

- ❑ Tata Consultancy Services Limited (TCS) reported revenue growth from operation of 18.5% YoY at ₹4,54,110 million during Q1-FY22 as against ₹3,83,220 million in Q1-FY21. The company recorded Constant Currency Revenue growth of 16.4% YoY. All the verticals showed good sequential as well as Year-on-Year growth, however growth in India was impacted because of Pandemic Second Wave.
- ❑ The company reported EBITDA of ₹1,26,630 million in Q1-FY22 as against ₹1,00,240 million in Q1-FY21. EBITDA Margins for Q1-FY22 stood at 27.9%. Wage hike along with some return of discretionary expenses including travel, offset by currency gains impacted margins on QoQ basis. The profit after tax (PAT) for Q1-FY22 came in at ₹90,080 million as against ₹70,080 million during Q1-FY21 recording a growth of 28.5% YoY.
- ❑ Banking, Financial Services and Insurance segment reported revenue of ₹1,81,510 million in Q1-FY22 as compared to ₹ 1,52,820 million in Q1- FY21, a revenue growth of 18.8% YoY, powered by increasing investments in enhancing customer experience, product innovation, cloud transformation and optimization of core operations
- ❑ Life Science and Health Care segment grew by 25.2% YoY to ₹ 48,990 million during Q1 FY-22 as against ₹ 39120 million in Q1 FY21. Manufacturing segment recorded ₹ 43,990 million in Revenue with a growth rate of 13.3% YoY. Communication, Media and Technology grew 14.12% to ₹74120 million in Q1 FY22 as against ₹64950 million in Q1 FY21.
- ❑ Retail and Consumer Business Segment bounced back to double-digit growth, growing 21.3% YoY. Revenue came in at ₹ 71710 million in Q1 FY22 as against ₹ 59120 million in Q1 FY21. Discretionary Retail as well as parts of Travel and Hospitality segments showed signs of recovery in major markets.
- ❑ On geographical front, North America grew 4.1% (CC) QoQ and 15.8% (CC) YoY, UK grew 3.6%, (CC) QoQ and 16.3% (CC) YoY and Continental Europe grew 1.5% (CC) QoQ, 19.7% (CC) YoY. Overall demand environment in Europe continues to be very strong and management expects good traction in transformative deals. Among the regional markets, Latin America grew by 16.1% (CC) YoY while Middle East and Africa grew 25.3% (CC) YoY. The pandemic's second wave severely impacted sequential growth in India, which declined 14.1% (CC) QoQ, but grew 25.3% YoY. Growth has been affected in Asia Pacific where revenue grew 2.4% (CC) QoQ and 9.3% (CC) YoY.

- ❑ The company had a very strong set of deal wins in Q1 with a TCV of \$ 8.1 billion including deals of all sizes and distributed across industry verticals and geographies. BFSI had a TCV of \$2.2 billion while retail vertical again achieved its all-time high order book of \$1.5 billion for the second consecutive quarter. The TCV of deals signed in North America stood at \$4 billion.
- ❑ The company's product and platform performed well with Ignio signed up 17 new customers and had 8 go lives, TCS BaNCS had 5 new wins and 5 go-lives in Q1, the company had signed the largest SaaS deal for TCS BaNCS during the quarter. Half of the company's deal are now for the SaaS version of the product. Quartz Blockchain platform had two new wins in Q1. HOBBS suite of solutions for communication service providers had one new win and one go live in Q1. TCS iON is expanding its international footprint by winning its first country level deal in Indonesia to provide a country wide digital learning solution for 250,000 schools and also handle the recruitment process across ministry. It also won a customer in Malaysia for Digital Campus for 5,500 users.
- ❑ The company had a robust addition in every revenue bucket compared to the previous year. The company added 2 new customers in the \$100 million+ band, making the total count of 50. They added 5 new clients in the \$50 million+ band, bringing the total to 105. The company also added 11 new customers to the \$20 million+ band making the total count 241. 23 more customers were added in the \$10 million+ band, bringing the total to 405, 22 more clients in the \$5 million+ band, bringing the total to 586 and finally 52 more clients in the \$1 million+ band, bringing the total to 1,180.
- ❑ With continuity of robust growth across segments, we expect the growth momentum to continue in the medium term supported by strong deal pipeline and ramp up of large deals. We maintain our **Buy** rating on the stock with an upward revised target price of **₹3,720 per share**

Financials:

(In ₹ mn)	Q1-FY22	Q1-FY21	Chg	FY21	FY20	Chg
Net Sales	454,110	383,220	18.5%	1,641,770	1,569,490	4.6%
Operating Expense	327,480	282,980	15.7%	1,176,310	1,148,400	2.4%
EBITDA	126,630	100,240	26.3%	465,460	421,090	10.5%
Other Income	7,210	5,980	20.6%	31,340	45,920	-31.8%
Depreciation	10,750	9,760	10.1%	40,650	35,290	15.2%
EBIT	123,090	96,460	27.6%	456,150	431,720	5.7%
Interest	1,460	1,420	2.8%	6,370	9,240	-31.1%
PBT	121,630	95,040	28.0%	449,780	422,480	6.5%
Tax	31,320	24,550		111,980	98,010	
Exceptional Items	-	-		(12,180)	-	
PAT	90,310	70,490	28.1%	325,620	324,470	0.4%
Minority /Other Adj.	(230)	(410)		(1,320)	(1,070)	
Consolidated PAT	90,080	70,080	28.5%	324,300	323,400	0.3%
Margins	Q1-FY22	Q1-FY21	Chg BPS	FY21	FY20	Chg BPS
Operating Margin %	27.9%	26.2%	173	28.4%	26.8%	152
Net Margin %	19.8%	18.3%	155	19.8%	20.6%	-85

Consolidated Financials:

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
Net Sales	1,569,490	1,641,770	1,873,467	2,189,521
Operating Expense	1,148,400	1,176,310	1,283,151	1,527,648
EBITDA	421,090	465,460	590,316	661,873
Other Income	45,920	31,340	31,039	38,091
Depreciation	35,290	40,650	45,342	53,051
EBIT	431,720	456,150	576,013	646,913
Interest	9,240	6,370	7,253	7,753
Misc. items	-	(12,180)	-	-
PBT	422,480	437,600	568,760	639,160
Tax	98,010	111,980	154,435	157,432
Minority Interest	(1,070)	(1,320)	(1,500)	(1,800)
PAT	323,400	324,300	412,825	479,928

Margins	FY-20	FY-21	FY-22E	FY-23E
Sales Growth %	7.2%	4.6%	14.1%	16.9%
Operating Margin %	26.8%	28.4%	31.5%	30.2%
Net Margin %	20.6%	19.8%	22.0%	21.9%

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
Liabilities				
Equity Share Capital	3,750	3,700	3,700	3,700
Reserves & Surplus	837,510	860,630	930,641	1,040,452
Total Shareholder's Funds	841,260	864,330	934,341	1,044,152
Minority Interest	6,230	6,750	7,200	5,151
Long-Term Liabilities	-	-	-	-
Other Long-term Liabilities	83,080	87,290	28,010	28,910
Deferred Tax Liability	(20,490)	(31,640)	(19,764)	(21,985)
Short-term Liabilities	270,780	341,730	348,956	376,581
Total	1,180,710	1,268,280	1,298,743	1,360,563
Assets				
Net Fixed Assets	218,340	219,470	221,313	236,843
Long-Term L&A	34,800	28,650	45,653	47,562
Non Current Investments	2,160	2,130	3,245	3,619
Other Non-Current Assets	23,040	25,230	28,634	30,145
Current Asset	902,370	992,800	938,743	921,684
Total	1,180,710	1,268,280	1,298,743	1,360,563

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
EPS (₹)	87.4	87.7	111.6	129.7
P/E (x)	36.7	36.6	28.8	24.7
P/B (x)	14.1	13.7	11.3	8.9
ROE	38.4%	39.2%	43.3%	45.7%

Source: Company, Anand Rathi Research

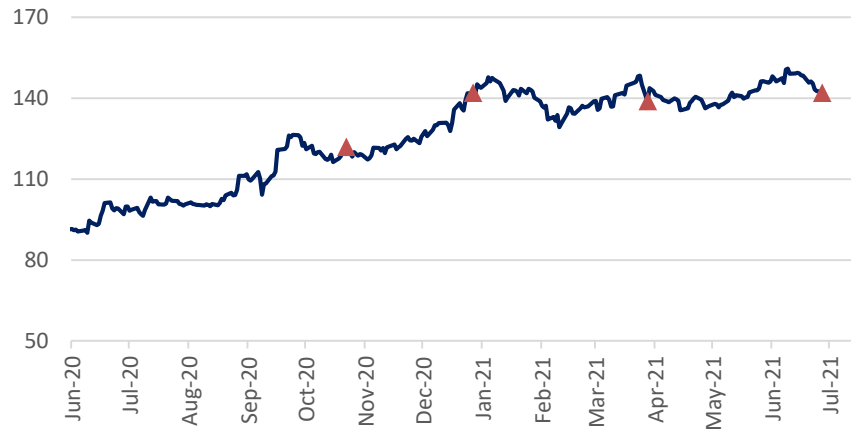
Key Risks:

- Foreign currency fluctuations.
- Employee Attrition.



Rating and Target Price history:

TCS in rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on 14 July 2021 close.

TCS in rating details

Date	Rating	Target Price (₹)	Share Price (₹)
18-April-2019	BUY	2,510	2,150
06-Nov-2020	BUY	3,230	2,708
11-Jan-2021	BUY	3,530	3,177
15-April-2021	BUY	3,610	3,104
14-July-2021	BUY	3,720	3,214

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Ratings Guide (12 months)	Buy	Hold	Sell
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Mid/Small Caps (<₹300 Bn.)	20%	10%-15%	Below 10%

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