

January 18, 2011

<b>Reco</b>	<b>Previous Reco</b>
Accumulate	Accumulate
<b>CMP</b>	<b>Target Price</b>
Rs. 1,139	Rs1,275
EPS change FY11E/12E (%)	(0.5)/(0.3)
Target Price change (%)	2
Nifty	5,655
Sensex	18,882

### Price Performance

(%)	1M	3M	6M	12M
Absolute	2	13	34	43
Rel. to Nifty	6	24	28	33

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	IT Services
Bloomberg	TCS@IN
Equity Capital (Rs mn)	1957
Face Value(Rs)	1
No of shares o/s (mn)	1957
52 Week H/L	1,187/683
Market Cap (Rs bn/USD mn)	2,190/48,222
Daily Avg Volume (No of sh)	1659909
Daily Avg Turnover (US\$mn)	39.2

### Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	74.0	74.1	74.1
FII/NRI	12.4	12.2	12.4
Institutions	8.1	8.0	7.8
Private Corp	0.6	0.7	0.7
Public	4.8	5.0	5.0

Source: Capitaline

### Manik Taneja

manik.taneja@emkayglobal.com  
+91 22 6612 1253

### Priya Gajwani

priya.gajwani@emkayglobal.com  
+91 22 6612 1385

- **Inline revenues at US\$ 2,144 mn(+7% QoQ). Margins improve further by ~20 bps QoQ to 30.2%, despite currency appreciation, normalization of rentals and strong hiring**
- **Profits at Rs 23.3 bn (+10.6% QoQ,+29.6% YoY) driven by better margins and higher other income(include Rs 522 mn of forex gains)**
- **Solid operating metrics show with strong hiring(~12k+ net additions coupled with campus hiring targets of ~37k lend support to volume momentum thesis**
- **Tweak estimates marginally driving a 0.5/0.3/2.4% upgrade in FY11/12/13E EPS to Rs 43.8/51.3/61.6 respectively. Retain ACCUMULATE with TP upped to Rs 1,275(V/s Rs 1,250 earlier)**

### Inline revenues, margin show remains commendable

While TCS's 7% QoQ revenue growth performance was in line with estimates, margins show was commendable with EBITDA margins improving by ~20 bps QoQ to 30.2% (V/s Emkay est of ~20 bps decline and street building in ~50-70 bps sequential decline) especially in the back drop of currency headwinds, strong hiring yet again (co added ~12,500 employees on a net level) and normalization of rental expenses. Profits at Rs 23.3 bn (+10.6% QoQ, +29.6% YoY) beat estimates driven by higher margins coupled with forex gains of ~Rs 522 mn. Sequential volume growth was ~5.7%. TCS added ~12,500 employees on a net level during Dec'10 quarter (~7,700 laterals and on the back of ~10k+ addition in Sep'10 qtr) indicating confidence on volume growth ahead. Further co mgmt indicated that it intends to hire ~37k freshers for FY12, which in our view will improve employee mix and be a margin lever ahead.

### Operating metrics-nearly an all round performance

TCS's operating metrics performance continued to be an all round show with growth remaining broad based across services line/verticals. While revenues from fin svcs/manufacturing/retail were up by ~8.4%/4.1%/7% QoQ, revenues from IMS and BPO were up by ~19.5%/11/9% sequentially carrying on the strong traction of the past few quarters. **TCS continues to expand the lead over Infosys through better traction within BPO and IMS services lines in the recent quarters although Infosys matches/leads on revenues outside of the two services lines (refer table below)**

### Tweak estimates marginally, raise TP further to Rs 1,275

TCS's results vindicate a strong demand momentum for the offshore Tier 1 vendors and should sooth investor nerves after a moderate disappointment at Infy. We believe that TCS's stronger show relative to Infy yet again will continue to lend support to it's premium valuation to Infosys. We tweak our rev estimates, raise our margin assumptions marginally (as we build in EBITDA mgns at 29.9%/29.1%/28.5% V/s 29.8%/29.1%/28,2% earlier for FY11/12/13 respectively) driving a 0.5%/0.3%/2.2% increase in our FY11/12/13E earnings to Rs 43.8/51.3/61.5 respectively. Retain ACCUMULATE with a increased TP of Rs 1,275(V/s Rs 1,250 earlier)

### Financials

Y/E March	Net Sales	EBITDA	EBITDA %	PAT	EPS (Rs)	ROE %	P/E (x)	EV/ EBITDA	P/B (x)
FY10	300,289	86,843	28.9	68,694	35.1	37.6	32.2	24.9	10.5
FY11E	373,090	111,533	29.9	85,742	43.8	37.5	25.8	19.3	8.9
FY12E	460,077	133,740	29.1	100,317	51.3	36.8	22.0	15.9	7.4
FY13E	548,926	156,310	28.5	120,357	61.5	36.3	18.4	13.3	6.0

## Quarterly performance

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD'11E	YTD'10	YoY (%)
<b>Revenue</b>	<b>74,351</b>	<b>76,503</b>	<b>77,365</b>	<b>82,172</b>	<b>92,864</b>	<b>96,634</b>	<b>26.3</b>	<b>4.1</b>	<b>2,71,670</b>	<b>2,22,924</b>	21.9
<b>Operating Expenditure</b>	<b>53,009</b>	<b>53,786</b>	<b>54,200</b>	<b>58,085</b>	<b>64,970</b>	<b>67,461</b>	<b>25.4</b>	<b>3.8</b>	<b>1,90,516</b>	<b>1,59,246</b>	19.6
Cost of revenues	39,215	39,841	39,936	43,978	49,448	51,186	28.5	3.5	1,44,612	1,17,264	23.3
as % of sales	52.7	52.1	51.6	53.5	53.2	53.0			53.2	52.6	
SG&A expenses	13,794	13,945	14,264	14,107	15,522	16,275	16.7	4.9	45,904	41,982	9.3
as % of sales	18.6	18.2	18.4	17.2	16.7	16.8			16.9	18.8	
<b>EBITDA</b>	<b>21,342</b>	<b>22,717</b>	<b>23,165</b>	<b>24,087</b>	<b>27,894</b>	<b>29,173</b>	<b>28.4</b>	<b>4.6</b>	<b>81,154</b>	<b>63,678</b>	27.4
Depreciation	1,811	1,829	1,924	1,781	1,886	2,041	11.6	8.2	5,708	5,367	6.4
<b>EBIT</b>	<b>19,531</b>	<b>20,888</b>	<b>21,241</b>	<b>22,306</b>	<b>26,008</b>	<b>27,132</b>	<b>29.9</b>	<b>4.3</b>	<b>75,446</b>	<b>58,311</b>	29.4
Other Income	(144)	569	1,636	829	337	1,822	220.2	440.0	2,988	619	
<b>PBT</b>	<b>19,387</b>	<b>21,457</b>	<b>22,877</b>	<b>23,135</b>	<b>26,345</b>	<b>28,954</b>	<b>34.9</b>	<b>9.9</b>	<b>78,434</b>	<b>58,930</b>	33.1
Total Tax	2,909	3,241	3,284	4,423	4,992	5,385	66.2	7.9	14,800	8,805	68.1
<b>Adjusted PAT</b>	<b>16,478</b>	<b>18,216</b>	<b>19,593</b>	<b>18,712</b>	<b>21,353</b>	<b>23,569</b>	<b>29.4</b>	<b>10.4</b>	<b>63,634</b>	<b>50,125</b>	27.0
(Profit)/loss from JV's/Ass/MI	-239	-237	-320	-269	-288	-262			-819	-704	
<b>APAT after MI</b>	<b>16,239</b>	<b>17,979</b>	<b>19,273</b>	<b>18,443</b>	<b>21,065</b>	<b>23,307</b>	<b>29.6</b>	<b>10.6</b>	<b>62,815</b>	<b>49,421</b>	27.1
Extra ordinary items	0	0	0	0	0	0			0		
<b>Reported PAT</b>	<b>16,239</b>	<b>17,979</b>	<b>19,273</b>	<b>18,443</b>	<b>21,065</b>	<b>23,307</b>	<b>29.6</b>	<b>10.6</b>	<b>62,815</b>	<b>49,421</b>	27.1
<b>Reported EPS</b>	<b>8.3</b>	<b>9.2</b>	<b>9.8</b>	<b>9.4</b>	<b>10.8</b>	<b>11.9</b>	<b>29.6</b>	<b>10.6</b>	<b>32.1</b>	<b>25.3</b>	27.1

Margins (%)							(bps)	(bps)			
EBIDTA	28.7	29.7	29.9	29.3	30.0	30.2	49	15	29.9	28.6	131
EBIT	26.3	27.3	27.5	27.1	28.0	28.1	77	7	27.8	26.2	161
EBT	26.1	28.0	29.6	28.2	28.4	30.0	192	159	28.9	26.4	244
PAT	21.8	23.5	24.9	22.4	22.7	24.1	62	143	23.1	22.2	95
Effective Tax rate	15.0	15.1	14.4	19.1	18.9	18.6	349.4	(35.0)	18.9	14.9	393

Source: Company, Emkay Research

*TCS continues to outperform on operational performance yet again*

	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec'10
<b>Rev gwth(YoY)(US\$ mn)</b>								
Infosys	-1.8	-2.8	-5.1	5.2	15.6	21.0	29.6	28.7
TCS	-5.5	-2.9	-2.3	10.2	17.7	21.2	30.3	31.1
<b>EBITDA gwth(YoY)</b>								
Infosys	27.9	26.3	7.7	0.4	6.9	4.9	19.8	15.9
TCS	24.3	22.6	17.3	16.7	23.0	22.8	30.7	28.4
<b>Profits gwth (YoY)</b>								
Infosys	29.1	17.3	7.5	-3.5	0.2	-2.6	12.8	12.4
TCS	-19.2	22.2	28.6	32.9	46.9	21.3	29.7	29.6

Source: Companies, Emkay Research

While Infy has matched TCS on revenue growth (ex IMS and BPO), TCS has clearly moved from strength to strength in IMS and BPO.

	June'09	Sep'09	Dec'09	March'10	June'10	Dec'10
<b>Revenues</b>						
Infosys	1,122	1,154	1,232	1,296	1,358	1,585
TCS	1,481	1,538	1,635	1,686	1,794	2,144
<b>Revenue growth, QoQ</b>						
Infosys		2.9%	6.8%	5.2%	4.8%	5.9%
TCS		3.9%	6.3%	3.1%	6.4%	7.0%
<b>BPO Revenues</b>						
Infosys	68	72	73	80	77	89
TCS	169	181	188	194	201	244
<b>BPO Rev growth, QoQ</b>						
Infosys		4.5%	1.6%	10.5%	-3.7%	5.9%
TCS		7.5%	3.6%	3.1%	3.6%	11.9%
<b>IMS Revenues</b>						
Infosys	74	90	87	93	94	95
TCS	138	123	129	140	156	225
<b>IMS Rev growth, QoQ</b>						
Infosys		21.6%	-2.8%	6.7%	0.4%	2.5%
TCS		-10.6%	5.0%	8.3%	11.5%	19.5%
<b>Rev(ex IMS and BPO)</b>						
Infosys	980	992	1,072	1,122	1,187	1,401
TCS	1,174	1,233	1,318	1,352	1,437	1,674
<b>Rev(ex IMS and BPO) growth, QoQ</b>						
Infosys		1.3%	8.0%	4.7%	5.8%	6.2%
TCS		5.1%	6.8%	2.6%	6.3%	4.8%

Source: Companies, Emkay Research

( All fig in Rs mn except EPS)	FY11E			FY12E			FY13E		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenues(US\$ mn)	8,193	8,196	0.0%	10,171	10,224	0.5%	12,127	12,198	0.6%
Revenues	371,625	373,090	0.4%	457,695	460,077	0.5%	545,731	548,926	0.6%
EBITDA	110,741	111,533	0.7%	133,269	133,740	0.4%	153,756	156,310	1.7%
Net profits	85,301	85,742	0.5%	99,972	100,317	0.3%	117,787	120,357	2.2%
EPS	43.6	43.8	0.5%	51.1	51.3	0.3%	60.2	61.5	2.2%

Source: Emkay Research

## Financials

## Income Statement

Y/E, Mar (Rs. m)	FY10	FY11E	FY12E	FY13E
<b>Net Sales</b>	300,289	373,090	460,077	548,926
Growth (%)	8	24	23	19
<b>Total Expenditure</b>	(213,446)	(261,558)	(326,337)	(392,616)
Growth (%)	3	23	25	20
<b>EBIDTA</b>	86,843	111,533	133,740	156,310
Growth (%)	21	28	20	17
<b>EBIDTA %</b>	28.9	29.9	29.1	28.5
Other Income	2,255	3,543	6,750	11,250
Depreciation	(7,291)	(7,761)	(8,671)	(9,714)
<b>EBIT</b>	<b>81,807</b>	<b>107,315</b>	<b>131,819</b>	<b>157,846</b>
Interest	-	-	-	-
<b>EBT</b>	<b>81,807</b>	<b>107,315</b>	<b>131,819</b>	<b>157,846</b>
Tax	(12,089)	(20,458)	(30,318)	(36,305)
<b>EAT</b>	<b>68,694</b>	<b>85,742</b>	<b>100,317</b>	<b>120,357</b>
Growth (%)	33	25	17	20
EAT (%)	22.9	23.0	21.8	21.9

## Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11E	FY12E	FY13E
Equity share capital	1,957	1,957	1,957	1,957
Reserves & surplus	208,427	247,397	296,362	365,367
Minority Interest	4,055	4,055	4,055	4,055
<b>Networth</b>	<b>214,439</b>	<b>253,409</b>	<b>302,374</b>	<b>371,379</b>
Secured Loans	2,418	2,418	2,418	2,418
Unsecured Loans	-	-	-	-
<b>Loan Funds</b>	<b>2,418</b>	<b>2,418</b>	<b>2,418</b>	<b>2,418</b>
<b>Total Liabilities</b>	<b>216,857</b>	<b>255,827</b>	<b>304,792</b>	<b>373,797</b>
Goodwill	-	-	-	-
Gross Block	103,716	125,716	147,716	169,716
Less: Depreciation	29,594	37,355	46,026	55,740
<b>Net block</b>	<b>74,121</b>	<b>88,361</b>	<b>101,690</b>	<b>113,976</b>
<b>Capital WIP</b>	-	-	-	-
<b>Investment</b>	<b>37,816</b>	<b>37,816</b>	<b>37,816</b>	<b>37,816</b>
<b>Current Assets</b>	<b>162,608</b>	<b>209,378</b>	<b>266,124</b>	<b>342,317</b>
Inventories	178	178	-	-
Sundry debtors	58,098	76,662	84,036	84,036
Cash & bank balance	10,249	25,211	49,737	100,371
Loans & advances	22,488	30,665	37,815	45,117
Other current assets	71,595	76,662	94,536	112,793
<b>Current Liab &amp; Prov</b>	<b>57,689</b>	<b>79,729</b>	<b>100,839</b>	<b>120,313</b>
Current liabilities	50,962	79,729	100,839	120,313
Provisions	6,727	-	-	-
<b>Net current assets</b>	<b>104,919</b>	<b>129,650</b>	<b>165,285</b>	<b>222,004</b>
<b>Misc exps</b>	-	-	-	-
<b>Deferred Tax</b>	-	-	-	-
<b>Total Assets</b>	<b>216,857</b>	<b>255,827</b>	<b>304,792</b>	<b>373,797</b>

## Cash Flow

Y/E, Mar (Rs. m)	FY10	FY11E	FY12E	FY13E
Net Profit after Tax	68,694	85,742	100,317	120,357
Add : Depreciation	7,291	7,761	8,671	9,714
Add : Misc exp w/off	-	-	-	-
<b>Net changes in WC</b>	<b>1,613</b>	<b>(22,040)</b>	<b>(21,110)</b>	<b>(19,474)</b>
<b>Operational Cash Flows</b>	<b>47,545</b>	<b>84,850</b>	<b>99,062</b>	<b>125,170</b>
<b>Capital expenditure</b>	<b>(9,773)</b>	<b>(22,000)</b>	<b>(22,000)</b>	<b>(22,000)</b>
Investments	(20,545)	-	-	-
<b>Investing Cash Flows</b>	<b>(30,319)</b>	<b>(22,000)</b>	<b>(22,000)</b>	<b>(22,000)</b>
<b>Borrowings</b>	<b>(4,496)</b>	<b>-</b>	<b>-</b>	<b>-</b>
dividend paid	(45,801)	(45,788)	(50,358)	(50,358)
Issue of shares	(1,015)	-	-	-
Share Premium	44	-	-	-
<b>Financing Cash Flows</b>	<b>(41,002)</b>	<b>(47,888)</b>	<b>(52,536)</b>	<b>(52,536)</b>
changes in cash	<b>(23,777)</b>	<b>14,962</b>	<b>24,526</b>	<b>50,634</b>
Opening balance	<b>13,441</b>	<b>10,249</b>	<b>25,211</b>	<b>49,737</b>
<b>Closing balance</b>	<b>10,249</b>	<b>25,211</b>	<b>49,737</b>	<b>100,371</b>

## Key ratios

Y/E, Mar	FY10	FY11E	FY12E	FY13E
EPS (Rs)	35.1	43.8	51.3	61.5
CEPS (Rs)	38.8	47.8	55.7	66.5
Book Value Per Share (Rs)	107.0	126.9	151.9	187.2
Dividend Per Share (Rs)	20.0	20.0	22.0	22.0
<b>Valuations Ratios (x)</b>				
PER	32.2	25.8	22.0	18.4
P/CEPS	29.1	23.6	20.3	17.0
P/BV	10.5	8.9	7.4	6.0
EV/EBIDTA	24.9	19.3	15.9	13.3
EV/Sales	7.2	5.8	4.6	3.8
M-Cap/sales	7.4	5.9	4.8	4.0
<b>Profitability Ratios (%)</b>				
RoCE	41.4	43.9	44.6	43.2
RoNW	37.6	37.5	36.8	36.3
EBITDA Margin	28.9	29.9	29.1	28.5
EBIT Margins	26.5	27.8	27.2	26.7
Net Profit Margin	22.9	23.0	21.8	21.9

**Recommendation History: Tata Consultancy Services - TCS IN**

Date	Reports	Reco	CMP	Target
22/12/2010	<a href="#">TCS Company Update</a>	Accumulate	1,150	1,250
22/10/2010	<a href="#">TCS Q2FY11 Result Update</a>	Accumulate	984	1,075
16/07/2010	<a href="#">TCS Q1FY11 Result Update</a>	Accumulate	780	890
20/04/2010	<a href="#">TCS Q4FY10 Result Update</a>	Accumulate	815	860

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
13/01/2011	<a href="#">Infosys Technologies Q3FY11 Result Update</a>	Accumulate	3,205	3,400
11/01/2011	<a href="#">Patni Computers Event Update</a>	NR	646	NA
07/12/2010	<a href="#">Infinite Computer Solutions Initiating Coverage</a>	Buy	170	250
26/11/2010	<a href="#">Mphasis Company Update</a>	Hold	599	600

**Emkay Global Financial Services Ltd.**

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

**DISCLAIMER:** This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material 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. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.