

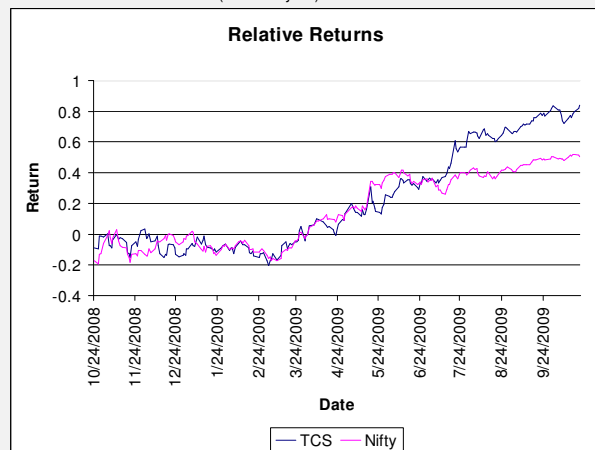
Industry	IT
CMP	632
52 week High/Low	639/223
Market Cap (INR mn)	1236963
Avg Daily Volumes (one month)	571041
Industry P/E (TTM)	20.5
TCS P/E (TTM)	21.1

Source: NSE Data

Shareholding Pattern

	Q1 FY09 (%)
Promoters	75.09
FII	11.20
FI / MF / Others	7.54
Others	6.17

Source: NSE Data

Stock Performance (Last one year)

Source: Capitaline

Performance (Absolute)

	1M	3 M	12 M
TCS	8.36%	26.42%	131.52%
NIFTY	1.76%	12.47%	65.20%

Source: NSE Data

Analyst

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Comfortably beating our expectations ...

- After a superb Q1, TCS does it again. The revenue growth is 3.2% sequentially which has beaten Unicon estimates of nearly 0.7% revenue growth. The volume growth has been impressive at 5% which surprised the street on the back of better than expected ramp ups from BFSI clients. The volume growth was driven by 5.3% growth in international revenues with the US turning out to be one of the growth areas. The market share of US went up by 110 bps to 53.4% in 2Q FY 10.
- Asia Pacific markets have also done particularly well and the management is of the view that the UK would also see ramp ups happen in the next few quarters with the biggest telecom client bottoming out this quarter.
- However, the Indian business is seeing some stress as the revenues from domestic segments have dropped a significant 18%. This is due to the volatility in the India business.
- In the last quarter, the pricing was still an area of concern with client renegotiations. However this appears to have come to rest with the pricing declining by 1.39%, which can be construed as price renegotiation effects flowing through into Q2. However, we are of the view that pricing would be stabilised going forward.
- Cross currency tailwinds contributed a 1.64% growth to the revenues while the effort mix contributed a -1.35%, due to the increased off shoring. In Dollar terms the revenues have increased by 3.9%
- TCS has added 30 new clients and with the existing clients, the ramp ups are beginning to happen.

Deals and Clients addition

- The deal flow has been healthy this quarter with TCS bagging 10 large deals. Also, the number of new client additions has been 30 this quarter.
- The verticals being strong on growth are BFSI, Retail, Utilities and Healthcare. Telecom, Hitech and Manufacturing have been showing stress but the management believes that they might have bottomed out this quarter.

EBITDA margins improve ...

- TCS has come out of the recession with improving margins, which incidentally are closing the valuation with its rival Infosys. On the back of improving margins in Q1, which expanded by 150 bps then, the margins have improved in Q2 by 120 bps to 28.5%. Overall in FY 10, the operating margins have expanded by 270 bps thus far.
- This expansion of margins is mainly due to the leverage that TCS is deriving from its investments in the Sales force in the last few quarters.
- Also, the cost management is helping the company expand its margins as can be seen from the SG&A expenses
- TCS would also be paying 150% variable salary and going forward, TCS would take on board 18000 freshers who have been given offer the last year each of which has an impact on the margins. The management expects that TCS would maintain the current margins going forward.

Outlook

- TCS has wrapped up another spectacular quarter and as it heads into the next two quarters of FY10, we are confident that the company would see a good number of deal conversions from the pipeline as also cover the reverses in the domestic business
- TCS is also the leader in bidding for the domestic projects and has already taken on board some big deal wins in the last few quarters.
- We expect that execution of TCS would be one of the best in the IT space and hence would translate to increasing revenue run rates and profitability.

	Q2 FY 10	Q2 FY 09	Y-o-Y	Q1 FY 09	Q-o-Q
Net Sales	74352.3	69533.7	6.9%	72069.9	3.2%
Expenditure	53172.5	51338.5	3.6%	52424.7	1.4%
EBITDA	21179.8	18195.2	16.4%	19645.2	7.8%
EBITDA %	28.5%	26.2%	230 bps	27.3%	120 bps
Depreciation	1659.6	1398.6	18.7%	1580	5.0%
EBIT	19520.2	16796.6	16.2%	18065.2	8.1%
Interest	35.3	57.5	-38.6%	37.1	-4.9%
Other Income	-86.3	-1689.2	-94.9%	255.5	-133.8%
Tax Provision	2772.7	2203.8	25.8%	2773.1	0.0%
PAT	16422.1	12709.9	29.2%	15339.4	7.1%

Valuation

- Trading at a CMP of INR 627, the price is discounted at 21 times its TTM EPS. We feel that the stock would have incremental upsides going into the next few quarters as the management expects ramp ups to start along with the up tick in the domestic business. This should help TCS with a good revenue run rate in the next few quarters. Recommend BUY.

NOTES

Unicon Investment Ranking Methodology

Rating	Buy	Accumulate	Hold	Reduce	Sell
Return Range	>= 20%	10% to 20%	-10% to 10%	-10% to -20%	<= -20%

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