

January 18, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs. 1,139	Rs1,275
EPS change FY11E/12E (%)	(0.5)/(0.3)
Target Price change (%)	2
Nifty	5,655
Sensex	18,882

Price Performance

(%)	1M	3M	6M	12M
Absolute	2	13	34	43
Rel. to Nifty	6	24	28	33

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	IT Services
Bloomberg	TCS@IN
Equity Capital (Rs mn)	1957
Face Value(Rs)	1
No of shares o/s (mn)	1957
52 Week H/L	1,187/683
Market Cap (Rs bn/USD mn)	2,190/48,222
Daily Avg Volume (No of sh)	1659909
Daily Avg Turnover (US\$mn)	39.2

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	74.0	74.1	74.1
FII/NRI	12.4	12.2	12.4
Institutions	8.1	8.0	7.8
Private Corp	0.6	0.7	0.7
Public	4.8	5.0	5.0

Source: Capitaline

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- **Inline revenues at US\$ 2,144 mn(+7% QoQ). Margins improve further by ~20 bps QoQ to 30.2%, despite currency appreciation, normalization of rentals and strong hiring**
- **Profits at Rs 23.3 bn (+10.6% QoQ,+29.6% YoY) driven by better margins and higher other income(include Rs 522 mn of forex gains)**
- **Solid operating metrics show with strong hiring(~12k+ net additions coupled with campus hiring targets of ~37k lend support to volume momentum thesis**
- **Tweak estimates marginally driving a 0.5/0.3/2.4% upgrade in FY11/12/13E EPS to Rs 43.8/51.3/61.6 respectively. Retain ACCUMULATE with TP upped to Rs 1,275(V/s Rs 1,250 earlier)**

Inline revenues, margin show remains commendable

While TCS's 7% QoQ revenue growth performance was in line with estimates, margins show was commendable with EBITDA margins improving by ~20 bps QoQ to 30.2% (V/s Emkay est of ~20 bps decline and street building in ~50-70 bps sequential decline) especially in the back drop of currency headwinds, strong hiring yet again (co added ~12,500 employees on a net level) and normalization of rental expenses. Profits at Rs 23.3 bn (+10.6% QoQ, +29.6% YoY) beat estimates driven by higher margins coupled with forex gains of ~Rs 522 mn. Sequential volume growth was ~5.7%. TCS added ~12,500 employees on a net level during Dec'10 quarter (~7,700 laterals and on the back of ~10k+ addition in Sep'10 qtr) indicating confidence on volume growth ahead. Further co mgmt indicated that it intends to hire ~37k freshers for FY12, which in our view will improve employee mix and be a margin lever ahead.

Operating metrics-nearly an all round performance

TCS's operating metrics performance continued to be an all round show with growth remaining broad based across services line/verticals. While revenues from fin svcs/manufacturing/retail were up by ~8.4%/4.1%/7% QoQ, revenues from IMS and BPO were up by ~19.5%/11/9% sequentially carrying on the strong traction of the past few quarters. **TCS continues to expand the lead over Infosys through better traction within BPO and IMS services lines in the recent quarters although Infosys matches/leads on revenues outside of the two services lines (refer table below)**

Tweak estimates marginally, raise TP further to Rs 1,275

TCS's results vindicate a strong demand momentum for the offshore Tier 1 vendors and should sooth investor nerves after a moderate disappointment at Infy. We believe that TCS's stronger show relative to Infy yet again will continue to lend support to it's premium valuation to Infosys. We tweak our rev estimates, raise our margin assumptions marginally (as we build in EBITDA mgns at 29.9%/29.1%/28.5% V/s 29.8%/29.1%/28.2% earlier for FY11/12/13 respectively) driving a 0.5%/0.3%/2.2% increase in our FY11/12/13E earnings to Rs 43.8/51.3/61.5 respectively. Retain ACCUMULATE with a increased TP of Rs 1,275(V/s Rs 1,250 earlier)

Financials

Y/E March	Net Sales	EBITDA	EBITDA %	PAT	EPS (Rs)	ROE %	P/E (x)	EV/ EBITDA	P/B (x)
FY10	300,289	86,843	28.9	68,694	35.1	37.6	32.2	24.9	10.5
FY11E	373,090	111,533	29.9	85,742	43.8	37.5	25.8	19.3	8.9
FY12E	460,077	133,740	29.1	100,317	51.3	36.8	22.0	15.9	7.4
FY13E	548,926	156,310	28.5	120,357	61.5	36.3	18.4	13.3	6.0

Quarterly performance

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD'11E	YTD'10	YoY (%)
Revenue	74,351	76,503	77,365	82,172	92,864	96,634	26.3	4.1	2,71,670	2,22,924	21.9
Operating Expenditure	53,009	53,786	54,200	58,085	64,970	67,461	25.4	3.8	1,90,516	1,59,246	19.6
Cost of revenues	39,215	39,841	39,936	43,978	49,448	51,186	28.5	3.5	1,44,612	1,17,264	23.3
as % of sales	52.7	52.1	51.6	53.5	53.2	53.0			53.2	52.6	
SG&A expenses	13,794	13,945	14,264	14,107	15,522	16,275	16.7	4.9	45,904	41,982	9.3
as % of sales	18.6	18.2	18.4	17.2	16.7	16.8			16.9	18.8	
EBITDA	21,342	22,717	23,165	24,087	27,894	29,173	28.4	4.6	81,154	63,678	27.4
Depreciation	1,811	1,829	1,924	1,781	1,886	2,041	11.6	8.2	5,708	5,367	6.4
EBIT	19,531	20,888	21,241	22,306	26,008	27,132	29.9	4.3	75,446	58,311	29.4
Other Income	(144)	569	1,636	829	337	1,822	220.2	440.0	2,988	619	
PBT	19,387	21,457	22,877	23,135	26,345	28,954	34.9	9.9	78,434	58,930	33.1
Total Tax	2,909	3,241	3,284	4,423	4,992	5,385	66.2	7.9	14,800	8,805	68.1
Adjusted PAT	16,478	18,216	19,593	18,712	21,353	23,569	29.4	10.4	63,634	50,125	27.0
(Profit)/loss from JV's/Ass/MI	-239	-237	-320	-269	-288	-262			-819	-704	
APAT after MI	16,239	17,979	19,273	18,443	21,065	23,307	29.6	10.6	62,815	49,421	27.1
Extra ordinary items	0	0	0	0	0	0			0		
Reported PAT	16,239	17,979	19,273	18,443	21,065	23,307	29.6	10.6	62,815	49,421	27.1
Reported EPS	8.3	9.2	9.8	9.4	10.8	11.9	29.6	10.6	32.1	25.3	27.1

Margins (%)							(bps)	(bps)			
EBIDTA	28.7	29.7	29.9	29.3	30.0	30.2	49	15	29.9	28.6	131
EBIT	26.3	27.3	27.5	27.1	28.0	28.1	77	7	27.8	26.2	161
EBT	26.1	28.0	29.6	28.2	28.4	30.0	192	159	28.9	26.4	244
PAT	21.8	23.5	24.9	22.4	22.7	24.1	62	143	23.1	22.2	95
Effective Tax rate	15.0	15.1	14.4	19.1	18.9	18.6	349.4	(35.0)	18.9	14.9	393

Source: Company, Emkay Research

TCS continues to outperform on operational performance yet again

	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec'10
Rev gwth(YoY)(US\$ mn)								
Infosys	-1.8	-2.8	-5.1	5.2	15.6	21.0	29.6	28.7
TCS	-5.5	-2.9	-2.3	10.2	17.7	21.2	30.3	31.1
EBITDA gwth(YoY)								
Infosys	27.9	26.3	7.7	0.4	6.9	4.9	19.8	15.9
TCS	24.3	22.6	17.3	16.7	23.0	22.8	30.7	28.4
Profits gwth (YoY)								
Infosys	29.1	17.3	7.5	-3.5	0.2	-2.6	12.8	12.4
TCS	-19.2	22.2	28.6	32.9	46.9	21.3	29.7	29.6

Source: Companies, Emkay Research

While Infy has matched TCS on revenue growth (ex IMS and BPO), TCS has clearly moved from strength to strength in IMS and BPO.

	June'09	Sep'09	Dec'09	March'10	June'10	Dec'10
Revenues						
Infosys	1,122	1,154	1,232	1,296	1,358	1,585
TCS	1,481	1,538	1,635	1,686	1,794	2,144
Revenue growth, QoQ						
Infosys		2.9%	6.8%	5.2%	4.8%	5.9%
TCS		3.9%	6.3%	3.1%	6.4%	7.0%
BPO Revenues						
Infosys	68	72	73	80	77	89
TCS	169	181	188	194	201	244
BPO Rev growth, QoQ						
Infosys		4.5%	1.6%	10.5%	-3.7%	5.9%
TCS		7.5%	3.6%	3.1%	3.6%	11.9%
IMS Revenues						
Infosys	74	90	87	93	94	95
TCS	138	123	129	140	156	225
IMS Rev growth, QoQ						
Infosys		21.6%	-2.8%	6.7%	0.4%	2.5%
TCS		-10.6%	5.0%	8.3%	11.5%	19.5%
Rev(ex IMS and BPO)						
Infosys	980	992	1,072	1,122	1,187	1,401
TCS	1,174	1,233	1,318	1,352	1,437	1,674
Rev(ex IMS and BPO) growth, QoQ						
Infosys		1.3%	8.0%	4.7%	5.8%	6.2%
TCS		5.1%	6.8%	2.6%	6.3%	4.8%

Source: Companies, Emkay Research

(All fig in Rs mn except EPS)	FY11E			FY12E			FY13E		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenues(US\$ mn)	8,193	8,196	0.0%	10,171	10,224	0.5%	12,127	12,198	0.6%
Revenues	371,625	373,090	0.4%	457,695	460,077	0.5%	545,731	548,926	0.6%
EBITDA	110,741	111,533	0.7%	133,269	133,740	0.4%	153,756	156,310	1.7%
Net profits	85,301	85,742	0.5%	99,972	100,317	0.3%	117,787	120,357	2.2%
EPS	43.6	43.8	0.5%	51.1	51.3	0.3%	60.2	61.5	2.2%

Source: Emkay Research

Financials

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11E	FY12E	FY13E
Net Sales	300,289	373,090	460,077	548,926
Growth (%)	8	24	23	19
Total Expenditure	(213,446)	(261,558)	(326,337)	(392,616)
Growth (%)	3	23	25	20
EBIDTA	86,843	111,533	133,740	156,310
Growth (%)	21	28	20	17
EBIDTA %	28.9	29.9	29.1	28.5
Other Income	2,255	3,543	6,750	11,250
Depreciation	(7,291)	(7,761)	(8,671)	(9,714)
EBIT	81,807	107,315	131,819	157,846
Interest	-	-	-	-
EBT	81,807	107,315	131,819	157,846
Tax	(12,089)	(20,458)	(30,318)	(36,305)
EAT	68,694	85,742	100,317	120,357
Growth (%)	33	25	17	20
EAT (%)	22.9	23.0	21.8	21.9

Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11E	FY12E	FY13E
Equity share capital	1,957	1,957	1,957	1,957
Reserves & surplus	208,427	247,397	296,362	365,367
Minority Interest	4,055	4,055	4,055	4,055
Networth	214,439	253,409	302,374	371,379
Secured Loans	2,418	2,418	2,418	2,418
Unsecured Loans	-	-	-	-
Loan Funds	2,418	2,418	2,418	2,418
Total Liabilities	216,857	255,827	304,792	373,797
Goodwill	-	-	-	-
Gross Block	103,716	125,716	147,716	169,716
Less: Depreciation	29,594	37,355	46,026	55,740
Net block	74,121	88,361	101,690	113,976
Capital WIP	-	-	-	-
Investment	37,816	37,816	37,816	37,816
Current Assets	162,608	209,378	266,124	342,317
Inventories	178	178	-	-
Sundry debtors	58,098	76,662	84,036	84,036
Cash & bank balance	10,249	25,211	49,737	100,371
Loans & advances	22,488	30,665	37,815	45,117
Other current assets	71,595	76,662	94,536	112,793
Current Liab & Prov	57,689	79,729	100,839	120,313
Current liabilities	50,962	79,729	100,839	120,313
Provisions	6,727	-	-	-
Net current assets	104,919	129,650	165,285	222,004
Misc exps	-	-	-	-
Deferred Tax	-	-	-	-
Total Assets	216,857	255,827	304,792	373,797

Cash Flow

Y/E, Mar (Rs. m)	FY10	FY11E	FY12E	FY13E
Net Profit after Tax	68,694	85,742	100,317	120,357
Add : Depreciation	7,291	7,761	8,671	9,714
Add : Misc exp w/off	-	-	-	-
Net changes in WC	1,613	(22,040)	(21,110)	(19,474)
Operational Cash Flows	47,545	84,850	99,062	125,170
Capital expenditure	(9,773)	(22,000)	(22,000)	(22,000)
Investments	(20,545)	-	-	-
Investing Cash Flows	(30,319)	(22,000)	(22,000)	(22,000)
Borrowings	(4,496)	-	-	-
dividend paid	(45,801)	(45,788)	(50,358)	(50,358)
Issue of shares	(1,015)	-	-	-
Share Premium	44	-	-	-
Financing Cash Flows	(41,002)	(47,888)	(52,536)	(52,536)
changes in cash	(23,777)	14,962	24,526	50,634
Opening balance	13,441	10,249	25,211	49,737
Closing balance	10,249	25,211	49,737	100,371

Key ratios

Y/E, Mar	FY10	FY11E	FY12E	FY13E
EPS (Rs)	35.1	43.8	51.3	61.5
CEPS (Rs)	38.8	47.8	55.7	66.5
Book Value Per Share (Rs)	107.0	126.9	151.9	187.2
Dividend Per Share (Rs)	20.0	20.0	22.0	22.0
Valuations Ratios (x)				
PER	32.2	25.8	22.0	18.4
P/CEPS	29.1	23.6	20.3	17.0
P/BV	10.5	8.9	7.4	6.0
EV/EBIDTA	24.9	19.3	15.9	13.3
EV/Sales	7.2	5.8	4.6	3.8
M-Cap/sales	7.4	5.9	4.8	4.0
Profitability Ratios (%)				
RoCE	41.4	43.9	44.6	43.2
RoNW	37.6	37.5	36.8	36.3
EBITDA Margin	28.9	29.9	29.1	28.5
EBIT Margins	26.5	27.8	27.2	26.7
Net Profit Margin	22.9	23.0	21.8	21.9

Recommendation History: Tata Consultancy Services - TCS IN

Date	Reports	Reco	CMP	Target
22/12/2010	TCS Company Update	Accumulate	1,150	1,250
22/10/2010	TCS Q2FY11 Result Update	Accumulate	984	1,075
16/07/2010	TCS Q1FY11 Result Update	Accumulate	780	890
20/04/2010	TCS Q4FY10 Result Update	Accumulate	815	860

Recent Research Reports

Date	Reports	Reco	CMP	Target
13/01/2011	Infosys Technologies Q3FY11 Result Update	Accumulate	3,205	3,400
11/01/2011	Patni Computers Event Update	NR	646	NA
07/12/2010	Infinite Computer Solutions Initiating Coverage	Buy	170	250
26/11/2010	Mphasis Company Update	Hold	599	600

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