

16 December 2013

**BUY**

TP: INR 2,450.00

▲ 21.4%

# Tata Consultancy Services

TCS IN

## Maintain commentary; Seasonal weakness in Q3

**We attended the TCS analyst meet and key takeaways were: (1) 3Q outlook remains modest given seasonal weakness. (2) Management maintains FY14>FY13 outlook with H1>H2. (3) Margins to be stable on constant currency basis. (4) FX gains of c.Rs1.5bn to aid profitability. Overall, the commentary remains healthy except for some seasonal weakness largely on expected lines. Superior execution along with supportive demand on better global macro should help sustain premium valuations (18x FY15 PE). BUY.**

- ➔ **Q3 seasonal impact expected:** The management indicated that overall demand remains healthy though Q3 is likely to see the usual seasonal impact on account of lower working days and furloughs in major verticals. Geographically US and UK are expected to be weaker and EMEA and APAC are likely to be ahead of overall company. India continues to be impacted due to ongoing volatility and some tightening of spends. We believe 3Q CC growth rates should remain healthy and expect c.3.2% QoQ USD growth.
- ➔ **Maintains FY14>FY13 demand outlook:** Management maintained its FY14>FY13 outlook on a recovery in spends. While TCS has seen a strong performance in H1, they continue to indicate H2 to be slower on account of usual seasonality.
- ➔ **Margins stable, FX positive:** Operationally, management expects to be able to keep margins steady, though some currency tailwinds could aid margins by a modest 25-30bps. On other income FX gains expect gains of c.Rs1.5bn against losses of c.3.7bn in Q2.
- ➔ **Execution premium to sustain:** While valuations are at a premium to peers, we believe superior execution will ensure this premium sustains. In our view, an improvement in the demand outlook and execution would be the key stock triggers.

### Financial Highlights

Y/E 31 Mar	FY12A	FY13A	FY14E	FY15E	FY16E
Revenue (INR mln)	488,938	629,895	824,631	993,947	1,126,316
EBITDA (INR mln)	140,948	176,722	242,246	286,117	319,974
Adjusted net profit (INR mln)	106,384	139,413	180,776	217,739	247,863
Adjusted EPS (INR)	54.4	71.2	92.4	111.3	126.6
Adjusted EPS growth (%)	22.1	31.0	29.7	20.4	13.8
DPS (INR)	17.0	22.0	26.0	30.0	31.0
ROIC (%)	49.8	47.1	52.0	54.0	53.6
Adjusted ROAE (%)	36.8	37.9	39.2	37.1	33.2
Adjusted P/E (x)	37.1	28.3	21.8	18.1	15.9
EV/EBITDA (x)	27.4	21.8	15.8	13.2	11.5
P/BV (x)	12.1	9.6	7.7	6.0	4.7

Source: Company, Bloomberg, RCML Research



### REPORT AUTHORS

**Rumit Dugar**

+91 22 6766 3444

rumit.dugar@religare.com

**Udit Garg**

+91 22 6766 3445

udit.garg@religare.com

PRICE CLOSE (16 Dec 13)

INR 2,017.30

MARKET CAP

INR 3,951,342 mln

USD 63,562 mln

SHARES O/S

1,957.2 mln

FREE FLOAT

23.5%

3M AVG DAILY VOLUME./VALUE

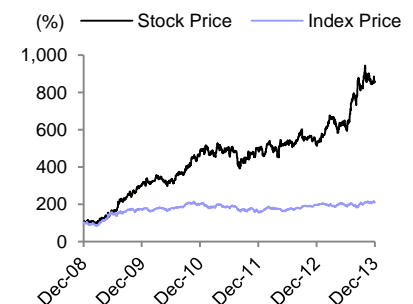
0.1 mln/ USD 3.8 mln

52 WK HIGH

INR 2,258.05

52 WK LOW

INR 380.00



**BUY**

TP: INR 2,450.00

▲ 21.4%

# Tata Consultancy Services

TCS IN



Company Update

INDIA

INFORMATION TECHNOLOGY

## Per Share Data

Y/E 31 Mar (INR)	FY12A	FY13A	FY14E	FY15E	FY16E
Reported EPS	54.4	71.2	92.4	111.3	126.6
Adjusted EPS	54.4	71.2	92.4	111.3	126.6
DPS	17.0	22.0	26.0	30.0	31.0
BVPS	166.2	209.3	261.9	337.8	425.7

## Valuation Ratios

Y/E 31 Mar (x)	FY12A	FY13A	FY14E	FY15E	FY16E
EV/Sales	7.9	6.1	4.7	3.8	3.3
EV/EBITDA	27.4	21.8	15.8	13.2	11.5
Adjusted P/E	37.1	28.3	21.8	18.1	15.9
P/BV	12.1	9.6	7.7	6.0	4.7

## Financial Ratios

Y/E 31 Mar	FY12A	FY13A	FY14E	FY15E	FY16E
<b>Profitability &amp; Return Ratios (%)</b>					
EBITDA margin	28.8	28.1	29.4	28.8	28.4
EBIT margin	27.6	27.0	28.4	27.9	27.5
Adjusted profit margin	21.8	22.1	21.9	21.9	22.0
Adjusted ROAE	36.8	37.9	39.2	37.1	33.2
ROCE	35.3	35.2	37.5	34.8	30.6
<b>YoY Growth (%)</b>					
Revenue	31.0	28.8	30.9	20.5	13.3
EBITDA	28.5	25.4	37.1	18.1	11.8
Adjusted EPS	22.1	31.0	29.7	20.4	13.8
Invested capital	36.7	31.9	12.4	14.6	10.7
<b>Working Capital &amp; Liquidity Ratios</b>					
Receivables (days)	74	74	75	80	81
Inventory (days)	25	30	34	37	37
Payables (days)	0	0	0	0	0
Current ratio (x)	3.8	3.9	3.1	3.5	3.9
Quick ratio (x)	1.5	1.3	1.1	1.5	1.9
<b>Turnover &amp; Leverage Ratios (x)</b>					
Gross asset turnover	5.4	5.7	6.1	6.2	6.1
Total asset turnover	1.3	1.4	1.4	1.3	1.2
Net interest coverage ratio	0.0	0.0	0.0	0.0	0.0
Adjusted debt/equity	(0.3)	(0.3)	(0.3)	(0.4)	(0.5)

## DuPont Analysis

Y/E 31 Mar (%)	FY12A	FY13A	FY14E	FY15E	FY16E
Tax burden (Net income/PBT)	76.4	76.9	74.5	74.6	74.6
Interest burden (PBT/EBIT)	103.0	106.6	103.5	105.3	107.3
EBIT margin (EBIT/Revenue)	27.6	27.0	28.4	27.9	27.5
Asset turnover (Revenue/Avg TA)	131.3	135.1	135.4	126.7	116.2
Leverage (Avg TA/Avg equities)	128.9	126.9	132.1	133.6	129.8
Adjusted ROAE	36.8	37.9	39.2	37.1	33.2

**BUY**

TP: INR 2,450.00

▲ 21.4%

# Tata Consultancy Services

TCS IN



Company Update

INDIA

INFORMATION TECHNOLOGY

## Income Statement

Y/E 31 Mar (INR mln)	FY12A	FY13A	FY14E	FY15E	FY16E
<b>Total revenue</b>	<b>488,938</b>	<b>629,895</b>	<b>824,631</b>	<b>993,947</b>	<b>1,126,316</b>
EBITDA	140,948	176,722	242,246	286,117	319,974
EBIT	135,141	170,079	234,314	277,129	309,539
Net interest income/(expenses)	7,756	10,014	12,817	14,590	22,345
Other income/(expenses)	(3,716)	1,159	(4,625)	200	200
Exceptional items	0	0	0	0	0
EBT	139,182	181,252	242,506	291,919	332,085
Income taxes	(31,688)	(40,345)	(59,998)	(72,980)	(83,021)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	(1,110)	(1,494)	(1,731)	(1,200)	(1,200)
<b>Reported net profit</b>	<b>106,384</b>	<b>139,413</b>	<b>180,776</b>	<b>217,739</b>	<b>247,863</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>106,384</b>	<b>139,413</b>	<b>180,776</b>	<b>217,739</b>	<b>247,863</b>

## Balance Sheet

Y/E 31 Mar (INR mln)	FY12A	FY13A	FY14E	FY15E	FY16E
Accounts payables	0	0	0	0	0
Other current liabilities	69,064	88,513	161,120	186,539	211,265
Provisions	0	0	0	0	0
Debt funds	1,266	2,323	3,205	3,205	3,205
Other liabilities	11,152	13,779	13,197	13,197	13,197
Equity capital	1,957	1,957	1,957	1,957	1,957
Reserves & surplus	323,276	407,603	510,536	659,225	831,134
Shareholders' fund	325,233	409,560	512,493	661,182	833,091
<b>Total liabilities and equities</b>	<b>411,990</b>	<b>520,735</b>	<b>697,191</b>	<b>871,299</b>	<b>1,067,933</b>
Cash and cash eq.	100,675	112,801	177,028	273,410	401,113
Accounts receivables	114,992	140,766	199,707	235,429	266,634
Inventories	22,478	31,601	46,940	55,336	62,671
Other current assets	25,045	65,455	78,366	92,383	104,629
Investments	0	0	0	0	0
Net fixed assets	64,548	81,944	98,527	113,919	127,864
CWIP	0	0	0	0	0
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	84,253	88,170	96,623	100,823	105,023
<b>Total assets</b>	<b>411,990</b>	<b>520,735</b>	<b>697,191</b>	<b>871,299</b>	<b>1,067,933</b>

## Cash Flow Statement

Y/E 31 Mar (INR mln)	FY12A	FY13A	FY14E	FY15E	FY16E
Net income + Depreciation	112,191	146,056	188,708	226,727	258,298
Interest expenses	0	0	0	0	0
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(31,241)	(55,857)	(14,586)	(32,716)	(26,060)
Other operating cash flows	1,110	1,494	1,731	1,200	1,200
<b>Cash flow from operations</b>	<b>82,061</b>	<b>91,693</b>	<b>175,854</b>	<b>195,212</b>	<b>233,438</b>
Capital expenditures	(18,015)	(24,039)	(24,516)	(24,380)	(24,380)
Change in investments	0	0	3,925	(200)	(200)
Other investing cash flows	(21,561)	(3,918)	(12,377)	(4,000)	(4,000)
<b>Cash flow from investing</b>	<b>(39,576)</b>	<b>(27,956)</b>	<b>(32,968)</b>	<b>(28,580)</b>	<b>(28,580)</b>
Equities issued	5,588	(4,450)	(17,999)	0	0
Debt raised/repaid	(1,275)	1,057	882	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(39,128)	(50,637)	(59,843)	(69,050)	(75,955)
Other financing cash flows	(23)	2,418	(1,698)	(1,200)	(1,200)
<b>Cash flow from financing</b>	<b>(34,838)</b>	<b>(51,612)</b>	<b>(78,658)</b>	<b>(70,250)</b>	<b>(77,155)</b>
<b>Changes in cash and cash eq</b>	<b>7,647</b>	<b>12,125</b>	<b>64,227</b>	<b>96,382</b>	<b>127,703</b>
<b>Closing cash and cash eq</b>	<b>100,675</b>	<b>112,801</b>	<b>177,028</b>	<b>273,410</b>	<b>401,113</b>

# RESEARCH DISCLAIMER

## Important Disclosures

This report was prepared, approved, published and distributed by a Religare Capital Markets ("RCM") group company located outside of the United States (a "non-US Group Company"). This report is distributed in the U.S. by Enclave Capital LLC ("Enclave Capital"), a U.S. registered broker dealer, on behalf of RCM only to major U.S. institutional investors (as defined in Rule 15a-6 under the U.S. Securities Exchange Act of 1934 (the "Exchange Act")) pursuant to the exemption in Rule 15a-6 and any transaction effected by a U.S. customer in the securities described in this report must be effected through Enclave Capital. Neither the report nor any analyst who prepared or approved the report is subject to U.S. legal requirements or the Financial Industry Regulatory Authority, Inc. ("FINRA") or other regulatory requirements pertaining to research reports or research analysts. No non-US Group Company is registered as a broker-dealer under the Exchange Act or is a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization. Where the report is distributed by Religare Capital Markets (UK) Limited ("RCM UK"), the firm is an Appointed Representative of Elevation Trading Limited, which is authorised and regulated by the Financial Conduct Authority in the United Kingdom.

Subject to any applicable laws and regulations at any given time, non-US Group Companies, their affiliates or companies or individuals connected with RCM (together, "Connected Companies") may make investment decisions that are inconsistent with the recommendations or views expressed in this report and may have long or short positions in, may from time to time purchase or sell (as principal or agent) or have a material interest in any of the securities mentioned or related securities or may have or have had a business or financial relationship with, or may provide or have provided investment banking, capital markets and/or other services to, the entities referred to herein, their advisors and/or any other connected parties. Any particular arrangements or relationships are disclosed below. As a result, recipients of this report should be aware that Connected Companies may have a conflict of interest that could affect the objectivity of this report.

See "Special Disclosures" for certain additional disclosure statements, if applicable.

This report is only for distribution to investment professionals and institutional investors.

## Analyst Certification

Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report.

Analysts and strategists are paid in part by reference to the profitability of RCM which includes investment banking revenues.

## Stock Ratings are defined as follows

**Recommendation Interpretation** (Recommendation structure changed with effect from March 1, 2009)

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Expected absolute returns are based on the share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

## Stock Ratings Distribution

As of 1 December 2013, out of 235 rated stocks in the RCM coverage universe, 120 have BUY ratings (including 10 that have been investment banking clients in the last 12 months), 76 are rated HOLD and 39 are rated SELL.

## Research Conflict Management Policy

RCM research has been published in accordance with our conflict management policy, which is available at <http://www.religarecm.com/>

## Disclaimers

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject RCM to any registration or licensing requirement within such jurisdiction(s). This report is strictly confidential and is being furnished to you solely for your information. All material presented in this report, unless specifically indicated otherwise, is under copyright to RCM. None of the material, its content, or any copy of such material or content, may be altered in any way, transmitted, copied or reproduced (in whole or in part) or redistributed in any form to any other party, without the prior express written permission of RCM. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of RCM or its affiliates, unless specifically mentioned otherwise.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. RCM has not taken any steps to

ensure that the securities referred to in this report are suitable for any particular investor. RCM will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. In addition, nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you.

Information and opinions presented in this report were obtained or derived from sources that RCM believes to be reliable, but RCM makes no representations or warranty, express or implied, as to their accuracy or completeness or correctness. RCM accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to RCM. This report is not to be relied upon in substitution for the exercise of independent judgment. RCM may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected absolute return over a 12-month period as defined in the disclosure section. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by RCM and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

This report is distributed in India by Religare Capital Markets Limited, which is a registered intermediary regulated by the Securities and Exchange Board of India. Where the report is distributed by RCM UK, the firm is an Appointed Representative of Elevation Trading Limited, which is authorised and regulated by the Financial Conduct Authority in the United Kingdom. If this research is distributed in the European Union by RCM UK, it is directed only to non-retail clients. In Dubai, it is being distributed by Religare Capital Markets (Europe) Limited (Dubai Branch) which is licensed and regulated by the Dubai Financial Services Authority. In Singapore, it is being distributed (i) by Religare Capital Markets (Singapore) Pte. Limited ("RCMS") (Co. Reg. No. 200902065N) which is a holder of a capital markets services licence and an exempt financial adviser in Singapore and (ii) solely to persons who qualify as "institutional investors" or "accredited investors" as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"). Pursuant to regulations 33, 34, 35 and 36 of the Financial Advisers Regulations (the "FAR"), sections 25, 27 and 36 of the Financial Advisers Act, Chapter 110 of Singapore shall not apply to RCMS when providing any financial advisory service to an accredited investor, or "overseas investor" (as defined in regulation 36 of the FAR). Persons in Singapore should contact RCMS in respect of any matters arising from, or in connection with this publication/communication. In Hong Kong, it is being distributed by Religare Capital Markets (Hong Kong) Limited ("RCM HK"), which is licensed and regulated by the Securities and Futures Commission, Hong Kong. In Australia, it is being distributed by RCMHK which is approved under ASIC Class Orders. In Sri Lanka, it is being distributed by Bartleet Mallory Stockbrokers, which is licensed under Securities and Exchange Commission of Sri Lanka. If you wish to enter into a transaction please contact the RCM entity in your home jurisdiction unless governing law provides otherwise. In jurisdictions where RCM is not registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation which may vary from one jurisdiction to another and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements.

Religare Capital Markets does and seeks to do business with companies covered in our research report. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of research produced by Religare Capital Markets. Investors should consider our research as only a single factor in making their investment decision.

Any reference to a third party research material or any other report contained in this report represents the respective research organization's estimates and views and does not represent the views of RCM and RCM, its officers, employees do not accept any liability or responsibility whatsoever with respect to its accuracy or correctness and RCM has included such reports or made reference to such reports in good faith. This report may provide the addresses of, or contain hyperlinks to websites. Except to the extent to which the report refers to material on RCM's own website, RCM takes no responsibility whatsoever for the contents therein. Such addresses or hyperlinks (including addresses or hyperlinks to RCM's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this report. Accessing such website or following such link through this report or RCM's website shall be at your own risk.

## Special Disclosures (if applicable)

Not Applicable