



India

Overweight (previously Neutral)

Highlighted Companies

HCL Technologies

ADD, TP Rs1987, Rs1813 close

Seasonality and the FSI vertical's recovery could help FY25F exit momentum. Reinvestments in the business could help better participation in the demand.

Infosys

ADD, TP Rs2166, Rs1944 close

Higher new component in deal wins could aid execution. The demand commentary across verticals remains consistent. Continued recovery in the FSI vertical bodes well.

Tata Consultancy Services

ADD, TP Rs4915, Rs4523 close

Best-placed to play growth/margin trade-off as 1QFY25 margin is at least ~150bp higher than in 1QFY23/24 which, coupled with operating levers, provides cushion to gain market share.

Summary Valuation Metrics

P/E (x)	Mar25-F	Mar26-F	Mar27-F
HCL Technologies	28.64	25.93	23.01
Infosys	30.85	27.00	24.47
Tata Consultancy Services	31.58	28.35	25.65
P/BV (x)	Mar25-F	Mar26-F	Mar27-F
HCL Technologies	7.05	6.95	6.85
Infosys	8.86	8.44	8.03
Tata Consultancy Services	16.47	15.15	13.92
Dividend Yield	Mar25-F	Mar26-F	Mar27-F
HCL Technologies	3.20%	3.66%	4.13%
Infosys	2.88%	3.15%	3.47%
Tata Consultancy Services	2.68%	3.00%	3.31%

Research Analyst(s)



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IT Services

Ears to the ground: Margin is king

- FSI vertical's recovery bodes well and is likely to limit earnings downgrade.
- Margin is king to win large deals as clients seek 'doing more for less'.
- We turn Overweight from Neutral, with a preference towards large-caps. Realign intra-sector positioning as well.

FSI vertical's recovery bodes well

Our 'Time to raise weight' call on the IT sector (21 Aug 2024 report) got reinforced from recent company/industry and analyst meet interactions. The messaging from companies varies from 'some' to 'modest' uptick in the financial services (FSI) vertical, driven by plugging of leakage either in parts of the portfolio or geographies, albeit with some caution, as clients continue to re-evaluate/pause programs at short notice. As a reminder, we also did highlight in the same report that FSI deals on the fence are back on the table, which, coupled with the recovery in regional banks' spending, could lead to announcements across North America and Europe. Elsewhere, barring pockets of retail CPG, hi-tech and telecom, we heard recovery and/or traction in verticals such as healthcare, energy, insurance, and manufacturing.

Margin is king as clients seek 'doing more for less'

We have been harping since 13 Mar 2024 update that clients increasingly are consulting, for the art of the possible, to fund discretionary projects by rationalizing legacy work. Additionally, companies shifting to the captive model could further commoditize the operations to a factory model to safeguard monetization after a few years when the technology trend changes. This implies that large deal wins are not just a function of capability but also on vendor's ability to generously drive automation in existing projects and reinvest or upfront costs during the transition of such deals. This also implies 1) the revenue growth visibility is improving but at the cost of margin, as the cost of execution remains elevated despite moderating employee cost trajectory driven by lower attrition, replacement cost, variable payout and wage inflation partly offset by a relook at the hiring strategy currently, and 2) limits the participation of vendors, in consolidation-driven high competitive intensity deals, to their aspiration of sacrificing margin in the first year of deal transition. Put together, we believe large-cap IT companies are better placed to navigate the current environment.

Constructive messaging may continue in 2QFY25F

We believe the constructive messaging of 1QFY25 may continue in 2QFY25F as client conversations and decision-making continue to be encouraging and could help improve yoy growth trajectory and FY25F visibility. We also continue to hear that Tier-I Indian IT services vendors are likely winning a higher share of the current demand, given broader offerings and deal structuring flexibility. Lastly, Tier-II vendors are partnering mid-sized global consulting firms to participate in such opportunities

Turn Overweight from Neutral; realign intra-sector positioning

We turn Overweight on the IT sector, from Neutral earlier, as we have already upgraded Tata Consultancy Services or TCS on 4th Sep 2024 (note attached), and now upgrade Infosys and HCL Technologies (HCLT) to ADD (from a HOLD rating earlier) along with higher target prices of Rs2,166/Rs1,987, respectively, driven by a combination of modest earnings revision and higher target PE/G multiple. We believe the higher multiple is warranted to account for operating cash flow certainty. Although, we are firm believers in Tech Mahindra's restructuring, we are wary of the 1) recent P/E expansion led run-up in its share price, and 2) strategic revenue growth/margin expansion dilemma for the company's leadership in the current deal-making environment. Consequently, we realign our intra-sector allocation and believe some of Tech Mahindra's weight could be shifted elsewhere to HCLT/TCS.



India

ADD (previously HOLD)

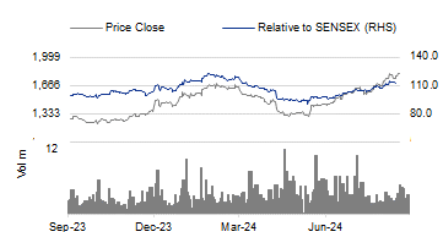
Consensus ratings*: Buy 19 Hold 17 Sell 7

Current price:	Rs1,813
Target price:	Rs1,987 ▲
Previous target:	Rs1,576
Up/downside:	10.0%
InCred Research / Consensus:	18.3%
Reuters:	
Bloomberg:	HCLT IN
Market cap:	US\$67,745m
	Rs4,919,332m
Average daily turnover:	US\$74.9m
	Rs5442.0m
Current shares o/s:	2,708.2m
Free float:	39.0%

*Source: Bloomberg

Key changes in this note

- Expect 8% revenue CAGR over FY25F-27F.
- Expect 11.8% EBIT CAGR over FY25F-27F.
- Expect 11.5% PAT CAGR over FY25F-27F



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	13.8	25.5	42.2
Relative (%)	10.5	16.6	16.3

Major shareholders

	% held
LIC	4.7
Artisan International Value Fund	2.2
HDFC MF	1.5

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HCL Technologies

Seasonality & FSI recovery drives upgrade

- Seasonality and the FSI vertical's recovery could help FY25F exit momentum.
- Reinvestments in the business could help better participate in the demand.
- Upgrade to ADD rating with a higher target price of Rs1,987 from Rs1,576.

Seasonality and FSI recovery could help FY25F exit momentum

HCL Technologies' (HCLT IN) 1QFY25 commentary suggested broad-based growth across the portfolio ex-FSI and manufacturing, for reasons known, while the impacted verticals could fully recover in 2H/2QFY25F. However, the recent analyst meet commentary of an improvement in the near-term visibility led by a better demand environment, primarily driven by an uptick in the FSI vertical, bodes well for FY25F/26F growth assumptions and echo our thoughts of an improvement in discretionary demand in FSI and contracting activity in general. Although we await 2QFY25F commentary, earlier-than-expected improvement in visibility, coupled with better 2HFY25F seasonality led by products business, could aid FY25F exit momentum.

Strategic priorities could aid bookings

Focused investments in domain capabilities, sales, solutioning and architecture could help improve or sustain the current bookings run-rate led by increased market participation and better coverage across current and future G-2,000 companies. We have been highlighting since Nov 2023 in our 'Ears to the ground' report that contracting activity continues to be encouraging and HCLT's recent focused reinvestments, coupled with integrated GTM and expanded partner ecosystem, could help better participate in this demand. We raise our US\$ revenue CAGR to 8% vs. 7.5% earlier.

Retain EBIT margin assumption

Organizational roll-out of GenAI-led delivery transformation, reskilling to improve productivity and utilization, moving delivery to Tier-II cities, G&A optimization, leveraging AI-led solution accelerators, and hiring of freshers could help release the margin necessary to fund strategic priorities & growth opportunities in the market while wage hikes and large deal transition are key offsets. This, along with strong seasonality in the products business in 3QFY25F, could help achieve 2QFY25F-4QFY25F margins similar to that of the previous year. We retain our average 18.5% EBIT margin assumption for FY25F-27F.

Upgrade to ADD with a higher target price of Rs1,987 from Rs1,576

We model an 8% US\$ revenue CAGR over FY25F-27F and 11.5% PAT (Rs) CAGR (10.7% earlier) and raise our target PE/G multiple to 2.2x (1.9x earlier) to account for 1) improving demand outlook, 2) cash flow certainty, and 3) increase in the benchmark multiple of Tata Consultancy Services (TCS) despite increasing the discount to TCS' PE/G multiple to 15% vs. 10%. The discount is warranted, given the margin differential. Prudent capital allocation, healthy cash generation, FCF yield (~4%), better deal velocity and ramp-up cushion our view. Delay in decision-making is a key downside risk.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	1,014,560	1,099,130	1,158,826	1,270,534	1,408,806
Operating EBITDA (Rsm)	226,290	242,000	253,356	279,518	312,614
Net Profit (Rsm)	148,490	157,020	171,438	189,323	213,311
Core EPS (Rs)	54.8	58.0	63.3	69.9	78.8
Core EPS Growth	10.0%	5.8%	9.2%	10.4%	12.7%
FD Core P/E (x)	33.09	31.26	28.64	25.93	23.01
DPS (Rs)	48.0	52.0	58.0	66.4	74.8
Dividend Yield	2.65%	2.87%	3.20%	3.66%	4.13%
EV/EBITDA (x)	20.99	19.35	18.36	16.56	14.74
P/FCFE (x)	30.78	23.10	28.44	26.76	24.01
Net Gearing	(24.8%)	(33.0%)	(37.1%)	(39.7%)	(42.1%)
P/BV (x)	7.51	7.19	7.05	6.95	6.85
ROE	23.3%	23.5%	24.9%	27.0%	30.0%
% Change In Core EPS Estimates			0.07%	(1.53%)	
InCred Research/Consensus EPS (x)					

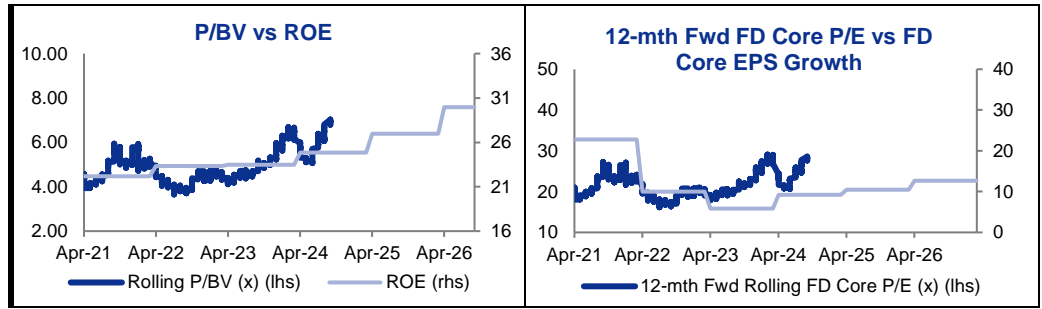
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Change in our earnings estimates

Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	New	Old	% change	New	Old	% change	New	Old	% change
US\$ revenue	13,894	13,894	0.0	14,860	14,860	0.0	16,193	16,051	0.9
Revenue	11,58,825	11,58,825	0.0	12,70,534	12,70,534	0.0	14,08,806	13,96,460	0.9
EBIT	2,11,758	2,11,758	0.0	2,35,049	2,35,049	0.0	3,12,614	3,08,618	1.3
EBIT Margin (%)	18.3	18.3	0 bp	18.5	18.5	0 bp	22.2	22.1	9 bp
Net PAT	1,71,438	1,71,438	0.0	1,89,323	1,89,323	0.0	2,13,311	2,10,062	1.5
EPS (Rs)	63.3	63.3	0.0	69.9	69.9	0.0	78.8	77.6	1.5

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	1,014,560	1,099,130	1,158,826	1,270,534	1,408,806
Gross Profit	353,010	377,880	393,938	435,793	484,488
Operating EBITDA	226,290	242,000	253,356	279,518	312,614
Depreciation And Amortisation	(41,450)	(41,730)	(41,597)	(44,469)	(47,899)
Operating EBIT	184,840	200,270	211,758	235,049	264,715
Financial Income/(Expense)	9,120	9,420	16,653	17,486	19,060
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	910	(20)	1,249	1,016	1,127
Profit Before Tax (pre-EI)	194,870	209,670	229,661	253,551	284,902
Exceptional Items					
Pre-tax Profit	194,870	209,670	229,661	253,551	284,902
Taxation	(46,430)	(52,570)	(58,143)	(64,149)	(71,510)
Exceptional Income - post-tax					
Profit After Tax	148,440	157,100	171,518	189,403	213,391
Minority Interests	50	(80)	(80)	(80)	(80)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	148,490	157,020	171,438	189,323	213,311
Recurring Net Profit	148,490	157,020	171,438	189,323	213,311
Fully Diluted Recurring Net Profit	148,490	157,020	171,438	189,323	213,311

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	226,290	242,000	253,356	279,518	312,614
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(13,050)	23,050	(10,682)	(19,989)	(24,742)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(50)	80	80	80	80
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(36,980)	(42,120)	(58,143)	(64,149)	(71,510)
Cashflow From Operations	176,210	223,010	184,611	195,460	216,441
Capex	(16,610)	(10,480)	(12,000)	(12,000)	(12,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(22,700)	(56,750)	16,653	17,486	19,060
Cash Flow From Investing	(39,310)	(67,230)	4,653	5,486	7,060
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(129,950)	(140,730)	(157,302)	(179,857)	(202,646)
Preferred Dividends					
Other Financing Cashflow	(28,860)	(13,910)			
Cash Flow From Financing	(158,810)	(154,640)	(157,302)	(179,857)	(202,646)
Total Cash Generated	(21,910)	1,140	31,962	21,089	20,855
Free Cashflow To Equity	159,600	212,530	172,611	183,460	204,441
Free Cashflow To Firm	136,900	155,780	189,264	200,946	223,501

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	201,090	271,930	304,981	326,927	348,749
Total Debtors	255,060	255,210	269,071	295,009	327,114
Inventories	2,280	1,850	1,850	1,850	1,850
Total Other Current Assets	77,340	64,320	64,320	64,320	64,320
Total Current Assets	535,770	593,310	640,222	688,106	742,034
Fixed Assets	160,920	150,390	120,793	88,324	52,425
Total Investments	20,700	23,500	23,500	23,500	23,500
Intangible Assets	185,670	201,320	201,320	201,320	201,320
Total Other Non-Current Assets	31,050	29,250	29,250	29,250	29,250
Total Non-current Assets	398,340	404,460	374,863	342,394	306,495
Short-term Debt	1,400	1,040	1,040	1,040	1,040
Current Portion of Long-Term Debt					
Total Creditors	64,280	58,530	61,709	67,657	75,021
Other Current Liabilities	148,630	167,690	167,690	167,690	167,690
Total Current Liabilities	214,310	227,260	230,439	236,387	243,751
Total Long-term Debt	21,110	22,230	22,230	22,230	22,230
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	44,710	65,570	65,570	65,570	65,570
Total Non-current Liabilities	65,820	87,800	87,800	87,800	87,800
Total Provisions					
Total Liabilities	280,130	315,060	318,239	324,188	331,551
Shareholders Equity	653,980	682,710	696,846	706,312	716,978
Minority Interests					
Total Equity	653,980	682,710	696,846	706,312	716,978

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	18.5%	8.3%	5.4%	9.6%	10.9%
Operating EBITDA Growth	12.1%	6.9%	4.7%	10.3%	11.8%
Operating EBITDA Margin	22.3%	22.0%	21.9%	22.0%	22.2%
Net Cash Per Share (Rs)	59.81	83.18	95.39	103.49	111.55
BVPS (Rs)	241.52	252.09	257.31	260.81	264.75
Gross Interest Cover					
Effective Tax Rate	23.8%	25.1%	25.3%	25.3%	25.1%
Net Dividend Payout Ratio	87.5%	89.7%	91.8%	95.0%	95.0%
Accounts Receivables Days	83.06	84.73	82.57	81.02	80.59
Inventory Days	1.07	1.05	0.88	0.81	0.73
Accounts Payables Days	35.05	31.07	28.69	28.28	28.17
ROIC (%)	37.8%	30.0%	33.2%	38.4%	44.6%
ROCE (%)	27.0%	21.1%	21.5%	23.5%	26.1%
Return On Average Assets	15.3%	15.5%	15.8%	17.2%	19.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS



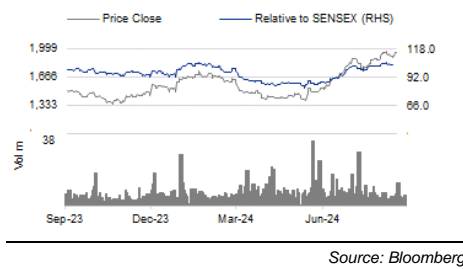
India

ADD (previously HOLD)

Consensus ratings*:	Buy 28 Hold 13 Sell 4
Current price:	Rs1,944
Target price:	Rs2,166
Previous target:	Rs1,852
Up/downside:	11.4%
InCred Research / Consensus:	13.2%
Reuters:	
Bloomberg:	INFO IN
Market cap:	US\$111,164m Rs8,072,165m
Average daily turnover:	US\$184.9m Rs13426.2m
Current shares o/s:	4,143.4m
Free float:	87.0%
*Source: Bloomberg	

Key changes in this note

- Expect 7.7% revenue CAGR over FY25F-27F.
- Expect 10.8% EBIT CAGR over FY25F-27F.
- Expect 12.3% PAT CAGR over FY25F-27F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	8.2	30.1	30.5
Relative (%)	5.0	20.9	6.8

Major shareholders	% held
LIC	10.8
SBI MF	4.5
ICICI MF	3.3

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Infosys

Deal wins could continue to aid execution

- Higher new component in deal wins could aid execution.
- Demand commentary across verticals remains consistent. Continued recovery in the FSI vertical bodes well for the company.
- Upgrade to ADD rating with a new target price of Rs2,166 vs. Rs1,852 earlier.

Deal wins could continue to aid execution

1QFY25 large-deal TCV at US\$4.1bn was healthy (up 78.3% yoy but down 8.9% qoq) considering the new component at 57.6% vs. 44% in 4QFY24 and marginally higher than 56.1% in 1QFY24 and leading to 19.3%/83% qoq/yoy growth in new deal TCV. Recent interactions suggest the pipeline continues to be strong and vertical commentary remains consistent. A sustained uptick in demand could keep the new component at elevated levels while faster conversion to revenue may not just support growth assumptions but could potentially lift FY26F as well.

Vertical commentary remains consistent

Recent discussions suggest no material change in demand commentary vs. 1QFY25. The FSI vertical recovery is driven particularly by mortgage, capital markets, and cards and payments, the manufacturing demand is driven by vendor consolidation opportunities in resolving supply chain issues, infrastructure and application rationalization, the ramp-up of a large deal may aid the communications vertical but the environment remains cautious led by ongoing opex pressure and delayed decision-making, the decision cycle remains lengthy in the retail vertical despite a healthy deal pipeline, and differentiation in energy transition and integration is helping build a strong pipeline while the hi-tech vertical is challenged given industry dynamics (however, Infosys is witnessing interest in GenAI, cloud services, and data standardization).

We retain margin assumptions as client seek more value

We retain our post 1QFY25 average FY25F-27F EBIT margin assumption of 21.4% as tailwinds from traction in project Maximus, pyramid correction, automation, utilization (likely peaking), reversal of higher leave costs in 1Q, and value-based selling could be offset by headwinds from large deal transition cost while wage inflation could weigh in the near term.

Upgrade to ADD with a higher target price of Rs2,166 from Rs1,852

We retain our estimates and model in a 7.7% US\$ revenue CAGR over FY25F-27F and a 12.3% PAT (Rs) CAGR but increase the target PE/G multiple to 2.2x (1.9x earlier) to account for 1) improving demand outlook, 2) certainty of cash flow, and 3) increase in the benchmark multiple of TCS, despite increasing the discount to TCS' PE/G multiple to 14% vs. 10%. The discount is warranted given the margin differential. Put together, it drives our target price higher to Rs2,166. Cash conversion (OCF/EBITDA was ~73% over FY2019-24), healthy return ratios and payout, ramp-up of deal wins and likely improvement in discretionary spending cushion our view. Delay in decision-making is a key downside risk.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	1,467,670	1,536,710	1,609,607	1,773,835	1,949,201
Operating EBITDA (Rsm)	351,310	364,250	389,165	432,461	475,605
Net Profit (Rsm)	240,950	262,320	261,219	298,663	329,622
Core EPS (Rs)	57.3	63.0	63.0	72.0	79.5
Core EPS Growth	9.8%	9.8%	0.0%	14.3%	10.4%
FD Core P/E (x)	33.90	30.87	30.85	27.00	24.47
DPS (Rs)	34.0	46.0	56.0	61.2	67.5
Dividend Yield	1.74%	2.36%	2.88%	3.15%	3.47%
EV/EBITDA (x)	22.92	21.65	20.18	18.09	16.36
P/FCFE (x)	46.94	40.70	33.01	30.85	28.04
Net Gearing	(15.9%)	(24.1%)	(22.9%)	(25.7%)	(28.4%)
P/BV (x)	10.79	9.14	8.86	8.44	8.03
ROE	32.0%	32.1%	29.2%	32.0%	33.6%
% Change In Core EPS Estimates			(0.06%)	(0.04%)	
InCred Research/Consensus EPS (x)					

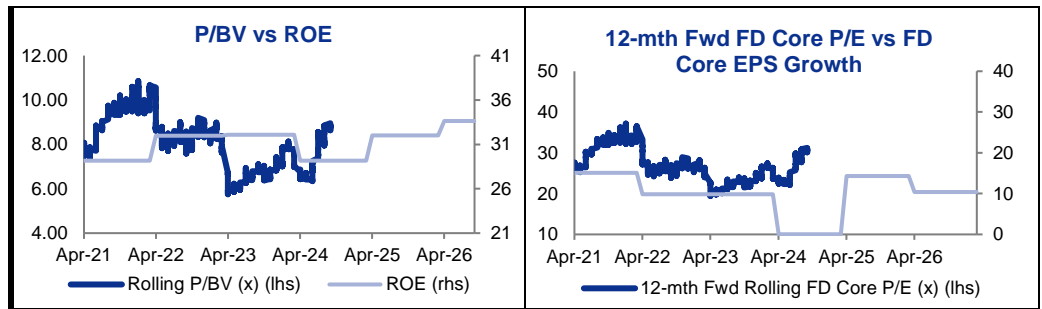
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Change in our earnings estimates

Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	New	Old	% change	New	Old	% change	New	Old	% change
US\$ revenue	19,300	19,300	0.0	20,747	20,747	0.0	22,405	22,405	0.0
Revenue	16,09,607	16,09,607	0.0	17,73,835	17,73,835	0.0	19,49,201	19,49,201	0.0
EBIT	3,41,182	3,41,182	0.0	3,80,133	3,80,133	0.0	4,75,605	4,75,605	0.0
EBIT Margin (%)	21.2%	21.2%	0.0 bp	21.4%	21.4%	0.0 bp	24.4%	24.4%	0.0 bp
Net PAT	2,61,219	2,61,219	0.0	2,98,663	2,98,663	0.0	3,29,622	3,29,622	0.0
EPS (Rs)	63.0	63.0	0.0	72.0	72.0	0.0	79.5	79.5	0.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	1,467,670	1,536,710	1,609,607	1,773,835	1,949,201
Gross Profit	486,390	509,350	539,574	590,687	647,135
Operating EBITDA	351,310	364,250	389,165	432,461	475,605
Depreciation And Amortisation	(42,250)	(46,780)	(47,984)	(52,328)	(56,527)
Operating EBIT	309,060	317,470	341,182	380,133	419,078
Financial Income/(Expense)	15,390	15,980	20,697	22,938	25,380
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	8,770	26,440	6,417	6,386	7,407
Profit Before Tax (pre-EI)	333,220	359,890	368,296	409,456	451,865
Exceptional Items					
Pre-tax Profit	333,220	359,890	368,296	409,456	451,865
Taxation	(92,140)	(97,410)	(106,837)	(110,553)	(122,004)
Exceptional Income - post-tax					
Profit After Tax	241,080	262,480	261,459	298,903	329,862
Minority Interests	(130)	(160)	(240)	(240)	(240)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	240,950	262,320	261,219	298,663	329,622
Recurring Net Profit	240,950	262,320	261,219	298,663	329,622
Fully Diluted Recurring Net Profit	240,950	262,320	261,219	298,663	329,622

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	351,310	364,250	389,165	432,461	475,605
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(63,440)	(50,820)	(13,912)	(38,282)	(43,721)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(130)	(160)	(240)	(240)	(240)
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(87,940)	(92,310)	(106,837)	(110,553)	(122,004)
Cashflow From Operations	199,800	220,960	268,177	283,386	309,640
Capex	(25,790)	(22,010)	(24,000)	(22,000)	(22,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	13,700	(28,080)	(11,936)	33,523	36,987
Cash Flow From Investing	(12,090)	(50,090)	(35,936)	11,523	14,987
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased	(114,990)				
Dividends Paid	(136,310)	(146,920)	(231,855)	(253,864)	(280,178)
Preferred Dividends					
Other Financing Cashflow	(15,650)	(28,120)	(4,200)	(4,200)	(4,200)
Cash Flow From Financing	(266,950)	(175,040)	(236,055)	(258,064)	(284,378)
Total Cash Generated	(79,240)	(4,170)	(3,814)	36,845	40,249
Free Cashflow To Equity	174,010	198,950	244,177	261,386	287,640
Free Cashflow To Firm	187,710	170,870	232,241	294,909	324,627

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	190,820	277,010	273,196	310,041	350,290
Total Debtors	407,130	429,610	445,398	485,982	534,028
Inventories					
Total Other Current Assets	110,860	187,700	187,700	187,700	187,700
Total Current Assets	708,810	894,320	906,294	983,724	1,072,018
Fixed Assets	205,160	192,150	211,416	181,088	146,561
Total Investments	154,060	148,470	148,470	148,470	148,470
Intangible Assets	89,970	87,000	87,000	87,000	87,000
Total Other Non-Current Assets	100,160	56,200	56,200	56,200	56,200
Total Non-current Assets	549,350	483,820	503,086	472,758	438,231
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	38,650	39,560	41,437	43,738	48,062
Other Current Liabilities	353,210	348,380	348,380	348,380	348,380
Total Current Liabilities	391,860	387,940	389,817	392,118	396,443
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	108,350	105,590	105,590	105,590	105,590
Total Non-current Liabilities	108,350	105,590	105,590	105,590	105,590
Total Provisions					
Total Liabilities	500,210	493,530	495,407	497,708	502,033
Shareholders Equity	754,070	881,160	910,524	955,323	1,004,767
Minority Interests	3,880	3,450	3,450	3,450	3,450
Total Equity	757,950	884,610	913,974	958,773	1,008,217

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	20.7%	4.7%	4.7%	10.2%	9.9%
Operating EBITDA Growth	11.6%	3.7%	6.8%	11.1%	10.0%
Operating EBITDA Margin	23.9%	23.7%	24.2%	24.4%	24.4%
Net Cash Per Share (Rs)	28.73	51.41	50.43	59.31	69.02
BVPS (Rs)	180.13	212.67	219.51	230.31	242.22
Gross Interest Cover	108.82	67.69	81.23	90.51	99.78
Effective Tax Rate	27.7%	27.1%	29.0%	27.0%	27.0%
Net Dividend Payout Ratio	58.8%	72.6%	88.8%	85.0%	85.0%
Accounts Receivables Days	93.23	99.37	99.21	95.82	95.50
Inventory Days					
Accounts Payables Days	14.88	13.89	13.81	13.14	12.87
ROIC (%)	49.7%	44.4%	42.9%	46.4%	50.5%
ROCE (%)	27.4%	26.1%	25.1%	27.7%	29.2%
Return On Average Assets	18.9%	19.0%	17.7%	19.7%	21.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS



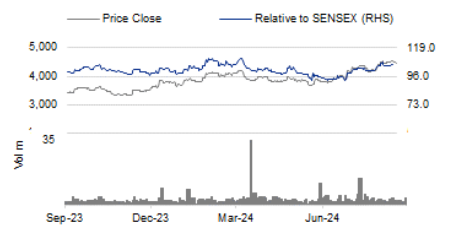
India

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

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

Major shareholders	% 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)					

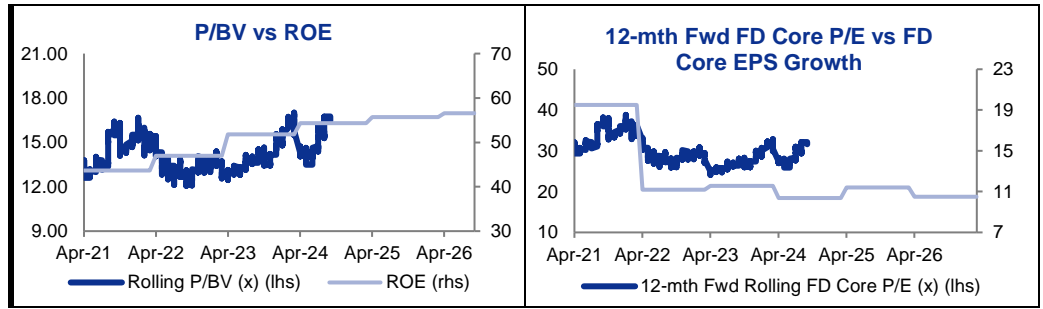
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Change in InCred estimates

Y/E Mar (Rs)	FY25F			FY26F			FY27F		
	New	Old	% change	New	Old	% change	New	Old	% change
US\$ revenue	30,957	30,957	0.0	33,114	33,114	0.0	35,759	35,605	0.4
Revenue	25,96,109	25,96,109	0.0	28,31,213	28,47,770	-0.6	31,11,056	31,33,197	-0.7
EBIT	6,55,191	6,55,191	0.0	7,30,453	7,34,725	-0.6	8,06,697	8,05,545	0.1
EBIT Margin (%)	25.2	25.2	0bp	25.8	25.8	0bp	25.9	25.7	22bp
Net PAT	5,13,137	5,13,137	0.0	5,71,676	5,74,346	-0.5	6,31,703	6,29,471	0.4
EPS (Rs)	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
Total Net Revenues	2,254,580	2,408,930	2,596,109	2,831,213	3,111,056
Gross Profit	942,120	1,022,830	1,106,252	1,214,591	1,337,754
Operating EBITDA	592,590	642,960	705,805	784,246	864,874
Depreciation And Amortisation	(50,220)	(49,850)	(50,615)	(53,793)	(58,177)
Operating EBIT	542,370	593,110	655,191	730,453	806,697
Financial Income/(Expense)	26,700	36,440	36,190	39,404	43,630
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	569,070	629,550	691,380	769,857	850,327
Exceptional Items					
Pre-tax Profit	569,070	629,550	691,380	769,857	850,327
Taxation	(146,040)	(158,980)	(175,644)	(195,581)	(216,024)
Exceptional Income - post-tax					
Profit After Tax	423,030	470,570	515,737	574,276	634,303
Minority Interests	(1,560)	(1,910)	(2,600)	(2,600)	(2,600)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	421,470	468,660	513,137	571,676	631,703
Recurring Net Profit	421,470	468,660	513,137	571,676	631,703
Fully Diluted Recurring Net Profit	421,470	468,660	513,137	571,676	631,703

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	592,590	642,960	705,805	784,246	864,874
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)
Cashflow From Operations	419,200	447,340	504,785	547,819	600,725
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
Cash Flow From Investing	390	60,260	21,090	24,304	28,530
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)
Cash Flow From Financing	(478,780)	(485,360)	(441,043)	(492,845)	(543,868)
Total Cash Generated	(59,190)	22,240	84,832	79,278	85,387
Free Cashflow To Equity	393,880	425,320	482,765	525,799	578,705
Free Cashflow To Firm	419,590	507,600	525,874	572,122	629,255

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
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
Total Current Assets	1,102,700	1,129,840	1,246,869	1,377,582	1,524,193
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
Total Non-current Assets	333,810	334,650	306,055	274,282	238,126
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
Total Current Liabilities	435,580	461,040	470,461	483,649	499,347
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	88,870	90,260	90,260	90,260	90,260
Total Non-current Liabilities	88,870	90,260	90,260	90,260	90,260
Total Provisions					
Total Liabilities	524,450	551,300	560,721	573,909	589,607
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
Total Equity	912,060	913,190	992,192	1,077,943	1,172,699

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
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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Recommendation Framework

Stock Ratings

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.

Sector Ratings

Definition:

- 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.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- 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.