

Tata Consultancy Services Ltd.**Rs. 1,300****Will maintain industry leading growth; however the same is reflected in valuation****HOLD****We attended the analyst meet hosted by TCS and maintain our hold view on the stock. The following are key takeaways from the meet: -**

- IT spending by clients is on track and they are moving ahead with discretionary projects. The company is witnessing momentum in deal pipeline across geographies and industries except telecom segment.
- Margin will be under marginal pressure in Q2 FY13E primarily due to adverse trend in INR against major global currencies and increase in onsite revenue mix.
- Lack of visibility for CY13E but initial discussion with the clients give the management optimism that the next year will turn out better than CY12E in terms of increase in IT spending by clients. Moreover, they believe that revenue contribution from discretionary areas will continue to remain the same inspite improvement in demand environment.

No major change in deal flow/pipeline except management turning cautious in respect of growth prospects in telecom segment

The company has seen no cancellation of projects unlike Infosys which registered cancellation of discretionary project by European client in the previous quarter. This indicates that cancellation of projects is company and client specific issues rather than industry wide trend. Moreover, they witness strong demand from clients in Retail, Insurance, Manufacturing and Hi-tech. **In concern area i.e. banking sector the company continues to register momentum in both 'Run-the-Business' and Discretionary projects; however they expressed concern for telecom sector.** Geography-wise growth is registered across all major markets i.e. US, UK and Continental Europe and expects Latin American and APAC market to continue to outperform overall company's growth rate.

...however expects marginal decline in EBITDA margin

The management expects EBITDA margin to be under pressure in Q2 FY13E despite visa cost which is seasonal in nature is primarily incurred in Q1 FY13. The margins will be under pressure on account of increase in onsite revenue mix and adverse trend in exchange rate i.e. INR appreciation against the major global currencies.

Lack of visibility for CY13E but initial talks gives management optimism about better growth prospects than CY12E

The company has indicated that it is too early for clients to give clear cut directions in respect of their IT plans for CY13E; however their initial discussions gives them optimism that the next calendar year will be better than CY12E in terms of IT spend by clients. Moreover, the management has indicated that inspite expectation of improvement in demand environment they expect the contribution of discretionary segment in total revenue to remain unchanged in mid-term.

Valuation and view

We continue to be optimistic about business prospects for TCS especially considering momentum in its largest segment i.e. BFSI segment. However, we believe the same is reflected in consensus expectation and valuation premium assigned to the company. Hence, we believe there is limited upside to the stock price from current level and considering the same we recommend "HOLD" on the stock with target price of Rs.1,309 by assigning multiple of 17 times to its FY14E EPS of Rs.77.

Exhibit 1: Key Financial**(Rs. Crore)**

Particulars	FY11	FY12	FY13E	FY14E
Net Revenue (Rs. in crore)	37,301	48,893	61,302	69,787
EBITDA Margin (%)	30.0%	29.5%	29.7%	28.2%
Net Profit Margin (%)	23.7%	21.8%	22.4%	21.6%
EPS (In Rs.)	45.2	54.4	70.2	77.0
P/E	28.8	23.9	18.5	16.9
EV/EBITDA	21.8	16.9	13.6	12.9

Source: Company data, KRChoksey Research.

KRChoksey
INTEGRATED FINANCIAL SOLUTIONS**Target Price (Rs): 1,309**

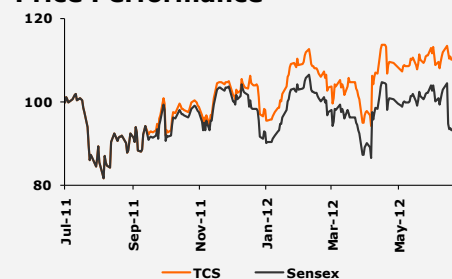
Potential Upside : 1%

Previous TP (Rs): 1,264

Market Data	18 Sept, 2012
Shares outs (Cr)	195.7
Equity Cap (Rs. Cr)	195.7
Mkt Cap (Rs. Cr)	254,410
52 Wk H/L (Rs.)	1,440/969
Avg Vol (1yr avg)	9,62,000
Face Value (Rs.)	2.0
Bloomberg Code	TCS IN

Market Info:

SENSEX	18,496
NIFTY	5,600

Price Performance**Share Holding pattern (%)**

Particular	June-12	Mar-12	Chg
Promoter	74.0	74.0	0.0
FII	14.6	14.0	0.6
DII	6.7	7.2	-0.5
Others	4.7	4.8	-0.1
Total	100	100	

Source: BSE

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Key takeaways for peer sets: -

Significant pressure registered by Infosys in discretionary areas due to company specific issues rather than industry wide trend- From our discussion with TCS management; we believe that clients are moving ahead with their discretionary spend as per their budget and significant pressure registered by Infosys in discretionary areas due to company specific issues rather than industry wide trend. The same can be observed from the table hereunder. We believe, one of the main reasons for slowdown in revenue from discretionary areas in case of Infosys is change in organization structure carried out in May 2011, which lifted P/L responsibility from service line head and hence led to removal of growth responsibility from the service line head. Further, switching of responsibility between two key vertical heads i.e. Ashok Vemuri (from BFSI to Manufacturing) and BG Srinivas (from Manufacturing to BFSI) at the time of intense competition among IT vendors further impacted the company's prospects especially in discretionary area.

Revenue from discretionary areas	1Q FY12	2Q FY12	3Q FY12	4Q FY12	1Q FY13
TCS					
ERP & Consulting	314	346	367	363	385
% Change QoQ	8.3%	10.3%	6.2%	-1.2%	6.0%
% Change YoY	46.9%	39.2%	43.9%	25.3%	22.7%
Overall revenue	2,412	2,525	2,586	2,648	2,728
% Change QoQ	7.5%	4.7%	2.4%	2.4%	3.0%
% Change YoY	34.4%	26.0%	20.6%	18.0%	13.1%
Infosys					
ERP & SI	531	545	553	551	524
% Change QoQ	4.3%	2.5%	1.4%	-0.3%	-4.9%
% Change YoY	34.5%	15.6%	10.7%	8.1%	-1.4%
Overall revenue	1,671	1,746	1,806	1,771	1,752
% Change QoQ	4.3%	4.5%	3.4%	-1.9%	-1.1%
% Change YoY	23.0%	16.7%	13.9%	10.5%	4.8%

Source: Company data, KRChoksey Research

Exhibit 4: Profit and Loss Statement

(Rs. Crore)

Particulars	FY11	FY12	FY13E	FY14E
Net Revenue (USD in mn)	8,186	10,171	11,602	13,645
Average exchange rate (INR/USD)	45.6	48.1	52.8	51.1
Net Revenue (Rs. in crore)	37,301	48,893	61,302	69,787
Personnel cost	16,537	20,980	26,463	31,228
SGA employee cost	4,244	5,945	7,774	8,964
Other operating expenses	5,348	7,550	8,865	9,930
EBITDA	11,172	14,418	18,199	19,665
EBITDA Margin (%)	30.0%	29.5%	29.7%	28.2%
Depreciation	732	904	1,045	1,232
EBIT	10,440	13,514	17,154	18,433
Other income	627	852	1,153	1,409
Interest	26	22	7	0
Forex loss/ (gain)	37	426	438	44
Profit before tax	11,004	13,918	17,863	19,798
Tax	2,035	3,169	3,961	4,554
Net Profit before minority interest	8,968	10,749	13,902	15,244
Minority interest	130	111	163	180
Net Profit	8,838	10,638	13,740	15,064
Net Profit Margin (%)	23.7%	21.8%	22.4%	21.6%
EPS (In Rs.)	45.2	54.4	70.2	77.0

Source: Company data, KRChoksey Research.

Exhibit 5: Balance Sheet

(Rs. Crore)

Particulars	FY11	FY12	FY13E	FY14E
SOURCES OF FUNDS				
Share capital	196	196	196	196
Preference shares	100	100	100	-
Add: -Reserves and surplus	24,209	29,284	37,168	45,791
Shareholders' fund	24,505	29,579	37,464	45,986
Loan fund	38	115	-	-
Minority interest	458	559	721	902
Deferred tax liability	109	173	173	173
TOTAL	25,110	30,427	38,358	47,061
APPLICATION OF FUNDS				
Net block	4,247	5,119	6,201	7,087
Capital work-in-progress	1,194	1,446	1,546	1,646
Goodwill	3,232	3,543	3,543	3,543
Investments	1,763	1,350	1,350	1,350
Deferred tax assets	160	256	256	256
Net current assets excluding cash & bank balance	9,813	12,709	15,946	18,153
Cash & bank balance	4,701	6,003	9,515	15,025
TOTAL	25,110	30,427	38,358	47,061

Source: Company data, KRChoksey Research

Exhibit 6: Cashflow Statement

(Rs. Crore)

Particulars	FY11	FY12	FY13E	FY14E
PBT	11,004	13,918	17,863	19,798
Add/Less:- Non cash/non operating items				
Depreciation/ Amortization	732	904	1,045	1,232
Others	(693)	(725)	(1,153)	(334)
Operating cash flow before working capital changes	11,043	14,097	17,754	20,695
Net Operating cash flow	6,614	7,008	10,568	13,936
Net cash used in investing activities	(1,462)	(2,737)	(1,065)	(1,883)
Net cash provided by financing activities	(4,658)	(3,955)	(5,987)	(6,559)
Net increase in cash and cash equivalents	495	316	3,516	5,494
Cash and cash equivalents at beginning of the year	1,024	1,549	1,984	5,500
Cash and cash equivalents at end of the year	1,549	1,984	5,500	10,994

Source: Company data, KRChoksey Research

Exhibit 7: Ratios

Particulars	FY11	FY12	FY13E	FY14E
EBITDA Margin (%)	30.0%	29.5%	29.7%	28.2%
Net Profit Margin (%)	23.7%	21.8%	22.4%	21.6%
EPS (In Rs.)	45.2	54.4	70.2	77.0
Revenue growth (%)	24.2%	31.1%	25.4%	13.8%
EBITDA growth (%)	28.5%	29.1%	26.2%	8.1%
Net Profit growth (%)	26.2%	20.4%	29.2%	9.6%
ROE	41.1%	39.3%	41.0%	36.1%
B/V (In Rs.)	125.2	151.1	191.3	234.8
P/BV	10.4	8.6	6.8	5.5
P/E	28.8	23.9	18.5	16.9
EV/EBITDA	23.3	18.1	14.6	13.8

Source: Company data, KRChoksey Research

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Tata Consultancy Services Ltd.

	CMP (Rs)	TP (Rs)	Recomm.
18-Sept-12	1300	1309	HOLD
16-July-12	1210	1264	HOLD
24-Apr-12	1194	1217	HOLD
19-Jan-12	1075	1136	HOLD
17-Oct-11	1033	1109	HOLD
15-July-11	1146	1302	HOLD
25-Apr-11	1192	1247	HOLD
18-Jan-11	1138	1209	HOLD

Rating Legend
Our Rating
Upside
Buy

More than 15%

Accumulate

5% - 15%

Hold

0 – 5%

Reduce

-5% – 0

Sell

Less than -5%

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