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**Q4FY07**  
**Result Update**

**TCS**

**BUY**

**Rs 1,280**

**April 17, 2007**

## Good volume growth, flat margins

### Company Details

Market Cap: Rs 1,253bn  
52-Week High/Low: Rs 1,399 / 728  
Bloomberg Code: TCS@IN  
Reuters Code: TCS.BO / NS  
Shares O/s: 978m  
Average Volume  
(3 months): 1.4m

### Price Performance

(%)	1m	3m	12m
Absolute	3.6	(2.0)	34.5
Relative to Sensex	(6.6)	1.1	15.8

### Result Snapshot

TCS' Q4 FY07 results have paralleled expectations. Revenue and net profit grew 5.9% qoq. The EBITDA margin (28.3%) climbed 30bp qoq due to better utilisation, whereas the net margin (22.7%) was flat from higher depreciation in Q4. Excluding the profit on the sale of its share in the SITEL India JV to Sitel Corp., its net profit was down 10bp qoq. The volume growth, at 6.4% qoq, was robust, driven largely by its top client.

TCS became the first Indian IT company to cross the milestone of \$4bn in revenue. In FY07, its revenue from North America and Europe crossed the \$2bn and \$1bn milestones, respectively. Despite concerns over the slowdown in the US economy and a strengthening rupee, we still believe that Indian IT companies can deliver and sustain their strong financial performance.

Maintain long-term **BUY** with a price target of Rs 1,556 (22x FY09E earnings).

### Q4 FY07 Result Overview

(Rs m)

Y/e March	Q4 FY07	Q3 FY07	QoQ Gr. (%)	Q4 FY06	FY06	FY07	YoY Ggr. (%)
Net Sales	51,464	48,605	5.9	37,234	132,550	186,334	40.6
Expenses	36,896	34,993	5.4	27,404	95,543	135,845	42.2
Operating Profits / EBITDA	14,568	13,611	7.0	9,830	37,008	50,489	36.4
Depreciation	1,395	939	48.6	865	2,806	4,043	44.1
EBIT	13,173	12,673	3.9	8,965	34,202	46,446	35.8
Other Income	898	300		(40)	257	1,943	
PBT	14,070	12,972	8.5	8,925	34,459	48,388	40.4
Tax	2,188	1,828	19.7	898	4,984	6,700	34.4
<i>Tax Rate (%)</i>	<i>15.6</i>	<i>14.1</i>		<i>10.1</i>	<i>14.5</i>	<i>13.8</i>	
PAT before Min. Interest	11,882	11,144	6.6	8,027	29,475	41,688	41.4
PAT after Min. Interest	11,699	11,047	5.9	7,958	29,211	41,287	41.3
PAT after Extraordinaries	11,699	11,047	5.9	7,958	28,968	41,287	42.5
<b>Key Ratios</b>							
<i>GPM (%)</i>	<i>47.2</i>	<i>46.7</i>	<i>0.5</i>	<i>46.6</i>	<i>47.4</i>	<i>46.3</i>	<i>(1.1)</i>
<i>OPM (%)</i>	<i>28.3</i>	<i>28.0</i>	<i>0.3</i>	<i>26.4</i>	<i>27.9</i>	<i>27.1</i>	<i>(0.8)</i>
<i>EBITM (%)</i>	<i>25.6</i>	<i>26.1</i>	<i>(0.5)</i>	<i>24.1</i>	<i>25.8</i>	<i>24.9</i>	<i>(0.9)</i>
<i>NPM (%)</i>	<i>22.7</i>	<i>22.7</i>	<i>0.0</i>	<i>21.4</i>	<i>21.9</i>	<i>22.2</i>	<i>0.3</i>
EPS before Extraord. (Rs)	12.0	11.3	5.9	8.1	29.8	42.2	41.3
EPS after Ex-Od (Rs.)	12.0	11.3	5.9	8.1	29.6	42.2	42.5

(Stock price as on April 16, 2007)



## Result Highlights

### Good revenue and profit growth

TCS' revenue grew 5.9% qoq (8% in dollar terms). Its net profit too grew 5.9% qoq (9% in dollar terms). Revenue growth was once again led by good 6.4% volume growth. The increase in the billing rate and improved productivity contributed 1.3% to the overall revenue growth. However, the strong rupee once again played spoilsport and had a negative contribution of 1.9% in the revenue growth. The company had a one-off income of Rs 663m in 'other income' due to sale of its stake in the SITEL India BPO to Sitel Corp. Excluding this one-off income, TCS' net profit slipped 10bp qoq.

The operating margin climbed 30bp qoq, to 28.3%, largely due to better utilization (from 75% to 79.6%, including trainees). The net margin, at 22.7%, was flat due to high depreciation during the quarter (from Rs 939m to Rs 1,395m).

### Muted growth in some verticals and industry practices

Application development, maintenance and engineering services, which contribute over 50% to TCS' revenue, climbed by just 1.5% qoq. Robust growth was seen in enterprise solutions, package implementation and asset leveraged solutions, which grew by 11% sequentially. Among the industry practices, BFSI and manufacturing grew by just 1.7% qoq, while the remaining practices grew by 11.8%.

### Comparative analysis of Q4 results with Infosys

TCS' 6.4% volume growth this quarter was better than Infosys' 3.6%. However, in terms of the increase in billing rates, Infosys had the upper hand with its blended billing rate increasing by 1.7% (compared to TCS' 0.9%). On the foreign exchange front, we believe that the strategies of both the companies have yielded equally good results. Overall, we believe that the financial performance of both were equally good, with one having the upper hand in volume growth and the other in billing rates.

### Earnings outlook

We expect TCS' revenue and earnings to have CAGRs of 31% and 28%, respectively, from FY07 to FY09. Despite concerns over the slowdown in the US economy and a strengthening rupee, we believe that Indian IT companies can still deliver and sustain their strong financial performance.

Maintain a long-term **BUY**, with a price target of Rs 1,556 (22x FY09 earnings).

## Financials and Valuations

For FY08 and FY09, we expect TCS to report, respectively, revenue of Rs 247,681m and Rs 321,465m; and net profit of Rs 54,003m and Rs 69,210m. At the CMP of Rs 1,280, the stock quotes at 23.2x FY08E and 18.1x FY09E earnings. We maintain our **BUY** rating, with a target price of Rs 1,556 (22x FY09E earnings).

**Key Figures**

Y/e March	FY06	FY07E	FY08E	FY09E
Revenues (Rs m)	132,550	187,418	247,681	321,465
EBITDA (Rs m)	37,008	50,489	66,329	84,886
<i>Margins (%)</i>	<i>27.9</i>	<i>27.1</i>	<i>26.8</i>	<i>26.4</i>
PAT (Rs m)	28,968	42,207	54,003	69,210
EPS (Rs)	29.6	42.2	55.2	70.7
PER (x)	43.2	30.3	23.2	18.1
EV / EBITDA (x)	33.8	24.5	18.2	13.7
EV / Sales (x)	9.4	6.6	4.9	3.6
<i>RoCE (%)</i>	<i>75.3</i>	<i>63.3</i>	<i>52.1</i>	<i>45.2</i>
<i>RoE (%)</i>	<i>61.8</i>	<i>52.1</i>	<i>42.5</i>	<i>36.7</i>

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