

OCTOBER 18, 2011

BUY

MEDIUM RISK

PRICE Rs.1034

TARGET Rs.1290

## TECHNOLOGY

### EARLIER RECO

#### ACCUMULATE

Price	Rs.1123
Target	Rs.1290
Date	July 18, 2011

### SHARE HOLDING (%)

Promoters	74.1
FII	12.8
FI / MF	8.1
Body Corporate	0.4
Public & Others	4.6

### STOCK DATA

Reuters Code	TCS.BO
Bloomberg Code	TCS@IN
BSE Code	532540
NSE Symbol	TCS
Market Capitalization*	Rs.2023.7 bn / US\$ 41.2 bn
Shares Outstanding*	1957.2 mn
52 Weeks (H/L)	Rs.1247 / 903
Avg. Daily Volume (6m)	217,492 Shares

#### Price Performance (%)

1M	3M	6M
-	(8)	(10)

200 Days EMA: Rs.1065

\*On fully diluted equity shares

Part of  Classic



### 6.2% QoQ volume growth - Strong Results on the back of a 7.4% Q1 volume growth

During Q2FY12, TCS continued its growth momentum & delivered a strong growth in Revenues, driven by 6.2% QoQ volume growth. Its Consolidated Revenues during Q2FY12 grew by 7.7% QoQ & 25.3% YoY to Rs. 116,335 mn, ahead of our expectations. However, its Revenues in USD terms grew at 4.7% QoQ & 26% YoY growth. TCS witnessed strong growth in international biz., which grew at 9.0% QoQ & 27.5% YoY. Its Revenues grew in the range of 9-12% QoQ in most of industry verticals except for Telecom, which fell 1.7% QoQ. The company signed 10 large deals including two USD 100+ mn deals during the quarter. The deal pipeline is also looking very strong and TCS is currently chasing about 10 large deals. Despite the current growth concern in US and debt crisis in European region, TCS is optimistic about demand environment and has not seen any cancellation of projects or budget cuts from its clients. Though pricing dipped 90 bps due to change in business mix in Q2FY12, TCS expects pricing to remain stable during H2FY12.

### EBITDA Margins improve 100 bps on weakening of Rupee against USD

Its EBITDA for Q2FY12 grew by 11.6% QoQ & 21.8% YoY to Rs. 33,829 mn, while EBITDA margins improved by 100 bps QoQ to 29.1%, mainly due to (+) impact of 166 bps on currency fluctuation, 10 bps on SG&A efficiency & bad debts provisioning, and 4 bps on offshore shift, which was partially mitigated by (-) impact of 73 bps on rate productivity. Its other income during Q2FY12 declined sharply by 65.5% QoQ & 125.1% YoY to Rs. 997 mn, mainly due to Rs. 910 forex loss on its hedging position & reduced income from its cash position (after dividend payout). Hence, its APAT for Q2FY12 grew by just 2.5% QoQ & 14.7% YoY to Rs. 24,390 mn. The company expects its EBITDA margins to be maintained at current level (by maintaining utilization above 82%).

### Decent growth along with large deal wins across business verticals

During Q2FY12, TCS witnessed decent growth across industries (except Telecom) led by Energy & utilities, Retail, Manufacturing, Hi-tech, Healthcare & BFSI. The company also delivered strong growth in US, UK, MEA, Asia pacific & continental Europe, while its domestic market witnessed 4.3% QoQ drop in Revenues (mainly due to delay in closing of some projects). However, the business environment remained strong during Q2FY12 and TCS signed 10 large deals across the geographies and business verticals. The current deal pipeline also looks healthy as TCS is currently chasing about 10 large deals. The Company expects pricing to remain stable and its existing customers indicated their IT budget to be flat or positive for next year. TCS has plans to continue its investment in its people capability to prepare itself for prospective contracts. Going forward, with strong deal pipeline, stable pricing environment, TCS expects FY12 to be a good year with strong Revenues growth and sustained margins.

### Hiring on track and target for FY12 maintained

TCS's has maintained its hiring target for FY12 at 60,000 people and hired 20,349 people (net addition of 12,580) during Q2FY12 (including 8,125 laterals), taking its total employee strength to 214,770 on consolidated basis. TCS has made 35,000 campus offers for next year to support its future business growth, in line with the demand. During the quarter, the utilization rate was 83.1% (excluding trainees) and 76.4% (including trainees), which is within its target level of 83-84% utilization (excluding trainees). Its aggressive hiring plans for FY12 & fresh offers for FY13 indicate that long term outlook & demand environment for IT industry to remain strong.

### OUTLOOK & VALUATION

Considering its Q2FY12 performance and strong rupee depreciation, we have slightly increased our FY12E & FY13E Revenues estimates, while have largely maintained our FY12E & FY13E earnings estimates. We now expect its FY12E & FY13E Revenues to grow by 26.9% & 15% to Rs.473.5 bn & Rs.544.5 bn respectively, while expect its APAT to increase by 16.2% & 13.5% to Rs. 101 bn & Rs. 114.6 bn in FY12E & FY13E respectively. The CMP of Rs.1,034 discounts its FY12E & FY13E Earnings of Rs. 51.6 & Rs. 58.6 by 20.0x & 17.7x respectively. We change our rating on the stock to "BUY" from "Accumulate" with a price target of Rs. 1,290.

### KEY FINANCIALS (Consolidated)

Y/E	Revenue (Rs mn)	APAT (Rs mn)	AEPS (Rs)	AEPS (% Ch.)	P/E (x)	ROCE (%)	ROE (%)	P/BV (x)
Mar.								
FY11	373,245	86,906	44.4	26.1	23.3	35.2	38.2	8.0
FY12E	473,495	100,998	51.6	16.2	20.0	33.6	36.2	6.5
FY13E	544,519	114,610	58.6	13.5	17.7	30.9	33.4	5.3

#### ANALYST

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**QUARTERLY RESULTS (Consolidated)**

(Rs.mn)

Y/E March	Q2FY11	Q1FY12	Q2FY12
<b>Total Revenue</b>	<b>92,864</b>	<b>107,970</b>	<b>116,335</b>
% Ch. QoQ	13.0	6.3	7.7
Soft. Dev. Exp.	49,956	58,791	62,141
% Ch. QoQ	13.2	9.3	5.7
<b>Gross Profit</b>	<b>42,908</b>	<b>49,179</b>	<b>54,194</b>
% Ch. QoQ	12.8	2.9	10.2
% of STO	46.2	45.5	46.6
<b>SG&amp;A Expenditure</b>	<b>15,133</b>	<b>18,869</b>	<b>20,365</b>
% Ch. QoQ	9.0	11.6	7.9
<b>EBITDA</b>	<b>27,775</b>	<b>30,310</b>	<b>33,829</b>
% Ch. QoQ	15.0	(1.8)	11.6
% of STO	29.9	28.1	29.1
Depreciation	1,660	2,049	2,286
% Ch. QoQ	5.4	(3.5)	11.6
Other Income	443	2,886	997
% Ch. QoQ	(46.0)	28.9	(65.5)
<b>EBTA incl. OI</b>	<b>26,558</b>	<b>31,147</b>	<b>32,540</b>
% Ch. QoQ	13.5	0.5	4.5
Tax	5,001	7,063	7,913
% of PBT	18.8	22.7	24.3
<b>PAT before Min. Int.</b>	<b>21,557</b>	<b>24,084</b>	<b>24,627</b>
% Ch. QoQ	13.9	(0.6)	2.3
Minority Interest	(294.0)	(281.0)	(237.0)
<b>APAT</b>	<b>21,263</b>	<b>23,803</b>	<b>24,390</b>
% Ch. QoQ	14.1	(0.0)	2.5
% of STO	22.9	22.0	21.0

**PROFIT & LOSS (Consolidated) #**

(Rs.mn)

Y/E March	FY10	FY11	FY12E	FY13E
<b>Total Revenue</b>	<b>300,289</b>	<b>373,245</b>	<b>473,495</b>	<b>544,519</b>
Soft. Dev. Exp.	157,161	199,270	254,760	294,585
% Ch. YoY	1.8	26.8	27.8	15.6
<b>Gross Profit</b>	<b>143,128</b>	<b>173,975</b>	<b>218,735</b>	<b>249,934</b>
% Ch. YoY	12.4	21.6	25.7	14.3
% of STO	47.7	46.6	46.2	45.9
<b>SG&amp;M Exp.</b>	<b>55,480</b>	<b>61,850</b>	<b>81,977</b>	<b>92,634</b>
% Ch. YoY	(3.0)	11.5	32.5	13.0
% of STO	18.5	16.6	17.3	17.0
R&D Exp.	850.0	248.0	0.0	0.0
<b>EBITDA</b>	<b>86,798</b>	<b>111,877</b>	<b>136,758</b>	<b>157,300</b>
% Ch. YoY	20.9	28.9	22.2	15.0
% of STO	28.9	30.0	28.9	28.9
Depreciation	7,207	7,400	9,030	10,159
% of STO	2.4	2.0	1.9	1.9
Other Income	2,245	5,319	5,914	7,393
% Ch. YoY	148.0	136.9	11.2	25.0
% of STO	0.7	1.4	1.2	1.4
<b>EBTA incl. OI</b>	<b>81,836</b>	<b>109,796</b>	<b>133,642</b>	<b>154,534</b>
% Ch. YoY	33.4	34.2	21.7	15.6
% of STO	27.3	29.4	28.2	28.4
Tax	12,202	21,633	31,415	38,633
% of PBT	14.9	19.7	23.5	25.0
<b>Net Profits</b>	<b>69,634</b>	<b>88,163</b>	<b>102,226</b>	<b>115,900</b>
% Ch. YoY	33.1	26.6	16.0	13.4
Minority Interest	(739.0)	(1,257.0)	(1,228.9)	(1,290.3)
<b>APAT</b>	<b>68,895</b>	<b>86,906</b>	<b>100,998</b>	<b>114,610</b>
% of STO	22.9	23.3	21.3	21.0

**BALANCE SHEET (Consolidated)**

(Rs.mn)

As on 31 <sup>st</sup> March	FY10	FY11	FY12E	FY13E
Equity Share Capital	1,957	1,957	1,957	1,957
Reserves & Surplus	207,447	250,432	310,211	379,023
<b>Net worth</b>	<b>209,404</b>	<b>252,389</b>	<b>312,168</b>	<b>380,980</b>
Minority Interest	3,768	4,663	<b>5,892</b>	<b>7,182</b>
Total Debt	3,418	3,540	3,717	3,903
<b>Capital Employed</b>	<b>216,590</b>	<b>260,593</b>	<b>321,777</b>	<b>392,065</b>
Net Block	32,612	42,791	<b>53,226</b>	<b>64,480</b>
Capital WIP	9,095	9,549	9,500	9,500
<b>Fixed Assets</b>	<b>41,706</b>	<b>52,340</b>	<b>62,726</b>	<b>73,980</b>
Goodwill (On Cons.)	25,333	25,472	<b>25,472</b>	<b>25,472</b>
<b>Intangible Assets</b>	<b>7,082</b>	<b>6,982</b>	<b>6,633</b>	<b>6,302</b>
Investments	37,839	18,390	18,390	18,390
Sundry Debtors	58,098	81,990	106,374	122,330
Cash & Bank Bal	10,249	15,078	31,677	65,242
Unbilled Revenues	12,011	13,489	14,838	16,322
Other Current Assets	57,791	61,391	80,267	92,814
Other Assets	19,371	46,796	53,815	61,888
<b>Current Assets</b>	<b>157,520</b>	<b>218,744</b>	<b>286,972</b>	<b>358,596</b>
Current Liab. & Prov.	52,891	61,336	<b>78,416</b>	<b>90,674</b>
<b>Net Current Assets</b>	<b>104,629</b>	<b>157,408</b>	<b>208,556</b>	<b>267,922</b>
<b>Total Assets</b>	<b>216,590</b>	<b>260,593</b>	<b>321,777</b>	<b>392,065</b>

Source: Company, Sushil Finance Research Estimates

**FINANCIAL RATIOS (Consolidated)**

Y/E March	FY10	FY11	FY12E	FY13E
<b>Growth (%)</b>				
Net Sales	8.0	24.3	26.9	15.0
APAT	33.2	26.1	16.2	13.5
EBITDA	20.9	28.9	22.2	15.0
<b>Profitability (%)</b>				
EBITDA Margin	28.9	30.0	28.9	28.9
Adj. PAT Margin	23.2	23.6	21.6	21.3
ROCE	35.3	35.2	33.6	30.9
ROE	38.1	38.2	36.2	33.4
<b>Per Share Data (Rs.)</b>				
Adj. EPS	35.2	44.4	51.6	58.6
Adj. CEPS	38.9	48.2	56.2	63.7
BVPS	107.0	129.0	159.5	194.7
<b>Valuations (X)</b>				
PER	29.4	23.3	20.0	17.7
PEG	(0.9)	0.9	1.2	1.3
P/BV	9.7	8.0	6.5	5.3
EV / EBITDA	22.8	17.8	14.5	12.4
EV / Net sales	6.6	5.3	4.2	3.6
Dividend Yield (%)	1.9	1.4	1.7	1.9
<b>Turnover Days</b>				
Debtors days	71	80	82	82
Creditors days	123	112	112	112

# Consolidated numbers are based on US GAAP/IFRS

## Rating Scale

This is a guide to the rating system used by our Institutional Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

### Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	High predictability / Low volatility
Medium Risk	Moderate predictability / volatility
High Risk	Low predictability / High volatility

### Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	Over 15 %	Over 20%	Over 25%
Accumulate	10 % to 15 %	15% to 20%	20% to 25%
Hold	0% to 10 %	0% to 15%	0% to 20%
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

#### Please Note

- Recommendations with "Neutral" Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).
- \*\* Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.
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