

April 21, 2008

Rating	Market Performer
Price	Rs993
Target Price	Rs1,005
Implied Upside	1.2%
Sensex	16,739

(Prices as on April 21, 2008)

Trading Data

Market Cap. (Rs bn)	972.2
Shares o/s (m)	978.6
Free Float	22.4%
Avg. Daily Vol ('000)	1,023.8
Avg. Daily Value (Rs m)	900.3

Major Shareholders

Promoters	77.6%
Foreign	10.8%
Domestic Inst.	5.3%
Public & Others	6.3%

Stock Performance

(%)	1M	6M	12M
Absolute	22.4	(10.4)	(21.0)
Relative	9.6	(3.4)	(43.4)

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



Source: Bloomberg

- Results:** TCS reported disappointing Q4FY08 numbers. Consolidated revenue grew by a modest 2.9% QoQ in rupee terms to Rs60.95m, led by a 55.3% QoQ growth in licence sales (at Rs5.6bn) counter-balanced by a 0.5% decline in revenue from IT services (at Rs55.3bn). EBITDA declined 1.7% QoQ, while OPM declined 118bps. PAT declined 5.6% QoQ at Rs12.56bn, while PAT margin declined 186bps to 20.6%. For the quarter, blended volume growth was a decent 4.8% even as TCS reported pricing decline of 1.6% QoQ. The company management attributed sluggish topline growth to delay in client ramp-up and to free (non-billable) transition work done for specific deals during the quarter.
- No slack in deal pipeline:** The company reported having won six major deals (US\$50m and above) this quarter. The management also indicated pursuing a strong deal pipeline cutting across verticals and geographies (currently pursuing 25 deals above US\$50m size). Hiring target for FY09 stands in the range of 30,000-35,000 gross of which 22,450 offers have already been made to freshers in campuses (as compared to 35,632 gross additions in FY08).
- Valuation:** We expect TCS to report profit growth of 28.3% and 22.9% in FY09E and FY10E respectively. Notwithstanding the poor showing in Q4FY08 numbers, we are inclined to view managements recruitment targets for FY09 and TCS's capacity expansion plans (across 11 cities in India) as a proxy for the wide sales funnel and consequent revenue visibility going forward. At the CMP of Rs993, TCS quotes at 15.8x FY10E earnings. We maintain Market Performer rating on the company with a target price of Rs1,005 (16x FY09E earnings).

Key financials (Y/e March)	FY07	FY08	FY09E	FY10E
Revenue (Rs m)	186,332	228,614	269,700	329,499
Growth (%)	40.7	22.7	18.0	22.2
EBITDA (Rs m)	50,740	59,397	66,938	80,091
PAT (Rs m)	41,271	50,183	55,759	61,455
EPS (Rs)	42.2	51.3	57.0	62.8
Growth (%)	43.3	21.5	11.1	10.2
Net DPS (Rs)	11.5	15.0	17.0	18.0

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08	FY09E	FY10E
EBITDA margin (%)	27.2	26.0	24.8	24.3
RoE (%)	55.8	47.0	39.2	33.9
RoCE (%)	52.3	44.1	37.1	32.3
EV / sales (x)	5.2	4.2	3.5	2.9
EV / EBITDA (x)	19.1	16.3	14.2	11.8
PE (x)	23.5	19.4	17.4	15.8
P / BV (x)	10.8	7.9	6.0	4.8
Net dividend yield (%)	1.2	1.5	1.7	1.8

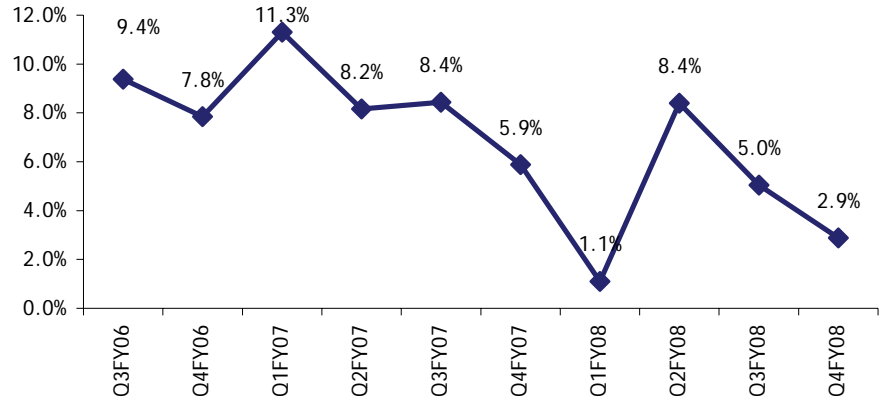
Source: Company Data; PL Research

Apurva Shah
 ApurvaShah@PLIndia.com
 +91-22-6632 2214

Jayendran Rajappa
 JayendranRajappa@PLIndia.com
 +91-22-6632 2243

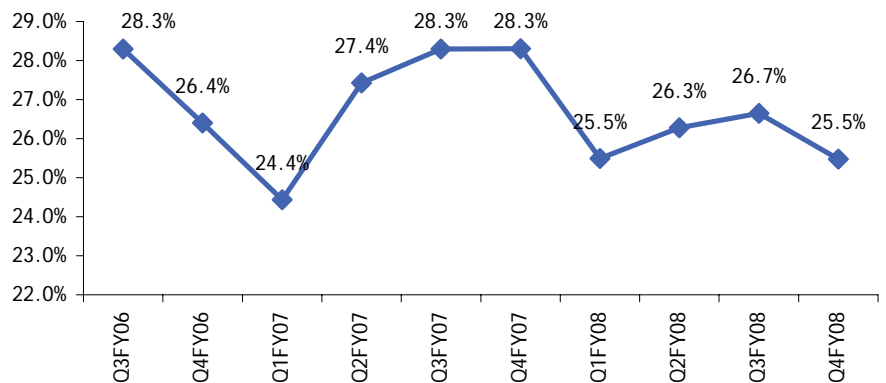
Highlights

Revenue witnessed muted growth at 2.9% QoQ...



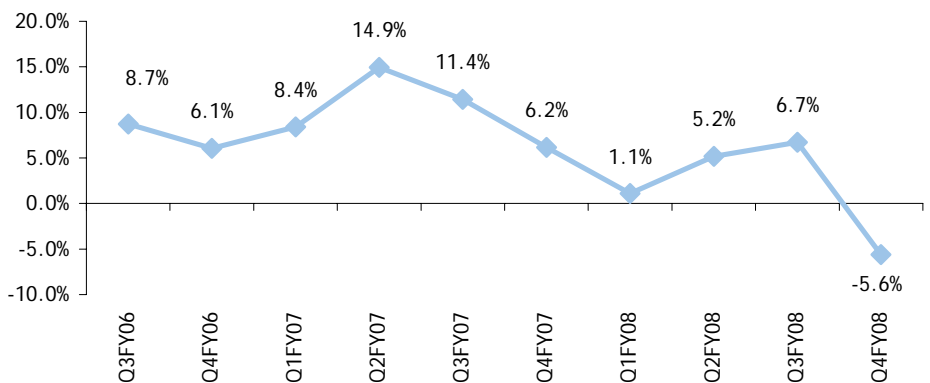
Source: Company Data, PL Research

While operating profit declined by 118bps sequentially...



Source: Company Data, PL Research

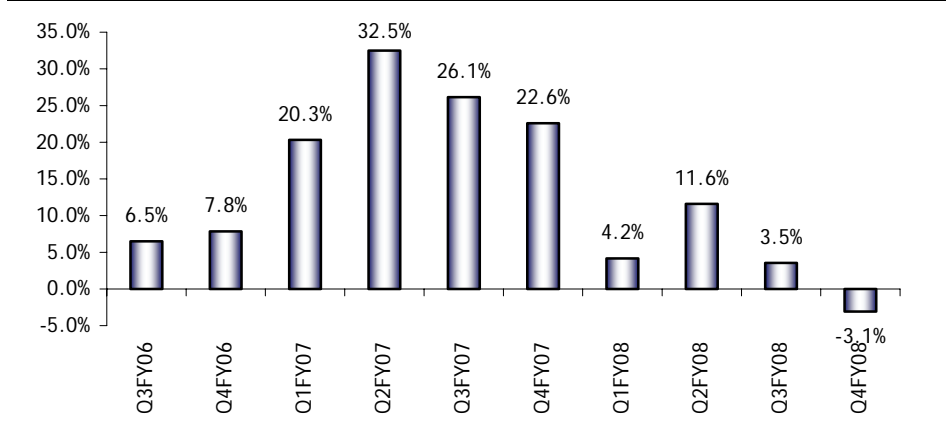
While PAT declined by 5.6% (QoQ)



Source: Company Data, PL Research

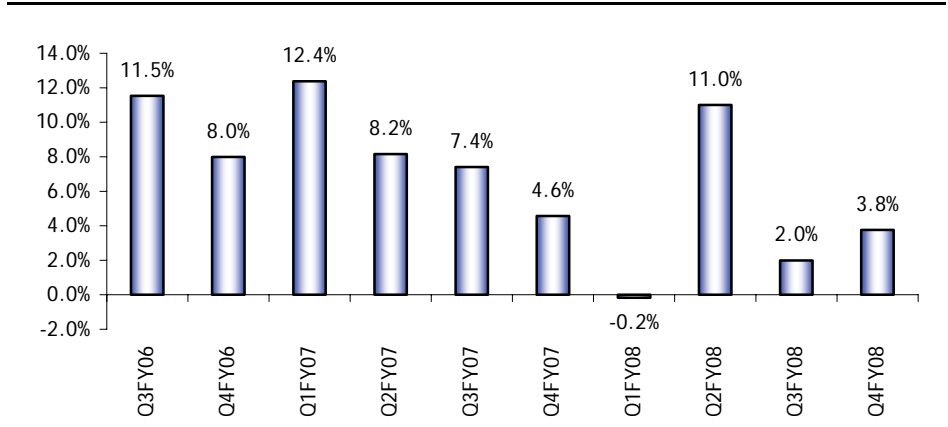
Areas of concern

Top client account degrew 3.1% (QoQ)...



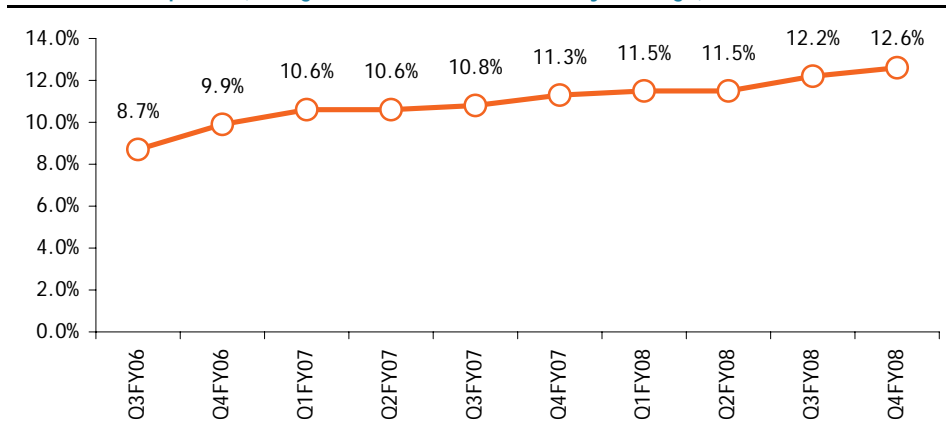
Source: Company Data, PL Research

Even as revenue contribution from non-top 10 clients grew a modest 3.8% (QoQ)



Source: Company Data, PL Research

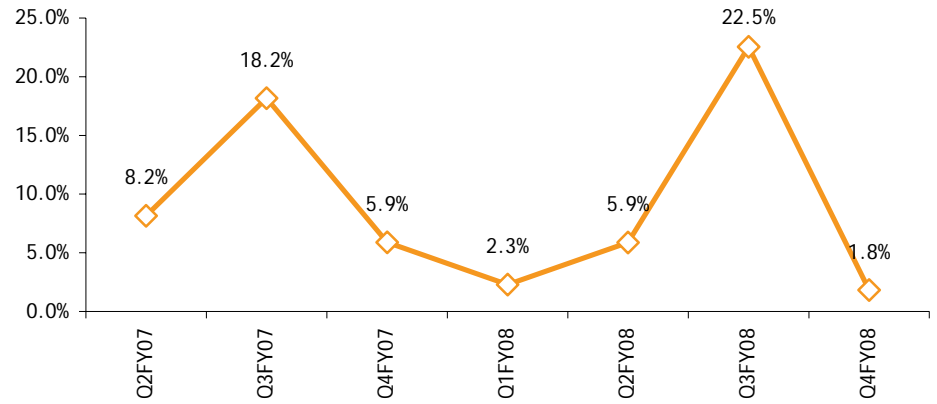
Attrition rate peaks (though it is lower than industry average)



Source: Company Data, PL Research

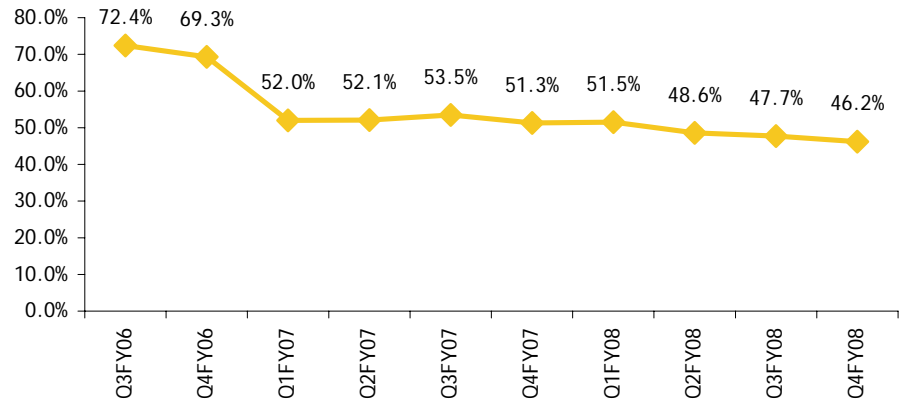
While on the other hand...

Revenue contribution from Europe witnessed a sequential decline(after good growth in Q3)...



Source: Company Data, PL Research

And contribution of ADM segment to revenues continued to decrease



Source: Company Data, PL Research

Key operating metrics

(Rs m)

	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08	Q3FY08	Q4FY08
Y/e March									
Gross addition*	5,254	7,095	8,919	7,835	8,613	8,706	12,523	7,522	6,921
Net addition*	3,571	4,698	6,663	5,562	5,827	5,512	9,268	4,037	3,299
Attrition rate (%)	9.9	10.6	10.6	10.8	11.3	11.5	11.5	12.2	12.6
Utilisation Rate (%)									
Including trainees	75.8	77.3	75.2	75.0	74.7	76.0	73.7	72.6	75.8
Excluding trainees	78.9	80.1	79.4	78.2	79.6	79.1	78.9	77.7	79.1
Fixed type, fixed time basis	48.3	43.6	40.9	41.0	40.2	42.7	43.7	45.4	44.2

Source: Company Data, PL Research

* For TCS excl Ind Subsidiaries



Q4FY08 result overview

(Rs m)

Y/e March	Q4FY08	Q3FY08	QoQ gr. (%)	Q4FY07	FY07	FY08E	YoY gr. (%)
Net Sales	60,947	59,241	2.9	51,464	186,332	228,614	22.7
Total Expenses	45,423	43,452	4.5	36,896	135,592	169,217	24.8
Software Development	32,587	31,384	3.8	27,177	101,214	122,344	20.9
Selling & Marketing	12,609	11,893	6.0	9,587	33,945	46,208	36.1
Others	228	176	29.6	133	433	665	53.9
Operating Profits / EBITDA	15,524	15,788	(1.7)	14,568	50,740	59,397	17.1
Depreciation	1,625	1,475	10.1	1,395	4,296	5,746	33.7
EBIT	13,899	14,313	(2.9)	13,173	46,444	53,651	15.5
Interest	106	113		-	237	452	
EBT before Other Income	13,793	14,200	(2.9)	13,173	46,208	53,200	15.1
Other Income	888	1,161		898	2,181	4,902	
PBT	14,681	15,361	(4.4)	14,070	48,389	58,102	20.1
Tax	1,988	1,947	2.1	2,188	6,701	7,494	11.8
<i>Tax rate (%)</i>	<i>13.5</i>	<i>12.7</i>		<i>15.6</i>	<i>13.8</i>	<i>12.9</i>	
PAT	12,693	13,414	(5.4)	11,882	41,688	50,608	21.4
Minority Interest	133	110		158	417	424	
Equity in net earnings of affiliates	1	(3)		(4)	(44)	(8)	
PAT	12,559	13,308	(5.6)	11,728	41,315	50,191	21.5
Key Ratios							
<i>GPM (%)</i>	<i>46.5</i>	<i>47.0</i>	<i>(0.5)</i>	<i>47.2</i>	<i>45.7</i>	<i>46.5</i>	<i>0.8</i>
<i>OPM (%)</i>	<i>25.5</i>	<i>26.7</i>	<i>(1.2)</i>	<i>28.3</i>	<i>27.2</i>	<i>26.0</i>	<i>(1.2)</i>
<i>EBITM (%)</i>	<i>22.8</i>	<i>24.2</i>	<i>(1.4)</i>	<i>25.6</i>	<i>24.9</i>	<i>23.5</i>	<i>(1.5)</i>
<i>NPM (%)</i>	<i>20.6</i>	<i>22.5</i>	<i>(1.9)</i>	<i>22.8</i>	<i>22.2</i>	<i>22.0</i>	<i>(0.2)</i>
EPS (Rs.)	12.8	13.6	(5.6)	12.0	42.2	51.3	21.5



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

PL's Recommendation Nomenclature

BUY	: > 15% Outperformance to BSE Sensex	Outperformer (OP)	: 5 to 15% Outperformance to Sensex
Market Performer (MP)	: -5 to 5% of Sensex Movement	Underperformer (UP)	: -5 to -15% of Underperformance to Sensex
Sell	: <-15% Relative to Sensex		
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.