INVasset Corporate Insights

TATA CONSULTANCY SERVICES

20th February, 2024

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India's Best Performing and Most Customer Centric PMS

Tata Consultancy Services (TCS), a crown jewel of the Tata Group, boasts a rich history stretching over five decades, establishing itself as a global powerhouse in IT services, consulting, and business solutions. Anchored by its two main operational segments – IT Services and Business Solutions – TCS holds a commanding position in the market, renowned for its comprehensive approach to client servicing and its pioneering role in the digital transformation journey.

Operational Excellence and Innovation: TCS maintains a vast network of global delivery centers, marked by an extensive investment in state-of-the-art facilities that underpin its service offerings. The company's unwavering commitment to innovation is showcased by its significant investments in digital technologies, including cloud computing, data analytics, and artificial intelligence. TCS's expansive portfolio is designed to meet the dynamic needs of its global clientele.

Global Footprint and Market Expansion: TCS's global presence spans across multiple continents, with a strategic emphasis on expanding its footprint in key markets like North America, Europe, and Asia-Pacific. The company has demonstrated a robust growth trajectory, aiming to fortify its position and extend its market share internationally.

Financial Strategies and Shareholder Value: The strategic financial maneuvers by TCS, such as share buybacks and consistent dividend payouts, illustrate its focus on enhancing shareholder value. The financial prudence of TCS is also reflected in its capital allocation policies and the strategic investments aimed at fostering long-term growth

Subsidiary Network and Global Integration: TCS's network includes a range of subsidiaries and affiliated companies worldwide, facilitating a strong global integration that enables the delivery of seamless services across borders. This network is a testament to TCS's ability to manage a complex portfolio while driving synergies across its operations.

Strategic Initiatives and Corporate Development: The company's strategic initiatives, including partnerships, mergers, and acquisitions, are targeted at bolstering its core competencies and expanding its offerings. TCS has consistently demonstrated agility in its operations, adapting to market changes with efficient resource allocation and process optimization. By leveraging its deep industry expertise, TCS is poised for continued growth and innovation, cementing its status as a leader in the IT services sector.

Diverse Sectors, Unified Success: TCS's Financial Landscape: Tata Consultancy Services (TCS) has robust financial performance underlining its diversified strength across various sectors. The BFSI sector forms the bedrock of TCS's revenues, claiming 32.6%, a testament in financial digitalization. The Consumer Business, with a 15.9% revenue share, underscores TCS's pivotal role in retail and consumer sector. Life Sciences & Healthcare contribute 10.9%, indicating TCS's influence in transforming healthcare. The Technology & Services sectors, contributing over 8.5%, across traditional industries. A smaller slice of Communications & Media sector at 6.9%, exhibits TCS's engagement with media trends. Meanwhile, Energy, Resources, and Utilities show TCS's commitment to sustainable industry solutions at 5.6%.

Stock Data	
CMP (20-02-2024)	4030.65
52 Week High/Low	4184.75 / 3070.25
Face Value	1
Market Cap (In Crs)	14,58,324
Enterprise Value (In Crs)	14,69,761
NSE	TCS
BSE	532540
Bloomberg	TCS:IN
Sector	IT, Computer software

Shareholding Pattern (in %)		
	DEC 23	SEPT 23
Promoter	72.41	72.30
FII	12.46	12.47
DII	10.03	10.01
Public	5.03	5.17

Price Performance (in%)			
(%)	1M	6M	1Yr
Nifty 50	2.66	14.95	23.70
TCS	4.40	19.71	15.58

Key Ratios	
P/E	32.4
P/S	6.18
P/B	14.6
Debt To Equity	0.08
ROE	46.9%
ROCE	58.7%
Dividend Yield	1.19%

Q3 FY 24 Result Update

Q3 FY24 Result Comparison (In Rs Cr)					
	Q3 FY24	Q2 FY24	Q3 FY23	QOQ	YOY
Sales	60,583	59,692	58,229	1.5%	4.04%
EBITDA	16,292	16,752	16,073	-2.75%	1.36%
EBIT	15,059	15,489	14,804	-2.78%	1.72%
Net Profit	11,097	11,380	10,833	-2.5%	2.44%
EPS	30.22	31.00	29.64	-2.52%	1.96%

Result Highlights

Tata Consultancy Services (TCS) has presented its Q3 FY24 results, showcasing a tapestry of financial tenacity and strategic growth. Sales climbed to 60,583 Cr, marking a 4.04% year-on-year increase, reflecting the company's robust market presence and ability to scale despite global economic flux. However, quarter-on-quarter, the figures are a testament to TCS's dynamic approach towards operational efficiency and capital allocation.

Margin Improvement and Cost Management: TCS's strategic financial management during Q3 FY24 has showcased improvement in cost management and margin, despite global economic uncertainties. A 2.75% quarter-on-quarter dip in EBITDA, coupled with a 1.36% rise annually, reveals the company's tactical efficiency. The minor contraction in EBIT by 2.78% from the previous quarter, alongside a year-on-year increase of 1.72%, underscores TCS's focus on long-term financial health over short-term gains. It speaks to a disciplined approach to cost control measures, such as optimizing operational efficiencies and perhaps adopting more advanced technologies that streamline processes and reduce expenses.

Capacity Expansion and Export Ventures: TCS has clearly prioritized capacity expansion as a growth driver, as evidenced by the positive sales trajectory seen in Q3 FY24. With a 4.04% year-on-year increase in sales, TCS has not only cemented its position in the domestic market but also appears to be making significant strides in expanding its global footprint. The alignment with export ventures suggests a strategy designed to tap into emerging markets and consolidate presence in existing ones, likely contributing to the steady annual growth. The capacity expansion may have been underpinned by investments in infrastructure development, the scaling of operational capabilities, and the forging of new partnerships in international markets. TCS's pursuit of export ventures is possibly characterized by establishing new delivery centers, enhancing global service offerings, and leveraging cross-border talent pools. By doing so, TCS not only diversifies its revenue streams but also reduces geographical risks, adapting to global demand patterns, and responding to international market opportunities.

Strategic Initiatives and Technological Collaborations: The 2.44% annual increase in net profits for TCS in Q3 FY24 underscores the success of the company's strategic initiatives and technological collaborations. This uptick suggests that TCS's investments in strategic areas are yielding favorable results, strengthening its market position. The company's growth trajectory is likely bolstered by targeted investments in emerging technologies, innovative service offerings, and strategic partnerships that enhance its portfolio and expand its capabilities.
Strategic initiatives may involve a concerted push towards digital transformation services, cloud computing, artificial intelligence, and automation, aligning with industry trends and client expectations. Collaborations with technology giants and startups alike could be part of TCS's strategy to stay ahead in a competitive landscape, providing access to new technologies and markets. These partnerships may not only drive innovation but could also lead to the co-creation of industry-specific solutions that address complex business challenges. TCS's strategic initiatives likely extend to talent acquisition and upskilling, ensuring that the workforce is equipped to handle next-generation technologies and service offerings. By investing in employee training and development.

Customer-Centric Approach and Quality Assurance: TCS's modest year-on-year EPS increase of 1.96% and a quarter-on-quarter dip of 2.52% in Q3 FY24 can be attributed to its consistent emphasis on a customer-centric approach and stringent quality assurance. This customer-first strategy likely entails a deep understanding of client needs and the delivery of tailored solutions that provide measurable business outcomes. TCS's commitment to quality assurance ensures that all deliverables meet the highest standards, enhancing customer satisfaction.

Concall Highlights

Accelerated Growth Amidst Global Challenges: A Snapshot of Q3 FY24 Performance: In the third quarter of fiscal year 2024, the company showcased its growth and resilience, achieving a 4.0% increase in INR revenue to ₹605,830 Mn and a 2.9% increase in USD revenue to $7,281 Mn, despite global economic challenges. The firm adeptly managed currency impacts, with a constant currency revenue rise of 1.7% YoY. Its operational efficiency shone through with a substantial 25.0% Operating Margin and a strong Net Margin of 19.4%, alongside a cash flow that was an impressive 102.0% of net profit. Client demand surged, evident from the growth in high-value segments and an $8.1 Bn order book, with significant contributions from North America and the Consumer Business sector. The company also strategically reduced its workforce by 5,680 associates to boost efficiency while maintaining a competitive 13.3% LTM attrition rate in its IT Services, demonstrating effective HR strategies in a tough market.

Global Market Dynamics: A Closer Look at Regional Growth Patterns: In the dynamic global market landscape, regional performances varied from Q3 FY23 to Q3 FY24, revealing diverse economic shifts. The Americas presented a contrast; while North America experienced a slight 3.0% dip in YOY CC growth, Latin America bounced back impressively with a 13.2% growth. In Europe, the UK's market proved robust with an 8.1% increase, and Continental Europe maintained stability with a minor growth of 0.5%. The Asia Pacific region, led by India's extraordinary 23.4% YOY CC growth, highlighted its emerging dominance in the global market, with the broader region also growing by 3.9%. The MEA region notably exceeded expectations, achieving a 16.0% surge in growth. Collectively, these figures contributed to a modest global market growth of 1.7%, underlining the strategic value of a geographically nuanced investment approach.

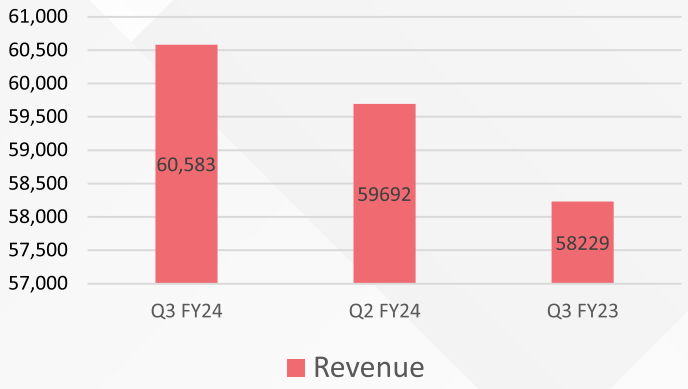
Sectoral Growth Snapshot: Navigating Through Diverse Industry Performance: The industry landscape has showcased a varied growth pattern from Q3 FY23 to Q3 FY24, reflecting the nuanced economic progression across sectors. The BFSI (Banking, Financial Services, and Insurance) sector, despite being the largest vertical, witnessed a slight contraction of 3.0%. Consumer Business marginally decreased by 0.3%, whereas Life Sciences & Healthcare displayed resilience with a 3.1% growth. Technology & Services faced a notable downturn, dropping by 5.0%, and Communication & Media also saw a decrease of 4.9%. On a brighter note, Manufacturing indicated a positive shift, growing by 7.0%. The most remarkable growth was observed in Energy, Resources, and Utilities, which jumped by 11.8%, and even more so in Regional Markets & Others, surging by 19.2%. Overall, these sectoral shifts culminated in a total industry growth of 1.7%, emphasizing the dynamic and selective nature of current economic growth trends.

Economic Resilience: Surpassing Targets in a Competitive Climate: In the fiscal quarter Q3 FY24, the company has shown remarkable financial performance, according to the latest Consolidated IFRS statement. The revenue experienced a healthy growth, marking an increase from 582,920 to 605,830 million, aligning with a consistent strategy for expansion. Gross margin improved from 233,210 to 247,120 million, reflecting an effective cost management despite the revenue's cost increasing slightly. Operational efficiency manifested in the operating income, which saw a rise to 151,550 million, even though SG&A expenses also grew. This careful balancing act also saw other net income leap from 3,600 to 7,150 million, aiding a higher income before taxes at 158,700 million. Post taxation, the net income robustly increased to 117,350 million from 108,460 million, with EPS escalating from 29.64 to an impressive 32.14. These figures demonstrate the company's strong performance and strategic agility in navigating the complexities of the market, delivering substantial value to its shareholders.

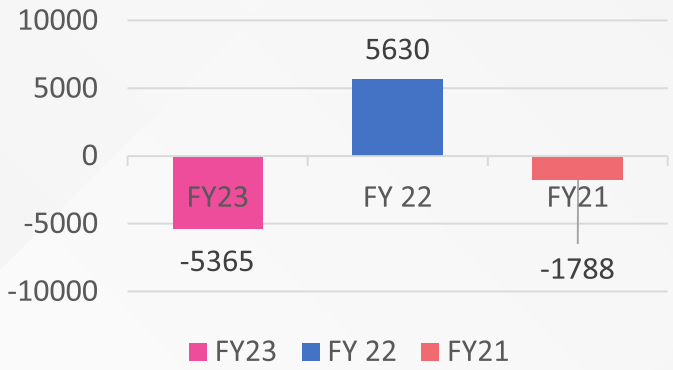
Streamlined Cash Flow: A Testament to Strategic Financial Health: In Q3 FY24, operational efficiency remained a priority, as seen with a slight increase in net cash from operations to 112,760 Mn. Capital expenditure was judiciously managed, slightly down to 9,240 Mn, fostering a healthy free cash flow of 103,520 Mn. Noteworthy was the initiation of a substantial buyback program, totaling 210,050 Mn, signaling confidence in the company's valuation. Meanwhile, dividends saw a hike to 32,930 Mn, rewarding shareholders. This fiscal prudence contributed to a robust operating cash flow, maintaining over 100% conversion from net profit. However, the total cash and investments saw a dip to 457,310 Mn, reflecting strategic capital allocation.

Stable Growth: Consolidated Balance Sheet Analysis: The consolidated balance sheet under Ind AS as of 31-Dec-23 showcases a robust financial structure with a increase of 20% in other current assets but a slight decrease in total assets of 1%, which is attributed to a subtle decline in property and equipment, and unbilled revenues, yet balanced by an uptick in accounts receivable and other non-current assets. Shareholders' funds showed a moderate decrease of 3%. Current liabilities increased slightly, indicative of active working capital management. Non-current liabilities and non-controlling interests remained relatively stable. The overall financial health of the company is evidenced by the steady total liabilities, mirroring total assets at 142,380 crore, pointing to a disciplined approach to growth and asset management. This fiscal snapshot indicates a prudent and measured trajectory in the company's financial journey over the fiscal year.

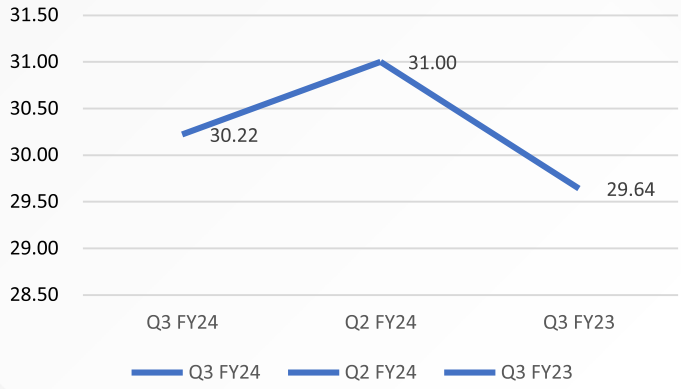
Revenue (In Cr)



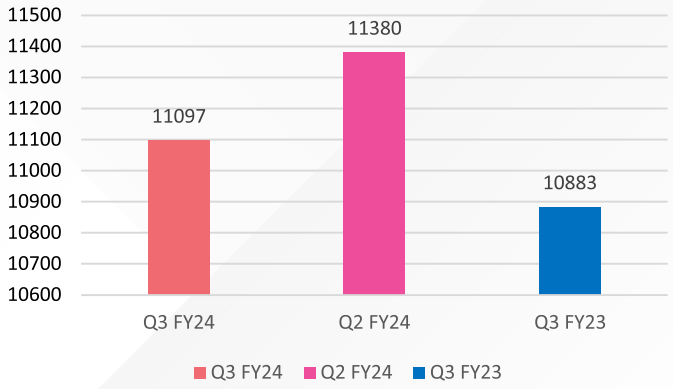
Cashflow (In Cr)



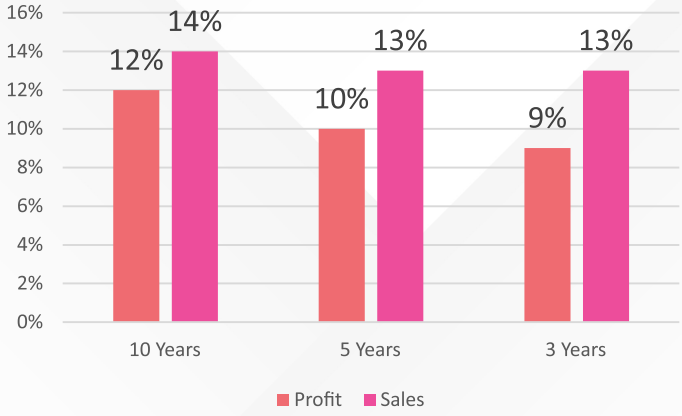
EPS



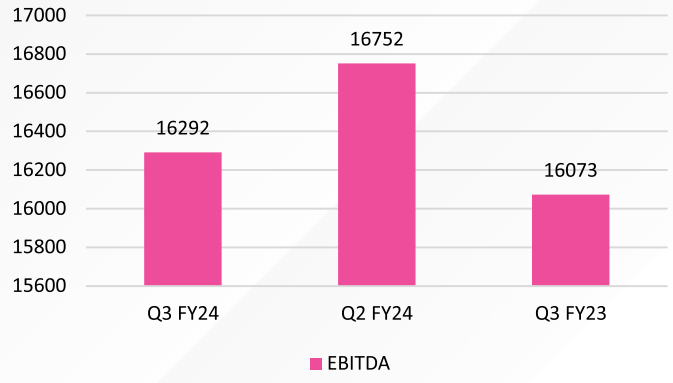
PAT (In Cr)



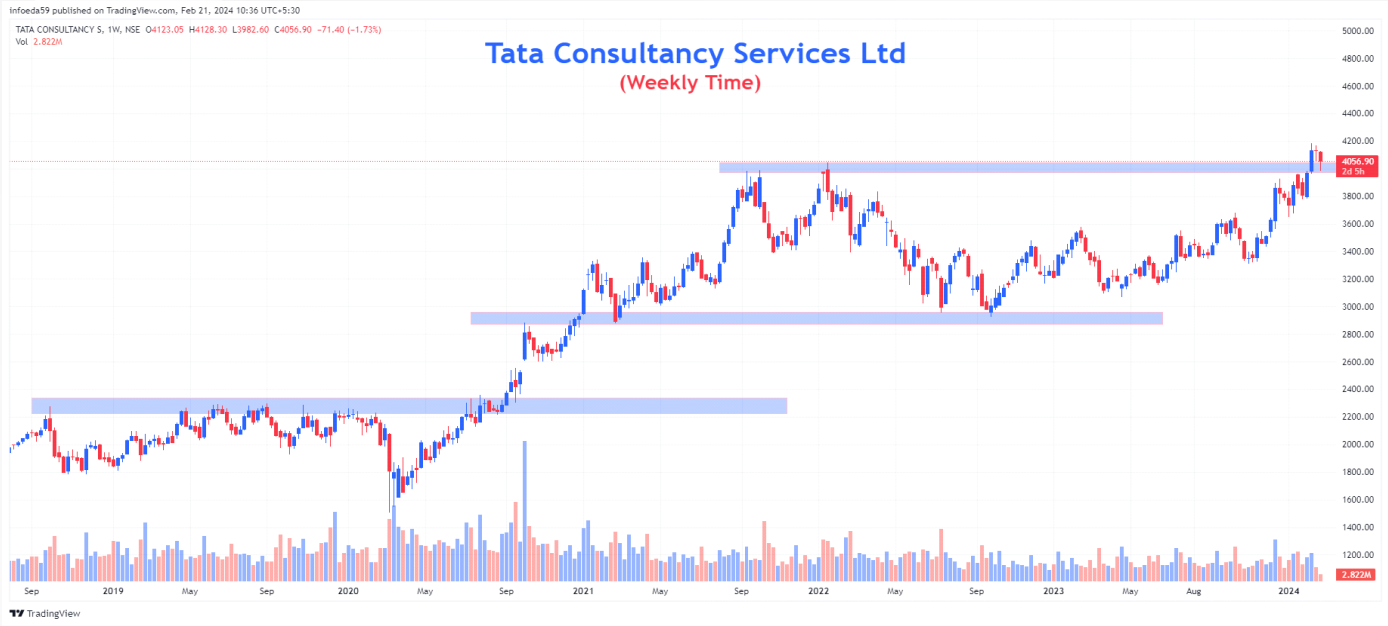
Compounded Growth (In %)



EBITDA (In Cr)



Technical Outlook



The chart depicts Tata Consultancy Services Ltd's stock performance on a weekly basis. The price action shows a general uptrend from 2019 to 2024, with some fluctuations. Notably, there's a strong resistance level around 4,200, where the price has peaked multiple times before retracting. In early 2020, there was a sharp drop, likely due to market-wide events, followed by a recovery. The volume spikes show increased trading activity at certain points, possibly coinciding with price breakouts or significant news events.

The moving averages for TCS Ltd indicate an upward trend, with shorter-term averages (5 and 10 days) above the longer-term (200 days), suggesting recent bullish behavior. The Simple Moving Average (SMA) and Exponential Moving Average (EMA) are close in value, with the EMA slightly lower, which often gives more weight to recent prices. The Relative Strength Index (RSI) values suggest a more bullish sentiment on the weekly (66.27) compared to the daily (56.72), neither indicating overbought nor oversold conditions.

Moving Averages Days	Simple Moving Average	Exponential Moving Average
5	4093.2	4084.0
10	4108.7	4074.8
20	3997.3	4018.4
50	3867.9	3877.9
100	3673.5	3736.4
200	3517.9	3593.0

Pivot Levels : FIBONACCI		
R1 4082.43	Pivot 4046.22	S1 3994.43
R2 4134.22		S2 3958.22
R3 4170.43		S3 3906.43

	Daily	Weekly
Relative Strength Index (RSI)	56.72	66.27

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This research has been done by the Core Fundamental Research Team of InvAsset PMS Desk.

Anirudh Garg
anirudhgarg@invasset.com

Harshal Dasani
harshaldasani@invasset.com

Bhavik Joshi
bhavikjoshi@invasset.com

INVASSET

India's Best Performing and Most Customer Centric PMS

MUMBAI
911 One Lodha Place,
Lower Parel, Mumbai 400013

GURUGRAM
4th Floor Two Horizon Centre,
DLF Phase 5, Gurugram,
Haryana 122002

LUDHIANA
1401, Aspen 2, Centara Greens,
Pakhowal Road, Opp. Riviera Resort,
Ludhiana 141001

1800-309-2172
98158-10172

info@invasset.com

www.invasset.com