

INITIATING COVERAGE

TATA CONSULTANCY SERVICES

Buy

Share Data

Market Cap	Rs. 1101.43 bn
Price	Rs. 1125.5
BSE Sensex	14488
Reuters	TCS.BO
Bloomberg	TCS IN
Avg. Volume (52 Week)	0.35 mn
52-Week High/Low	Rs. 1327.9 / 815.47
Shares Outstanding	978.61 mn

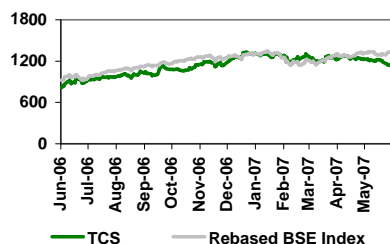
Valuation Ratios

Year to 31 March	2008E	2009E
EPS (Rs.)	49.6	60.8
+/- (%)	16.9%	22.6%
PER (x)	23.0x	18.7x
EV/ Sales (x)	4.7x	3.7x
EV/ EBITDA (x)	17.5x	14.3x

Shareholding Pattern (%)

Promoters	82
FII's	7
Institutions	5
Public & Others	6

Relative Performance



Strong fundamentals

Tata Consultancy Services (TCS) is the largest Indian IT services company with revenues of Rs. 187 bn. The Company has presence in 39 countries across continents, serving 12 industry verticals and 6 major service lines. TCS increased its active clients base by over 20% last year. Margins are expected to improve with the contract renewal at a higher price and new client additions. TCS has gone for forward currency options and hedge transactions to combat Rupee appreciation. With the commencement of JV in China and over 10 deals in pipeline, the investment case for TCS looks promising.

Key Figures

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data) (FY07-09E)						
Net Sales	97,485	132,640	186,852	233,565	294,292	25.5%
EBITDA	28,140	36,856	51,397	62,362	76,516	22.0%
Net Profit	22,272	29,459	41,545	48,561	59,513	19.7%
Margins(%)						
EBITDA	28.9%	27.8%	27.5%	26.7%	26.0%	
NPM	22.8%	22.2%	22.2%	20.8%	20.2%	
Per Share Data (Rs.)						
Normalised EPS	47.3	30.1	42.5	49.6	60.8	19.7%
PER (x)	24.1x	37.9x	26.9x	23.0x	18.7x	

- With continued expected growth in IT-BPO industry, we expect company's revenues to grow from Rs. 186,852 mn to Rs. 294,292 mn, depicting CAGR of 25.5% during FY07-09E.
- EBITDA and net profit margins are likely to remain under pressure in FY08 at 26.7% (down by 81bps from FY07 levels) and 20.8% (down by 144bps from FY07 levels) respectively due to rising rupee.
- At current market price of Rs. 1,126, the stock trades at forward PE of 23x FY08E and 19x FY09E.
- We initiate coverage of TCS with a buy rating and a 12-month price target of Rs 1,340 based on current PE multiple of 27x FY08E earnings.

Investment Rationale

Robust industry growth of Indian Information Technology Sector

NASSCOM forecasts that IT-BPO spending will reach US\$ 2,077 bn by 2010 a CAGR of 7.25% over FY05-10. By 2010, offshore spendings are expected to reach US\$ 110-120 bn. The company is well positioned to encash the growth advantage backed by its global network delivery model, strategic acquisitions and integrated full service play. It continues to grow in multiple regions, especially in North America and Europe.

Increased IT spendings will contribute positively towards company's top line

Wide network of clients and new additions

The company added 218 new clients during FY07 against 330 clients added during FY06. TCS's top 10 clients contributed 28.4% of the revenues for FY07. The company derived 56% of its revenues from North America and 28% from Europe. In addition, the company has been focussing on higher growth in Europe which is evident from the fact that proportion of revenues from Europe increased from 22% during FY06 to 28% during FY07.

Added 218 clients in FY 07

Strategic acquisitions and joint ventures

In order to drive higher levels of growth, TCS has been making strategic acquisitions for creating new capabilities. Value created by the acquisitions has been significant, but it is only the beginning of synergistic revenue opportunities. Acquisitions have enabled the company to win many large value deals. TCS has at least 10 deals of more than US\$ 50 mn (per deal) which the company is currently pursuing. TCS's new joint venture in China kicked off in early 2007, leveraging the capability of the partners in China to grow in scale, as well as make inroads into Chinese the domestic market.

10 deals of more than \$ 50 mn in pipeline

Increase in headcount

During FY07, the company added a net of 22,750 employees through recruitment and through mergers and acquisitions against 21,140 during FY06. Moreover, in the current year the company has made 12,000 campus offers. Continuing recruitment depicts the buoyancy in the future potential of the

Continuous recruitment depicts management confidence

company. TCS is expected to maintain the utilization rate of 77-79% during FY08.

Better realizations expected

Improvement in realization

Due to high demand, the pricing environment has been encouraging. Higher realization of about 3% to 5% is expected on renewal of existing contracts and it is expected to be in the range of 5% to 10% for new contracts. This improvement in realizations would support margins going forward.

Key Risks

Depreciating dollar will have adverse impact on margins

Appreciating rupee against dollar

TCS derived 56% of its revenues from North America. Any appreciation in rupee would result in lower realizations leading to lesser margins. Though the company hedges the currency exposure using foreign exchange forwards and options contracts to mitigate the risk, yet further depreciation of the dollar would put pressure on margins and thus would be a risk to our ratings.

Wage inflation and attrition

With the setting up of offshore operations in India by large multinational companies, the wage pressure would tend to remain high. Wage increase of 12% has been considered in estimating profits, and any further hike in wages would have adverse impact on its margins. Although the company's attrition rate was 11.3%, against over 14% for its peers for FY07, attrition remains a major risk given the increased opportunities in India.

Outlook

Strong fundamentals with bright growth prospects

TCS, with its global presence and fully integrated services player is poised to take advantage of the expected robust growth in the IT-BPO space. TCS entered into a JV in China in FY07, to provide IT outsourcing services and solutions to the Chinese domestic market as well as the global market. TCS is expected to maintain the utilization rate of 77-79% during FY08.

We expect the revenues to grow at a CAGR of 25.5% during FY07-09E. At the current market price of Rs. 1,126, the stock trades at forward PE of 23x FY 08E and 19x estimated for FY09E. We initiate coverage of TCS with a buy

rating and a 12 month price target of Rs 1,340 based on current PE multiple of 27x FY08E earnings.

Overall, the outlook remains strong on the basis of the company's strong fundamentals and business model.

Company Background

Largest Indian IT Company

Tata Consultancy Services (TCS) is the largest Indian Information Technology company in terms of revenue, profits, number of employees and market capitalization. Established in 1968 as a division of Tata Sons, TCS's sectors include banking, financial services and insurance (BFSI); manufacturing; retail and distribution; telecom, and others. Others comprise transportation; life sciences and healthcare; energy and utilities; s-Governance; media and entertainment; travel and hospitality services; and sale of products. BFSI contributes the most (44%) towards company's revenues. Geographically, company derives 56% of its revenues from North America. The company has 148 offices worldwide in 39 countries and has 56 subsidiaries as on March 31, 2007. Major delivery centres outside of India are in Hungary, Brazil, Chile, Uruguay and China. The company has over 85,000 employees from 65 nationalities. The company is part of the TATA group, one of the largest industrial groups in Asia.

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