

TATA Consultancy

₹1880

Deliver Right Answer...!!! Acumulate

Nov 16, 2018

Company Background

Tata Consultancy Services Ltd is a part of Tata Group, one of the India's most respected business conglomerates and most respected brands. Company has 142 offices in 46 countries as well as 105 delivery centers in 20 countries. It has over 3,94,000 of the world's best trained consultants in 46 countries. Company geographic footprint consists of North America, Latin America, United Kingdom, Continental Europe, Asia-Pacific, India, Middle-East & Africa. It was incorporated in the year 1968. TCS is a leading global IT services, consulting and business solutions organization. It offers a range of IT services, outsourcing & business solutions. It also offer IT infrastructure services, business process outsourcing services, engineering and industrial services, global consulting and asset leveraged solutions. It's segments include banking, financial services and insurance; manufacturing; retail and distribution & telecom. In the year 1981, the company set up India's first IT R&D division. In the recent years, TCS signed a multi-year partnership deal with UK-based leading airline, Virgin Atlantic Airways, as Virgin Atlantic Airways selects TCS to support Digital Transformation programme. In 2017, TCS China was set up as a joint venture with the Chinese government and other partners.

Key Highlights

- ➔ TCS servicing industries like; Banking, Financial Services & Insurance, Communication, Media & Technology, Retail & Consumer Business, Manufacturing & Others revenue contributed 39.3%, 17.2%, 17.1%, 10.9% and 15.5% respectively, revenue of ₹ 12,31,040 million on consolidated basis for FY18.
- ➔ Out of all the industries; Communication Media & Technology has the highest growth by 8.2% to ₹ 2,11,310 million, Manufacturing is the 2nd highest growth industry with 7% to ₹ 1,33,610 million & 3rd highest growth in Others by 6.4% to ₹ 1,91,390 million for FY18. Rest two industries grew by marginally.
- ➔ During the year, Transamerica awards a multi year contract for \$2 billion. Transamerica is a leading provider of life insurance, retirement & investment solutions, to enable the transformation of administration of its U.S. insurance and annuity business lines.

Key Financials

Year Ended 31 st	Mar 16	Mar 17	Mar 18
Revenue (INR mn)	8,96,210.0	9,72,610.0	10,31,590.0
Rev. growth (%)	14.05	8.52	6.06
EBITDA (INR mn)	3,08,110.0	3,16,570.0	3,36,080.0
Net profit (INR mn)	2,30,750.0	2,36,530.0	2,52,410.0
Shares outstanding (mn)	1,970.0	1,970.0	1,910.0
EPS (INR)	109.6	111.0	124.6
EPS growth (%)	28.81	1.30	12.24
P/E (x)	11.48	10.95	11.43
RONW (%)	41.81	33.21	32.92
ROCE (%)	52.25	41.71	41.19

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Info Codes

Reuters	: TCS.BO
Bloomberg	: TCS IN
NSE	: TCS
BSE	: 532540

Market Data

52 Wk Range (₹)	: 1248/2273
Shares in Issue (mn)	: 1910
Market. Cap (bn)	: 7063
BSE 2 Wk Avg Vol	: 1,17,000

Share Holding Pattern (%)

Promoters Holding	: 72.05
Public & Others	: 04.42
Corporate Holding	: 00.00
Foreign Institution	: 16.05
Institutions	: 07.44
Govt Holding	: 00.04

Investment Theme

Nasscom expects the Indian IT industry grow to 7-9% for FY19. Indian IT industry's export revenues will grow to \$135-137 billion from the \$126 billion. Domestic revenues are expected to grow by 10-12% to \$28-29 billion in the financial year 2018-19. Nasscom noted the rise of digital solutions and that digital solutions now forms nearly 20% of the total exports. Nasscom expects digital services to grow by 2 times the rest of businesses. TCS expects customers to continue investing in digital as part of their Business 4.0 journey. Solutions encompassing advanced analytics, Internet of Things, APIfication, Blockchain, drones & cybersecurity are expected to gain more traction. Company's revenue from digital engagements accounted for 21.2% of total revenue in FY 2018 and grew by 35.3% year on year.

Your Success is our Success...!!!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 16	Mar 17	% Chg	Mar 18	% Chg
Net Operating Income	8,58,640.0	9,26,930.0	8.0	9,73,560.0	5.0
Other Income	37,570.0	45,680.0	21.6	58,030.0	27.0
Change in Stocks	0.0	0.0	0.0	0.0	0.0
Fuel Charges	0.0	940.0	0.0	860.0	(8.5)
Employee Exp.	4,24,200.0	4,81,160.0	13.4	5,14,990.0	7.0
Indirect Taxes	0.0	0.0	0.0	0.0	0.0
Other Exp.	1,63,900.0	1,73,940.0	6.1	1,79,660.0	3.3
Operating Exp.	5,88,100.0	6,56,040.0	11.6	6,95,510.0	6.0
Operating Profit	3,08,110.0	3,16,570.0	2.7	3,36,080.0	6.2
Total Interest	130.0	160.0	23.1	300.0	87.5
Gross Profit	3,07,980.0	3,16,410.0	2.7	3,35,780.0	6.1
Net Dep.	14,590.0	15,750.0	8.0	16,470.0	4.6
Total Taxation	62,640.0	64,130.0	2.4	66,900.0	4.3
Net Profit/Loss	2,30,750.0	2,36,530.0	2.5	2,52,410.0	6.7

4 Years Balance Sheet

(₹ mn)

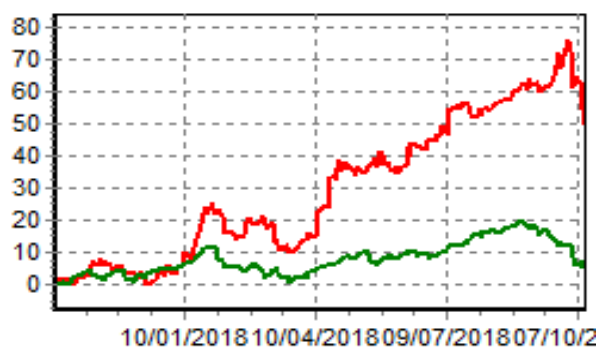
Balance Sheet as on 31 st	Mar 15	Mar 16	Mar 17	Mar 18
SOURCES OF FUNDS	4,65,383.5	6,58,700.0	7,89,490.0	7,67,600.0
Equity Share capital	1,958.7	1,970.0	1,970.0	1,910.0
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	4,52,205.7	6,48,160.0	7,78,250.0	7,56,750.0
Secured Loans	862.4	1,770.0	500.0	440.0
Unsecured Loans	10,356.7	6,800.0	8,770.0	8,500.0
USES OF FUNDS	4,65,383.5	6,58,700.0	7,89,490.0	7,67,600.0
Gross Block	1,42,052.5	1,72,510.0	1,87,490.0	2,03,960.0
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	62,089.6	81,710.0	95,180.0	1,09,560.0
Net Block	79,962.9	90,800.0	92,310.0	94,400.0
Capital Work in Progress	27,069.4	16,400.0	14,770.0	12,380.0
Investments	33,987.0	2,41,590.0	4,29,300.0	3,72,590.0
Current Assets	3,96,826.7	3,14,470.0	2,77,130.0	3,31,490.0
Less : Current Liabilities	1,62,554.9	1,11,810.0	1,04,950.0	1,38,720.0
Total Net Current Assets	2,34,271.8	2,02,660.0	1,72,180.0	1,92,770.0
Misc. Expenses not writtenoff	90,092.4	1,07,250.0	80,930.0	95,460.0
NOTE				
Book Value of Unquoted Investments	7,474.7	2,19,300.0	4,07,290.0	3,50,730.0
Market Value of Quoted Investments	61,310.7	75,740.0	97,940.0	1,07,550.0
Contingent Liabilities	0.0	0.0	0.0	0.0
Dividend (%)	7,900.0	4,350.0	4,700.0	5,000.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 17	Mar 18	Jun 18	Sep 18
Net Sales	2,42,780.0	2,55,700.0	2,93,680.0	3,07,920.0
Cost Of Sales	1,71,610.0	1,80,810.0	2,09,800.0	2,18,100.0
Operating Profit	71,170.0	74,890.0	83,880.0	89,820.0
Other Income	10,430.0	15,390.0	23,810.0	17,250.0
Adjusted PBDIT	81,600.0	90,280.0	1,07,690.0	1,07,070.0
Financial Expenses	20.0	30.0	120.0	1,300.0
Depreciation	4,190.0	4,200.0	4,150.0	4,240.0
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	77,390.0	86,050.0	1,03,420.0	1,01,530.0
Tax Charges	16,700.0	18,490.0	32,060.0	25,330.0
Reported Profit	60,690.0	67,560.0	71,360.0	76,200.0
Extra Ordinary Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	60,690.0	67,560.0	71,360.0	76,200.0

52 Week Index Relative Percentage Appreciation



TATA Consultancy vs SENSEX

Risks Associated

- ➔ H1-B visa will put more pressure on global tech giants hiring Indian employees. Small and mid-sized Indian tech companies are reliant on the US market and mostly work on H1-B visa will be the most affected.
- ➔ Automation has reduced the demand of workforce for some functions; niche-skilled candidates are the only sought after. Around 25% of people are losing their jobs because of automation will be from India by 2021. Another issue has been the exit of Britain from the European Union. Pound sterling has fallen badly, hurting the revenue and operating margins of tech companies.

Scope of Growth

- ➔ It has 19.5 million square feet of office area, out of this, 16.7 million sq. ft. is in the form of campuses across India, which makes up approximately 80% of the total owned workspaces.
- ➔ During the year, it added 2.05 MW of Solar Rooftop system across four locations, taking the total installed capacity to 3.55 MW. The solar rooftop installations across campuses contribute towards 4403 MWh of energy.
- ➔ Renewable energy use in offices increased during the year to 8.45% as compared to 7.25% in the previous year, towards achieving the 2020 target of 20% renewable energy in the energy mix.
- ➔ During the Q1FY19, The Board of Directors at its meeting, approved a bonus issue of equity shares, subject to the approval of the shareholders, in the ratio of (1:1) one equity share of ₹ 1 each for every one equity share held by the shareholders as on a record date.
- ➔ Company has filed 3,916 patent applications to date, with 522 filings in FY18. It has been granted 654 patents as of March 31, 2018.

In a Nutshell

Tata Consultancy Services Ltd is one of India's most respected business conglomerates and most respected brands. Company has 142 offices in 46 countries as well as 105 delivery centers in 20 countries. It has over 3,94,000 of the world's best-trained consultants in 46 countries. For FY18, Company delivered revenue of ₹12,31,040 million, grew by 4.35% over the previous year. Revenue generation by geography; USA 53.7%, Europe 27.7%, India 6.4%, and others by 12.2% for FY18. During the year, It revamped services portfolio substantially, in tune with Business 4.0 vision and evolving buying behaviors in the market. This will further strengthen the business. As per Nasscom report, there is a vast market for digital services. The digital transformation is proceeding at three levels: digital core, intelligence layer & experience layer. During the year, Company also signed several mega deals in the largest Internet of Things (IoT) deal that it signed with Rolls Royce, Transamerica to replace its fragmented, legacy core with a modern, cloudbased digital platform-the largest contract signed by TCS till date-these are all examples of digital transformation. TCS revenue from digital services accounted for 21.2% of total revenue in FY18 and grew by 35.3% year on year. Nasscom also expecting the revenue growth by two times for FY19 of the Industry. Another deal in digital services is; TCS has expanded its agreement with M&G Prudential, to digitally transform its customer service in a contract that exceeds £500 million over 10 years and covers the support of over 4 million customer policies. The expanded partnership further cements TCS' position as the market leader in UK life and pension administration. Digital services have good market in the future, that will benefit to the company.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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