



Ratings			
LTP	1,120	Recommendation	ADD
Target	1,070	Risk	MEDIUM

Bloomberg Consensus			
(BUY/HOLD/SELL)		41 / 16 / 05	

Sensex	Nifty	BSE IT
17,025	5,118	5,670

Codes			
BSE	NSE	Bloomberg	Reuters
532540	TCS	TCS IN	TCS.BO

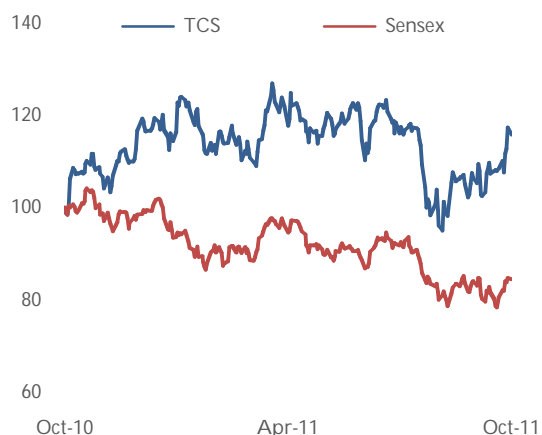
	Sensex	TCS
52 Wk: Hi/Lo	21,108/15,745	1,247/903
Life High	21,207-Jan 08	1,247-Apr 11
P/E	18.52	27.14
P/BV	3.39	11.25
Dividend Yield (%)	1.50	1.25
Mkt Cap (INR Mn)	60,699,020	2,191,673
Equity (INR Mn)	-	1,957

* - TTM standalone basis Capitaline

Share Holding Pattern %		
	Mar-11	Jun-11
Foreign	12.64	12.80
Institutions	8.11	8.09
Corporate	0.61	0.44
Promoters	74.05	74.08
Public & Others	4.59	4.60

Returns %	Abs	Relative to	
	Perf	Sensex	BSE IT
1 Month	8.80	8.26	-2.35
3 Months	-0.24	7.77	2.16
1 Year	15.84	31.43	23.68

Relative Price Performance



Analyst: Karan Taurani
Tel No.: +91 22 4076 7334
Email: karan.taurani@kslindia.com

Strong volume growth and benefit of cross currency led to 7.75% QoQ INR revenue growth for TCS. Profitability dented on the back of forex loss in Q2FY12.

Key Highlights

- **Robust volumes; expected fall in PAT:** USD revenues grew 4.7% QoQ to USD 2,525mn led by robust volume growth of 6.3%QoQ; pricing dipped 1% QoQ whereas cross currency had a negative impact of 0.5% QoQ. EBIT margin improved 94bps QoQ to 27.1% led by weaker rupee and slight shift in offshore. PAT grew by mere 1.1% QoQ to INR 24,339mn due to a huge forex loss of INR 910mn and lower treasury income. EPS was at INR 12.44.
- **Continued momentum in US; broad based growth across verticals:** revenues from US grew 5.4% QoQ wherein Latin America region was muted; Europe witnessed positive surprise with 6.3% QoQ growth and APAC grew 7.6% QoQ. Among verticals, BFSI was impressive with 5.2% QoQ growth; Manufacturing and retail lead the pack with 7.4% QoQ and 9.2% QoQ growth respectively. Telecom dipped 4.3% QoQ; however the deal signings in telecom were impressive.
- **IMS & assurance outperforms among service lines; smaller clients grow at a faster pace:** IMS and assurance services grew 5.8% QoQ and 9% QoQ respectively. ADM was muted for the quarter with a 1.3% QoQ growth whereas consulting grew 23.7% QoQ on the back of discretionary IT spend. Healthy client addition of 35 new clients led to total client base surpassing 1,000 clients. Non top 10 clients grew 5.6% QoQ led by ramp ups; top 5 client were muted with 1.1% QoQ growth.

Outlook

Healthy deal pipeline, stable pricing, dip in attrition, strong hiring – TCS has won 10 large deals out of which 6 were from US; it has a large deal pipeline going forward. Pricing is expected to remain stable from current levels given there is no drastic negative impact on the economic environment. Attrition dipped 230bps QoQ to 12.5% which was a positive surprise. There was a strong net addition of 12,580 employees in Q2FY12 in anticipation of the robust demand. Hiring guidance for FY12 remains unchanged.

We maintain our 'ADD' recommendation on TCS with a target price of INR 1,070 based on 18x FY13E earnings.

For private circulation only. Please read the Important Disclosure at the end of the report.

KSL Intelligent Research Reports can be accessed on: www.bloomberg.net (KHDS<GO>), www.thomsonreuters.com, www.capitaliq.com, www.themarkets.com, www.kslindia.com, www.moneycontrol.com, www.securities.com, www.valuenotes.com

This report is intellectual property of Khandwala Securities Ltd; queries on this report may be directed to Head of Research at research@kslindia.com



Quarterly Performance

Description	Q2FY11	Q1FY12	Consensus	KSL (E)	Q2FY12	QoQ	YoY	Var. (%)
INR Mn, Except EPS	Sept-10	Jun-11			Sept-11	(%)	(%)	(KSL vs Act)
Consol. Sales (USD Mn)	2,004	2,412	2,581	2,525	4.7	26.0	-2.2	2,004
Consolidated Sales	92,864	107,970	118,202	116,335	7.7	25.3	-1.6	92,864
EBIT	26,115	28,261	32,506	31,542	11.6	20.8	-3.0	26,115
EBIT Margin (%)	28.1	26.2	27.5	27.1	94 bps	-101 bps	-39 bps	28.1
PAT	21,262	24,084	26,047	24,339	1.1	14.5	-6.6	21,262
PAT Margin (%)	22.9	22.3	22.0	20.9	-138 bps	-197 bps	-111 bps	22.9
EPS (INR)	10.9	12.3	13.3	12.4	1.1	14.5	-6.6	10.9

Geography split – Europe witnessed positive surprise

(USD Mn)	Q2FY11	Q1FY12	Q2FY12	QoQ (%)	YoY (%)
America	1,154	1,351	1,424	5.4	23.4
North America	1,076	1,276	1,348	5.7	25.3
Ibero America	78	75	76	1.3	-3.1
Europe	489	608	646	6.3	32.2
UK	307	369	391	6.1	27.6
Continental Europe	182	239	255	6.8	39.8
India	198	224	210	-6.6	5.6
Asia Pacific	124	176	189	7.6	52.4
MEA	38	53	56	4.7	45.9
% of Total					
America	57.6	56.0	56.4	40 bps	-120 bps
North America	53.7	52.9	53.4	50 bps	-30 bps
Ibero America	3.9	3.1	3.0	-10 bps	-90 bps
Europe	24.4	25.2	25.6	40 bps	120 bps
UK	15.3	15.3	15.5	20 bps	20 bps
Continental Europe	9.1	9.9	10.1	20 bps	100 bps
India	9.9	9.3	8.3	-100 bps	-160 bps
Asia Pacific	6.2	7.3	7.5	20 bps	130 bps
MEA	1.9	2.2	2.2	0 bps	30 bps

Contract split - temporary shift towards T&M

(USD Mn)	Q2FY11	Q1FY12	Q2FY12	QoQ (%)	YoY (%)
Time & Material (%)	51.0	50.3	53.2	290 bps	220 bps
Fixed Price & Time (%)	49.0	49.7	46.8	-290 bps	-220 bps
Contract Type Revenue					
Time & Material	1,022	1,213	1,343	10.7	31.4
Fixed Price & Time	982	1,199	1,182	-1.4	20.3



Vertical split – Broad based growth across major verticals

(USD Mn)	Q2FY11	Q1FY12	Q2FY12	QoQ (%)	YoY (%)
BFSI	882	1,044	1,098	5.2	24.6
Telecom	257	282	270	-4.3	5.3
Manufacturing	148	183	197	7.4	32.8
Retail & Distribution	218	280	306	9.2	39.9
Hi tech	92	140	149	6.5	61.6
Life Sciences & Healthcare	102	125	134	6.7	30.9
Transportation	64	89	96	7.5	49.6
Energy & Utilities	86	92	109	18.5	26.0
Media & Entertainment	40	53	53	-0.1	32.3
Others	114	123	114	-7.6	-0.5
% of Total					
BFSI	44.0	43.3	43.5	20 bps	-50 bps
Telecom	12.8	11.7	10.7	-100 bps	-210 bps
Manufacturing	7.4	7.6	7.8	20 bps	40 bps
Retail & Distribution	10.9	11.6	12.1	50 bps	120 bps
Hi Tech	4.6	5.8	5.9	10 bps	130 bps
Life Sciences & Healthcare	5.1	5.2	5.3	10 bps	20 bps
Transportation	3.2	3.7	3.8	10 bps	60 bps
Energy & Utilities	4.3	3.8	4.3	50 bps	0 bps
Media & Entertainment	2.0	2.2	2.1	-10 bps	10 bps
Others	5.7	5.1	4.5	-60 bps	-120 bps

Client Contribution – smaller clients grow at a faster pace

as % of Revenue	Q2FY11	Q1FY12	Q2FY12	QoQ (%)	YoY (%)
Top 1 Client	8.0	7.1	6.9	-20 bps	-110 bps
Top 5 Clients	22.1	20.7	20.0	-70 bps	-210 bps
Top 10 Clients	30.1	28.9	28.3	-60 bps	-180 bps
Top 6-10 Clients	8.0	8.2	8.3	10 bps	30 bps
Non Top 10 Clients	69.9	71.1	71.7	60 bps	180 bps
(USD Mn)					
Top 1 Client	160	171	174	1.7	8.7
Top 5 Clients	443	499	505	1.1	14.0
Top 10 Clients	603	697	715	2.5	18.5
Top 6-10 Clients	160	198	210	6.0	30.7
Non Top 10 Clients	1401	1715	1810	5.6	29.2

Client Concentration – 2 new USD100mn clients added

(USD Mn)	Q2FY11	Q1FY12	Q2FY12	QoQ (%)	YoY (%)
US\$ 1mn Clients	420	473	495	4.7	17.9
US\$ 5mn Clients	192	219	230	5.0	19.8
US\$ 10mn Clients	131	148	155	4.7	18.3
US\$ 20mn Clients	66	91	94	3.3	42.4
US\$ 50mn Clients	25	33	36	9.1	44.0
US\$ 100mn Clients	8	10	12	20.0	50.0



Active client base surpasses 1,000 mark

(USD Mn)	Q2FY11	Q1FY12	Q2FY12	QoQ (%)	YoY (%)
Active Clients	936	959	1010	5.3	7.9
New Clients Added	30	24	35	45.8	16.7
(%)					
Repeat Business Revenue	98.3	99.8	99.3	-50 bps	100 bps
New Business Revenue	1.7	0.2	0.7	50 bps	-100 bps

Delivery split – offshoring seems to have peaked out

Contribution	Q2FY11	Q1FY12	Q2FY12	QoQ (%)	YoY (%)
Offshore (%)	51	50.6	50.9	30 bps	-20 bps
Onsite (%)	44	44.8	45.2	40 bps	130 bps
GDC/RDC (%)	5	4.6	3.9	-70 bps	-110 bps
(INR Mn)					
Offshore	1,024	1,220	1,285	5.3	25.5
Onsite	880	1,081	1,141	5.6	29.7
GDC/RDC	100	111	98	-11.2	-1.7

Service split – ADM muted with 1.3%QoQ growth

(USD Mn)	Q2FY11	Q1FY12	Q2FY12	QoQ (%)	YoY (%)
IT Solutions & Services	1,389	1,671	1,720	2.9	23.8
Application Devp. & Maint.	938	1,114	1,129	1.3	20.3
Business Intelligence	112	118	119	0.4	5.7
Enterprise Solutions	206	262	280	6.9	35.8
Assurance Services	132	176	192	9.0	45.1
Engg & Industrial Services	98	111	121	9.2	23.4
Infrastructure Services	188	229	242	5.8	28.7
Global Consulting	42	53	66	23.7	56.0
Asset Leverage Solutions	68	87	101	16.3	48.2
Business Process Outsourcing	218	265	275	3.9	26.0
% of Total Revenue					
IT Solutions & Services	69.3	69.3	68.1	-117 bps	-120 bps
Application Devp. & Maint.	46.8	46.2	44.7	-150 bps	-210 bps
Business Intelligence	5.6	4.9	4.7	-20 bps	-90 bps
Enterprise Solutions	10.3	10.9	11.1	23 bps	80 bps
Assurance Services	6.6	7.3	7.6	30 bps	100 bps
Engg & Industrial Services	4.9	4.6	4.8	20 bps	-10 bps
Infrastructure Services	9.4	9.5	9.6	10 bps	20 bps
Global Consulting	2.1	2.2	2.6	40 bps	50 bps
Asset Leverage Solutions	3.4	3.6	4.0	40 bps	60 bps
Business Process Outsourcing	10.9	11.0	10.9	-8 bps	0 bps



Headcount – Strong net addition of 12,580 employees

	Q2FY11	Q1FY12	Q2FY12	QoQ (%)	YoY (%)
Incl. Indian Subsidiaries	174,417	202,190	214,770	6.2	23.1
Gross Addition	19,293	11,988	20,349	69.7	5.5
Net Addition	10,717	3,576	12,580	251.8	17.4
Attrition Rate (%)	14.1	14.8	12.5	-230 bps	-160 bps
(%)	77.7	76.2	76.4	20 bps	-130 bps
Offshore Util. (Incl Trainees)	83.8	83.2	83.1	-10 bps	-70 bps
Offshore Util. (Excl Trainees)	174,417	202,190	214,770	6.2	23.1



Financial Summary

Income Statement

YE 30 Jun (INR Mn)	FY09	FY10	FY11	FY12E	FY13E
Net Sales	278,128	300,289	373,246	452,426	535,221
Growth (%)	21.7	8.0	24.3	21.2	18.3
Gross Profit	123,708	138,661	168,950	203,518	241,209
Other Operating Crgs.	50,324	51,862	56,965	69,817	80,965
EBITDA	73,384	86,799	111,985	133,702	160,244
Growth (%)	25.5	18.3	29.0	19.4	19.9
Depreciation	7,370	7,208	7,214	8,888	10,282
Other Income	-4,149	2,781	5,324	6,786	6,261
EBIT	66,014	79,591	104,771	124,814	149,962
Interest Paid	535	536	-	-	-
Pre-tax prof.(bf e/o itms)	61,330	81,835	110,095	131,600	156,223
Tax Provision	9,011	12,088	21,739	30,268	39,056
E/o Loss / (Income)	611	1,019	1,118	1,153	1,149
Net Profit	52,319	69,747	88,356	101,332	117,167
Adj. Net Profit	51,708	68,728	87,238	100,179	116,018
Growth (%)	3.0	32.9	26.9	14.8	15.8
Diluted EPS (INR)	26.4	35.1	44.6	51.2	59.3
Dil. EPS Gwth (%)	3.0	32.9	26.9	14.8	15.8

Cash Flow Statement

YE 30 Jun (INR Mn)	FY09	FY10	FY11	FY12E	FY13E
Cash flow frm oper. (a)	51,415	74,869	69,148	87,567	103,874
Capital Expenditure	-11,156	-10,104	-17,015	-18,097	-20,071
Chg in Investments	-332,633	-19,126	-1,649	-	-
Other Investing Acti.	306,804	-25,930	-	-	-
Cash Flow from Inv. (b)	-36,985	-55,161	-18,664	-18,097	-20,071
Free Cash Flow (a+b)	14,430	19,708	50,484	69,470	83,803
Equity Raised/(Repaid)	39	-	-	-	-
Debt Raised/(Repaid)	-379	-	-	-	-
Dividend (incl. Tax)	-16,124	-19,594	-45,832	-39,144	-39,144
Other Financing Acti.	-	-	-310	-	-
Cash Flow from Fin. (c)	-16,464	-19,594	-46,142	-39,144	-39,144
Net Chg in Cash (a+b+c)	-2,034	114	4,342	30,326	44,659

Balance Sheet

YE 30 Jun (INR Mn)	FY09	FY10	FY11	FY12E	FY13E
Equity Share Capital	26,351	26,358	26,358	26,358	26,358
Reserves & Surplus	131,182	184,026	227,031	279,320	356,194
Shareholders' Funds	157,533	210,384	253,389	305,678	382,552
Minorities Interests	3,098	4,056	4,663	4,663	4,663
Total Debt	4,505	9,110	10,718	10,718	10,718
Capital Employed	165,136	223,549	268,770	321,059	397,933
Net Fixed Assets	99,834	96,609	142,269	145,184	154,972
Net Other Curr. Assets	13,440	10,249	15,078	43,730	88,388
Cash & Cash Eq.	34,592	78,875	93,033	114,532	136,958
Investments	17,271	37,816	18,390	18,390	18,390
Net Def. Tax Assets	-	-	-	1	1
Total Assets	165,137	223,549	268,770	321,836	398,710

Financial Ratios

YE 30 Jun	FY09	FY10	FY11	FY12E	FY13E
OPM (%)	23.7	26.5	28.1	27.6	28.0
Net Margin (%)	18.6	22.9	23.4	22.1	21.7
Yield (%)	1.5	0.9	2.1	1.8	1.8
Net Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
Net Wkg Cap (Days)	45.4	95.9	91.0	92.4	93.4
Asset Turnover (x)	1.2	1.1	1.1	1.1	1.1
ROCE (%)	40.0	35.6	39.0	38.8	37.6
RoE (%)	32.3	32.9	34.8	33.1	30.6
EV/Net Sales (x)	8.0	7.4	5.9	4.8	4.0
EV/EBITDA (x)	30.3	25.6	19.8	16.3	13.3
PER (x)	42.4	31.9	25.1	21.9	18.9
Price/Book (x)	13.7	10.3	8.5	7.1	5.7



KSL Ratings

Target Price refers to one year unless specified;

LTP: Last Trading Price

BUY: Expected return >15%

ADD: Expected return 0-15%

REDUCE: Expected decline 0-15%

SELL: Expected decline >15%

Company Risk is based on the systematic risk of the stock. (1-year Beta)

HIGH: >1.2

MEDIUM: 0.8-1.2

LOW: < 0.8

Name	Designation	Sectors	E-mail
EQUITY RESEARCH			
TEL. NO. +91 22 4076 7373		FAX +91 22 4076 7378	
Harshad Gujrathi	Sr. Research Analyst	Metals & Mining	harshad.gujrathi@kslindia.com
Bhawana Verma	Research Analyst	Pharmaceuticals	bhawana.verma@kslindia.com
Deepti Singh	Research Analyst	FMCG	deepti.singh@kslindia.com
Karan Taurani	Research Analyst	IT	karan.taurani@kslindia.com
Aditya Shekhawat	Research Analyst	Automobiles	aditya.shekhawat@kslindia.com
Hardick Bora	Research Associate	Pharmaceuticals	hardick.bora@kslindia.com
Sandeep Bhatkhande	Research Associate	Publishing	sandeep@kslindia.com
Lydia Rodrigues	Research Executive	Data Mining	lydia@kslindia.com
INSTITUTIONAL DEALING			
TEL NO. +91 22 4076 7342-47/56		FAX NO. +91 22 4076 73 77-78	
Biranchi Sahu	Head	Institutional Equity	bsahu@kslindia.com
Gopi Doshi	Senior Dealer	Institutional Equity	gopi.doshi@kslindia.com
Bhadresh Shah	Dealer	Institutional Equity	bhadresh.shah@kslindia.com
WHOLESALE DEBT MARKET			
TEL NO. +91 22 4076 7318		FAX NO. +91 22 4076 73 77	
Narayan R Kotain	Asst. Vice President		narayan.kotain@kslindia.com
BRANCH OFFICE (PUNE)			
TEL NO. +91 20 2567 1404/06		FAX NO. +91 20 2567 1405	
Ajay G Laddha	Vice President		ajay@kslindia.com
Head Office		Branch Office	
Khandwala Securities Limited Vikas Building, Ground Floor, Green Street, Fort, MUMBAI - 400 023. Tel. No. +91 22 4076 7373 Fax No. +91 22 4076 7377/78 E-mail: research@kslindia.com Logon to www.kslindia.com		Khandwala Securities Limited C8/9, Dr. Herekar Park, Off. Bhandarkar Road, PUNE - 411 004 Tel. No. +91 20 2567 1404/06 Fax. No. +91 20 2567 1405 Email: pune@kslindia.com	



Important Disclosure

The Research team of Khandwala Securities Limited (KSL) on behalf of itself has prepared the information given and opinions expressed in this report. The information contained has been obtained from sources believed to be reliable and in good faith, but which may not be verified independently. While utmost care has been taken in preparing the above report, KSL or its group companies make no guarantee, representation or warranty, whether express or implied and accepts no responsibility or liability as to its accuracy or completeness of the data being provided. All investment information and opinion are subject to change without notice. Also, not all customers may receive the material at the same time.

This document is for private circulation and information purposes only. It does not and should not be construed as an offer to buy or sell securities mentioned herein. KSL shall not be liable for any direct or indirect losses arising from the use thereof and the investors are expected to use the information contained herein at their own risk. KSL and its affiliates and / or their officers, directors and employees may own or have positions in any investment mentioned herein or any investment related thereto and from time to time add to or dispose of any such investment. KSL and its affiliates may act as market maker or have assumed an underwriting position in the securities of companies discussed herein (or investments related thereto) and may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or underwriting services for or relating to those companies.

The investments discussed or recommended in this report may not be suitable for all investors. Investors must make their own investment decisions based on their specific investment objectives and financial position and using such independent advisors, as they believe necessary. Income from investments may fluctuate. The price or value of the investments, to which this report relates, either directly or indirectly, may fall or rise against the interest of investors. The value of or income from any investment may be adversely affected by changes in the rates of currency exchange.

This document is strictly meant for use by the recipient only. None of the material in this report shall be reproduced, resold or re-distributed in any manner whatsoever without the prior explicit written permission from KSL.