

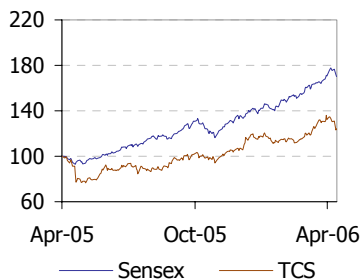
Tata Consultancy Services

 Relative to sector: **Outperformer**

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

 No. of shares : 489mn
 Market cap : Rs.931bn
 52 week high/low : Rs.2,005/ Rs.1,091
 Avg. daily vol. (6mth): 722,000 shares
 Bloomberg code : TCS IN
 Reuters code : TCS.BO

Shareholding (%) Mar-06 QoQ chg

Category	Mar-06 (%)	QoQ chg
Promoters	83.7	(0.2)
FII's	7.3	(0.5)
MFs / UTI	1.3	0.2
Banks / FI's	2.0	0.3
Others	5.8	0.2

VOLUMES GALORE

TCS' Q4FY06 results were marginally below our expectations (~2%). Merged/ acquired entities including TIL contributed 7.4% to consolidated sales, with 130 bps decline in OPM for consolidated entity (Q4FY06 v/s Q3FY06 after incl. TIL). Adjusting for tax write-back & extra-ordinary charge, PAT growth would have been ~6.5% QoQ (including TIL). Standalone entity growth at ~around 6% QoQ in topline in Q4FY06 was driven by similar employee additions QoQ (6.1%) and robust blended volume growth at 8.2% QoQ with stable pricing.

FY07 reflective of inorganic growth assimilation and volume momentum: Our estimates indicate topline and bottomline growth of 34% and 31% respectively for FY07 post assimilation of TIL and other acquired entities. Organic growth would be led by large deals, enterprise solutions segment and better client transition rates. Operating profit growth would be led by improvement in offshore share and better productivity gains from fixed-price contracts.

Employee additions and salary hikes: TCS plans to add 30,500 gross and 23,000 net employee additions with ~ 50% lateral recruitments. After adjusting for existing attrition rates of 9.9%, YoY increase in employee additions is targeted at 41.5%.

In alignment with certain industry peers, TCS offshore salary hike has been 15% (v/s 11% last year) with onsite salary hike at 3-5%.

Valuations and Recommendation: Given the prospects on large deals for offshore players, operating leverage for TCS via lower than peer offshore revenue share (41% incl. GDC share) and current valuations at 19.7x FY08E earnings, we are retaining our Sector **Outperformer** rating on the company.

Financial summary

Y/E Mar	PAT (Rs. mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	Market Cap /Sales (x)	EV/EBITDA (x)
2005	20,522	-	42.7	27.0	44.5	9.6	37.2
2006	28,968	-	59.2	38.6	32.1	7.0	26.6
2007E - Consolidated#	37,899	75.6	77.5	30.8	24.6	5.2	20.0
2008E - Consolidated#	47,254	92.6	96.6	24.7	19.7	4.1	NA

Source: *Consensus broker estimates, Company, ENAM estimates, # - Consolidated numbers include Tata InfoTech & recent acquisitions; FY07 and FY08 average INR / USD rate assumed at Rs44.48 and Rs43.4 respectively. EV /EBITDA on standalone basis.

In interest of timeliness, this report was not edited

USGAAP Q4FY06 Results

(Rs. mn)	Quarter ended					12 months ended		
	Mar-06	Mar-05	% Chg	Dec-05	% Chg	Mar-07E	Mar-06	% Chg
Net Sales	37,328	25,846	44.4	34,527	8.1	177,931	132,550	34.2
EBIDTA	9,276	6,809	36.2	9,029	2.7	44,138	34,202	29.1
Other income	16	(414)	-	(154)	-	318	257	23.6
PBIDT	9,293	6,396	45.3	8,875	4.7	44,456	34,459	29.0
Tax	896	834	7.4	1,319	(32.1)	6,446	4,984	29.3
Adjusted PAT	8,397	5,561	51.0	7,556	11.1	38,010	29,475	29.0
Minority Interest *	70	(116)	-	51	-	150	296	-
Extra ordinary income/ (exp.)	232	(230)	-	3	-	-	243	-
Reported PAT	8,094	5,447	48.6	7,502	7.9	37,899	28,968	30.8
No. of shares (mn)	489	480	-	489	-	489	489	-
EBIDTA margins (%)	24.9	26.3	-	26.2	-	24.8	25.8	-
PBIDT margins (%)	24.9	24.7	-	25.7	-	25.0	26.0	-
EPS - annualized (Rs.)	66.2	45.4	-	15.3	-	77.5	59.2	30.8

Source: Company, ENAM Research, Note: * Minority Interest includes earnings from affiliates

Revenue Analysis : TCS Standalone v/s Acquired Entities

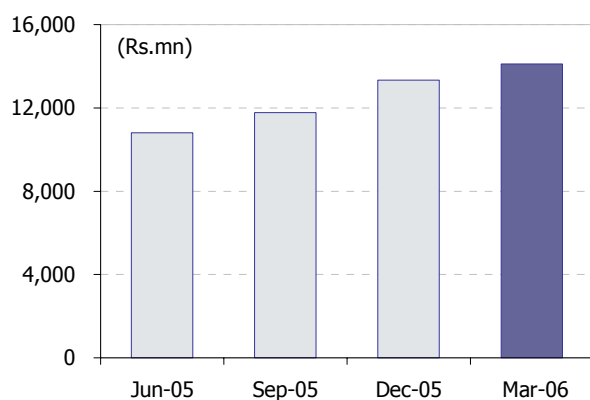
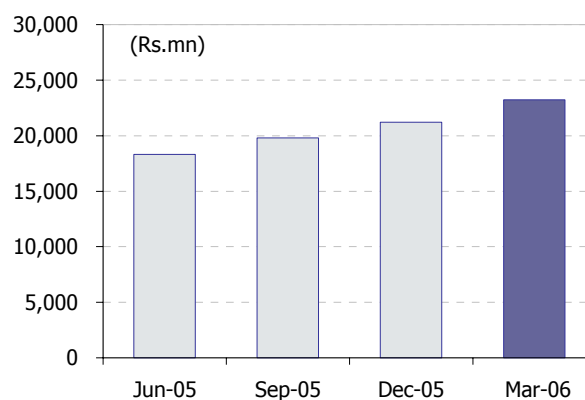
(Rs.mn)	Q4FY06	Q3FY06	QoQ Chg(%)
Consolidated Sales	37,328	34,527	8.1
TIL	1,800	1,881	-
Pearl	389	-	-
FNS + Comicon	577	-	-
Standalone	34,562	32,646	5.9
CMC	2,779	2,073	34.1
<i>Standalone Revenues ex. CMC</i>	<i>31,783</i>	<i>30,573</i>	<i>4.0</i>
<i>TCS Standalone + Pearl</i>	<i>32,172</i>	<i>-</i>	<i>-</i>
Top Client	1,176	1,131	4.0
Top 2-5 Clients	4,227	4,066	4.0
Top 6-10 Clients	3,337	3,244	2.9
Remaining Clients	23,043	22,132	4.1
GE Business	3,274	3,302	(0.9)
Margins (in %)			
<i>Gross Margins</i>	<i>45.3</i>	<i>46.2</i>	<i>(87.5)</i>
<i>OPM</i>	<i>24.9</i>	<i>26.2</i>	<i>(130.0)</i>
<i>NPM</i>	<i>22.3</i>	<i>21.8</i>	<i>47.0</i>

Source: Company, ENAM Research

Client Quality

(Nos.)	Q4FY06	Q3FY06	Q2FY06	Q1FY06
No : of \$ 1 mn clients	256	243	245	229
No : of \$ 5 mn clients	96	87	84	79
No : of \$ 10 mn clients	54	55	50	45
No : of \$ 20 mn clients	31	29	28	26
No : of \$ 50 mn clients	9	6	6	6
No. of active clients	748	766	759	671
New clients added	89	88	81	72
% of clients over \$1mn	34.2	31.7	32.3	34.1

Source: Company, ENAM Research

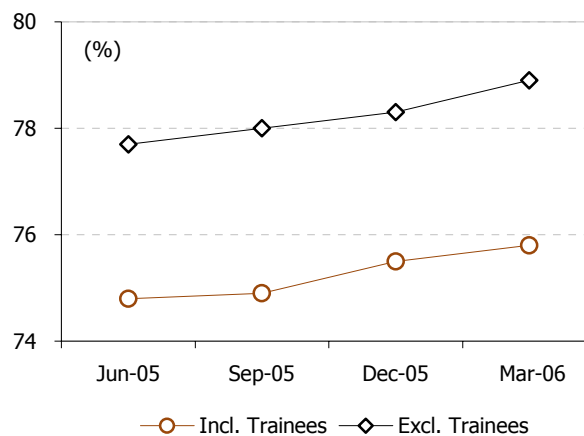
Offshore Revenues**Onsite Revenues**

Source: Company, ENAM Research

Employee Base

(Nos.)	Q4FY06	QoQ Chg (%)	Q3FY06	Q2FY06	Q1FY06
Total employees (incl. CMC & WTI)	66,480	5.7	62,904	56,778	52,038
Total employees (excl. CMC & WTI)	62,832	6.1	59,216	53,042	48,583
Gross Addition (excl. Indian subs)	5,254	-	7,521	5,788	8,814
Net Addition (excl. indian subs)	3,571	-	5,986	4,238	7,345
Attrition rate	9.9	-	8.7	8.7	8.2

Source: Company, ENAM Research

Utilisation Rates

Source: Company, ENAM Research, Note: Numbers excludes impact of TIL

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