

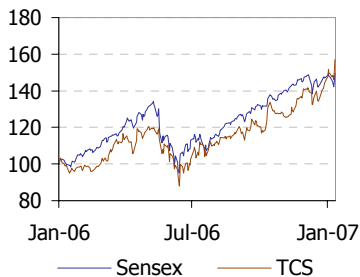
Tata Consultancy Services

 Relative to sector: **Outperformer**

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

 No. of shares : 978mn
 Market cap : Rs.1,299bn
 52 week high/low : Rs.1,367/ Rs.728
 Avg. daily vol. (6mth): 1.2mn shares
 Bloomberg code : TCS IN
 Reuters code : TCS.BO

Shareholding (%) Dec-06 QoQ chg

Promoters	: 82.5	(1.2)
FII's	: 7.0	1.0
MFs / UTI	: 1.6	0.0
Banks / FIs	: 2.8	0.3
Others	: 6.2	(0.2)

ANOTHER HOME RUN

TCS' Q3FY07 results are better than expected. Topline and PAT have recorded QoQ growth of 8.4% and 11.4% respectively, with 78bps increase in OPM. The negative impact of ~1.4% currency appreciation on OPM has been offset by ~8% volume blended growth, pricing and productivity increase of 2-3% and a favorable offshore mix that has risen by 170bps (including GDCs/ RDCs).

Business pipeline appears comparatively robust

New Growth Engines: New growth engines especially BPO, BI, IMS and Asset Leveraged Solutions were instrumental in topline growth. These offerings are currently in an annualized revenue run-rate of USD 250+mn. Assurance/ asset leveraged solutions however, are in USD 100mn revenue run-rate. These offerings will continue to play a key role in productivity gains and higher offshore share.

Large Deals: Pipeline remains robust with around 10 >USD50mn deals. The current quarter saw some significant wins – a 5 year USD140mn deal from LatAm, a USD100mn core-banking deal and a USD90mn deal in the ADM space. TCS has demonstrated effective transition management in these deals leading to better margins.

Forex Impact: Rupee appreciation will impact TCS' ability to achieve 25.6% margins in FY07 as highlighted in our preview on 3, Jan, 2007. Our FY07E estimates already consider this forex implication.

Operational Leverage: TCS has aptly demonstrated effective execution leading to QoQ margin increase in Q2FY07 and Q3FY07. It also has additional leverage with respect to increase in share of offshore revenues, higher OPM share from Diligenta (positive single-digit EBITDA), and productivity gains.

Valuations: Given the strong deal pipeline, expected increase in share of offshore revenues and proven execution ability, we retain our sector **Outperformer** rating at current valuations of 24x FY08E EPS.

Financial summary

Y/E Mar	Sales (Rs mn)	PAT (Rs mn)	Consensus EPS* (Rs)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	EV/EBIDTA (x)
2005	97,273	20,552	-	21.4	27.2	33.5	78.2	27.5
2006	132,550	28,968	-	29.6	38.4	32.3	60.5	27.1
2007E	187,597	41,390	41.8	42.3	42.9	31.4	53.6	27.0
2008E	249,113	55,060	52.9	56.3	33.0	23.6	46.5	19.0

Source: *Consensus broker estimates, Company, ENAM estimates, FY07 and FY08 average INR/ USD rate assumed at Rs.45.0 and Rs.44.1 respectively.

US GAAP Q3FY07 Results

(Rs mn)	Quarter ended					12 months ended		
	Dec-06	Dec-05	% Chg	Sep-06	% Chg	Mar-07E	Mar-06	% Chg
Net Sales	48,605	32,646	48.9	44,822	8.4	187,597	132,550	41.5
EBITDA	12,673	8,815	43.8	11,336	11.8	46,721	34,202	36.6
Other income	300	(197)	-	77	287.8	1,243	257	383.3
PBIT	12,973	8,618	50.5	11,414	13.7	47,963	34,459	39.2
Tax	1,828	1,254	45.7	1,447	26.3	6,286	4,984	26.1
Adjusted PAT	11,145	7,364	51.3	9,967	11.8	41,677	29,475	41.4
Minority Interest	(115)	(48)	137.8	(59)	-	327	280	-
Equity in net earnings of affiliates	17	4	-	8	-	39	16	-
One off items	-	-	-	-	-	-	243	-
Reported PAT	11,047	7,319	50.9	9,915	11.4	41,390	28,968	42.9
No. of shares (mn)	978	960	-	978	-	978	978	-
EBITDA margin (%)	26.1	27.0	-	25.3	-	24.9	25.8	-
PBIT margin (%)	26.7	26.4	-	25.5	-	25.6	26.0	-
EPS (Rs.)	11.3	7.6	48.1	10.1	11.4	42.3	29.6	42.9

Source: Company, ENAM Research

Clientele Quality

(Nos)	Q3FY07	Q2FY07	Q3FY06
Clientele Performance			
Active Client Base	754	742	677
Additions This quarter	55	58	83
Repeat Business (%)	96.1	97.9	94.8
Client Profile			
No: of USD 1mn clients	288	274	229
No: of USD 5mn clients	114	105	87
No: of USD 10mn clients	74	70	53
No: of USD 20mn clients	37	32	28
No: of USD 50mn clients	15	15	5
% of clients that contribute > than USD 1mn	38.2	36.9	33.8
% of clients that contribute >than USD 5mn	15.1	14.2	12.9

Source: Company, ENAM Research

Revenue performance: Horizontal service offerings

(Rs mn)	Q3FY07	Q2FY07	Q3FY06	% Chg QoQ	% Chg YoY
ADM	26,004	23,352	18,902	11.4	37.6
Business Intelligence	4,617	4,303	2,938	7.3	57.2
Engineering & Industrial Services	2,625	2,734	2,236	(4.0)	17.4
Infrastructure Services	2,673	2,689	1,404	(0.6)	90.4
Enterprise Solutions	5,735	5,379	4,358	6.6	31.6
Global Consulting	1,653	1,569	1,045	5.3	58.2
Asset Leverage Solutions	1,361	1,121	878	21.5	55.0
Assurance Services	1,118	1,076	490	3.9	128.3
Business Process Outsourcing	2,819	2,600	424	8.4	564.3
Total	48,605	44,822	32,675	8.4	48.8

Source: Company, ENAM Research

Q3FY07 Result Analysis

	Q3FY07	% Change		Remarks
		QoQ	YoY	
Topline (Rs mn)	48,605	8.4	48.9	Marginally better than our expectations
Operating Profit (Rs mn)	12,673	11.8	43.8	5.8% higher than our expectations
PAT (Rs mn)	11,047	11.4	50.9	2.7% higher than our expectations
EPS (Rs.)	11.3	-	-	-
OPM (%)	26.1	-	-	138 bps higher than our estimates. Key factors driving OPM increase include - offshore shift (+60 bps), GDC /RDC share (+110 bps), pricing/ efficiency gains despite 2.5% rupee appreciation
Volumes (Rs mn)				
Onsite	26,393	5.1	109.4	Topline growth would have been higher by 1.6% but for offshore transition
Offshore	20,220	10.0	0.9	
GDC / RDC	1,993	48.2	NA	
Volumes (nos.)				
Blended Volume Growth	-	7.9	NA	In line with our expectations of ~8%
Pricing (%)	-	2.0 - 2.5+	-	Time and material contracts recorded a 2% increase, whereas Fixed Price contracts saw ~2.6% productivity gains
Utilization Rates (%)				
Including Trainees	75.0	-	-	Enabled better volume growth QoQ
Excluding Trainees	78.2	-	-	
Employee Base (nos)				
Total Employees	83,500	7.0	32.7	FY07 gross additions expected at ~30,000. Q4FY07 to add another ~6,100+ personnel
Net Additions	5,562			
Clientele Performance (Rs mn)				
TCS - Consolidated	48,605	8.4	48.9	
CMC Revenues	2,986	7.6	49.2	
TCS excluding CMC	45,619	23.2	44.0	
Client Slabs (Rs mn)				
Top Client	2,600	25.2	32.9	Top 10 clients lead the QoQ run-rate with strong ramp-ups especially in the BPO and IMS segment. Top client is now at an annualized run rate of ~USD235mn
Top 2-5 clients	5,337	5.8	57.3	
Top 6-10 clients	4,608	8.7	47.8	
Top 10 Clients	12,545	10.4	48.1	
Remaining Clients	33,074	6.6	49.6	
Vertical Performance				BFSI, Life-sciences, Retail & Distribution led the growth

Source: Company, ENAM Research

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