

**RESULTS REVIEW**
**Tata Consultancy Services**
**Buy**
**Share Data**

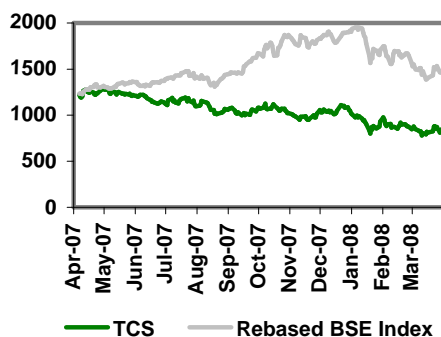
Market Cap	Rs. 867.0 bn
Price	Rs. 885.95
BSE Sensex	15,832.55
Reuters	TCS.BO
Bloomberg	TCS IN
Avg. Volume (52 Week)	0.3 mn
52-Week High/Low	Rs. 1,330/ 730
Shares Outstanding	978.6 mn

**Valuation Ratios (Consolidated)**

Year to 31 March	2008E	2009E
EPS (Rs.)	65.1	75.2
EPS Growth (%)	53.3%	15.5%
PER (x)	13.6x	11.8x
EV/ Sales (x)	3.9x	3.3x
EV/ EBITDA (x)	11.6x	9.7x

**Shareholding Pattern (%)**

Promoters	78
FII's	11
Institutions	5
Public & Others	6

**Relative Performance**

**Fighting against all odd**

**Stable revenue growth:** Tata Consultancy Services' revenues grew 5% qoq, to Rs. 59,229.7 mn, backed by a 5.3% sequential rise in volume. We believe that the Company will continue its growth momentum with investments in the full services play and the global network delivery model.

**Insipid margin growth:** EBITDA margin growth was restricted to 27 bps sequentially to 26.49% as exchange rate has adversely impacted the margins by 92 bps. Better pricing, productivity and SG&A provided support of 125 bps, which dispelled impacts from foreign exchange. However, improved pricing, operating leverage, and better utilization will help in keeping the margin stable. The Company is also hedging a good chunk of their exposure which will mitigate the pressure from exchange rate.

**Robust pipeline of deals:** The Company signed nine large-sized deals of over USD 50 mn during the quarter and another 25 deals are in the pipeline. Big deals won across sectors and strong traction in services may help the Company in harnessing good revenue growth in the future.

**Healthy hiring:** With hiring of 7,522 employees in the quarter the total count went to 28,751 for the nine month ending, which are in line with the guidance of 32,500 employees for the year. This robust hiring may help in maintaining a volume growth.

**Valuation**

At the CMP of Rs. 885.95, the stock is trading at forward P/E of 13.6x for FY08E and 11.8x for FY09E, respectively. We maintain a BUY rating with the target price of Rs. 997.74, based on the DCF valuation.

**Key Figures (Consolidated)**

Quarterly Data	Q3'07	Q2'08	Q3'08	YoY%	QoQ%	9M'07	9M'08	YoY%
(Figures in Rs mn, except per share data)								
Net Sales	48,734	56,397	59,230	21.5%	5.0%	135,231	167,656	24.0%
EBITDA	13,902	14,787	15,688	12.8%	6.1%	36,758	43,861	19.3%
Net Profit	11,170	12,518	13,273	18.8%	6.0%	30,182	37,817	25.3%

**Margins(%)**

EBITDA	28.5%	26.2%	26.5%		27.2%	26.2%
NPM	22.9%	22.2%	22.4%		22.3%	22.6%

**Per Share Data (Rs.)**

EPS	11.4	12.8	13.6	18.8%	6.0%	30.8	38.6	25.3%
-----	------	------	------	-------	------	------	------	-------

## Result Highlights

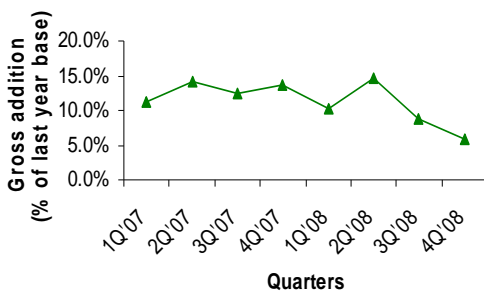
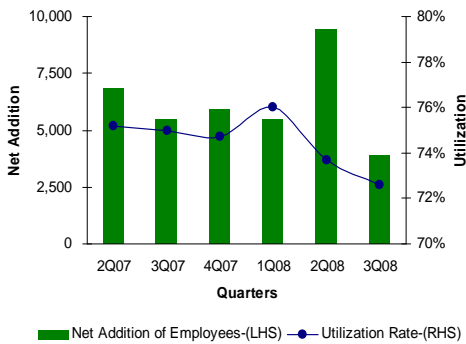
All services except Business Intelligence, Infrastructure Services, and Asset Leverage Solutions grew substantially. Global Consulting, Assurance, and BPO services advanced 17.7%, 10.5%, and 10.1% qoq, respectively.

The Company is successfully diversifying beyond the US as it posted a growth of 22.52%, 20.39%, and 11.1% qoq in Continental Europe, India, and Asia Pacific regions, respectively. However, North America still accounts for around 50% of the revenue, a risk factor if the slowdown persists in the continent.

Contribution from fixed price projects has inched up 170 bps, to 45.4%, during the quarter. However, time and material's contribution went down by 170 bps. Fixed price projects are helping TCS in reducing costs by managing skills efficiently.

The company added 54 new clients in the quarter, pushing the total active clients count to 857. Top 10 clients accounted for 29.7% of the revenues. This figure grew by over 13% sequentially as compared to a 270 bps fall in the previous quarter.

Hiring was on the lower side with a net addition of 3,882 employees during the quarter, which was below expectations. The Company has not revised its employee guidance for the year, which implies a gross addition of about 3800 employees in Q4 FY08. This would be lowest ever in the past 7 quarters, though the management explained that the recruitment is based on TCS's business requirement. The Company continued its robust hiring through campus offer of 22,000+ for FY09 showing sign of good demand scenario. However, escalating attrition coupled with lower utilization over the quarters is a concern. Attrition increased by 70 bps, to 12.2%, and utilization went down by 110 bps, to 72.6%, in the quarter.



*Deal ramp up continue in the quarter*

### Key Events

- Diligenta, a subsidiary of TCS, has won a contract to deliver BPO services to support the UK operations of Sun Life Financial of Canada. This project is estimated to be worth over USD 200 mn over the life of the contract.
- The Company has bagged a four-year contract valued from the Social Security Institute of Mexico, valued at over USD 200 mn.
- TCS has entered into a USD 1.2 bn agreement with Nielsen for outsourcing a portion of Nielsen's information technology and operational functions worldwide.
- The Company has signed an agreement with Sony Pictures Entertainment to develop and deploy service-oriented architecture solutions, which will allow Sony and its customers to better use its IT assets.

### Key Risks

Major concerns for TCS are:

- A prolonged slowdown in the US economy
- A greater-than-expected softening of the Indian rupee against the major international currencies
- The lower margin in certain large deals

### Outlook

The Company is continuously expanding beyond the US into newer geographies in order to lessen the impact of a recession in the US. Along with that the management is also covering a lot of their foreign currency exposure (till quarter around 3.1 bn) through hedging. Further, the management has indicated that new contracts and renewal of existing contracts will be done on higher-than-average pricing. This buoyant pricing scenario coupled with better hedging will allay the margin dilutive impact from the high-value deals.

TCS's hiring is in line with the initial guidance of 32,500, in addition it has already made around 22,000+ campus offer for FY09 suggesting that the volume growth would remain strong in the coming quarters. Further, deal ramp up across multiple industries as well as geographies is likely to continue leveraging its full service play strategy and global network delivery model.

At the CMP of Rs. 885.95, the stock is trading at forward P/E of 13.6x for FY08E and 11.8x for FY09E, respectively. We maintain a BUY rating with the target price of Rs. 997.74, based on the DCF valuation.

### Key Figures (Consolidated)

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	222,219	261,072	18.2%
EBITDA	28,140	37,576	51,395	74,369	88,563	31.3%
Net Profit	23,307	29,455	41,556	63,723	73,590	33.1%
<b>Margins(%)</b>						
EBITDA	28.9%	28.3%	27.5%	33.5%	33.9%	
NPM	23.9%	22.2%	22.2%	28.7%	28.2%	
<b>Per Share Data (Rs.)</b>						
EPS	24.8	30.1	42.5	65.1	75.2	33.1%
PER (x)	57.8x	63.6x	20.9x	13.6x	11.8x	

### Disclaimer

This report is not for public distribution and is only for private circulation and use. The Report should not be reproduced or redistributed to any other person or person(s) in any form. No action is solicited on the basis of the contents of this report.

This material is for the general information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be considered as an offer to sell or the solicitation of an offer to buy any stock or derivative in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Indiabulls Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. You are advised to independently evaluate the investments and strategies discussed herein and also seek the advice of your financial adviser.

Past performance is not a guide for future performance. The value of, and income from investments may vary because of changes in the macro and micro economic conditions. Past performance is not necessarily a guide to future performance.

This report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Any opinions expressed here in reflect judgments at this date and are subject to change without notice. Indiabulls Securities Limited (ISL) and any/all of its group companies or directors or employees reserves its right to suspend the publication of this Report and are not under any obligation to tell you when opinions or information in this report change. In addition, ISL has no obligation to continue to publish reports on all the stocks currently under its coverage or to notify you in the event it terminates its coverage. Neither Indiabulls Securities Limited nor any of its affiliates, associates, directors or employees shall in any way be responsible for any loss or damage that may arise to any person from any error in the information contained in this report.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject stock and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. No part of this material may be duplicated in any form and/or redistributed without Indiabulls Securities Limited prior written consent.

The information given herein should be treated as only factor, while making investment decision. The report does not provide individually tailor-made investment advice. Indiabulls Securities Limited recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. Indiabulls Securities Limited shall not be responsible for any transaction conducted based on the information given in this report, which is in violation of rules and regulations of National Stock Exchange or Bombay Stock Exchange.