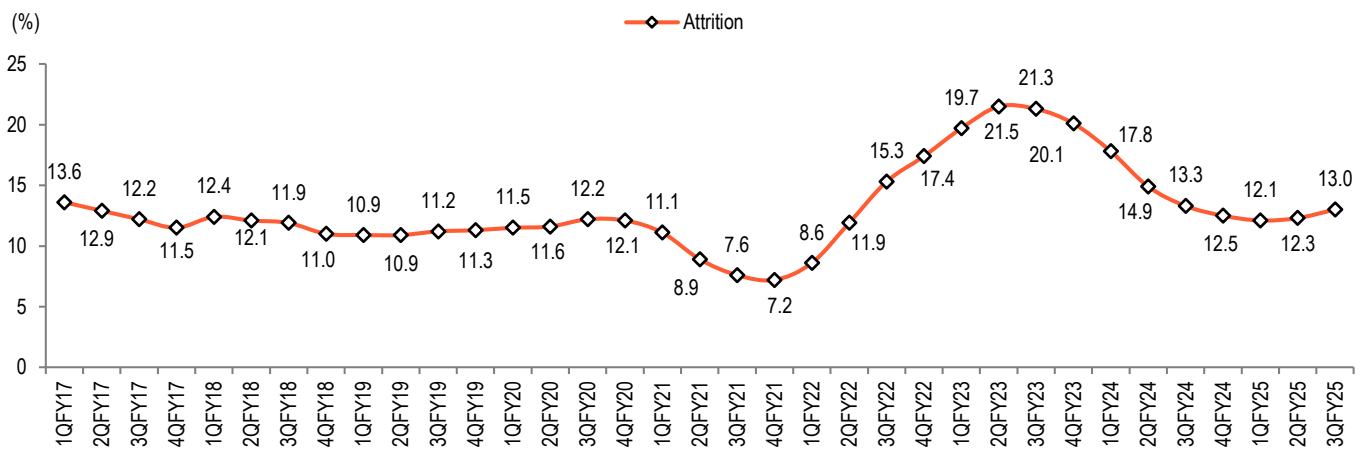
Source: Company, BOBCAPS Research

Fig 10 – Net employee addition (QoQ)



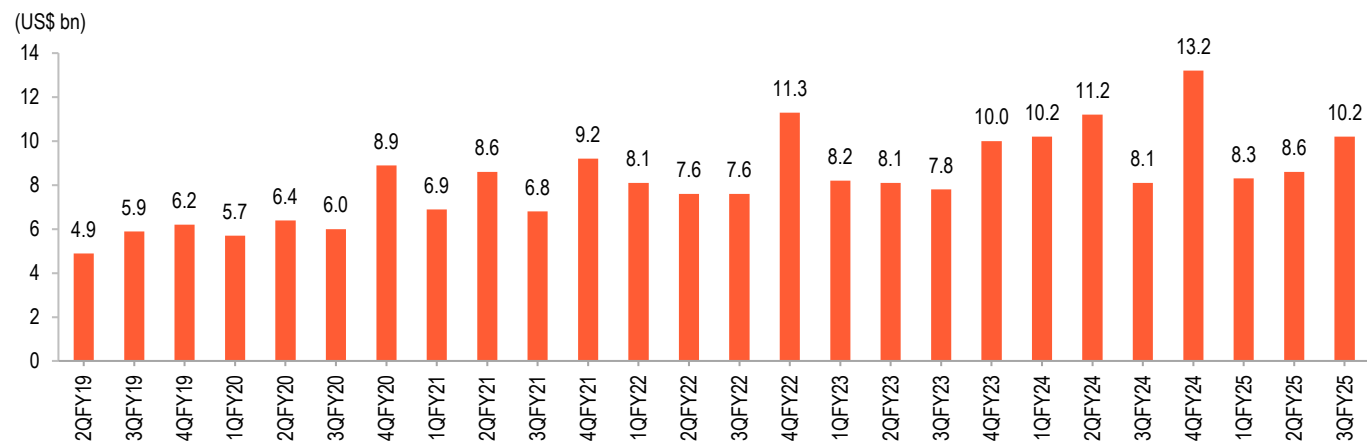
Source: Company, BOBCAPS Research

Fig 11 – LTM Attrition rate



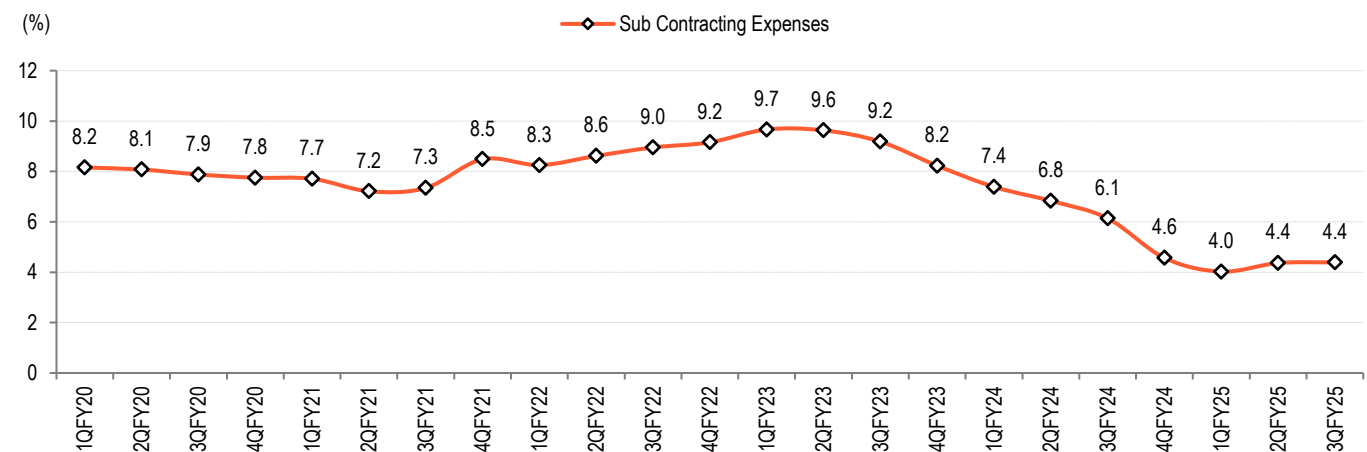
Source: Company, BOBCAPS Research

Fig 12 – Order book TCV picture



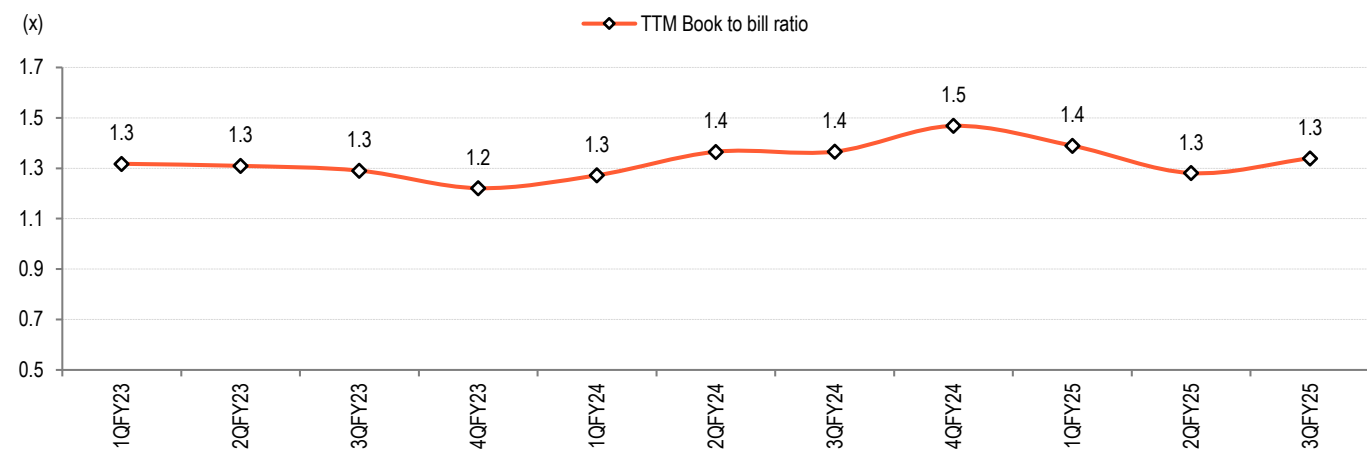
Source: Company, BOBCAPS Research

Fig 13 – Subcontractor charges (% of revenue)



Source: Company, BOBCAPS Research

Fig 14 – TTM Book/ Bill Ratio



Source: Company, BOBCAPS Research

Fig 15 – Quarterly Snapshot

Year to 31 March	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
INR/USD	77.8	80.4	82.3	82.2	82.2	82.8	83.2	83.2	83.4	83.8	84.9
Revenue (in USDbn)	6.8	6.9	7.1	7.2	7.2	7.2	7.3	7.4	7.5	7.7	7.5
(Rsbn)											
Revenue	527.6	553.1	582.3	591.6	593.8	596.9	605.8	612.4	626.1	642.6	639.7
Gross margin	202.7	218.5	233.2	237.5	234.7	239.3	247.1	251.9	249.5	245.4	248.3
EBIT	121.9	132.8	142.8	144.9	137.6	144.8	151.6	159.2	154.4	154.7	156.6
Other income	5.9	8.2	3.6	9.0	12.3	8.5	7.2	9.3	7.9	5.7	10.1
PBT	127.8	141.0	146.4	153.9	149.9	153.3	158.7	168.5	162.3	160.3	166.7
Tax	32.6	36.3	37.6	39.6	38.7	39.5	41.0	43.5	41.3	40.8	42.2
PAT	94.8	104.3	108.5	113.9	110.7	113.4	117.4	124.3	120.4	119.1	123.8
Number of shares	3,659	3,659	3,659	3,658	3,660	3,659	3,610	3,618	3,618	3,618	3,618
EPS	25.9	28.5	29.6	31.1	30.3	31.0	32.5	34.4	33.3	32.9	34.2
YoY Growth											
USD Revenue	10.2	8.6	8.4	7.5	6.6	4.8	2.9	2.3	3.9	6.4	3.5
INR Revenues	16.2	18.0	19.1	16.9	12.6	7.9	4.0	3.5	5.4	7.7	5.6
Gross profit	10.6	15.3	19.3	17.0	15.8	9.5	6.0	6.1	6.3	2.5	0.5
EBIT	5.2	10.7	16.7	14.7	12.9	9.1	6.1	9.9	12.3	6.8	3.3
Net profit	5.2	8.4	11.0	14.8	16.8	8.7	8.2	9.1	8.7	5.0	5.5
QoQ Growth											
USD Revenues	1.25	1.4	2.9	1.70	0.43	(0.22)	1.0	1.1	1.93	2.20	(1.71)
INR Revenues	4.3	4.8	5.3	1.6	0.4	0.5	1.5	1.1	2.2	2.6	(0.4)
EBIT	(3.5)	9.0	7.6	1.4	(5.1)	5.3	4.6	5.0	(3.0)	0.1	1.2
Net profit	(4.5)	10.1	4.0	5.0	(2.8)	2.4	3.5	6.0	(3.2)	(1.1)	4.0
Margins (%)											
Gross margin	38.4	39.5	40.1	40.1	39.5	40.1	40.8	41.1	39.9	38.2	38.8
EBIT	23.1	24.0	24.5	24.5	23.2	24.3	25.0	26.0	24.7	24.1	24.5
PAT	18.0	18.9	18.6	19.3	18.6	19.0	19.4	20.3	19.2	18.5	19.4
SGA	15.3	15.5	15.5	15.7	16.4	15.8	15.8	15.1	15.2	14.1	14.3

Source: Company, BOBCAPS Research

Fig 16 – Key Metrics

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
P and L (Rs mn)											
Revenue	5,27,580	5,53,090	5,82,290	5,91,620	5,93,810	5,96,920	6,05,830	6,12,370	6,26,130	6,42,590	6,39,730
EBITDA	1,21,860	1,32,790	1,42,840	1,44,880	1,37,550	1,44,830	1,51,550	1,59,180	1,54,420	1,54,650	1,56,570
PAT	94,780	1,04,310	1,08,460	1,13,920	1,10,740	1,13,420	1,17,350	1,24,340	1,20,400	1,19,090	1,23,800
Vertical Mix (%)											
BFSI	32.1	33.6	33.1	32.9	32.5	32.6	31.7	31.3	30.9	30.8	30.5
Manufacturing	9.9	8.2	8.2	8.2	8.3	8.6	8.7	8.8	8.8	8.6	8.4
Communication and Media	6.8	7.3	7.2	7.1	7.0	6.9	6.7	6.6	6.2	5.9	5.8
Life Sciences	10.1	10.7	10.8	10.9	11.0	10.9	10.9	10.9	11.0	10.4	10.1
Retail & Distribution	15.9	16.1	16.0	16.0	16.1	15.9	15.7	15.7	15.4	15.1	15.3
Hi-Tech	8.8	9.1	9.0	8.9	8.7	8.6	8.4	8.2	8.1	8.0	8.0
Energy And Utility	-	5.0	5.2	5.4	5.5	5.6	5.7	5.6	5.6	5.7	5.6
Others	16.4	10.0	10.5	10.6	10.9	10.9	12.2	12.9	14.0	15.5	16.3
Geographic Mix (%)											
North America	53.2	54.3	53.7	52.4	52.0	51.7	50.6	50.0	49.5	47.6	47.7
UK	14.9	14.5	14.9	15.7	16.4	16.5	16.4	16.8	16.9	17.0	16.6
Europe	15.2	14.5	14.8	15.1	14.9	14.9	15.0	14.6	14.4	14.6	13.9
India	4.8	5.1	5.1	5.0	4.9	4.9	6.1	6.7	7.5	8.9	9.8
APAC	8.3	8.0	7.9	8.0	7.8	7.8	7.8	7.8	7.8	8.0	7.8
Ibero America	1.8	1.7	1.8	1.8	2.0	2.0	2.1	2.0	1.9	1.8	1.9
MEA	1.8	1.9	1.8	2.0	2.0	2.2	2.0	2.1	2.0	2.1	2.3
Number of Client											
\$100mn +	59	59	59	60	60	61	61	62	63	66	64
\$50mn +	124	124	130	133	137	137	137	139	140	136	134
Employee Number	6,06,331	6,16,171	6,13,974	6,14,795	6,15,318	6,08,985	6,03,305	6,01,546	6,06,998	6,12,724	6,07,354
Net Addition	14,136	9,840	(2,197)	821	523	(6,333)	(5,680)	(1,759)	5,452	5,726	(5,370)
Attrition (%)	19.7	21.5	21.3	20.1	17.8	14.9	13.3	12.5	12.1	12.3	13.0
Net Employee Growth (YoY%)	19	17	10	4	1	(1)	(2)	(2)	(1)	1	1
P&L (USD mn)											
Revenue	6,780	6,877	7,075	7,195	7,226	7,210	7,281	7,363	7,505	7,670	7,539
EBIT	1,566	1,652	1,736	1,761	1,674	1,749	1,821	1,915	1,850	1,846	1,845
PAT	1,218	1,299	1,318	1,385	1,347	1,370	1,410	1,497	1,441	1,421	1,459
Per Capita (Annualised) (USD)											
Revenue	44,728	44,643	46,093	46,812	46,974	47,357	48,274	48,961	49,457	50,071	49,651
EBIT	10,333	10,721	11,311	11,456	10,880	11,488	12,072	12,732	12,190	12,051	12,148
PAT	8,038	8,430	8,588	9,009	8,755	8,999	9,347	9,953	9,495	9,276	9,606
Direct and Opex cost per capita	34,395	33,922	34,782	35,357	36,094	35,869	36,202	36,228	37,266	38,021	37,503

Source: Company, BOBCAPS Research

Fig 17 – QoQ and YoY Growth trend

(in US\$)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
QoQ Growth (%)											
Revenue	1.3	1.4	2.9	1.7	0.4	(0.2)	1.0	1.1	1.9	2.2	(1.7)
Geographical Data											
Americas	4.4	3.5	1.7	(0.8)	(0.3)	(0.8)	(1.2)	(0.1)	0.9	(1.7)	(1.5)
UK	(3.3)	(1.3)	5.7	7.2	4.9	0.4	0.4	3.6	2.5	2.8	(4.0)
Europe	(0.7)	(3.2)	5.0	3.8	(0.9)	(0.2)	1.7	(1.6)	0.5	3.6	(6.4)
India	(4.7)	7.8	2.9	(0.3)	(1.6)	(0.2)	25.7	11.1	14.1	21.3	8.2
APAC	(1.1)	(2.2)	1.6	3.0	(2.1)	(0.2)	1.0	1.1	1.9	4.8	(4.2)
Ibero America	7.2	(4.2)	8.9	1.7	11.6	(0.2)	6.0	(3.7)	(3.2)	(3.2)	3.8
MEA	(8.9)	7.1	(2.5)	13.0	0.4	9.8	(8.2)	6.2	(2.9)	7.3	7.7
Verticals											
BFSI	1.9	6.2	1.3	1.1	(0.8)	0.1	(1.8)	(0.1)	0.6	1.9	(2.7)
Manufacturing	0.2	(16.0)	2.9	1.7	1.7	3.4	2.2	2.3	1.9	(0.1)	(4.0)
Communication and Media	2.8	8.9	1.5	0.3	(1.0)	(1.6)	(1.9)	(0.4)	(4.2)	(2.7)	(3.4)
Life Science & Healthcare	2.3	7.5	3.8	2.6	1.4	(1.1)	1.0	1.1	2.9	(3.4)	(4.5)
Retail and distribution	4.5	2.7	2.2	1.7	1.1	(1.5)	(0.3)	1.1	(0.0)	0.2	(0.4)
Hi-Tech (Now Technology Services)	2.4	4.9	1.7	0.6	(1.8)	(1.4)	(1.4)	(1.3)	0.7	0.9	(1.7)
Energy and Utilities	0.0	0.0	7.0	5.6	2.3	1.6	2.8	(0.6)	1.9	4.0	(3.4)
Regional Market & Others	(4.0)	(38.2)	8.0	2.7	3.3	(0.2)	13.0	6.9	10.6	13.1	3.4
YoY Growth (%)											
Revenue	10.2	8.6	8.4	7.5	6.6	4.8	2.9	2.3	3.9	6.4	3.5
Geographical Data											
Americas	18.6	17.2	14.9	9.1	4.2	(0.2)	(3.0)	(2.4)	(1.1)	(2.1)	(2.4)
UK	0.7	(2.2)	3.6	8.1	17.3	19.3	13.3	9.5	7.0	9.6	4.8
Europe	0.3	(1.0)	0.3	4.7	4.5	7.7	4.3	(1.1)	0.4	4.2	(4.0)
India	15.0	8.6	0.6	5.3	8.8	0.7	23.1	37.1	59.0	93.2	66.3
APAC	(1.7)	(3.5)	(0.4)	1.1	0.2	2.2	1.6	(0.2)	3.9	9.1	3.5
Ibero America	23.9	15.4	14.8	13.8	18.4	23.3	20.1	13.7	(1.3)	(4.3)	(6.3)
MEA	(5.6)	3.2	2.7	7.5	18.4	21.4	14.3	7.5	3.9	1.5	19.1
Verticals											
BFSI	8.8	12.6	11.8	10.8	7.9	1.7	(1.4)	(2.6)	(1.3)	0.5	(0.4)
Manufacturing	11.3	(10.1)	(10.2)	(11.9)	(10.6)	10.0	9.2	9.8	10.1	6.4	(0.0)
Communication and Media	17.1	22.0	20.1	13.9	9.7	(0.9)	(4.2)	(4.9)	(8.0)	(9.0)	(10.4)
Life Science & Healthcare	9.1	16.2	18.3	17.1	16.1	6.8	3.9	2.3	3.9	1.5	(4.1)
Retail and distribution	18.4	16.6	14.9	11.6	7.9	3.5	1.0	0.4	(0.7)	1.0	0.9
Hi-Tech	12.7	12.3	12.2	9.9	5.4	(0.9)	(3.9)	(5.7)	(3.3)	(1.0)	(1.4)
Energy and Utilities	0.0	0.0	0.0	0.0	0.0	17.4	12.8	6.1	5.7	8.3	1.7
Regional Market & Others	2.1	(37.6)	(36.0)	(34.2)	(29.2)	14.3	19.6	24.5	33.4	51.3	38.3

Source: Company, BOBCAPS Research

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	22,54,580	24,08,930	25,60,046	27,89,302	30,38,236
EBITDA	5,92,600	6,42,950	6,86,553	7,54,145	8,25,036
Depreciation	50,230	49,840	52,478	56,267	57,670
EBIT	5,42,370	5,93,110	6,34,076	6,97,878	7,67,366
Net interest inc./(exp.)	(7,790)	(7,780)	(8,030)	(9,360)	(9,360)
Other inc./(exp.)	34,490	45,050	43,205	53,326	56,904
Exceptional items	0	0	0	0	0
EBT	5,69,070	6,30,380	6,69,251	7,41,844	8,14,909
Income taxes	1,46,040	1,62,620	1,69,839	1,87,931	2,06,441
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	1,560	1,910	2,390	2,560	2,560
Reported net profit	4,21,470	4,65,850	4,97,021	5,51,353	6,05,908
Adjustments	0	0	0	0	0
Adjusted net profit	4,21,470	4,65,850	4,97,021	5,51,353	6,05,908

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	1,05,150	99,810	1,44,522	1,59,258	1,71,119
Other current liabilities	3,12,130	3,44,780	3,77,592	4,02,912	4,23,292
Provisions	3,450	1,400	1,460	1,460	1,460
Debt funds	0	0	0	0	0
Other liabilities	1,03,720	1,05,310	1,23,099	1,26,116	1,28,544
Equity capital	3,660	3,620	3,620	3,620	3,620
Reserves & surplus	9,08,400	9,09,570	10,17,156	10,98,157	11,97,533
Shareholders' fund	9,12,060	9,13,190	10,20,776	11,01,777	12,01,153
Total liab. and equities	14,36,510	14,64,490	16,67,449	17,91,523	19,25,568
Cash and cash eq.	1,10,320	1,32,860	1,04,496	2,12,033	3,45,884
Accounts receivables	5,03,020	5,37,200	6,17,057	6,79,975	7,30,617
Inventories	280	280	280	260	260
Other current assets	1,26,250	1,48,930	1,81,354	1,96,553	2,08,786
Investments	3,68,970	3,14,810	4,17,520	3,47,520	2,77,520
Net fixed assets	1,14,640	1,09,400	1,09,762	1,12,532	1,15,301
CWIP	0	0	0	0	0
Intangible assets	27,250	23,420	29,590	29,590	29,590
Deferred tax assets, net	33,070	34,030	34,223	37,713	40,522
Other assets	1,52,710	1,63,560	1,73,186	1,75,348	1,77,089
Total assets	14,36,510	14,64,490	16,67,469	17,91,523	19,25,568

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	4,43,450	4,86,970	5,47,331	5,78,845	6,42,743
Capital expenditures	(57,130)	(44,600)	(45,000)	(45,000)	(45,000)
Change in investments	(66,780)	54,010	(1,02,640)	70,000	70,000
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(1,23,910)	9,410	(1,47,640)	25,000	25,000
Equities issued/Others	0	(2,07,400)	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(7,790)	(7,780)	(8,030)	(9,360)	(9,360)
Dividends paid	(5,07,050)	(3,18,888)	(6,80,128)	(5,66,773)	(6,10,371)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(5,14,840)	(5,34,068)	(6,88,158)	(5,76,133)	(6,19,731)
Chg in cash & cash eq.	(82,300)	22,312	(28,364)	1,07,537	1,33,851
Closing cash & cash eq.	1,09,970	1,32,632	1,04,496	2,12,033	3,45,884

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	115.2	128.8	137.4	152.4	167.5
Adjusted EPS	115.2	128.8	137.4	152.4	167.5
Dividend per share	115.0	73.2	156.0	130.0	140.0
Book value per share	249.3	252.4	282.1	304.5	332.0

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	6.4	6.0	5.7	5.2	4.8
EV/EBITDA	24.4	22.5	21.1	19.2	17.5
Adjusted P/E	35.1	31.4	29.4	26.5	24.1
P/BV	16.2	16.0	14.3	13.3	12.2

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	74.1	73.9	74.3	74.3	74.4
Interest burden (PBT/EBIT)	104.9	106.3	105.5	106.3	106.2
EBIT margin (EBIT/Revenue)	24.1	24.6	24.8	25.0	25.3
Asset turnover (Rev./Avg TA)	157.0	166.1	163.5	161.3	163.5
Leverage (Avg TA/Avg Equity)	1.6	1.6	1.5	1.6	1.5
Adjusted ROAE	46.2	51.0	48.7	50.0	50.4

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	17.6	6.8	6.3	9.0	8.9
EBITDA	11.7	8.5	6.8	9.8	9.4
Adjusted EPS	10.0	11.8	6.7	10.9	9.9
Profitability & Return ratios (%)					
EBITDA margin	26.3	26.7	26.8	27.0	27.2
EBIT margin	24.1	24.6	24.8	25.0	25.3
Adjusted profit margin	18.7	19.3	19.4	19.8	19.9
Adjusted ROAE	46.0	51.0	51.4	52.0	52.6
ROCE	30.9	33.6	33.7	33.9	34.8
Working capital days (days)					
Receivables	81	81	88	89	88
Inventory	NA	NA	NA	NA	NA
Payables	17	15	20	21	20
Ratios (x)					
Gross asset turnover	19.7	22.0	23.3	24.8	26.4
Current ratio	1.8	1.8	1.7	1.9	2.2
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	(0.1)	(0.1)	(0.1)	(0.2)	(0.3)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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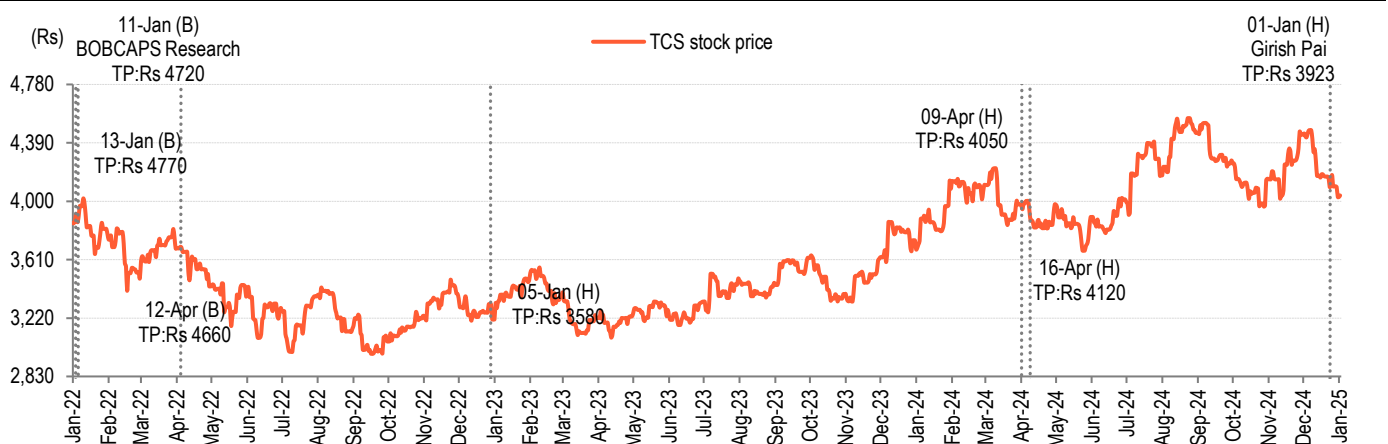
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SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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