

**January 17, 2012**

 Shashi Bhusan  
 shashibhusan@plindia.com  
 +91-22-66322300

Rating	<b>BUY</b>
Price	Rs1,104
Target Price	Rs1,230
Implied Upside	11.4%
Sensex	16,466
Nifty	4,967

*(Prices as on January 17, 2012)*
**Trading data**

Market Cap. (Rs bn)	2,160.7
Shares o/s (m)	1,957.2
3M Avg. Daily value (Rs m)	1990.3

**Major shareholders**

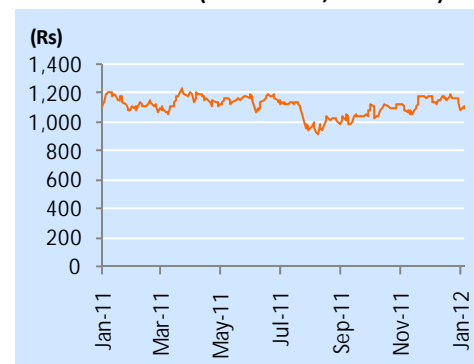
Promoters	74.08%
Foreign	12.81%
Domestic Inst.	8.10%
Public & Other	5.01%

**Stock Performance**

(%)	1M	6M	12M
Absolute	(3.7)	(3.7)	(2.9)
Relative	(10.0)	7.6	9.9

**How we differ from Consensus**

EPS (Rs)	PL	Cons.	% Diff.
2013	68.0	63.2	7.7
2014	73.5	72.5	1.4

**Price Performance (RIC: TCS.BO, BB: TCS IN)**


Source: Bloomberg

Tata Consultancy Services (TCS) reported Q3FY12 results in line with our consensus/expectations. The management indicated no worrying signs from clients' IT budget perspective, however, indicate delay in decision-making for discretionary portfolio. Moreover, we continue to believe that the company has fully utilized its operating leverage. We reiterate our **'BUY'** rating, with a TP of **Rs1,230**.

- In-line quarter - lacks any positive surprise:** TCS reported Q3FY12 results in-line with our consensus/expectation. Revenue grew by 13.5% QoQ to Rs132.04bn (PLe: Rs131.94bn; Cons: Rs131.57bn) and 2.4% QoQ in USD terms, led by better-than-expected volume growth of 3.25% QoQ (PLe: 4.7%). EBIT margins expanded by 213bps (PLe: 219bps, Cons: 193bps) to 29.2%. EPS grew by 18.4% QoQ to Rs14.75 (PLe: Rs14.59, Cons: Rs14.10).
- Survey indicates no worrying sign:** In the survey conducted with top 120 clients of TCS, two-third indicated no cut in IT budget or uptick in the IT budget for CY12. However, top 20 clients indicated no cuts. In another survey conducted by the company for 130 discretionary projects, there is delay in ~50% of those projects. But, some of those projects have already kick-started and few are likely to be started in Q4FY12. In a nut-shell, there are no worrying signs from top clients.
- Margin levers stretched, top clients' growth peaking out:** TCS' top 10 clients reported muted growth. We believe that the growth from top 10 clients has peaked as the top clients mining is already at an extreme. As in our previous note ("**Lacks positive surprise—restrict upside**", October 17, 2011), we highlighted that *FY11-12 growth was more predictable (existing clients), helping them to operate at high utilization. We believe that onsite would increase as growth would come from new clients, impacting margins in-line with our hypothesis. Also, unpredictable growth would require TCS to keep utilization at sub 80% level.*
- Valuation & Recommendation:** We expect 14% volume growth, with positive pricing bias for FY13. However, we expect margin headwinds to dampen EPS gr. We reiterate **'BUY'** rating, with a TP of **Rs1,230**, 18x FY13E earnings estimate.

Key financials (Y/e March)	2011	2012	2013E	2014E
Revenues (Rs m)	373,245	491,858	596,545	667,108
Growth (%)	24.3	31.8	21.3	11.8
EBITDA (Rs m)	111,984	147,119	177,597	190,103
PAT (Rs m)	82,936	106,822	133,180	143,794
EPS (Rs)	42.4	54.6	68.0	73.5
Growth (%)	20.7	28.8	24.7	8.0
Net DPS (Rs)	23.3	9.5	12.0	13.0

Profitability & Valuation	2011	2012	2013E	2014E
EBITDA margin (%)	30.0	29.9	29.8	28.5
RoE (%)	35.9	35.8	33.4	28.0
RoCE (%)	34.5	33.7	31.8	26.9
EV / sales (x)	5.7	4.3	3.4	2.9
EV / EBITDA (x)	18.9	14.2	11.4	10.2
PE (x)	26.1	20.2	16.2	15.0
P / BV (x)	8.6	6.3	4.8	3.8
Net dividend yield (%)	2.1	0.9	1.1	1.2

Source: Company Data; PL Research

**Exhibit 1: Another quarter of in-line performance**

	Q3FY12	Q2FY12	QoQ	Q3FY11	YoY	PLe	Cons.	PL v/s Act
Consolidated Sales (USD m)	2,586	2,525	2.4%	2,144	20.6%	2,596	na	-0.4%
Consolidated Sales (Rs m)	132,040	116,335	13.5%	96,634	36.6%	131,943	131,569	0.1%
Operating Profit (Rs m)	38,618	31,543	22.4%	27,319	41.4%	38,527	38,092	0.2%
<i>OPM</i>	<i>29.2%</i>	<i>27.1%</i>	<i>213 bps</i>	<i>28.3%</i>	<i>98 bps</i>	<i>29.2%</i>	<i>29.0%</i>	<i>5 bps</i>
PBT	37,698	32,540	15.9%	29,141	29.4%	38,077	38,561	-1.0%
PAT (Rs m)	28,866	24,390	18.4%	23,461	23.0%	28,748	28,573	0.4%
<i>PAT Margin</i>	<i>21.9%</i>	<i>21.0%</i>	<i>90 bps</i>	<i>24.3%</i>	<i>-242 bps</i>	<i>21.8%</i>	<i>21.7%</i>	<i>7 bps</i>
EPS (Rs)	14.75	12.46	18.4%	11.99	23.0%	14.59	14.10	1.1%

Source: Company Data, Bloomberg, PL Research

**Exhibit 2: Margin Drivers (QoQ)**

Currency	+282bps
GDC Shift	-10bps
Rate Productivity	-94bps
Prov Bad Debt	-10bps
Others	+45bps
Total	+213bps

**Exhibit 3: Growth Drivers (QoQ)**

Volume Growth	+3.25%
Exchange	+8.95%
Pricing	+1.98%
Offshore Mix	-0.64%
Total	+13.50%

Source: Company Data, PL Research

**Conference call highlights**

**1)** The management indicated no signs of worry from client IT budget for CY12 **2)** Ten large deals (Q2FY12: 10, Q1FY12: 15) (3 from the US, 4 from Europe and 2 from APAC) (BFSI-2, Retail-2, Telecom-1, Utility-1, Manufacturing -1, Hitech-1) **3)** Comfortable with 82-84% utilization level **4)** Top 10 clients grew only 0.2% QoQ **5)** Pricing for the quarter was up by 1.98% QoQ, but according to management, there is neither pricing pressure nor signs of uptick

**Exhibit 4: Growth across geographies, positive surprise from Continental Europe**

Revenue By Geography (USD m)	Q3FY12	Q2FY12	QoQ	Q3FY11	YoY
America	1,459	1,424	2.4%	1,214	20.2%
North America	1,378	1,348	2.2%	1,147	20.2%
Ibero America	80	76	5.8%	66	20.6%
Europe	659	646	2.0%	542	21.6%
UK	388	391	-0.9%	343	13.1%
Continental Europe	272	255	6.5%	199	36.2%
India	217	210	3.6%	197	10.1%
Asia Pacific	197	189	3.8%	148	32.9%
MEA	54	56	-2.2%	43	26.6%
<b>% of Total</b>					
America	56.4%	56.4%	0 bps	56.6%	-20 bps
North America	53.3%	53.4%	-10 bps	53.5%	-20 bps
Ibero America	3.1%	3.0%	10 bps	3.1%	0 bps
Europe	25.5%	25.6%	-10 bps	25.3%	20 bps
UK	15.0%	15.5%	-50 bps	16.0%	-100 bps
Continental Europe	10.5%	10.1%	40 bps	9.3%	120 bps
India	8.4%	8.3%	10 bps	9.2%	-80 bps
Asia Pacific	7.6%	7.5%	10 bps	6.9%	70 bps
MEA	2.1%	2.2%	-10 bps	2.0%	10 bps

Source: Company Data, PL Research

**Exhibit 5: Second consecutive quarter drop in FPP**

Contract Type Analysis	Q3FY12	Q2FY12	QoQ	Q3FY11	YoY
Time & Material	53.6%	53.2%	40 bps	50.3%	330 bps
Fixed Price & Project	46.4%	46.8%	-40 bps	49.7%	-330 bps
<b>Contract Type Revenue (USD m)</b>					
Time & Material	1,386	1,343	3.2%	1,078	28.5%
Fixed Price & Project	1,200	1,182	1.5%	1,066	12.6%

Source: Company Data, PL Research

**Exhibit 6: Net client addition steady, but client attrition high**

	Q3FY12	Q2FY12	QoQ	Q3FY11	YoY
Active Clients	1003	1010	-0.7%	959	4.6%
New Clients Added	40	35	14.3%	35	14.3%
Repeat Business Revenue	98.3%	99.3%	-100 bps	97.6%	70 bps
New Business Revenue	1.7%	0.7%	100 bps	2.4%	-70 bps

Source: Company Data, PL Research

**Exhibit 7: Retail and Life Science drove the performance**

Revenue By Verticals (USD m)	Q3FY12	Q2FY12	QoQ	Q3FY11	YoY
BFSI	1,120	1,098	1.9%	964	16.1%
Telecom	259	270	-4.3%	272	-5.0%
Retail & Distribution	318	306	4.1%	224	41.7%
Manufacturing	202	197	2.4%	166	21.5%
Life Sciences & Healthcare	153	134	14.0%	110	39.0%
Hi-tech	137	149	-8.0%	88	54.9%
Transportation	98	96	2.4%	68	44.8%
Energy & Utilities	106	109	-2.3%	72	47.5%
Media & Entertainment	57	53	7.3%	40	43.2%
Others	137	114	20.6%	139	-1.6%
<b>% of Total</b>					
BFSI	43.3%	43.5%	-20 bps	45.0%	-168 bps
Telecom	10.0%	10.7%	-70 bps	12.7%	-270 bps
Retail & Distribution	12.3%	12.1%	20 bps	10.5%	183 bps
Manufacturing	7.8%	7.8%	0 bps	7.7%	6 bps
Life Sciences & Healthcare	5.9%	5.3%	60 bps	5.1%	78 bps
Hi-Tech	5.3%	5.9%	-60 bps	4.1%	117 bps
Transportation	3.8%	3.8%	0 bps	3.2%	63 bps
Energy & Utilities	4.1%	4.3%	-20 bps	3.4%	75 bps
Media & Entertainment	2.2%	2.1%	10 bps	1.9%	35 bps
Others	5.3%	4.5%	80 bps	6.5%	-119 bps

Source: Company Data, PL Research

**Exhibit 8: Growth from Lat-Am pushed growth in GDC**

Revenue Delivery Location	Q3FY12	Q2FY12	QoQ	Q3FY11	YoY
Offshore	50.5%	50.9%	-40 bps	51.4%	-90 bps
Onsite	45.0%	45.2%	-20 bps	43.7%	130 bps
GDC/RDC	4.5%	3.9%	60 bps	4.9%	-40 bps
<b>Rs m</b>					
Offshore	1,306	1,285	1.6%	1,102	18.5%
Onsite	1,164	1,141	2.0%	937	24.2%
GDC/RDC	116	98	18.2%	105	10.8%

Source: Company Data, PL Research

**Exhibit 9: Growth coming from non-top 10 clients in-line with our hypothesis**

Client Contribution	Q3FY12	Q2FY12	QoQ	Q3FY11	YoY
as % of Revenue					
Top 1 Client	6.9%	6.9%	0 bps	7.7%	-80 bps
Top 5 Clients	19.6%	20.0%	-40 bps	21.9%	-230 bps
Top 10 Clients	27.7%	28.3%	-60 bps	30.1%	-240 bps
Non-Top 10 Clients	72.3%	71.7%	60 bps	69.9%	240 bps
<b>Total Revenue (USD m)</b>					
Top 1 Client	178	174	2.4%	165	8.1%
Top 5 Clients	507	505	0.4%	470	7.9%
Top 2-5 Clients	328	331	-0.7%	304	7.9%
Top 10 Clients	716	715	0.2%	645	11.0%
Top 6-10 Clients	209	210	-0.1%	176	19.1%
Non Top 10 Clients	1,870	1,810	3.3%	1,499	24.8%
USD 1m clients	235	230	2.2%	200	17.5%
USD 5m clients	161	155	3.9%	139	15.8%
USD 10m clients	95	94	1.1%	76	25.0%
USD 20m clients	39	36	8.3%	25	56.0%
USD 50m clients	14	12	16.7%	9	55.6%
USD 100m clients	6.9%	6.9%	0 bps	7.7%	-80 bps

Source: Company Data, PL Research

**Exhibit 10: Guidance for 15k gross hiring in Q4FY12**

Headcount	Q3FY12	Q2FY12	QoQ	Q3FY11	YoY
Including Indian Subsidiaries	226,751	214,770	5.6%	186,914	21.3%
Laterals (India)	6,763	8,125	-16.8%	20,219	-66.6%
Net Addition	11,981	12,580	-4.8%	12,497	-4.1%
Attrition rate	11.7%	12.5%	-81 bps	13.2%	-151 bps
Offshore Utilisation ( Incl. Trainees )	74.0%	76.4%	-236 bps	77.1%	-306 bps
Offshore Utilisation ( Excl. Trainees )	82.0%	83.1%	-108 bps	83.8%	-178 bps

Source: Company Data, PL Research

**Exhibit 11: IMS growth pushed overall performance**

By Service Line (USD m)	Q3FY12	Q2FY12	QoQ	Q3FY11	YoY
IT Solutions & Services	1,743	1,720	1.4%	1,436	21.3%
Application Dev & Maint.	1,138	1,129	0.8%	965	17.9%
Business Intelligence	114	119	-4.1%	114	0.1%
Enterprise Solutions	295	280	5.2%	206	43.2%
Assurance Services	197	192	2.4%	152	29.1%
Engineering & Industrial Services	119	121	-1.9%	103	15.6%
Infrastructure Services	274	242	13.1%	225	21.8%
Global Consulting	72	66	10.3%	49	46.8%
Asset Leverage Solutions	98	101	-2.7%	86	14.6%
Business Process Outsourcing	279	275	1.5%	244	14.3%
<b>% of Total Revenue</b>					
IT Solutions & Services	67.4%	68.1%	-70 bps	67.0%	40 bps
Application Dev & Maint.	44.0%	44.7%	-70 bps	45.0%	-100 bps
Business Intelligence	4.4%	4.7%	-30 bps	5.3%	-90 bps
Enterprise Solutions	11.4%	11.1%	30 bps	9.6%	180 bps
Assurance Services	7.6%	7.6%	0 bps	7.1%	50 bps
Engineering & Industrial Services	4.6%	4.8%	-20 bps	4.8%	-20 bps
Infrastructure Services	10.6%	9.6%	100 bps	10.5%	10 bps
Global Consulting	2.8%	2.6%	20 bps	2.3%	50 bps
Asset Leverage Solutions	3.8%	4.0%	-20 bps	4.0%	-20 bps
Business Process Outsourcing	10.8%	10.9%	-10 bps	11.4%	-60 bps

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2011	2012	2013E	2014E
<b>Net Revenue</b>	<b>373,245</b>	<b>491,858</b>	<b>596,545</b>	<b>667,108</b>
Raw Material Expenses	204,296	263,701	322,016	368,755
Gross Profit	168,949	228,157	274,529	298,353
Employee Cost	—	—	—	—
Other Expenses	56,965	81,038	96,933	108,250
<b>EBITDA</b>	<b>111,984</b>	<b>147,119</b>	<b>177,597</b>	<b>190,103</b>
Depr. & Amortization	7,214	8,511	10,945	12,169
Net Interest	4,229	—	—	—
Other Income	5,324	3,200	5,458	10,404
<b>Profit before Tax</b>	<b>105,865</b>	<b>141,808</b>	<b>172,110</b>	<b>188,338</b>
Total Tax	21,739	34,034	37,864	43,318
<b>Profit after Tax</b>	<b>84,126</b>	<b>107,774</b>	<b>134,246</b>	<b>145,020</b>
Ex-Od items / Min. Int.	(1,190)	(952)	(1,066)	(1,226)
<b>Adj. PAT</b>	<b>82,936</b>	<b>106,822</b>	<b>133,180</b>	<b>143,794</b>
<b>Avg. Shares O/S (m)</b>	<b>1,957.2</b>	<b>1,957.2</b>	<b>1,957.2</b>	<b>1,957.2</b>
<b>EPS (Rs.)</b>	<b>42.4</b>	<b>54.6</b>	<b>68.0</b>	<b>73.5</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2011	2012	2013E	2014E
C/F from Operations	—	57,602	114,876	134,912
C/F from Investing	(18,663)	(19,674)	(22,370)	(23,349)
C/F from Financing	(13,332)	(18,593)	(23,486)	(25,444)
Inc. / Dec. in Cash	(31,996)	19,334	69,019	86,119
Opening Cash	10,249	47,401	66,735	135,754
Closing Cash	47,401	66,735	135,754	221,873
FCFF	48,603	36,975	91,439	110,337
FCFE	48,532	36,975	91,439	110,337

**Key Financial Metrics**

Y/e March	2011	2012	2013E	2014E
<b>Growth</b>				
Revenue (%)	24.3	31.8	21.3	11.8
EBITDA (%)	29.0	31.4	20.7	7.0
PAT (%)	20.7	28.8	24.7	8.0
EPS (%)	20.7	28.8	24.7	8.0
<b>Profitability</b>				
EBITDA Margin (%)	30.0	29.9	29.8	28.5
PAT Margin (%)	22.2	21.7	22.3	21.6
RoCE (%)	34.5	33.7	31.8	26.9
RoE (%)	35.9	35.8	33.4	28.0
<b>Balance Sheet</b>				
Net Debt : Equity	(0.2)	(0.2)	(0.3)	(0.4)
Net Wrkng Cap. (days)	76	73	73	74
<b>Valuation</b>				
PER (x)	26.1	20.2	16.2	15.0
P / B (x)	8.6	6.3	4.8	3.8
EV / EBITDA (x)	18.9	14.2	11.4	10.2
EV / Sales (x)	5.7	4.3	3.4	2.9
<b>Earnings Quality</b>				
Eff. Tax Rate	20.5	24.0	22.0	23.0
Other Inc / PBT	5.0	2.3	3.2	5.5
Eff. Depr. Rate (%)	8.3	8.0	8.5	8.0
FCFE / PAT	58.5	34.6	68.7	76.7

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2011	2012	2013E	2014E
Shareholder's Funds	252,389	343,716	454,475	574,052
Total Debt	40	40	40	40
Other Liabilities	16,341	16,341	16,341	16,341
<b>Total Liabilities</b>	<b>268,771</b>	<b>360,097</b>	<b>470,856</b>	<b>590,433</b>
Net Fixed Assets	54,486	65,649	77,075	88,255
Goodwill	32,455	32,455	32,455	32,455
Investments	18,390	18,390	18,390	18,390
Net Current Assets	108,111	186,129	285,462	393,859
<i>Cash &amp; Equivalents</i>	<i>47,401</i>	<i>66,735</i>	<i>135,754</i>	<i>221,873</i>
<i>Other Current Assets</i>	<i>124,547</i>	<i>189,466</i>	<i>229,792</i>	<i>256,974</i>
<i>Current Liabilities</i>	<i>63,837</i>	<i>70,073</i>	<i>80,084</i>	<i>84,988</i>
Other Assets	57,474	57,474	57,474	57,474
<b>Total Assets</b>	<b>270,916</b>	<b>360,097</b>	<b>470,856</b>	<b>590,433</b>

**Quarterly Financials (Rs m)**

Y/e March	Q4FY11	Q1FY12	Q2FY12	Q3FY12
<b>Net Revenue</b>	<b>101,575</b>	<b>107,970</b>	<b>116,335</b>	<b>132,040</b>
<b>EBITDA</b>	<b>30,880</b>	<b>30,310</b>	<b>33,829</b>	<b>40,921</b>
<i>% of revenue</i>	<i>30.4</i>	<i>28.1</i>	<i>29.1</i>	<i>31.0</i>
Depr. & Amortization	2,123	2,049	2,286	2,303
Net Interest	—	—	—	—
Other Income	2,239	2,886	997	(920)
<b>Profit before Tax</b>	<b>30,996</b>	<b>31,147</b>	<b>32,540</b>	<b>37,698</b>
Total Tax	6,772	7,063	7,913	8,538
<b>Profit after Tax</b>	<b>23,809</b>	<b>23,803</b>	<b>24,390</b>	<b>28,866</b>
<b>Adj. PAT</b>	<b>23,809</b>	<b>23,803</b>	<b>24,390</b>	<b>28,866</b>

**Key Operating Metrics**

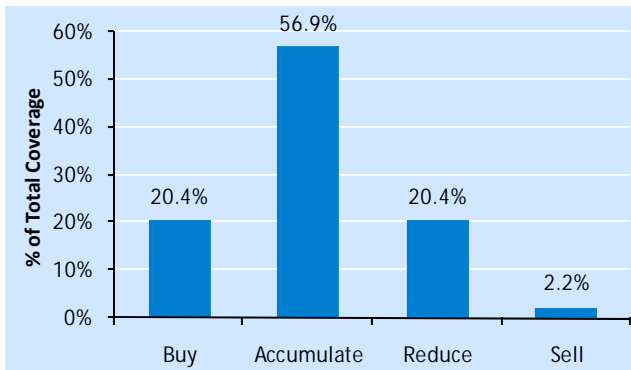
Y/e March	2011	2012	2013E	2014E
Volume (persons month)	1,588,419	1,975,993	2,292,152	2,635,975
Pricing (US\$ / Hr)	33.5	33.5	33.8	33.9
Currency (USDINR)	45.6	48.3	50.0	48.5
SW Devp. Cost (% of Sales)	54.7	53.6	54.0	55.3
SG&A (% of Sales)	15.3	15.9	15.7	15.7
Revenue (US\$ m)	8,186	10,183	11,931	13,755
EBITDAM Expansion/(Erosion) (bps)	110	(9)	(14)	(127)
Tax Rate (%)	19.0	24.0	22.0	23.0

Source: Company Data, PL Research.



Prabhudas Lilladher Pvt. Ltd.  
 3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India  
 Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

**Rating Distribution of Research Coverage**



**PL's Recommendation Nomenclature**

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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