

APRIL 26, 2011

HOLD

MEDIUM RISK

PRICE Rs.1188

TARGET Rs.1290

## TECHNOLOGY

### EARLIER RECO

#### ACCUMULATE

Price	Rs.1121
Target	Rs.1290
Date	Mar. 29, 2011

### SHARE HOLDING (%)

Promoters	74.1
FII	12.6
FI / MF	8.1
Body Corporate	0.6
Public & Others	4.6

### STOCK DATA

Reuters Code	TCS.BO	
Bloomberg Code	TCS@IN	
BSE Code	532540	
NSE Symbol	TCS	
Market Capitalization*	Rs.2323.2 bn US\$ 52.1 bn	
Shares Outstanding*	1957.2 mn	
52 Weeks (H/L)	Rs.1247 / 692	
Avg. Daily Volume (6m)	197,733 Shares	
Price Performance (%)		
1M	3M	6M
6	-	12

\*On fully diluted equity shares

Part of  Bonanza



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### Decent Q4FY11 Results with 2.9% QoQ volume growth

During Q4FY11, TCS has delivered decent results, driven by 2.9% QoQ volume growth, 0.8% increase in pricing and 1.3% currency gain. Its Consolidated Revenues during Q4FY11 grew by 5.1% QoQ & 31.3% YoY to Rs. 101,575 mn. However, its Revenues in USD terms grew by 4.7% QoQ & 33.2% YoY. The company witnessed strong growth across all the geographies and signed seven large deals during the quarter. The deal pipeline is also looking very strong as TCS is currently chasing about 20 large deals across different geographies. TCS expects to deliver decent growth in FY12, driven by strong volume growth and some uptick in pricing.

### EBITDA Margins stable

Its EBITDA for Q4FY11 grew by 5.4% QoQ & 32.9% YoY to Rs. 30,738 mn and the EBITDA margins for Q4FY11 remained stable on QoQ at 30.3%, mainly due to gains from forex fluctuations (58 bps), which was mitigated by negative impact of higher SG&A cost and increase in onsite effort mix. Its APAT for Q4FY11 grew by 3.1% QoQ & 23.3% YoY to Rs. 24,018 mn. The company expects its EBITDA margins to be maintained at current level in FY12 (by maintaining above 82% utilization with some uptick in pricing absorbing the impact of rupee appreciation v/s USD & annual wage increments).

### Strong FY11 growth driven by 29.7% volume growth; Positive FY12 growth outlook

During FY11, TCS has delivered strong growth of 24.3% in its Consolidated Revenues, mainly due to 29.7% volume growth. During FY11, its Consolidated Revenues grew by 24.3% YoY to Rs. 373,245 mn, while its Revenues in USD terms grew by 29.1% to USD 8.2 bn. Its EBITDA for FY11 grew by 28.9% to Rs. 111,894 mn and EBITDA margins for FY11 grew by 107 bps to 30%, due to positive impact of 252 bps on SG&A efficiency, 58 bps of productivity improvement & 39 bps of effort mix, which was partially mitigated by 250 bps negative impact of currency volatility. Its APAT for FY11 grew by 26% to Rs. 86,829 mn. Going forward, with strong deal pipeline, increase in discretionary expenses (Clients' Budgets), and its focus on non linear growth strategy, TCS expects FY12 to be a good year with strong growth and sustained margins.

### Hiring target for FY12 indicates strong demand environment

After gross addition of 69,685 & net addition of 38,185 professionals during FY11, TCS plans to add about 60,000 employees in FY12. The company has already made more than 37,000 campus offers for FY12. Its hiring plan for FY12 indicates the demand environment of IT industry in general and TCS in particular as the company prepares itself for a yet another strong growth year in FY12.

### OUTLOOK & VALUATION

With strong growth delivered in FY11 and its positive outlook for FY12, we expect TCS to outperform the expected industry growth for the year FY12. TCS has also been able to expand its EBITDA margins with its effective cost management & other productivity improvement measures. Going forward, we believe TCS is very well placed to grow faster than the industry given its capabilities, deal pipeline & focus on non-linear growth models.

Considering its strong FY11 performance and positive growth outlook, we maintain our FY12E Revenues & APAT estimates and also introduce our FY13E estimates. We expect its FY12E & FY13E Revenues to grow by 20% & 16.3% to Rs.448.1 bn & Rs.521.1 bn respectively, while expect its APAT to increase by 16.4% & 13.6% to Rs. 101 bn & Rs. 114.8 bn in FY12E & FY13E respectively. The CMP of Rs. 1,188 discounts its FY12E & FY13E Earnings of Rs. 51.6 & Rs. 58.6 by 23.0x & 20.3x respectively. We change our rating on the stock to 'HOLD' from 'Accumulate' with a price target of Rs. 1,290 (22x FY13E EPS).

### KEY FINANCIALS (Consolidated)

Y/E Mar.	Revenue (Rs mn)	APAT (Rs mn)	AEPS (Rs)	AEPS (% Ch.)	P/E (x)	ROCE (%)	ROE (%)	P/BV (x)
FY11	373,245	86,829	44.4	26.0	26.8	35.1	38.1	9.2
FY12E	448,047	101,031	51.6	16.4	23.0	33.5	36.2	7.4
FY13E	521,078	114,766	58.6	13.6	20.3	31.0	33.5	6.1

**QUARTERLY RESULTS (Consolidated)**

(Rs.mn)

Y/E March	Q4FY10	Q3FY11	Q4FY11
<b>Total Revenue</b>	<b>77,365</b>	<b>96,634</b>	<b>101,575</b>
% Ch. QoQ	1.1	4.1	5.1
Soft. Dev. Exp.	39,936	51,777	53,893
% Ch. QoQ	0.2	4.7	4.1
<b>Gross Profit</b>	<b>37,429</b>	<b>44,857</b>	<b>47,682</b>
% Ch. QoQ	2.1	3.3	6.3
% of STO	48.4	46.4	46.9
<b>SG&amp;A Expenditure</b>	<b>13,757</b>	<b>15,436</b>	<b>16,596</b>
% Ch. QoQ	(0.7)	1.0	7.5
R&D Exp.	552.0	248.0	348.0
<b>EBITDA</b>	<b>23,120</b>	<b>29,173</b>	<b>30,738</b>
% Ch. QoQ	1.8	4.6	5.4
% of STO	29.9	30.2	30.3
Depreciation	1,840	2,041	2,282
% Ch. QoQ	0.6	8.2	11.8
Other Income	1,627	1,817	2,259
% Ch. QoQ	185.9	439.2	24.3
<b>EBTA incl. OI</b>	<b>22,907</b>	<b>28,949</b>	<b>30,715</b>
% Ch. QoQ	6.8	9.9	6.1
Tax	3,397	5,385	6,404
% of PBT	14.8	18.6	20.8
<b>PAT before Min. Int.</b>	<b>19,510</b>	<b>23,564</b>	<b>24,311</b>
% Ch. QoQ	7.1	10.4	3.2
Minority Interest	(32.0)	(262.0)	(293.0)
<b>APAT</b>	<b>19,478</b>	<b>23,302</b>	<b>24,018</b>
% Ch. QoQ	8.4	10.6	3.1
% of STO	25.2	24.1	23.6

**PROFIT & LOSS (Consolidated)**

(Rs.mn)

Y/E March	FY10	FY11	FY12E	FY13E
<b>Total Revenue</b>	<b>300,289</b>	<b>373,245</b>	<b>448,047</b>	<b>521,078</b>
Soft. Dev. Exp.	157,161	199,928	240,766	281,382
% Ch. YoY	1.8	27.2	20.4	16.9
<b>Gross Profit</b>	<b>143,128</b>	<b>173,317</b>	<b>207,280</b>	<b>239,696</b>
% Ch. YoY	12.4	21.1	19.6	15.6
% of STO	47.7	46.4	46.3	46.0
<b>SG&amp;M Exp.</b>	<b>55,480</b>	<b>60,356</b>	<b>71,696</b>	<b>83,373</b>
% Ch. YoY	(3.0)	8.8	18.8	16.3
% of STO	18.5	16.2	16.0	16.0
R&D Exp.	850.0	1067.0	1,213.1	1,459.0
<b>EBITDA</b>	<b>86,798</b>	<b>111,894</b>	<b>134,371</b>	<b>154,864</b>
% Ch. YoY	20.9	28.9	20.1	15.3
% of STO	28.9	30.0	30.0	29.7
Depreciation	7,207	7,990	8,643	9,464
% of STO	2.4	2.1	1.9	1.8
Other Income	2,245	5,244	6,175	7,256
% Ch. YoY	148.0	133.6	17.8	17.5
% of STO	0.7	1.4	1.4	1.4
<b>EBTA incl. OI</b>	<b>81,836</b>	<b>109,148</b>	<b>131,903</b>	<b>152,656</b>
% Ch. YoY	33.4	33.4	20.8	15.7
% of STO	27.3	29.2	29.4	29.3
Tax	12,202	21,203	29,678	36,637
% of PBT	14.9	19.4	22.5	24.0
<b>Net Profits</b>	<b>69,634</b>	<b>87,945</b>	<b>102,225</b>	<b>116,019</b>
% Ch. YoY	33.1	26.3	16.2	13.5
Minority Interest	(739.0)	(1,116.0)	(1,193.5)	(1,253.2)
<b>APAT</b>	<b>68,895</b>	<b>86,829</b>	<b>101,031</b>	<b>114,766</b>
% of STO	22.9	23.3	22.5	22.0

**BALANCE SHEET (Consolidated)**

(Rs.mn)

As on 31 <sup>st</sup> March	FY10	FY11	FY12E	FY13E
Equity Share Capital	1,957	1,957	1,957	1,957
Reserves & Surplus	207,447	250,432	310,245	379,212
<b>Net worth</b>	<b>209,404</b>	<b>252,389</b>	<b>312,202</b>	<b>381,169</b>
Minority Interest	3,768	4,663	5,857	7,110
Total Debt	3,418	3,540	3,717	3,903
<b>Capital Employed</b>	<b>216,590</b>	<b>260,593</b>	<b>321,776</b>	<b>392,182</b>
<b>Net Block</b>	<b>32,612</b>	<b>42,791</b>	<b>49,838</b>	<b>59,203</b>
Capital WIP	9,095	9,549	9,500	9,500
<b>Fixed Assets</b>	<b>41,706</b>	<b>52,340</b>	<b>59,338</b>	<b>68,703</b>
Goodwill (On Cons.)	25,333	25,472	25,472	25,472
<b>Intangible Assets</b>	<b>7,082</b>	<b>6,982</b>	<b>6,633</b>	<b>6,302</b>
Investments	37,839	18,390	18,390	18,390
Sundry Debtors	58,098	81,990	98,202	114,209
Cash & Bank Bal	10,249	15,078	43,768	80,017
Unbilled Revenues	12,011	13,489	14,163	14,872
Other Current Assets	57,791	61,391	75,858	88,655
Other Assets	19,371	46,796	53,815	61,888
<b>Current Assets</b>	<b>157,520</b>	<b>218,744</b>	<b>285,807</b>	<b>359,640</b>
Current Liab. & Prov.	52,891	61,336	73,865	86,325
<b>Net Current Assets</b>	<b>104,629</b>	<b>157,408</b>	<b>211,942</b>	<b>273,315</b>
<b>Total Assets</b>	<b>216,590</b>	<b>260,593</b>	<b>321,776</b>	<b>392,182</b>

Source: Company, Sushil Finance Research Estimates

**FINANCIAL RATIOS (Consolidated)**

Y/E March	FY10	FY11	FY12E	FY13E
<b>Growth (%)</b>				
Net Sales	8.0	24.3	20.0	16.3
APAT	33.2	26.0	16.4	13.6
EBITDA	20.9	28.9	20.1	15.3
<b>Profitability (%)</b>				
EBITDA Margin	28.9	30.0	30.0	29.7
Adj. PAT Margin	23.2	23.6	22.8	22.3
ROCE	35.3	35.1	33.5	31.0
ROE	38.1	38.1	36.2	33.5
<b>Per Share Data (Rs.)</b>				
Adj. EPS	35.2	44.4	51.6	58.6
Adj. CEPS	38.9	48.4	56.0	63.5
BVPS	107.0	129.0	159.5	194.8
<b>Valuations (X)</b>				
PER	33.7	26.8	23.0	20.3
PEG	(1.0)	1.0	1.4	1.5
P/BV	11.1	9.2	7.4	6.1
EV / EBITDA	26.3	20.5	16.9	14.4
EV / Net sales	7.6	6.1	5.1	4.3
Dividend Yield (%)	1.7	1.2	1.5	1.7
<b>Turnover Days</b>				
Debtors days	71	80	80	80
Creditors days	123	112	112	112

## Rating Scale

This is a guide to the rating system used by our Equity Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

### Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	High predictability / Low volatility
Medium Risk	Moderate predictability / volatility
High Risk	Low predictability / High volatility

### Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	Over 15 %	Over 20%	Over 25%
Accumulate	10 % to 15 %	15% to 20%	20% to 25%
Hold	0% to 10 %	0% to 15%	0% to 20%
Sell	Negative	Negative	Negative
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

#### Please Note

- Recommendations with "Neutral" Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).
- \*\* Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.

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