

Tata Consultancy Services

Mega deals led outperformance

We have analysed TCS' annual report and some key highlights include (1) near-term growth uncertainty due to weak discretionary, but medium-term growth drivers from Cloud and AI, (2) high growth skew in FY24 due to JLR (related party) and Products & Platform which could continue, (3) sub-con still >2x average employee expense despite sharp reduction in sub-contracting and employee pyramid is a margin tailwind ahead, (4) improving supply side metrics – higher certifications/learning hours/contextual masters, and (5) stable operating metrics. We expect TCS' growth to accelerate from 3.4% CC in FY24 to 6.3% and 8.2% in FY25E and FY26E with EBITM at 25.5% and 26.0% respectively, translating into an 11.5% EPS CAGR over FY24-26E. Maintain ADD on TCS with a TP of INR 4,500, based on 28x FY26E EPS, in line with its 5Y average PEG.

- Near-term growth uncertainty on pressure in discretionary:** Comments on growth include: (1) Growth drivers in FY25 are expected to be centric on vendor consolidation and multi-services deals including IT infra modernization, application and data estate modernization, cloud migration and transformation, ERP modernization and low-code/no-code. (2) TCS has consolidated AI and Cloud expertise with the creation of the AI.Cloud services unit to tap growth opportunity in GenAI. (3) Uncertainty in the FY25E outlook is expected to persist for the next few quarters as capex investments are subdued with enterprises focusing on return maximization on existing tech investments. (4) Discretionary spending can be triggered by improvements in the macroeconomic environment and geopolitical factors. FY24 growth was driven by platform-led large deals with double-digit growth in India, UK, MEA and LatAm while core geographies of North America and Continental Europe were flat.
- High growth skew with ~6% of portfolio contributed to ~40% of growth in FY24:** For FY24, ~40% of growth was contributed by Products & Platform in BFSI (up 21% in FY24) and from JLR (up 66% in FY24). TCS' revenue from JLR (related party) has grown at 33% CAGR over FY21-24, increasing from 0.7% of revenue to 1.2% of revenue in FY24. TCS' key deal signings during the year included Aviva, BSNL, ASX, TPG Telecom, SIX, JLR, and the UK Department of Education. In TCV terms, Aviva, BSNL, Nest (UK) and JLR were among the key mega deal signings of USD 1bn+ each in FY24. The scope of JLR deal was across a broad range of services spanning application development & maintenance, enterprise infrastructure management, cloud migration, cybersecurity, and data services. For FY25E, the related-party revenue from JLR is capped at INR 45bn (as compared to revenue from JLR at INR 29bn in FY24). Diligenta subsidiary grew 35% in FY24 which was reflected in the Regional Market segment led by deals such as Nest (UK) and Standard Life. TCS' Regional Market grew 19% in FY24 and contributed nearly 50% of FY24 growth. We expect the growth skew towards Regional Markets to continue into FY25E with a high contribution from the BSNL deal. BSNL deal is to supply, install and commission the pan India 4G/5G mobile network across 100,000 sites and extend operations and maintenance support to the network.

Financial Summary

YE March (INR bn)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Revenue (USD mn)	22,032	22,174	25,707	27,927	29,080	30,930	33,466
Net Sales	1,569.49	1,641.77	1,917.54	2,254.58	2,408.93	2,582.92	2,844.60
EBIT	385.80	424.81	484.53	542.37	593.11	657.65	740.46
APAT	323.40	333.56	383.27	421.47	466.35	517.36	580.93
Diluted EPS (INR)	89.4	92.2	105.9	116.5	128.9	143.0	160.6
P/E (x)	43.6	42.3	36.8	33.5	30.3	27.3	24.3
EV / EBITDA (x)	32.5	29.3	25.6	23.0	21.3	19.2	17.1
RoE (%)	37.3	39.1	43.7	46.9	51.6	55.7	58.7

Source: Company, HSIE Research

ADD

CMP (as on 16 May 2024)	INR 3,901
Target Price	INR 4,500
NIFTY	22,404

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 4,500	INR 4,500
EPS %	FY25E 0.0	FY26E 0.0

KEY STOCK DATA

Bloomberg code	TCS IN
No. of Shares (mn)	3,618
MCap (INR bn) / (\$ mn)	14,114/169,131
6m avg traded value (INR mn)	10,374
52 Week high / low	INR 4,255/3,141

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(5.5)	12.0	20.3
Relative (%)	(7.2)	0.4	1.3

SHAREHOLDING PATTERN (%)

	Dec-23	Mar-24
Promoters	72.41	71.77
FIs & Local MFs	10.08	10.67
FPIs	12.46	12.70
Public & Others	5.05	4.86
Pledged Shares	0.35	0.20

Source : BSE

Apurva Prasad

apurva.prasad@hdfcsec.com
+91-22-6171-7327

Amit Chandra

amit.chandra@hdfcsec.com
+91-22-6171-7345

Vinesh Vala

vinesh.vala@hdfcsec.com
+91-22-6171-7332

Margin improvement driven by reduction in sub-contracting, pyramid lever ahead:

Although not fully comparable to prior years, the average spend per sub-contractor has reduced over the years (currently at USD 63k globally which is still 2x the average employee expense). TCS's margin expanded to 24.6% in FY24 despite its revenue growth decelerating from 13.7% CC in FY23 to 3.4% CC in FY24. The biggest margin headwind was the wage increase, which ranged from 7 to 9% in India and 1.5 to 6.0% outside India. Margin improvement (55bps in FY24) was due to improved productivity, better utilisation and a reduction in subcontractor expenses. An increase in the cost of software & hardware impacted margins by -70bps, offset by a reduction in sub-contracting expenses which was a margin tailwind of +290bps. The offshore pyramid can still be a margin lever – TCS' mix of India workforce of <30 years has reduced to 50% as compared to a high of 59% in FY22 and 52% in FY20. The onshore pyramid is also a scope based on the workforce age mix as compared to pre-pandemic levels – we've factored EBITM at 25.5% and 26.0% for FY25E and FY26E respectively.

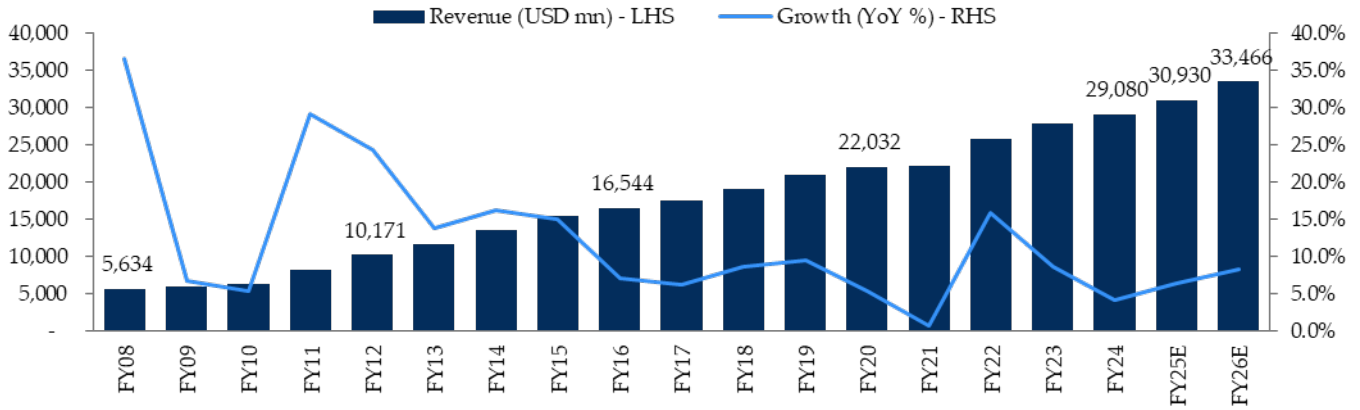
Supply-side metrics improving: TCS' senior management is stable and extremely

tenured as compared to many Tier-1 peers (including global peers) that have seen a lot more churn. At the overall company level, LTM attrition has dropped 750bps to 12.5% over the past year. Some of the supply side metrics for the company remain strong – (1) learning hours increased 5.3% to 51mn in FY24 and 33% of job requirements were fulfilled through grooming of internal talent, (2) TCS' hyperscaler certifications crossed 147k which has rapidly increased from 61k in FY22 and 110k in FY23, and (3) TCS' count of 'Contextual Masters' has increased from 50k in FY22 to 73k in FY24. TCS' IP portfolio has grown by a CAGR of over 13% over the past decade – new wins and go-lives in TCS BaNCS improved substantially with 29 wins and 38 go-lives in FY24, including five large platform wins such as Aviva, UK Teacher's Pension, Nest (UK), ASX (Australia). But, Ignio (automation software product) had fewer go-lives than in previous years.

Other highlights: Over the past five years, OCF, FCF and payout have grown at a

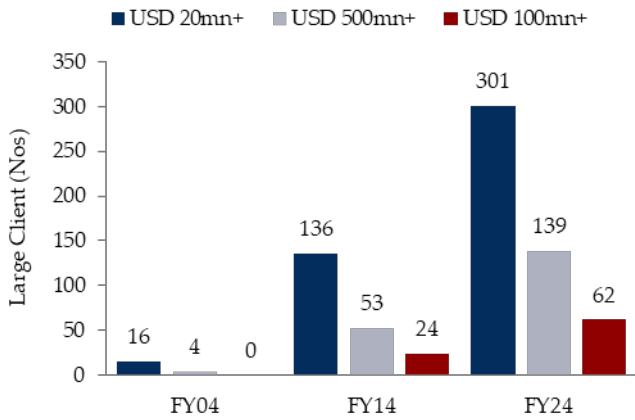
CAGR of 9.2%, 9.6% and 10.9% respectively. OCF to EBITDA was 69% as compared to an average of 75% and FCF/APAT at 89% as compared to an average of 93%. Some of the balance sheet and cash flow highlights include: (1) Receivables (including unbilled) increased by 6.8% in FY24 as compared to 10.2% CAGR over the last five years – DSO including unbilled has remained steady at 81 days. (2) Yield on cash and investments has improved from 6.6% in FY23 to 8.5% in FY24, supporting profitability. (3) Cash and investments were lower by 8% in FY24 at INR 449bn with OCF at INR 443bn, offset by payout (including buyback) at INR 462bn. (4) Inter-corporate deposits were nil after averaging at 0.25% of invested capital in the last two years.

Exhibit 1: Growth can improve to long term average by FY26E



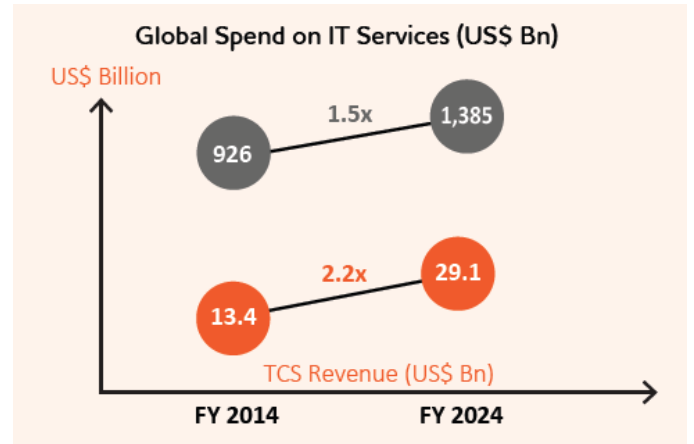
Source: Company, HSIE Research

Exhibit 2: Strength in large client mining



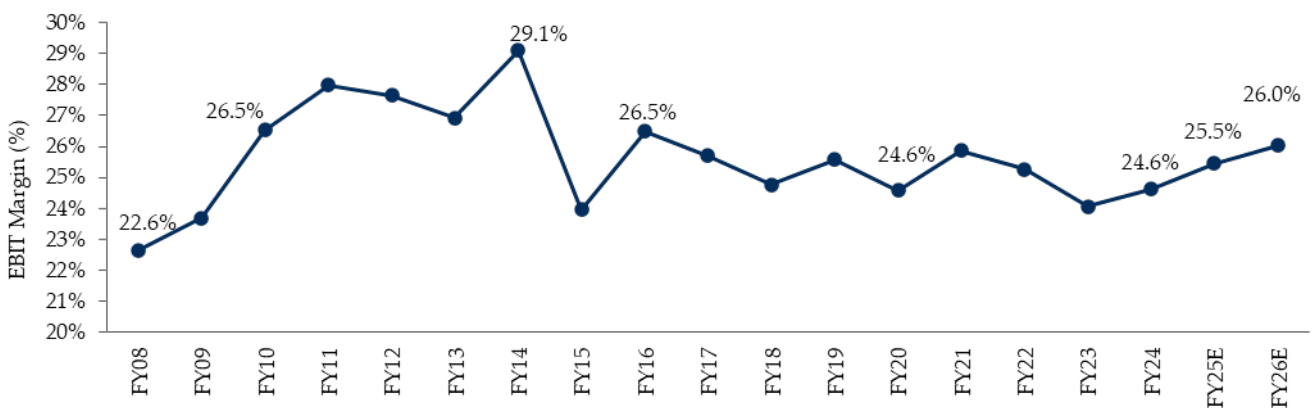
Source: Company, HSIE Research

Exhibit 3: Market share gains in global IT services



Source: TCS annual report 2024

Exhibit 4: Industry leading execution engine – EBITM trend

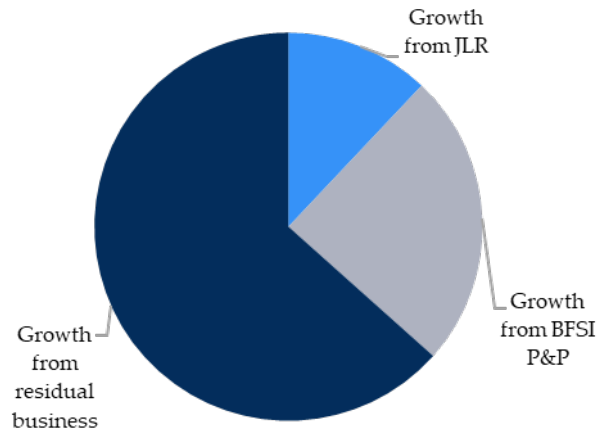


Source: Company, HSIE Research, Note: FY15 EBIT margin is adjusted for one-time bonus to employees of INR 2,628mn

Exhibit 5: TCS' vertical performance

	% of FY24 revenue	Growth in FY24 (%)	% of FY23 revenue	Growth in FY23 (%)
BFSI	37.7	2.8	38.2	5.9
Communication, Media & Tech	16.4	2.3	16.7	9.3
Consumer Business	16.3	2.2	16.6	12.7
Life sciences & Healthcare	11.1	6.0	10.9	10.7
Manufacturing	9.8	8.6	9.4	5.3
Others	8.7	10.5	8.2	14.2
Aggregate	100.0	4.1	100.0	8.6

Source: Company, HSIE Research

Exhibit 6: Growth skew in FY24 - revenue growth share in FY24

Source: Company, HSIE Research

Exhibit 7: Growth led by India, UK, LatAm, MEA

	% of FY24 revenue	Growth in FY24 (% CC)	% of FY23 revenue	Growth in FY23 (% CC)
North America	51.1	-0.2	53.4	15.3
UK	16.5	10.1	15.0	15.0
Continental Europe	14.9	0.7	14.9	11.0
APAC	7.8	4.5	8.0	7.6
India	5.6	20.2	5.0	14.6
MEA	2.1	14.4	1.9	7.8
LatAm	2.0	12.4	1.8	17.3
Aggregate	100.0	3.4	100.0	13.7

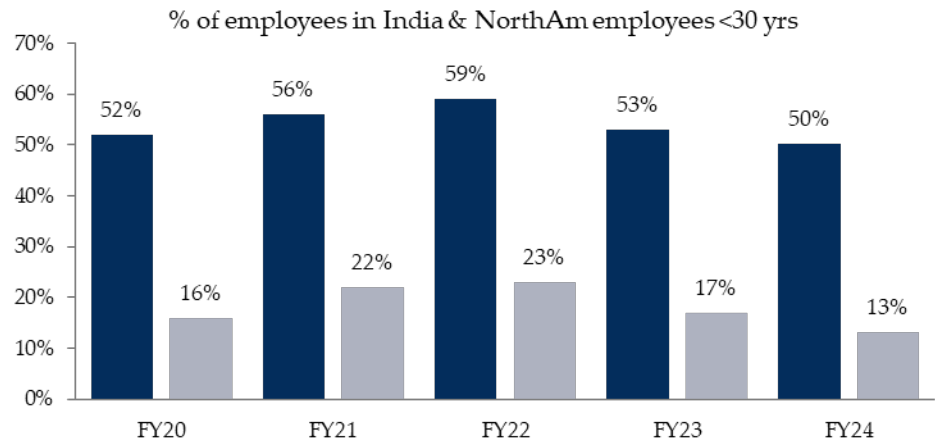
Source: Company, HSIE Research

Exhibit 8: FY24 margin improvement led by reduction in sub-contractor expense

% of revenue	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Employee expense	52.2	53.9	53.4	54.8	55.9	56.1	56.6	58.2
Cost of hardware & software license	2.4	2.2	1.5	1.2	0.9	0.6	0.8	1.5
Fees to external consultant	7.5	7.3	7.7	8.2	8.0	9.1	9.5	6.6
Facility expense	3.1	3.2	2.9	1.7	1.3	1.1	1.2	1.3
Travel expense	2.4	2.3	2.4	2.1	0.7	0.8	1.2	1.2
Others	5.0	4.7	5.0	5.1	4.8	4.6	4.5	4.5
Depreciation & Amortisation	1.7	1.6	1.4	2.2	2.5	2.4	2.2	2.1
EBIT	25.7	24.8	25.6	24.6	25.9	25.3	24.1	24.6

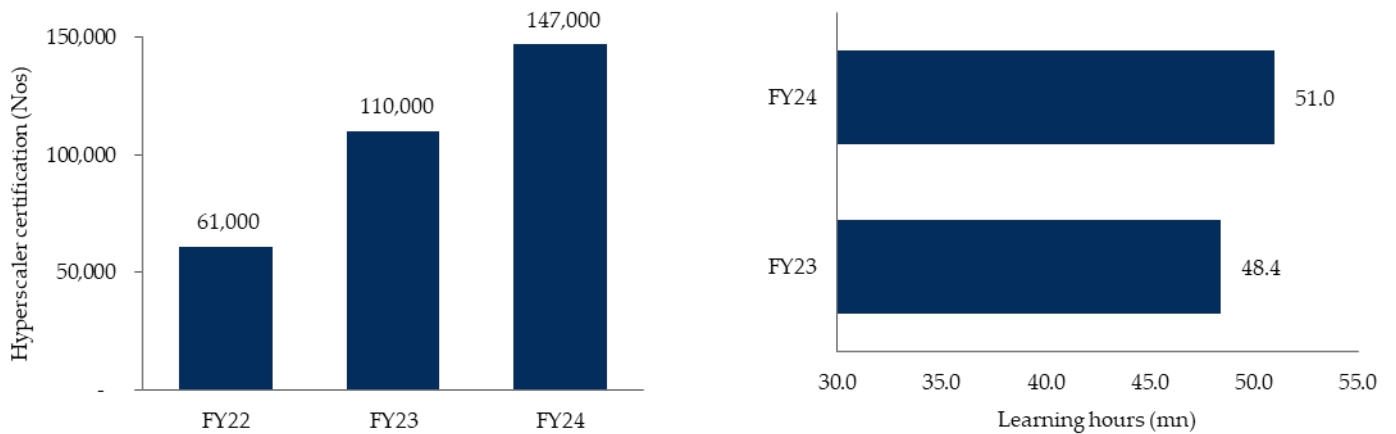
Source: Company, HSIE Research

Exhibit 9: Scope to improve workforce pyramid - junior workforce mix in India



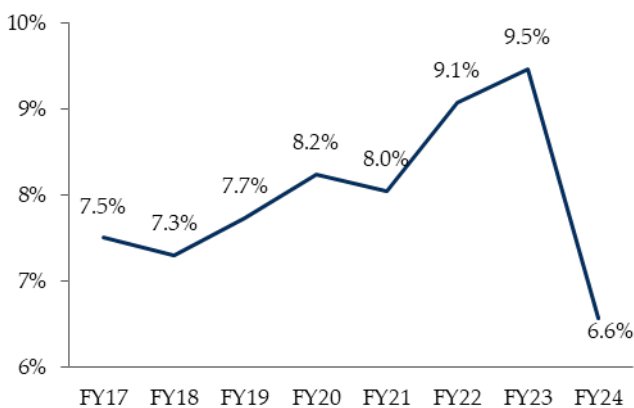
Source: Company, HSIE Research

Exhibit 10: Growth in average learning hours and hyperscaler certifications



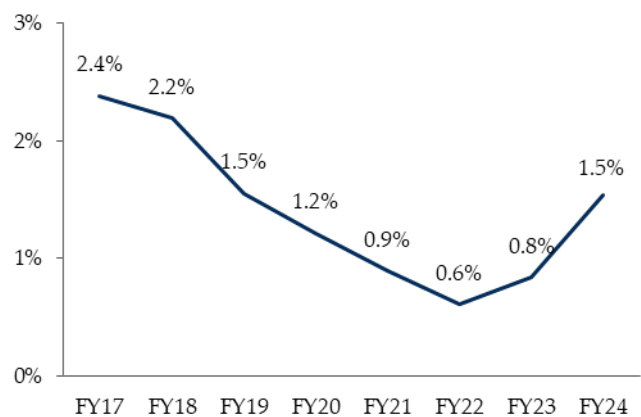
Source: Company, HSIE Research

Exhibit 11: Sharp reduction in sub-contracting



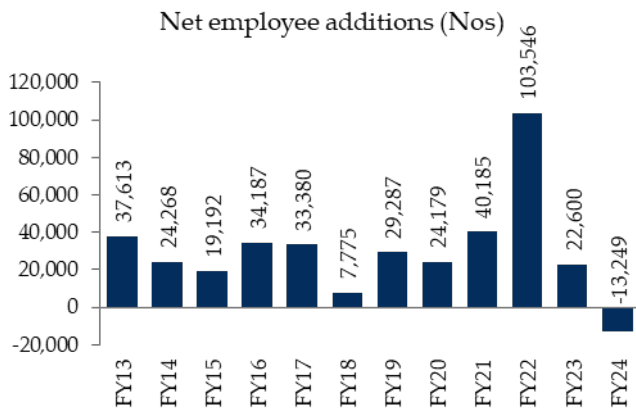
Source: Company, HSIE Research

Exhibit 12: Cost of equipment inched up in FY24 due to BSNL deal



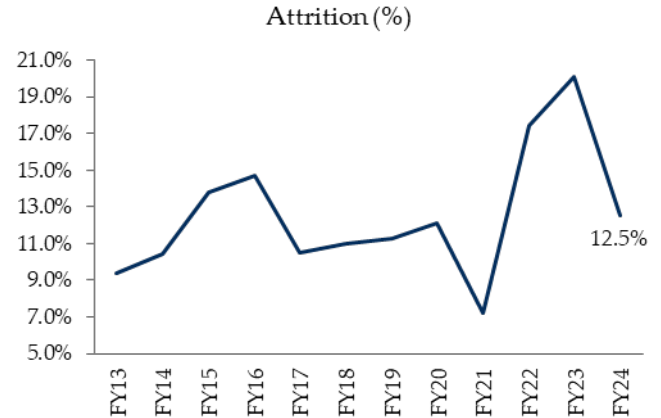
Source: Company, HSIE Research

Exhibit 13: Net headcount reduction in FY24



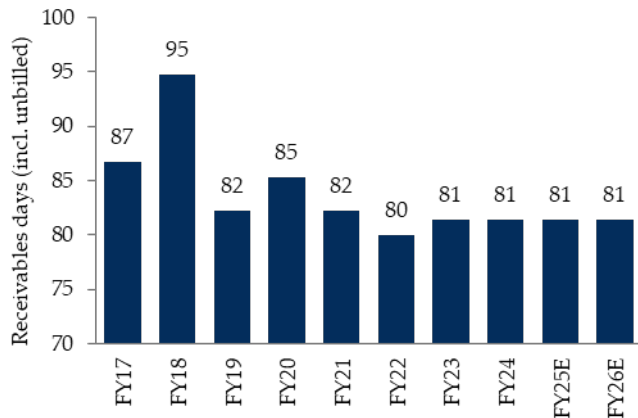
Source: Company, HSIE Research

Exhibit 14: Attrition likely to bottom out at 12%



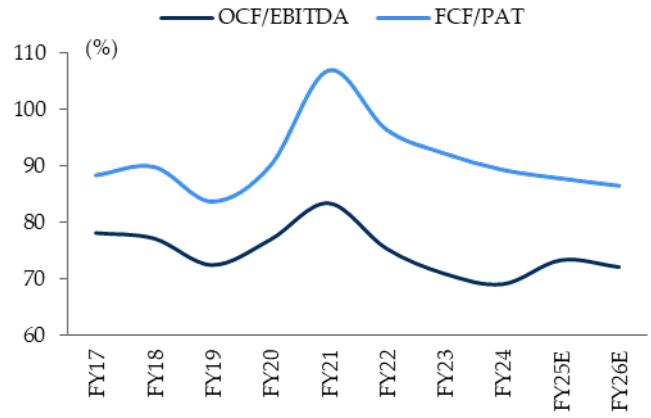
Source: Company, HSIE Research

Exhibit 15: Steady DSO



Source: Company, HSIE Research. Note: DSO including unbilled

Exhibit 16: Stable OCF/FCF generation



Source: Company, HSIE Research

Exhibit 17: Consistent payout track record – TCS’ buyback history

	1st Buyback	2nd Buyback	3rd Buyback	4th Buyback	5th Buyback
Date of announcement	Feb-17	Jun-18	Oct-20	Jan-22	Oct-23
Buyback end date	May-17	Sep-18	Jan-21	Mar-22	Dec-23
Buyback size (INR bn)	160	160	160	180	170
Buyback shares (mn)	56	76	53	40	41
% of total shares	3.0	2.0	1.4	1.1	1.1
Buyback Price (INR)	2,850	2,100	3,000	4,500	4,150

Source: Company, HSIE Research

Exhibit 18: TCS' tenured senior leadership

Management		In TCS since
K Krithivasan	MD & CEO	1989
Dr. Harrick Vin	CTO	2005
Abhinav Kumar	CMO	2002
Samir Seksaria	CFO	1999
Milind Lakkad	CHRO	1998
Business Heads		
Susheel Vasudevan	Banking Financial Services and Insurance	1991
Shankar Narayanan	Banking Financial Services and Insurance	1993
Debashis Ghosh	Life Sciences, Healthcare, Energy, Resources and Utilities	1990
Krishnan Ramanujam	Consumer Business Group	1991
Anupam Singhal	Manufacturing	1993
V Rajanna	Technology, Software and Services	1994
Akhilesh Tiwari	Communications, Media and Information Services	1995
Markets		
Suresh Muthuswami	Chairman – TCS North America	2005
Sapthagiri Chapalapalli	Europe	1995
Amit Bajaj	North America	1997
Girish Ramachandran	Growth Markets	2004
Amit Kapur	UK & Ireland	2005
Services		
Siva Ganesan	AI.Cloud	1990
Vikram Karakoti	Enterprise Solutions	2004
Ganesa Subramanian Vaikuntam	Cyber Security	2004
Ashok Pai	Enterprise Cognitive Business Operations	1992
Regu Ayyaswamy	IOT & Digital Engineering	1994
Kamal Bhadada	TCS Interactive	1986

Source: Company, LinkedIn

Exhibit 19: The all-encompassing GenAI

“Across industries globally, there are multiple mega trends that are shaping priorities of businesses: AI, New Energy, Supply Chain and Talent. These transitions will require substantial investment in technology across industry sectors. Your company is making significant investments and building capabilities to partner with customers during this phase of rapid technological shifts.”

N Chandrasekaran
Chairman

“The rise of GenAI has been catching customers’ attention, and it promises a leap in productivity and accelerates the creation of new products and services. Although still in the early stages of adoption, the use of GenAI is expected to transform every industry.”

K Krithivasan
CEO & MD

Source: TCS annual Report 2024

Financials

Consolidated Income Statement

YE March (INR bn)	FY22	FY23	FY24	FY25E	FY26E
Net Sales (USD mn)	25,707	27,927	29,080	30,930	33,466
<i>Growth (%)</i>	15.9	8.6	4.1	6.4	8.2
Net Sales	1,917.54	2,254.58	2,408.93	2,582.92	2,844.60
<i>Growth (%)</i>	16.8	17.6	6.8	7.2	10.1
Employee Expenses	1,075.54	1,275.22	1,401.31	1,503.74	1,646.22
SG&A and Other Expenses	311.43	386.77	364.66	369.87	401.02
EBIDTA	530.57	592.59	642.96	709.31	797.35
Depreciation	46.04	50.22	49.85	51.66	56.89
EBIT	484.53	542.37	593.11	657.65	740.46
<i>EBIT (%)</i>	25.3	24.1	24.6	25.5	26.0
<i>EBIT Growth (%)</i>	14.1	11.9	9.4	10.9	12.6
Other Income	40.18	34.49	44.22	48.38	51.37
Interest	7.84	7.79	7.78	7.80	7.80
PBT	516.87	569.07	629.55	698.24	784.04
Tax (incl deferred)	132.38	146.04	158.98	178.05	199.93
Minority Interest and associate profit	1.22	1.56	1.91	2.83	3.18
RPAT	383.27	421.47	459.08	517.36	580.93
APAT	383.27	421.47	466.35	517.36	580.93
<i>APAT Growth (%)</i>	14.9	10.0	10.6	10.9	12.3
EPS (INR)	105.9	116.5	128.9	143.0	160.6
<i>EPS Growth (%)</i>	14.9	10.0	10.6	10.9	12.3

Source: Company, HSIE Research

Consolidated Balance Sheet

YE March (INR bn)	FY22	FY23	FY24	FY25E	FY26E
SOURCES OF FUNDS					
Share Capital - Equity	3.66	3.66	3.62	3.62	3.62
Reserves	887.73	900.58	901.27	948.28	1,022.68
Total Shareholders' Funds	891.39	904.24	904.89	951.90	1,026.30
Minority Interest	7.07	7.82	8.30	11.13	14.31
Total Debt	-	-	-	-	-
Net Deferred Taxes	(31.18)	(25.15)	(24.26)	(24.26)	(24.26)
Long Term Provisions & Others	87.27	80.95	80.49	80.49	80.49
TOTAL SOURCES OF FUNDS	954.55	967.86	969.42	1,019.26	1,096.83
APPLICATION OF FUNDS					
Net Block	184.10	177.90	172.62	186.00	200.44
CWIP	12.05	12.34	15.64	15.64	15.64
Goodwill & Other Intangible Assets	28.88	27.25	23.42	23.47	23.55
Investments	2.23	2.66	2.81	2.81	2.81
Other non current assets	66.25	79.10	84.86	84.87	84.89
Total Non Current Assets	293.51	299.25	299.35	312.79	327.32
Cash & Equivalents	545.57	487.75	449.37	461.62	488.35
Debtors	342.19	411.98	445.61	477.70	525.97
Other Current Assets	196.79	204.46	236.13	242.73	252.67
Total Current Assets	1,084.55	1,104.19	1,131.11	1,182.06	1,266.99
Creditors	80.45	105.15	99.81	107.02	117.86
Other Current Liabilities & Provns	343.06	330.43	361.23	368.57	379.61
Total Current Liabilities	423.51	435.58	461.04	475.59	497.47
Net Current Assets	661.04	668.61	670.07	706.47	769.51
TOTAL APPLICATION OF FUNDS	954.55	967.86	969.42	1,019.26	1,096.83

Source: Company, HSIE Research

Consolidated Cash Flow

YE March (INR bn)	FY22	FY23	FY24	FY25E	FY26E
Reported PBT	516.87	569.07	629.55	698.24	784.04
Non-operating & EO items	(28.71)	(35.60)	(50.09)	(36.06)	(38.29)
Interest expenses	7.84	7.79	7.78	7.80	7.80
Depreciation	46.04	50.22	49.85	51.66	56.89
Working Capital Change	(27.69)	(42.17)	(68.82)	(24.15)	(36.32)
Tax paid	(114.86)	(129.66)	(124.89)	(178.05)	(199.93)
OPERATING CASH FLOW	399.49	419.65	443.38	519.44	574.19
Capex	(29.95)	(31.00)	(26.74)	(65.09)	(71.40)
Free cash flow (FCF)	369.54	388.65	416.64	454.35	502.79
Non-operating income	28.71	35.60	50.09	36.05	38.27
INVESTING CASH FLOW	(1.22)	4.60	23.39	(29.04)	(33.13)
Interest expenses	(7.84)	(7.79)	(7.78)	(7.80)	(7.80)
FCFE	361.70	380.86	408.86	446.55	494.99
Dividend/buyback	(314.42)	(455.84)	(462.23)	(470.35)	(506.53)
FINANCING CASH FLOW	(322.26)	(463.63)	(470.01)	(478.15)	(514.33)
NET CASH FLOW	76.01	(39.38)	(3.24)	12.25	26.73
Closing Cash & Equivalents	545.57	487.75	449.37	461.62	488.35

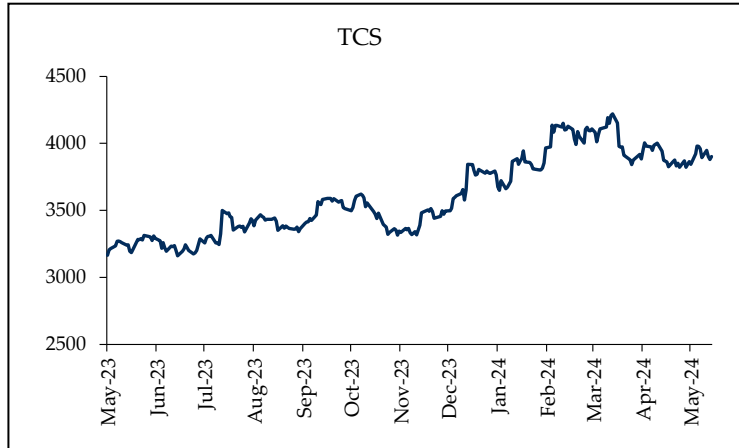
Source: Company, HSIE Research

Key Ratios

	FY22	FY23	FY24	FY25E	FY26E
PROFITABILITY (%)					
EBITDA Margin	27.7	26.3	26.7	27.5	28.0
APAT Margin	20.0	18.7	19.4	20.0	20.4
RoE	43.7	46.9	51.6	55.7	58.7
RoIC or Core RoCE	86.0	90.7	88.7	90.9	94.6
RoCE	41.4	44.5	48.7	52.6	55.5
EFFICIENCY					
Tax Rate (%)	25.6	25.7	25.3	25.5	25.5
Fixed Asset Turnover (x)	6.3	7.0	7.1	7.2	7.4
Debtors (days)	65	67	68	68	67
Other Current Asset (days)	37	33	36	34	32
Payables (days)	15	17	15	15	15
Other Current Liab & Prov (days)	65	53	55	52	49
Cash Conversion Cycle (days)	22	29	33	35	36
Net Debt/EBITDA (x)	(1.0)	(0.8)	(0.7)	(0.7)	(0.6)
Net Debt/Equity (x)	(0.6)	(0.5)	(0.5)	(0.5)	(0.5)
Interest Coverage (x)	62	70	76	84	95
PER SHARE DATA					
EPS (INR/sh)	105.9	116.5	128.9	143.0	160.6
CEPS (INR/sh)	117.3	128.9	142.7	157.3	176.3
DPS (INR/sh)	43.0	115.0	73.0	130.0	140.0
BV (INR/sh)	238	241	241	254	274
VALUATION					
P/E	36.8	33.5	30.3	27.3	24.3
P/BV	16.4	16.2	16.2	15.4	14.3
EV/EBITDA	25.6	23.0	21.3	19.2	17.1
OCF/EV (%)	3.7	3.3	3.4	4.0	4.5
FCF/EV (%)	3.3	3.0	3.1	4.0	4.5
FCFE/mkt cap (%)	3.1	2.8	3.0	3.8	4.3
Dividend Yield (%)	1.1	2.9	1.9	3.3	3.6

Source: Company, HSIE Research

1 Yr Price Movement



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com