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Quarterly Result Update

TATA CONSULTANCY SERVICES LIMITED

January 11, 2021

TATA CONSULTANCY SERVICES

Current Price: ₹ 3120.35

STOCK DATA

BSE Code	532540
NSE Symbol	TCS
Reuters	TCS.BO
Bloomberg	TCS IN

VALUE PARAMETERS

52 W H/L(Rs)	3127.55/1504.40
Mkt. Cap.(Rs Cr)	1170875.38
Latest Equity(Subscribed)	375.24
Latest Reserve (cons.)	93966
Latest EPS (cons.) -Unit Curr.	84.01
Latest P/E Ratio -cons	37.14
Latest Bookvalue(cons.) -Unit Curr.	251.42
Latest P/BV - cons	12.41
Dividend Yield -%	2.34
Face Value	1

SHARE HOLDING PATTERN (%)

Description as on	% of Holding (AS ON 30 Sept 2020
Foreign	16.00
Institutions	7.85
Govt Holding	0.07
Non Promoter Corp. Hold.	0.14
Promoters	72.05
Public & Others	3.90

Consolidated Results

In Cr.

	Qtr Ending Dec. 20	Qtr Ending Sept. 20	Var. (%)	Qtr Ending Dec. 2019	Var. (%)
Sales	42015.00	40135.00	5	39854.00	5
OPM (%)	29.10	28.70		27.30	
OP	12208.00	11513.00	6	10871.00	12
Other inc.	691.00	914.00	-24	818.00	-16
PBIDT	12899.00	12427.00	4	11689.00	10
Interest	183.00	174.00	5	223.00	-18
PBDT	12716.00	12253.00	4	11466.00	11
Dep.	1024.00	998.00	3	897.00	14
PBT	11692.00	11255.00	4	10569.00	11
EO Exp	0.00	1218.00		0.00	
PBT after EO	11692.00	10037.00	16	10569.00	11
Tax	2965.00	2533.00	17	2426.00	22
PAT	8727.00	7504.00	16	8143.00	7
MI	26.00	29.00	-10	25.00	4
Net Profit	8701.00	7475.00	16	8118.00	7
EPS (Rs)	23.20	22.26		21.65	

TCS Q3 profit rises 7.2% to Rs 8,701 crore, constant currency revenue at 4.1% beats estimates

Tata Consultancy Services (TCS) for the quarter ended Dec 2020 reported a consolidated revenue of Rs 42015 crore, a growth of 5% QoQ and 5% YoY. On USD terms the revenue for the quarter was USD 5702 million, a growth of 5% QoQ and 2% YoY. On constant currency (CC) basis the revenue was up 4.1% QoQ and 0.4% YoY.

Growth in CC revenue on sequential basis is largely due to increase in revenue of all business verticals of the company. On YoY terms the CC revenue growth was led by BFSI, Life Sciences and Technology & services. The BFSI vertical which accounted for about 31.3% of the revenue registered a growth of 2% QoQ and 2.4% YoY. Similarly the retail vertical that accounted for 14.5% of the revenue for the quarter was up by 3.1% QoQ but a fall of 5.1% YoY. The Life Sciences & Healthcare that accounted for 9.8% of the revenue was up by 5.2% QoQ and 18.2% YoY. The manufacturing that accounted for about 9.6% of revenue for the quarter was up by 7.1% QoQ and -3.6% YoY. Technology & Services that accounted for 8.6% of revenue was up by 0.8% QoQ and 2.4% YoY. The communication & Media (6.6% of revenue) was up by 5.5% QoQ and -4.8% YoY. The regional & Others (19.6% of revenue) was up 7.3% QoQ and -2.9% YoY.

All markets showed good sequential growth, with North America growing 3.3%, UK +4.5%, and Continental Europe +2.5%. Emerging markets also grew well, with India growing 18.1%, MEA +6.7%, Latin America +3.1% and Asia Pacific +2.6%. On YoY basis North America de-grew 0.2%, UK de-grew 1.6% but the Continental Europe was up 3.6%.

As OPM expand by 40 bps to 29.1% (compared to 28.7% in sequential previous quarter) the operating profit was up by 6% QoQ to Rs 12208 crore. But with other income down by 24% to Rs 691 crore, the growth at PBIDT moderated to stand at 4% QoQ to Rs 12899 crore. However hit by higher interest and depreciation, the PBT was up by 4% QoQ to Rs 11692 crore. But with

EO Expense being nil for the quarter compared to a provision of Rs 1218 crore in sequential previous quarter, the growth at PBT after EO level was 16% QoQ to Rs 11692 crore. With taxation being up by 17% to Rs 2965 crore, the PAT was up by 16% QoQ to Rs 8727 crore. Eventually the net profit (after MI) was up by 16% QoQ to Rs 8701 crore with MI (being share of profit) stand lower by 10% QoQ to Rs 26 crore.

Quarterly result YoY comparison

Consolidated revenue was up by 5% to Rs 42015 crore and with the OPM expand by 180 bps to 29.1% from 27.3% in corresponding previous period, the operating profit was up by 12% to Rs 12208 crore. Hit by 16% fall in OI, the growth at PBIDT was restricted at 10% to Rs 12899 crore. The interest cost was down by 18% to Rs 183 crore. The depreciation was up by 14% to Rs 1024 crore. Thus the PBT was up by 11% to Rs 11692 crore. The taxation was up by 22% to Rs 2965 crore and thus the PAT was up by 7% to Rs 8727 crore. With minority interest stand higher by 4% to Rs 26 crore, the net profit was up by 7% to Rs 8701 crore.

Nine month performance

Sales for the period was up by 3% YoY to Rs 120472 crore and with OPM expand by 140 bps to 28%, the growth at operating profit was 8% to Rs 33745 crore. However hit by 43% fall in OI to RS 2203 crore, the PBIDT was up by just 3% to Rs 35948 crore. The PBT before EO was up by 2% to Rs 32451 crore hit largely by higher depreciation, which was up by 16% to Rs 2998 crore. The EO Expense was up at RS 1218 crore compared to nil in corresponding previous period and thus the PBT after EO was down by 2% to Rs 31233 crore. After accounting for taxation (up 8% to Rs 7953 crore), the PAT was down by 4% to Rs 23280 crore. With MI stand higher by 52% to RS 96 crore, the net profit was down by 5% to Rs 23184 crore.

Other developments

Pursuant to ruling at the Appeals Court on August 20, 2020, in the case relating to Epic Systems Corporation (referred to as Epic) for alleged unauthorised access to and download of Epic's confidential information and use thereof in the development of the Company's product MedMantra, the.Company had provided l,218 crore (US $165 million) towards this legal claim in its statement of profit and loss for the three month period ended September 30, 2020. This has been presented as an "exceptional item" in the statement of profit and loss. The Company filed a petition for re-hearing of the awards for both compensatory and punitive damages at the Appeals Court on September 3, 2020. Epic also filed for re-hearing of the Appeals Court's decision that invalidated a portion of the award of punitive damages. In November 2020, the petitions for re-hearing filed by the Company and Epic, respectively, were denied by the Appeals Court. The proceedings for assessing punitive damages have been remanded back to the District Court. The Company will continue to pursue all legal options available in the matter.

Buy Back Completed

The Board of Directors at its meeting held on October 7, 2020, approved a proposal to buy-back upto 5,33,33,333 equity shares of the Company for an aggregate amount not exceeding Rs 16,000 crore, being 1.42% of the total paid up equity share capital at Rs 3,000 per equity share. The shareholders approved the same on November 18, 2020, by way of a special resolution through postal ballot. The period for tendering of shares for buy-back was from December 18,

2020 to January 1, 2021. The settlement of all valid bids was completed on January 5, 2021, and the equity shares bought back were extinguished on January 6, 2021. Pursuant to the issuance of Letter of Offer, the Company has recorded a liability towards buy-back of equity shares of Rs 16,000 crore and the corresponding tax payable of Rs 3,726 crore as at December 31, 2020.

Dividend

BOD of the company on their meeting on Jan 8, 2020 declared an interim dividend of RS 6 per equity share with record date being Jan 16, 2021 and payment date being Feb 3, 2021. Earlier in Oct 2020, the company paid an interim dividend of Rs 12 per equity share.

Management Comment

Commenting on the Q3FY21 performance, Rajesh Gopinathan, Chief Executive Officer and Managing Director, said: "Growing demand for core transformation services and strong revenue conversion from earlier deals have driven a powerful momentum that helped us overcome seasonal headwinds and post one of our best performances in a December quarter. We are entering the new year on an optimistic note, our market position stronger than ever before, and our confidence reinforced by the continued strength in our order book and deal pipeline." He added: "Looking beyond the immediate business growth opportunity, we are tremendously excited by what lies ahead. Cloud is enabling a new class of boundaryless organizations, that can seamlessly partner and collaborate within larger ecosystems to create innovative purpose-driven offerings to customers. This boundaryless value creation, supported by the seamless fabric of technology enabled by cloud together the seamless fabric of talent enabled by our SBWS™, will redefine industry after industry over the longer term. Our intimate knowledge of our customers' business contexts, our strong relationships across ecosystems, and our continued investments in research and innovation make us their preferred partner in their growth and transformation journeys."

N Ganapathy Subramaniam, Chief Operating Officer & Executive Director, said: "Our Q3 growth is a very satisfactory outcome of our ability to leverage the proactive investments made to capture the strong demand and be meaningful to our clients. It is a strong endorsement of our resilience, way of working and the relative competitiveness of our products and services. We celebrated the accomplishment of our Enterprise Agile by 2020 vision during the quarter, and with SBWS™, we have a well-oiled location-independent execution model that brings in the resources just in time, efficient execution, and machine-led delivery governance that are delighting our customers. All these augur well to progress our 25x25 future of work vision." He added: "We have had healthy deal closures and the growth has been broad based on a sequential basis, setting ourselves well for the future. We also welcome to the TCS fold, the professionals from Pramerica and Postbank Systems, accelerating our growth plans in Ireland, Germany and more broadly in Europe."

V Ramakrishnan, Chief Financial Officer, said: "Strong growth across all our verticals, and operational benefits from our SBWS model allowed us to post the highest operating margin in the last five years, even after rolling out a salary increase this quarter. We also had an all-time high cash conversion in Q3. This and our strong balance sheet position us very strongly to seize the opportunities that the current market offers, and more closely partner our customers in their growth and transformation journeys."

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