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Investors' delight: Tata Consultancy Services Ltd. (TCS) – "BUY"

Sep. 12, 2019

Tata Consultancy Services Ltd. price chart..



Source: Moneycontrol website

TCS

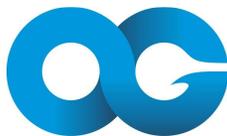
CMP: Rs. 2134, Target Price: Rs. 2400, Upside: 12%, FV: Re. 1, EPS (FY19): Rs. 83.05, P/E: 26x, Market Cap: Rs. 8,00,703 crores, ROE: 35%

We like TCS from the IT space as the Company is responsive to changing customer needs and aligned its business model to new age requirements. The Company today has a competitive advantage over peers as it has focused on building digital capabilities which is yielding high margins. The Company is growing organically by adding new clients by focusing of innovation which is helping the Company to win larger size deals.

TCS reported revenue of US\$20.93 billion in FY 2019, growing 11.4 percent in organic, constant currency terms. Growth has been particularly strong in the United Kingdom and in Europe, where it grew 22% and 17.8% respectively.

The company has benefited significantly from expanding enterprise spends on technology-led product or service innovation, customer analytics and insights, and core transformation initiatives. The company has been steadily launching new services to cater to different stakeholders within the enterprise, as well as new products and platforms.

The Company has been systematically investing in research and innovation, taking up promising themes in each industry, and collaborating with domain experts to build innovative solutions that are proactively showcased to customers. Additionally, TCS has alliance partnerships with all the major technology providers, and works closely with them to launch and jointly market industry-specific solutions that leverage their technologies, and TCS' domain knowledge.



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Q1FY20 result update

The Company witnessed 10.6 percent yoy growth in constant currency terms and 8.6 percent on yoy basis in dollar terms. Reported revenue in INR was Rs. 381.72 billion which is yoy growth of 11.4%. In USD terms, revenue was \$5.485 billion which is yoy growth of 8.6%. The demand for its services continues to be driven by the large-scale deployment of digital technologies as part of its customers growth and transformation initiatives. Revenue from digital engagements made up 32.2% of its revenues in Q1, a growth of 42% on yoy basis. In terms of geography, North America accounted for 50.6 percent of its topline, Latin America – 1.8 percent, UK – 15.8 percent, Continental Europe – 14.3 percent, India – 6.0 percent, Asia Pacific – 9.4 percent and MEA – 2.1 percent.

Geography wise, UK and Europe continue to outperform growing 16% and 15% on yoy basis respectively. Other markets also continue to grow well. North America grew 7%. Asia Pacific 9.5% and India at 15.9%, Middle East and Africa as well as Latin America grew 6.4%

Higher ticket size clients (US\$ 100 mn) stood at 44, one client moved the ladder to US\$50 million + while 13 clients moved to US\$ 10 million + category.

The Company's Operating margin declined by 90 bps to 24.2 per cent in Q1FY20 as against 25.1 per cent in Q4FY19 and 25 per cent in Q1FY19. Net profit margin in Q1FY20 stood at 21.3 per cent. The annual salary increments the Company had affected across the board from April 1st and the cross-currency movements in Q1 resulted in a margin headwind of 2.3%. The Company is able to mitigate this to some extent through a concerted drive for rigor and operations. Higher Other Income and a lower effective tax rate of 23.4% this quarter helped boost in net income margin to nearly the same as the year ago at 21.3%. Accounts receivable was at 70 DSO in dollar terms. Net cash flow from operations was Rs. 84.46 billion which is 103.9% of net income. Free cash flow was Rs. 75.54 billion and invested funds as of June 30th stood at Rs. 489.03 billion. On the people front, TCS continues to invest in workforce transformation. As of June 30th, the Company has trained over 315,000 employees on digital technologies and over 365,000 employees on agile methods.

Rajesh Gopinathan, Chief Executive Officer and Managing Director, said: "We have had a steady start to the new fiscal year. We see customers continuing to spend on their growth and transformation initiatives, and that is showing in our strong order book and deal pipeline this quarter."

We recommend a "BUY" with a target price of Rs. 2,400 (PE of 25x at estimated FY19EPS of Rs. 96) for investors with a horizon of 9-12 months.

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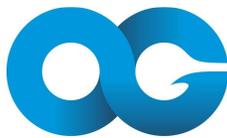
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- b) Company holding: No
- c) Directors holding: No
- d) Group/Associates Position: No
- e) Relationship with management: No
- f) Any Compensation Received by our Company/Associate during the last 12 months: No
- g) Our Company/Associate have managed the public offering of securities for the subject Company in the past 12 months: No

Recommendation parameters for fundamental reports:

Buy – Absolute return of 20% and above

Accumulate – Absolute return between 15% and above

Book profits: On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended



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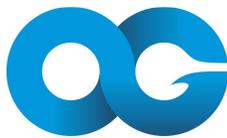
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