

HSIE Results Daily

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Results Review

- **TCS:** We maintain REDUCE on TCS, following a miss on 1Q revenue/margin, offset by improving outlook. Valuations at >1SD more than adequately factor in the recovery trajectory, although the improving near-term visibility could keep the stock price elevated. Key positives include the following: (1) growth recovery is expected from 2Q (reversal of supply dent ~150bps); (2) BFSI vertical resilience is supported by strong deal wins (book-to-bill at 1.33x ex-Standard Life) and pipeline; (3) recovery trajectory is expected in continental Europe; (4) the company's strong cash generation is supported by a stable DSO in a tough quarter. Key concerns include: (1) recovery lag in Retail & CPG vertical (sub-vertical impact), manufacturing vertical, and (2) UK geography's performance (BFS weakness). Our target price of Rs 1,980 is based on 21x FY22E (+2% increase in EPS estimate).

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Positives factored in

We maintain REDUCE on TCS, following a miss on 1Q revenue/margin, offset by improving outlook. Valuations at >1SD more than adequately factor in the recovery trajectory, although the improving near-term visibility could keep the stock price elevated. Key positives include the following: (1) growth recovery is expected from 2Q (reversal of supply dent ~150bps); (2) BFSI vertical resilience is supported by strong deal wins (book-to-bill at 1.33x ex-Standard Life) and pipeline; (3) recovery trajectory is expected in continental Europe; (4) the company's strong cash generation is supported by a stable DSO in a tough quarter. Key concerns include: (1) recovery lag in Retail & CPG vertical (sub-vertical impact), manufacturing vertical, and (2) UK geography's performance (BFS weakness). Our target price of Rs 1,980 is based on 21x FY22E (+2% increase in EPS estimate).

- **1QFY21 highlights:** (1) Revenue and margin were lower than expected with a revenue decline of 6.9% QoQ (CC terms) and an EBIT margin decline of 149bps QoQ to 23.6%. (2) Significant demand reduction in Retail & CPG vertical. (3) The lateral hiring, which was frozen earlier, has been re-started selectively, while fresh on-boarding of 40,000 in FY21E is on track from July.
- **Outlook:** We expect the USD revenue growth at 1.0%/2.4%/3.3% QoQ and EBIT% of 24.0%/25.0%/25.6% over 2Q-4QFY21E respectively. FY20-22E EPS CAGR at 4.5% includes -4.9% in FY21E; valuation is at 26.9/23.4x FY21/22E EPS.

Quarterly financial summary

Y/E March (Rs Bn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY18	FY19	FY20	FY21E	FY22E
Revenue (USD mn)	5,059	5,485	-7.8	5,444	-7.1	19,089	20,913	22,032	20,809	22,652
Net Sales	383.22	381.72	0.4	399.46	-4.1	1,231.04	1,464.63	1,569.49	1,564.46	1,721.55
EBIT	90.48	92.20	-1.9	100.25	-9.7	305.02	374.50	385.80	384.38	439.62
APAT	70.08	81.31	-13.8	80.49	-12.9	258.26	314.72	323.40	307.70	353.17
Diluted EPS (Rs)	18.7	21.7	-13.8	21.5	-12.9	68.8	83.9	86.2	82.0	94.1
P/E (x)						32.0	26.3	25.6	26.9	23.4
EV / EBITDA (x)						24.7	20.2	19.0	18.9	16.5
RoE (%)						30.1	36.1	37.3	36.7	41.2

Source: Company, HSIE Research, Consolidated Financials

Change in estimates

(Rs Bn)	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %
Revenue (USD mn)	20,675	20,809	0.6	22,166	22,652	2.2
Revenue	1,554.25	1,564.46	0.7	1,684.59	1,721.55	2.2
EBIT	377.70	384.38	1.8	429.61	439.62	2.3
EBIT margin (%)	24.3	24.6	27bps	25.5	25.5	3bps
APAT	306.36	307.70	0.4	346.15	353.17	2.0
EPS (Rs)	81.6	82.0	0.4	92.25	94.1	2.0

Source: Company, HSIE Research

REDUCE

CMP (as on 9 Jul 2020)	Rs 2,204
Target Price	Rs 1,980
NIFTY	10,813

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 1,940	Rs 1,980
	FY21E	FY22E
EPS %	+0.4	+2.0

KEY STOCK DATA

Bloomberg code	TCS IN
No. of Shares (mn)	3,752
MCap (Rs bn) / (\$ mn)	8,272/110,274
6m avg traded value (Rs mn)	7,772
52 Week high / low	Rs 2,303/1,504

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	24.8	(0.5)	5.4
Relative (%)	6.9	10.9	10.5

SHAREHOLDING PATTERN (%)

	Dec-19	Mar-20
Promoters	72.05	72.05
FIs & Local MFs	8.03	8.01
FPIs	15.90	15.74
Public & Others	4.02	4.20
Pledged Shares	2.12	2.12

Source : BSE

Pledged shares as % of total shares

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Rating Criteria

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

Disclosure:

We, **Apurva Prasad, MBA, Amit Chandra, MBA & Vinesh Vala, MBA authors** and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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Any holding in stock –No

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