



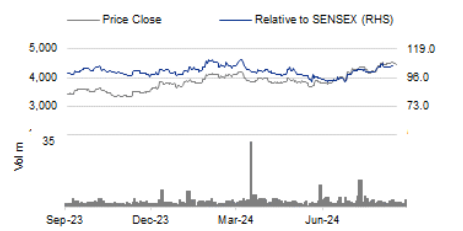
India

ADD (previously HOLD)

Consensus ratings*: Buy 29 Hold 10 Sell 8	
Current price:	Rs4,479
Target price: ▲	Rs4,915
Previous target:	Rs4,039
Up/downside:	10.0%
InCred Research / Consensus:	14.2%
Reuters:	
Bloomberg:	TCS IN
Market cap:	US\$223,181m Rs16,206,320m
Average daily turnover:	US\$162.4m Rs11795.2m
Current shares o/s:	3,646.7m
Free float:	28.0%
*Source: Bloomberg	

Key changes in this note

- Expect 7.5% revenue CAGR over FY25F-27F.
- Expect 11% EBIT CAGR over FY25F-27F.
- Expect 11% EBIT CAGR over FY25F-27F.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	4.6	20.6	31.6
Relative (%)	0.0	8.9	5.1

<b>Major shareholders</b>	% held
FPI	12.4
LIC	5.0
Mutual Funds	4.3

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# Tata Consultancy Services

## Best placed to play growth/margin trade-off

- The FSI demand trend is improving with a caveat that clients continue to re-evaluate/pause programs at short notice.
- Barring pockets of retail, hi-tech & telecom, most verticals are doing well.
- Upgrade to ADD rating with a new target price of Rs4,915 vs. Rs4,039 earlier.

### Continued recovery in NA/FSI could aid international market growth

Analyzing North America (NA) and the financial services (FSI) vertical's growth trends over the past quarters suggests that barring the communication and media (CMT) vertical and LatAm geography, the growth was broad-based while both NA and FSI witnessed incremental revenue addition in 1QFY25, a first since 3QFY23 and 4QFY23, respectively. Recent discussions suggest 1) portfolio leakages are getting arrested, 2) small discretionary deals are back in the market, 3) visibility in Europe is limited but the UK/US are good/recovering, and it's better in APAC and other regions. Elsewhere, life sciences, manufacturing, energy resources & utilities, retail ex-travel verticals continue to do well and/or are recovering.

### 1QFY25 booking commentary encouraging but monitorable

Tata Consultancy Services or TCS' 1QFY25 order bookings at US\$8.3bn were down 37.1%/18.6% qoq/yoy driven by weakness in FSI (TCV down 34.1%/10%), consumer (down 31.3%/8.3%) & North America (down 19.3%/11.5%). However, we believe, 1Q may not be a representation of FY25F. Further, 1Q commentary was relatively better led by the improving prospects across markets & verticals, healthy deal pipeline & rising GenAI momentum (deal pipeline at US\$1.5bn doubled qoq). However, what is of interest to us is an update to TCS' 1QFY25 earnings commentary of the "average tenure of pipeline slowly inching less" as it could improve near-term growth acceleration.

### Levers exist to sustain margin despite large deal reinvestments

TCS started FY25F, with 1Q margin being at least ~150bp higher than in 1QFY23/24 which, coupled with levers such a benign supply side environment, productivity, utilization, employee pyramid correction, and optimized sub-contractor costs provide enough reinvestment cushion to gain market share, despite headwinds from higher third-party expenses & large deal transition costs. Hence, we raise average FY25F-FY27F margin assumption by 10bp to 25.7%.

### Upgrade to ADD rating with a higher target price of Rs4,915

We adjust our estimates modestly and now expect FY25F-27F US\$ revenue CAGR of 7.5% (vs. 7.2% earlier) and PAT (Rs) CAGR of 11% (10.8%). We increase our target PE/G multiple to 2.6x (2.1x) to arrive at our target P/E of 28x FY27F EPS given the certainty about operating cash flow, strong dividend payout ratio and healthy return ratios. Slower recovery in the NA & FSI, weak bookings in 2QFY25F and higher project cancellations are key downside risks to our growth assumption and target price.

Financial Summary	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	2,254,580	2,408,930	2,596,109	2,831,213	3,111,056
Operating EBITDA (Rsm)	592,590	642,960	705,805	784,246	864,874
Net Profit (Rsm)	421,470	468,660	513,137	571,676	631,703
Core EPS (Rs)	115.2	128.5	141.8	158.0	174.6
Core EPS Growth	11.2%	11.6%	10.4%	11.4%	10.5%
FD Core P/E (x)	38.88	34.85	31.58	28.35	25.65
DPS (Rs)	115.0	73.0	120.0	134.3	148.4
Dividend Yield	2.57%	1.63%	2.68%	3.00%	3.31%
EV/EBITDA (x)	26.96	24.82	22.31	19.98	18.02
P/FCFE (x)	41.83	38.47	33.70	30.82	28.00
Net Gearing	(45.7%)	(41.9%)	(47.1%)	(50.7%)	(53.9%)
P/BV (x)	18.12	18.05	16.47	15.15	13.92
ROE	46.9%	51.8%	54.3%	55.7%	56.6%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

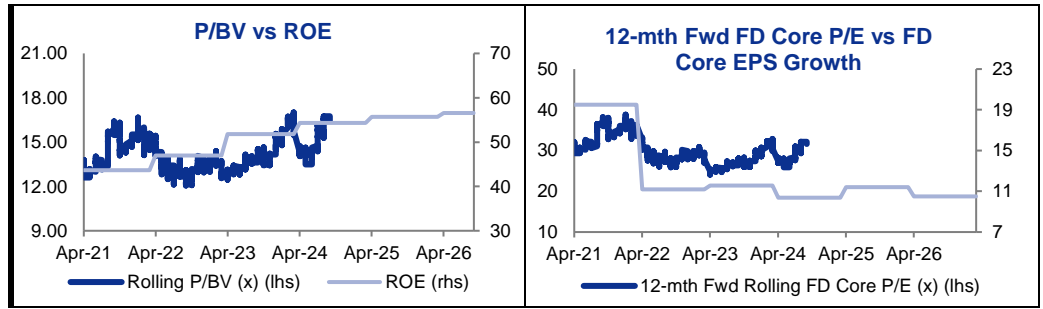
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 1: Change in InCred estimates**

Y/E Mar (Rs)	FY25F			FY26F			FY27F		
	New	Old	% change	New	Old	% change	New	Old	% change
<b>US\$ revenue</b>	30,957	30,957	0.0	33,114	33,114	0.0	35,759	35,605	0.4
<b>Revenue</b>	25,96,109	25,96,109	0.0	28,31,213	28,47,770	-0.6	31,11,056	31,33,197	-0.7
<b>EBIT</b>	6,55,191	6,55,191	0.0	7,30,453	7,34,725	-0.6	8,06,697	8,05,545	0.1
<b>EBIT Margin (%)</b>	25.2	25.2	0bp	25.8	25.8	0bp	25.9	25.7	22bp
<b>Net PAT</b>	5,13,137	5,13,137	0.0	5,71,676	5,74,346	-0.5	6,31,703	6,29,471	0.4
<b>EPS (Rs)</b>	141.8	141.8	0.0	158.0	158.8	-0.5	174.6	174.0	0.4

SOURCE: COMPANY REPORTS, INCRED RESEARCH

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
<b>Total Net Revenues</b>	<b>2,254,580</b>	<b>2,408,930</b>	<b>2,596,109</b>	<b>2,831,213</b>	<b>3,111,056</b>
<b>Gross Profit</b>	<b>942,120</b>	<b>1,022,830</b>	<b>1,106,252</b>	<b>1,214,591</b>	<b>1,337,754</b>
<b>Operating EBITDA</b>	<b>592,590</b>	<b>642,960</b>	<b>705,805</b>	<b>784,246</b>	<b>864,874</b>
Depreciation And Amortisation	(50,220)	(49,850)	(50,615)	(53,793)	(58,177)
<b>Operating EBIT</b>	<b>542,370</b>	<b>593,110</b>	<b>655,191</b>	<b>730,453</b>	<b>806,697</b>
Financial Income/(Expense)	26,700	36,440	36,190	39,404	43,630
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
<b>Profit Before Tax (pre-EI)</b>	<b>569,070</b>	<b>629,550</b>	<b>691,380</b>	<b>769,857</b>	<b>850,327</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>569,070</b>	<b>629,550</b>	<b>691,380</b>	<b>769,857</b>	<b>850,327</b>
Taxation	(146,040)	(158,980)	(175,644)	(195,581)	(216,024)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>423,030</b>	<b>470,570</b>	<b>515,737</b>	<b>574,276</b>	<b>634,303</b>
Minority Interests	(1,560)	(1,910)	(2,600)	(2,600)	(2,600)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>421,470</b>	<b>468,660</b>	<b>513,137</b>	<b>571,676</b>	<b>631,703</b>
Recurring Net Profit	421,470	468,660	513,137	571,676	631,703
<b>Fully Diluted Recurring Net Profit</b>	<b>421,470</b>	<b>468,660</b>	<b>513,137</b>	<b>571,676</b>	<b>631,703</b>

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
<b>EBITDA</b>	<b>592,590</b>	<b>642,960</b>	<b>705,805</b>	<b>784,246</b>	<b>864,874</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(42,170)	(68,820)	(22,777)	(38,247)	(45,525)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(1,560)	(1,910)	(2,600)	(2,600)	(2,600)
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(129,660)	(124,890)	(175,644)	(195,581)	(216,024)
<b>Cashflow From Operations</b>	<b>419,200</b>	<b>447,340</b>	<b>504,785</b>	<b>547,819</b>	<b>600,725</b>
Capex	(25,320)	(22,020)	(22,020)	(22,020)	(22,020)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	25,710	82,280	43,110	46,324	50,550
<b>Cash Flow From Investing</b>	<b>390</b>	<b>60,260</b>	<b>21,090</b>	<b>24,304</b>	<b>28,530</b>
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased	(41,920)	(210,050)			
Dividends Paid	(413,470)	(251,370)	(434,123)	(485,925)	(536,948)
Preferred Dividends					
Other Financing Cashflow	(23,390)	(23,940)	(6,920)	(6,920)	(6,920)
<b>Cash Flow From Financing</b>	<b>(478,780)</b>	<b>(485,360)</b>	<b>(441,043)</b>	<b>(492,845)</b>	<b>(543,868)</b>
Total Cash Generated	(59,190)	22,240	84,832	79,278	85,387
<b>Free Cashflow To Equity</b>	<b>393,880</b>	<b>425,320</b>	<b>482,765</b>	<b>525,799</b>	<b>578,705</b>
<b>Free Cashflow To Firm</b>	<b>419,590</b>	<b>507,600</b>	<b>525,874</b>	<b>572,122</b>	<b>629,255</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Total Cash And Equivalents	479,290	447,670	532,502	611,779	697,166
Total Debtors	499,540	535,770	567,968	619,403	680,626
Inventories	280	280	280	280	280
Total Other Current Assets	123,590	146,120	146,120	146,120	146,120
<b>Total Current Assets</b>	<b>1,102,700</b>	<b>1,129,840</b>	<b>1,246,869</b>	<b>1,377,582</b>	<b>1,524,193</b>
Fixed Assets	190,240	188,260	159,665	127,892	91,736
Total Investments	29,360	36,980	36,980	36,980	36,980
Intangible Assets	27,250	23,420	23,420	23,420	23,420
Total Other Non-Current Assets	86,960	85,990	85,990	85,990	85,990
<b>Total Non-current Assets</b>	<b>333,810</b>	<b>334,650</b>	<b>306,055</b>	<b>274,282</b>	<b>238,126</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	105,150	99,810	106,689	116,351	127,852
Other Current Liabilities	330,430	361,230	363,772	367,298	371,496
<b>Total Current Liabilities</b>	<b>435,580</b>	<b>461,040</b>	<b>470,461</b>	<b>483,649</b>	<b>499,347</b>
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	88,870	90,260	90,260	90,260	90,260
<b>Total Non-current Liabilities</b>	<b>88,870</b>	<b>90,260</b>	<b>90,260</b>	<b>90,260</b>	<b>90,260</b>
Total Provisions					
<b>Total Liabilities</b>	<b>524,450</b>	<b>551,300</b>	<b>560,721</b>	<b>573,909</b>	<b>589,607</b>
Shareholders Equity	904,240	904,890	983,892	1,069,643	1,164,399
Minority Interests	7,820	8,300	8,300	8,300	8,300
<b>Total Equity</b>	<b>912,060</b>	<b>913,190</b>	<b>992,192</b>	<b>1,077,943</b>	<b>1,172,699</b>

<b>Key Ratios</b>					
	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Revenue Growth	17.6%	6.8%	7.8%	9.1%	9.9%
Operating EBITDA Growth	11.7%	8.5%	9.8%	11.1%	10.3%
Operating EBITDA Margin	26.3%	26.7%	27.2%	27.7%	27.8%
Net Cash Per Share (Rs)	114.06	104.89	129.18	151.10	174.70
BVPS (Rs)	247.17	248.14	271.97	295.67	321.86
Gross Interest Cover	69.62	76.24	94.68	105.56	116.57
Effective Tax Rate	25.7%	25.3%	25.4%	25.4%	25.4%
Net Dividend Payout Ratio	99.8%	56.7%	84.6%	85.0%	85.0%
Accounts Receivables Days	74.28	78.43	77.59	76.54	76.26
Inventory Days	0.07	0.07	0.07	0.06	0.06
Accounts Payables Days	25.81	26.99	25.30	25.18	25.13
ROIC (%)	84.5%	90.1%	94.2%	106.2%	115.8%
ROCE (%)	41.6%	45.4%	48.0%	49.5%	50.5%
Return On Average Assets	28.3%	30.6%	32.4%	34.0%	35.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

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- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.