



TATA CONSULTANCY SERVICES

Mega deal win

India Equity Research | Information Technology

TCS announced a large deal of Total Contract Value USD2.2bn over 15 years from UK's Friends Life, a provider of pensions, investments and insurance. The agreement is effective March 2012 and involves taking over 1,900 employees. While the annual revenue from the deal is about USD 150mn and TCS already has 12 clients billing over USD 100mn p.a., the deal is significant as the duration suggests the ability of TCS to win mega contracts. Also, the capability to administer 3.2mn policies on its platform acts as a good reference for TCS. It remains one of our preferred picks in the sector due to its positioning as a primary offshore vendor given the diverse services offering and wide geographical presence.

Key highlights of the deal

- Administration of 3.2mn policies
- Automatic transfer of 1,900 employees of Friends Life onto TCS' rolls with some employment guarantees
- Total contract value of USD 2.2bn over 15 years
- Sales cycle of over eight months to win the deal
- Competition from the likes of Capita
- To provide policy administration, IT infrastructure and IT services
- Revenues to be recognized from March 2012

The deal is likely to be margin dilutive in the initial period due to the cost of 1,900 employees in UK. But over a period, as TCS transitions services on its platform, it would be able to shift work offshore and deploy the onsite resources in various other projects. Overall, the deal highlights the ability of TCS to continue to win mega deals (over USD1bn TCV) like A C Nielsen (USD1.2bn over 10 years in October 2007), Citi BPO (USD 2.5bn over 9.5 years in October 2008). At 18.4x FY13E earnings, it remains one of our preferred picks in the sector. We reiterate **'BUY/SO'** recommendation on the stock.

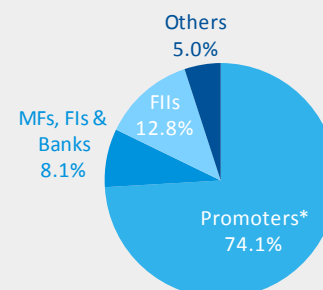
EDELWEISS 4D RATING

Absolute Rating	BUY
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Low
Sector Relative to market	Equalweight

MARKET DATA (R: TCS. BO, B: TCS IN)

CMP	: INR 1,123
Target Price	: INR 1,210
52-week range (INR)	: 1,247 / 902
Share in issue (mn)	: 1,957.2
M cap (INR bn/USD mn)	: 2,197 / 43,097
Avg. Daily Vol. BSE/NSE ('000)	: 1,864.0

SHARE HOLDING PATTERN (%)



* Promoters pledged shares : 4.3
(% of share in issue)

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Technology Index
1 month	5.7	10.7	8.5
3 months	0.6	(0.9)	(1.3)
12 months	4.0	(15.9)	(0.3)

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Financials

Year to March	FY10	FY11	FY12E	FY13E
Revenues (INR mn)	300,289	373,245	483,043	569,469
Rev. growth (%)	8.0	24.3	29.4	17.9
EBITDA (INR mn)	86,800	111,984	140,102	158,291
Net profit (INR mn)	68,738	87,164	104,538	119,389
Shares outstanding (mn)	1,957	1,957	1,957	1,957
Diluted EPS (INR)	35.1	44.5	53.4	61.0
EPS growth (%)	32.9	26.8	19.9	14.2
Diluted P/E (x)	32.0	25.2	21.0	18.4
EV/EBITDA (x)	24.9	19.2	15.1	13.0
ROAE (%)	37.6	37.6	36.0	32.5

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