

July 15, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs 1,125	Rs 1,300
EPS change FY11E/12E (%)	2.4/1.5
Target Price change (%)	2
Nifty	5,600
Sensex	18,618

Price Performance

(%)	1M	3M	6M	12M
Absolute	(5)	(7)	0	45
Rel. to Nifty	(7)	(2)	3	40

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	IT Services
Bloomberg	TCS@IN
Equity Capital (Rs mn)	1957
Face Value(Rs)	1
No of shares o/s (mn)	1957
52 Week H/L	1,247/763
Market Cap (Rs bn/USD mn)	2,202/49,457
Daily Avg Volume (No of sh)	374669
Daily Avg Turnover (US\$mn)	9.8

Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	74.1	74.1	74.0
FII/NRI	12.6	12.8	12.4
Institutions	8.1	7.9	8.1
Private Corp	0.6	0.7	0.6
Public	4.6	4.6	4.8

Source: Capitaline

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- Inline op performance with rev at US\$ 2,412 mn(+7.5% QoQ, est +6.2% QoQ) while mgns slipping by ~230 bps QoQ (V/s exp of ~200 bps). Profit beat driven by higher other income
- Broad based growth across verticals/services and geographies. 10 deal wins during the qtr and remains confident of growth citing large deal pipeline ahead.
- Op metrics performance rock solid yet again. Co remains confident of improving margins ahead and sees no significant supply side headwinds
- Raise FY12/13E EPS by ~2.4/1.5% respectively to Rs 52.5/62.6 driven primarily by higher other income assumptions. Retain ACCUMULATE with a revised March'12 TP of Rs 1,300

Continues to be on a song

TCS reported an inline op performance with a 7.5% rev growth to US\$ 2,412 mn (Est of ~6.2% QoQ) while mgns declined by ~230 bps QoQ to 28.1 % (est of ~200 bps) impacted largely by wage hikes implemented during the quarter (~250 bps hit). Profits at Rs 23.8 bn (flat QoQ, +28% YoY) came in ahead of est. (Rs 22.7 bn) helped by higher other income. Op metrics performance was solid with co reporting broad based growth across verticals (Hi Tech +15.4% QoQ, Telecom+14.3% QoQ, retail +11.3%, BFSI +5.8% QoQ), service lines as well as along geographies (US +6.5% QoQ, Continental Europe +7.5% QoQ, and UK +6.1% QoQ). While top 5/10 clients grew lower than co average for the 2nd quarter in a row at ~3.4/4.4%, non top 10 clients revenues grew by ~8% sequentially. We note that the company increased the number of US\$ 50 mn+ clients to 33 (V/s 27 as on March'11 end) and has a higher number of US\$ 50 mn+ clients V/s Infy for the 1st time since Dec'09 qtr.

Remains upbeat on demand despite the uncertain macro environment

Co mgmt remains upbeat about demand despite the uncertain macro environment as it indicated that it has won 10 large deals during the quarter (well spread across verticals/geographies) citing further about a well distributed large deal pipeline (4 large deals each across US/UK and Europe, 3 in Asia Pac). Co expects discretionary spending to pick up through FY12 and expects pricing upticks during FY12. Mgmt indicated that although visa rejection rates had increased over the year, it does not see any material negatives here. Co continues to retain a 60k gross hiring target for FY12 and expects to see uplift in margins ahead (confidence in running utilization ex trainees at 82-84% with pricing and revenue leverage being the primary levels ahead)

Tweak est. marginally, ACCUMULATE with an revised TP of Rs 1,300

We raise our FY12/13E earnings by ~2.4%/1.5% to Rs 52.5/62.6 driven by higher other income as we factor in higher interest yields and marginally higher US\$ revenue estimates. Retain ACCUMULATE with a revised March'12 TP of Rs 1,300. Expect stock to react positively given the weak expectations on the street ahead of results

Financials

Y/E March (in Rs mn)	Net Sales	EBITDA	EBITDA %	PAT	EPS (Rs)	ROE %	P/E(x) (x)	EV/ EBITDA	P/B (x)
FY10	300,289	86,843	28.9	70,255	35.9	38.2	31.3	25.2	10.5
FY11	373,245	111,987	30.0	87,166	44.5	37.6	25.3	19.5	8.7
FY12E	465,185	135,903	29.2	102,814	52.5	37.7	21.4	16.0	7.5
FY13E	558,611	161,848	29.0	122,610	62.6	37.5	18.0	13.2	6.1

Quarterly performance

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4 FY11	Q1 FY12	YoY (%)	QoQ (%)	YTD 12	YTD 11	YoY (%)
Revenues (US\$ Mn)	1,794	2,004	2,144	2,244	2,412	34.4	7.5	2,412	1,794	34.4
Revenue (INR Mn)	82,172	92,864	96,634	101,575	107,971	31.4	6.3	107,971	82,172	31.4
Operating Expenditure	58,018	65,091	67,456	70,693	77,660	33.9	9.9	77,660	58,018	33.9
Cost of revenues	44,129	49,956	51,500	53,784	58,791	33.2	9.3	58,791	44,129	33.2
as % of sales	53.7	53.8	53.3	53.0	54.5			54.5	53.7	
SG&A expenses	13,889	15,135	15,956	16,909	18,869	35.9	11.6	18,869	13,889	35.9
as % of sales	16.9	16.3	16.5	16.6	17.5			17.5	16.9	
EBITDA	24,154	27,773	29,178	30,882	30,311	25.5	(1.8)	30,311	24,154	25.5
Depreciation	1,575	1,660	1,856	2,123	2,049	30.1	(3.5)	2,049	1,575	30.1
EBIT	22,579	26,113	27,322	28,759	28,262	25.2	(1.7)	28,262	22,579	25.2
Other Income	820	443	1,822	2,239	2,886	252.0	28.9	2,886	820	
PBT	23,399	26,556	29,144	30,998	31,148	33.1	0.5	31,148	23,399	33.1
Total Tax	4,475	5,001	5,491	6,772	7,063	57.8	4.3	7,063	4,475	57.8
Adjusted PAT	18,924	21,555	23,653	24,226	24,085	27.3	(0.6)	24,085	18,924	27.3
(Profit)/loss from JV's/Ass/MI	-292	-295	-189	-415	-281			-281	-292	
APAT after MI	18,632	21,260	23,464	23,811	23,804	27.8	(0.0)	23,804	18,632	27.8
Extra ordinary items	0	0	0	0	0			0	0	
Reported PAT	18,632	21,260	23,464	23,811	23,804	27.8	(0.0)	23,804	18,632	27.8
Reported EPS	9.5	10.9	12.0	12.2	12.2	27.8	(0.0)	12.2	9.5	27.8

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	29.4	29.9	30.2	30.4	28.1	(132)	(233)	28.1	29.4	(132)
EBIT	27.5	28.1	28.3	28.3	26.2	(130)	(214)	26.2	27.5	(130)
EBT	28.5	28.6	30.2	30.5	28.8	37	(167)	28.8	28.5	37
PAT	22.7	22.9	24.3	23.4	22.0	(63)	(140)	22.0	22.7	(63)
Effective Tax rate	19.1	18.8	18.8	21.8	22.7	355.1	82.9	22.7	19.1	355

Source: Company, Emkay Research

	Dec'09	March'10	June'10	Sep'10	Dec'10	March'11	June'11
Rev gwth(YoY)(US\$ mn)							
Infosys	5.2	15.6	21.0	29.6	28.7	23.6	23.0
TCS	10.2	17.7	21.2	30.3	31.1	33.1	34.4
EBITDA gwth(YoY)							
Infosys	0.4	6.9	5.0	19.8	15.9	14.9	10.9
TCS	16.7	23.2	22.8	30.7	28.4	32.7	25.8
Profits gwth (YoY)							
Infosys	-3.5	0.2	-2.6	12.8	12.4	15.9	15.6
TCS	32.9	46.9	21.3	29.7	29.6	24.7	27.8

Source: Companies, Emkay Research

(All fig in Rs mn except EPS)	FY12E			FY13E		
	Old	New	% change	Old	New	% change
Revenues(US\$ mn)	10,251	10,350	1.0%	12,286	12,414	1.0%
Revenues	4,61,282	4,65,185	0.8%	5,52,858	5,58,611	1.0%
EBITDA	1,35,970	1,35,903	0.0%	1,60,163	1,61,848	1.1%
Net profits	1,00,386	1,02,814	2.4%	1,20,769	1,22,610	1.5%
EPS	51.3	52.5	2.4%	61.7	62.6	1.5%

Tweak FY12/13E earnings up marginally to Rs 52.5 and Rs 62.6 driven primarily by higher other income yield

Operating metrics performance at a glance

	Q1FY12 (% Contri to Rev)	% QoQ	% YoY
<u>Revenues by Geography</u>			
Americas	52.9	6.5	29.3
UK	15.3	6.1	36.2
Europe	9.9	7.5	49.6
India	9.3	13.6	42.1
Asia Pac	7.3	9.0	66.4
Ibero America	3.1	4.1	-3.1
MEA	2.2	18.2	47.9
<u>Revenue breakup by Domain</u>			
BFSI	43.3	5.8	30.2
Manufacturing	7.6	8.9	38.1
Telecom	11.7	14.3	23.9
Life Sciences & Healthcare	5.2	5.4	34.4
retail & Distribution	11.6	11.3	41.8
Transportation	3.7	2.0	60.5
Energy & Utilities	3.8	-11.2	54.8
Media and Entertainment	2.2	2.8	55.7
Hi Tech	5.8	15.4	69.5
Others	5.1	14.2	12.4
<u>Revenues Breakup by Service Line</u>			
App Development & Maintenance	46.2	7.7	29.7
Business Intelligence	4.9	7.5	22.0
Engg. & Industrial Solns	4.6	3.0	28.8
Infra Services	9.5	12.2	46.8
Enterprise Solns	10.8	7.5	48.2
Global Consulting	2.2	12.6	40.9
Asset Leveraged solns	3.6	7.5	30.8
Assurance Services	7.3	12.1	53.4
BPO	10.9	1.0	30.8
<u>Client Concentration</u>			
Top client, %	7.1	2.6	17.2
Top 5 clients, %	20.7	3.4	25.8
Top 10 clients, %	28.9	4.4	26.7
	Q1 FY12	Q4 FY11	Q1 FY11
<u>Revenues by Delivery (%)</u>			
Onsite	44.8	44.7	43.6
Offshore	50.6	50.3	51.2
GDC	4.6	5.0	5.2
<u>Revenues by Contract Type (%)</u>			
T & M	50.3	50.5	50.9
Fixed Price	49.7	49.5	49.1
<u>Attrition(LTM). %</u>			
	14.8	14.4	13.1

While US revenues grew by ~6.5% QoQ, UK and Europe performance was also solid as company indicated good traction in fin services, retail and manufacturing there

Hi Tech, Telecom and Retail reported double digit QoQ growth rates

IMS, Consulting led growth metrics across service lines

Non top 10 clients grew strongly by ~8% during the quarter

Financials

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Net Sales	300,289	373,245	465,185	558,611
Growth (%)	8	24	25	20
Total Expenditure	(213,446)	(261,258)	(329,282)	(396,763)
Growth (%)	3	22	26	20
EBIDTA	86,843	111,987	135,903	161,848
Growth (%)	21	29	21	19
EBIDTA %	28.9	30.0	29.2	29.0
Other Income	3,816	5,323	7,953	8,820
Depreciation	(7,291)	(7,214)	(8,687)	(9,897)
EBIT	83,368	110,096	135,169	160,771
Interest	-	-	-	-
EBT	83,368	110,096	135,169	160,771
Tax	(12,089)	(21,739)	(31,171)	(36,977)
EAT	70,255	87,166	102,814	122,610
Growth (%)	33	24	18	19
EAT (%)	23.4	23.4	22.1	21.9

Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Equity share capital	1,957	1,957	1,957	1,957
Reserves & surplus	208,447	252,087	290,317	359,216
Minority Interest	3,768	3,147	3,147	3,147
Networth	214,172	257,191	295,421	364,320
Secured Loans	2,307	3,824	3,824	3,824
Unsecured Loans	111	39	39	39
Loan Funds	2,418	3,862	3,862	3,862
Deferred Tax Liability	-	5,604	5,604	5,604
Total Liabilities	216,590	266,657	304,887	373,786
Goodwill	32,415	33,791	33,791	33,791
Gross Block	71,301	88,804	111,804	134,804
Less: Depreciation	29,594	36,808	45,495	55,392
Net block	74,121	85,787	100,100	113,203
Capital WIP	-	-	-	-
Investment	37,839	77,205	77,205	77,205
Current Assets	164,252	153,207	197,464	274,233
Inventories	178	-	-	-
Sundry debtors	70,109	95,505	117,252	140,801
Cash & bank balance	10,249	15,539	24,135	63,032
Loans & advances	21,089	27,121	35,685	42,852
Other current assets	62,628	15,042	20,392	27,548
Current Liab & Prov	59,623	61,226	81,567	102,540
Current liabilities	54,210	59,663	79,018	99,479
Provisions	5,413	1,563	2,549	3,061
Net current assets	104,629	91,981	115,897	171,693
Misc exps	-	-	-	-
Deferred Tax	-	11,684	11,684	11,684
Total Assets	216,590	266,657	304,887	373,785

Cash Flow	FY10	FY11	FY12E	FY13E
Net Profit after Tax	70,255	87,166	102,814	122,610
Add : Depreciation	7,291	7,214	8,687	9,897
Add : Misc exp w/off				
Net changes in WC	176	(1,603)	(20,340)	(20,973)
Operational Cash Flows	20,881	108,874	97,380	116,808
Capital expenditure	(6,705)	(20,255)	(23,000)	(23,000)
Investments	-	(39,365)	-	-
Investing Cash Flows	(6,705)	(59,621)	(23,000)	(23,000)
Borrowings	-	-	-	-
dividend paid	(45,795)	(45,795)	(50,374)	(50,374)
Issue of shares	4,216	(4,209)	-	-
Share Premium	44	-	-	-
Financing Cash Flows	(70,249)	(52,273)	(52,044)	(51,574)
changes in cash	(56,073)	(3,020)	22,336	42,234
Opening balance	26,981	10,249	15,539	24,135
Closing balance	10,249	15,539	24,135	63,032

Key ratios	FY10	FY11	FY12E	FY13E
EPS (Rs)	35.9	44.5	52.5	62.6
CEPS (Rs)	39.6	48.2	57.0	67.7
Book Value Per Share (Rs)	107.5	129.3	149.3	184.5
Dividend Per Share (Rs)	20.0	20.0	22.0	22.0
Valuations Ratios (x)				
PER	31.3	25.3	21.4	18.0
P/CEPS	30.0	24.7	20.9	17.6
P/BV	10.5	8.7	7.5	6.1
EV/EBIDTA	25.2	19.5	16.0	13.2
EV/Sales	7.3	5.9	4.7	3.8
M-Cap/sales	7.8	6.2	5.0	4.2
Profitability Ratios (%)				
RoCE	42.4	44.0	45.2	45.3
RoNW	38.2	37.6	37.7	37.5
EBITDA Margin	28.9	30.0	29.2	29.0
EBIT Margins	26.5	28.1	27.3	27.2
Net Profit Margin	23.4	23.4	22.1	21.9

Recommendation History: Tata Consultancy Services - TCS IN

Date	Reports	Reco	CMP	Target
21/04/2011	TCS Q4FY11 Result Update	Accumulate	1,192	1,275
18/01/2011	TCS Q3FY11 Result Update	Accumulate	1,139	1,275
22/12/2010	TCS Company Update	Accumulate	1,150	1,250
22/10/2010	TCS Q2FY11 Result Update	Accumulate	984	1,075

Recent Research Reports

Date	Reports	Reco	CMP	Target
12/07/2011	Infosys Q1FY12 Result Update	Accumulate	2,794	3,250
03/06/2011	Persistent Systems Initiating Coverage	Accumulate	386	450
27/05/2011	Mphasis Q2April'11 Result Update	Reduce	470	400
26/05/2011	Tech Mahindra Q4FY11 Result Update	Accumulate	659	730

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