

October 14, 2019



TATA CONSULTANCY SERVICES

Current Price: ₹ 1987.05

STOCK DATA

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

VALUE PARAMETERS

52 W H/L(Rs)	2296.00/1784.00
Mkt. Cap.(Rs Cr)	745617.63
Latest Equity(Subscribed)	375.24
Latest Reserve (cons.)	88879
Latest EPS (cons.) -Unit Curr.	86.36
Latest P/E Ratio -cons	23.01
Latest Bookvalue(cons.) -Unit Curr.	252.75
Latest P/BV - cons	7.86
Dividend Yield -%	1.51
Face Value	1

SHARE HOLDING PATTERN (%)

Description as on	% of Holding (AS ON 30 Sep 2019)
Foreign	15.52
Institutions	8.21
Govt Holding	0.06
Non Promoter Corp. Hold.	0.22
Promoters	72.05
Public & Others	3.95

Financial Results

	Qtr Ending	Qtr Ending	Var. (%)	Qtr Ending	In Cr. Var. (%)
	Sept. 2019	Jun. 2019		Sept. 2018	
Sales	38977.00	38172.00	2	36854.00	6
OPM (%)	26.20	26.30		27.90	
OP	10225.00	10037.00	2	10278.00	-1
Other inc.	1361.00	1675.00	-19	730.00	86
PBIDT	11586.00	11712.00	-1	11008.00	5
Interest	193.00	257.00	-25	137.00	41
PBDT	11393.00	11455.00	-1	10871.00	5
Dep.	864.00	817.00	6	507.00	70
PBT	10529.00	10638.00	-1	10364.00	2
Tax	2471.00	2485.00	-1	2437.00	1
PAT	8058.00	8153.00	-1	7927.00	2
MI	16.00	22.00	-27	26.00	-38
Net Profit	8042.00	8131.00	-1	7901.00	2
EPS (Rs)	21.45	21.68		21.07	

Tata Consultancy Services (TCS) Q2 Earnings, Revenue Missed Estimates. However, management is confident as the medium and longer term demand for services continues to be very strong, as evidenced by Q2 order book – the highest in the last six quarters.

Tata Consultancy Services (TCS) for the quarter ended Sep 2019 reported an early single digit growth of 2% in consolidated revenue to Rs 38977 crore compared to sequential previous quarter ended June 2019. As OPM contracted marginally by 10 bps to 26.2% from 26.3% in sequential previous quarter the operating profit was up by 2% to Rs 10225 crore. Hit further by lower other income and higher depreciation, the PBT was down by 1% qoq to Rs 10529 crore. Eventually the PAT was down by 1% to Rs 8058 crore compared to Rs 8153 crore in sequential previous quarter ended June 2019. After accounting for lower minority interest (down 27% qoq to Rs 16 crore) the net profit was down by 1% to Rs 8042 crore.

The company registered steady growth in Q2FY20 despite increased volatility in the financial services and retail verticals.

Quarterly result YoY comparison

Sales for the quarter ended Sep 2019 was up by 6% to Rs 38977 crore. On constant currency (CC) basis the revenue grew by 8.4%yoy with growth driven largely by UK and continental Europe. UK revenue in CC grew by 13.3%yoy and that of Europe grew by 16%yoy. But North America grew by just 5.3%yoy. Digital revenue accounted for 33.2% of total revenue for the quarter and registered a growth of 27.9%yoy. While life sciences and Healthcare continue to outperform with a CC growth of 16% that of communication & Media too registered a CC growth of 11.8%yoy.

On yoy comparison the OPM contracted by 170 bps to 26.2% and thus the operating profit was down by 1% to Rs 10225 crore from Rs 10278 crore in corresponding previous period. Contraction in margin seems largely due to investment in talent as well as rupee appreciation against Euro and UK's sterling pound. Spurred by 86% jump in OI, the PBIDT was up by 5% to Rs 11586 crore. However hit by higher interest and depreciation cost, the growth at PBT moderated to stand at 2% to Rs 10529 crore. The PAT Was higher by 2%yoy to Rs 8058 crore with taxation in absolute terms stand higher by 1%. With MI stand lower by 38%yoy to Rs 16 crore, the net profit after MI was up by 2% to Rs 8042 crore.

Other developments

Consolidated headcount as of September 30, 2019 stood at 450738 with net addition in Q2FY20 being 14097, which is highest ever number of employees on boarded in a quarter. TCS' continued investments in organic talent development have resulted in unmatched scale and depth in emerging technologies. At the end of Q2, over 322,000 employees had been trained on multiple new technologies, and over 391,000 had been trained on Agile methods. The company continues to be the industry benchmark in talent retention, with the IT Services attrition rate (LTM) at 11.6%.

As on September 30, 2019, the company has applied for 4,874 patents, including 192 applied during the quarter and has been granted 1,121 patents.

Epic Systems Corporation (referred to as Epic) in October 2014, filed a legal claim against the company in the Court of Western District Madison, Wisconsin for alleged infringement of Epic's proprietary information. In April 2016, the Company received an unfavourable jury verdict awarding damages totaling Rs 6648 crore (US \$940 million) to Epic. In September 2017, the Company received a Court order reducing the damages from Rs 6648 crore (US \$940 million) to Rs 2970 crore (US \$420 million) to Epic. Pursuant to US Court procedures, a Letter of Credit has been made available to Epic for Rs 3112 crore (US \$440 million) as financial security in order to stay execution of the judgment pending post-judgment proceedings and appeal. Pursuant to reaffirmation of the Court order in March 2019, the Company has filed a notice of appeal in the superior Court to fully set aside the Order. Epic has also filed a cross appeal challenging the reduction by the trial judge of Rs 707 crore (US \$100 million) award and Rs 1414 crore (US \$200 million) in punitive damages. The Company has received legal advice to the effect that the order and the reduced damages awarded are not supported by evidence presented during the trial. Accordingly, this matter is disclosed as contingent liability.

Declared special dividend of Rs 40 per equity share in addition to interim dividend of Rs 5 per share

The Board of Directors at its meeting held on October 10, 2019, has declared an interim dividend of Rs 5 per equity share and special dividend of Rs 40 per equity share. Thus the total dividend (including Rs 40 as special dividend per share) payout stands at Rs 45 per share for which the record date is Oct 18, 2019. The date by which the dividend will be paid is Oct 24, 2019.

Management Comment

Commenting on the Q2 performance, Rajesh Gopinathan, Chief Executive Officer and Managing Director, said: "We ended the quarter with steady growth despite increased volatility in the financial services and retail verticals. We remain confident as the medium and longer term demand for our services continues to be very strong, as evidenced by our Q2 order book – the highest in the last six quarters." He further added, "Digital disruption across multiple industries is making rapid, scalable innovation a critical imperative in the Business 4.0™ world. In the auto sector, our scale in advanced engineering R&D skills and depth in digital technologies like AI and IoT are making us the preferred innovation partner to leading OEMs, embedding us deeply into their product R&D value chain. Our strategic partnership with General Motors for their next generation mobility initiatives is a powerful illustration of this."

N Ganapathy Subramaniam, Chief Operating Officer & Executive Director, said: "Our point of view on anchoring or participating in digital ecosystems, and the Business 4.0™ framework, are clearly helping clients in their growth and transformation journeys. We continue to make significant investments in differentiating digital capabilities that are helping us participate in key growth areas of our clients technology spend – be it their cloud transformation, data maturity or in advancing their automation agenda." He added: "Our products and platforms are seeing increased client adoption and market coverage. During the

quarter, we launched a unified TCS BaNCS Asset Servicing platform for asset managers, broker-dealers and custodians and a comprehensive Site Feasibility Assessment platform within our Advanced Drug Development platform suite. Our diversified industry and geography presence, and largest Agile Ready workforce, together with our Machine First™ approach to continuous improvement and innovation augurs well for our future growth."

V Ramakrishnan, Chief Financial Officer, said: "We have been gearing up for growth despite the volatility. Our margins in Q2 reflect our continued investments in our people, and in building the capacity we need to fulfill our strong order book."

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