

CAPTURING COVID IMPACT, RECOVERY FROM Q2FY21

TCS reported sluggish results in Q1FY21; revenue stood at Rs. 38,322 crs a decline of 4% QoQ and 7.1% QoQ in CC terms. Operating profit showed a de-growth of 10% QoQ at Rs. 9,048crs, while operating margin declined by 150 bps QoQ at 23.6% due to lower utilization and pricing pressure. Net profit for Q1 FY21 stood at Rs.7,008 crs reporting a de-growth of 13% QoQ. TCS management said it has captured full effect of COVID uncertainty and it sees recovery ahead from Q2 FY21. Deal wins for the quarter remained robust at \$6.9bn showed a strong traction in key verticals. Management sees strong demand for Cloud migration and opportunity for large scale hybrid and public Cloud adoption. Cloud transformation programs that were paused due to COVID have started resuming from June. Many customers have fast-tracked some large transformation programs. Digital transformation and Cloud services pipeline is at highest levels in past many quarters. We expect shift to Cloud to be the backbone of the upcoming demand.

BFSI to see strong recovery, Retail & Travel may struggle

On vertical front, BFSI declined by 4.9% YoY, Retail & CPG declined by 12.9% YoY, Communication & Media declined by 3.6% YoY, Manufacturing reported de-growth of 5.8% YoY, Technology & Services reported de-growth of 4% YoY. Healthcare and Pharmaceuticals reported growth of 13.8% YoY. Management sees strong and swift recovery in BFSI vertical. Banking in Europe will be visible in Q2 FY21 onwards, American banking to turnaround by Q3 FY21 onwards. Manufacturing and Utilities is a mixed bag and it will see a recovery by H2 FY21. Retail and hospitality will take longer time to recover, it could extend to Q4 FY21-Q1FY22.

On geographical front, North America (52% of revenue) declined by 6.1% YoY, Europe (30% of revenue) declined by 8.5% YoY, India business declined with 27.6% YoY in CC terms.

Our Take

We believe TCS has a resilient business structure from a long term perspective and multiple long term contracts with world's leading brands. With depreciation in INR, lower travel cost, lower on site expenses EBITDA margins likely to expand in the near term. **We recommend HOLD and assign 24x P/E multiple to its FY22E earnings of Rs. 100.3 per share which gives a TP of Rs. 2,365 per share, an upside of 7%.**

Key Financials (Consolidated)

(Rs. Cr)	FY19	FY20	FY21E	FY22E
Net Sales	146,463	156,949	157,464	171,725
EBIDTA	42,060	41,471	38,214	48,337
Net Profit	32,447	32,449	30,020	37,687
EPS (Rs)	83.5	86.2	85.8	100.3
PER (x)	26.1	25.5	27.6	21.9
EV/EBIDTA (x)	18.8	18.6	16.7	15.7
P/BV (x)	9.2	8.9	7.9	6.9
ROE (%)	35%	34%	28%	31%

Source: Company, Axis Research

(CMP as of Jul 09, 2020)

CMP (Rs)	2,204
Upside /(Downside (%))	7%
High/Low (Rs)	2,301/1,504
Market cap (Cr)	Rs 8,27,156
Avg. daily vol. (6m) Shrs.	18,39,129
No. of shares (Cr)	375.2

Shareholding (%)

	Mar-20	Dec-19	Sep-19
Promoter	72.1	72.1	72.1
FIs	15.7	15.9	15.7
MFs / UTI	2.63	2.9	2.7
Banks / FIs	0.2	0.2	0.2
Others	9.4	9.5	9.3

Financial & Valuations

Y/E Mar (Rs. Cr)	2020	2021E	2022E
Net Sales	156,949	157,464	171,725
EBITDA	41,471	38,214	48,337
Net Profit	32,449	30,020	37,687
EPS (Rs)	86.2	85.8	100.3
PER (x)	25.5	27.6	21.9
EV/EBITDA (x)	18.6	16.7	15.7
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RoE (%)	34%	28%	31%

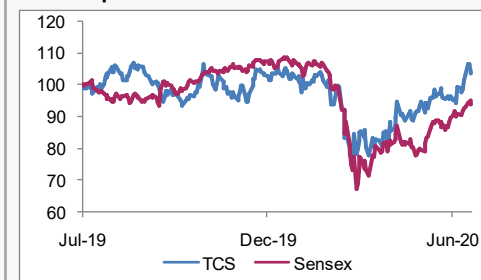
Change in Estimates (%)

Y/E Mar	FY21E	FY22E
Sales	2061	2298
EBITDA	213	305
PAT	119	191

Axis vs Consensus

EPS Estimates	2020	2021	2022E
Axis	86	85	100.2
Consensus	86	85	97.8
Mean Consensus TP (12M)			2,400

Relative performance



Source: Capitaline, Axis Securities

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Key takeaways from the conference call:

- Core vertical BFSI was stronger than expected and likely to rebound early. COVID-19 has accelerated digital transformation initiatives of enterprises, driving improved deal wins and pipeline.
- TCS deal wins at US\$ 6.9 bn were stronger than historical average and grew 21% YoY. Q1 deal wins were polarized, as it had a few large deals and number of smaller deals.
- Management sees three emerging investment ideas from the pandemic: (i) smart & secure workspaces and collaboration tools –Beginning of surge in investments within this space. (ii) Customer experience –Many businesses were forced to shift to online mode, investments in area of customer experience have accelerated and (iii) Core transformation – operational resilience and building a adaptive core and cyber-security.
- The TCS management has been trying to deliver location independent delivery model that works in open office environment without compromising on security features. Company also started for hiring associates but hiring is likely to remain soft.

Client Parameters

No of Active clients	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21
Total Headcount	436,641	450,738	446,675	448,464	443,676
Net Addition	12,356	14,097	(4,063)	1,789	(4,788)
Attrition (%)	11.5%	11.6%	12.2%	12.1%	11.1%

Source: Company, Axis Research

Client Parameters

No of Active clients	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21
USD 1 mn clients	1014	1032	1053	1072	1066
USD 5 mn clients	551	554	557	565	564
USD 10 mn clients	384	398	395	391	382
USD 20 mn clients	219	225	232	240	230
USD 50 mn clients	100	101	102	105	100
USD 100 mn clients	44	47	47	49	48

Source: Company, Axis Research

Revenue Distribution by Industry Domain

No of Active clients	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21
BFSI	30.8%	31.0%	30.4%	29.7%	31.4%
Retail & CPG	15.0%	14.8%	15.2%	15.4%	14.0%
Communication & Media	6.9%	7.0%	7.0%	7.2%	7.0%
Manufacturing	9.8%	9.8%	10.0%	10.1%	9.7%
Life Science & Healthcare	7.9%	8.1%	8.3%	8.8%	9.6%
Technology & Services	8.8%	8.7%	8.4%	8.7%	9.1%
Regional Markets & Others	20.8%	20.6%	20.7%	20.1%	19.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company, Axis Research

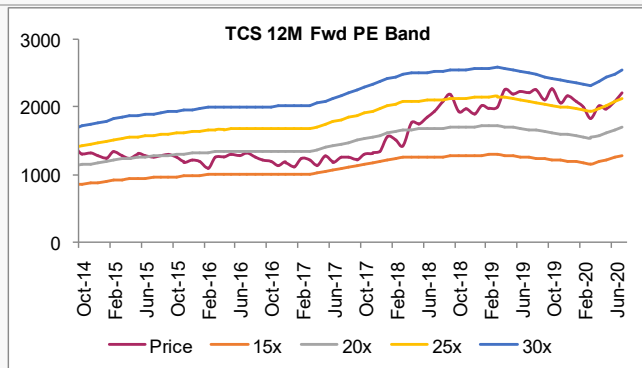
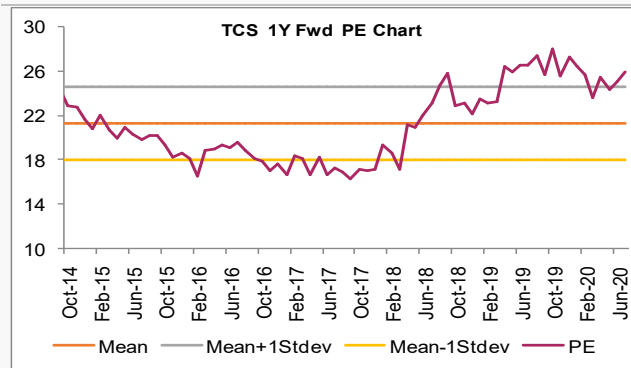
Revenue Distribution by Geography - New Classification

No of Active clients	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20
Americas				
North America	52.4%	52.5%	52.0%	52.1%
Latin America *	50.6%	50.6%	50.1%	50.3%
Europe	1.8%	1.9%	1.9%	1.8%
UK	30.1%	30.2%	30.8%	31.2%
Continental Europe	15.8%	15.6%	15.9%	16.0%
India	14.3%	14.6%	14.9%	15.2%
Asia Pacific	6.0%	5.7%	5.7%	5.5%
MEA	9.4%	9.4%	9.3%	9.3%
Total	2.1%	2.2%	2.2%	1.9%

Source: Company, Axis Research

Valuation and Outlook

Although there are near term challenges to growth owing to COVID-19, we believe in TCS's track record of delivering profitable growth in tough environment thereby reaffirming our confidence in management's ability to deliver in longer term. **We maintain HOLD rating and target price of Rs. 2,365/share.**

TCS 12M Fwd PE Band

TCS 1Y Fwd PE Chart


Source: Company, Axis Securities

Result Update
(Rs Cr)

Y/E March	Q1 FY21	Q4 FY20	Q1 FY20	% change (YoY)	% change (QoQ)
Total Revenue	38,322	39,946	38,172	0%	-4%
Total Cost of Sales	23,214	23,169	22,721		
Gross Profit	15,108	16,777	15,451	-2%	-10%
Margin(%)	39%	42%	40%	-105	-258
SG &A	6,060	6,752	6,231		
Total Operating Expenses	6,060	6,752	6,231		
Operating Income	9,048	10,025	9,220	-2%	-10%
Margin (%)	23.6%	25%	24%	-54	-149
Total Other Income/(Expense)	456	487	1,418		
Income Before Income Taxes	9,504	10,512	10,638		
Total Taxes	2,455	2,419	2,485		
ETR (%)	26%	23%	23%	247	282
Net Profit After Taxes	7,049	8,093	8,153	-14%	-13%
Non Controlling Interest	41	44	22		
Net Income After Extraordinary Items	7,008	8,049	8,131	-14%	-13%
Margin (%)	20%	20%	21%	-123	-22
EPS	18.68	21.45	21.67	-14%	-13%

Source: Company, Axis Securities

Financials (standalone)
Profit & Loss
(Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
Net sales	146,463	156,949	157,464	171,725
Growth, %	8.5	7%	0%	9%
Other income	3,638	5,101	5,219	5,601
Total income	15,010	16,205	16,268	17,733
Employee expenses	78,246	85,952	90,305	91,630
Other Operating expenses	28,711	29,526	28,945	31,757
EBITDA	42,060	41,471	38,214	48,337
Growth, %	7%	-1%	-8%	26%
Margin, %	29%	26%	24%	28%
Depreciation	3,530	3,676	3,749	3,813
EBIT	3,853	3,780	3,968	5,013
Growth, %	8%	-2%	5%	26%
Margin, %	3%	2%	3%	3%

Source: Company, Axis Securities

Balance Sheet
(Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
Cash & bank	12,848	16,656	26,924	40,754
Debtors	27,346	29,589	30,116	33,782
Other current assets	29,091	29,091	29,091	29,091
Total current assets	92,131	99,028	110,273	128,823
Goodwill and Intangible Assets	1,700	1,700	1,750	1,800
Net fixed assets	11,374	9,739	7,958	6,206
CWIP	963	963	963	963
Other Non current assets	239	239	239	239
Total Non Current Assets	2,281	2,118	1,940	1,764
Total assets	114,943	120,205	129,669	146,467
Creditors	6,671	6,310	6,516	6,742
Provisions	4,903	3,598	3,598	3,598
Total current liabilities	22,463	24,403	21,821	23,518
Other liabilities	287	290	320	350
Paid-up capital	375	375	375	375
Reserves & surplus	89,071	92,307	104,290	119,347
Total equity & liabilities	114,943	120,205	129,669	146,467

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
Pre-tax profit	42,248	42,420	39,633	50,079
Depreciation	3,530	3,676	3,749	3,813
Chg in working capital	-585	-1,149	-3,559	-3,022
Total tax paid	9,801	9,972	9,614	12,392
Cash flow from operating activities	45,193	44,947	39,823	50,870
Capital expenditure	3,410	2,040	1,968	2,061
Cash flow from investing activities	-40,573	-41,139	-29,555	-37,039
Dividend (incl. tax)	27,424	29,127	17,973	22,586
Cash flow from financing activities	4,769	5,551	-1,339	-1,339
Net chg in cash	4,613	3,808	10,268	13,830

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY19	FY20	FY21E	FY22E
Per Share data				
EPS (INR)	86.19	86.25	79.83	100.32
Growth, %	14%	0%	-7%	26%
Book NAV/share (INR)	238.4	247.0	278.9	319.1
FDEPS (INR)	35	39	42	46
CEPS (INR)	95.6	96.0	89.8	110.5
CFPS (INR)	56.06	46.21	36.68	44.80
DPS (INR)	21.5	23	25	27
Return ratios				
Return on assets (%)	28%	27%	23%	26%
Return on equity (%)	35%	34%	28%	31%
Return on capital employed (%)	34%	32%	26%	30%
Turnover ratios				
Asset turnover (x)	1.0	0.9	0.9	0.9
Sales/Total assets (x)	1.1	1.2	1.2	1.3
Receivables Days	70.4	70.4	70.4	70.4
Cash conversion cycle	34	36	35	35
Valuation				
PER (x)	26.1	25.5	27.6	21.9
Price/Book (x)	9.2	8.9	7.9	6.9
Dividend Yield	3.2	3.1	3.3	3.6
EV/EBITDA (x)	18.8	18.6	16.7	15.7

Source: Company, Axis Securities

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