

11 January 2021

### Q3-FY21 Result Update

- ❑ Tata Consultancy Services Ltd. reported consolidated revenues of ₹420,150 million in Q3FY21, up by 5.4% year over year (y/y) led by strong growth across all verticals and geographies. This healthy growth in the top-line is also supported by the strong demand in core transformation services and strong revenue conversion from earlier deals.
- ❑ All verticals showed good sequential growth, led by Manufacturing (+7.1%), BFSI (+2%), Life Sciences and Healthcare (+5.2%), Communications & Media (+5.5%) and Retail and CPG (+3.1%). Sequential growth was led by North America (+3.3%), India (+18.1%), UK (+4.5%), and Continental Europe (+2.5%). Other markets grew as well, with Asia Pacific growing +2.6%, MEA +6.7%, and Latin America +3.1%.
- ❑ Consolidated EBITDA grew 12.3% y/y to ₹122,080 million while margins improved by 178bps to 29.1% from 27.3% in the previous year quarter. The Company reported a PAT of ₹87,010 million a growth of 7.2% y/y. TCS has declared an interim dividend of ₹6 per share.
- ❑ The net cash flow from operation stood at ₹119,520 million which is 137.4% of net income, this is Company all time high cash conversion. Free cash flow was rupees ₹112,300 million, up 28.5% year-on-year. During the quarter, the company added one client in US\$20 million category and added 15,721 employees in the current quarter. Attrition was lowest in the quarter.
- ❑ It is expected that IT companies could be key beneficiaries in this multiyear technology transformation phase and in this current scenario, enterprises are building a cloud-based foundation that could serve as a resilient, secure and scalable digital core. TCS' investments in building deep expertise on these platforms, in research & development spends and in industry-specific solutions can be a key beneficiary of this secular demand growth in coming years.
- ❑ As per management, strong outlook for BFSI vertical (strongest-ever BFSI deal bookings), investments in hyper-scalers units and improving supply-side metrics, could help the Company to post **double digit growth in the year ended March 2022**.
- ❑ 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 **₹3,530 per share**.

## Financials

(In ₹ mn)	Q3-FY21	Q3-FY20	Chg	9MFY21	9MFY20	Chg
Net Sales	420,150	398,540	5.4%	1,204,720	1,170,030	3.0%
Operating Expense	298,070	289,830	2.8%	867,270	858,700	1.0%
EBITDA	122,080	108,710	12.3%	337,450	311,330	8.4%
Other Income	6,910	8,180	-15.5%	22,030	38,540	-42.8%
Depreciation	10,240	8,970	14.2%	29,980	25,780	16.3%
EBIT	118,750	107,920	10.0%	329,500	324,090	1.7%
Interest	1,830	2,230	-17.9%	4,990	6,730	-25.9%
PBT	116,920	105,690	10.6%	324,510	317,360	2.3%
Tax	29,650	24,260		79,530	73,820	
Exceptional Items	-	-		(12,180)	-	
<b>PAT</b>	<b>87,270</b>	<b>81,430</b>	<b>7.2%</b>	<b>232,800</b>	<b>243,540</b>	<b>-4.4%</b>
Minority /Other Adj.	(260)	(250)		(960)	(630)	
<b>Consolidated PAT</b>	<b>87,010</b>	<b>81,180</b>	<b>7.2%</b>	<b>231,840</b>	<b>242,910</b>	<b>-4.6%</b>
<b>Margins</b>	<b>Q3-FY21</b>	<b>Q3-FY20</b>	<b>Chg BPS</b>	<b>9MFY21</b>	<b>9MFY20</b>	<b>Chg BPS</b>
Operating Margin %	29.1%	27.3%	178	28.0%	26.6%	140
Net Margin %	20.7%	20.4%	34	19.2%	20.8%	-152

## Consolidated Financials:

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Net Sales	1,464,630	1,569,490	1,619,240	1,811,355
Operating Expense	1,069,570	1,148,400	1,177,109	1,307,142
EBITDA	395,060	421,090	442,131	504,213
Other Income	43,110	45,920	40,481	45,284
Depreciation	20,560	35,290	30,766	34,416
EBIT	417,610	431,720	451,846	515,081
Interest	1,980	9,240	4,126	4,290
Misc. items	-	-	(104)	-
PBT	415,630	422,480	447,616	510,791
Tax	100,010	98,010	123,911	126,795
Minority Interest	(900)	(1,070)	-	-
<b>PAT</b>	<b>314,720</b>	<b>323,400</b>	<b>323,706</b>	<b>383,996</b>

Margins	FY-19	FY-20	FY-21E	FY-22E
Sales Growth %	19.0%	7.2%	3.2%	11.9%
Operating Margin %	27.0%	26.8%	27.3%	27.8%
Net Margin %	21.5%	20.6%	20.0%	21.2%

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
<b>Liabilities</b>				
Equity Share Capital	3,750	3,750	3,750	3,750
Reserves & Surplus	890,710	837,510	1,160,942	1,539,482
Total Shareholder's Funds	894,460	841,260	1,164,692	1,543,232
Minority Interest	4,530	6,230	6,230	6,230
Long-Term Liabilities	-	-	-	-
Other Long-term Liabilities	19,150	83,080	68,015	70,465
Deferred Tax Liability	(16,140)	(20,490)	(20,490)	(20,490)
Short-term Liabilities	220,840	270,600	279,178	312,301
<b>Total</b>	<b>1,122,870</b>	<b>1,180,710</b>	<b>1,497,625</b>	<b>1,911,738</b>

<b>Assets</b>				
Net Fixed Assets	132,530	218,340	145,202	149,210
Long-Term L&A	51,880	34,800	34,800	34,800
Non Current Investments	2,390	2,160	2,160	2,160
Other Non-Current Assets	14,760	23,040	23,040	23,040
Current Asset	921,310	902,370	1,292,422	1,702,528
<b>Total</b>	<b>1,122,870</b>	<b>1,180,710</b>	<b>1,497,625</b>	<b>1,911,738</b>

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
EPS (₹)	0.2	0.2	0.2	0.2
P/E (x)	37.7	36.7	36.7	31.3
P/B (x)	13.3	14.1	10.2	7.7
ROE	35.2%	38.4%	27.8%	24.5%

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 11 January 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

Source: Bloomberg, Anand Rathi Research

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