

HOLD

SUHANI ADILABADKAR RESEARCH REPORT

27th November, 2024

Tata Consultancy Services

Q2FY25

CMP

Rs 4,332

TARGET

Rs 4,934

QUARTERLY OUTLOOK & RECOMMENDATION

Tata Consultancy Services (TCS) reported stable September Quarter 2024 results. Revenue stood at Rs 64,25,90 million in Q2FY25 compared to Rs 59,6920 million same period previous year. Earnings before depreciation, interest, tax and amortization (EBDITA) margin was reported at 24.1% in Q2FY25 compared to 24.3% in the same period previous year. Operating Margins were impacted by higher sub-contractor expenses in September Quarter 2024. In dollar terms, revenue stood at \$ 7,670 million with a YoY growth of 6.4% in Q2FY25. Net profit for Q2FY25 stood at Rs 11,9550 million, up 5% YoY.

The IT major remains resilient amid weak demand, slower decision making and lower discretionary spend by clients. Tata Consultancy Services reported total contract value (TCV) of \$ 8.6 billion in September Quarter 2024. TCV or order book indicates growth potential in the near future. TCV in Q2FY25 is incomparable to corresponding quarter previous year, due to absence of mega deals. There were mega deals worth \$ 2 billion in Q2FY24 previous year. In FY24 overall TCV was \$42.7 billion, a record growth of 25.2% YoY. The banking financial services and insurance (BFSI) TCV stood at \$2.9 billion and consumer business group TCV was at \$1.2 billion in Q2FY25. And the TCV of deals signed in North America stood at \$4.4 billion in September Quarter 2024.

All the growth markets marched above company average: India (+95.2%), Middle East & Africa (+7.9%), Asia Pacific (+7.5%), Latin America (+6.8%). However, as a general trend in the major US market, the demand outlook continues to remain cautious, as seen in the last few quarters. Banking Financial Services and Insurance (BFSI), Consumer Business Group and Life Sciences Health Care verticals all grew 0.1% YoY in constant currency in Q2FY25. Manufacturing revenue grew 5.3% YoY, Technology & Services revenue declined 1.9% YoY, Communication and Media declined 10.3% YoY, Energy Resources and Utilities grew 7% YoY and Regional Markets growth soared 50.4% YoY in Q2FY25. We recommend HOLD with a target price of Rs. 4,934 with PE multiple of 32.10 x FY25E & 28.55 x FY26E.

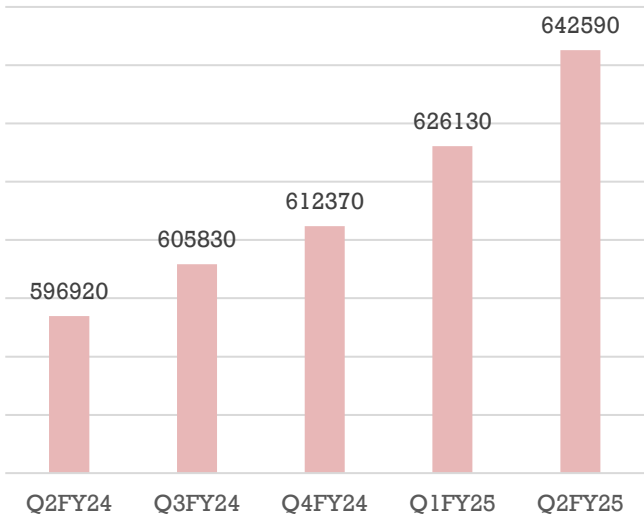
INDUSTRY	Computers - Software & Consulting		
SCRIP CODE	532540		
FACE VALUE	1.00		
MARKET CAP (Rs Crore)	15,67,392		
52 WEEK HIGH/LOW	4,585.90/3,431.60		
SHAREHOLDING PATTERN (%)			
PROMOTER		71.77	
PUBLIC		28.23	
OTHERS		-	
TOTAL		100.00	
In Mn	Q2FY25	Q2FY24	CHN%
REVENUE	642590	596920	7.7%
PAT	119550	113800	5.1%
EBDITA	174600	167520	4.2%
EPS	32.92	31.00	5.1%
In Mn	FY24A	FY25E	FY26E
REVENUE	2408930	2529377	2706433
PAT	460990	488594	549241
EBDITA	687180	723750	799977
EPS	125.88	134.97	151.72
PE	34.41	32.10	28.55

TCS V/S S&P BSE SENSEX



Tata Consultancy Services Remains Resilient Amid Global Headwinds

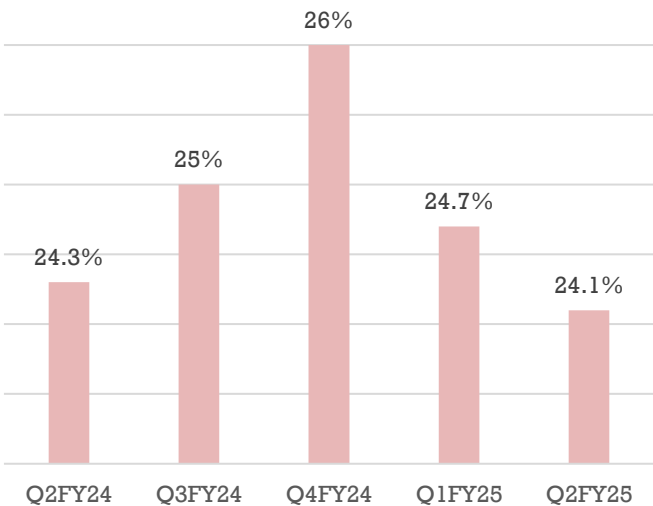
Revenue Rises By 7% YoY In Q2FY25
Rs. In Million



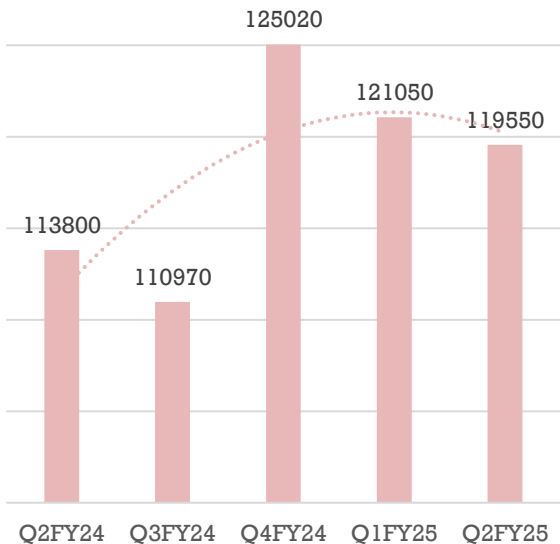
The company witnessed cost optimization, vendor consolidation, customer experience transformation, supply chain modernization, risk and resiliency as key business themes across industries were. According to the management, clients continued to prioritize efficiency through cost transformation programs and demand for discretionary deals with low immediate return on investment (ROI) remained relatively subdued.

The company sees lower inflation, improving macroeconomic trends and expectations of a good holiday season spend among consumers to improve discretionary spend and capital investments by clients. The inflation remains in check in UK and EU markets, it is marginally up in the US. While, the new government in the US with restrictive H-1B visas regulations might impact IT industry, strong dollar and lower interest rates are expected to be favorable.

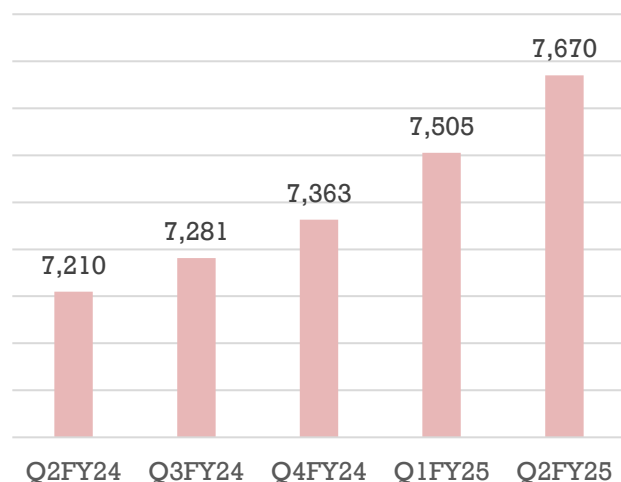
Operating Margins Dip 60 Basis Points
YoY In Q2FY25



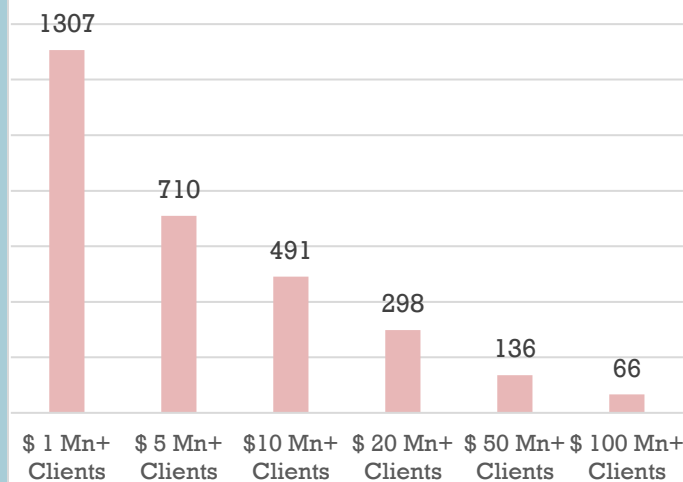
Net Profit Growth Jumps 5%YoY
Rs. In Million



Dollar Revenue Increases 7% YoY
In \$ Million

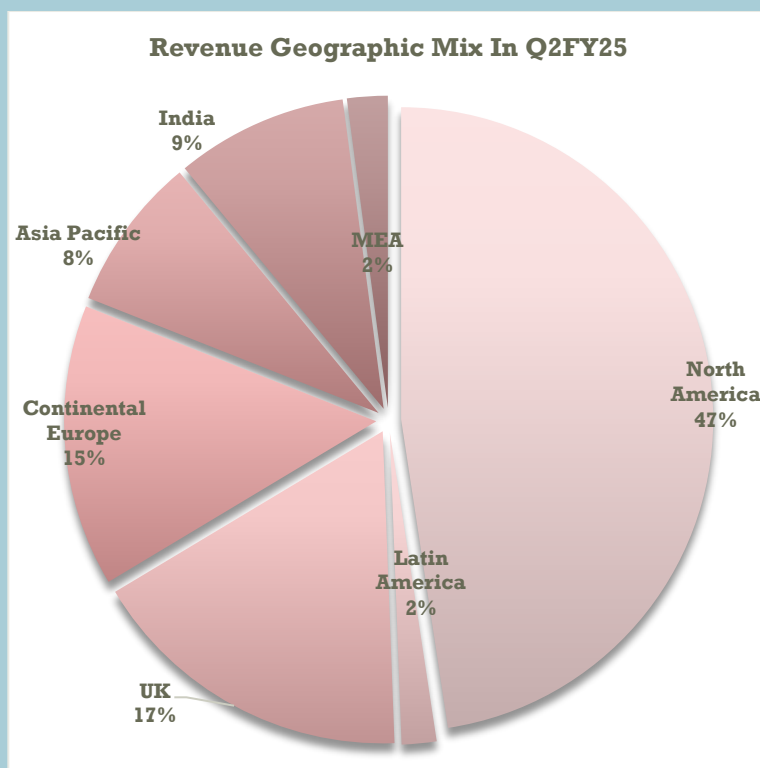


Number Of Clients In September Quarter
2024



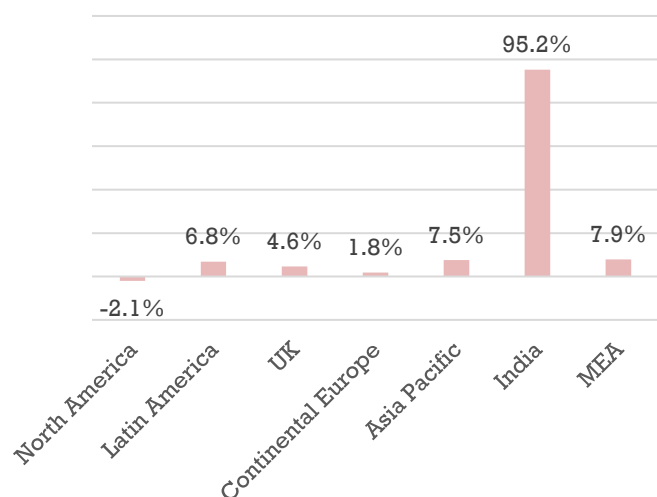
North America Growth Remains Negative, India Business Outperforms

Rs. In Mn	Q2FY25	Q2FY24	CHG%
Employee Benefit Expense	366540	351230	4%
Cost Of Equipment and Software Licenses	32300	4620	599%
Finance Costs	1620	1590	2%
Depreciation and Amortization Expenses	12660	12630	0%
Other Expenses	76440	83610	-9%

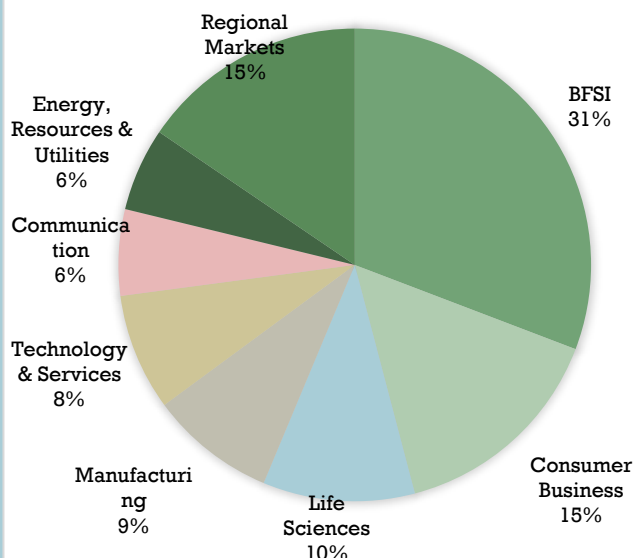


In geographic revenue mix, except North America, all geographies performed well. North America revenue growth was dragged by life sciences and healthcare segment which witnessed client specific challenges. UK growth was also impacted by healthcare vertical in September Quarter 2024. Highest growth was witnessed by India on account of BSNL deal. TCS is rolling out 4G & 5G telecom infrastructure across India for BSNL. The deal is expected to be completed in 2025.

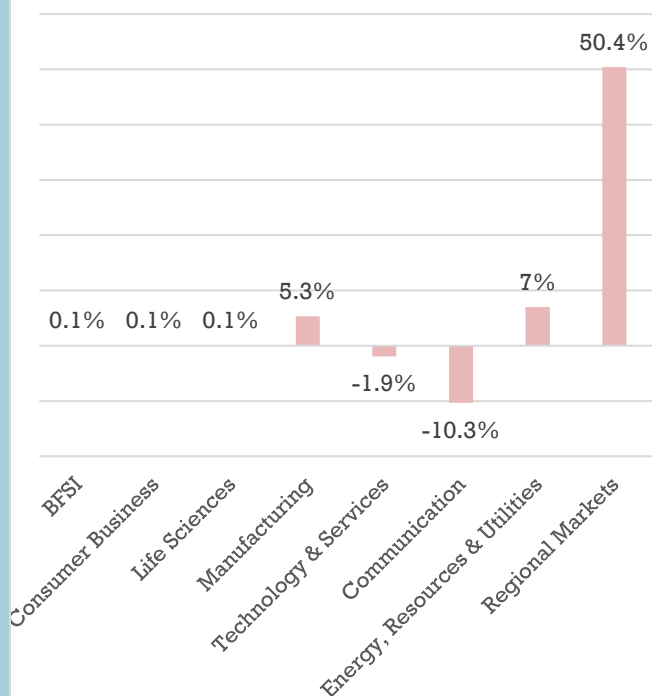
India Strong Revenue Growth On The Back Of BSNL Deal % YoY Growth



REVENUE VERTICAL MIX IN Q2FY25



BFSI Back In Growth Zone %YoY Growth



BFSI vertical has returned back to positive growth after four quarters in September Quarter 2024. The company is yet to see large transformational deals in its biggest vertical, the management is positive about BFSI growth. While BFSI and retail segment seem to be on the growth path, manufacturing growth has fallen in September Quarter 2024. Manufacturing business has been impacted by supply chain and labour challenges. The company is witnessing labour issues in aerospace and supply chain issues in aerospace and auto business as well. In life sciences and healthcare vertical, the company is facing client specific issues leading to lower revenue growth in Q2FY25. Lastly telecom which witnessed revenue decline in double-digits in September Quarter 2024. The telecom or communications vertical is expected to recover only after the interest rate environment improves considerably motivating companies to push for capital expenditure.

Corporate Profile

Tata Consultancy Services is an IT services, consulting and business solutions organization partnering with many of the world's largest businesses in their transformation journeys for over 56 years. A part of the Tata group, India's largest multinational business group, TCS has over 601,000 of the world's best-trained consultants in 55 countries. The company generated consolidated revenues of US \$29 billion in the fiscal year ended March 31, 2024, and is listed on the BSE and the NSE in India

Financial Analysis

QUARTERLY PROFIT & LOSS STATEMENT OF TATA CONSULTANCY SERVICES LTD FROM 31st March 2024
TO 31st December 2024E

VALUE	31- March-24	30-June-24	30-September-24	31-December-24E
Rs. In Million	3 months	3 months	3 months	3 months
INCOME FROM OPERATIONS	612370	626130	642590	656727
OTHER INCOME	11570	9620	7290	8019
TOTAL INCOME	623940	635750	649880	664746
EXPENDITURE	-440730	-459510	-475280	-484786
EBDITA	183210	176240	174600	179960
DEPRECIATION	-12460	-12200	-12660	-13040
PROFIT BEFORE INTEREST & TAX	170750	164040	161940	166921
INTEREST	-2260	-1730	-1620	-1701
EXCEPTIONAL ITEM	0.00	0.00	0.00	0.00
PROFIT BEFORE TAX	168490	162310	160320	165220
TAX	-43470	-41260	-40770	-42809
PROFIT AFTER TAX	125020	121050	119550	122411
EQUITY CAPITAL	3620	3620	3620	3620
FACE VALUE	1.00	1.00	1.00	1.00
EPS	34.37	33.28	32.92	33.82

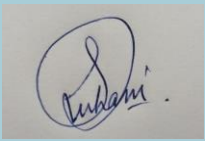
ANNUAL PROFIT & LOSS STATEMENT OF TATA CONSULTANCY SERVICES LTD FROM 2022 TO 2026E					
VALUE	31- Mar-22	31- Mar-23	31- Mar-24	31-Mar-25E	31-Mar 26E
Rs. In Million	12 months	12 months	12 months	12 months	12 months
INCOME FROM OPERATIONS	1917540	2254580	2408930	2529377	2706433
OTHER INCOME	40180	34490	44220	48642	53506
TOTAL INCOME	1957720	2289070	2453150	2578019	2759939
EXPENDITURE	-1428406	-1661990	-1765970	-1854269	-1959962
EBDITA	529314	627080	687180	723750	799977
DEPRECIATION	-46040	-50220	-49850	-52343	-55483
PROFIT BEFORE INTEREST & TAX	524710	576860	637330	671408	744494
INTEREST	-7840	-7790	-7780	-7936	-8134
EXCEPTIONAL ITEM	0	0	-9580	0	0
PROFIT BEFORE TAX	516870	569070	619970	663472	736360
TAX	-132380	-146040	-158980	-174878	-187119
PROFIT AFTER TAX	384490	423030	460990	488594	549241
EQUITY CAPITAL	3660	3660	3620	3620	3620
RESERVES	894800	908400	90957	1000410	1070438
FACE VALUE	1.00	1.00	1.00	1.00	1.00
EPS	103.62	115.19	125.88	134.97	151.72

Ratio Analysis

Year	FY 22A	FY23A	FY24A	FY25E	FY26E
EPS	105.05	115.19	125.88	134.97	151.72
NPM	20.05%	18.76%	19.14%	19.32%	20.29%
EBDITA MAGIN	27.60%	27.81%	28.53%	28.61%	29.56%
ROE	412.81%	46.38%	50.94%	48.66%	51.14%
BOOK VALUE	245.48	249.20	249.97	277.36	296.70
P/BV	17.65	17.38	17.33	15.62	14.60
PE	41.24	37.61	34.41	32.10	28.55

BALANCE SHEET OF TATA CONSULTANCY SERVICES LTD FROM 2022-2026E

CAPITAL & LIABILITIES (Rs. In Mn)	2022	2023	2024	2025E	2026E
Share Capital	3660	3660	3620	3620	3620
Other Equity	887730	900580	901270	1000410	1070438
Non Controlling Interests	7070	7820	8300	8715	9238
NETWORTH	898460	912060	913190	1012745	1083296
NON CURRENT LIABILITIES					
Lease Liabilities	63680	62030	65160	67115	69799
Other Financial Liabilities	5720	3530	3650	3833	4062
Employee Benefit Obligation	6770	5360	6860	7546	8074
Deferred Tax Liabilities	5900	7920	9770	11236	12359
Unearned and Deferred revenue	11100	10030	4820	5061	5213
TOTAL NON CURRENT LIABILITIES	93170	88870	90260	94790	99508
CURRENT LIABILITIES					
Lease Liability	14500	14850	15050	15502	16277
Trade Payables	80450	105150	99810	104801	110041
Other Financial Liabilities	76870	90680	83620	91982	105779
Unearned and Deferred Revenue	36350	38430	36400	37128	38984
Other Liabilities	83920	48920	65240	71764	80376
Provisions	14110	3450	1400	1540	1694
Employee Benefit Obligation	38100	40650	45190	49709	54680
Income Tax Liabilities	79210	93450	114330	137196	153660
TOTAL CURRENT LIABILITIES	423510	435580	461040	509621	561490
TOTAL EQUITY & LIABILITIES	1415140	1436510	1464490	1617156	1744294
ASSETS (Rs. In Mn)					
NON CURRENT ASSETS					
Property, Plant & Equipment	107740	102300	93760	98448	101401
Capital Work In Progress	12050	12340	15640	16422	17407
Right Of Use Asset	76360	75600	78860	81226	82850
Goodwill	17870	18580	18320	18870	19436
Other Intangible Assets	11010	8670	5100	5355	5623
Investments	2230	2660	2810	2951	3098
Trade Receivable	2000	3480	1430	1573	1683
Loans	3110	1730	20	25	30
Other Financial Assets	22530	21490	32720	35992	38152
Deferred Tax Assets	19830	25830	34030	39135	43048
Income Tax Assets	37080	33070	16000	14400	13680
Other Assets	20230	28060	35960	39556	42720
TOTAL NON CURRENT ASSETS	332040	333810	334650	337978	353765
CURRENT ASSETS					
Inventories	200	280	280	280	280
Investments	302620	368970	314810	346291	373994
Trade Receivables	418100	499540	535770	616136	671588
Cash and Cash Equivalents	124880	71230	90160	108192	124421
Other Balances With Banks	57330	39090	42700	45262	47072
Loans	64450	13250	4910	3437	2750
Other Financial Assets	13900	13190	17030	19585	21347
Income Tax Assets	110	80	1510	1661	1910
Other Assets	101510	97070	122670	138334	147167
TOTAL CURRENT ASSETS	1083100	1102700	1129840	1279177	1390529
TOTAL ASSETS	1415140	1436510	1464490	1617156	1744294



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