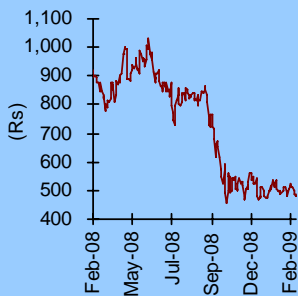


## Shareholding pattern

	Jun '08	Sep '08	Dec '08
Promoters	76.4	76.4	76.2
Institutional investors	17.5	17.6	17.7
MFs and UTI	2.1	1.8	2.3
Insurance Cos.	4.3	4.7	4.9
FIs	11.2	11.1	10.5
Others	6.1	6.0	6.1

Source: www.nseindia.com

## Price chart



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## Tata Consultancy Services

**HOLD**  
Maintained  
**Rs490**

## Increasing risk

Reason for report: Management meet

**Key takeaways from our recent management meet with Tata Consultancy Services (TCS) indicate that besides volume pressure (owing to discretionary spend), uncertainty is increasing in some client accounts, even on non-discretionary spend. Though this has not become a trend, it is a new risk to IT, which has not been factored in by the market. Further, as per TCS, sustaining pricing would be a challenge. Therefore, we expect like-to-like billing rate decline in case of other key vendors, including TCS and Wipro besides Infosys (that reported 1.8% constant-currency decline in Q3FY09 alone) in coming quarters. We reiterate our cautious view on IT with no BUYs within large-caps. Despite low valuations, concerns on pricing and volumes are likely to increase, which would cap any upside. We maintain HOLD on TCS with downside risk to our EPS estimate and current target price of Rs545/share.**

- ▶ **Non-discretionary volume under some pressure.** TCS is witnessing ramp-down requests from some clients in Auto and Telecom verticals, with lower number of support hours for maintaining systems. Though such requests are limited, it can be inferred that the demand downside is not behind us. However, project cancellations have not increased versus that in Q3FY09, with the start of new deals won in Q3FY09. Retail vertical has been showing better signs of outsourcing.
- ▶ **Delay in '09 IT budget with increased discussion on pricing.** TCS expects '09 IT budget finalisation to be delayed by two months versus the earlier expectation of January '09. The company is witnessing increased requests for rate decline, which may result in like-to-like billing rate cut as the upside to non-linear execution model may be limited (fixed price contribution at 45.5%, the highest among peers).
- ▶ **Waning margin levers.** We believe that with increasing risk on volumes besides pricing, utilisation rate will likely be pressurised with higher campus recruitment in FY10E as well at ~24,200. However, with lower flexibility in employee costs, margins pressure will likely increase.
- ▶ **Maintain HOLD.** Despite inexpensive valuations, lack of any catalyst to propel demand is likely to keep the upside capped. We maintain HOLD with downside risk to our EPS estimates and target price of Rs545/share.

Market Cap	Rs484bn/US\$9.8bn
Reuters/Bloomberg	TCS.BO/TCS.IN
Shares Outstanding (mn)	978.6
52-week Range (Rs)	1,029/454
Free Float (%)	23.8
FII (%)	10.5
Daily Volume (US\$'000)	22,200
Absolute Return 3m (%)	4.3
Absolute Return 12m (%)	(44.6)
Sensex Return 3m (%)	7.0
Sensex Return 12m (%)	(48.7)

Year to March	FY08	FY09E	FY10E	FY11E
Revenue (Rs mn)	226,176	281,398	293,166	323,359
Net Income (Rs mn)	49,897	53,526	53,437	57,282
EPS (Rs)	51.0	54.7	54.6	58.5
% Chg YoY	22.5	7.3	(0.2)	7.2
P/E (x)	9.6	9.0	9.0	8.4
CEPS (Rs)	54.4	58.0	59.3	66.5
EV/E (x)	8.0	6.4	6.0	5.3
Dividend Yield (%)	2.6	2.8	2.8	3.0
RoCE (%)	43.9	35.7	28.4	25.2
RoE (%)	46.7	37.5	29.6	26.1

## Financial Summary (Consolidated US GAAP)

Table 1: Profit and Loss Statement

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
<b>Operating Revenues (Sales)</b>	<b>226,176</b>	<b>281,398</b>	<b>293,166</b>	<b>323,359</b>
of which Exports	205,679	260,503	271,531	297,139
of which Domestic	20,497	20,895	21,636	26,220
<b>Operating Expenses</b>	<b>169,138</b>	<b>208,438</b>	<b>224,461</b>	<b>248,890</b>
<b>EBITDA</b>	<b>57,039</b>	<b>72,960</b>	<b>68,706</b>	<b>74,469</b>
% margins	25.2	25.9	23.4	23.0
Depreciation & Amortisation	5,746	5,507	6,745	7,761
Other Income	6,808	(3,899)	2,181	5,824
<b>Recurring PBT</b>	<b>58,100</b>	<b>63,554</b>	<b>64,142</b>	<b>72,532</b>
Add: Extraordinary	293	0	0	0
Less: Taxes	7787	9,439	10,044	14,506
- Current tax	10,168	11,757	12,187	14,506
- Deferred tax	(2,381)	(2,318)	(2,143)	0
Add: Earnings in Affiliates	8	(7)	(7)	(8)
Less: Minority Interest	424	582	654	736
<b>Net Income (Reported)</b>	<b>50,190</b>	<b>53,526</b>	<b>53,437</b>	<b>57,282</b>
<b>Recurring Net Income</b>	<b>49,897</b>	<b>53,526</b>	<b>53,437</b>	<b>57,282</b>

Source: Company data, i-SEC Research

Table 2: Balance Sheet

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
<b>Assets</b>				
Total Current Assets	92,689	127,052	135,946	190,037
of which cash and deposits	10,352	19,638	46,248	60,862
Total Current Liabilities & Provisions	41,788	50,529	36,082	69,846
<b>Net Current Assets</b>	<b>50,901</b>	<b>76,523</b>	<b>99,864</b>	<b>120,191</b>
<b>Investments</b>	<b>26,475</b>	<b>6,500</b>	<b>32,500</b>	<b>35,000</b>
of which Other Marketable	26,475	6,500	32,500	35,000
<b>Net Fixed Assets</b>	<b>36,703</b>	<b>65,796</b>	<b>67,051</b>	<b>71,790</b>
Intangibles	3,633	11,465	11,465	11,465
Goodwill	11,105	23,502	23,502	23,502
<b>Capital Work-in-Progress</b>	<b>8,249</b>	<b>7,600</b>	<b>7,500</b>	<b>7,500</b>
<b>Other Long Term Assets</b>	<b>11,701</b>	<b>16,301</b>	<b>4,268</b>	<b>18,415</b>
<b>Total Assets</b>	<b>134,030</b>	<b>172,720</b>	<b>211,183</b>	<b>252,896</b>
of which cash and equivalents	36,827	26,138	78,748	95,862
<b>Liabilities</b>				
<b>Borrowings</b>	<b>7,098</b>	<b>7,624</b>	<b>7,626</b>	<b>7,626</b>
<b>Deferred Tax Liability</b>				
Other Non Current Liabilities	812	350	350	800
Minority Interest	2,300	3,057	3,712	4,448
Equity Share Capital	979	979	979	979
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus*	122,841	160,711	198,517	239,044
<b>Net Worth</b>	<b>123,820</b>	<b>161,689</b>	<b>199,496</b>	<b>240,023</b>
<b>Total Liabilities</b>	<b>134,030</b>	<b>172,720</b>	<b>211,183</b>	<b>252,896</b>

Source: Company data, i-SEC Research

\*excluding revaluation reserves

Table 5: Quarterly trends

(Rs mn, year ending March 31)

	Mar-08	Jun-08	Sep-08	Dec-08
Net sales	60,469	64,107	69,534	72,770
% growth (YoY)	17.5	24.3	25.3	24.1
EBITDA	15,126	15,314	18,197	19,474
Margin (%)	25.0	23.9	26.2	26.8
Other income	1,179	332	(1,784)	(1,847)
Extraordinary Inc / (Loss)	0	0	0	0
Recurring Net Income	12,558	12,436	12,615	13,524

Source: Company data, i-SEC Research

Table 3: Cash Flow Statement

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
<b>Operating Cash flow before W Cap changes</b>	<b>53,687</b>	<b>63,521</b>	<b>58,662</b>	<b>59,963</b>
Working Capital Inflow / (Outflow)	(14,025)	(10,280)	3,288	(6,396)
Capex (including Goodwill)	(13,908)	(41,271)	(7,900)	(12,500)
<b>Free Cash flow</b>	<b>25,754</b>	<b>11,970</b>	<b>54,050</b>	<b>41,066</b>
<b>Cash Flow from other Invst Act (Ex Capex)</b>	<b>(13,491)</b>	<b>11,472</b>	<b>(11,786)</b>	<b>(10,822)</b>
Proceeds from Issue of Share Capital	33	0	0	0
Inc/(Dec) in Borrowings	718	525	2	0
Divided paid	(14,953)	(14,681)	(15,656)	(15,630)
<b>Others</b>				
<b>Increase/(Decrease) in Cash</b>	<b>(1,940)</b>	<b>9,286</b>	<b>26,609</b>	<b>14,614</b>

Source: Company data, i-SEC Research

Table 4: Key Ratios

(Year ending March 31)

	FY08	FY09E	FY10E	FY11E
<b>Per Share Data (Rs)</b>				
EPS(Basic Recurring)	51.0	54.7	54.6	58.5
Diluted Recurring EPS	51.0	54.7	54.6	58.5
Recurring Cash EPS	54.4	58.0	59.3	66.5
Dividend per share (DPS)	12.8	13.7	13.7	14.6
Book Value per share (BV)	126.5	165.2	203.9	245.3
<b>Growth Ratios (%)</b>				
Operating Income (Sales)	21.4	24.4	4.2	10.3
EBITDA	12.4	27.9	(5.8)	8.4
Recurring Net Income	22.5	7.3	(0.2)	7.2
Diluted Recurring EPS	22.5	7.3	(0.2)	7.2
Diluted Recurring CEPS	16.4	6.5	2.3	12.1
<b>Valuation Ratios (x)</b>				
P/E	9.6	9.0	9.0	8.4
P/CEPS	9.0	8.5	8.3	7.4
P/BV	3.9	3.0	2.4	2.0
EV / EBITDA	8.0	6.4	6.0	5.3
EV / Sales	2.0	1.7	1.4	1.2
EV / FCF	17.6	38.9	7.6	9.6
<b>Operating Ratio</b>				
Software Development Expenses/Sales (%)	54.1	54.4	57.2	58.2
SG&A/Sales (%)	20.7	19.6	19.3	18.8
Other Income / PBT (%)	11.7	(6.1)	3.4	8.0
Effective Tax Rate (%)	13.4	14.9	15.7	20.0
NWC / Total Assets (%)	29.0	34.3	40.4	37.2
Fixed Asset Turnover (x) on average	6.8	5.5	4.4	4.7
Receivables (days) on average	78.3	79.5	80.0	79.0
Payables (days) on average	22.1	23.4	17.7	15.4
D/E Ratio (x) on average	0.1	0.0	0.0	0.0

Return/Profitability Ratio (%)

Recurring Net Income Margins	22.1	19.0	18.2	17.7
RoIC (Based on Avg)	61.2	45.8	40.0	41.6
RoCE (Based on Avg)	43.9	35.7	28.4	25.2
RoNW (Based on Avg)	46.7	37.5	29.6	26.1
Dividend Payout Ratio	29.3	29.3	29.3	29.3
Dividend Yield	2.6	2.8	2.8	3.0
EBITDA Margins	25.2	25.9	23.4	23.0

Source: Company data, i-SEC Research

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