



Tata Consultancy Services

STOCK INFO.	BLOOMBERG
BSE SENSEX: 15,290	TCS IN
	REUTERS CODE
S&P CNX: 4,497	TCS.BO

17 July 2007

Buy

Previous Recommendation: Buy

Rs1,155

Equity Shares (m)	978.6
52-Week Range	1,399/867
1,6,12 Rel. Perf. (%)	-10/-20/-24
M.Cap. (Rs b)	1,130.1
M.Cap. (US\$ b)	28.0

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	186,334	41,316	41.7	39.6	27.7	17.3	64.9	69.2	6.0	21.9
3/08E	233,808	49,718	50.8	21.9	22.7	11.2	58.3	63.2	4.7	18.1
3/09E	298,674	60,878	62.2	22.4	18.6	7.9	48.6	54.7	3.6	14.2

1:1 bonus in FY07, accordingly ratios are adjusted

- US\$ revenue in line with estimate; high other income and tax reversal boost profits:** TCS reported consolidated revenue of US\$1.28b, up 8% QoQ, marginally higher than our estimate of US\$1.26b. Rupee revenue was up 1.1% QoQ to Rs52b. EBITDA margins for 1QFY08 were down 280bp to 25.5% due to rupee appreciation and salary hikes during the quarter. High forex gains (US\$26.4m) and tax reversal (Rs293m) pushed up net profit (before extra-ordinaries) by 3.3% QoQ v/s expected decline of 6.1%.
- Strong operational metrics reinforce our view of a strong demand scenario:** While strong rupee appreciation against major currencies dampened margins during the quarter, other operational metrics suggest a strong demand environment. Top 10 clients grew in strong double digits during the quarter, in dollar terms. Client mining was strong during the quarter, with the number of US\$100m clients doubling to 6 from 3 in the previous quarter. Management remains confident of strong deal flows (currently pursuing 20 deals over US\$50m) and improved client mining over the next few quarters. Pricing scenario also remains favorable, with renewals coming in at 3-5% higher rates and new deals at over 5% higher rates.
- Outlook and view:** We expect stronger volume growth over the rest of FY08, which has resulted in upsides to our current dollar revenue estimates. We have marginally downgraded our EPS estimates for FY08E and FY09E (by 1%) to factor in the higher rupee appreciation. On our current EPS estimate of Rs50.8 and Rs62.2, the stock trades at a P/E of 22.7x FY08E and 18.6x FY09E respectively. Maintain **Buy**.

QUARTERLY PERFORMANCE

(Rs Million)

Y/E MARCH	FY07*				FY08*				FY07*	FY08E*
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenues	41,443	44,822	48,605	51,464	52,029	56,189	61,043	64,547	186,334	233,808
Q-o-Q Change (%)	11.3	8.2	8.4	5.9	1.1	8.0	8.6	5.7	40.6	25.5
Direct Expenses	22,989	23,880	26,294	27,177	28,221	30,523	32,988	34,767	100,339	126,499
Sales, General & Admin. Expenses	8,327	8,648	8,559	9,720	10,543	11,210	12,178	12,748	35,253	46,679
Operating Profit	10,128	12,294	13,753	14,568	13,265	14,456	15,877	17,032	50,742	60,630
Margins (%)	24.4	27.4	28.3	28.3	25.5	25.7	26.0	26.4	27.2	25.9
Other Income	668	77	300	235	1,516	900	600	600	1,280	3,616
Depreciation	863	958	1,080	1,395	1,265	1,405	1,511	1,581	4,296	5,762
PBT bef. Extra-ordinary	9,932	11,414	12,973	13,408	13,516	13,952	14,966	16,051	47,726	58,485
Provision for Tax	1,238	1,447	1,828	2,056	1,816	1,953	2,133	2,287	6,568	8,189
Rate (%)	12.5	12.7	14.1	15.3	13.4	14.0	14.3	14.3	13.8	14.0
Minority Interest	69	52	98	155	138	135	147	159	373	579
Net Income bef. Extra-ordinary	8,626	9,915	11,047	11,198	11,563	11,863	12,687	13,605	40,786	49,718
Q-o-Q Change (%)	8.5	14.9	11.4	1.4	3.3	2.6	6.9	7.2	39.6	21.9
PAT aft Extra-ordinary	8,626	9,915	11,047	11,728	11,856	11,863	12,687	13,605	41,316	49,718

E: MOST Estimates; *Consolidated numbers that include Tata Infotech

US\$ revenue in line with estimate; high other income and tax reversal boost profits

TCS reported consolidated revenue of US\$1.28b, up 8% QoQ, marginally higher than our estimate of US\$1.26b. Despite the sharp rupee appreciation for 1QFY08, TCS reported 1.1% QoQ growth in rupee terms to Rs52b v/s our estimate of Rs51.9b (+0.9% QoQ). International business grew 8.5% QoQ v/s our estimate of 6.7% QoQ. Volume growth for international business was healthy at 7.6% QoQ. Realized rates continued to follow a rising trend and were up 0.6% QoQ.

EBITDA margins for 1QFY08 are down 276bp to 25.5% v/s estimate of 25% (down 330bp) due to higher contribution from the products business (3.3% of revenue v/s 3.1% in 4QFY07) and better-than-expected productivity improvements during the quarter. Margin decline should be viewed in the context of 258bp impact due to rupee appreciation and 208bp owing to salary increases and during the quarter.

EBITDA MARGIN DOWN 276BP IN 1QFY08

FACTOR	IMPACT ON MARGIN (BP)
Rupee	-258
Salary Hikes	-208
Visa Costs	-40
Pricing/ Productivity Improvements	230
Total	-276

Source: Company/Motilal Oswal Securities

Superior forex gains of US\$26.4m pushed other income to Rs1.5b v/s our estimate of Rs0.9b. The quarter also saw tax reversal of Rs293m. Net profit (before extra-ordinary) grew 3.3% QoQ v/s expected decline of 6.1%.

Strong operational metrics reinforce view of strong demand scenario

While strong rupee appreciation against major currencies dampened margins during the quarter, other operational metrics suggest a strong demand environment. Top 10 clients grew in strong double digits during the quarter in

dollar terms. Client mining was strong during the quarter, with the number of US\$100m clients doubling to 6 from 3 in the previous quarter. Among the focus verticals, BFSI performed strongly, growing 12.7% QoQ. Major geographies also grew well, with the US growing 8.4% QoQ in dollar terms, while the UK and Europe grew 9% and 9.2% QoQ respectively.

TOP CLIENTS TURN IN STRONG PERFORMANCE

	JUN-06	SEP-06	DEC-06	MAR-07	JUN-07
Top Client	36.0	47.8	62.6	78.1	86.9
QoQ Gr. (%)	16.3	32.7	31.0	24.8	11.2
Top 2-5	114.3	116.1	128.5	140.9	155.9
QoQ Gr. (%)	2.8	1.5	10.7	9.6	10.7
Top 2-5	90.9	97.5	110.9	117.2	131.6
QoQ Gr. (%)	3.5	7.3	13.7	5.7	12.3

Source: Company/Motilal Oswal Securities

CLIENT MINING CONTINUES TO BE IMPRESSIVE

	MAR-06	JUN-06	SEP-06	DEC-06	MAR-07	JUN-07
> US\$1m	258	274	288	297	297	322
> US\$5m	97	105	114	119	119	126
> US\$10m	65	70	74	75	75	85
> US\$20m	33	32	37	39	39	45
> US\$50m	10	15	15	14	14	18
> US\$100m					3	6

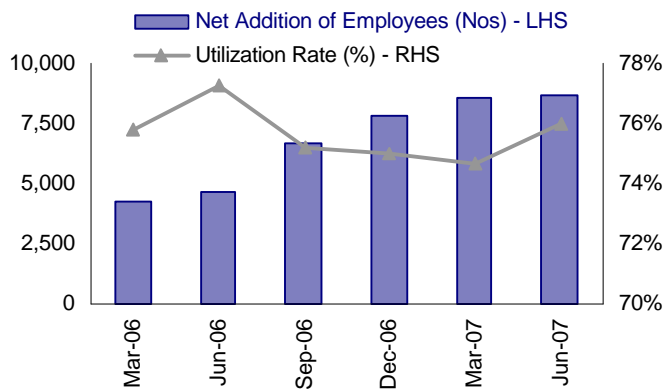
Source: Company/Motilal Oswal Securities

BOTH ADM AND NEW SERVICE LINES PERFORM STRONGLY (US\$M)

	JUN-06	SEP-06	DEC-06	MAR-07	JUN-07
ADM	468	508	588	607	658
QoQ Gr. (%)		8.6	15.6	3.4	8.4
Infrastructure Services	61	59	60	71	73
QoQ Gr. (%)		-4.4	3.2	17.6	2.6
Enterprise Solutions	117	117	130	146	158
QoQ Gr. (%)		0.0	10.7	12.4	8.8
Global Consulting	29	34	37	41	38
QoQ Gr. (%)		18.5	9.4	11.0	-7.5
Asset Leveraged Solutions	23	24	31	37	42
QoQ Gr. (%)		4.2	26.1	19.3	14.9
Assurance Services	16	23	25	31	42
QoQ Gr. (%)		44.5	7.9	21.9	37.0
BPO	51	57	64	71	75
QoQ Gr. (%)		10.3	12.6	11.5	6.2

Source: Company/Motilal Oswal Securities

EMPLOYEE ADDITION REMAINS ROBUST EVEN AS UTILIZATIONS INCH UP



Source: Company/Motilal Oswal Securities

Outlook and view

1QFY08 results were better than expectations, both in terms of underlying volume growth as well as rupee revenue and margins. Management remains confident of strong deal flows (currently pursuing 20 deals over US\$50m) and improved client mining over the next few quarters. We expect stronger volume growth over the rest of FY08, which has resulted in upsides to our current dollar revenue estimates. We have marginally downgraded our EPS estimates for FY08E and FY09E (by 1%) to factor in the higher rupee appreciation. On our current EPS estimate of Rs50.8 and Rs62.2, the stock trades at a P/E of 22.7x FY08E and 18.6x FY09E respectively. Maintain **Buy**.

Tata Consultancy Services: an investment profile

Company description

TCS is the largest IT services company in India, with revenue of US\$4.2b in FY07. It employs nearly 95,000 people, and provides IT as well as BPO services to 770 clients. It is the preferred vendor for a majority of the Fortune 500/Global 1,000 companies. Its top clients include GE, Prudential, AIG, Target, P&O Nedlloyd, ABN Amro and Standard Chartered.

Key investment arguments

- Experience of handling multi-million dollar contracts places it suitably against global players.
- Client diversification, leading to narrowing gap in growth differential compared to peers.
- Has considerable near shore presence, could give a competitive edge to peers in bagging clients who are new to offshoring.

Key investment risks

- Lowering of experience profile could impact quality, as TCS is used to delivering services with more experienced people.
- Inclination to accept large complete IT outsourcing deals could impact profitability and return ratios.

Recent developments

- TCS Financial Solutions, an SBU for financial products was launched during the quarter.
- Inaugurated new Global Development Centre in Mexico
- Bagged a US\$100m deal for transformation of existing systems and processes to the next generation convergent billing system for a leading Asian telecom major.

Valuation and view

- Revenue CAGR of 26.6% and profit CAGR of 22.2% over FY07-09.
- Valuations at 18.6x FY09E earnings offers room for upside, given strong growth and likely expansion in margins.
- Maintain **Buy** with a target of Rs1,431, upside of 23.9%.

Sector view

- Various CIO surveys indicate increasing share of offshore spending in IT budgets.
- Sharp rupee appreciation continues to be a cause for concern over the near term.
- Prefer large companies, as bulk of volumes going to them; niche players benefit due to lack of offshore competition.

COMPARATIVE VALUATIONS

		TCS	INFOSYS	WIPRO
P/E (x)	FY08E	22.7	23.9	20.7
	FY09E	18.6	19.6	17.6
P/BV (x)	FY08E	11.2	7.3	5.7
	FY09E	7.9	5.7	4.5
EV/Sales (x)	FY08E	4.7	5.8	3.5
	FY09E	3.6	4.4	2.6
EV/EBITDA (x)	FY08E	18.1	19.2	16.2
	FY09E	14.2	14.5	12.6

SHAREHOLDING PATTERN (%)

	JUN.07	MAR.07	JUN.06
Promoter	80.1	81.7	83.7
Domestic Inst	5.6	4.9	3.8
Foreign	7.7	7.1	6.1
Others	6.6	6.3	6.4

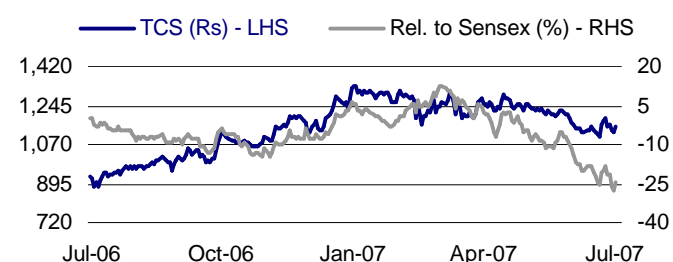
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VIATION (%)
FY08	50.8	52.7	-3.6
FY09	62.2	64.7	-3.8

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
1,155	1,431	23.9	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT						(Rs Million)
Y/E MARCH	2005	2006	2007	2008E	2009E	
Sales	97,272	132,550	186,334	233,808	298,674	
Change (%)	36.6	36.3	40.6	25.5	27.7	
Cost of Services	51,105	69,746	100,339	126,499	166,146	
SG&A Expenses	17,662	25,797	35,253	46,679	56,931	
EBITDA	28,505	37,008	50,742	60,630	75,597	
% of Net Sales	29.3	27.9	27.2	25.9	25.3	
Depreciation	1,577	2,806	4,296	5,762	7,318	
Interest	0	0	0	0	0	
Other Income	757	257	1,280	3,616	3,823	
PBT	27,685	34,459	47,726	58,485	72,103	
Tax	4,065	4,984	6,568	8,189	10,455	
Rate (%)	14.7	14.5	13.8	14.0	14.5	
Equity in net earnings of aff	18	16	44	47	72	
Minority Interest	79	280	417	626	842	
PAT	23,559	29,211	40,786	49,718	60,878	
Extraordinary	-3,038	-243	530	0	0	
Net Income	20,521	28,968	41,316	49,718	60,878	
Change (%)	25.4	41.2	42.6	20.3	22.4	

BALANCE SHEET						(Rs Million)
Y/E MARCH	2005	2006	2007E	2008E	2009E	
Share Capital	480	489	979	979	979	
Share Premium	0	0	0	0	0	
Reserves	31,497	57,919	64,334	99,509	142,581	
Net Worth	31,977	58,408	65,313	100,488	143,559	
Minority Interest	1,323	1,564	2,121	2,747	3,588	
Loans	1,928	2,415	6,626	5,971	5,435	
Capital Employed	35,712	62,908	74,943	110,090	153,467	
Gross Block	15,261	20,739	25,669	45,669	62,669	
Less : Depreciation	5,360	8,370	9,895	15,657	22,974	
Net Block	9,902	12,369	15,774	30,012	39,695	
CWIP	968	2,703	7,140	3,001	3,001	
Other LT Assets	3,164	13,868	20,222	21,161	23,621	
Investments	4,183	7,086	12,661	24,000	35,000	
Curr. Assets	30,692	49,600	74,853	82,673	124,639	
Debtors	20,343	32,790	43,090	50,433	69,037	
Cash & Bank Balance	2,633	3,965	12,291	14,816	26,583	
Loans & Advances	0	0	0	0	0	
Other Current Assets	7,717	12,845	19,471	17,424	29,020	
Current Liab. & Prov	13,197	22,719	31,358	50,758	72,490	
Creditors	2,727	5,233	6,701	9,313	10,325	
Other liabilities	10,469	17,485	24,657	41,443	62,163	
Net Current Assets	17,495	26,882	43,494	31,915	52,149	
Application of Funds	35,712	62,908	99,291	110,089	153,466	

E: MOSTimates

RATIOS *					
Y/E MARCH	2005	2006	2007E	2008E	2009E
Basic (Rs)					
EPS	24.6	29.8	41.7	50.8	62.2
Cash EPS	26.2	32.5	46.6	56.7	69.7
Book Value	33.3	59.7	66.7	102.7	146.7
DPS	4.2	6.8	11.5	12.7	15.6
Payout%(Incl.Div.Taxes)	20.0	22.8	27.2	25.0	25.0
Valuation (x)					
P/E		38.7	27.7	22.7	18.6
Cash P/E		35.6	24.8	20.4	16.6
EV/EBITDA		30.3	21.9	18.1	14.2
EV/Sales		8.5	6.0	4.7	3.6
Price/Book Value		19.3	17.3	11.2	7.9
Dividend Yield (%)		0.6	1.0	1.1	1.3
Profitability Ratios (%)					
RoE	80.4	62.1	64.9	58.3	48.6
RoCE	90.2	69.9	69.2	63.2	54.7
Turnover Ratios					
Debtors (Days)	76	90	84	79	84
Fixed Asset Turnover (x)	6.4	6.4	7.3	5.1	4.8
Leverage Ratio					
Debt/Equity Ratio(x)	0.1	0.0	0.1	0.1	0.0

* 1:1 bonus in FY07, accordingly ratios are adjusted

CASH FLOW STATEMENT						(Rs Million)
Y/E MARCH	2005	2006	2007E	2008E	2009E	
CF from Operations	24,046	31,953	45,271	54,059	66,153	
Cash for Working Capital	-3,772	-7,098	-11,603	-10,721	-11,307	
Net Operating CF	20,274	24,855	33,669	43,338	54,846	
Net Purchase of FA	-3,909	-12,511	-14,055	-15,861	-17,000	
Net Purchase of Invest.	-2,033	-2,074	-4,526	-11,340	-11,000	
Net Cash from Invest.	-5,942	-14,585	-18,581	-27,201	-28,000	
Inc./(Dec) in Equity & other	18,921	71	211	0	0	
Proceeds from LTB/STB	-5,563	-1,193	3,949	-654	-536	
Net Cash Withdrawn by Tat	-23,000	0	0	0	0	
Dividend Payments	-3,624	-7,960	-10,922	-12,959	-14,542	
Cash Flow from Fin.	-13,265	-9,083	-6,761	-13,613	-15,078	
Free Cash Flow	16,365	12,344	19,613	27,477	37,846	
Net Cash Flow	1,067	1,187	8,326	2,524	11,768	
Opening Cash Bal.	1,566	2,778	3,965	12,291	14,815	
Add: Net Cash	1,067	1,187	8,326	2,524	11,768	
Closing Cash Bal.	2,633	3,965	12,291	14,815	26,583	



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1. Analyst ownership of the stock
2. Group/Directors ownership of the stock
3. Broking relationship with company covered
4. Investment Banking relationship with company covered

Tata Consultancy Services

No
No
No
No

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