

20<sup>th</sup> July 2009

## Key Take Away

CMP	501
Recommendation	Hold

## Scrip Details

Market Cap (Rs crores)	98056
P/E (FY10E)	17.62
Equity Capital (Rs crores)	195.72
Face Value (Rs)	1.0
52 Week High/Low (Rs)	875/358

Website: [www.tcs.com](http://www.tcs.com)

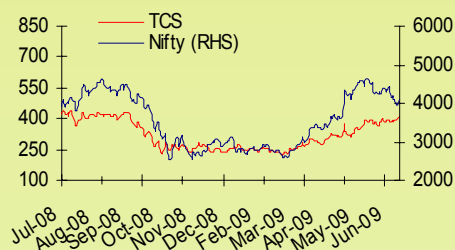
NSE Code	TCS
Sensex	15191
Nifty	4502

## Shareholding Pattern (%)

As on 30<sup>th</sup> June 2009

Promoters	75.09
MFs, FIs & Banks	2.64
FII	11.20
Other Bodies corporate	0.73
Public and others	10.34

## Comparative Price Movement



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TCS came out with impressive numbers for the first quarter of FY10. The company managed to beat the market expectations. There was a surprise surge in the profits at the operational levels as the company saw the benefits from the improved cost management measures undertaken in the previous months and increased off-shoring in Q1FY10 accrue at the EBITDA levels. Also, the company saw higher non-operating income push the bottom line further up. Q1FY10 volume growth stood at 3.54%. The management reiterated the cautious outlook for the overall business environment. Though the pricing pressures seem to be reducing, the environment continues to be challenging. The management believes that the sector can see business recovery only post the end of 2010. However, as far as the current fiscal year is considered, TCS expects a flattish growth, as the management is cautiously optimistic about the growth opportunities. The macro economic uncertainties are expected to impact on the industry verticals like manufacturing, high-tech and telecom, which would be prime culprits in dragging down the growth for the next quarter. In coming quarters, the fresh hiring plans would be impacting the operating profits. At the client level, the IT spending pattern is yet not clear owing to the adverse macro environment, which is further engrained by the prolonged decision making cycle at the clients' end. Though there are signs of green shots, one cannot construe it as return of the spring. There is some more pain left for the IT players before they resume their prosperous journey. With this we maintain a cautious view on this sector. At the CMP of Rs. 501, the stock quotes at PE of 17.62x its FY10E EPS of Rs. 28.41. Hold.

## Result Highlights

- TCS's consolidated revenues registered a QoQ surge of 0.5% from Rs. 7207 crore to Rs. 7172 crore in Q1FY10. There was a drastic improvement in the EBITDA margins, which improved from 25.8% in Q4FY09 to 27.3% in Q1FY10. The EBITDA stood at Rs. 1965 crore against Rs. 1846 crore for the same period, up 6.4%. The PAT posted handsome gain of 15.1% QoQ, with the net profit standing at Rs. 1534 crore in Q1FY10 versus Rs. 1333 crore in Q4FY09. Also, the NPM jumped to an impressive 21.3% from 18.6% a quarter back.
- On YoY basis, the revenues grew by 12.4% from Rs. 6411 crore, EBITDA shot up by 26% from Rs. 1559 crore and the reported PAT surged by 18.9% from Rs. 1291 crore.
- The company incurred forex hedging loss of Rs. 85 crore versus Rs. 195 crore (QoQ). In Q2FY10, forex loss is likely to come down further due to less outstanding hedges.
- TCS added 26 clients in the first quarter. The IT behemoth bagged eight large deals during the quarter. The company was finally able to conquer the declining trend in the revenues of the Top 10 clients, which grew by 7.5%. The deal pipeline of the company remains healthy.
- The company has total employee strength of 141642 as on June 30, 2009. In the quarter Infosys saw a gross addition of 1154 people but the employee base shrank by 2746 people. For FY10, the company has made 24,885 campus offers, which will join company in next three quarters.

## Key Financials

TCS (Rs In Cr)	Q1FY10	Q4FY09	% Chg.	Q1FY10	Q1FY09	% Chg.
Total Revenue	7207.0	7172.0	0.5	7207.0	6410.7	12.4
Total Expenditure	5242.2	5325.2	-1.6	5242.2	4851.7	8.0
Operating Profit	1964.8	1846.8	6.4	1964.8	1559.0	26.0
OPM (%)	27.3	25.8		27.3	24.3%	
PBT	1828.6	1545.8	18.3	1828.6	1483.8	23.2
Reported PAT	1533.9	1332.8	15.1	1533.9	1290.6	18.9
NPM (%)	21.3	18.6		21.3	20.1%	
Adj. EPS (Rs.)	7.8	13.6		7.8	13.2	

## Financials

(YE March 31)	Q1FY10	Q4FY09	% Chg.	Q1FY10	Q1FY09	% Chg.	FY09	FY08	% Chg.
Total Revenue	7207.0	7172.0	0.5	7207.0	6410.7	12.4	27812.9	22863.4	21.6
Staff Cost	2695.7	2562.0	5.2	2695.7	2284.1	18.0	9901.6	7854.6	26.1
Overseas business Exp	1094.4	1288.0	-15.0	1094.4	1212.1	-9.7	5032.4	3994.9	26.0
Services by Associates	280.7	236.3	18.8	280.7	232.6	20.7	1108.7	850.5	30.4
Total Expenditure	5242.2	5325.2	-1.6	5242.2	4851.7	8.0	20643.1	16909.8	22.1
Operating Profit	1964.8	1846.8	6.4	1964.8	1559.0	26.0	7169.8	5953.6	20.4
Non-Op. Income	25.6	-130.0	-119.7	25.6	43.9	-41.8	-427.0	486.1	-187.8
Depreciation	158.0	165.0	-4.2	158.0	112.2	40.8	564.1	563.7	0.1
PBT	1828.6	1545.8	18.3	1828.6	1483.8	23.2	6150.1	5846.0	5.2
Prov. for Tax- Cur	277.3	194.0	42.9	277.3	184.4	50.4	839.0	786.3	6.7
Reported PAT	1533.9	1332.8	15.1	1533.9	1290.6	18.9	5256.4	5026.0	4.6
Equity Share capital	195.7	97.9		195.7	97.9	100.0	97.9	97.9	0.0
Adj. EPS (Rs.)	7.8	13.6	-42.5	7.8	13.2	-40.6	53.7	51.4	4.6
OPM (%)	27.3	25.8		27.3	24.3		25.8	26.0	
PBT Margin (%)	25.4	21.6		25.4	23.1		22.1	25.6	
NPM (%)	21.3	18.6		21.3	20.1		18.9	22.0	

## Operational Highlights

Geographical Distribution of Revenues(%)	Q1FY10	Q4FY09	Chg %	Q1FY09	Chg %	FY09	FY08	Chg %
North America	52.3	52.4	-0.2	51.1	2.3	51.5	50.7	1.6
Ibero America	4.6	4.8	-4.2	4.1	12.2	4.7	4.4	6.8
UK	16.9	17.9	-5.6	19.5	-13.3	19.0	19.8	-4.0
Continental Europe	11.0	10.8	1.9	10.1	8.9	10.5	9.2	14.1
India	9.1	8.2	11.0	8.7	4.6	7.8	9.0	-13.3
Asia Pacific	4.3	3.9	10.3	4.9	-12.2	4.7	5.2	-9.6
MEA	1.8	2.0	-10.0	1.6	12.5	1.8	1.7	5.9
Revenue by services (%)	Q1FY10	Q4FY09	Chg %	Q1FY09	Chg %	FY09	FY08	Chg %
IT Solutions & Services								
<i>Application Development &amp; Maintenance</i>	48.7	48.6	0.2	46.9	3.8	48.5	48.3	0.4
<i>Business Intelligence</i>	6.1	6.8	-10.3	9.0	-32.2	8.1	9.7	-16.5
<i>Enterprise Solution</i>	10.9	11.8	-7.6	13.0	-16.2	12.6	13.1	-3.8
<i>Assurance Services</i>	4.4	3.8	15.8	4.5	-2.2	4.3	3.8	13.2
Engineering & Industrial Services	5.2	5.8	-10.3	5.6	-7.1	6.0	5.4	11.1
Infrastructure Services	9.3	8.3	12.0	7.7	20.8	8.0	6.5	23.1
Global Consulting	1.4	1.7	-17.6	3.7	-62.2	2.7	3.4	-20.6
Asset Leverage Solutions	2.6	2.1	23.8	3.5	-25.7	2.9	3.6	-19.4
Business Process Outsourcing	11.4	11.1	2.7	6.1	86.9	6.9	6.2	11.3
Revenue Mix (%)	Q1FY10	Q4FY09	Chg %	Q1FY09	Chg %	FY09	FY08	Chg %
Time and Material Basis	52.6	52.9	-0.6	5720.0	-99.1	55.20	55.90	-1.3
Fixed Price, Fixed Time Basis	47.4	47.1	0.6	4280.0	-98.9	44.80	44.10	1.6
Revenue by Industry (%)	Q1FY10	Q4FY09	Chg %	Q1FY09	Chg %	FY09	FY08	Chg %
BFSI	43.9	42.8	2.6	42.5	3.3	42.3	43.6	-3.0
Telecom	12.6	13.1	-3.8	15.5	-18.7	14.4	17.4	-17.2
Manufacturing	9.2	9.8	-6.1	10.7	-14.0	10.5	12.7	-17.3
Retail & Distribution	12.2	12.0	1.7	8.6	41.9	10.3	7.7	33.8
Hi-Tech	4.9	5.5	-10.9	7.0	-30.0	6.5	0.0	-
Life Sciences & Healthcare	5.7	5.7	0.0	5.3	7.5	5.2	5.5	-5.5
Transportation	3.7	3.8	-2.6	4.3	-14.0	4.1	4.0	2.5
Energy & Utilities	2.7	2.7	0.0	2.9	-6.9	2.8	2.7	3.7
Media & Entertainment	2.2	2.1	4.8	1.7	29.4	1.9	0.0	-
Others	2.9	2.5	16.0	1.5	93.3	2.0	6.4	-68.8
Clients	Q1FY10	Q4FY09	Chg %	Q1FY09	Chg %	FY09	FY08	Chg %
US\$ 1 million Clients*	423	405	4.4	362	16.9	405	358	13.1
US\$ 5 million Clients*	178	172	3.5	147	21.1	172	143	20.3
US\$ 10 million Clients*	113	111	1.8	105	7.6	111	100	11.0
US\$ 20 million Clients*	59	62	-4.8	54	9.3	62	56	10.7
US\$ 50 million Clients*	23	24	-4.2	21	9.5	24	19	26.3
US\$ 100 million Clients*	6	7	-14.3	7	-14.3	7	7	0.0
Top client contribution to Revenue (%)*	5.7	4.7	21.3	6.2	-8.1	4.7	6.5	-27.7
Top 5-client contribution to Revenue (%)*	19.4	18.6	4.3	18.5	4.9	18.6	18.9	-1.6
Top 10-client contribution to Revenue (%)*	28.0	26.9	4.1	28.3	-1.1	26.9	29.1	-7.6
* for last twelve months								
Repeat Business (%)	99.7	95.6	4.3	99.3	0.4	97.1	96.4	0.7
New Business (%)	0.3	4.4	-93.2	70.0	-99.6	2.9	3.6	-19.4
New clients added during the period	26	36	-27.8	35	-25.7	163	212	-23.1
Number of Active Clients	933	985	-5.3	885	5.4	1014	929	9.1
Onsite-Offshore Revenue Mix (%)	Q1FY10	Q4FY09	Chg %	Q1FY09	Chg %	FY09	FY08	Chg %
Offshore	50.4	47.7	5.7	40.9	23.2	44.2	41.9	5.5
Onsite	44.4	48.2	-7.9	54.9	-19.1	51.2	53.9	-5.0
GDC / RDC	5.2	4.1	26.8	4.2	23.8	4.6	4.2	9.5
Utilization Rate (%)	Q1FY10	Q4FY09	Chg %	Q1FY09	Chg %	FY09	FY08	Chg %
Including Trainees	71.3	69.4	2.7	74.6	-4.4	69.4	75.8	-8.4
Excluding Trainees	79.2	79.7	-0.6	78.3	1.1	79.7	79.1	0.8

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