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IDBI capital

PICK OF THE WEEK

Tata Consultancy Services Ltd.

Rs.1,006 | Buy

Global growth story

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Nifty: 4932; Sensex: 16846

Summary

We are initiating coverage on Tata Consultancy Services Ltd. (TCS) with a 'Buy' recommendation on account of its increasing global footprint, strong delivery capabilities through Global Network Delivery Model (GNDM), changing business mix and continued inorganic growth activities. We argue that a robust demand environment, healthy pipeline, significant employee additions and persistent large deal wins should help the company to sustain a 26% revenue CAGR for FY07-10E.

Currently, on PE basis TCS trades at 18.6x and 15.3x and on EV/EBITDA basis at 15.8x and 12.5x our FY08 and FY09 earnings which we believe is at the lower spectrum. Although, exchange rate volatility, wage inflation and higher taxes (factored in) remain challenge to the company going forward. However, enough margin levers are available to the company to sustain earnings at 21% CAGR FY07-10E. Our 6 to 12 month price target for TCS is Rs.1,233 i.e 23% higher backed by our DCF valuation of Rs.1,248.

Key Stock Data

Sector	IT Services
Bloomberg/Reuters	TCS IN/TCS.BO
Shares o/s (m)	979
Market Cap (Rs bn)	985
Market Cap (US$ m)	24,770
3-m daily average vol.	3,07,690

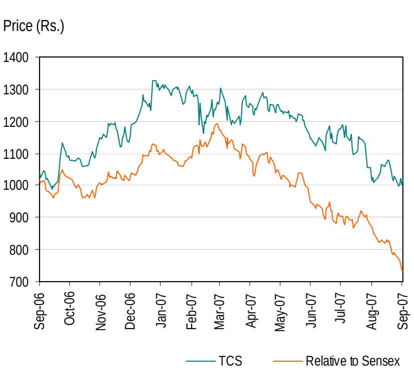
Price Performance

52-week high/low			1,399/978
	-1m	-3m	-12m
Absloute (%)	(0.1)	(11.3)	(2.6)
Relative to sensex	(18.5)	(25.6)	(38.0)

Shareholding Pattern (%)

Promoters	80.12
FIIs/NRIs/OCBs/GDR	7.74
MFs/Banks/FIs	5.58
Non Promoter Corporate	0.86
Public & Others	5.70

Stock vs Relative to Sensex



Source: Capitaline

Investment highlights

- **Building global competency**

  TCS is India's largest IT company, with global ambitions to be among the top 10 global IT players by 2010. The company has a three-pronged strategy to achieve the same – strong delivery capability through Global Network Delivery Model (GNDM), changing business mix (full services play) and inorganic growth through strategic acquisitions.

- **Ability to win and address large engagements**

  The strong business model has helped the company win and address large complex global engagements. The company won 12 US$ 50m plus deals in FY07 alone, which supports the large volume player strategy of TCS. Some of the large ongoing projects include Bank of China (US$ 100m, 5-years) and Bank of Pichincha (US$ 140m, 7-years). Recently, TCS won a US$ 140m deal (2 year development, 7-8 years maintenance) from BSNL, India's largest state owned telecom service provider and a US$ 35m multi year outsourcing contract from healthcare major Roche.

- **Increasing focus on products division**

  Product services division – TCS Financial Solutions has shown considerable growth (>50% YoY) in the last 2-years driven by strong customer addition across geographies. Management expects a revenue contribution in high single digits within next 3-years driven by growing business traction enhanced by inorganic growth momentum.

- **Strong demand environment with growth across geographies**

  TCS has witnessed robust growth across geographies especially established markets (US and Europe – 46% YoY FY07) and emerging markets Middle East Asia (MEA), Latin America and Asia Pacific – 79% YoY FY07). This continued growth has been propelled by leveraging global support capability, changing business mix and acquisition leading to significant customer additions and deal wins.

Table 1: Financial snapshot (Rs. m)

Year-end: March	FY05	FY06	FY07	FY08E	FY09E	FY10E
Total revenues	106,394	132,455	186,332	236,733	299,886	377,175
EBITDA	25,544	36,704	50,741	61,853	78,270	96,934
PAT	21,276	28,832	41,316	52,986	64,184	73,711
EPS (Rs.)	22	29	42	54	66	75
P/E (x)	32.3	32.5	29.2	18.6	15.3	13.4

Source: Company reports; IDBI Capital Market Services

Investment positives

Building global competency

Target revenues – US$ 10bn by 2010

TCS is India's largest IT services company with global ambitions to be among top 10 global IT players by 2010 with target revenues of close to US$ 10bn. TCS is building strong competency to achieve global scale through a three pronged strategy:

a) Global Network Delivery Model (GNDM)

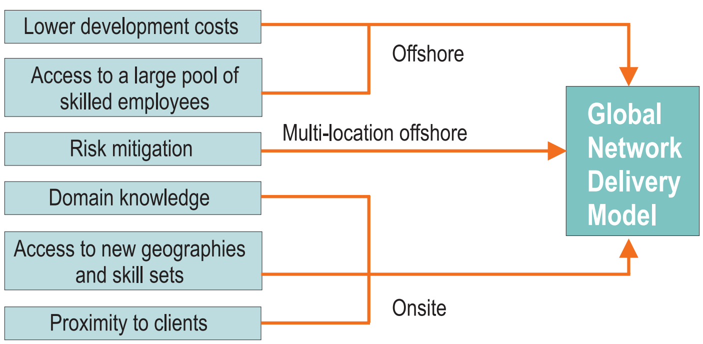
(b) Full services play

(c) Strategic acquisitions

(a) Global Network Delivery Model (GNDM) – TCS is building globally dispersed delivery engine by establishing centers across geographies to enhance its capabilities in executing multi-location, complex engagements. The company has established dedicated high scale delivery centers in India and China to serve large and local customers. Also, TCS has regional delivery centers in Hungary, Brazil and Uruguay and near-shore delivery centers in Phoenix, New Jersey, Guildford and Peterborough.

Revenue and EPS CAGR – 26% & 21% FY07-10E

Diagram 1: Key drivers for GNDM



Source: Industry; IDBI Capital Market Services

5,000 people in 4 years for Mexico center. Scaling up in Brazil, China and Chile

The basic approach is to try to achieve a balance of quality, cost savings and localization by executing the various components of an IT project in various parts of the world. GNDM has shown considerable growth in recent times with TCS delivering 4% of its services from GDC/RDCs[1] which we believe would increase going forward. The total employee strength in global/regional delivery centers stood at 3,620 employees as on Q1FY08 with more than 30 of TCS' top customers now engaged with one of the GNDM centers outside India.

Table 2: Onsite- offshore split

Year-end: March	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08
Offshore	38	41	42	41	41
Onsite	59	56	54	54	55
GDC/RDC	3	3	4	5	4

Source: Company reports; IDBI Capital Market Services

Furthermore, the company recently announced setting up of a near shore delivery center in Mexico as well as Morocco to serve US companies. The company plans to hire 5,000 people in Mexico over the next 4-years. Besides,it is also scaling up its operations in Brazil, China and Chile.

Besides, risk mitigation of single delivery centers and ensuring continuity of business operations; GNDMs also enhance TCS's front end presence. It also helps TCS to counter supply constraints and wage inflation as the cost differential across geographies seems to be diminishing. Moreover, it also allows the company to pursue and win regional as well as local deals, more rigorously due to the localized nature of operations like the Bank of China deal. We believe TCS's global delivery capabilities are going to be the key differentiator for the company in future.

[1] Global Delivery Centers/ Regional Delivery Centers

(b) Integrated full services play – TCS is expanding its breadth of service offerings to develop capabilities to capture the entire value chain of IT. In addition to the company's existing application development and maintenance (ADM) based service offerings; TCS is expanding its presence into specialized non-ADM services like asset based services, engineering and industrial services, IT infrastructure, BPO and global consulting. These services also allow the company to cross sell to large accounts and migrate customers to higher revenue bands. We believe this could provide additional growth momentum to the company given the large market size.

The success of this strategy is validated by strong growth and increasing revenue contribution of recently introduced non-ADM services which increased to 30% of Q1FY08 revenues as against 22% in FY06. The management believes that the growth in non-ADM services could be higher as compared to ADM services.

Expanding non ADM services. Expect to achieve higher growth compared to ADM services in near future

Table 3: Service offerings

	Q1FY07	Q1FY08	CQGR (%)
Application Development & Maintenance	21,550	26,794	6
Business Intelligence	3,606	4,995	8
Engineering & Industrial Service	2,569	2,757	2
Infrastructure Services	2,818	2,966	1
Enterprise Solutions	5,388	6,451	5
Global Consulting	1,326	1,561	4
Asset Leverage Solution	1,078	1,717	12
Assurance Services	746	1,717	23
Business Process Outsourcing	2,362	3,070	7

Source: Company reports; IDBI Capital Market Services

Multi service customer are on the rise with 320 international customers using at least two or more services of TCS. Out of the 12 deals of US $ 50m+ which the company won in FY07; 5 of them offered at least 2 different services. Furthermore, the number and size of non-ADM based deal are also increasing as demonstrated by recent deals of Bank of China, Bank of Pichincha, Somerfield and Kimberly Clark. The changing customer profile, high proportion of repeat business (99%) and increasing customer size bears testimony to the success of this strategy. Management is confident of continued traction in large accounts due to the full services model supported by strategic acquisitions.

Impressive client mining

Table 4: Customer size

Year-end: March	FY06	FY07	Q1FY08	Growth in nos.
US$ 1m clients	256	297	322	66
US$ 5m clients	96	119	126	30
US$ 10m clients	54	75	85	31
US$ 20m clients	31	39	45	14
US$ 50m clients	9	14	18	9
US$ 100m clients	0	3	6	6

Source: Company reports; IDBI Capital Market Services

(c) Inorganic growth strategy – As part of the three pronged strategy, TCS uses strategic acquisitions to build capabilities and drive growth. The company has acquired 10 companies in the last five years leading to significant inorganic growth besides providing market access and enhancing product and service capabilities. The basic strategy revolves around attaining intellectual property (e.g. FNS deal) and developing capabilities (especially local language capabilities). TCS's acquisition strategy is in sync with the overall strategy of adding scale, growing product and service offerings and increasing global presence.

Strategic acquisition to develop capabilities and enhance business offering

Besides, the combination of GNDM and integrated service offerings strategic acquisitions has helped the company to win large deals like Bank of China (GNDM+FNS/BANCS) and Bank of Pichincha (GNDM+FNS/BANCS + Comicron).

We believe persistent acquisitions could provide TCS the market and client access which could help the company to attain global size and scale.

Table 5: Acquisition details

Year	Acquired company	Value (Rs. m)	Location
Nov-01	Computer Maintenance Corporation (CMC) Ltd.	1,570	India
Jan-04	Airline Financial Support Services India (AFS)	na	India
Mar-04	Aviation Software Development Consultancy India (ASDC)	140	India
Jul-04	Phoenix Global Solutions	270	India
May-05	Swedish Indian IT Resources AB (SITAR)	215	Sweden
Oct-05	Financial Network Services (FNS)	1,103	Australia
Oct-05	BPO division of Pearl Group	5,819	UK
Nov-05	Comicrom S.A.	1,041	Chile
Feb-06	Tata Infotech	stock swap	India
Oct-06	TKS Technosoft S.A.	4,892	Switzerland
Nov-06	Total Communications Solutions	500	Australia

Source: Company reports; IDBI Capital Market Services

Large deals to drive further growth

20 deals in pipeline – US$ 50m+ each

The strong business model has helped the company to build capabilities and increase market presence, which has enabled the company to win and address large complex global engagements. TCS has witnessed increased deal flow, both in terms of numbers and size, across geographies and service offering. TCS won 12 US$ 50m+ deals in FY07 alone which supports the large volume player strategy of TCS. Per management, currently TCS is pursuing 20 deals of US$ 50m+ size which we believe would boost the revenue momentum.

Table 6: Recent large deals

Client	Period	Size	Deal details
Bank of China	5-years	US$ 100m	Provide technology solutions and revamp IT infrastructure
Bank of Pichincha	5-years	US$ 140m	IT infrastructure maintenance + BPO services+BANCS
Qantas	7-years	US$ 90m	IT application, transformation and maintenance services
Somerfield	7-years	US$ 65m	Full services contract

Source: Company reports; IDBI Capital Market Services

Recent deal wins – US$ 140m from BSNL + US$ 35m deal from Roche

Some of the recent deals include US$ 140m contract from BSNL[2] (2-year development and 7-8 year maintenance), India's largest state owned telecom service provider for a converged billing system for north and west India. We suppose that the deal could be strategically advantageous as it could help the company in winning similar system integration projects. Further, the company won a multi year outsourcing contract from healthcare major Roche with the deal size of US$ 35m.

According to our analysis, this is a strong positive for the company especially in terms of incremental revenues and profitability as well as increased revenue visibility on account of scale benefits, improved market and client access. Per management, the deals have no significant negative impact on margins and would remain the mainstay of the company given the full services model.

Growing product division

TCS has consolidated its asset leverage business into a new business unit called TCS Financial Solutions, which will function as a separate SBU within the company. It has two components, the license revenue and the services or system integration work around the license revenue. Product offerings from the division will be positioned under the brand name TCS BaNCS which we believe would help the company in better management of its financial products given the different skill set required to manage packaged software versus a client oriented IT services business.

TCS's financial products division's revenue had demonstrated rapid growth of 66% to US$ 170m in FY07 and 50% growth in FY06. It has a strong client base of 214 financial institutions across 8 countries with 50 new customer wins and 35 new

[2] Bharat Sanchar Nigam Ltd.

installations in FY07. Furthermore, the division has good order book with 11 deals closed in Q1FY08 and 4 engagements are going live. Some of the large deals which the company has won in recent times in this segment include Bank of China and Bank of Pichincha.

Expects a billion dollar contribution by 2010.

Table 7: Comparative product revenues

Company	Product	Revenues (Rs. m)	% of total revenues
TCS	BaNCS	4,184	2
Infosys	FINNACLE	5,418	4
I-Flex	FLEXCUBE	112,111	54

Source: Company reports; IDBI Capital Market Services, FY07

TCS product business is relatively small as compared to Infosys and I-flex but is gaining traction. Moreover, we believe a strong product division is in conjunction with the company's strategy especially as it allows TCS to break out of the linear business model which could aide revenue and profitability growth. Per management, the revenue contribution from the products division could be in the high single digits in the next 3-years supported by inorganic growth momentum.

Significant Indian presence with large domestic industry size

According to NASSCOM[3], the domestic IT-BPO market estimated to grow at 20% to US$ 15.9bn in FY07 from US$ 13.2bn In FY06. The IT services segment in the domestic market is expected to reach US$ 5.6bn in FY07, exhibiting a 24% growth over FY05-06. The domestic BPO segment is estimated to grow by 29.6% to US$ 1.2bn by FY07. We believe that it provides the company with the significant opportunity due to its substantial revenue contribution from India.

Domestic market to reach US$ 5.6bn in FY07

Figure 1: Domestic IT-BPO market

Source: IDC, NASSCOM in "Strategic Review 2007"

TCS has a significant domestic presence mainly on account of Tata Infotech and acquisition of Computer Maintenance Corporation (CMC) in 2001. Domestic revenue contribute nearly 9% (FY07) of total revenues growing at a 16% CAGR in the last 2-years. Although the growth has been sluggish in the last two years, we expect the growth momentum to accelerate given the expected market size and the company's significant domestic presence. The two companies are involved in several significant governmental and non-governmental projects which could be a strong grow driver adding to the domestic revenues going forward.

Strong employee metrics

TCS has superior employee metrics as compared to its peers with strong employee base, healthy additions and low attrition rates. Moreover, the company has been able to maintain high productivity levels through high utilization rates.

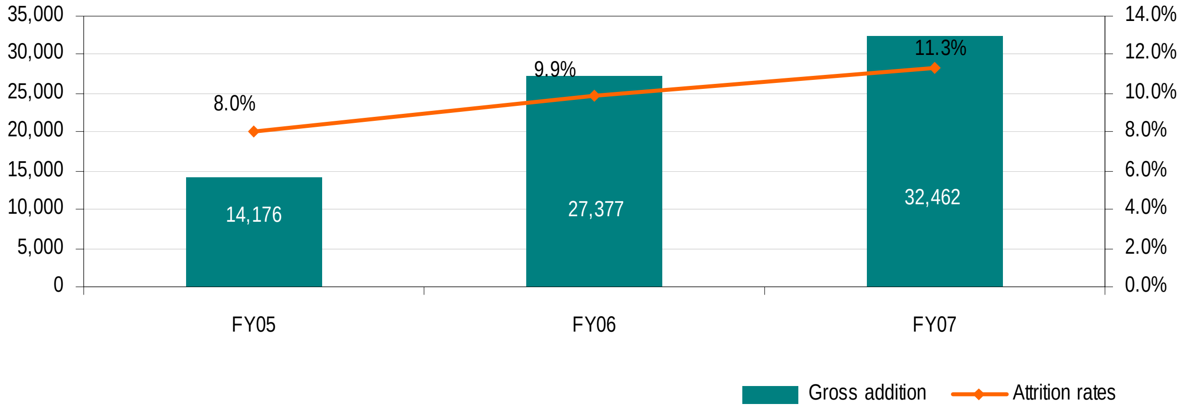
[3] NASSCOM – National Association of Software and Services Companies

Robust hiring continues

Robust hiring – Plan to hire 32000 employees in FY08. Narrating the growth story

The company's employee base has nearly doubled in the last 2-years to 94,902 employees (Q1FY08) as against 45,714 in FY05 on account of aggressive hiring with an average yearly addition of 30,000 employees. The management expects the hiring momentum to continue with expected additions of 32,000 in FY08 of which 85-90% would be from India. TCS plans to induct nearly half of its expected additions for FY08 as freshers. We are encouraged by the strong employee additions which adds to the revenue visibility due to the linear nature of the business model and it is indicative of the management confidence in continued business momentum.

Figure 2: Employee additions and attrition rates



Source: Company reports; IDBI Capital Market Services

Diverse global workforce

TCS has global ambitions and is building global workforce capabilities to that end with 9.4% of total employees being non-Indians. Moreover, 27% of its total employees are women and nearly 49% of its associates have more than 3-years of experience resulting in a diverse group of employees. This is a strong positive for the company due to the people centric nature of company's operations, whereby the diverse nature of workforce could provide a key strategic advantage for the company in the long run. We believe this diversity will increase on account of increasing global nature of the company's operations, GNDM and continued acquisitions.

Highest retention rate

The management has a four pronged strategy of managing availability, employability, retention and sustainability, which has lead to successful talent management and strong growth. The testimony to TCS's successful strategy has been the strong retention rate which is the highest among its peers.

Lowest attrition among to big 5

Table 8: Comparative attrition rates

Attrition	TCS	Wipro	Satyam	Infosys	HCL Tech
Attrition rates (%)	11.3	15.9	15.7	13.7	17.5

Source: Company reports; IDBI Capital Market Services, FY07

High utilization rates

Highest utilization compared to close peers

TCS has a highly productive workforce with high utilization rates of close to 80% which is highest among its peers. The company attributes high utilization rates to strong pipelining process whereby the company efficiently manages hiring, training and deployment of employees as well as effective management of the mean time between any two-project allocations. The management believes that the company would sustain the current utilization rates leading to continued higher productivity going forward.

Table 9: Comparative attrition rates

Utilization rates (%)	TCS	Satyam	Infosys	HCL Tech
Including trainees	74.7	71.3	67.9	69.8
Excluding trainees	79.6	78.4	73.0	74.8

Source: Company reports; IDBI Capital Market Services

Investment challenges

Margins continue to be under pressure

We believe TCS' margins continue to be under pressure driven by wage inflation, exchange rate volatility, and high onsite mix and high taxes.

Wage inflation

12-15% offshore and 3-5% onsite wage increment in FY07

Wages have been on an uptrend in the last 3-years with 12-15% offshore and 3-5% onsite wage increment in FY07. Although this is an industry wide phenomenon, this is a key risk to the company due to its large work force.

Although, the management has indicated at increasing fresher intake to curb wage inflation. Of the current hiring plans of 32,000 employees, 85-90% are expected to be from India out of which at least 50% would be freshers. Currently, 51% of the employees have 0-3 years experience which the company wants to increase in the near future. The average employee cost is around Rs.5 lac p.a. for offshore and US$ 70,000 p.a. for onsite.

Exchange rate volatility

The strong rupee appreciation against major currencies especially against the dollar since the beginning of this year has significantly affected revenues and margins. We believe this is a significant challenge to the company especially because a large chunk (84%) of TCS's revenues are accounted by the North American and European segment.

However, TCS has an aggressive hedging policy with current hedge position of US$ 2.5bn @ Rs.40.71 predominantly dollar dominated which is approximately 54% of FY07 revenues and 42% of FY08E revenues. Moreover, the company has high unrealized forex gains as part of other income which would help the company to maintain the net margins at the current levels. **We have factored in exchange rates of Rs.41- 39/US$ and Rs.56-53/Euro through FY10.**

High onsite mix

Due to the presence of the global nature of company's operations, TCS has a high proportion (55%) of onsite revenue contribution which is significantly high as compared to its peers.

Table 10: Relative revenue mix – March ending

Revenue mix (%)	TCS	Wipro	Satyam	Infosys	HCL Tech
Onsite	54.1	55.2	49.4	49.8	52.3
Offshore	41.3	44.8	50.6	50.2	47.7
GDC/RDC	4.6	-	-	-	-

Source: Company reports; IDBI Capital Market Services

Although the management has started shifting work to offshore with 310bps increment in offshore contribution in FY07 to 40.5% from 37.4% in FY06. The company has been taking a number of initiatives overseas, especially in terms of global network delivery management which the management believes would start producing results in FY08. Furthermore, the management expects to achieve an offshore contribution of 45% going forward which is an additional margin lever available to the company.

High tax rates

20-22% tax rate post FY09

A significant challenge for the company in the long run is the high tax rate post FY09 on account of removal of income tax exemptions under the STPI[4] Act. We believe that this could adversely affect company's profitability post FY09. Per management, TCS effective tax rate could be as high as 20-22% post FY09 which we have factored in our model.

Although, an alternative to the STPI is the Special Economic Zones (SEZs) offering similar benefits and tax breaks. TCS has already some plans to overcome this situation through establishment of SEZs some of which include SEZ in Gujarat (to be ready by FY09) and Andhra Pradesh (recently received formal approval). The company plans to shift significant business to these SEZs in the near future to reduce the tax impact.

However, we feel that TCS has additional lever which could be tweaked further to get margin improvement.

Improvement in pricing

Pricing environment seems to be favorable for the company with 3-5% escalation on the existing contracts that are coming up for renewal and 5%+ for new contracts and high end services which could further aide margin improvement.

[4] Software Technology Park of India

Valuations and financials

Balance sheet analysis

- Cash and cash equivalents stood at healthy Rs.8,021m which we believe could be further used for acquisitions.
- TCS has consistently maintained a strong Return on Net Worth (RoNW) of greater than 50% in the last 3-years. The RoNW stood at 51% as on 30 June, 2007.

Valuation

TCS currently trades at 18.6x and 15.3x FY08E and FY09E earnings which is lower than its closest competitor Infosys. We expect TCS to trade at a premium to its close peers bolstered by strong revenue growth, GNDM, full services play and continued acquisitions.

Risk to reward – 1:2.5

Furthermore, there is strong IT demand environment with IT exports expected to cross US$ 60bn by 2010 and TCS's global ambitions, we believe a revenue growth of 25%+ is achievable on a long term basis. This is further supported by healthy pipeline, strong employee metrics, recent large deal wins and a strong domestic presence, which adds value to our recommendation.

We assume 26% revenue and 21% EPS CAGR through FY10. Moreover possible inorganic growth and continued large deal wins, add to protracted revenue growth over a long period with sustainable margins. We argue that the stock should trade 20-25% higher than the current level at Rs.1,248/share within 12-months.

Relative value

Upside – 1,233

Our upside assumes a significant premium for TCS as compared to its peers on account of superior historical growth as compared to its peers, strong delivery capabilities and growing contribution from non-ADM services which would help the company to sustain a strong earnings growth in future.

Premium valuation justified

Table 11: Upside valuation

Upside	TCS IN	FY08 Peer Multiple	Prem/Disc to Peers (%)	Implied Multiple	2008E Implied Price Rs.
Price/Earnings	18.9x	18.5x	25	23.2x	1,255
Price/Book	7.9x	5.1x	70	8.7x	1,120
EV/Sales	4.2x	3.7x	40	5.2x	1,283
EV/EBITDA	16.1x	15.0x	30	19.5x	1,272
Average					1,233

Source: Company reports; IDBI Capital Market Services

Downside – 926

Our downside assumes deceleration in the revenue momentum and margin decline on account of US slowdown, significant rupee appreciation and futile margin levers.

Major concern – wage inflation, U.S slowdown and exchange volatility

Table 12: Downside valuation

Downside	TCS IN	FY08 Peer Multiple	Prem/Disc to Peers (%)	Implied Multiple	2008E Implied Price Rs.
Price/Earnings	18.9x	18.5x	(5)	17.6x	906
Price/Book	7.9x	5.1x	35	6.9x	845
EV/Sales	4.2x	3.7x	10	4.0x	967
EV/EBITDA	16.1x	15.0x	5	15.8x	984
Average					926

Source: Company reports; IDBI Capital Market Services

Company profile

Tata Consultancy Services (TCS) is India's largest and oldest IT company with annual revenues of US$ 4.3bn TCS was founded in 1968 as part of the Tata Group, with public listing in 2004. The Company's portfolio of services offerings include application development and maintenance, technology solutions, package implementation, systems integration, enterprise solutions, business intelligence and assurance services. In addition the company's offerings include asset based services, engineering and industrial services, IT infrastructure services, business process outsourcing and global consulting services. The key verticals of the company include banking and financial services, manufacturing, telecom, life science and health care, retail and distribution, transportation and energy and utilities among others. TCS derives major chunk of revenues from the American segment (55.1%), Europe (29.3%) while India and Asia Pacific contribute 9% and 5% of the total revenues respectively. The company employs over 94,903 employees with a network of 169 sales offices in 35 countries and 920 active clients.

The company has done nearly 10 acquisitions in the last 5-years. Some of the recent acquisitions include Total Communications Solutions (Australia), TKS Technosoft (Switzerland), Tata Infotech (India) and Comicrom S.A. (Chile).

Financials

- Consolidated revenues for Q1FY08 stood at Rs.52bn with an increase of 0.8% QoQ and 25.2% YoY in rupee terms. In US dollar terms, revenues grew 8% QoQ and 42% YoY. The revenue growth was on account of 7.6% volume growth, pricing growth of 0.6%, 1.6% growth in international business (in rupee terms) 1.6% QoQ and exchange difference which has had a negative effect of 6.6%.
- Operating profit at Rs.12bn declined 9% QoQ but increased 30% YoY. Operating margins for the quarter stood at 23.1% which is a decline of 250bps over Q4FY07 mainly on account of wage hikes (-208bps) and forex impact of -258bps although mitigated through increased pricing, productivity and SG&A improvements of 213bps.
- Quarterly net margins remained flat, although they improved on a YoY basis. Q1FY07 net margins stood at 22.8% which were the same as in Q4FY07 while they improved 200 bps YoY. Significant hedging gains (+206bps) negated adverse impact of rupee appreciation at the net level.
- The company added 54 new clients during the period while the number of active clients stood at 771 clients as on Q1FY08 as compared to 780 in Q4FY07.The number of US$ 1mn clients stood at 322 as compared to 297 a year ago. The company doubled the US$ 100m clients to 6 clients in Q1FY08 from 3 clients in Q4FY07.
- The company added 8,706 employees on a gross basis (2,898 trainees, 4,795 experienced professionals and 1,013 in overseas locations) and 5,512 employees on a net basis in the current quarter with the total employee strength at 89,419. Although, the attrition rate increased by 20bps to 11.5% in Q1FY08 as compared to 11.3% in Q4FY07.Company expects to add 30,000+ employees in FY08 with 11,000 gross additions expected in Q2FY08.
- Utilization rates (including trainees) increased 130bps to 76.0% as compared to 74.7% in 4QFY07. The utilization rates excluding trainees stood at 79.1% in 1QFY08 which is a decline of 50bps over the previous quarter.

Table 14: Quarter history (Rs. m)

Year-end: March	Q1FY08	Q1FY07	YoY Change (%)	Q2FY07	Q3FY07	Q4FY07
Revenues	52,028	41,443	26	44,822	48,605	51,464
QoQ growth (%)	*1*	*11*		*8*	*8*	*6*
Operating expenses	40,029	32,178	24	33,485	35,932	38,291
QoQ growth (%)	*5*	*14*		*4*	*7*	*7*
Operating profit	11,999	9,265	30	11,337	12,673	13,173
QoQ growth (%)	*(9)*	*3*		*22*	*12*	*4*
EBITDA	13,264	10,016	32	12,295	13,753	14,568
QoQ growth (%)	*(9)*	*2*		*23*	*12*	*6*
Depreciation	1,265	751	68	958	1,080	1,395
Profit before taxes,minority interests and exceptional items	13,516	9,933	36	11,414	12,973	14,071
QoQ growth (%)	*(4)*	*11*		*15*	*14*	*8*
Reported net profit	11,855	8,626	37	9,916	11,047	11,728
QoQ growth (%)	*1*	*8*		*15*	*11*	*6*

Source: Company reports; IDBI Capital Market Services

Financial summary

Profit and loss account

(Rs m)

Year-end: March	FY06	FY07E	FY08E	FY09E
Revenues	132,455	186,332	239,492	299,886
Total revenues	132,455	186,332	239,492	299,886
YoY growth (%)	24	41	29	25
Cost of sales	73,532	104,125	131,920	167,154
Gross profit	58,922	82,207	107,572	132,732
Total overseas business expenses	25,028	35,762	48,081	61,109
EBITDA	36,704	50,741	61,853	78,270
EBDITA margin (%)	28	27	26	26
EBIT	33,894	46,445	56,732	71,623
YoY growth (%)	41	37	22	26
Operating margin (%)	26	25	24	24
Interest income	258	207	127	0
Interest expense	89	237	406	422
Other non-operating income, net	22	1,974	4,730	2,999
Other income, net	190	1,944	4,450	2,577
Profit before taxes,minority interests and exceptional items	34,084	48,389	61,183	74,201
Pre-tax margin (%)	26	26	26	25
Income tax expense	4,989	6,701	8,196	10,017
Effective tax rate	15	14	13	14
Profit for the year before minority interest and extraordinary gain	29,095	41,689	52,986	64,184
Minority interest	(279)	(417)	0	0
Equity in net earnings of affiliates	16	44	0	0
Income from continuing operations before extraordinary gain	28,832	41,316	52,986	64,184
Reported net profit	28,832	41,316	52,986	64,184
YoY growth (%)	36	43	28	21
Net margin (%)	22	22	22	21
S/O	978	979	979	979
EPS (incl. exceptional items) (Rs.)	29.5	42.2	54.1	65.6
Dividends per share	14	13	14	15

Source: Company reports; IDBI Capital Market Services

Balance sheet

(Rs m)

Year-end: March	FY06	FY07E	FY08E	FY09E
Equity shares	489	979	979	979
Addiditional paid-in-capital	24,862	24,372	24,372	24,372
Accu. other comprehen. (loss)/income	(144)	673	673	673
Reserves and surplus	33,201	63,637	100,594	147,603
Shareholders funds	58,408	89,661	126,618	173,627
Long term debt	1,428	6,023	6,023	6,023
Total loans	1,428	6,023	6,023	6,023
Minority interest	1,564	2,121	2,121	2,121
Other non-current liabilities	521	884	884	884
Capital employed	61,920	98,688	135,644	182,653
Property and equipment, gross	20,739	25,669	38,169	50,164
Less: Accumulated depreciation	8,370	9,895	15,016	21,663
Capital work-in-progress	2,703	7,139	7,139	7,139
Property and equipment, net	15,072	22,912	30,291	35,640
Investments	7,086	12,661	12,661	12,661
Equity method investment in affiliates	188	50	50	50
Intangibles assets, net	4,063	4,234	4,234	4,234
Goodwill	4,630	9,744	9,744	9,744
Other non-current assets	4,988	6,194	6,194	6,194
Current assets loans/Advances	49,600	74,853	107,124	156,482
Cash and cash equivalents	3,965	12,291	42,306	81,100
Unbilled revenues	4,712	7,835	7,835	7,835
Inventories	806	416	361	458
Current liabilities and provisions	23,706	31,960	34,653	42,351
Net current assets	25,895	42,892	72,470	114,131
Capital deployed	61,920	98,688	135,644	182,653

Source: Company reports; IDBI Capital Market Services

Key ratios

Year-end: March	FY06	FY07E	FY08E	FY09E
Valuation ratios (x)				
EPS (Rs.)	29.5	42.2	54.1	65.6
P/E	32.5	29.2	18.6	15.6
P/CF	236.1	98.0	23.3	12.3
P/BV	16.0	13.4	7.8	5.8
Mcap/Sales	7.1	6.5	5.1	4.0
EV/Sales	7.1	6.4	4.0	3.1
EV/EBDITA	25.5	23.6	15.3	11.8
Price/Free cash	50.4	53.7	21.4	17.9
Growth ratios (%)				
Earnings growth	35.5	43.3	28.2	21.1
Revenue growth	24.5	40.7	28.5	25.2
Gross profit growth	28.9	39.5	30.9	23.4
EBITDA growth	43.7	38.2	21.9	26.5
Efficiency ratios				
EBITDA margin (%)	27.7	27.2	25.8	26.1
EBIT margin (%)	25.6	24.9	23.7	23.9
Pre-tax margin (%)	25.7	25.9	25.5	24.7
Net margin (%)	21.8	22.2	22.1	21.4
Profitability ratios				
Return on equity (%)	61.6	55.8	49.0	42.8
Return on cap. employed (%)	58.9	50.9	42.8	39.5
Avg. collection period (Days)	75.7	74.3	70.0	68.0
Fixed assets turnover (x)	1.9	1.7	1.6	1.5

Source: Company reports; IDBI Capital Market Services

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