

## BUY

CMP*	Rs1,120
Target Price	Rs1,310

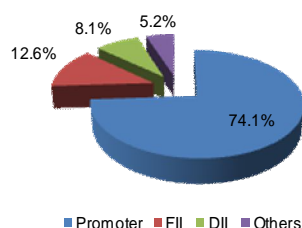
## Stock Info

Sector	IT
Market Cap (Rs cr)	219,255
52 Week High/Low	1,247/902
Avg. Daily Volume (3m, '000)	202
Avg. Daily Value (3m, cr)	20.9
Dividend Yield (%)	1.2
Sensex	17,025
Nifty	5,118
BSE Code	532540
NSE Code	TCS

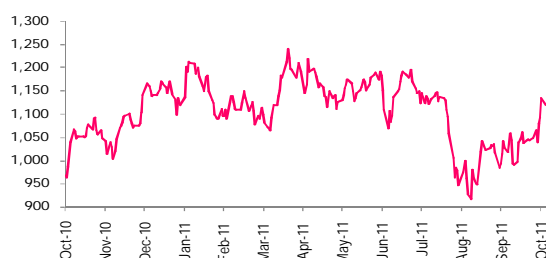
## Stock Performance

(%)	TCS	Nifty
1-week	5.2	2.8
1-month	9.0	0.7
1-year	17.9	(15.6)

## Shareholding Pattern (%)



## Stock Price Chart



Note: \*CMP as on October 17, 2011

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## Fares well on street expectations

## Key highlights of the result

- In US\$ terms, revenues witnessed an impressive growth of 4.7% qoq to US\$2,525mn which was in line with our expectations of US\$2,522mn
- In INR terms, revenues grew 7.7% qoq to Rs11,633cr as the volume growth was supplemented by depreciation of INR against US dollar
- Volume growth of 6.25% qoq remains strong amongst the peer group
- Realization rate declined by ~100bp qoq in 2QFY2012
- All geographical markets (barring India and Latin America) grew 8-10% qoq
- Retail & Distribution, Manufacturing, Travel and Energy & Utilities verticals reported double-digit growth rate
- EBITDA margin improved ~100bp mainly due to positive exchange rate movement
- TCS reported Net Profit of Rs2,439cr (+2.5% qoq) in 2QFY2012 in line with our expectations of Rs2,434cr
- TCS added 35 new clients during the quarter
- Signed 10 large deals of more than US\$100mn (US-4 deals, Europe & UK-4 deals)
- Added 2 new clients of over US\$100mn in 2QFY2012
- Top 5 clients grew at a moderate pace of 1.2% qoq
- TCS continued to manage higher utilization rates at 83.1% (incl. trainees 76.4%)
- Attrition rate in IT services declined from 13.6% to 12.5% (on LTM basis)
- Gross addition of ~20,350 employees is highest in last 4-5 years (net addition of 12,580)

## Outlook and Valuation

TCS has successfully maintained a strong performance beating its rivals in terms of volume and US\$ growth. However, hedges and cross currency movements limited the growth in INR terms. Strong employee addition and deal signing indicates a robust growth ahead. Further, healthy growth in developed markets would ease the concerns of global slowdown (to some extent). Moreover, the management has indicated that deal pipeline remains robust as the company is chasing more than 10 large deals which are spread across the countries. The margin expansion in 2QFY2012 was restricted due to hiring of employees in large numbers and promotions given during the quarter. Thus, we expect the margins to improve during 2HFY2012. At the CMP of Rs1,120 the stock is available at a P/E of 20.5x and 16.3x its FY2012E and FY2013E EPS respectively. **Based on our 19x FY2013E EPS of Rs68.8, we have arrived at a target price of Rs1,310 for TCS indicating a potential upside of 17% from the current levels, thus we maintain our BUY rating on the stock.**

## Risks to the view

- The unstable US economy and poor macroeconomic data can lead to a recession in the region which could impact the demand and growth
- The current INR depreciation is likely to positively impact the company's performance. However, any appreciation in INR from here on will negatively impact the company's performance and our estimates

Year End	Net Revenues		EBITDA		Net income (reported)		RoAE	RoIC	EPS	Valuations (X)	
	(Rs cr)	% growth	(Rs cr)	% margin	(Rs cr)	% margin	%	%	(Rs)	P/E	EV/EBITDA
FY2010	30,029	8.0	8,680	28.9	6,890	22.9	33.3	77.3	35.2	31.8	24.7
FY2011	37,325	24.3	11,199	30.0	8,716	23.4	35.0	70.8	44.5	25.2	19.1
FY2012E	47,981	28.6	14,338	29.9	10,675	22.2	34.4	71.3	54.5	20.5	14.7
FY2013E	58,765	22.5	17,758	30.2	13,472	22.9	33.7	71.7	68.8	16.3	11.5

Note: FY2010 figures are in US GAAP. FY2011, FY2012E and FY2013E are in IFRS

**Exhibit 1: Quarterly Performance (Consolidated)**

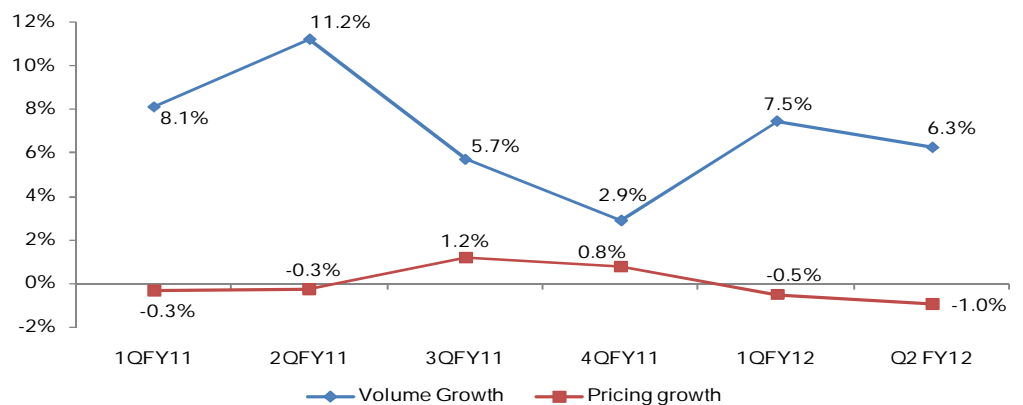
(Rs cr)	2QFY12	1QFY12	% qoq	2QFY11	% yoy
<b>Revenues</b>	<b>11,633</b>	<b>10,797</b>	<b>7.7</b>	<b>9,286</b>	<b>25.3</b>
Cost of revenues	6,214	5,879	5.7	4,996	24.4
SG&A	2,037	1,887	7.9	1,513	34.6
Total Expenditure	8,251	7,766	6.2	6,509	26.8
<b>EBITDA</b>	<b>3,383</b>	<b>3,031</b>	<b>11.6</b>	<b>2,777</b>	<b>21.8</b>
EBITDA Margin (%)	29.1	28.1		29.9	
Depreciation and Amortization	229	205	11.6	166	37.7
<b>EBIT</b>	<b>3,154</b>	<b>2,826</b>	<b>11.6</b>	<b>2,611</b>	<b>20.8</b>
EBIT Margin (%)	27.1	26.2		28.1	
Other income, net	100	289	(65.5)	44	125.1
Profit Before Tax (PBT)	3,254	3,115	4.5	2,656	22.5
Provision for taxation	791	706	12.0	500	58.2
Net profit after tax (PAT)	2,463	2,408	2.3	2,156	14.2
Minority Interests & Share of Assoc	24	28	(15.7)	30	(19.7)
<b>PAT after MI and associates</b>	<b>2,439</b>	<b>2,380</b>	<b>2.5</b>	<b>2,126</b>	<b>14.7</b>
PAT Margin (%)	21.0	22.0		22.9	
EPS (Diluted)	12.5	12.2	2.5	10.9	14.7

Source: Company, RSec Research

**Strong growth in Revenues**

Revenues were driven by volume growth and currency movements

TCS' 2QFY2012 revenues grew 7.7% qoq to Rs11,633cr driven by both volume growth of 6.25% and positive impact from exchange rate movement which added 2.5% to the growth. Pricing had a negative impact of ~-1.0% on top-line.

**Exhibit 2: Volume and pricing growth**

Source: Company, RSec Research

All key markets reported attractive growth

The growth in revenue was witnessed across all regions except India and Latin America. North America and UK grew at 8.8% and 10.3% respectively. TCS has signed large deals in key markets which indicates that going forward, the growth would be robust despite concerns of slowdown and financial crisis in Europe.

**Exhibit 3: Geography wise performance**

	2QFY2012 (% of total rev)	1QFY2012 (% of total rev)	% qoq
North America	53.4	52.9	8.8
Latin America	3.0	3.1	2.8
UK	15.5	15.3	10.3
Continental Europe	10.1	9.9	9.3
India	8.3	9.3	(4.3)
Asia Pacific	7.5	7.3	9.8
MEA	2.2	2.2	9.3

Source: Company, RSec Research

Revenues from Energy & Utilities verticals saw highest growth

BFSI, Retail and Energy & Utilities verticals reported strong growth driven by volume increase. TCS won two large deals in telecom vertical which is likely to support growth in the near term. The deal pipeline is strong across all verticals. The major deals won by the company are spread between Banking, Financial Services, Telecom and Pharma.

#### Exhibit 4: Vertical wise performance

	2QFY2012 (% of total rev)	1QFY2012 (% of total rev)	% qoq
BFSI	43.5	43.3	8.6
Telecom	10.7	11.7	(1.7)
Manufacturing	7.8	7.6	10.3
Retail & Distribution	12.1	11.6	12.2
Hi-Tech	5.9	5.8	9.5
LS & Healthcare	5.3	5.2	9.1
Transportation	3.8	3.7	10.3
Energy & Utilities	4.3	3.8	20.0
Media & Entertainment	2.1	2.2	2.2
Other	4.5	5.1	(3.6)

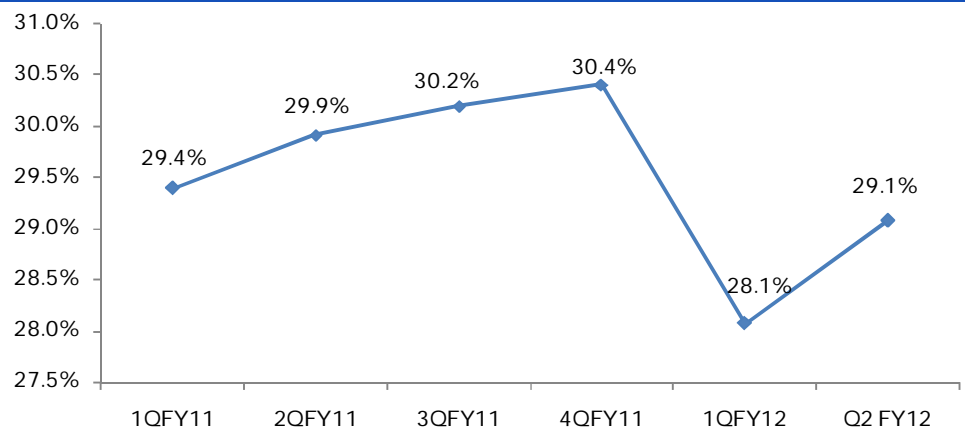
Source: Company, RSec Research

#### Depreciation of INR supported margins

EBITDA margin increased on account positive exchange rate movement

EBITDA increased 11.6% qoq to Rs3,383cr reflecting the growth in top-line. TCS gave promotion to employees and hired a record 12,580 employees during the quarter which restricted the expansion in EBITDA margin. Thus, EBITDA margin increased ~100bp to 29.1%.

#### Exhibit 5: EBITDA Margin trend



Source: Company, RSec Research

#### Forex losses dent bottom-line growth

The company's other income declined from ~Rs289cr in previous quarter to Rs100cr mainly on account forex losses which trimmed the growth at bottom-line level. TCS reported a forex loss of ~Rs90cr during the quarter. Consequently, Net Income saw a muted growth of 2.5% to Rs2,439cr in 2QFY2012.

### Outlook & Valuation

TCS has successfully maintained a strong performance beating its rivals in terms of volume and US\$ growth. However, hedges and cross currency movements limited the growth in INR terms. Strong employee addition and deal signing indicates a robust growth ahead. Further, healthy growth in developed markets would ease the concerns of global slowdown (to some extent). Moreover, the management has indicated that deal pipeline remains robust as the company is chasing more than 10 large deals which are spread across the countries. The margin expansion in 2QFY2012 was restricted due to hiring of employees in large numbers and promotions given during the quarter. Thus, we expect the margins to improve during 2HFY2012. At the CMP of Rs1,120 the stock is available at a P/E of 20.5x and 16.3x its FY2012E and FY2013E EPS respectively. **Based on our 19x FY2013E EPS of Rs68.8, we have arrived at a target price of Rs1,310 for TCS indicating a potential upside of 17% from the current levels, thus we maintain our BUY rating on the stock.**

**Profit & Loss Statement**

Y/E March (Rs cr)	FY2010	FY2011	FY2012E	FY2013E
<b>Revenues</b>	<b>30,029</b>	<b>37,325</b>	<b>47,981</b>	<b>58,765</b>
<b>Total Expenditure</b>	<b>21,349</b>	<b>26,126</b>	<b>33,643</b>	<b>41,007</b>
Employees cost	13,261	15,945	20,503	24,890
Soft. Devp. cost	812	1,034	1,266	1,593
SG&A	5,629	6,189	8,331	10,193
Other exp	1,647	2,958	3,543	4,332
<b>EBITDA</b>	<b>8,680</b>	<b>11,199</b>	<b>14,338</b>	<b>17,758</b>
% chg	(43.5)	29.0	28.0	23.9
(% of Revenues)	28.9	30.0	29.9	30.2
Depreciation & Amortization	721	722	916	1,058
<b>EBIT</b>	<b>7,959</b>	<b>10,477</b>	<b>13,422</b>	<b>16,700</b>
% chg	(46.2)	31.6	28.1	24.4
(% of Revenues)	26.5	28.1	28.0	28.4
Net Interest Income	156	532	718	925
(% of revenues)	1.9	4.8	5.1	5.2
Other Income net	68	0	0	0
Share in profit of Associates	-	-	-	-
<b>PBT (reported)</b>	<b>8,184</b>	<b>11,009</b>	<b>14,140</b>	<b>17,625</b>
Tax	1,220	2,174	3,363	4,054
(% of PBT)	14.9	19.7	23.8	23.0
Minority Interest	73.9	119.1	101.8	100.0
<b>PAT (reported)</b>	<b>6,890</b>	<b>8,716</b>	<b>10,675</b>	<b>13,472</b>
% chg	(48.0)	26.5	22.5	26.2
(% of Revenues)	22.9	23.4	22.2	22.9
<b>Basic EPS (Rs)</b>	<b>35.2</b>	<b>44.5</b>	<b>54.5</b>	<b>68.8</b>
<b>Fully Diluted EPS (Rs)</b>	<b>35.2</b>	<b>44.5</b>	<b>54.5</b>	<b>68.8</b>
% chg	33.1	26.5	22.5	26.2

**Balance Sheet**

Y/E March (Rs cr)	FY2010	FY2011	FY2012E	FY2013E
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	196	196	196	196
Preference Capital	-	-	-	-
Reserves & Surplus	20,745	25,043	31,139	40,031
<b>Shareholders Funds</b>	<b>20,940</b>	<b>25,239</b>	<b>31,335</b>	<b>40,226</b>
Minority Interest	377	466	568	668
Deferred Tax Liabilities	-	-	-	-
Total Loans	11	4	4	4
Other Non-current Liabilities	541	1,068	1,121	1,177
<b>Total Liabilities</b>	<b>21,870</b>	<b>26,777</b>	<b>33,028</b>	<b>42,076</b>
<b>APPLICATION OF FUNDS</b>				
Gross Block	5,679	6,945	9,445	12,445
Less: Acc. Depreciation	2,452	3,061	3,978	5,035
<b>Net Block</b>	<b>3,227</b>	<b>3,883</b>	<b>5,467</b>	<b>7,409</b>
Capital Work-in-Progress	944	1,351	675	338
<b>Goodwill</b>	<b>2,533</b>	<b>2,547</b>	<b>2,547</b>	<b>2,547</b>
<b>Intangibles</b>	<b>708</b>	<b>698</b>	<b>698</b>	<b>698</b>
<b>Investments</b>	<b>2,576</b>	<b>583</b>	<b>642</b>	<b>706</b>
<b>Current Assets</b>				
Investment in debentures of Tata Sons	1,208	1,256	1,256	1,256
Cash	4,677	4,740	8,394	13,747
Debtors	5,810	8,199	10,662	13,385
Unbilled Revenues	1,201	1,349	1,439	1,763
Others	2,127	2,907	3,472	4,159
Current liabilities & Provision	5,752	6,484	7,973	9,680
<b>Net Current Assets</b>	<b>9,271</b>	<b>11,967</b>	<b>17,251</b>	<b>24,630</b>
Deferred Tax	0	0	0	0
Other Non-current Assets	2,610	5,747	5,747	5,747
<b>Total Assets</b>	<b>21,870</b>	<b>26,777</b>	<b>33,028</b>	<b>42,076</b>

**Cash Flow Statement**

Y/E March (Rs cr)	FY2010	FY2011	FY2012E	FY2013E
Profit before tax	0	0	14,140	17,625
Depreciation	0	0	916	1,058
Change in Working Capital		0	0	(1,630)
Direct taxes paid	0	0	(3,363)	(4,054)
Others	0	0	53	56
<b>Cash Flow from Operations</b>	<b>7,492</b>	<b>6,915</b>	<b>10,117</b>	<b>12,659</b>
(Inc.)/ Dec. in Fixed Assets		(995)	(1,729)	(1,825)
(Inc.)/ Dec. in Investments		(4,532)	(138)	(58)
<b>Cash Flow from Investing</b>	<b>(5,527)</b>	<b>(1,866)</b>	<b>(1,883)</b>	<b>(2,727)</b>
Issue of Equity	-	-	-	-
Dividend Paid (Incl. Tax)		(1,959)	(4,583)	(4,580)
Borrowings	(449)	(61)	0	0
Others	59	30	0	0
<b>Cash Flow from Financing</b>	<b>(2,350)</b>	<b>(4,614)</b>	<b>(4,580)</b>	<b>(4,580)</b>
Inc./(Dec.) in Cash	(385)	434	3,654	5,352
Effect of exch diff on translation of foreign curr	(53)	49	0	0
<b>Opening Cash balances</b>	<b>1,463</b>	<b>1,025</b>	<b>1,508</b>	<b>5,162</b>
<b>Closing Cash balances</b>	<b>1,025</b>	<b>1,508</b>	<b>5,162</b>	<b>10,514</b>
Add" FD	3,652	3,232	3,232	3,232
<b>Carried to BS</b>	<b>4,677</b>	<b>4,740</b>	<b>8,394</b>	<b>13,747</b>

**Key Ratios**

Y/E March	FY2010	FY2011	FY2012E	FY2013E
<b>Valuation Ratio (x)</b>				
P/E (on FDEPS)	31.8	25.2	20.5	16.3
P/CEPS	28.8	23.2	18.9	15.1
P/BV	10.5	8.7	7.0	5.5
Dividend yield (%)	1.8	1.2	1.8	1.8
EV/Sales	7.1	5.7	4.4	3.5
EV/EBITDA	24.7	19.1	14.7	11.5
<b>Per Share Data (Rs)</b>				
EPS	35.2	44.5	54.5	68.8
EPS (fully diluted)	109.3	119.6	134.7	166.1
Cash EPS	38.9	48.2	59.2	74.2
DPS	20.0	14.0	20.0	20.0
Book Value	107.0	129.0	160.1	205.5
<b>Returns (%)</b>				
RoIC	77.3	70.8	71.3	71.7
RoaE	33.3	35.0	34.4	33.7

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