

## Sell

Target Price: Rs940

CMP: Rs1,124\*

Downside: 16%

\*as on 14 July 2011

## Caution creeping in

While Q1 PAT (ex-forex gain) was in-line, company commentary, while not as cautious as the one delivered by Infosys a few days back, indicated weakening demand at the margin. For the first time the company talked about being 'Entrepreneurial' in the context of uncertain macro economic conditions (meaning not understood by us). It also indicated that its pricing uptick expectations have moderated (without elaborating on specific reasons). It expects pricing to pick up later than previously anticipated. While the company would want to brush aside the 50bps negative impact of pricing on growth in Q1, we believe this data point and the commentary tie in. Besides, TCS talked down expectations of a seasonally strong Q2. These statements from TCS – in our opinion indicate, at the margin, a weaker demand environment and/or greater competitive intensity.

As had been our view since our sector initiation in Oct 2010 – 'Focus on the Macro and not the Micro' - the large BFSI exposure, which helped deliver industry leading growth in FY11 for TCS, might become its Achilles heel in the medium term if the sovereign debt crisis in peripheral Europe takes a turn for the worse (which it is threatening to in the next few years if not earlier) and/or if developed economies do not grow fast enough creating profit pressures for developed market financial firms. Besides, we believe the big M&A integration demand driver is behind us. We believe compliance and regulatory related work will likely not be able to fully compensate for the loss. Higher BFSI exposure and materially lower ROIC vis-à-vis Infosys makes us prefer Infosys over TCS (while being cautious on the sector as a whole). Despite our revised earning estimates, we maintain Sell with target price of Rs940.

- **All round growth drives Q1 but BFSI lags:** While Telecom, Retail and Hi-Tech showed double digit growth in the quarter, BFSI sector grew at 5.8% QoQ in dollar terms, lower than company's growth supporting our view that BFSI sector growth in FY12 will likely underperform.
- **Estimates/TP revised upwards; Maintain Sell.** We have revised our earning estimates upwards by 7.6/8.1% for FY12/FY13 to factor in higher than previously expected volumes, better margins and higher other income. We however believe that TCS should trade at ~14% discount to Infosys due to its lower ROIC and at par growth rate. We ascribe a P/E of 16.4x arriving at a target price of Rs940 and maintain Sell.

**Girish Pai**  
girish.pai@centrum.co.in  
91 22 4215 9699

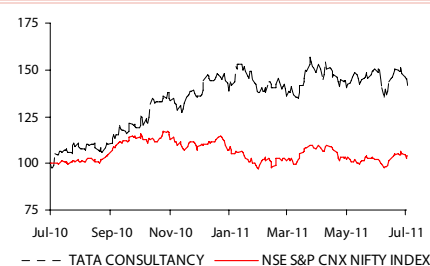
**Abhishek Kumar**  
abhishekkumar@centrum.co.in  
91 22 4215 9644

## Key Data

|                          |              |
|--------------------------|--------------|
| Bloomberg Code           | TCS IN       |
| Reuters Code             | TCS.BO       |
| Current Shares O/S (mn)  | 1,957.2      |
| Diluted Shares O/S(mn)   | 1,957.2      |
| Mkt Cap (Rsbn/USDbn)     | 2,199.3/49.4 |
| 52 Wk H / L (Rs)         | 1,247/763    |
| Daily Vol. (3M NSE Avg.) | 1,448,750    |
| Face Value (Rs)          | 1            |

1 USD = Rs44.5

## One Year Indexed Stock Performance



## Price Performance (%)

|       | 1M    | 6M    | 1Yr  |
|-------|-------|-------|------|
| TCS   | (5.7) | 0.3   | 45.1 |
| NIFTY | 1.8   | (1.0) | 4.0  |

Source: Bloomberg, Centrum Research  
\*as on 14 July 2011

| Y/E March (Rsmn)                | Q1FY12         | Q1FY11        | YoY (%)     | Q4FY11         | QoQ (%)      | Q1FY12E        | Var (%)     |
|---------------------------------|----------------|---------------|-------------|----------------|--------------|----------------|-------------|
| <b>Net sales</b>                | <b>107,970</b> | <b>82,713</b> | <b>30.5</b> | <b>101,575</b> | <b>6.3</b>   | <b>105,913</b> | <b>1.9</b>  |
| Cost of revenue                 | 60,175         | 45,230        |             | 55,205         |              | 61,525         |             |
| % of sales                      | 55.7           | 54.7          |             | 54.3           |              | 58.1           |             |
| Other expenditure               | 19,534         | 14,363        |             | 17,613         |              | 16,830         |             |
| % of sales                      | 18.1           | 17.4          |             | 17.3           |              | 15.9           |             |
| <b>Operating profit</b>         | <b>28,261</b>  | <b>23,120</b> | <b>22.2</b> | <b>28,757</b>  | <b>(1.7)</b> | <b>27,558</b>  | <b>2.6</b>  |
| <b>OPM (%)</b>                  | <b>26.2</b>    | <b>28.0</b>   |             | <b>28.3</b>    |              | <b>26.0</b>    |             |
| Interest                        | 0              | 0             |             | 0              |              | 0              |             |
| EBT                             | 28,261         | 23,120        |             | 28,757         |              | 27,558         |             |
| Other income                    | 2,887          | 820           |             | 2,239          | <b>28.9</b>  | 1,956          | <b>47.6</b> |
| <b>PBT</b>                      | <b>31,147</b>  | <b>23,940</b> | <b>30.1</b> | <b>30,996</b>  | <b>0.5</b>   | <b>29,514</b>  | <b>5.5</b>  |
| Provision for tax               | 7,063          | 4,475         |             | 6,772          |              | 6,493          |             |
| -effective tax rate (%)         | 22.7           | 18.7          |             | 21.8           |              | 22.0           |             |
| Minority share in profit / loss | 281            | 292           |             | 415            |              | 292            |             |
| <b>PAT (reported)</b>           | <b>23,803</b>  | <b>19,173</b> | <b>24.1</b> | <b>23,809</b>  | <b>(0.0)</b> | <b>22,728</b>  | <b>4.7</b>  |
| Exceptional item (adj-post tax) | 0              | 0             |             | 0              |              | 0              |             |
| <b>PAT (adjusted)</b>           | <b>23,803</b>  | <b>19,173</b> | <b>24.1</b> | <b>23,809</b>  | <b>(0.0)</b> | <b>22,728</b>  | <b>4.7</b>  |
| <b>NPM (%)</b>                  | <b>22.0</b>    | <b>23.2</b>   |             | <b>23.4</b>    |              | <b>21.5</b>    |             |

Source: Company, Centrum Research

| Y/E Mar (Rsmn) | Revenue | YoY (%) | EBITDA  | EBITDA (%) | Adjust. PAT | YoY (%) | Fully DEPS | RoE (%) | RoCE (%) | P/E (x) | EV/EBITDA (x) |
|----------------|---------|---------|---------|------------|-------------|---------|------------|---------|----------|---------|---------------|
| FY11           | 373,245 | 24.3    | 111,118 | 29.8       | 86,826      | 26.0    | 44         | 37.4    | 39.2     | 25      | 19            |
| FY12E          | 470,065 | 25.9    | 132,919 | 28.3       | 101,727     | 17.2    | 52         | 35.7    | 38.1     | 22      | 16            |
| FY13E          | 544,961 | 15.9    | 148,627 | 27.3       | 111,803     | 9.9     | 57         | 32.5    | 35.5     | 20      | 14            |
| FY14E          | 612,234 | 12.3    | 158,188 | 25.8       | 119,956     | 7.3     | 61         | 29.4    | 32.1     | 18      | 13            |

Source: Company, Centrum Research Estimates

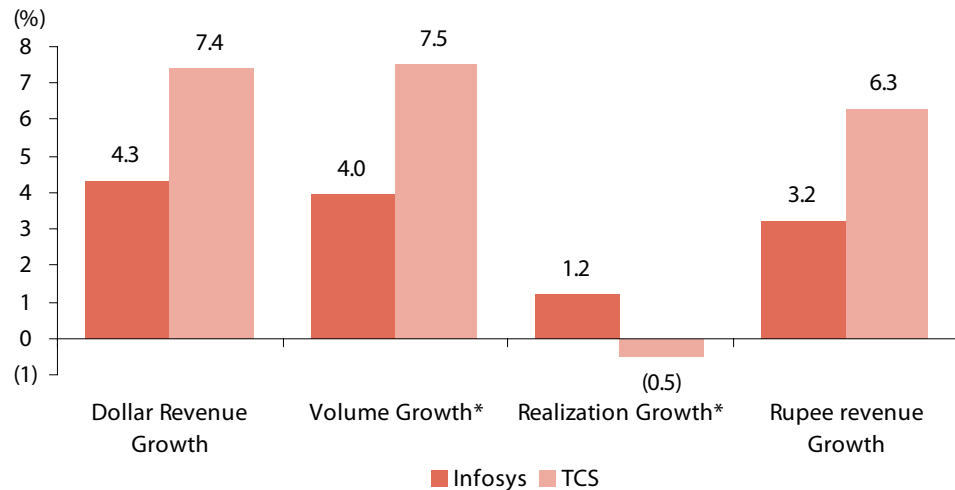
**Please refer to important disclosures/disclaimers inside**

**Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet**

## Volume led topline growth

TCS lived up to the elevated expectation of the market by reporting revenues above estimate. It reported a topline growth of 6.3% qoq in rupee terms and 7.5% qoq in dollar terms. Revenue growth was driven by volume growth of 7.4% while foreign exchange, Realization growth and offshoring of work contributed +10bps, -50bps and -80 bps respectively to make up for the 6.3% rupee revenue growth. TCS outpaced Infosys in volume growth - 7.5% vs 4%.

### Exhibit 1: TCS outpaced Infosys in volume growth



Note: QoQ growth, \*: For Consolidated IT services  
Source: Companies, Centrum Research

## Commentary in contrast to that of Infosys'

While managements of both companies shared the view of uncertain macro environment, TCS has been asserting that macro uncertainty has not dampened the overall business momentum and decision making – though as indicated in the first page, the commentary has turned relatively cautious when compared to that in previous quarters. Infosys on the other hand has been far more cautious in its commentary alluding to potential slowdown in decision making and discretionary spending not ramping up.

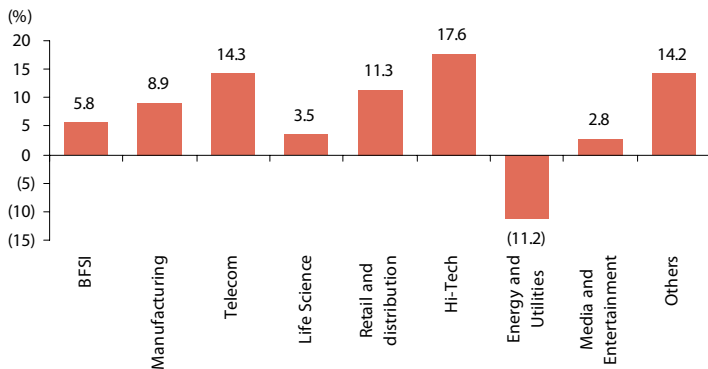
TCS's view is that the macro environment has been challenging and would continue to remain so for a while. It says that customers have begun to factor that in and begun taking decisions. The management indicated that its commentary on demand is based on its current discussions with customer companies and not a reading into what might happen going forward.

We believe the market share gain of TCS is because of its larger breadth of its offerings and a wider geographic footprint. We believe pricing is also being used as element to pick up higher market share if one reads into the commentary of the management

## All round growth but BFSI lags

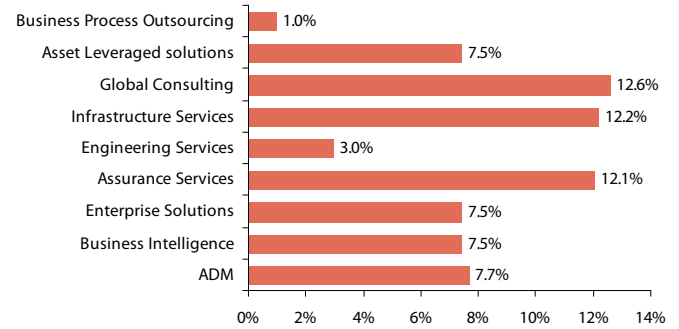
While Telecom, Retail and Hi-Tech showed double digit growth in the quarter, BFSI sector grew at 5.8% QoQ in dollar terms, lower than company's growth supporting our view that BFSI sector growth in FY12 will likely underperform company growth. With ~45% of total revenue coming from BFSI, it could be a potential threat to the company's growth in the medium term if the sovereign debt crisis in the peripheral European countries unfolds. BFSI's contribution in the incremental growth of the company has come down in the last two quarters. Telecom sector has been slow for the industry and strong growth in telecom vertical this quarter was on the back of discretionary projects in emerging markets which may not be sustainable going ahead.

**Exhibit 2: Growth in BFSI legged other verticals**



Source: Company, Centrum Research

**Exhibit 3: Consulting and IMS led the growth among services**

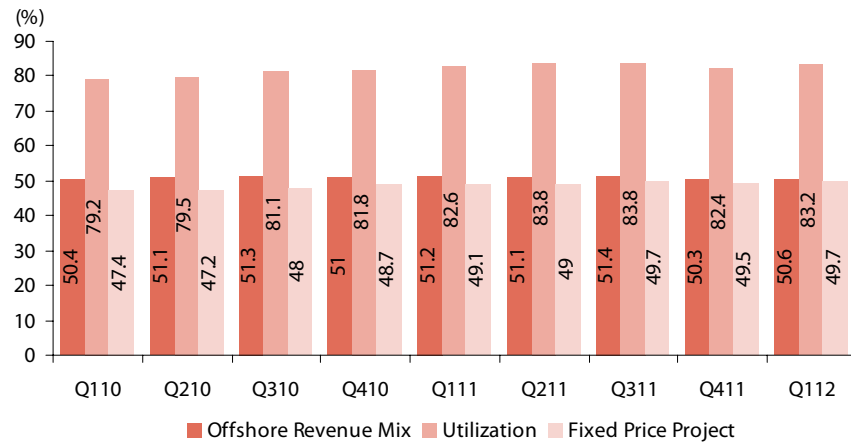


Source: Company, Centrum Research

**Growth is the only lever left; traditional levers exhausted**

EBIT margin (IFRS) declined by ~210bps to 26.2% versus our estimate of 26%. Wage hike of 12-14% offshore and 2-3% onsite resulted in the expected margin decline. SG&A also went up by 80 bps resulting in the decline. PAT adjusted for forex swing of ~Rs906mn was in line with our estimate of Rs22728mn. While headwind of wage hike is now behind the company, growth is the only margin lever left with the company to counter any margin pressure arising in the future. Appreciation of rupee, promotions in Q2 are some of the headwinds that could impact the margins going ahead.

**Exhibit 4: TCS has exhausted traditional margin levers**



Source: Companies, Centrum Research

**Estimate Revised upwards**

We have revised our revenue estimates due to higher than expected volume growth in Q1 and giving the benefit of doubt to the management for their continued confidence in the business momentum. Improvement in margins is partly to do with change in the accounting standard to IFRS and partly due to higher growth. Our other income estimates have also moved up. Our FY12/FY13 FDEPS estimates have moved up by 7.6/8%. We are introducing FY14 numbers estimating a growth rate of ~12% for FY14. However our estimates for FY13 and FY14 remain below that of consensus estimates.

**Exhibit 5: Estimate changes**

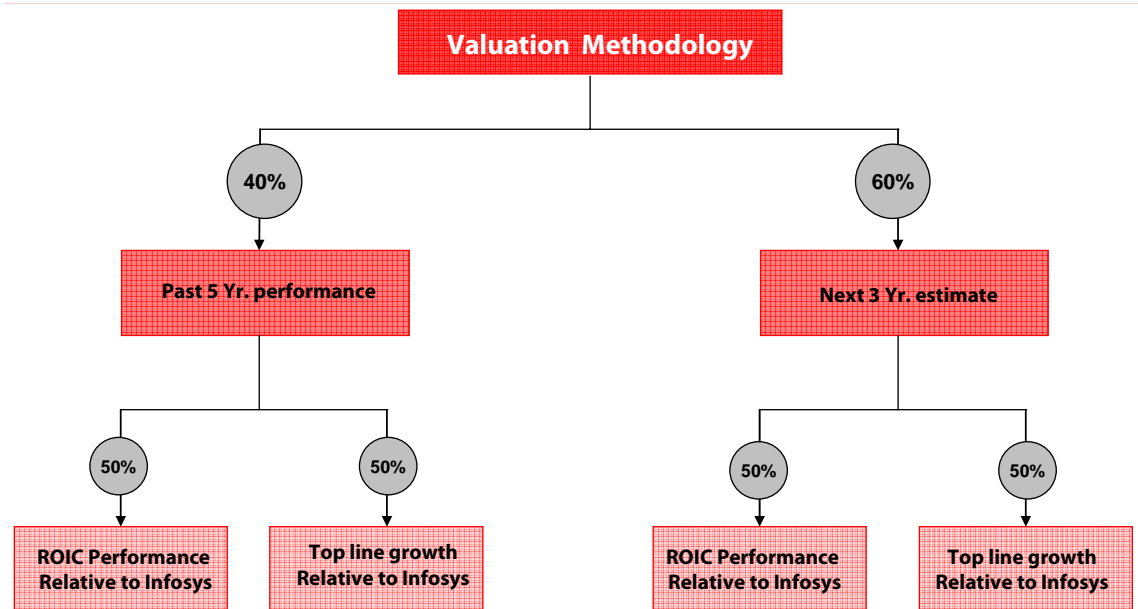
| (Rsmn)          | FY12E   |         |                | FY13E   |         |                | FY14E   |         |
|-----------------|---------|---------|----------------|---------|---------|----------------|---------|---------|
|                 | Old     | New     | Difference (%) | Old     | New     | Difference (%) | New     | YoY (%) |
| Revenue         | 462,330 | 470,065 | 1.7            | 537,896 | 544,961 | 1.3            | 612,234 | 12.3    |
| EBITDA          | 125,588 | 132,919 | 5.8            | 143,252 | 148,627 | 3.8            | 158,188 | 6.4     |
| EBIT            | 116,006 | 123,366 | 6.3            | 132,105 | 137,333 | 4.0            | 145,500 | 5.9     |
| EBIT Margin (%) | 25.1    | 26.2    |                | 24.6    | 25.2    |                | 23.8    | -       |
| PAT             | 94,498  | 101,727 | 7.6            | 103,449 | 111,803 | 8.1            | 119,956 | 7.3     |
| EPS             | 48.3    | 52.0    | 7.6            | 52.9    | 57.1    | 8.1            | 61.3    | 7.3     |

Source: Centrum Research Estimates

### Target P/E of 16.4x based on our methodology

We ascribe target P/E multiple of 16.4x to TCS relative to Infosys' target multiple of 19x (Our industry frame of reference) based on the valuation methodology outlined by us in our sector initiation report (*Refer our Initiation report "Focus on the macro and not the micro" dated 19<sup>th</sup> Oct 2010*). Our valuation methodology gives equal weights to Return on Invested Capital and revenue growth and it also considers both historical (last five years) and forward (next three years) performances. Following chart explains the valuation framework for arriving at the target P/E multiples relative to Infosys.

#### Exhibit 6: Our valuation methodology



Source: Centrum Research

Our target P/E multiple for Infosys is based on 10 year empirical P/E statistics for the company. We have arrived at 19x P/E for Infosys by discounting the last 10 year average one year forward P/E of 21.2x by 1/2 of its 10 year P/E standard deviation to factor in the lack of earnings visibility due to uncertain macro environment and the likely impact the various macro issues would have on demand from the BFSI sector.

$$\text{Target P/E} = \mu(\text{Forward P/E}) - (1/2) * \sigma$$

μ: Average of 10 years

σ : Standard Deviation of P/E; Represents risk to target P/E

Based on our valuation framework, we believe TCS should trade at ~14% discount to Infosys primarily due to lower ROIC and at slightly higher growth rates. We value TCS at 16.4x FY13E FDEPS arriving at a target price of Rs939.6.

#### Exhibit 7: Infosys P/E calculation (Empirical)

| P/E Stats  | 10 year |
|------------|---------|
| Average    | 21.2    |
| Std Dev    | 4.5     |
| Hi         | 35.8    |
| Low        | 10.2    |
| Target P/E | 19      |

Source: Bloomberg, Centrum Research

**Exhibit 8: Target P/E for TCS vis-à-vis Infosys**

|                                    | Infosys     | TCS         |
|------------------------------------|-------------|-------------|
| <b>Last 5 years</b>                |             |             |
| ROIC Average (%)                   | 88          | 62          |
| Revenue CAGR (%)                   | 24          | 24          |
| <b>Next 3 years</b>                |             |             |
| ROIC Average (%)                   | 85          | 55          |
| Revenue CAGR (%)                   | 17          | 18          |
| <b>Relative to Infosys'</b>        |             |             |
| <b>Last 5 years</b>                |             |             |
| ROIC (%)                           | 100         | 70          |
| Revenue CAGR (%)                   | 100         | 103         |
| <b>Next 3 years</b>                |             |             |
| ROIC (%)                           | 100         | 65          |
| Revenue CAGR (%)                   | 100         | 108         |
| <b>P/E Relative to Infosys (x)</b> |             |             |
| Last 5 years                       | 19.0        | 16.5        |
| Next 3 years                       | 19.0        | 16.4        |
| <b>Target P/E (x)</b>              | <b>19.0</b> | <b>16.4</b> |

Source: Company, Centrum Research Estimates

**Exhibit 9: Fact Sheet**

|   | Q408        | Q109        | Q209        | Q309        | Q409        | Q110        | Q210        | Q310        | Q410        | Q111        | Q211        | Q311        | Q411        | Q112        |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>P and L (Rsmn)</b>                     |             |             |             |             |             |             |             |             |             |             |             |             |             |             |
| Revenue                                   | 60,947      | 64,107      | 69,534      | 72,770      | 71,718      | 72,070      | 74,351      | 76,503      | 77,365      | 82,172      | 92,864      | 96,634      | 101,575     | 107,970     |
| EBITDA                                    | 13,900      | 14,147      | 16,848      | 18,020      | 17,030      | 17,893      | 19,531      | 20,887      | 21,279      | 22,306      | 26,008      | 27,132      | 28,457      | 28,261      |
| PAT                                       | 12,559      | 12,437      | 12,615      | 13,525      | 13,173      | 15,203      | 16,239      | 17,975      | 19,477      | 18,442      | 21,064      | 23,302      | 24,018      | 23,803      |
| <b>Vertical Mix (%)</b>                   |             |             |             |             |             |             |             |             |             |             |             |             |             |             |
| BFSI                                      | 43.8        | 42.5        | 41.9        | 41.9        | 42.8        | 43.8        | 45.3        | 45.0        | 45.6        | 44.7        | 44.0        | 44.6        | 44.0        | 43.3        |
| Manufacturing                             | 13.0        | 10.7        | 11.0        | 10.6        | 9.8         | 8.7         | 8.2         | 7.7         | 7.8         | 7.4         | 7.4         | 7.2         | 7.5         | 7.6         |
| Telecom                                   | 17.3        | 15.5        | 15.3        | 13.8        | 13.1        | 13.2        | 12.5        | 12.7        | 12.2        | 12.7        | 12.8        | 11.9        | 11.0        | 11.7        |
| Life Sciences                             | 5.1         | 5.3         | 4.8         | 5.2         | 5.7         | 4.9         | 5.1         | 5.1         | 5.2         | 5.2         | 5.1         | 5.2         | 5.4         | 5.2         |
| Retail                                    | 8.2         | 8.6         | 9.0         | 11.2        | 12.0        | 10.6        | 10.4        | 10.5        | 10.9        | 11.0        | 10.9        | 10.9        | 11.2        | 11.6        |
| Energy And Utility                        | 2.8         | 2.9         | 3.0         | 2.6         | 2.7         | 2.5         | 2.7         | 3.4         | 3.0         | 3.3         | 4.3         | 4.4         | 4.6         | 3.8         |
| <b>Horizontal Mix (%)</b>                 |             |             |             |             |             |             |             |             |             |             |             |             |             |             |
| ADM                                       | 46.2        | 46.9        | 49.2        | 49          | 48.6        | 48.7        | 49.6        | 49.1        | 47.6        | 47.9        | 46.8        | 45          | 46.1        | 46.2        |
| Business Intelligence                     | 9.7         | 9           | 8.6         | 8.1         | 6.8         | 6.1         | 5.7         | 5.7         | 5.4         | 5.4         | 5.6         | 5.3         | 4.9         | 4.9         |
| Product Engineering Services              | 5.3         | 5.6         | 6           | 6.3         | 5.8         | 5.2         | 5           | 4.9         | 4.8         | 4.8         | 4.9         | 4.8         | 4.8         | 4.6         |
| Enterprise Solutions                      | 13.7        | 13          | 12.5        | 12.6        | 11.8        | 10.9        | 10.3        | 10.5        | 10.1        | 9.8         | 10.3        | 9.6         | 10.8        | 10.8        |
| Infrastructure Management                 | 6.7         | 7.7         | 7.5         | 8.3         | 8.3         | 9.3         | 8           | 7.9         | 8.3         | 8.7         | 9.4         | 10.5        | 9.1         | 9.5         |
| Business Process Outsourcing              | 6.3         | 6.1         | 5.8         | 5.8         | 11.1        | 11.4        | 11.8        | 11.5        | 11.5        | 11.2        | 10.9        | 11.4        | 11.6        | 10.9        |
| <b>Delivery (%)</b>                       |             |             |             |             |             |             |             |             |             |             |             |             |             |             |
| Offshore                                  | 42.1        | 40.9        | 42.8        | 43.6        | 47.7        | 50.4        | 51.1        | 51.3        | 51          | 51.2        | 51.1        | 51.4        | 50.3        | 50.6        |
| Onsite                                    | 53.2        | 54.9        | 52.6        | 51          | 48.2        | 44.4        | 42.7        | 42.5        | 43.3        | 43.6        | 43.9        | 43.7        | 44.7        | 44.8        |
| <b>Project Type</b>                       |             |             |             |             |             |             |             |             |             |             |             |             |             |             |
| T&M                                       | 55.8        | 57.2        | 56.6        | 54.5        | 52.9        | 52.6        | 52.8        | 52          | 51.3        | 50.9        | 51          | 50.3        | 50.5        | 50.3        |
| Fixed Price                               | 44.2        | 42.8        | 43.4        | 45.5        | 47.1        | 47.4        | 47.2        | 48          | 48.7        | 49.1        | 49          | 49.7        | 49.5        | 49.7        |
| <b>Utilization (%) including trainees</b> | <b>75.8</b> | <b>74.6</b> | <b>74.7</b> | <b>71.8</b> | <b>69.4</b> | <b>71.3</b> | <b>73.6</b> | <b>77.2</b> | <b>74.3</b> | <b>74.8</b> | <b>77.7</b> | <b>77.1</b> | <b>75.1</b> | <b>76.2</b> |
| <b>Clients Concentration (%)</b>          |             |             |             |             |             |             |             |             |             |             |             |             |             |             |
| Top Client                                | 6.5         | 6.2         | 5.9         | 5.1         | 4.7         | 5.7         | 6.8         | 8.1         | 8.2         | 8.1         | 8           | 7.7         | 7.4         | 7.1         |
| Top 5 Client                              | 18.9        | 18.5        | 17.8        | 17.3        | 18.6        | 19.4        | 20.5        | 21.5        | 21.8        | 22          | 22.1        | 21.9        | 21.4        | 20.7        |
| Top 10 Client                             | 29.1        | 28.3        | 26.9        | 26.3        | 26.9        | 28          | 28.9        | 29.9        | 30.2        | 30.5        | 30.1        | 30.1        | 29.6        | 28.9        |
| <b>Number of Client</b>                   |             |             |             |             |             |             |             |             |             |             |             |             |             |             |
| \$100mn +                                 | 7           | 7           | 7           | 7           | 7           | 6           | 6           | 6           | 7           | 7           | 8           | 9           | 8           | 10          |
| \$50mn +                                  | 19          | 21          | 22          | 23          | 24          | 23          | 23          | 23          | 23          | 24          | 25          | 25          | 27          | 33          |
| Employee Number                           | 111,407     | 116,308     | 121,610     | 130,343     | 143,761     | 141,642     | 141,962     | 149,654     | 160,429     | 163,700     | 174,417     | 186,914     | 198,614     | 202,190     |
| Attrition - LTM (%)                       | 12.6        | 12.8        | 13.2        | 11.9        | 11.4        | 11.5        | 11.4        | 11.5        | 11.8        | 13.1        | 14.1        | 14.4        | 14.4        | 14.8        |

Source: Company, Centrum Research

## Financials (IFRS)

### Exhibit 10: Income Statement

| Y/E March (Rsmn)           | FY11    | FY12E   | FY13E   | FY14E   |
|----------------------------|---------|---------|---------|---------|
| Net Sales                  | 373,785 | 470,065 | 544,961 | 612,234 |
| -Growth (%)                | 24.3    | 25.9    | 15.9    | 12.3    |
| Cost of Sales & Services   | 204,296 | 261,652 | 309,535 | 356,532 |
| % of sales                 | 54.7    | 55.7    | 56.8    | 58.2    |
| SG&A                       | 64,179  | 75,493  | 86,799  | 97,514  |
| % of sales                 | 17.2    | 16.1    | 15.9    | 15.9    |
| Other expenses             | -       | -       | -       | -       |
| % of sales                 | -       | -       | -       | -       |
| EBIDTA                     | 112,524 | 132,919 | 148,627 | 158,188 |
| -EBIDTA margin (%)         | 30.1    | 28.3    | 27.3    | 25.8    |
| Depreciation               | 7,214   | 9,553   | 11,294  | 12,688  |
| EBIT                       | 105,310 | 123,366 | 137,333 | 145,500 |
| PBT from operations        | 105,310 | 123,366 | 137,333 | 145,500 |
| Other non operating income | 5,324   | 9,648   | 11,256  | 13,816  |
| PBT                        | 110,634 | 133,015 | 148,588 | 159,316 |
| -PBT margin (%)            | 29.6    | 28.3    | 27.3    | 26.0    |
| Provision for tax          | 21,739  | 30,164  | 35,661  | 38,236  |
| Effective tax rate (%)     | 19.6    | 22.7    | 24.0    | 24.0    |
| Minority Interest          | 1,191   | 1,124   | 1,124   | 1,124   |
| Net profit                 | 87,704  | 101,727 | 111,803 | 119,956 |
| -Growth (%)                | 26.0    | 17.2    | 9.9     | 7.3     |
| -Net profit margin (%)     | 23.5    | 21.6    | 20.5    | 19.6    |

Source: Company, Centrum Research Estimates

### Exhibit 11: Balance Sheet

| Y/E March (Rsmn)                   | FY11           | FY12E          | FY13E          | FY14E          |
|------------------------------------|----------------|----------------|----------------|----------------|
| Share capital                      | 1,957          | 1,957          | 1,957          | 1,957          |
| Reserves & surplus                 | 252,087        | 313,807        | 369,709        | 441,682        |
| Total shareholder's fund           | 254,044        | 315,764        | 371,666        | 443,639        |
| Loan fund                          | 12,357         | 18,510         | 19,987         | 21,604         |
| Deferred tax liability             | -              | 6,430          | 6,430          | 6,430          |
| Minority interest                  | 3,147          | 3,274          | 3,274          | 3,274          |
| <b>Total capital employed</b>      | <b>269,548</b> | <b>343,978</b> | <b>401,356</b> | <b>474,947</b> |
| Gross block                        | 88,184         | 104,410        | 123,704        | 146,392        |
| Accumulated depreciation           | 36,188         | 45,742         | 57,036         | 69,724         |
| Net Block                          | 51,996         | 58,668         | 66,668         | 76,668         |
| Investments                        | 18,390         | 74,637         | 86,637         | 98,637         |
| Goodwill and Intangibles           | 33,791         | 33,845         | 33,845         | 33,845         |
| Cash and bank                      | 54,874         | 69,711         | 95,024         | 134,157        |
| Inventories                        | -              | -              | -              | -              |
| Debtors                            | 82,007         | 121,345        | 137,871        | 154,911        |
| Other current assets               | 27,974         | 17,631         | 19,667         | 21,798         |
| Total current assets               | 164,855        | 208,687        | 252,563        | 310,865        |
| Current liabilities and provisions | 58,335         | 57,680         | 64,742         | 72,073         |
| Net current assets                 | 106,520        | 151,007        | 187,820        | 238,792        |
| Other non current assets           | 58,850         | 25,821         | 26,385         | 27,004         |
| <b>Total assets</b>                | <b>269,548</b> | <b>343,978</b> | <b>401,356</b> | <b>474,947</b> |

Source: Company, Centrum Research Estimates

### Exhibit 12: Cash flow

| Y/E March (Rsmn)                         | FY11            | FY12E           | FY13E           | FY14E           |
|--|-----------------|-----------------|-----------------|-----------------|
| <b>Cash flow from operating</b>          |                 |                 |                 |                 |
| Pre tax profit                           | 110,634         | 133,015         | 148,588         | 159,316         |
| Depreciation                             | 7,214           | 9,553           | 11,294          | 12,688          |
| Interest expenses                        | -               | -               | -               | -               |
| Other non cash charges                   | (1,191)         | (1,124)         | (1,124)         | (1,124)         |
| Operating profit before WC change        | 116,657         | 141,444         | 158,758         | 170,880         |
| Working capital adjustments              | (26,893)        | (16,153)        | (11,500)        | (11,839)        |
| Direct tax paid                          | (20,127)        | (31,420)        | (35,661)        | (38,236)        |
| <b>Net cash generated from operating</b> | <b>69,638</b>   | <b>93,870</b>   | <b>111,597</b>  | <b>120,805</b>  |
| <b>Cashflow from investing</b>           |                 |                 |                 |                 |
| Capex                                    | (17,833)        | (16,226)        | (19,294)        | (22,688)        |
| Investments                              | (3,246)         | (38,431)        | (32,000)        | (32,000)        |
| Acquisition                              | (941)           | (54)            | (0)             | (0)             |
| Interest/dividends received              | -               | -               | -               | -               |
| Other investing activities               | (1,175)         | (327)           | (564)           | (619)           |
| <b>Net cash from investing</b>           | <b>(23,195)</b> | <b>(55,037)</b> | <b>(51,858)</b> | <b>(55,307)</b> |
| <b>Cash flow from financing</b>          |                 |                 |                 |                 |
| Proceeds from SC and premium             | 1,631           | 682             | -               | -               |
| Borrowings/(Repayments)                  | 1,597           | (1,021)         | (200)           | (200)           |
| Interest paid                            | -               | -               | -               | -               |
| Dividend paid                            | (46,133)        | (40,689)        | (55,902)        | (47,982)        |
| Addition to reserves on amalgamation     | -               | -               | -               | -               |
| Other financing activities               | 1,751           | 2,308           | 1,676           | 1,818           |
| <b>Net cashflow from financing</b>       | <b>(41,154)</b> | <b>(38,719)</b> | <b>(54,425)</b> | <b>(46,365)</b> |
| Effect of exchange rate                  | -               | -               | -               | -               |
| <b>Net cash increase/(decrease)</b>      | <b>5,289</b>    | <b>114</b>      | <b>5,313</b>    | <b>19,133</b>   |

Source: Company, Centrum Research Estimates

### Exhibit 13: Key Ratios

| Y/E March                        | FY11  | FY12E | FY13E | FY14E |
|----------------------------------|-------|-------|-------|-------|
| <b>Profitability ratios (%)</b>  |       |       |       |       |
| EBIDTA margin                    | 30.1  | 28.3  | 27.3  | 25.8  |
| PBIT margin                      | 28.2  | 26.2  | 25.2  | 23.8  |
| PBT margin                       | 29.6  | 28.3  | 27.3  | 26.0  |
| PAT margin                       | 23.5  | 21.6  | 20.5  | 19.6  |
| <b>Return ratios (%)</b>         |       |       |       |       |
| ROCE                             | 39.2  | 38.1  | 35.5  | 32.1  |
| ROIC                             | 55.3  | 57.0  | 55.3  | 53.3  |
| ROE                              | 37.4  | 35.7  | 32.5  | 29.4  |
| <b>Turnover Ratios</b>           |       |       |       |       |
| Asset turnover ratio (x)         | 1.4   | 1.5   | 1.4   | 1.4   |
| Working capital cycle (days)     | 97.7  | 118.7 | 124.8 | 131.3 |
| Average collection period (days) | 80.2  | 80.5  | 78.8  | 78.9  |
| Average payment period (days)    | 53.0  | 49.9  | 47.9  | 46.7  |
| <b>Per share (Rs)</b>            |       |       |       |       |
| Basic EPS                        | 44.4  | 52.0  | 57.1  | 61.3  |
| Fully diluted EPS                | 44.4  | 52.0  | 57.1  | 61.3  |
| Book value                       | 129.8 | 161.3 | 189.9 | 226.7 |
| Dividend Per share               | 14.0  | 20.8  | 28.6  | 24.5  |
| <b>Solvency Ratio</b>            |       |       |       |       |
| Debt-equity (%)                  | 4.9   | 5.9   | 5.4   | 4.9   |
| Interest coverage ratio          | 0     | 0     | 0     | 0     |
| <b>Valuation (x)</b>             |       |       |       |       |
| P/E                              | 25.3  | 21.6  | 19.7  | 18.3  |
| P/BV                             | 8.7   | 7.0   | 5.9   | 5.0   |
| EV/EBIDTA                        | 19.0  | 15.6  | 13.7  | 12.6  |
| EV/Sales                         | 5.7   | 4.4   | 3.7   | 3.2   |
| M-cap/Sales                      | 5.9   | 4.7   | 4.0   | 3.6   |

Source: Company, Centrum Research Estimates

## Appendix A

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**Website:** www.centrum.co.in

**Investor Grievance Email ID:** investor.grievances@centrum.co.in

### Compliance Officer Details :

Mr. C. Vijaya Rao; Tel: (022) 42159437; Email ID: vi.rao@centrum.co.in

### REGD. OFFICE Address

Bombay Mutual Bldg., 2nd Floor, Dr. D. N. Road, Fort, Mumbai - 400 001

### Correspondence Address

Centrum House, 6th Floor, CST Road, Near Vidya Nagari Marg, Kalina, Santacruz (E), Mumbai 400 098.  
 Tel: (022) 4215 9000