

# Fundamental Analysis: Tata Consultancy Services Limited (TCS)

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Stock Market and Investment Management (MS842) Assignment Part-I

## Company Background and Product/Services

Tata Consultancy Services Limited (TCS) is the largest Indian multinational information technology (IT) service and consulting company, and is headquartered in Mumbai, Maharashtra, India. It is a subsidiary of Tata Group and operates in 149 locations across 46 countries.

TCS is the largest Indian company by market capitalization. Tata consultancy services is now placed among the most valuable IT services brands worldwide. It is the world's largest IT services provider. In 2018, it is ranked 11<sup>th</sup> on the Fortune India 500 list. In April 2018, TCS became the first Indian IT company to reach \$100 billion market capitalization (this makes it a large cap company), and second Indian company ever (after Reliance Industries achieved it in 2007) after its market capitalization stood at ₹6,79,332.81 crores (\$102.6 billion) on the BSE (formerly Bombay Stock Exchange).

## Sales Break up

Net sales breakdown by activity –

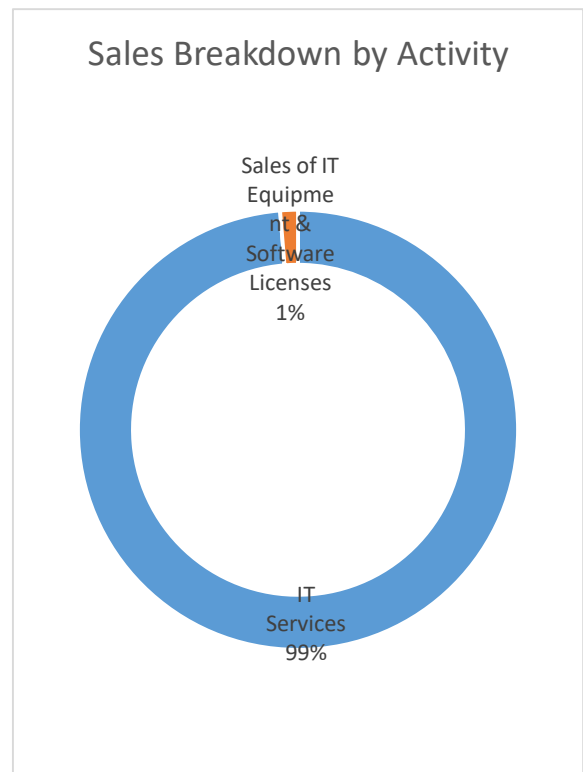
- **IT services** (98.7%): consulting and engineering services, solutions and systems integration, management applications development, outsourcing services, etc.;
- **Sale of IT equipment and software licenses** (1.3%)

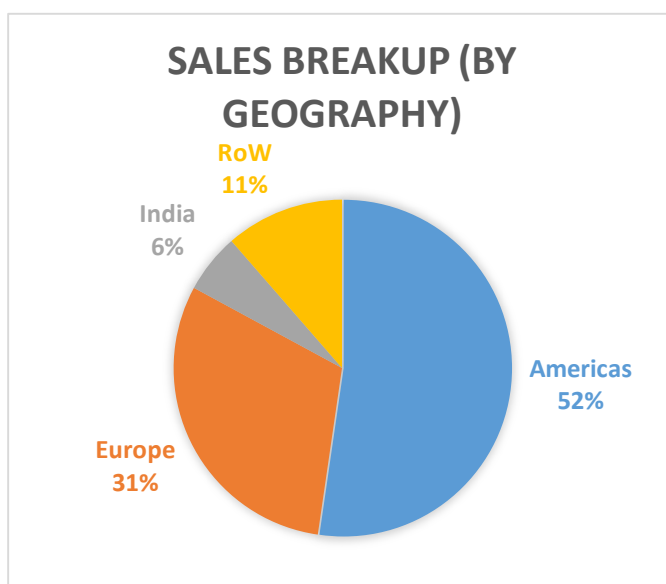
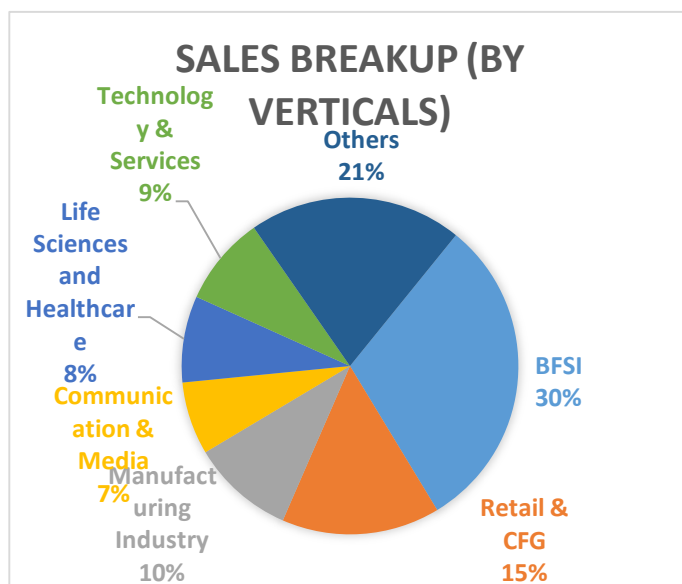
Net sales break down by market –

- Bank-financial services insurance (BFSI) (30.5%)
- Retail and consumer packaged goods (15.2%)
- Communication and media (7.0%)
- Manufacturing industry (9.9%)
- Life sciences and healthcare (8.3%)
- Technology and services (8.6%) and,
- Others (20.5%).

Net sales are distributed geographically as follows –

- India (5.7%),
- Americas (52.3%),
- Europe (30.6%) and,
- Others (11.4%).





## Shareholding Pattern

Sl No.	Name	No. of Shareholders	Equities	%
<b>1</b>	<b>Promoter &amp; Promoter Group</b>	<b>5</b>	<b>2,70,35,42,000</b>	<b>72.05%</b>
1.1	Tata Sons Private Limited	1	2,70,24,50,947	72.02%
1.2	Tata Investment Corporation Limited	1	10,36,269	0.03%
1.3	Tata Steel Limited	1	46,798	0.00%
1.4	Tata Industries Limited	1	7,220	0.00%
1.5	The Tata Power Company Limited	1	766	0.00%
<b>2</b>	<b>Institutions</b>	<b>1477</b>	<b>89,09,31,476</b>	<b>23.74%</b>
2.1	Mutual Funds/UTI	41	9,56,98,803	2.55%
2.2	Alternate Investment Funds	24	18,20,360	0.05%
2.3	Foreign Portfolio Investors	1346	59,06,21,054	15.74%
2.4	Financial Institutions/ Banks	21	18,49,839	0.05%
2.5	Insurance Companies	45	20,09,41,420	5.36%
2.5.1	Life Insurance Corporation of India	1	15,75,32,346	4.20%
<b>3</b>	<b>Central Govt./State Govt.(s)/President of India</b>	<b>7</b>	<b>24,20,388</b>	<b>0.06%</b>
<b>4</b>	<b>Non-institutions</b>	<b>8,57,336</b>	<b>15,54,90,842</b>	<b>4.14%</b>
4.1	Individuals	853942	13,14,89,806	3.50%
4.2	Others	3394	2,40,01,036	0.64%

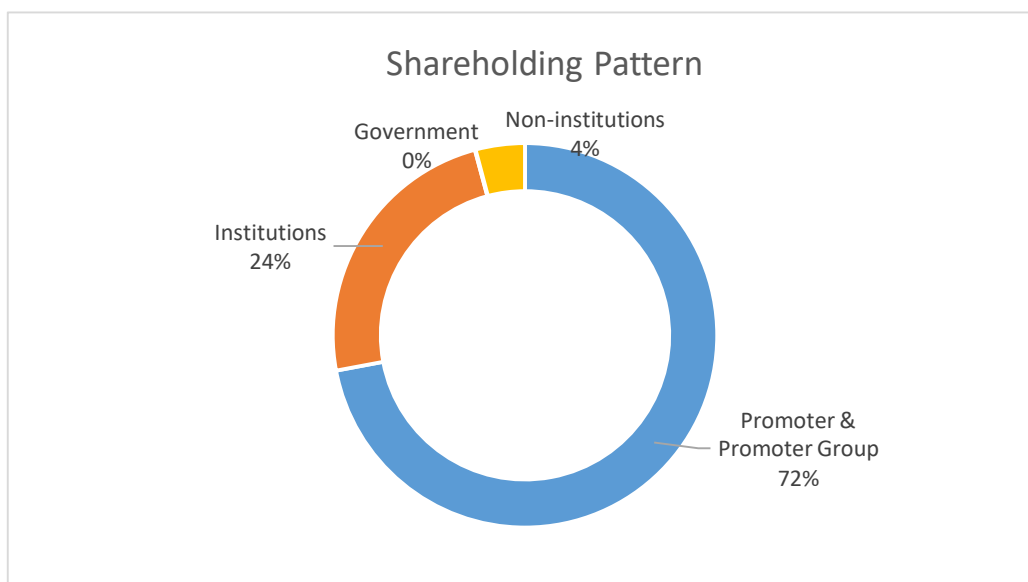
As of March 31, 2020

Source: TCS Quarterly Report

## Shareholding Pattern over Quarters

Name	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
<b>Promoter &amp; Promoter Group</b>	72.00%	72.05%	72.05%	72.05%	72.05%
<b>Institutions</b>	23.60%	23.74%	23.74%	23.93%	23.74%
<b>Central Govt./State Govt.(s)/President of India</b>	0.00%	0.06%	0.06%	0.06%	0.06%
<b>Non-institutions</b>	4.40%	4.15%	4.17%	3.95%	4.14%

Source: TCS annual & quarterly reports



## Past Data Analysis

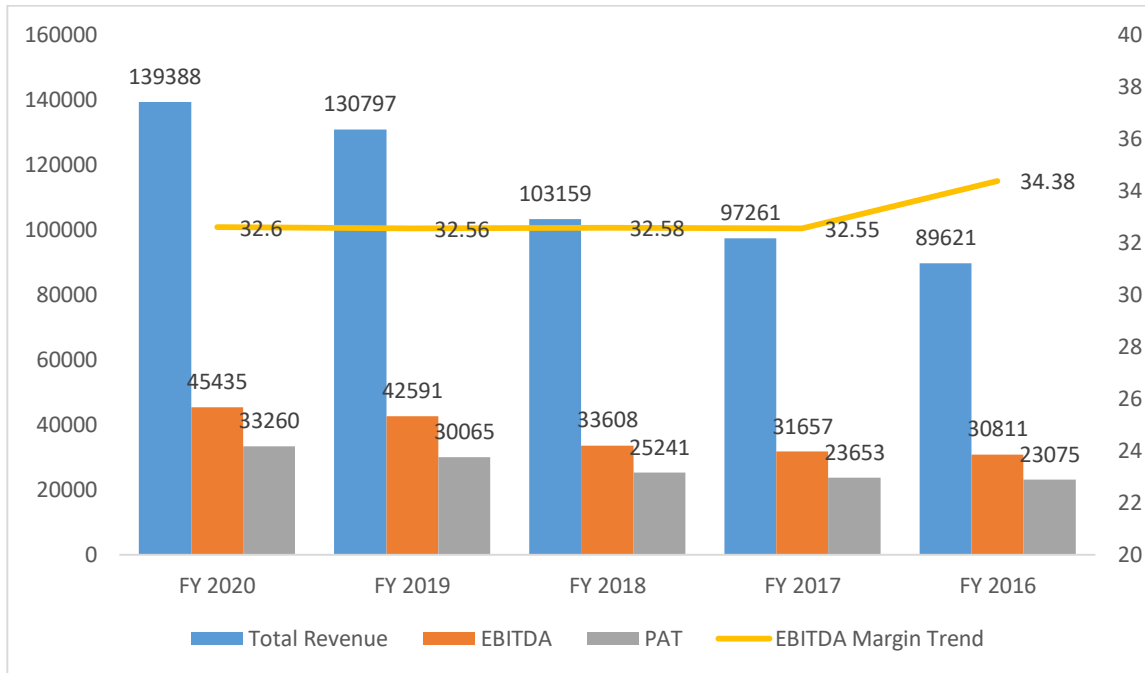
### Profit & Loss Account

In crore ₹	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016
<b>INCOME</b>					
Software Services & Operating Revenues	129,565	121,033	95,150	90,791	85,864
Sale of Equipment & License	1,741	2,137	2,206	1,902	0
Operating Income	<b>131,306</b>	<b>123,170</b>	<b>97,356</b>	<b>92,693</b>	<b>85,864</b>
<b>EXPENDITURE</b>					
<b>Raw Material Consumed</b>	<b>18</b>	<b>40</b>	<b>85</b>	<b>94</b>	<b>39</b>
<b>Employee Cost</b>	<b>64,906</b>	<b>59,377</b>	<b>51,499</b>	<b>48,116</b>	<b>42,420</b>
Salaries, Wages & Bonus	59,140	54,080	47,004	43,876	38,708

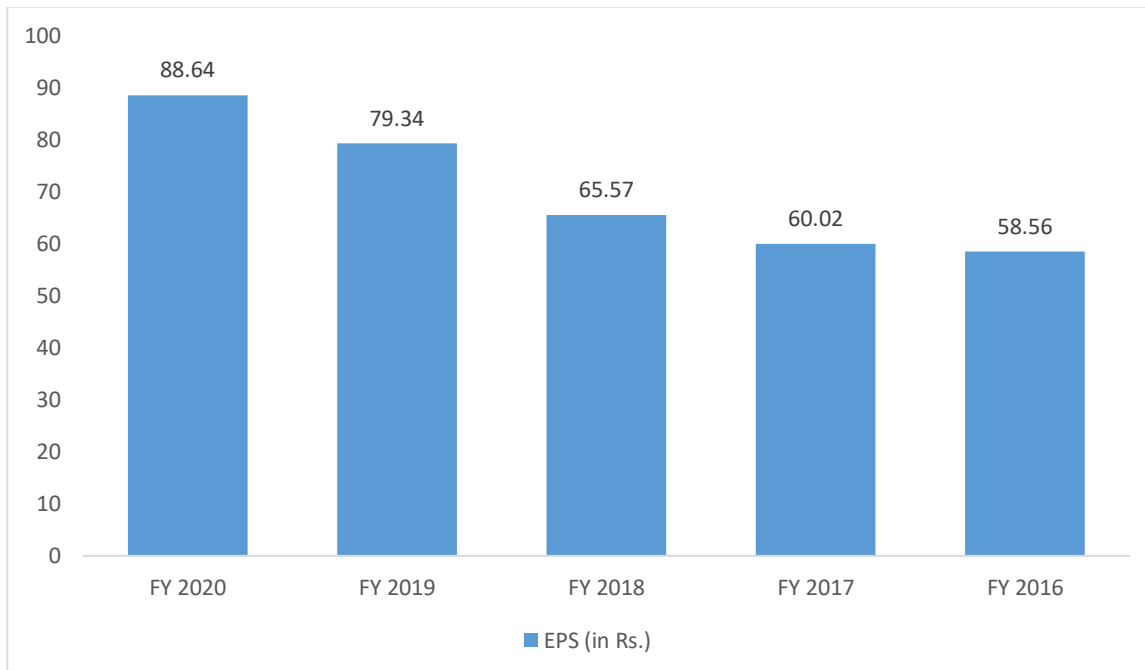
Contributions to EPF & Pension Funds	4,020	3,665	3,165	2,984	2,710
Wheeling & Transmission Charges Recoverable	1,746	1,632	1,330	1,256	1,002
<b>Cost of Software Development &amp; License Cost</b>	<b>1,596</b>	<b>1,963</b>	<b>1,920</b>	<b>1,664</b>	<b>1,691</b>
<b>General &amp; Administration Expenses</b>	<b>25,144</b>	<b>23,363</b>	<b>12,872</b>	<b>12,841</b>	<b>12,013</b>
<b>Other Operating Expenses</b>	<b>2,307</b>	<b>3,463</b>	<b>3,174</b>	<b>2,890</b>	<b>2,646</b>
<b>Total Expenditure</b>	<b>93,953</b>	<b>88,206</b>	<b>69,551</b>	<b>65,604</b>	<b>58,810</b>
Operating Profit (excluding other income)	37,353	34,964	27,805	27,089	27,054
<b>Other Income</b>	<b>8,082</b>	<b>7,627</b>	<b>5,803</b>	<b>4,568</b>	<b>3,757</b>
<b>Total Revenue (including other income)</b>	<b>139,388</b>	<b>130,797</b>	<b>103,159</b>	<b>97,261</b>	<b>89,621</b>
<b>Earnings before Interest, Depreciation, Tax &amp; Amortization (EBITDA)</b>	<b>45,435</b>	<b>42,591</b>	<b>33,608</b>	<b>31,657</b>	<b>30,811</b>
Interest	743	170	30	16	13
Profit Before Tax & Depreciation	44,692	42,421	33,578	31,641	30,798
Depreciation	2,701	1,716	1,647	1,575	1,459
<b>Profit Before Tax (PBT)</b>	<b>41,991</b>	<b>40,705</b>	<b>31,931</b>	<b>30,066</b>	<b>29,339</b>
Total Tax Expenses	8,731	10,640	6,690	6,413	6,264
<b>Profit After Tax (PAT)</b>	<b>33,260</b>	<b>30,065</b>	<b>25,241</b>	<b>23,653</b>	<b>23,075</b>
No of Shares	375,23,84,706	378,97,49,350	192,45,92,806	197,04,27,941	197,04,27,941
Weighted average number of equity shares	375,23,84,706	378,97,49,350	384,91,85,612	394,08,55,882	394,08,55,882
<b>EPS (in ₹)</b>	<b>88.64</b>	<b>79.34</b>	<b>65.57</b>	<b>60.02</b>	<b>58.56</b>
Share Price (end of Year)	1,823.05	1,956.12	1,372.97	1,127.59	1,124.61

Source: TCS Annual & Quarterly Reports

### Revenue, EBITDA, PAT (in crore ₹) and EBITDA Margin Trend (in %)



### EPS Trend (in ₹)



## Balance Sheet

In crore ₹	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016
<b>EQUITIES AND LIABILITIES</b>					
<b>SHAREHOLDER'S FUNDS</b>					
Equity Share Capital	375	375	191	197	197.00
Total Share Capital	375	375	191	197	197.00
Reserves and Surplus	73,993	78,523	75,675	77,825	64,816.00
<b>Total Reserves and Surplus</b>	<b>73,993</b>	<b>78,523</b>	<b>75,675</b>	<b>77,825</b>	<b>64,816.00</b>
<b>Total Shareholders' Funds</b>	<b>74,368</b>	<b>78,898</b>	<b>75,866</b>	<b>78,022</b>	<b>65,013.00</b>
<b>NON-CURRENT LIABILITIES</b>					
Long Term Borrowings	0	33	39	44	50.00
Deferred Tax Liabilities [Net]	347	339	424	314	366.00
Other Long Term Liabilities	6,234	1,334	643	638	639.00
Long Term Provisions	0	0	26	39	40.00
<b>Total Non-Current Liabilities</b>	<b>6,581</b>	<b>1,706</b>	<b>1,132</b>	<b>1,035</b>	<b>1,095.00</b>
<b>CURRENT LIABILITIES</b>					
Short Term Borrowings	0	0	181	200	113.00
Trade Payables	8,734	7,692	4,775	4,190	5,370.00
Other Current Liabilities	15,057	11,030	8,931	6,245	5,711.00
Short Term Provisions	235	174	171	66	115.00
<b>Total Current Liabilities</b>	<b>24,026</b>	<b>18,896</b>	<b>14,058</b>	<b>10,701</b>	<b>11,309.00</b>
<b>Total Capital And Liabilities</b>	<b>104,975</b>	<b>99,500</b>	<b>91,056</b>	<b>89,758</b>	<b>77,417.00</b>
<b>ASSETS</b>					
<b>NON-CURRENT ASSETS</b>					
Tangible Assets	16,903	9,522	9,430	9,214	9,056.00
Intangible Assets	0	139	10	17	24.00
Capital Work-In-Progress	0	834	1,238	1,477	1,640.00
<b>Fixed Assets</b>	<b>16,903</b>	<b>10,495</b>	<b>10,678</b>	<b>10,708</b>	<b>10,720.00</b>
Non-Current Investments	2,189	2,189	2,186	2,201	2,229.00
Deferred Tax Assets [Net]	2,219	2,097	3,051	2,447	2,530.00
Long Term Loans And Advances	2	2	1,503	6	2,432.00
Other Non-Current Assets	4,468	5,685	5,416	5,954	6,129.00
<b>Total Non-Current Assets</b>	<b>25,781</b>	<b>20,468</b>	<b>22,834</b>	<b>21,316</b>	<b>24,040.00</b>

CURRENT ASSETS					
Current Investments	25,686	28,280	35,073	40,729	21,930.00
Inventories	5	10	25	21	9.00
Trade Receivables	28,660	24,029	18,882	16,582	19,058.00
Cash And Cash Equivalents	4,824	8,900	3,487	1,316	4,806.00
Short Term Loans And Advances	7,270	7,018	2,793	2,704	2,523.00
Other Current Assets	12,749	10,795	7,962	7,090	5,051.00
<b>Total Current Assets</b>	<b>79,194</b>	<b>79,032</b>	<b>68,222</b>	<b>68,442</b>	<b>53,377.00</b>
<b>Total Assets</b>	<b>104,975</b>	<b>99,500</b>	<b>91,056</b>	<b>89,758</b>	<b>77,417.00</b>
OTHER ADDITIONAL INFORMATION					
CONTINGENT LIABILITIES, COMMITMENTS					
Contingent Liabilities	0	4,721	13,949	16,259	19,695.42
CIF VALUE OF IMPORTS					
Raw Materials	0	0	0	0	27.66
Stores, Spares And Loose Tools	0	0	0	0	0.31
Trade/Other Goods	0	0	768	561	0.00
Capital Goods	0	0	0	0	474.13
EXPENDITURE IN FOREIGN EXCHANGE					
Expenditure In Foreign Currency	0	0	33,014	31,553	29,554.53
REMITTANCES IN FOREIGN CURRENCIES FOR DIVIDENDS					
Dividend Remittance In Foreign Currency	-	-	-	-	1,366.16
EARNINGS IN FOREIGN EXCHANGE					
FOB Value Of Goods	-	-	-	-	81,193.85
Other Earnings	-	-	92,258	86,370	690.88
BONUS DETAILS					
Bonus Equity Share Capital	-	343	151	156	155.90
NON-CURRENT INVESTMENTS					
Non-Current Investments Quoted Market Value	-	-	-	-	-
Non-Current Investments Unquoted Book Value	-	2,189	2,186	2,201	2,228.28
CURRENT INVESTMENTS					



Current Investments Quoted Market Value	-	28,218	25,972	21,999	20,253.65
Current Investments Unquoted Book Value	-	2,252	9,101	18,730	1,675.44

## Ratio Analysis

	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016	Unit
<b>Ratios - Financial Performance</b>						
Employee Cost / Total Revenue	46.56	45.40	49.92	49.47	47.33	%
Raw Material Consumed / Total Revenue	0.01	0.03	0.08	0.10	0.04	%
Cost of Software Development & License Cost / Total Revenue	1.15	1.50	1.86	1.71	1.89	%
General & Administration Expenses / Total Revenue	18.04	17.86	12.48	13.20	13.40	%
Other Operating Cost / Total Revenue	1.66	2.65	3.08	2.97	2.95	%
Total Cost / Total Revenue	67.40	67.44	67.42	67.45	65.62	%
EBITDA / Total Revenue	32.60	32.56	32.58	32.55	34.38	%
PBT / Total Revenue	30.13	31.12	30.95	30.91	32.74	%
PAT / Total Revenue	23.86	22.99	24.47	24.32	25.75	%
<b>Ratios - Growth</b>						
Total Revenue	6.57	26.79	6.06	8.52	14.83	%
EBITDA	6.68	26.73	6.16	2.75	20.85	%
PAT	10.63	19.11	6.71	2.50	19.83	%
<b>Ratios - Per Share</b>						
EPS - adjusted for Bonus	88.64	79.34	65.57	60.02	58.56	₹
P/E Ratio (end of year)	20.57	24.65	20.94	18.79	19.20	Times
DPS	73.00	30.00	50.00	47.00	43.50	₹
DPS - adjusted for Bonus	73.00	30.00	25.00	23.50	21.75	₹

Source: TCS Annual & Quarterly Reports

## Industry Prospects and Critical Success Factor

TCS's main business is providing services to IT various companies of industries like banking, manufacturing, retail etc. The following table gives a trend of previous years:

Vertical (%)	FY 2020	FY 2019	YoY CC Growth
<b>Banking, Financial Services and Insurance</b>	30.5	31.1	5.2
<b>Retail and CPG</b>	15.2	15.4	5.5
<b>Manufacturing</b>	7	6.9	9.8
<b>Life Sciences &amp; Healthcare</b>	9.9	9.9	7.3
<b>Technology &amp; Services</b>	8.3	7.5	16.8
<b>Regional Markets &amp; Others</b>	8.6	8.8	5
<b>Others</b>	20.5	20.4	7.5

Source: TCS annual & quarterly reports

Clearly, the company's business depends on various business' performance. The other businesses prosper, TCS will get new clients and it will prosper as well.

Clients Contribution	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016
<b>US\$ 1m+ Clients</b>	1072	1008	-	-	-
<b>US\$ 5m+ Clients</b>	565	532	-	-	-
<b>US\$ 10m+ Clients</b>	391	371	-	-	-
<b>US\$ 20m+ Clients</b>	240	215	-	-	-
<b>US\$ 50m+ Clients</b>	105	99	97	84	73
<b>US\$ 100m+ Clients</b>	49	44	38	35	37

- Data not available

Source: TCS annual & quarterly reports

From the table above it may be observed that clients \$100M+ up by 5; \$50M+ up by 6; \$20M+ up by 25; \$10M+ up by 20 & \$5M+ up by 33 from FY 2019 to FY 2020. More high valued clients help to boost revenue of the company.

## Economic Variables factors affecting the company

### Global Economy & Effect of COVID-19

Geography (%)	FY 2020	FY 2019	YoY CC Growth
<b>Americas</b>			
North America	50.4	51.0	4.3
Latin America	1.9	2.0	5.8
<b>Europe</b>			
UK	15.9	15.6	10.4
Continental Europe	14.7	14.1	14.6

<b>India</b>	5.7	5.7	6.8
<b>Asia Pacific</b>	9.3	9.5	6.2
<b>MEA</b>	2.1	2.1	6.5
<b>Total</b>	100	100	7.1

*Source: TCS annual & quarterly reports*

TCS primarily gets revenue from Americas and Europe and thus the revenue is dependent on the performance of the businesses in these regions. Due to recent COVID-19 pandemic, the GDP growth will be -5.9% and -7.1% in the United States and Europe respectively. This negative growth is much lower than the expected growth. This will hamper the revenue growth of the company. However, the economy is expected to recover in 2021 with expected GDP growth of 4.7% and 4.8% of the United States and Europe respectively.

The BFSI sector has been severely impacted given their secure business model in nature, and thus it is very hard to switch to 100% remote model.

Life Sciences and Communications are relatively the lesser impacted. But there are also pockets of weakness. For example, in Life Sciences, the cancellation of elective surgery is having quite a lot of impact on many sub-segments like medical devices and even certain specialty hospitals and facilities like that. However, they are the most resilient and likely to remain the most in the near-term in this current crisis.

Impact on communications and media is a mixed bag. While there are strong demand drivers with this whole shift to a digital operating model and which will be a long-term shift and will continue to benefit all forms of capacity providers. But, on the media side, there is significant impact. Cancellation of large sporting events, Olympics and other sporting events, is having significant subscription as well as advertising revenue impact. Closure of amusement parks and other such facilities is also having a lot of impact. Closure of studios and the lack of new content will have downstream impact. So, Communications and Media is a more mixed one.

Given that travel, transportation and hospitality sub-vertical has been severely impacted, the resulting impact on retail will also be severe.

Manufacturing industry is also impacted severely due to closure of manufacturing plant and in most cases they cannot be done in remote.

The impact in those verticals will also impact the revenue of the company.

## New Customers

This section can be divided into 2 subsections – new clients and organizations using software built by TCS.

- **New Clients**

As shown in a previous table TCS has added 64 new clients to its portfolio. TCS has also seen an all-time high order book of \$8.9 billion in Q4. This will partially help compensate the revenue loss due to the COVID-19.

At the same time, TCS continues to add new clients in FY 2021, for example Israel's first fully digital bank and leading Amway's IT infrastructure transformation.

- **New Software**

New software like *WaferWise*™ for semiconductor industry will help boost the company's revenue.

At the same time, already published software continue to be adopted by various organizations around the world, for example cognitive automation software *Ignio*™ has seen 11 new wins and 13 go live, financial software *BaNCS*™ has seen 9 new wins, the *Quartz* Blockchain Solution had 3 new wins. In the Algo retailing space, the company had 1 go live each for *Optumer*™ and *OmniStore*™. In Life Sciences, Advanced Drug Development suite had 3 go lives. Lastly, *TCSHOBS*™, SaaS platform for communication service providers had 2 new wins and 1 go live.

## Tax

Indian statutory tax rate for TCS is 34.94%. The tax rate is expected to stay same for the coming years.

	<b>FY 2020</b>	<b>FY 2019</b>
Profit before taxes (PBT)	41,991	40,705
Indian statutory tax rate	34.94%	34.94%
Expected income tax expense	14,673	14,224
<b>Tax effect of adjustments to reconcile expected income tax expense to reported income tax expense</b>		
Tax holidays	(4,856)	(4,735)
Income exempt from tax	(14)	(21)
Undistributed earnings in branches	(15)	299
Tax on income at different rates	(300)	(403)
Tax pertaining to prior years	(877)	1,271
Other (net)	120	5
Total income tax expense	8,731	10,640
Total income tax expense / PBT (%)	20.79%	26.14%

## Assumptions

- We assume that the economy will recover after Q2 and will have a positive GDP growth in the United States and Europe.
- The company has no expansion plan as of 2020 Q4, so low fixed asset growth rate is assumed.
- Employee cost is expected to go down in the coming years as an effect of various measures taken by the company.
- Rest of the assumptions have been stated in the following table.

## Projected Income Statement

	FY 2020	FY 2021E	FY 2022E	FY 2023E
<b>INCOME</b>				
<b>Total Revenue</b>	<b>139,388</b>	<b>144,964</b>	<b>156,561</b>	<b>172,217</b>
<b>EXPENDITURE</b>				
Raw Material Consumed	18	14	16	17
Employee Cost	64,906	66,683	70,452	75,775
Cost of Software Development & License Cost	1,596	1,740	1,566	1,722
General & Administration Expenses	25,144	26,093	28,181	30,999
Other Operating Expenses	2,307	2,464	2,662	2,928
<b>Total Expenditure</b>	<b>93,953</b>	<b>96,995</b>	<b>102,876</b>	<b>111,441</b>
<b>Earnings before Interest, Depreciation, Tax &amp; Amortization (EBITDA)</b>	<b>45,435</b>	<b>47,968</b>	<b>53,685</b>	<b>60,775</b>
Interest	743	1,033	1,343	1,611
Profit Before Tax & Depreciation	44,692	46,935	52,342	59,164
Depreciation	2,701	3,046	3,229	3,422
<b>Profit Before Tax (PBT)</b>	<b>41,991</b>	<b>43,890</b>	<b>49,113</b>	<b>55,741</b>
Total Tax Expenses	8,731	9,217	10,314	11,706
<b>Profit After Tax (PAT)</b>	<b>33,260</b>	<b>34,673</b>	<b>38,799</b>	<b>44,036</b>
<b>EPS (in Rs.)</b>	<b>88.64</b>	<b>92.41</b>	<b>103.41</b>	<b>117.37</b>
<b>ASSUMPTIONS</b>				
Total Revenue Growth (%)	6.57	4	8	10
Raw Material Consumed / Total Revenue (%)	0.01	0.01	0.01	0.01
Employee Cost / Total Revenue (%)	46.56	46.00	45.00	44.00
Cost of Software Development & License Cost / Total Revenue (%)	1.15	1.20	1.00	1.00
General & Administration Expenses / Total Revenue (%)	18.04	18.00	18.00	18.00
Other Operating Expenses / Total Revenue (%)	1.66	1.70	1.70	1.70
Fixed Asset Growth Rate (%)	61.06	6.00	6.00	6.00

Total Fixed Asset	16,903	17,917	18,992	20,132
Depreciation / Total Fixed Asset (%)	15.98	17.00	17.00	17.00
Effective Tax Rate (%)	20.79	21.00	21.00	21.00
Liabilities Growth Rate (%)	49.00	35.00	30.00	20.00
Total Liabilities	30607	41319.45	53715.29	64458.34
Interest / Total Liabilities (%)	2.43	2.50	2.50	2.50

## Target Price

Assuming **total no. of equities of shares** to be constant in coming 3 years, i.e., around **375.2 crores**:

Projected EPS can be calculated as:

Projected EPS = Profit After Tax / Total no. of equities of shares.

So, Target Price = Projected EPS \* PE Ratio

	FY 2020	FY 2021E	FY 2022E	FY 2023E
<b>Projected EPS</b>	88.64	92.41	103.41	117.37
<b>PE Ratio</b>	20.57	20.25	20.00	20.00
<b>Target Price</b>	1823.05	1871.33	2068.19	2347.32
<b>Growth (%)</b>		2.65	10.52	13.50

## Valuation

Market Cap (Cr. ₹)	713,253.28	P/E	21.46	Book Value (₹)	198.19
Dividend (%)	7300	Market Lot	1	Industry P/E	18.55
EPS (TTM)	88.64	P/C	19.85	Price/Book	9.59
Dividend Yield.(%)	3.84	Face Value (RS)	1	Deliverables (%)	35.31

As of May 14, 2020

	FY 2020	FY 2021E	FY 2022E	FY 2023E
<b>P/E Ratio</b>	88.64	92.41	103.41	117.37
<b>Capitalization (in crore ₹)</b>	678,612	696,583	769,865	873,766
<b>Capitalization / Revenue</b>	4.87	4.81	4.92	5.07
<b>EBITDA / Revenue (%)</b>	32.60	33.09	34.29	35.29

The profit in near term is low, however in long-term if one holds the company's share, she can make a significant amount of profit. Thus, we rate this company's share as **HOLD**.