Angel Broking
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December 17, 2013

TCS

Analyst Meet Update

BUY	
CMP	₹2,017
Target Price	₹2,500
Investment Period	12 Months

Stock Info	
Sector	IT
Market Cap (₹ cr)	394,826
Net debt (₹ cr)	(16,000)
Beta	0.5
52 Week High / Low	2,258/1,198
Avg. Daily Volume	125,314
Face Value (₹)	1
BSE Sensex	20,660
Nifty	6,089
Reuters Code	TCS.BO
Bloomberg Code	TCS@IN

Shareholding Pattern (%)	
Promoters	74.0
MF / Banks / Indian FIs	5.9
FII / NRIs / OCBs	15.7
Indian Public / Others	4.5

Abs. (%)	3m	1yr	3yr
Sensex	4.6	6.9	4.9
TCS	6.1	62.6	87.7

Tata Consultancy Services (TCS) hosted an analyst briefing with Mr. Rajesh Gopinathan, CFO. Following are the key takeaways:

Strong demand environment with no change in outlook: The Management indicated that overall demand remains good and in line with its expectations, and FY2014E trajectory will be better than FY2013. Earlier in 2013, the Management suggested that FY2014 will be better than FY2013 (USD revenues grew 13.7% yoy) with most of it being front loaded. According to the Management, the year is panning out as per expectations.

Seasonality-led weakness in revenue growth in 3QFY2013: 3QFY2013 has traditionally been a relatively soft quarter in terms of volume growth for IT companies and this year is expected to be no different. We believe TCS is likely to deliver a 2.7-3% qoq volume growth in 3QFY2013 as compared to ~7% in 2QFY2013 because of lower working days and furloughs seen. Revenue growth in 3QFY2013 will be impacted due to the following factors – a) lesser working days due to holidays, b) furloughs across industries and c) lower spending in verticals such as retail, manufacturing and in services like consulting and enterprise solutions. TCS' revenue from India business is likely to be weak in 3QFY2013 due to hit in IT spends on account of the ongoing election process. Reported USD revenues will be aided by ~100bp qoq impact of cross-currency gains. The Management expects the US and the UK to show muted growth while other geographies like Europe, Asia Pacific and Latin America are likely to grow ahead of the company average.

Operating margin expected to be stable: TCS expects margins (excluding currency) to be broadly stable on a sequential basis. The company would take a decision on reinvestment only after the Rupee stabilizes. Taking currency movement into account, operating margins are expected to dip slightly by ~25-30bp qoq during 3QFY2013.

Forex gains to aid net income: TCS expects forex gains of ₹150-200cr given the current exchange rates as against forex losses of ₹377cr reported in 2QFY2014. This will contribute to a sharp improvement in net income.

CY2014 likely to be better than 2013: TCS' Management indicated that they are in the midst of assessing clients' plans as far as CY2014 budgets are concerned; early indicators call for reasonable optimism. The Management will get a better picture on client budgets in January. CY2014 could be a better year for Indian IT from a demand point of view.

Outlook and Valuations: We expect TCS to outperform the industry on revenue growth due to its superior market reach and excellent execution capabilities. We expect TCS to grow its USD revenues at a CAGR of 15.5% over FY2013-15 and EPS to grow at a CAGR of 27% during this period. TCS has executed well over the past many quarters and currently trades at 20.7x FY2014E and 17.4x FY2015E EPS. We believe TCS deserves the premium multiples given its consistency in performance, and leadership in growth/profitability. **We maintain our Buy rating on the stock with a target price of ₹2,500.**

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Exhibit 1: Key Financials (Consolidated)

Y/E March (₹ cr)	FY2011	FY2012	FY2013	FY2014E	FY2015E
Net sales	**37,324**	**48,891**	**62,988**	**81,883**	**95,264**
% chg	*24.3*	*31.0*	*28.8*	*30.0*	*16.3*
Net profit	**8,715**	**10,636**	**13,942**	**19,067**	**22,662**
% chg	*26.8*	*22.0*	*31.1*	*36.8*	*18.9*
EBITDA (%)	30.0	29.5	28.7	31.4	31.1
EPS (₹)	**44.5**	**54.3**	**71.2**	**97.4**	**115.8**
P/E (x)	45.3	37.1	28.3	20.7	17.4
P/BV (x)	15.5	12.1	9.6	7.1	5.5
RoE (%)	34.3	32.7	34.0	34.2	31.5
RoCE (%)	32.0	32.8	32.7	35.2	32.1
EV/Sales (x)	10.4	7.9	6.0	4.6	3.9
EV/EBITDA (x)	34.6	26.7	21.0	14.6	12.4

Source: Company, Angel Research; Note: CMP as on December 16, 2013

Exhibit 2: Recommendation summary

Company	Reco	CMP (₹)	Tgt. price (₹)	*Upside (%)*	FY2014E EBITDA (%)	FY2014E P/E (x)	FY2011-14E EPS CAGR (%)	FY2014E EV/Sales (x)	FY2014E RoE (%)
HCL Tech	Neutral	1,187	-	-	23.7	13.6	34.2	1.9	25.5
Hexaware	Accumulate	119	130	9.5	21.9	8.6	15.7	1.1	24.0
Infosys	Neutral	3,450	-	-	27.2	16.0	14.1	2.8	20.9
Infotech Enterprises	Neutral	302	-	-	18.2	11.9	20.5	1.0	15.3
KPIT Cummins	Neutral	156	-	-	16.1	9.9	25.1	0.8	19.0
Mindtree	Accumulate	1,386	1500	8.2	20.8	10.8	33.6	1.2	23.2
Mphasis	Accumulate	381	412	8.1	18.1	9.2	3.0	0.7	13.6
NIIT	Neutral	24	-	-	7.1	6.4	(17.4)	0.1	9.0
Persistent	Neutral	914	-	-	25.8	12.7	26.7	1.4	19.1
TCS	**Buy**	**2,017**	**2,500**	**23.9**	**31.1**	**17.4**	**28.7**	**3.9**	**31.5**
Tech Mahindra	Neutral	1,742	-	-	21.7	13.4	18.5	0.7	24.8
Wipro	Accumulate	524	567	8.2	23.5	14.4	17.2	2.0	21.6

Source: Company, Angel Research

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DISCLAIMER

Disclosure of Interest Statement	**TCS**
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	*Buy (> 15%)*	*Accumulate (5% to 15%)*	*Neutral (-5 to 5%)*
	Reduce (-5% to -15%)	*Sell (< -15%)*	

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