

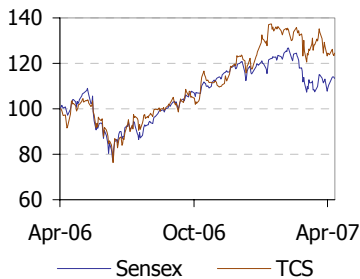
Tata Consultancy Services

 Relative to sector: **Outperformer**

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

 No. of shares : 978mn
 Market cap : Rs 1,253bn
 52 week high/low : Rs 1,399/ Rs.728
 Avg. daily vol. (6mth): 1.3mn shares
 Bloomberg code : TCS IN
 Reuters code : TCS.BO

Shareholding (%)	Mar-07	QoQ chg
Promoters	81.7	(0.8)
FII's	7.1	0.1
MFs / UTI	2.0	0.4
Banks / FIs	2.9	0.1
Others	6.4	0.2

LEADS THE PACK, ONCE AGAIN

TCS' Q4FY07 PAT was almost inline with our expectations, though topline growth QoQ has been lower than our expectations. Topline and PAT have recorded QoQ growth of 5.9% and 6.2% respectively. Topline growth was led by consolidated volume growth (6.4% QoQ), pricing uptrend (~0.9% QoQ) and productivity improvement (~0.4% QoQ). Operating profit growth at ~4% QoQ would have been higher but for INR appreciation (OPM impact at ~57 bps QoQ) and low-margin transition management phase in certain deals.

Would FY08 earnings momentum be better than peers? Directional trend on employee additions better: While its core BFSI domain had a subdued performance (~1% QoQ ↑ in Q4FY07), the likely employee additions of ~30,000+ at a gross level for FY08 (v/s ~24,500 gross for Infosys), scale improvement in GDCs (4.6% revenue share in Q4FY07) and presence of operating leverage (largely onsite-offshore transition) place TCS at a competitive edge.

Salary hikes inline with industry: Additionally, the FY08 salary hikes have been in alignment with industry/ better than last year (12-15% for offshore v/s ~15% in FY07, 3-5% for onsite employees). FY07 saw greater than average hikes (for offshore employees) to align with peers.

Pearl/ Offshore Transition and Utilization Rates: Pearl Insurance deal and onsite-offshore business transition are instrumental for achieving a better OPM. The Q4FY07 utilization rates at 74.7% can be tweaked by ~200-400bps in addition to higher employee addition.

Valuations: Strong deal wins, expectations on improvement in operating leverage and proven execution abilities in large deals should result in a 27% CAGR growth in PAT (FY07-FY09E) and sustain current P/E multiples. We, thus maintain sector **Outperformer** rating at current valuations of 22.5x FY08E & 18.7x FY09E EPS. The current out performance nonetheless, has a limited upside potential.

Financial summary

Y/E Mar	Sales (Rs mn)	Rep.PAT (Rs mn)	Consensus EPS* (Rs)	EPS (Rs)	Change YoY (%)	P/E (x)	RoE (%)	EV/EBIDTA (x)
FY06	132,550	28,968	-	29.6	38.4	32.3	60.5	27.1
FY07	186,334	41,315	42.6	42.2	42.6	29.1	54.5	25.6
FY08E	251,443	55,701	55.5	56.9	34.8	22.5	47.8	18.7
FY09E	319,489	67,079	67.7	68.6	20.4	18.7	39.1	14.7

Source: *Consensus broker estimates, Company, ENAM estimates

US GAAP Q4FY07 Results

(Rs mn)	Quarter ended					12 months ended		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Mar-08E	Mar-07	% Chg
Net Sales	51,464	37,234	38.2	48,605	5.9	251,443	186,334	34.9
EBITDA	13,173	8,965	46.9	12,673	3.9	64,010	46,446	37.8
Other income	898	(40)	-	300	199.4	1,243	1,943	(36.0)
PBIT	14,070	8,925	57.7	12,973	8.5	65,253	48,389	34.9
Tax	2,188	898	143.8	1,828	19.7	9,135	6,700	36.3
Adjusted PAT	11,882	8,027	48.0	11,145	6.6	56,118	41,688	34.6
Minority interest	(158)	(70)	127.2	(115)	-	483	417	15.8
Equity in net earnings of affiliates	4	-	-	17	-	66	44	50.0
Reported PAT	11,728	7,958	47.4	11,047	6.2	55,701	41,315	34.8
No. of shares (mn)	978	978	-	978	-	978	978	-
EBITDA margins (%)	25.6	24.1	-	26.1	-	25.5	24.9	-
PBIT margins (%)	27.3	24.0	-	26.7	-	26.0	26.0	-
EPS (Rs.)	12.0	8.1	47.4	11.3	6.2	56.9	42.2	34.8

Source: Company, ENAM Research

Clientele Quality

(Nos)	Q4FY07	Q3FY07	Q4FY06
Clientele Performance			
Active Client Base	780	754	748
Additions This quarter	43	55	89
Repeat Business (%)	94.9	96.1	91.9
Client Profile			
No: of USD 1mn clients	297	288	256
No: of USD 5mn clients	119	114	96
No: of USD 10mn clients	75	74	54
No: of USD 20mn clients	39	37	31
No: of USD 50mn clients	14	15	9
% of clients that contribute > than USD 1mn	38.1	38.2	34.2
% of clients that contribute >than USD 5mn	15.3	15.1	12.8

Source: Company, ENAM Research

Revenue performance: Horizontal service offerings

(Rs mn)	Q4FY07	Q3FY07	% Chg QoQ
ADM	26,401	26,004	1.5
Business Intelligence	5,043	4,617	9.2
Engineering & Industrial Services	2,779	2,625	5.9
Infrastructure Services	3,088	2,673	15.5
Enterprise Solutions	6,330	5,735	10.4
Global Consulting	1,801	1,653	9.0
Asset Leverage Solutions	1,595	1,361	17.2
Assurance Services	1,338	1,118	19.7
Business Process Outsourcing	3,088	2,819	9.5
Total	51,464	48,605	5.9

Source: Company, ENAM Research

Q4FY07 Result Analysis

	Q4FY07	% Change		Remarks
		QoQ	YoY	
Topline (Rs mn)	51,464	5.9	38.2	Lower than our expectations
Operating Profit (Rs mn)	13,173	3.9	46.9	Marginally lower than our expectations
PAT (Rs mn)	11,728	6.2	47.4	Almost inline with our expectations
EPS (Rs.)	12.0	-	-	-
OPM (%)	25.6	-	-	Operating performance led by volume growth (~6.4% QoQ), pricing uptake (~0.9% QoQ) and productivity increase (~0.4% QoQ). Forex impacted the margins by ~57 bps
Volumes (Rs mn)				
Onsite	27,842	5.5	19.3	Topline growth led by consolidated volume growth of ~6.4%. GDCs lead the growth, albeit on a lower base.
Offshore	21,255	5.1	53.0	
GDC / RDC	2,367	18.8	N.A	
Volumes (nos.)				
Blended Volume Growth	-	6.4	-	Almost in line with our expectations
Pricing (%)	-	~ +0.9%	-	-
Utilization Rates (%)				
Including Trainees	74.7	-	-	Ensures availability of operating leverage in the coming quarters
Excluding Trainees	79.6	-	-	
Employee Base (nos)				
Total Employees	89,419	7.1	34.5	FY07 gross additions expected at ~ 30,000+. Campus recruitments at ~12,000+ for FY09
Net Additions	5,827	-	-	
Subsidiary performance (Rs mn)				
TCS - Consolidated	51,464	5.9	38.2	
CMC Revenues	2,891	(3.2)	39.4	
TCS excluding CMC	48,573	6.5	38.2	
Client Slabs (Rs mn)				
Top Client	3,206	23.3	146.4	Top 10 clients lead the QoQ run-rate with strong ramp-ups especially in the BPO, BI, Enterprise Solutions and IMS segment. Top client is now at an annualized run rate of ~USD 290mn+
Top 2-5 clients	5,780	8.3	23.6	
Top 6-10 clients	4,809	4.4	30.3	
Top 10 Clients	13,795	10.0	42.7	
Remaining Clients	34,778	5.2	36.4	
Vertical Performance				
				Core BFSI vertical showed a muted performance at ~1% QoQ growth. Retail & Distribution, Telecom and Transportation lead the growth with Life-sciences & Healthcare maintained their steady performance.

Source: Company, ENAM Research

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