FINBITS INDIA

February, 2021

MARKET COMMENTARY

Making Young India Financially Literate

Contributors

Chinmay Joshi

Market Research Analyst

B. Tech. Data Science
NMIMS' MPSTME

Saloni Khunt

Market Research Analyst

Bachelor's in Business Administration
NMIMS' SOC

Anshu Poswalia

Graphic Designer

B. Tech. ExTC
NMIMS' MPSTME

At FinBits, we aspire to be the pioneers of a learning ecosystem, focused in finance, that augments the way our readers consume content online. We aim to provide relevant snippets of information that cater to most interests. Our articles go one step beyond the mundane affairs of the world; we hope to take our readers on an elaborate journey, where we serve golden nuggets of information to help you increase your financial literacy.

We work to ensure that we build ourselves as an important pit-stop in our readers' need for staying updated and insightful. FinBits provides a weekly dose of easily-digestible content on the latest in current affairs, as well as a deep dive into strategies of the hottest game-changers.

We strive to ensure we stay ahead of the curve and provide you a holistic learning experience.

Going one step further in ensuring the youth of today top the world in terms of financial literacy, we present "FinBits India Market Commentary. We hammer into the chosen company's data (as available in public domain, of course) and simplify technicalities into simple, understandable info-nuggets. Each month, we curate an all-in-one investors handbook to help make some decisions easier for the upcoming vultures in venture-capital, aka teen-vestors.

Happy Investing!

Page of contents

01
COMPANY OVERVIEW

Tata Consultancy Services: An Introduction

Market Data

Scrip code	532540
NSE	TCS
ISIN	INE46B01029
Class of security	Equity Shares
Industry	IT-Software
House	TATA

Corporate Actions

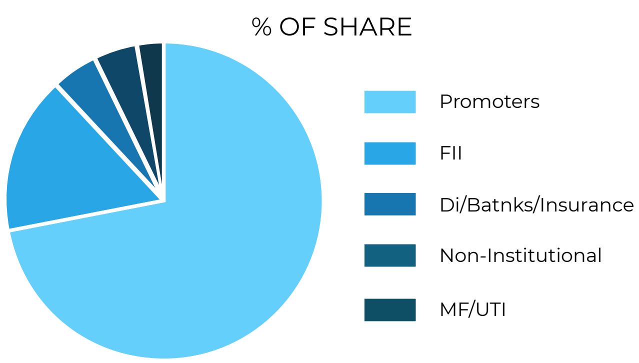
Dividend History

Ex-Date	Dividend %	Amount	Dividend Type
14 Jan, 2021	600	6	INTERIM
3 June, 2020	600	6	FINAL
17 Oct, 2019	4000	40	SPECIAL
16 July, 2019	500	5	INTERIM
4 June, 2019	1800	18	FINAL
23 Oct, 2018	400	4	INTERIM

Bonus History

Ex-Date	Bonus Ratio
2 June, 2018	1 : 1
17 June, 2009	1 : 1
31 July, 2006	1 : 1

Led by an increase in cloud and data-driven deals, Tata consultancy services limited (TCS) has now reached its all-time high market capitalization of INR12,30,800 crores with its highest recorded share price of Rs.3273 as on January 21, 2021. TCS is an Indian multinational information technology services and consulting company which operates across 46 countries. This tech giant has not only revolutionized the IT sector in India but also managed to become India's second largest company by market cap after Reliance ltd and the only IT firm to cross the 12 trillion rupees mark. Their consistent market leadership accompanied with a robust technological upcycle has continued to increase its profit margins and created industry leading ratios. This fiscal year alone the TCS stock has risen 72.8% with a 7% YoY increase in net profit for Q3. Unlike most companies whose returns took a hit due to the pandemic, TCS turned the tables by benefiting largely from increased export deal wins. They have consistently outperformed the predicted trends and provided great value to their investors. Although the number of MF schemes have decreased in the December Q3 it was accompanied with an increase in FII and FPI investors and hence not necessarily a warning bell for investors. The promoter holdings on the other hand have remained rather constant as have the institutional investors holdings (as of Q3).



Over the years TCS and its 67 subsidiaries have been working relentlessly towards providing a plethora of services, creating new platforms and products and penetrating new industries.

INDUSTRIES	SERVICES	PRODUCTS	PLATFORMS
Banking and Financial Services	Consulting	CHROMA™	TCS ADD
Communications Media and Technology	TCS Interactive	ignio™	Connected Intelligence Platform
HiTech	Analytics and Insights	Jile™	ERP on Cloud
Life Sciences and Health Care	Blockchain	TAP™	TCS BFSI Platforms
Travel, Transportation and Hospitality	Cloud Infrastructure	TCS iON™	TCS HOBS™
Consumer Goods and Distribution	Enterprise Application	TCS OmniStore™	
Energy Resources and Utilities	Microsoft Business Unit	Customer Intelligence & Insights	
Insurance	Cognitive Business Operations	Intelligent Urban Exchange	
Manufacturing	Automation and AI	Quartz™ - The Smart Ledgers™	
Retail	Engineering and Industrial Services	TCS BaNCS™	
	Cloud Apps, Microservices and API	TCS MasterCraft™	
	Cyber Security	TCS Optumera™	
	Quality Engineering		

S.W.O.T. not S.W.A.T.

STRENGTH

- Wide range of services .
- Global outreach
- Increase in ROE, ROCE and Net profit (QoQ).
- Debt free
- Nearing the 52-week high with a strong momentum.

WEAKNESS

- Massive expenditure on various legal battles.
- Significant exposure to financial services market.
- Declining cash flow and BVPS(book value per share).
- MF schemes decreased from 41 to 40.

OPPORTUNITIES

- Technological upcycle due to COVID.
- Cloud-based solutions
- Strong Relative strength index indicating higher price movement.

THREAT

- Lack of technological advancement in home country
- Increased competition from international firms.
- Currently the TCS share is overbought.

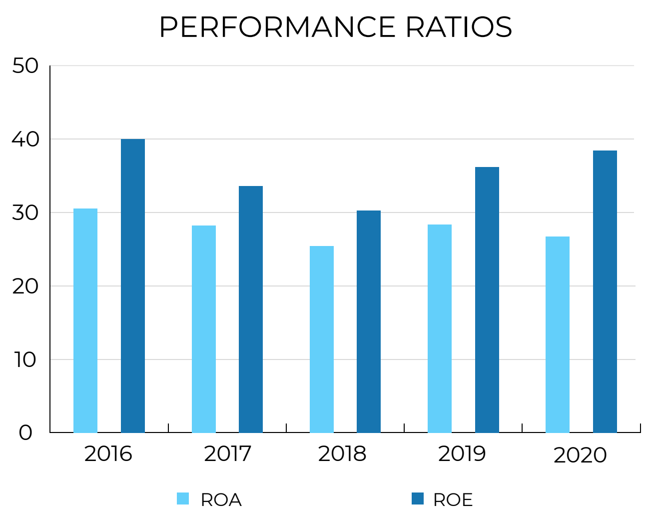
02

RATIO ANALYSIS

The Ratio Scoreboard

In the IT and software industry tangible inventory is practically nonexistent and hence changes the way we look at various liquidity ratios for the same. In case of TCS, this tech giant is debt free too which makes it even easier to assess its solvency. An important factor for every investor to keep in mind is that one must always compare a given company's financial ratios to that of the industry average to quantify and understand the implications better.

PARTICULARS	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20
Valuation Ratios					
Earnings Per Share (Rs)	61.6	66.72	67.61	83.93	86.24
Dividend Per Share(Rs)	43.5	47	50	30	73
Performance Ratios					
ROA(%)	30.52	28.21	25.46	28.34	26.74
ROE(%)	40.01	33.64	30.29	36.18	38.44
PE Ratio(x)	10.21	9.11	10.54	23.84	38.71
Financial Stability Ratios					
Current Ratio(x)	4.06	5.53	4.56	4.17	3.33



1) RETURN ON EQUITY:

Return on Equity as the name suggests measures the firms efficiency in terms of generating profits from every unit of shareholders equity. A higher number is preferred for the same.

In the indian markets TCS has consisently had the highest TROE as compared to its peer IT firms. As of 2020 its ROE stands at a solid 38.44% followed by Infosys standing at 25.35% ROE.

Although it must be noted that high ROE does not yield any immediate benefits. Since the stock prices are driven more by the EPS(earning per share) , the benefit can be yielded only if the earnings are reinvested at a high ROE rate. This is turn would give the company a high growth rate.

Another limitation of ROE lies in the fact that when a given firm pays dividends, its earnings growth lowers. As per the sustainable growth model, if the divident payout is 25% then the expected growth will not exceed 75% of the ROE rate. Hence, it is safe to conclude that the EPS and DPS of the company has a huge ipact on the growth rates of the company.

2) RETURN ON ASSETS:

ROA is a measure of how effeciently a company uses its assets to generate profits. Investors deem this to be one of the most important ratios for evaluating the success of a business. It not only reflects on the overall operating efficinecy of the firm but also shows how profitable a company is before leverage.

TCS has yet again always kept its investors satisfied with the highest ROA in the market- 26.74% ; even though the companys ROA has decreased by 2% in 2020, it is expected to grow tremendously in 2021 owing to its new deals and cloud service boost.

Capital intensive companies usually have a lower ROA than labour intensive companies. However, a large number of intangible assets or heavily depreciated/old assets can easily distort this number. Hence, it is necessary to always refer to various other financial statements of the company to see the actual composition of assets and equity too.

3) PRICE TO EARNING RATIO:

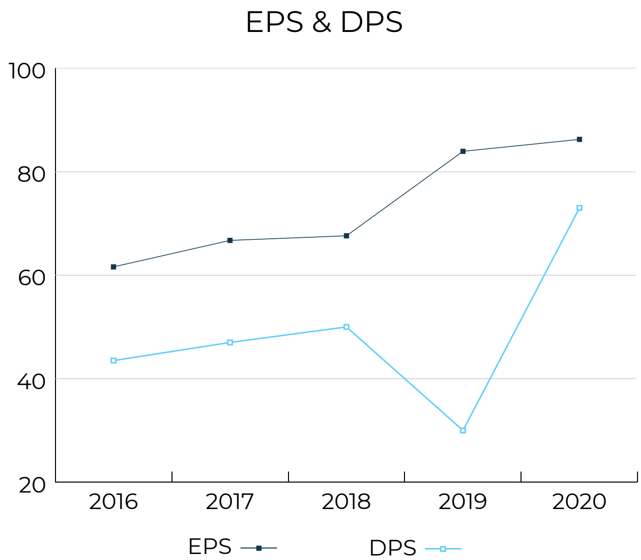
The P/E ratio establishes the relationship between the market price and the earning per equity share (i.e Market price per share/ Earning per share). This ratio is important in financial forecasting and shows whether a given stock is undervalued or overvalued. TCS yet again has the highest ratio when it comes to P/E in the IT sector. Its P/E ratio stands at 38.71 as of 2020 which is much higher than that of its biggest competitor Infosys which stands at 17.88. a high ratio suggests that the investors are expecting higher earnings growth in the future but at the same time also suggest that the stock is overvalued as comapred to its actual earnings.

From an investor point of view TCS is financially stable and deemed to be the biggest in its given sector and hence a safe investment even though it is comapritively overvalued.

4) EARNING PER SHARE AND DIVIDEND PER SHARE:

These two ratios combined with the price to earning ratio play a huge role in attracting investors. EPS measures the earning capacity of the firm from the owners point of view and is helpful in determining the market price of the equity share. On the other hand, dividend per share is primarily the earnings distributed among the ordinary shareholders against the number of ordinary equity shares in the market.

The EPS for TCS has consistently been increasing over the years and stands at 86.24 as of 2020. For any investor who wants a steady source of income this EPS ratio would indicate that TCS still has room for increasing its existing dividend and will do so in the coming years.



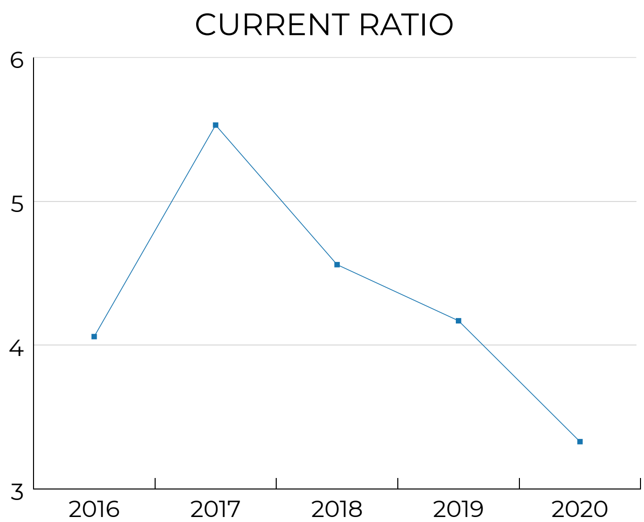
TCS saw a major increase in DPS after 2019 as it jumped from 30 per share to 73. Now the dividend increase is usually viewed as a positive development as it reperesents a part of the companies profit. But at the same time in some rare cases a company may even give out higher dividends as it is running out of growth oppurtunities and would rather distribute its excess cashflow among its investors.

However, in case of TCS the company has experienced huge increases in profit margins in Q3 and also landed numerous new growth oppurtunities owing to which it has shown an increases in both EPS and DPS.

Liquidity Ratios

CURRENT RATIO:

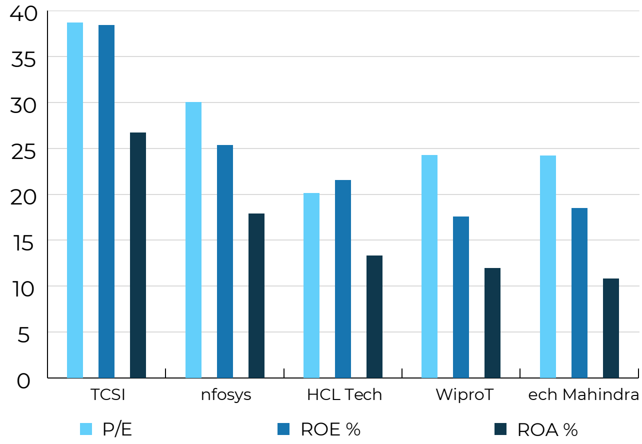
The current ratio shows the number of times short term assets can cover short term liabilities. A higher number is preferred generally but any number over 3 would mean the company is not ustilising its assets effeciently. TCS has been reducing its current ratio consistently and has been moving towards a lower number. As of 2020 it stands at 3.33 which is way above the industry average of 2.45.



NAME	P/E (X)	ROE %	ROA %
TCS	38.71	38.44	26.74
Infosys	30.05	25.35	17.88
HCL Tech	20.15	21.56	13.33
Wipro	24.3	17.57	11.96
Tech Mahindra	24.2	18.48	10.79

In all the decreasing CR shows that TCS has been using its assets more effeciently, Moreover, in terms of liquidity the company is debt free in the long run and hence various other solvency ratios stand at a nil figure.

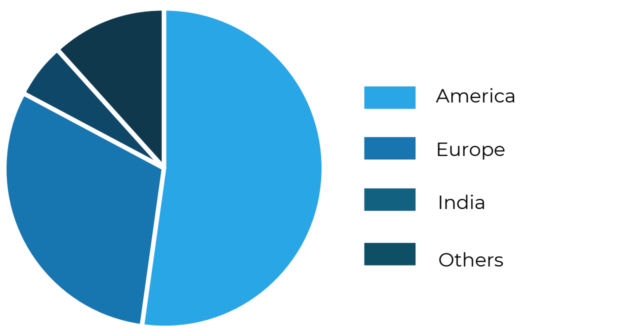
PEER COMPARISION



To sum it up, TCS is not only the IT market leader in India but also has the potential to soon be the highest valued company in India by market capitalization. Its ratios have been the market leaders for a few years now and never disappointed its investors. As discussed earlier they have the highest rates of returns in the IT sector and surpass the growth margins of all their competitors. Furthermore, its immediate competitor i.e Infosys should not be undermined. Even though Infosys has a lower market cap, TCS and Infosys have both shown steady growth margins and have been expanding their reach way more than their fellow competitors. TCS is highly driven by liquidity and is bound to soon break its own records.

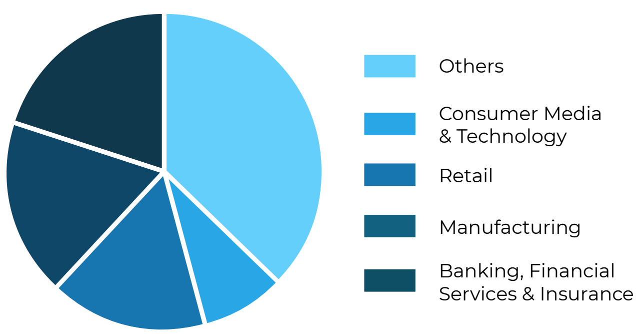
Analysis

REVENUE BY GEOGRAPHY



The third quarter has brought back positive numbers in the growth chart for the leading IT company, with a YoY growth (growth in 12 months) being 5.4% in the Indian market. Along with improving its reach in the Indian markets, it has maintained a consistent growth pattern in the USA and Europe where its is better settled.

REVENUE BY INDUSTRY



Geographically speaking, TCS generates most of its revenue from the USA (which includes the fortune 500 companies) and Europe. It is still developing a powerful base in Asia.

TCS has also maintained a diversified clientele in various sectors with over 25 clients in 100 mn$ bracket and around 60 in the 50 mn$ bracket. One foot being on providing IT consultation and services, they also have another on innovation. The IT giant has applied for 5634 patents out of which 1713 have been granted.

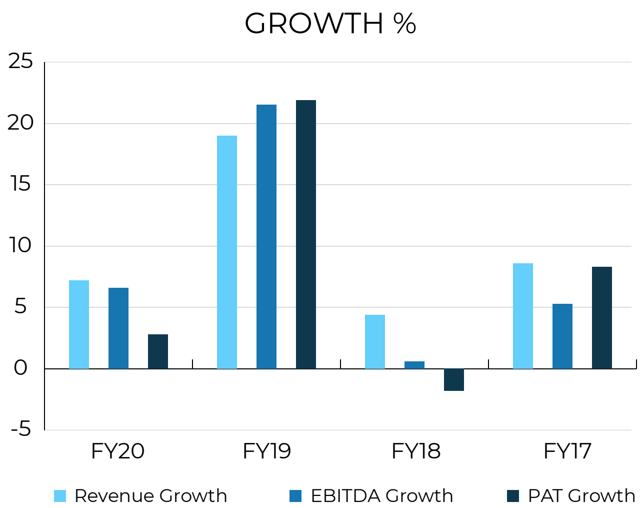
For an IT company, its employees are its assets. TCS' numbers prove that it values its employees as they have the lowest employee attrition (loss of employees), i.e, 7.6%. With 9% increase in cost spent on employee benefits, they have tapped a more valuable result.

Particulars	Dec-20 (Q3FY21)	Dec-19 (Q3FY20)	Mar-20	Mar-19
Revenue	34,957	33,040	131,306	123170
Other income	2,096	1,206	8,082	7627
TOTAL INCOME	37,053	34,246	139,388	130797
Employee benefit expenses	17,779	16,333	64,906	59377
Cost of equipment and software licences	331	378	1,596	2003
Depreciation and amortisation expense	771	677	2,701	1716
Other expenses	6,169	6,884	27,451	26826
Finance costs	159	200	743	170
TOTAL EXPENSES	25,209	24,472	97,397	90092
PROFIT BEFORE TAX	11,844	9,774	41,991	40705
Current tax	2,968	2,692	9,012	9943
Deferred tax	(366)	(601)	(281)	697
TOTAL TAX EXPENSE	2,602	2,091	8,731	10640
PROFIT AFTER TAX	9,242	7,683	33,260	30065

From the above graphs, we can confidently say that HDFC bank has not only proven to be profitable, but also consistent. It has displayed a great performance in the financial year 2019-2020 with a rise in profitability while maintaining sustainable liquidity.

Highlights

- Revenue has grown by almost 2.1% as compared to the same quarter in the previous year.
- 3% increase in expenses, which is quite less as compared to increase seen in annual results of fiscal year 2020 due to high finance costs and purchases of new assets.
- Operating margin: 26.6%.
- 7% YoY growth in profit. Positive numbers QoQ (compared to the previous quarter) as well as YoY post the pandemic panic is a good sign.



Annual results of the previous fiscal year were average. But being in the IT sector, TCS had a huge demand. Converting the demand, it has regained positive growth ratios.

Understanding the business model and aligning the income statement to it gives us a fair idea if it is a good investment. As we have seen in the graphs, TCS has strong fundamentals. It has a diversified clientele, which reduces risk as it is not relied on the performance of a specific sector. It has proven the fact that it values its employees as much as its tangible assets. It makes consistent profits. For an IT company, it makes huge investments and purchase of assets, but the profit margin is considerably high; so, it can produce positive results along with a good buffer for innovation. Summarizing, it will grow consistently without being much of a risk to the investor.

Analysts Disclosure

I, **Chinmay Joshi**, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities.

I, **Saloni Khunt**, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities.

Analysts Certification

Research Analyst or his/her relative or FinBits India does not have any financial interest in the subject company. Also the Research Analyst or his/her relative or FinBits India or its associate does not have any material conflict of interest.

Disclaimer

This report has been prepared by the cumulative efforts of the above-mentioned research analysts at FinBits India and is solely for the information of the recipient only. This extensive report must not be used as a singular basis of any investment decisions. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice.

Each recipient of this document should make investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. FinBits India is not obliged to update this report for such changes. FinBits India has the right to make changes and modifications at any time.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject FinBits India or its affiliates to any registration or licensing requirement within such jurisdiction. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of an offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances.

If this report is inadvertently sent or has reached any person in such country, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner. This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with FinBits India.

FinBits India, their directors and employees may from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein. FinBits India, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

FinBits India, its directors, associates, employees vmay have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies/organizations described in this report.

FinBits India or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with the preparation of the research report. Accordingly, neither FinBits India nor Research Analysts have any material conflict of interest at the time of publication of this report. FinBits India may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

FINBITS
INDIA

CONTACT
+91 97025 29315
ishaanshetty@finbitsindia.com
www.finbitsindia.com
FinBits India