

Q3-FY23 Result Update

- ❑ Tata Consultancy Services Limited (TCS) recorded revenue of ₹ 582,290 million, a growth of 19.1% YoY. The company recorded constant currency revenue growth of 13.5% YoY. In dollar terms, revenue stood at \$7,075 million, YoY growth of 8.4%. The growth in top line was led by Retail and CPG segment which grew 18.7% YoY followed by Life Sciences & Healthcare verticals (+14.4%). Communications & Media grew +13.5% and Technology & Services grew +13.6%. Manufacturing grew +12.5% while BFSI grew +11.1% in constant currency terms.
- ❑ The company reported EBITDA of ₹ 155,530 million in 3QFY23, a growth of 15.8% YoY. EBIT margin during the quarter declined 2.07%/0.3% YoY/QoQ to 25.4%. During the quarter there was pressure on margins due to impact of foreign exchange fluctuation. The profit after tax (PAT) for 3QFY23 came in at ₹ 108,830 million, recording a growth of 10.9% YoY. Net income margin stood at 18.7% during the quarter, down 1.37%/0.23% YoY/QoQ.
- ❑ During 3QFY23, Retail and Consumer Business segment continued the growth momentum recording revenue at ₹ 96,610 million. Banking, Financial Services and Insurance (BFSI) segment which accounts for the IT giant's majority revenue share reported strong growth recorded revenue at ₹ 221,450 million. Life Science and Health Care segment recorded revenue of ₹ 63,540 million followed by manufacturing segment of ₹ 54,280 million. Communication, Media and Technology showed revenue of ₹ 97,530 million in 3QFY23.
- ❑ Among major markets, North America and UK led with +15.4% growth; Continental Europe grew +9.7%. In emerging markets, Latin America grew +14.6%, India grew +9.1%, Asia Pacific grew +9.5% and Middle East & Africa grew +8.6%.
- ❑ During 3QFY23, TCS recorded deal win amounting to TCV of \$7.8 billion. Company expects that TCV will not be as linear as revenue because of which they have specified TCV to be within the band of \$7- \$9 billion during the course of the year.
- ❑ Looking at employee attrition data, the net additions during 3QFY23 were negative i.e (2,197) taking the employee count to 613,974 employees. The LTM IT attrition stood at 21.3% during. The company has announced total dividend of 75 per share which includes an interim dividend of ₹ 8 per share and ₹67 per shares as special dividend taking shareholder payout to ₹3,32,970 million year to date.
- ❑ Increase in interest rates, slow economic growth and geo-political tension have adversely impacted the macro environment and raised concern over IT spends, however we expect the growth momentum to continue in the medium to long term supported by strong deal pipeline and ramp up of large deals. We maintain **HOLD** rating on the stock with a revised target price of **₹ 3,770 per share** implying 28x FY24E P/E.

Earnings Call highlights :

- ❑ As per management, macro challenges have resulted in clients being cautious, delay in decision making and focus on cost optimization. However, TCS is benefitting from vendor consolidation opportunities in verticals like BFSI, Healthcare & Telecom. In terms of geography, Europe is witnessing slowdown in decision making, UK is observing increased interest in long term cost optimization deals and the scenario in USA will become clear in a couple of quarters.
- ❑ One of the largest asset managers in the US at over \$7 trillion in global assets migrated its personnel advisory services and digital advise offerings to the cloud-based TCS BaNCS wealth management platform.
- ❑ LTM attrition rate in IT services was at 21.3%, slightly down QoQ but still very elevated and their quarterly annualized attrition on the other hand fell by 6% in Q3 and company expects to steadily trend down in coming quarters.
- ❑ Order book TCV stood at \$7.8bn (v/s 8 bn is prev. quarter). Sequential decline in TCV is due to delayed decision making. Order book mix - BFSI at \$2.5 bn, Retail at \$1.2 bn and North America at \$4.2 bn. Book to bill ratio was at 1.1 (v/s 1.2 in prev. quarter).
- ❑ The travel and hospitality sector is seeing good attraction after being impacted by good. Company expects more of proprietary investment looking forward and very high profitability during the course.
- ❑ TCS is witnessing strong traction in cost take-out deals in the UK. While the US remains a wait-and-watch area, TCS remains constructive. European clients are cautious and slowing down decision-making.
- ❑ Dividend of Rs. 75 per share declared, including special dividend of Rs. 67. 110% of Free cash flows paid to shareholders in FY23. DSO(Day sales outstanding) days at 66 days (+4 days QoQ). FCF of Rs. 102.15 bn (Rs. 100.62 bn in Q2FY23).

Financials:

(In ₹ mn)	Q3-FY23	Q2-FY23	Q3-FY22	Chg	9M-FY23	9M-FY22	Chg
Net Sales	5,82,290	5,53,090	4,88,850	19.1%	1,662,960	1,411,630	17.8%
Operating Expense	4,26,760	4,07,930	3,54,520	20.4%	1,228,110	1,019,510	20.5%
EBITDA	1,55,530	1,45,160	1,34,330	15.8%	4,34,850	3,92,120	10.9%
Other Income	5,200	9,650	12,050	-	22,740	30,370	-
Depreciation	12,690	12,370	11,960	-	37,360	33,870	-
EBIT	1,48,040	1,42,440	1,34,420	10.1%	4,20,230	3,88,620	8.1%
Interest	1,600	1,480	2,510	-	5,070	5,390	-
PBT	1,46,440	1,40,960	1,31,910	11.0%	4,15,160	3,83,230	8.3%
Tax	37,610	36,310	33,850	-	1,06,490	98,330	-
PAT	1,08,830	1,04,650	98,060	11.0%	3,08,670	2,84,900	8.3%
Minority /Other Adj.	(370)	(340)	(370)		(1,120)	(890)	
Consolidated PAT	1,08,460	1,04,310	97,690	11.0%	3,07,550	2,84,010	8.3%

Margins	Q3-FY23	Q2-FY23	Q3-FY22	Chg BPS	9M-FY23	9M-FY22	Chg BPS
Operating Margin %	26.7%	26.3%	27.5%	-77	26.1%	27.8%	-163
Net Margin %	18.6%	18.9%	20.0%	-136	18.6%	20.2%	-162

Consolidated Financials:

(In ₹ mn)	FY-21	FY-22	FY-23E	FY-24E
Net Sales	1,641,770	1,917,540	22,17,280	24,83,354
Operating Expense	1,176,310	1,387,060	16,31,366	18,07,263
EBITDA	465,460	530,480	5,85,914	6,76,091
Other Income	31,340	40,270	33,259	37,250
Depreciation	40,650	46,040	50,813	58,121
EBIT	456,150	524,710	5,68,361	6,55,220
Interest	6,370	7,840	8,655	9,694
Misc. items	-12,180	-	-	-
PBT	437,600	516,870	5,59,706	6,45,526
Tax	111,980	132,380	1,39,926	1,61,382
Minority Interest	(1,320)	(1,220)	(1,259)	(1,452)
PAT	324,300	383,270	4,18,520	4,82,692

Margins	FY-21	FY-22	FY-23E	FY-24E
Sales Growth %	-	16.8%	15.6%	12.0%
Operating Margin %	28.4%	27.7%	26.4%	27.2%
Net Margin %	19.8%	20.0%	18.9%	19.4%

(In ₹ mn)	FY-21	FY-22	FY-23E	FY-24E
<u>Liabilities</u>				
Equity Share Capital	3,700	3,660	3,660	3,660
Reserves & Surplus	860,630	887,730	10,13,286	11,58,094
Total Shareholder's Funds	864,330	891,390	10,16,946	11,61,754
Minority Interest	6,750	7,070	8,329	9,782
Long-Term Liabilities	-	-	-	-
Other Long-term Liabilities	87,290	87,270	98,970	1,09,356
Deferred Tax Liability	(31,640)	(31,180)	(31,180)	(31,180)
Short-term Liabilities	341,550	423,510	4,89,711	5,48,476
Total	1,268,280	1,378,060	15,82,777	17,98,189
<u>Assets</u>				
Net Fixed Assets	219,470	225,030	1,90,142	1,98,460
Long-Term L&A	28,650	33,650	34,200	34,200
Non Current Investments	2,130	2,230	2,230	2,230
Other Non-Current Assets	25,230	34,050	33,500	33,500
Current Asset	992,800	1,083,100	13,22,706	15,29,798
Total	1,268,280	1,378,060	15,82,777	17,98,189

(In ₹ mn)	FY-21	FY-22	FY-23E	FY-24E
EPS (₹)	74.7	104.7	114.4	131.9
P/E (x)	35.1	29.7	29.1	25.2
P/B (x)	13.2	12.8	12.0	10.5
ROE	37.5%	43.0%	41.2%	41.5%

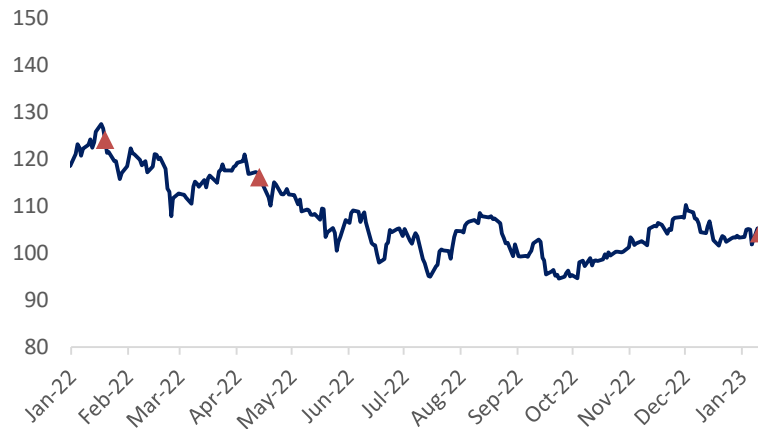
Source: Company, Anand Rathi Research

Key Risks:

- ☐ Foreign currency fluctuations.
- ☐ Employee Attrition.
- ☐ Geo-political tensions

Rating and Target Price history:

TCS in rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on 11 January 2023 close.

TCS in rating details

Date	Rating	Target Price (₹)	Share Price (₹)
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
24-Nov-2021	BUY	3,990	3,444
19-Jan-2022	HOLD	4,350	3,828
14-April-2022	BUY	4,350	3,665
12-July-2022	BUY	3,770	3,114
11- Jan-2023	HOLD	3,770	3,325

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