

October 18, 2011

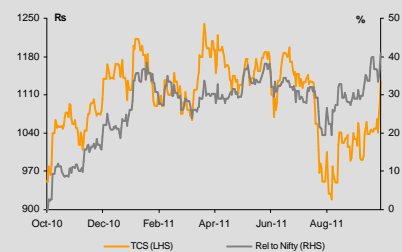
Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs. 1,120	Rs1,060
EPS change FY11E/12E (%)	4.2/8.9
Target Price change (%)	10.4
Nifty	5,118
Sensex	17,025

Price Performance

(%)	1M	3M	6M	12M
Absolute	9	(2)	(3)	18
Rel. to Nifty	8	6	9	39

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	1,247/903
Market Cap (Rs bn/USD mn)	2,192/44,784
Daily Avg Volume (No of sh)	2322326
Daily Avg Turnover (US\$m)	49.4

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	74.1	74.1	74.1
FII/NRI	12.8	12.6	12.8
Institutions	8.1	8.1	7.9
Private Corp	0.4	0.6	0.7
Public	4.6	4.6	4.6

Source: Capitaline

Manik Taneja

manik.taneja@emkayglobal.com

+91 22 6612 1253

Priya Gajwani

priya.gajwani@emkayglobal.com

+91 22 6612 1385

- **Sep'11 results marginally below estimates with rev at US\$ 2.5 bn (+4.7% QoQ), OPM's improving by ~100 bps (V/s est +130 bps). Pfts in line aided by lower than est hedging gains**
- **Seq vol growth strong at ~6.3%. Co wide rev growth impacted by ~7% decline in domestic business. Pricing declined 2nd quarter in a row despite mgmt expectations of stable/improving pricing**
- **Op metrics performance mixed. Broad based rev growth across geographies (ex India), verticals (ex Telecom). Top clients grow lower than co avg for the 3rd quarter in a row**
- **Lower currency resets drive a 4/9% raise in FY12/13E EPS to Rs 54.5/62.6. Retain HOLD, TP Rs 1060. See stock trading weak given heightened expectations in run up to results**

Operating performance tad below expectations

TCS's Sep'11 results failed to live up to street's expectations in our view (note that TCS has raised the bar higher with splendid performance over the past several quarters). Co wide rev increased by ~4.7% QoQ to US\$ 2,525 mn (impacted adversely by ~50 bps QoQ on a/c of cross currency movements | Emkay est of ~5.8% QoQ), mgns improved by a more modest ~100 bps QoQ to 29.1 % (V/s est of ~130 bps increase). Profits at Rs 24.4 bn (+2.5% QoQ) were tad lower than est. despite lower than guided hedging losses of ~Rs 910 mn. While seq vol growth was strong at ~6.3%, **pricing declined by ~100 bps QoQ (on the back of ~50 bps decline in June'11 qtr and needs to be weighed in the context of mgmt's expectations of improved pricing through FY12)**. Opmetrics performance mixed with growth broad based across geographies albeit India (-7% QoQ) and verticals (ex Telecom where rev declined by ~4% QoQ after the sharp jump in June'11 qtr). While **co. reported improvement in client metrics (increase in no of US\$ 50 mn+, 100mn+ client a/cs), we note that top 1/5/10 clients have grown lower than co average for the 3^d qtr in a row)**. Net hiring was decent at ~12,600 with utilization (ex trainees) remaining flat QoQ at 83.1%.

Management commentary remains confident

TCS's commentary remains confident with co indicating that it has not seen any delays in decision making within it's client roster with deal signings remaining on track. Mgmt indicated that it has won 10 deals with TCV's of US\$ 100 mn+ during Q2FY12 which are well spread across verticals and geographies and remains confident on stable pricing ahead (despite decline in average pricing for the past 2 quarters).

Lower currency resets drive 4/9% raise in FY12/13E EPS, HOLD, TP Rs 1060

Lower currency resets to Rs 48/\$ (V/s Rs 45/\$ earlier) for H2FY12/FY13 drive a 4/9% raise in our FY12/13E earnings to Rs 54.5/62.6. We retain HOLD with a revised March'13 TP of Rs 1060 (V/s Rs 960 earlier). Sep'11 quarter marks the 1st quarter of an in line/marginally lower than expected performance for TCS after a long streak of superlative performance through the last 8-10 quarters. We see stock trading weak given heightened expectations ahead of results Financials

Y/E	Net Sales	EBITDA	EBITDA %	PAT	EPS (Rs)	ROE %	P/E(x)	EV/ EBITDA	P/B (x)
FY10	300,289	86,843	28.9	70,255	35.9	38.2	29.2	23.5	9.8
FY11	373,245	111,987	30.0	87,166	44.5	37.6	23.5	18.2	8.1
FY12E	483,256	142,708	29.5	106,627	54.5	38.7	19.2	14.2	6.9
FY13E	579,523	166,039	28.7	122,519	62.6	38.0	16.8	12.1	5.9

Quarterly performance

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4 FY11	Q1 FY12	Q2FY12	YoY (%)	QoQ (%)	YTD 12	YTD 11	YoY (%)
Revenues (US\$ Mn)	1,794	2,004	2,144	2,244	2,412	2,525	26.0	4.7	4,937	3,798	30.0
Revenue (INR Mn)	82,172	92,864	96,634	101,575	107,971	116,335	25.3	7.7	224,306	175,036	28.1
Operating Expenditure	58,018	65,091	67,456	70,693	77,660	82,506	26.8	6.2	160,166	123,109	30.1
Cost of revenues	44,129	49,956	51,500	53,784	58,791	62,141	24.4	5.7	120,932	94,085	28.5
as % of sales	53.7	53.8	53.3	53.0	54.5	53.4			53.9	53.8	
SG&A expenses	13,889	15,135	15,956	16,909	18,869	20,365	34.6	7.9	39,234	29,024	35.2
as % of sales	16.9	16.3	16.5	16.6	17.5	17.5			17.5	16.6	
EBITDA	24,154	27,773	29,178	30,882	30,311	33,829	21.8	11.6	64,140	51,927	23.5
Depreciation	1,575	1,660	1,856	2,123	2,049	2,286	37.7	11.6	4,335	3,235	34.0
EBIT	22,579	26,113	27,322	28,759	28,262	31,543	20.8	11.6	59,805	48,692	22.8
Other Income	820	443	1,822	2,239	2,886	997	125.2	(65.5)	3,883	1,263	
PBT	23,399	26,556	29,144	30,998	31,148	32,540	22.5	4.5	63,688	49,955	27.5
Total Tax	4,475	5,001	5,491	6,772	7,063	7,913	58.2	12.0	14,976	9,476	58.0
Adjusted PAT	18,924	21,555	23,653	24,226	24,085	24,627	14.3	2.2	48,712	40,479	20.3
(Profit)/loss from JV's/Ass/MI	-292	-295	-189	-415	-281	-237			-518	-587	
APAT after MI	18,632	21,260	23,464	23,811	23,804	24,390	14.7	2.5	48,194	39,892	20.8
Extra ordinary items	0	0	0	0	0	0			0	0	
Reported PAT	18,632	21,260	23,464	23,811	23,804	24,390	14.7	2.5	48,194	39,892	20.8
Reported EPS	9.5	10.9	12.0	12.2	12.2	12.5	14.7	2.5	24.6	20.4	20.8

Margins (%)							(bps)	(bps)				(bps)
EBIDTA	29.4	29.9	30.2	30.4	28.1	29.1	(83)	101	28.6	29.4	(132)	
EBIT	27.5	28.1	28.3	28.3	26.2	27.1	(101)	94	26.7	27.5	(130)	
EBT	28.5	28.6	30.2	30.5	28.8	28.0	(63)	(88)	28.4	28.5	37	
PAT	22.7	22.9	24.3	23.4	22.0	21.0	(193)	(108)	21.5	22.7	(63)	
Effective Tax rate	19.1	18.8	18.8	21.8	22.7	24.3	548.6	164.2	23.5	19.1	355	

Source: Company, Emkay Research

FY12/13E earnings raised by ~4.2%/9% driven largely by lower currency resets to Rs 48/\$

(All fig in Rs mn except EPS)	FY12E			FY13E		
	Old	New	% change	Old	New	% change
Revenues(US\$ mn)	10,355	10,332	-0.2%	12,050	12,073	0.2%
Revenues	465,392	483,256	3.8%	542,258	579,523	6.9%
EBITDA	135,304	142,708	5.5%	146,380	166,039	13.4%
Net profits	102,353	106,627	4.2%	112,528	122,519	8.9%
EPS	52.3	54.5	4.2%	57.5	62.6	8.9%

Source: Companies, Emkay Research

Operating metrics performance at a glance

	Q2FY12 (% Contri to Rev)	% QoQ	% YoY
<u>Revenues by Geography</u>			
Americas	53.4	5.7	36.7
UK	15.5	6.1	44.5
Europe	10.1	6.8	59.7
India	8.3	-6.6	32.7
Asia Pac	7.5	7.6	78.9
Ibero America	3.0	1.3	-1.8
MEA	2.2	4.7	54.8
<u>Revenue breakup by Domain</u>			
BFSI	43.5	5.2	37.0
Manufacturing	7.8	7.4	48.4
Telecom	10.7	-4.3	18.6
Life Sciences & Healthcare	5.3	6.7	43.5
retail & Distribution	12.1	9.2	54.8
Transportation	3.8	7.5	72.5
Energy & Utilities	4.3	18.5	83.4
Media and Entertainment	2.1	-0.1	55.6
Hi Tech	5.9	6.5	80.5
Others	4.5	5.5	3.8
<u>Revenues Breakup by Service Line</u>			
App Development & Maintenance	44.7	1.3	31.3
Business Intelligence	4.7	0.4	22.5
Engg. & Industrial Solns	4.8	9.2	40.7
Infra Services	9.6	5.8	55.3
Enterprise Solns	11.1	7.6	59.4
Global Consulting	2.6	23.7	74.3
Asset Leveraged solns	4.0	16.3	52.2
Assurance Services	7.6	9.0	67.1
BPO	10.9	4.7	37.0
<u>Client Concentration</u>			
Top client, %	6.9	2.9	20.6
Top 5 clients, %	20.0	2.3	28.7
Top 10 clients, %	28.3	3.7	31.3
	Q2 FY12	Q1 FY12	Q2 FY11
<u>Revenues by Delivery (%)</u>			
Onsite	45.2	44.8	43.9
Offshore	50.9	50.6	51.1
GDC	3.9	4.6	5
<u>Revenues by Contract Type (%)</u>			
T & M	53.2	50.3	51
Fixed Price	46.8	49.7	49
<u>Attrition(LTM), %</u>			
	13.7	14.8	14.1

Revenue growth decent across international geographies except for Latin America

BFSI and Manufacturing reported higher than co average growth

ADM and BI revenue growth was lower than co average

Top 1/5/10 clients grew slower than co average for the 3rd quarter in a row

Financials

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Net Sales	300,289	373,245	483,256	579,523
Growth (%)	8	24	29	20
Total Expenditure	(213,446)	(261,258)	(340,549)	(413,484)
Growth (%)	3	22	30	21
EBIDTA	86,843	111,987	142,708	166,039
Growth (%)	21	29	27	16
EBIDTA %	28.9	30.0	29.5	28.7
Other Income	3,816	5,323	7,793	8,820
Depreciation	(7,291)	(7,214)	(9,029)	(9,900)
EBIT	83,368	110,096	141,471	164,958
Interest	-	-	-	-
EBT	83,368	110,096	141,471	164,958
Tax	(12,089)	(21,739)	(33,644)	(41,240)
EAT	70,255	87,166	106,627	122,519
Growth (%)	33	24	22	15
EAT (%)	23.4	23.4	22.1	21.1

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	295,343	346,194
Minority Interest	3,768	3,147	3,274	3,274
Networth	214,172	257,191	300,574	351,425
Secured Loans	2,307	3,824	3,955	3,955
Unsecured Loans	111	39	40	40
Loan Funds	2,418	3,862	3,995	3,995
DEFERRED TAX LIABILITY	-	5,604	6,220	6,220
Total Liabilities	216,590	266,657	310,789	361,640
Goodwill	32,415	33,791	33,845	33,845
Gross Block	71,301	88,804	111,804	134,804
Less: Depreciation	29,594	36,808	45,838	55,738
Net block	74,121	85,787	99,811	112,911
Capital WIP	-	-	-	-
Investment	37,839	77,205	79,395	79,395
Current Assets	164,252	153,207	203,378	262,771
Inventories	178	-	-	-
Sundry debtors	70,109	95,505	121,807	146,072
Cash & bank balance	10,249	15,539	23,315	43,664
Loans & advances	21,089	27,121	37,072	44,457
Other current assets	62,628	15,042	21,184	28,579
Current Liab & Prov	59,623	61,226	84,735	106,378
Current liabilities	54,210	59,663	82,087	103,203
Provisions	5,413	1,563	2,648	3,175
Net current assets	104,629	91,981	118,642	156,393
Misc exps	-	-	-	-
Deferred Tax	-	11,684	12,941	12,941
Total Assets	216,590	266,657	310,789	361,640

Cash Flow	FY10	FY11	FY12E	FY13E
Net Profit after Tax	70,255	87,166	106,627	122,519
Add : Depreciation	7,291	7,214	9,029	9,900
Add : Misc exp w/off				
Net changes in WC	176	(1,603)	(23,509)	(21,643)
Operational Cash Flows	20,881	108,874	97,464	116,217
Capital expenditure	(6,705)	(20,255)	(23,107)	(23,000)
Investments	-	(39,365)	(2,190)	-
Investing Cash Flows	(6,705)	(59,621)	(25,298)	(23,000)
Borrowings	-	-	-	-
dividend paid	(45,795)	(32,056)	(62,372)	(71,667)
Issue of shares	4,216	(4,209)	-	-
Share Premium	44	-	-	-
Financing Cash Flows	(70,249)	(38,535)	(63,915)	(72,867)
changes in cash	(56,073)	10,718	8,252	20,350
Opening balance	26,981	10,249	15,539	23,315
Closing balance	10,249	15,539	23,315	43,664

Key ratios	FY10	FY11	FY12E	FY13E
EPS (Rs)	35.9	44.5	54.5	62.6
CEPS (Rs)	39.6	48.2	59.1	67.7
Book Value Per Share (Rs)	107.5	129.3	151.9	177.9
Dividend Per Share (Rs)	20.0	14.0	27.2	31.3
Valuations Ratios (x)				
PER	29.2	23.5	19.2	16.8
P/CEPS	28.3	23.2	19.0	16.6
P/BV	9.8	8.1	6.9	5.9
EV/EBIDTA	23.5	18.2	14.2	12.1
EV/Sales	6.8	5.5	4.2	3.5
M-Cap/sales	7.3	5.9	4.5	3.8
Profitability Ratios (%)				
RoCE	42.4	44.0	47.0	47.0
RoNW	38.2	37.6	38.7	38.0
EBITDA Margin	28.9	30.0	29.5	28.7
EBIT Margins	26.5	28.1	27.7	26.9
Net Profit Margin	23.4	23.4	22.1	21.1

Recommendation History: Tata Consultancy Services - TCS IN

Date	Reports	Reco	CMP	Target
15/07/2011	TCS Q1FY12 Result Update	Accumulate	1,125	1,300
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

Recent Research Reports

Date	Reports	Reco	CMP	Target
12/10/2011	Infosys Q2FY12 Result Update	Accumulate	2,681	2,800
11/10/2011	Mindtree Ltd Initiating Coverage	Accumulate	341	415
08/09/2011	IT Services Sector Update			
25/08/2011	Mphasis July'11 Result Update	Reduce	396	325

Emkay Global Financial Services Ltd.

Corporate Add: B – Ruby Mills Tower, 7th Floor, South East Wing, Senapati Bapat Marg, Dadar (W), Mumbai - 400028 India.

Tel.: +912266121212 Web: www.emkayglobal.com

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.