

Tata Consultancy Services

No surprises

- TCS delivered an in-line 2Q. No risk to volume momentum (+6.2% qoq); robust deal wins (10 US\$100m+) + 20,000 gross add.
- However, we believe volume uptrend is baked in upgrades to consensus FY12/13F EPS over the past 9 months; weak realization trajectory (-145bp over 1H) could cap upside on core business.
- While INR depreciation uplifts our forecasts, an incrementally cautious pricing commentary and premium valuations could keep the stock range bound in the medium term, in our view.
- We stay In-Line with Rs1,080 PT (Rs1,280 earlier).

2Q12 results: No surprises. Cons. revenue grew 4.7% qoq to US\$2.53bn, versus our US\$2.55bn estimate, as volume growth (+6.2%) was partially offset by cross-currency (-0.5%) and realization decline (-1%). EBITDA margin grew 101bp qoq, below estimates, as SG&A expenses remained high (+8%qoq). PAT at Rs24.4bn (+2.5%), was below our estimate, despite FX losses (Rs910m) coming below estimates (Rs1,750m).

FY12/13F – Volume centricty to remain. Deal momentum remains strong – 10 US\$100m+ deal wins in 2Q add to the 26 wins over the past 3 quarters + hiring remains robust (20,000+ gross add in 2Q; 28,000 guided over 2H; 35,000 campus offers for FY13). However, realization growth remains weak, -95bp qoq in 2Q (+43bp over the past 4 quarters versus Infosys' +6%), despite a strong 8.3% qoq growth in discretionary spend led services. We lower our FY12/FY13 US\$ revenue forecasts by 3%/7% to 26%/15% yoy growth.

We remain cautious on core business margin. Utilisation has limited headroom at 83%+, ex-trainees. Note, the growing sub-contractor expense share (+1% qoq/ 7% yoy). Given the cautious pricing outlook, we see limited margin levers ex-currency.

Maintain In-Line. Our FY12F/FY13F EPS are raised by 10%/6% to build in the latest INR/USD forecasts (+7%/9%) of our economics team. However, we believe limited upside on core EPS (ex-currency) and an incrementally cautious pricing commentary could weigh on TCS valuation premium versus Infosys (3% at CMP on FY12 EPS), especially given TCS's strong O/P (+17% ytd). We stay In-Line but lower PT to Rs1,080 (Rs1,280 earlier), implying 16.5x FY13F EPS (21x earlier).

IN-LINE (unchanged)

PRICE (as at 17 October 11)

Rs1,120.00

PRICE TARGET

Rs1,080.00

Bloomberg code

TCS IN

Reuters code

TCS.BO

Market cap

Rs2,192,088m (US\$44,782m)

12 month range

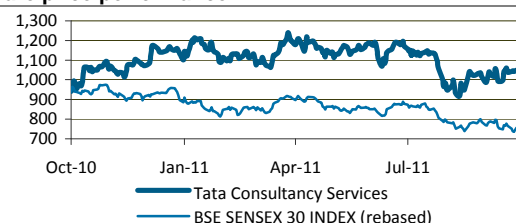
Rs902 - 1,247

EPS adj est change 2012E 9.9% 2013E 5.9%

| Year end: March | 2011A | 2012E | 2013E | 2014E |
|-----------------------------|---------|---------|---------|---------|
| Sales (Rs m) | 373,245 | 493,342 | 562,273 | 631,336 |
| EBIT (Rs m) | 104,773 | 143,965 | 156,591 | 163,416 |
| EBITDA (Rs m) | 111,987 | 152,904 | 166,136 | 173,743 |
| Pretax profit (Rs m) | 110,097 | 151,634 | 166,485 | 178,625 |
| Earnings (Rs m) adjusted | 87,167 | 115,150 | 127,816 | 138,390 |
| Diluted EPS (Rs) adjusted | 44.5 | 58.8 | 65.3 | 70.7 |
| Diluted EPS growth (%) adj. | 26.8 | 32.1 | 11.0 | 8.3 |
| DPS (Rs) | 14.0 | 15.0 | 18.0 | 20.0 |
| DPS growth (%) | -30.0 | 7.1 | 20.0 | 11.1 |
| EBITDA margin (%) | 30.0 | 31.0 | 29.5 | 27.5 |
| EBIT margin (%) | 28.1 | 29.2 | 27.8 | 25.9 |
| Net margin (%) | 23.4 | 23.3 | 22.7 | 21.9 |
| Div payout (%) | 36.7 | 29.7 | 32.0 | 32.9 |
| Book value/share (Rs) | 129.0 | 163.9 | 208.3 | 255.8 |
| Net gearing (%) | -30.1 | -35.4 | -44.1 | -50.4 |
| ROE (%) | 37.8 | 40.2 | 35.1 | 30.5 |
| ROACE (%) | 60.0 | 73.2 | 70.3 | 66.9 |
| FCF (Rs m) | 63,073 | 73,773 | 107,379 | 117,792 |
| EV/Sales (x) | 5.7 | 4.2 | 3.6 | 3.1 |
| EV/EBITDA (x) | 18.9 | 13.6 | 12.1 | 11.2 |
| PBR (x) | 8.7 | 6.8 | 5.4 | 4.4 |
| PER (x) | 25.1 | 19.0 | 17.2 | 15.8 |
| Dividend yield (%) | 1.3 | 1.3 | 1.6 | 1.8 |

Source: Company, Standard Chartered Research estimates

Share price performance



| Share price (%) | -1 mth | -3 mth | -12 mth |
|-------------------------|-------------------|--------|---------|
| Ordinary shares | 10 | -1 | 19 |
| Relative to Index | 9 | 8 | 41 |
| Relative to Sector | - | - | - |
| Major shareholder | Promoters (74.0%) | | |
| Free float | 26% | | |
| Average turnover (US\$) | 40,691,374 | | |

Source: Company, Bloomberg

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2QFY12 results review

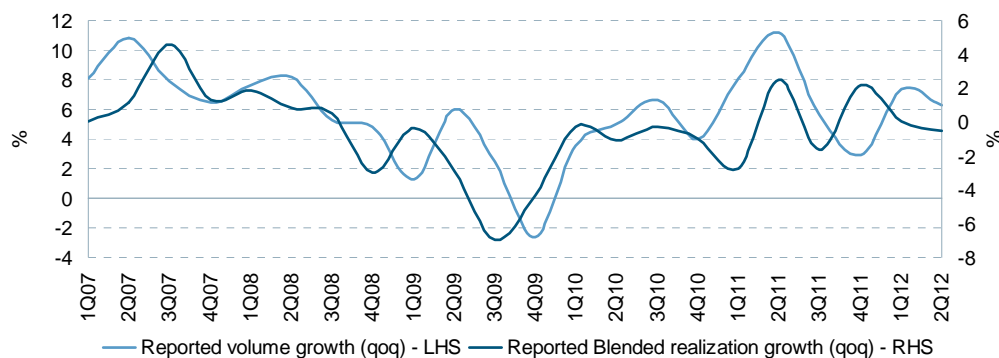
Fig 1 – Key financials

| (Rs m) | 2Q11 | 3Q11 | 4Q11 | 1Q12 | 2Q12 | Comments |
|--------------------------------|---------------|---------------|----------------|----------------|----------------|--|
| Cons. revenues (US\$m) | 2,004 | 2,144 | 2,244 | 2,412 | 2,525 | ■ Consolidated revenues were up 4.7% qoq in US\$ terms on reported basis post a 50bp cross-currency impact |
| Change (yoy/qoq) | 11.7% | 7.0% | 4.7% | 7.5% | 4.7% | |
| Cons. Revenues | 92,864 | 96,634 | 101,575 | 107,970 | 116,335 | ■ CMC revenues were up 17.1% qoq |
| Change (yoy/qoq) | 13.0% | 4.1% | 5.1% | 6.3% | 7.7% | |
| TCS (Ex-CMC) revenues | 90,153 | 93,893 | 98,634 | 104,914 | 112,758 | ■ Per capita employee costs (including support) were up 3.5% qoq |
| Change (yoy/qoq) | 13.1% | 4.1% | 5.0% | 6.4% | 7.5% | |
| Cost of revenues | 49,956 | 51,500 | 53,784 | 58,791 | 62,141 | ■ Bad debt provision reversal of Rs32m versus provision of Rs78m in 1Q12 |
| Gross profit | 42,908 | 45,134 | 47,791 | 49,179 | 54,194 | |
| Gross margin | 46.2% | 46.7% | 47.0% | 45.5% | 46.6% | ■ Sub-contracting costs were up 18% qoq |
| Total operating expenses | 15,135 | 15,956 | 16,909 | 18,869 | 20,365 | |
| EBITDA | 27,773 | 29,178 | 30,882 | 30,310 | 33,829 | ■ FX loss was Rs910m in 2Q12 (Rs794m gain in 1Q12); management commented on US\$2.5bn of hedges as of 2Q12 including US\$1.3bn relating to receivables |
| EBITDA margin | 29.9% | 30.2% | 30.4% | 28.1% | 29.1% | |
| Depreciation | 1,660 | 1,856 | 2,123 | 2,049 | 2,286 | ■ Effective tax rate was up 100bp to 24% |
| EBIT | 26,113 | 27,322 | 28,759 | 28,261 | 31,543 | |
| EBIT margin | 28.1% | 28.3% | 28.3% | 26.2% | 27.1% | ■ Ex forex gains, PAT was up 7.5% qoq |
| Non-operating inc. | 443 | 1,822 | 2,239 | 2,886 | 997 | |
| Profit before tax | 26,556 | 29,144 | 30,998 | 31,147 | 32,540 | |
| Income tax expense | 5,001 | 5,491 | 6,772 | 7,063 | 7,913 | |
| PAT from operations | 21,555 | 23,653 | 24,226 | 24,084 | 24,627 | |
| Net margin | 23.2% | 24.5% | 23.9% | 22.3% | 21.2% | |
| Ext. income (net) | 0 | 0 | 0 | 0 | 0 | |
| Minority interest | 295 | 189 | 415 | 281 | 237 | |
| Reported net Income | 21,260 | 23,464 | 23,811 | 23,803 | 24,390 | |
| Adjusted basic EPS (Rs) | 10.86 | 11.99 | 12.16 | 12.16 | 12.46 | |
| Change (yoy/qoq) | 14.1% | 10.4% | 1.4% | 0.0% | 2.5% | |

Source: Company

Fig 2 – Trends in reported qoq volume and blended realisation growth

Reported qoq volume growth of 6.25% vs. Infosys reported volume growth of 4.5%
Ex-cross currency and offshore shift, realisation was down 50bp



Source: Company data



Fig 3 – How the margin drivers moved

| | 2Q11 | 1Q12 | 2Q12 | Change (%) | | Comments |
|---|----------------|----------------|----------------|--------------|--------------|--|
| | | | | QoQ | YoY | |
| Exchange rate (Rs/US\$) | 46.33 | 44.76 | 46.07 | 2.9% | -0.6% | |
| Consolidated revenues (Rs m) | 92,864 | 107,970 | 116,335 | 7.7% | 25.3% | |
| International business revenues (Rs m) | 83,670 | 97,929 | 106,679 | 8.9% | 27.5% | ■ Fx had a positive impact of 166bp on operating margins while offshore shift/SG&A efficiencies and bad debt reversal has +4bp/+10bp impacts |
| A. EXECUTION METRICS | | | | | | |
| Utilization (ex trainees) | 83.8% | 83.2% | 83.1% | -10bp | -70bp | ■ Rate productivity negatively impacted margins by 73bps |
| Average realization - (\$/p-m) (E) | | | | | | |
| - Onsite | 9,601 | 9,838 | 9,750 | -0.9% | 1.6% | |
| - Offshore | 4,048 | 4,136 | 4,140 | 0.1% | 2.3% | ■ Blended realisation adjusting for 50bp cross-currency impact was down 0.5% given 95bp pricing decrease, and 5bp negative impact of offshore shift; |
| - Blended | 5,426 | 5,586 | 5,596 | 0.2% | 3.1% | management commented on a stable pricing outlook |
| Billed effort – Intl. business (p-m) (E) | | | | | | |
| - Onsite | 81,078 | 97,816 | 105,213 | 7.6% | 29.8% | |
| - Offshore | 245,734 | 286,693 | 300,393 | 4.8% | 22.2% | |
| - Total | 326,812 | 384,509 | 405,606 | 5.5% | 24.1% | ■ Utilisation (ex trainees) was down 10bp while utilisation (incl. trainees) was up 20bp qoq |
| B. COST DRIVERS | | | | | | |
| Wage costs (Rsm) | 35,876 | 42,996 | 45,630 | 6.1% | 27.2% | |
| As % of revenues | 38.6% | 39.8% | 39.2% | -60bp | 59bp | ■ Management reiterated target utilisation level at 82-84% |
| Other cost of revenues (Rsm) | 10,935 | 12,716 | 13,646 | 7.3% | 24.8% | |
| As % of revenues | 11.8% | 11.8% | 11.7% | -5bp | -5bp | |
| Gross profit (Rsm) | 42,908 | 49,179 | 54,194 | 10.2% | 26.3% | |
| Gross margin | 46.2% | 45.5% | 46.6% | 104bp | 38bp | |
| SG&A expenses (Rsm) | 15,135 | 18,869 | 20,365 | 7.9% | 34.6% | |
| As % of revenues | 16.3% | 17.5% | 17.5% | 3bp | 121bp | |
| EBITDA (Rsm) | 27,773 | 30,310 | 33,829 | 11.6% | 21.8% | |
| EBITDA margin | 29.9% | 28.1% | 29.1% | 101bp | -83bp | |

Source: Company, Standard Chartered Research estimates

Fig 4 – Key revenue mix metrics

| | 2Q11 | 3Q11 | 4Q11 | 1Q12 | 2Q12 | Comments |
|--|--------------|--------------|--------------|--------------|--------------|--|
| Delivery mode wise - revenues (International business US\$mn) | | | | | | |
| Offshore | 1,013 | 1,096 | 1,132 | 1,208 | 1,269 | ■ Share of offshore revenues down 40bp during the quarter |
| Change | 9.8% | 8.2% | 3.3% | 6.7% | 5.1% | |
| Share | 56.1% | 56.3% | 55.3% | 55.2% | 54.8% | |
| Onsite | 793 | 851 | 915 | 980 | 1,047 | |
| Change | 11.1% | 7.3% | 7.5% | 7.1% | 6.8% | |
| Share | 43.9% | 43.7% | 44.7% | 44.8% | 45.2% | |
| TOTAL | 1,806 | 1,947 | 2,047 | 2,188 | 2,315 | |
| Project-nature wise - Revenues (International business - US\$ mn) | | | | | | |
| T&M | 921 | 979 | 1,033 | 1,100 | 1,232 | ■ Share of fixed price project revenues down 290bp during the quarter |
| Change | 10.6% | 6.3% | 5.5% | 6.5% | 11.9% | |
| Share | 51.0% | 50.3% | 50.5% | 50.3% | 53.2% | |
| Fixed price | 885 | 968 | 1,013 | 1,087 | 1,084 | ■ Management attributed this to lack of large fixed price deal signings over last few quarters |
| Change | 10.1% | 9.3% | 4.7% | 7.3% | -0.3% | |
| Share | 49.0% | 49.7% | 49.5% | 49.7% | 46.8% | |
| TOTAL | 1,806 | 1,947 | 2,047 | 2,188 | 2,315 | |

Source: Company



Fig 5 – Key manpower and execution metrics

| | 2Q11 | 3Q11 | 4Q11 | 1Q12 | 2Q12 | Comments |
|-----------------------------------|---------|---------|---------|---------|---------|---|
| Manpower Base | | | | | | ■ Consolidated headcount addition of 12,280 marginally below our estimate of 12,700 |
| TCS (Consolidated) | 174,417 | 186,914 | 198,614 | 202,190 | 214,470 | |
| Recruitment - Net addition | | | | | | ■ Management reiterated FY12 gross hiring target of 60,000 |
| TCS (Consolidated) | 10,717 | 12,497 | 11,700 | 3,576 | 12,280 | |
| Recruitment mix | | | | | | ■ Quarterly annualized attrition (for TCS consolidated) was down 115bps qoq to 14.8% |
| Gross addition (India) | 15,331 | 15,335 | 17,651 | 10,163 | 18,317 | |
| Laterals | 7,405 | 7,737 | 8,569 | 7,752 | 8,125 | |
| Share (of gross addition) | 48% | 50% | 49% | 76% | 44% | |
| Trainees | 7,926 | 7,598 | 9,082 | 2,411 | 10,192 | |
| Share (of gross addition) | 52% | 50% | 51% | 24% | 56% | ■ TCS has made 35,000 campus offers for FY13 with fresher salaries as same level as last year |
| Execution matrices | | | | | | |
| Utilization inc .trainees | 77.7% | 77.1% | 75.1% | 76.2% | 76.4% | |
| Utilization ex .trainees | 83.8% | 83.8% | 82.4% | 83.2% | 83.1% | |
| Attrition rate | 14.1% | 14.5% | 14.4% | 14.8% | 13.7% | |

Source: Company, Standard Chartered Research estimates

Fig 6 – Key client metrics

| | 2Q11 | 3Q11 | 4Q11 | 1Q12 | 2Q12 | Comments |
|-----------------------------------|-------|-------|-------|-------|-------|--|
| Client base | | | | | | ■ New client addition was 35 compared to 24 in previous quarter |
| Active clients | 936 | 959 | 969 | 959 | 1,010 | |
| Net client addition | 6 | 23 | 10 | -10 | 51 | ■ Strong client addition across revenue buckets indicating strong client harvesting |
| New clients | 30 | 35 | 39 | 24 | 35 | |
| Client attrition | 24 | 12 | 29 | 34 | -16 | ■ Revenue per client was up 0.5% qoq (up 18.8% on yoy) basis |
| Revenue per active client (US\$m) | 1.93 | 2.03 | 2.11 | 2.28 | 2.29 | |
| Change | 9.7% | 5.2% | 4.0% | 8.0% | 0.5% | ■ 10 large deals were signed during the quarter with 5 coming from North America, 4 from UK and Europe and 1 deal from Latin America |
| TTM Client concentration | | | | | | |
| Top client | 8.0% | 7.7% | 7.4% | 7.1% | 6.9% | ■ Energy and utilities (+18.5% qoq) had a double-digit growth while remaining verticals other than telecom (-4.3%) and media and entertainment (-0.1%) grew ahead of company average |
| Top 5 clients | 22.1% | 21.9% | 21.4% | 20.7% | 20.0% | |
| Top 10 clients | 30.1% | 30.1% | 29.6% | 28.9% | 28.3% | |
| Non Top10 clients | 69.9% | 69.9% | 70.4% | 71.1% | 71.7% | |
| Repeat business (share) | 98.3% | 97.6% | 97.1% | 99.8% | 99.3% | |
| TTM Revenue growth | | | | | | ■ Management commented on improving deal pipeline for telecom vertical with 2 large deal signed in 2Q12 in addition to 1 deal signed in 1Q12 |
| Top client | 5.1% | 2.9% | 3.2% | 3.1% | 3.4% | |
| Top 5 clients | 6.9% | 6.0% | 4.9% | 3.9% | 2.8% | |
| Top 10 clients | 5.1% | 7.0% | 5.6% | 4.9% | 4.2% | |
| Non Top10 clients | 7.1% | 7.0% | 8.1% | 8.5% | 7.3% | |
| Repeat business | 10.3% | 7.0% | 4.6% | 9.9% | 5.3% | ■ TCS is currently pursuing 10 large deals per management |
| Relationship distribution | | | | | | |
| >\$1 million | 420 | 434 | 458 | 473 | 495 | ■ Management commented on improving deal pipeline for telecom vertical with 2 large deal signed in 2Q12 in addition to 1 deal signed in 1Q12 |
| Change | 11 | 14 | 24 | 15 | 22 | |
| >\$5 million | 192 | 200 | 208 | 219 | 230 | ■ TCS is currently pursuing 10 large deals per management |
| Change | 1 | 8 | 8 | 11 | 11 | |
| >\$10 million | 131 | 139 | 143 | 148 | 155 | ■ TCS is currently pursuing 10 large deals per management |
| Change | 9 | 8 | 4 | 5 | 7 | |
| >\$20 million | 66 | 76 | 81 | 91 | 94 | ■ TCS is currently pursuing 10 large deals per management |
| Change | 1 | 10 | 5 | 10 | 3 | |
| >\$50 million | 25 | 25 | 27 | 33 | 36 | ■ TCS is currently pursuing 10 large deals per management |
| Change | 1 | 0 | 2 | 6 | 3 | |

Source: Company, Standard Chartered Research estimates



Fig 7 – Services portfolio

| | 2Q11 | 3Q11 | 4Q11 | 1Q12 | 2Q12 | Comments |
|---|--------------|--------------|--------------|--------------|--------------|--|
| Distribution | | | | | | |
| ADM | 46.8% | 45.0% | 46.1% | 46.2% | 44.7% | <ul style="list-style-type: none"> ■ Growth was driven by Global consulting (+23.7%), Asset leverages solutions (+16.3%) Engineering & Industrial (+9.2%), Assurance (+9.0%) ■ ADM (+1.3%) and Business Intelligence (+0.4%) lagged company growth ■ Revenue CQGR over the past four quarters has been 4.7% for ADM services, 7.2% for non-ADM/BPO services and 5.9% for BPO services |
| Non-ADM, non-BPO services | 42.3% | 43.6% | 42.3% | 42.9% | 44.4% | |
| - Business intelligence | 5.6% | 5.3% | 4.9% | 4.9% | 4.7% | |
| - Engineering & Industrial | 4.9% | 4.8% | 4.8% | 4.6% | 4.8% | |
| - Infrastructure and services | 9.4% | 10.5% | 9.1% | 9.5% | 9.6% | |
| - Enterprise solutions | 10.3% | 9.6% | 10.8% | 10.8% | 11.1% | |
| - Global consulting | 2.1% | 2.3% | 2.1% | 2.2% | 2.6% | |
| - Asset leverage solutions | 3.4% | 4.0% | 3.6% | 3.6% | 4.0% | |
| - Assurance | 6.6% | 7.1% | 7.0% | 7.3% | 7.6% | |
| BPO | 10.9% | 11.4% | 11.6% | 10.9% | 10.9% | |
| Total | 100% | 100% | 100% | 100% | 100% | |
| Revenue (US\$ mn and QoQ growth) | | | | | | |
| ADM | 938 | 965 | 1,034 | 1,114 | 1,129 | |
| Change | 9.2% | 2.9% | 7.2% | 7.7% | 1.3% | |
| Non-ADM, non-BPO services | 848 | 935 | 949 | 1,035 | 1,121 | |
| Change | 15.5% | 10.3% | 1.5% | 9.0% | 8.3% | |
| BPO | 218 | 244 | 260 | 263 | 275 | |
| Change | 8.7% | 11.9% | 6.5% | 1.0% | 4.7% | |

Source: Company, Standard Chartered Research estimates

Fig 8 – What has changed in our key assumptions and forecasts

| | FY12E | FY13E | FY14E | FY12E | FY13E | FY14E | Comments |
|--------------------------------|--------|--------|--------|-----------------------|---------|---------|---|
| Exchange rate (Rs/US\$) | | | | | | | <ul style="list-style-type: none"> ■ We factor in our economist's latest INR forecasts which indicate further INR depreciation through 2HFY12 followed by a gradual appreciation in FY13 |
| OLD | 44.64 | 43.64 | 42.66 | | | | |
| NEW | 47.91 | 47.40 | 45.00 | | | | |
| Change | 7.3% | 8.6% | 5.5% | | | | |
| FINANCIAL FORECASTS | | | | | | | |
| Revenue (US\$ m) | | | | Revenue (Rs m) | | | |
| OLD | 10,593 | 12,756 | 15,349 | OLD | 472,922 | 556,667 | 654,754 |
| NEW | 10,296 | 11,862 | 14,030 | NEW | 493,342 | 562,273 | 631,336 |
| Change | -2.8% | -7.0% | -8.6% | Change | 4.3% | 1.0% | -3.6% |
| EBITDA margin | | | | EPS - basic | | | |
| OLD | 28.6% | 27.3% | 26.7% | OLD | 53.5 | 61.7 | 72.7 |
| NEW | 31.0% | 29.5% | 27.5% | NEW | 58.8 | 65.3 | 70.7 |
| Change | 242bp | 221bp | 83bp | Change | 9.9% | 5.9% | -2.8% |

Source: Company, Standard Chartered Research estimates

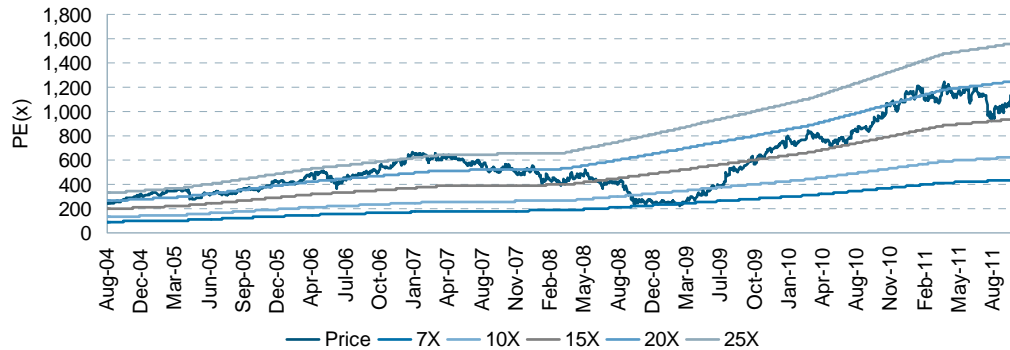
Fig 9 – How we differ from consensus

| | Consensus estimates | | SC estimates | | SC vs. Consensus | |
|------------------|---------------------|---------|--------------|---------|------------------|-------|
| | FY12E | FY13E | FY12E | FY13E | FY12E | FY13E |
| Sales (Rsm) | 466,609 | 550,036 | 493,342 | 562,273 | 5.7% | 2.2% |
| EBITDA (Rsm) | 135,849 | 158,659 | 152,904 | 166,136 | 12.6% | 4.7% |
| Net Income (Rsm) | 103,456 | 119,641 | 115,150 | 127,816 | 11.3% | 6.8% |
| EPS (Rs) | 53.1 | 61.3 | 58.8 | 65.3 | 10.8% | 6.5% |

Source: Bloomberg, Standard Chartered Research estimates



Fig 10 – TCS: 12-month forward P/E band chart



Source: Bloomberg, Company data, Standard Chartered Research estimates

Risks to our estimates and price target

Key downside risks to our price target are: 1) rupee appreciation beyond the levels we assume and/or adverse cross-currency movements; 2) a slower than anticipated pricing recovery; 3) delays in the implementation of direct tax code beyond FY12; and 4) strong regulatory action against outsourcing in TCS' key geographic markets.

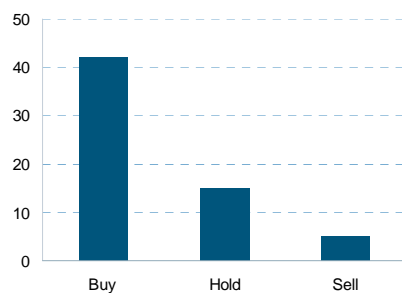
Upside could come from: 1) rupee appreciation slower than the level we assume; 2) faster-than anticipated recovery in project awards/ramp-ups; large-deal wins ahead of numbers or contract value factored into our estimates; and 3) acquisitions/large deal wins not built into our model.

Fig 11 – Key forecasts and assumptions

| (Rs m) | FY11A | 1Q12A | 2Q12A | 3Q12E | 4Q12E | FY12E | FY13E | FY14E |
|--------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| Rs/US\$ | 45.6 | 44.8 | 46.1 | 50.0 | 50.4 | 47.9 | 47.4 | 45.0 |
| TCS Consolidated (Rs m) | | | | | | | | |
| Total employees | 198,614 | 202,190 | 214,470 | 221,120 | 225,520 | 225,520 | 261,120 | 301,920 |
| Revenue | 373,245 | 107,970 | 116,335 | 131,825 | 137,212 | 493,342 | 562,273 | 631,336 |
| Change (yoy/qoq) | 24.3% | 6.3% | 7.7% | 13.3% | 4.1% | 32.2% | 14.0% | 12.3% |
| Gross margin (%) | 46.6% | 45.5% | 46.6% | 49.1% | 49.2% | 47.8% | 46.1% | 44.1% |
| Operating margin (%) | 30.0% | 28.1% | 29.1% | 32.8% | 33.2% | 31.0% | 29.5% | 27.5% |
| PAT (Rs m) | 87,167 | 23,803 | 24,390 | 32,495 | 34,462 | 115,150 | 127,816 | 138,390 |
| Change (yoy/qoq) | 26.8% | 0.0% | 2.5% | 33.2% | 6.1% | 32.1% | 11.0% | 8.3% |
| EPS - Basic (Rs) | 44.5 | 12.2 | 12.5 | 16.6 | 17.6 | 58.8 | 65.3 | 70.7 |
| Shares outstanding - basic (m) | 1,957.2 | 1,957.2 | 1,957.2 | 1,957.2 | 1,957.2 | 1,957.2 | 1,957.2 | 1,957.2 |

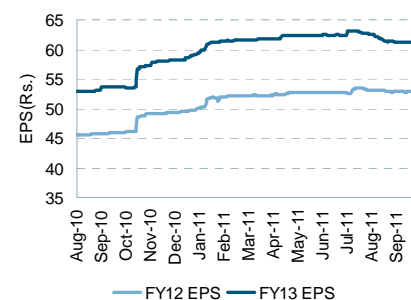
Source: Company, Standard Chartered Research estimates

Fig 12 – Broker Recommendation



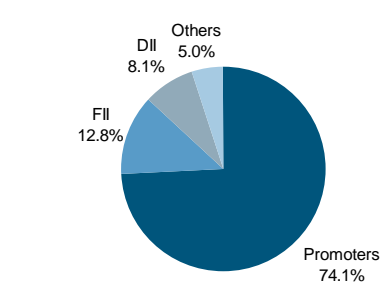
Source: Bloomberg

Fig 13 – Estimate revision



Source: Bloomberg

Fig 14 – Shareholding pattern



Source: NSE



Key Financials

Fig 15 – TCS: Consolidated Income Statement (Rsm)

| Year end: Mar | FY10A | FY11A | FY12E | FY13E | FY14E |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Consolidated Revenue | 300,289 | 373,245 | 493,342 | 562,273 | 631,336 |
| Cost of Revenue | 157,244 | 199,761 | 257,727 | 303,279 | 352,887 |
| Gross Profit | 143,045 | 173,484 | 235,616 | 258,994 | 278,449 |
| Operating Expenses | 56,246 | 61,591 | 82,711 | 92,858 | 104,706 |
| EBITDA | 86,799 | 111,893 | 152,904 | 166,136 | 173,743 |
| Depn & Amort. | 7,208 | 7,990 | 8,940 | 9,545 | 10,327 |
| EBIT | 79,591 | 103,903 | 143,965 | 156,591 | 163,416 |
| Net Non-operating Income | 2,256 | 5,243 | 7,670 | 9,894 | 15,209 |
| Profit Before Tax | 81,847 | 109,146 | 151,634 | 166,485 | 178,625 |
| Income tax expense | 12,088 | 21,204 | 35,644 | 37,875 | 39,297 |
| Profit After Tax | 69,758 | 87,943 | 115,991 | 128,610 | 139,327 |
| Share of Minority Interest | 1,019 | 1,115 | 841 | 794 | 937 |
| Equity in Net Earnings of Affiliates | -10 | 0 | 0 | 0 | 0 |
| Net Income | 68,729 | 86,828 | 115,150 | 127,816 | 138,390 |
| Wtd avg # of Shares (Basic) | 1,957.2 | 1,957.2 | 1,957.2 | 1,957.2 | 1,957.2 |
| Wtd avg # of Shares (Dil) | 1,957.2 | 1,957.2 | 1,957.2 | 1,957.2 | 1,957.2 |
| EPS (Basic) (Rs) | 35.1 | 44.4 | 58.8 | 65.3 | 70.7 |
| EPS (Dil) (Rs) | 35.1 | 44.4 | 58.8 | 65.3 | 70.7 |
| DPS (Rs) | 20.0 | 14.0 | 15.0 | 18.0 | 20.0 |
| Dividend Payout Ratio | 66.6 | 36.8 | 29.7 | 32.0 | 32.9 |

Source: Company, Standard Chartered Research estimates

Fig 16 – TCS: Consolidated Balance Sheet (Rs m)

| Year end: Mar | FY10A | FY11A | FY12E | FY13E | FY14E |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash and Cash Equivalents | 47,601 | 75,941 | 113,545 | 179,979 | 252,276 |
| Sundry Debtors | 58,098 | 81,990 | 119,129 | 135,562 | 152,212 |
| Other Current Assets | 37,785 | 41,384 | 61,089 | 69,624 | 78,176 |
| Total Current Assets | 143,484 | 199,315 | 293,763 | 385,165 | 482,665 |
| Total Current Liabilities | 50,996 | 63,837 | 87,105 | 99,276 | 111,469 |
| Net Current Assets | 92,487 | 135,478 | 206,658 | 285,889 | 371,195 |
| Net Fixed Assets | 41,706 | 52,340 | 60,983 | 69,416 | 77,943 |
| Goodwill & Intangibles | 32,415 | 32,455 | 34,227 | 34,227 | 34,227 |
| Other Non-Current Assets | 56,941 | 48,497 | 34,766 | 34,766 | 34,766 |
| Total Assets | 223,549 | 268,771 | 336,634 | 424,299 | 518,131 |
| Long Term Debt | 2,383 | 40 | 35 | 35 | 35 |
| Preference shares | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Other Non-current Liabilities | 6,727 | 10,678 | 9,868 | 9,868 | 9,868 |
| Total Equity | 209,384 | 252,389 | 320,826 | 407,696 | 500,592 |
| Minority Interest | 4,056 | 4,663 | 4,904 | 5,699 | 6,636 |
| Total Liabilities & Equity | 223,549 | 268,771 | 336,634 | 424,299 | 518,131 |

Source: Company, Standard Chartered Research estimates

**Fig 17 – TCS: Consolidated Cash Flow Statement (Rs m)**

| Year end: Mar | FY10A | FY11A | FY12E | FY13E | FY14E |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| EBITDA | 86,799 | 111,893 | 152,904 | 166,136 | 173,743 |
| Taxes paid | -12,088 | -21,204 | -35,644 | -37,875 | -39,297 |
| (Inc.)/Dec. in W. Cap. | -10,283 | -14,651 | -33,575 | -12,798 | -13,009 |
| Other Income | 2,256 | 5,243 | 7,670 | 9,894 | 15,209 |
| Cash flow from Operations (A) | 66,683 | 81,282 | 91,355 | 125,357 | 136,646 |
| Net Capex (B) | -11,419 | -18,624 | -17,582 | -17,978 | -18,854 |
| Net acquisition | 1,727 | -22 | -1,772 | 0 | 0 |
| Others | -8,519 | 11,262 | 12,081 | -794 | -937 |
| Cash Flow from Investing | -18,211 | -7,384 | -7,274 | -18,773 | -19,791 |
| Inc./(Dec.) in Equity | 30,864 | -11,262 | -12,329 | 794 | 937 |
| Inc./(Dec.) in Debt | 621 | -2,343 | -5 | 0 | 0 |
| Dividend Paid | -45,797 | -31,952 | -34,144 | -40,945 | -45,495 |
| Other | 0 | 0 | 0 | 0 | 0 |
| Cash Flow from Financing | -14,312 | -45,557 | -46,477 | -40,151 | -44,558 |
| Total Cash Flow | 34,161 | 28,340 | 37,604 | 66,434 | 72,298 |
| Free Cash Flow (A+B) | 55,264 | 62,658 | 73,773 | 107,379 | 117,792 |

Source: Company, Standard Chartered Research estimates

Fig 18 – TCS: Growth and Margins

| Year end: Mar | FY10A | FY11A | FY12E | FY13E | FY14E |
|----------------------------------|-------|-------|-------|-------|-------|
| Revenue Growth (%) | 8.0 | 24.3 | 32.2 | 14.0 | 12.3 |
| EBITDA Growth (%) | 20.9 | 28.9 | 36.5 | 8.7 | 4.6 |
| EBIT Growth (%) | 20.6 | 30.5 | 37.4 | 8.8 | 4.4 |
| Dil. EPS Growth (%) | 32.9 | 26.3 | 32.1 | 11.0 | 8.3 |
| EBITDA Margin (%) | 28.9 | 30.0 | 31.0 | 29.5 | 27.5 |
| EBIT Margin (%) | 26.5 | 27.8 | 29.2 | 27.8 | 25.9 |
| Net Margin (%) | 22.9 | 23.3 | 23.3 | 22.7 | 21.9 |
| Return on Avg. Capital Empl. (%) | 50.3 | 59.5 | 73.2 | 70.3 | 66.9 |
| Return on Avg. Assets (%) | 27.8 | 29.0 | 30.7 | 27.2 | 24.2 |
| Return on Avg. Equity (%) | 37.6 | 37.6 | 40.2 | 35.1 | 30.5 |

Source: Company, Standard Chartered Research estimates

Fig 19 – TCS: Ratios

| Year end: Mar | FY10A | FY11A | FY12E | FY13E | FY14E |
|------------------------------|-------|-------|-------|-------|-------|
| P/E (x) | 31.9 | 25.1 | 19.0 | 17.2 | 15.8 |
| P/E at Target Price(x) | 30.8 | 24.2 | 18.4 | 16.5 | 15.3 |
| EV/EBITDA (x) | 24.7 | 18.9 | 13.6 | 12.1 | 11.2 |
| EV/EBITDA at Target Price(x) | 23.8 | 18.2 | 13.1 | 11.6 | 10.7 |
| EV/EBIT (x) | 27.0 | 20.2 | 14.4 | 12.8 | 11.9 |
| EV/Sales (x) | 7.1 | 5.7 | 4.2 | 3.6 | 3.1 |
| P/B (x) | 10.5 | 8.7 | 6.8 | 5.4 | 4.4 |
| Dividend Yield (%) | 1.8 | 1.3 | 1.3 | 1.6 | 1.8 |

Source: Company, Standard Chartered Research estimates



Disclosures appendix

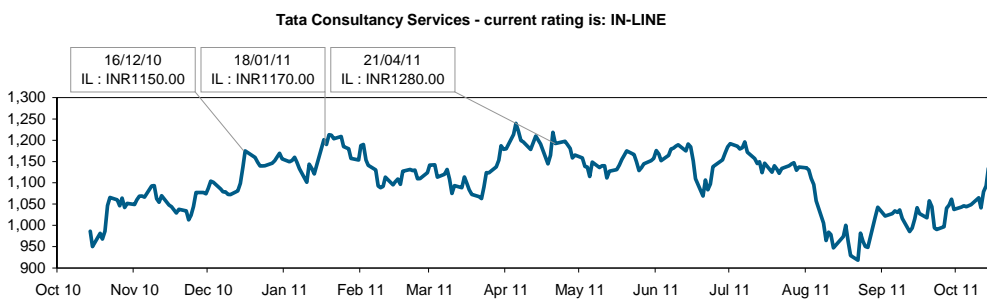
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Company Tata Consultancy Services

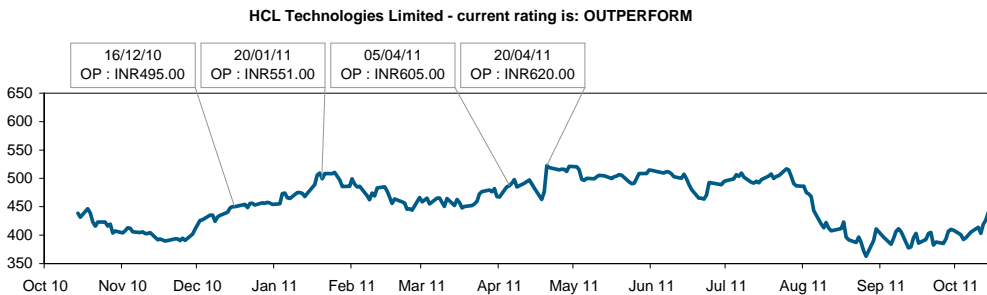
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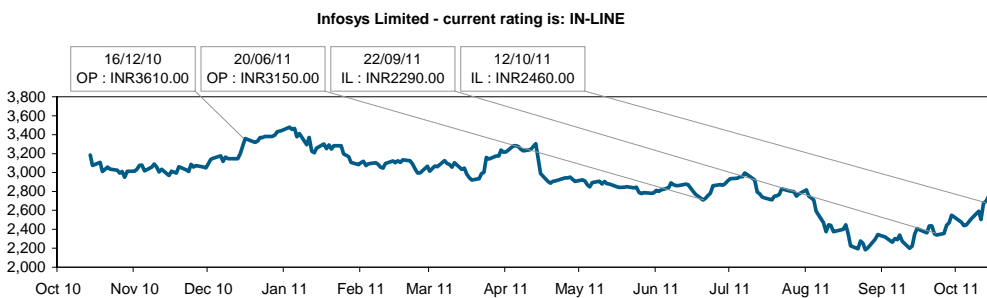
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Source: FactSet prices, SCB ratings and price targets

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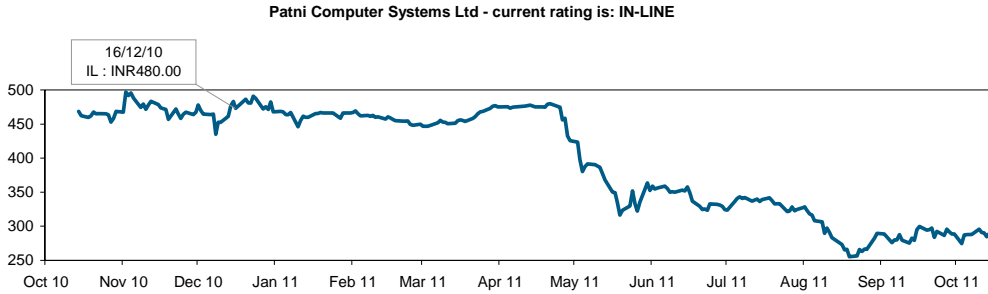
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Company Patni Computer Systems Ltd

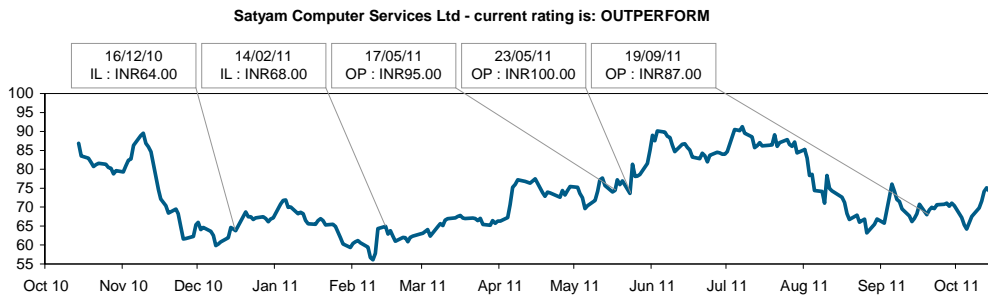
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Company Satyam Computer Services Ltd

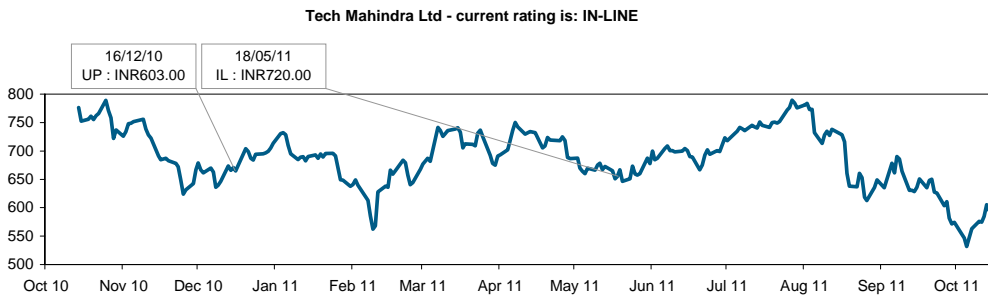
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Company Tech Mahindra Ltd

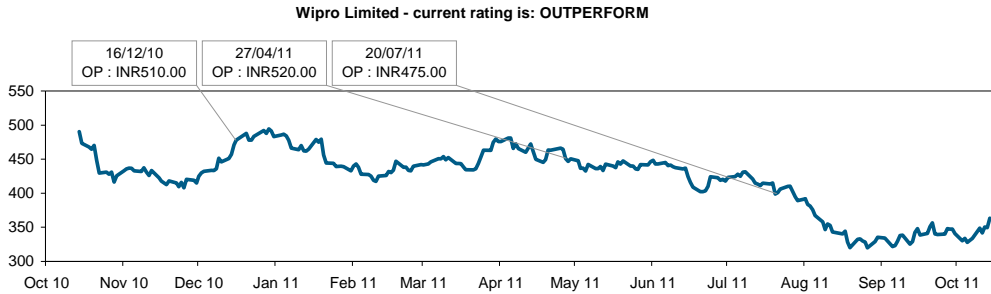
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Company Wipro Limited

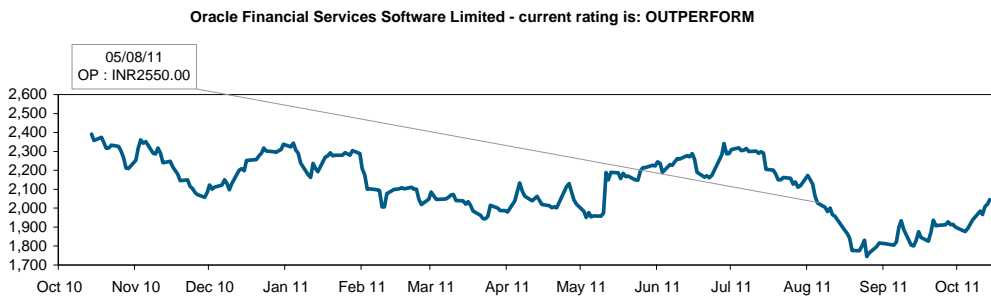
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Company Oracle Financial Services Software Limited

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|--------------|---|---|
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| IN-LINE | 30.3% | 11.9% |
| UNDERPERFORM | 8.3% | 12.8% |

As of 30 September 2011

Research Recommendation

| Terminology | Definitions |
|-------------------|--|
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