

October 22, 2012

Shashi Bhusan
shashibhusan@plindia.com
+91-22-66322300

Pratik Shah
pratikshah@plindia.com
+91-22-66322256

Rating	Accumulate
Price	Rs1,290
Target Price	Rs1,450
Implied Upside	12.4%
Sensex	18,682
Nifty	5,684

(Prices as on October 19, 2012)

Trading data

Market Cap. (Rs bn)	2,524.2
Shares o/s (m)	1,957.2
3M Avg. Daily value (Rs m)	1809.2

Major shareholders

Promoters	73.98%
Foreign	14.63%
Domestic Inst.	6.71%
Public & Other	4.68%

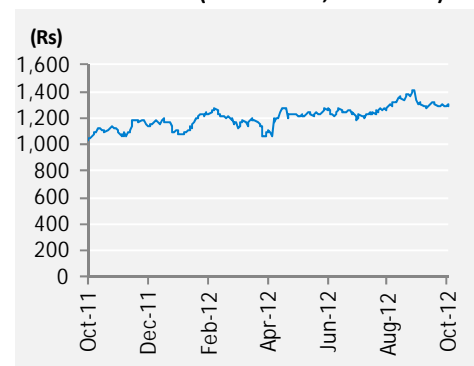
Stock Performance

(%)	1M	6M	12M
Absolute	(0.8)	17.7	23.7
Relative	(1.8)	11.0	14.4

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	71.4	69.2	3.1
2014	79.9	76.1	5.0

Price Performance (RIC: TCS.BO, BB: TCS IN)



Source: Bloomberg

Tata Consultancy Services (TCS) reported Q2FY13 results in line with PLe/consensus expectation. Revenue was touch ahead, whereas margin was softer than expectation. The management continues to remain upbeat on the clients' behaviour and no delay in discretionary spend. We retain our **'Accumulate'** rating, with a revised target price of **Rs1,450 (from Rs1,360)**.

- In-line operational performance:** TCS reported Q2FY13 results in-line with PLe/consensus expectation. Revenue grew by 5.1% QoQ to Rs156.21bn (PLe: Rs156.33bn; Cons: Rs146.41bn) and 4.6% QoQ in USD terms, led by better-than-expected volume growth of 5% QoQ (PLe: 4.5%). EBIT margins eroded by 75bps (PLe: -40bps, Cons: -20bps) to 26.8%. EPS grew by 7.1% QoQ to Rs17.95 (PLe: Rs16.90, Cons: Rs16.99).
- Fresher hiring – Does it indicate growth moderation ahead?** TCS has guided for fresher hiring of ~25k for FY14. The hiring number is softer compared to FY13 (~35k) and FY12 (~24k). According to the management, the fresher hiring number is not an indication of weakness in demand. The company is looking to hire onsite and at other delivery centres (like Latin America) as well. The management was confident of hiring from off campus. However, we see moderation in hiring as an early indication of moderated growth expectation for TCS.
- Margin levers stretched:** Operating margin of TCS has eased off by ~250bps over the last three quarters despite ~9% currency depreciation. We continue to see margin headwinds for the company as fresher come on board, project starts to ramp-up (increase in onsite) and there is an increase in subcontracting costs. The management indicated that depreciated currency has encouraged them to bid for few deals. We expect appreciating currency to slowdown bid/win rate and low margin project ramp-ups to erode the margin if currency appreciates.
- Valuation & Recommendation:** The current price factors in strong performance by TCS. We see revenue momentum to decelerate and margin to cool-off in H2FY13. We tweak our model; hence, revise our target price to Rs1,450 (from Rs1,360), 18x FY14E earnings estimate.

Key financials (Y/e March)	2011	2012	2013E	2014E
Revenues (Rs m)	373,245	488,938	629,467	704,834
Growth (%)	24.3	31.0	28.7	12.0
EBITDA (Rs m)	111,984	144,176	178,881	198,814
PAT (Rs m)	91,395	106,441	139,665	156,352
EPS (Rs)	46.7	54.4	71.4	79.9
Growth (%)	39.3	16.5	31.2	11.9
Net DPS (Rs)	23.3	19.8	25.0	28.0

Profitability & Valuation	2011	2012	2013E	2014E
EBITDA margin (%)	30.0	29.5	28.4	28.2
RoE (%)	39.4	36.7	37.6	33.4
RoCE (%)	38.6	35.1	37.6	33.9
EV / sales (x)	6.6	5.0	3.9	3.4
EV / EBITDA (x)	22.1	17.1	13.6	12.0
PE (x)	27.6	23.7	18.1	16.1
P / BV (x)	9.9	7.8	6.1	4.9
Net dividend yield (%)	1.8	1.5	1.9	2.2

Source: Company Data; PL Research

Exhibit 1: Q2FY13 Result Overview - Another quarter of in-line operational performance

	Q2FY13	Q1FY13	QoQ	Q2FY12	YoY	PLe	Cons.	PL v/s Act
Consolidated Sales (USD m)	2,853	2,728	4.6%	2,525	13.0%	2,837.1	na	0.6%
Consolidated Sales (Rs m)	156,208	148,687	5.1%	116,335	34.3%	156,325	156,405	-0.1%
Operating Profit (Rs m)	41,789.3	40,897	2.2%	31,543	32.5%	42,364	42,696	-1.4%
<i>OPM</i>	<i>26.8%</i>	<i>27.5%</i>	<i>-75 bps</i>	<i>27.1%</i>	<i>-36 bps</i>	<i>27.1%</i>	<i>27.3%</i>	<i>-35 bps</i>
PBT	44,891.8	42,651	5.3%	32,540	38.0%	43,464	45,842	3.3%
PAT (Rs m)	35,395.5	32,806	7.9%	24,390	45.1%	33,067	33,570	7.0%
<i>PAT Margin</i>	<i>22.7%</i>	<i>22.1%</i>	<i>60 bps</i>	<i>21.0%</i>	<i>169 bps</i>	<i>21.2%</i>	<i>21.7%</i>	<i>151 bps</i>
EPS (Rs)	17.95	16.76	7.1%	12.46	44.0%	16.90	16.99	6.2%

Source: Company Data, Bloomberg, PL Research

Exhibit 2: Margin Drivers (QoQ)

Currency	-12bps
Rate Productivity	-22bps
SG&A efficiency	+9bps
Onsite Shift	-50bp
Total	-76bp

Source: Company Data, PL Research

Exhibit 3: Growth Drivers (QoQ)

Volume Growth	+4.95%
Realization	-0.49%
Currency	+0.22%
Onsite Shift	+0.38%
Total	+5.1%

Source: Company Data, PL Research

Conference call highlights

1) Other income (% of revenue): 1.99% (Q1FY13: 1.17%) **2)** 11 large deals: 3 BFS, 1 Insurance, 2 Telecoms, 2 Retails, 1 Manufacturing, 1 Government and 1 Utilities **3)** No delay in budget **4)** Pricing environment stable **5)** Discretionary spend growing up but in form of small deals **6)** Continues to expect utilization in 81-83% range **7)** Already made 12k campus offers for FY14.

Exhibit 4: Revising our estimates for FY13 & FY14 upwards

	NEW		OLD		REVISION	
	FY13	FY14	FY13	FY14	FY13	FY14
Revenue	629,467	704,834	583,815.0	658,494.2	7.8%	7.0%
EBIT	167,554	185,786	161,894.4	182,237.3	3.5%	1.9%
<i>EBIT Margin</i>	<i>26.6%</i>	<i>26.4%</i>	<i>27.0%</i>	<i>26.6%</i>	<i>-38 bps</i>	<i>-27 bps</i>
EPS	71.36	79.89	66.60	75.38	7.2%	6.0%
Target Multiple	18		18		0.0%	
Target Price	1,450		1,360		6.6%	

Source: Company Data, PL Research

Exhibit 5: Steady growth across geographies except India that continues to be lumpy

Revenue By Geography (USD m)	Q2FY13	Q1FY13	QoQ	Q2FY12	YoY
America	1,603	1,550	3.5%	1,424	12.6%
North America	1,506	1,459	3.2%	1,348	11.7%
Ibero America	97	90	7.8%	76	28.1%
Europe	759	726	4.6%	646	17.4%
UK	488	464	5.2%	391	24.7%
Continental Europe	271	262	3.5%	255	6.3%
India	214	194	10.5%	210	2.1%
Asia Pacific	217	202	7.4%	189	14.5%
MEA	60	57	4.6%	56	7.9%
% of Total					
America	56.2%	56.8%	-60 bps	56.4%	-20 bps
North America	52.8%	53.5%	-70 bps	53.4%	-60 bps
Ibero America	3.4%	3.3%	10 bps	3.0%	40 bps
Europe	26.6%	26.6%	0 bps	25.6%	100 bps
UK	17.1%	17.0%	10 bps	15.5%	160 bps
Continental Europe	9.5%	9.6%	-10 bps	10.1%	-60 bps
India	7.5%	7.1%	40 bps	8.3%	-80 bps
Asia Pacific	7.6%	7.4%	20 bps	7.5%	10 bps
MEA	2.1%	2.1%	0 bps	2.2%	-10 bps

Source: Company Data, PL Research

Exhibit 6: FPP remains stable after declining in H1FY12

Contract Type Analysis (USD m)	Q2FY13	Q1FY13	QoQ	Q2FY12	YoY
Time & Material	1,518	1,451	4.6%	1,343	13.0%
Fixed Price & Project	1,335	1,277	4.6%	1,182	13.0%
% of Revenue					
Time & Material	53.2%	53.2%	0 bps	53.2%	0 bps
Fixed Price & Project	46.8%	46.8%	0 bps	46.8%	0 bps

Source: Company Data, PL Research

Exhibit 7: Net client addition steady, client attrition continues

	Q2FY13	Q1FY13	QoQ	Q2FY12	YoY
Active Clients	1041	1032	0.9%	1010	3.1%
New Clients Added	41	29	41.4%	35	17.1%
Repeat Business Revenue	99.0%	99.7%	-70 bps	99.3%	-30 bps
New Business Revenue	1.0%	0.3%	70 bps	0.7%	30 bps

Source: Company Data, PL Research

Exhibit 8: Manufacturing and Retail strong

Revenue By Verticals (USD m)	Q2FY13	Q1FY13	QoQ	Q2FY12	YoY
BFSI	1,221	1,173	4.1%	1,098	11.2%
Telecom	294	281	4.6%	270	8.8%
Retail & Distribution	382	360	6.2%	306	25.1%
Manufacturing	234	216	8.6%	197	18.8%
Life Sciences & Healthcare	148	145	2.6%	134	10.9%
Hi-tech	168	164	2.8%	149	13.0%
Transportation	103	101	1.8%	96	7.0%
Energy & Utilities	103	98	4.6%	109	-5.4%
Media & Entertainment	63	60	4.6%	53	18.4%
Others	137	131	4.6%	114	20.5%
% of Total					
BFSI	42.8%	43.0%	-20 bps	43.5%	-70 bps
Telecom	10.3%	10.3%	0 bps	10.7%	-40 bps
Retail & Distribution	13.4%	13.2%	20 bps	12.1%	130 bps
Manufacturing	8.2%	7.9%	30 bps	7.8%	40 bps
Life Sciences & Healthcare	5.2%	5.3%	-10 bps	5.3%	-10 bps
Hi-Tech	5.9%	6.0%	-10 bps	5.9%	0 bps
Transportation	3.6%	3.7%	-10 bps	3.8%	-20 bps
Energy & Utilities	3.6%	3.6%	0 bps	4.3%	-70 bps
Media & Entertainment	2.2%	2.2%	0 bps	2.1%	10 bps
Others	4.8%	4.8%	0 bps	4.5%	30 bps

Source: Company Data, PL Research

Exhibit 9: Onsite offshore mix remain stable – Onsite uptick for project ramp-up in UK

Revenue Delivery Location (USD m)	Q2FY13	Q1FY13	QoQ	Q2FY12	YoY
Offshore	1,401	1,378	1.7%	1,285	9.0%
Onsite	1,307	1,219	7.2%	1,141	14.5%
GDC/RDC	146	131	11.1%	98	47.8%
% of Revenue					
Offshore	49.1%	50.5%	-140 bps	50.9%	-180 bps
Onsite	45.8%	44.7%	110 bps	45.2%	60 bps
GDC/RDC	5.1%	4.8%	30 bps	3.9%	120 bps

Source: Company Data, PL Research

Exhibit 10: Growth coming from all the clients bucket although weak in top-6-10

Total Revenue (USD m)	Q2FY13	Q1FY13	QoQ	Q2FY12	YoY
Top 1 Client	185	183	1.5%	174	6.4%
Top 2-5 Clients	340	330	2.9%	331	2.6%
Top 5 Clients	525	513	2.4%	505	4.0%
Top 6-10 Clients	205	210	-2.2%	210	-2.0%
Top 10 Clients	730	723	1.0%	715	2.2%
Non Top 10 Clients	2,123	2,005	5.9%	1,810	17.2%
as % of Revenue					
Top 1 Client	6.5%	6.7%	-20 bps	6.9%	-40 bps
Top 5 Clients	18.4%	18.8%	-40 bps	20.0%	-160 bps
Top 10 Clients	25.6%	26.5%	-90 bps	28.3%	-270 bps
Non-Top 10 Clients	74.4%	73.5%	90 bps	71.7%	270 bps
USD 1m clients	538	527	2.1%	495	8.7%
USD 5m clients	269	259	3.9%	230	17.0%
USD 10m clients	182	175	4.0%	155	17.4%
USD 20m clients	108	105	2.9%	94	14.9%
USD 50m clients	45	46	-2.2%	36	25.0%
USD 100m clients	14	14	0.0%	12	16.7%

Source: Company Data, PL Research

Exhibit 11: FY14 fresher hiring guidance of 25k

Headcount	Q2FY13	Q1FY13	QoQ	Q2FY12	YoY
Including Indian Subsidiaries	254,076	243,545	4.3%	214,770	18.3%
Gross Addition (India)	18,654	13,831	34.9%	20,349	-8.3%
Laterals (India)	5,764	7,041	-18.1%	8,125	-29.1%
Net Addition	10,531	4,962	112.2%	12,580	-16.3%
Attrition rate	10.2%	10.9%	-70 bps	12.5%	-231 bps
Offshore Utilisation (Incl. Trainees)	72.8%	72.3%	50 bps	76.4%	-360 bps
Offshore Utilisation (Excl. Trainees)	81.6%	81.3%	30 bps	83.1%	-150 bps

Source: Company Data, PL Research

Exhibit 12: Steady growth across the service line

By Service Line (USD m)	Q2FY13	Q1FY13	QoQ	Q2FY12	YoY
IT Solutions & Services	1,874	1,806	3.8%	1,439	30.2%
Application Dev & Maint.	1,230	1,184	3.9%	1,129	8.9%
Enterprise Solutions	425	415	2.5%	119	258.2%
Assurance Services	220	207	6.0%	192	14.5%
Engineering & Industrial Services	131	125	4.6%	121	8.3%
Infrastructure Services	325	289	12.5%	242	34.2%
Global Consulting	86	76	12.1%	66	30.4%
Asset Leverage Solutions	77	76	0.8%	101	-23.7%
Business Process Outsourcing	359	355	1.4%	275	30.6%
% of Total Revenue					
IT Solutions & Services	65.7%	66.2%	-50 bps	57.0%	870 bps
Application Dev & Maint.	43.1%	43.4%	-30 bps	44.7%	-160 bps
Enterprise Solutions	14.9%	15.2%	-30 bps	4.7%	1020 bps
Assurance Services	7.7%	7.6%	10 bps	7.6%	10 bps
Engineering & Industrial Services	4.6%	4.6%	0 bps	4.8%	-20 bps
Infrastructure Services	11.4%	10.6%	80 bps	9.6%	180 bps
Global Consulting	3.0%	2.8%	20 bps	2.6%	40 bps
Asset Leverage Solutions	2.7%	2.8%	-10 bps	4.0%	-130 bps
Business Process Outsourcing	12.6%	13.0%	-40 bps	10.9%	170 bps

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2011	2012	2013E	2014E
Net Revenue	373,245	488,938	629,467	704,834
Raw Material Expenses	204,296	264,580	358,421	400,478
Gross Profit	168,949	224,358	271,046	304,357
Employee Cost	—	—	—	—
Other Expenses	56,965	80,182	92,165	105,542
EBITDA	111,984	144,176	178,881	198,814
Depr. & Amortization	7,214	9,035	11,327	13,029
Net Interest	(4,229)	—	(9,206)	(12,091)
Other Income	9,553	4,041	10,756	13,859
Profit before Tax	114,324	139,181	178,310	199,645
Total Tax	21,739	31,688	37,445	41,925
Profit after Tax	92,585	107,493	140,865	157,720
Ex-Od items / Min. Int.	(1,190)	(1,052)	(1,200)	(1,367)
Adj. PAT	91,395	106,441	139,665	156,352
Avg. Shares O/S (m)	1,957.2	1,957.2	1,957.2	1,957.2
EPS (Rs.)	46.7	54.4	71.4	79.9

Cash Flow Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
C/F from Operations	69,148	75,440	105,529	131,852
C/F from Investing	(18,663)	(29,498)	(26,438)	(29,603)
C/F from Financing	(13,384)	(1,602)	(48,930)	(54,802)
Inc. / Dec. in Cash	37,101	44,341	30,162	47,448
Opening Cash	10,249	15,538	59,878	90,040
Closing Cash	47,350	59,878	90,040	137,488
FCFF	60,567	57,921	77,892	100,882
FCFE	60,836	58,694	77,892	100,882

Key Financial Metrics

Y/e March	2011	2012	2013E	2014E
Growth				
Revenue (%)	24.3	31.0	28.7	12.0
EBITDA (%)	29.0	28.7	24.1	11.1
PAT (%)	39.3	16.5	31.2	11.9
EPS (%)	39.3	16.5	31.2	11.9
Profitability				
EBITDA Margin (%)	30.0	29.5	28.4	28.2
PAT Margin (%)	24.5	21.8	22.2	22.2
RoCE (%)	38.6	35.1	37.6	33.9
RoE (%)	39.4	36.7	37.6	33.4
Balance Sheet				
Net Debt : Equity	(0.2)	(0.2)	(0.2)	(0.3)
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	27.6	23.7	18.1	16.1
P / B (x)	9.9	7.8	6.1	4.9
EV / EBITDA (x)	22.1	17.1	13.6	12.0
EV / Sales (x)	6.6	5.0	3.9	3.4
Earnings Quality				
Eff. Tax Rate	19.0	22.8	21.0	21.0
Other Inc / PBT	8.4	2.9	6.0	6.9
Eff. Depr. Rate (%)	8.6	8.5	8.5	8.0
FCFE / PAT	66.6	55.1	55.8	64.5

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
Shareholder's Funds	254,155	325,233	417,168	520,086
Total Debt	380	1,154	1,154	1,154
Other Liabilities	13,742	16,428	16,428	16,428
Total Liabilities	268,278	342,815	434,750	537,668
Net Fixed Assets	51,996	64,548	79,659	96,233
Goodwill	34,064	34,929	34,929	34,929
Investments	18,390	14,781	14,781	14,781
Net Current Assets	105,726	153,217	230,041	316,385
<i>Cash & Equivalents</i>	<i>47,350</i>	<i>59,879</i>	<i>90,040</i>	<i>137,488</i>
<i>Other Current Assets</i>	<i>116,406</i>	<i>162,514</i>	<i>215,794</i>	<i>251,642</i>
<i>Current Liabilities</i>	<i>58,030</i>	<i>69,175</i>	<i>75,793</i>	<i>72,745</i>
Other Assets	58,101	75,340	75,340	75,340
Total Assets	268,278	342,815	434,750	537,668

Quarterly Financials (Rs m)

Y/e March	Q1FY12	Q2FY12	Q4FY12	Q2FY13
Net Revenue	107,970	116,335	132,594	156,208
EBITDA	30,310	33,829	39,116	44,404
<i>% of revenue</i>	<i>28.1</i>	<i>29.1</i>	<i>29.5</i>	<i>28.4</i>
Depr. & Amortization	2,049	2,286	2,397	2,615
Net Interest	—	—	—	(2,264)
Other Income	2,886	997	1,078	3,103
Profit before Tax	31,147	32,540	37,796	44,892
Total Tax	7,063	7,913	8,174	9,443
Profit after Tax	23,803	24,390	29,382	35,396
Adj. PAT	23,803	24,390	29,382	35,396

Key Operating Metrics

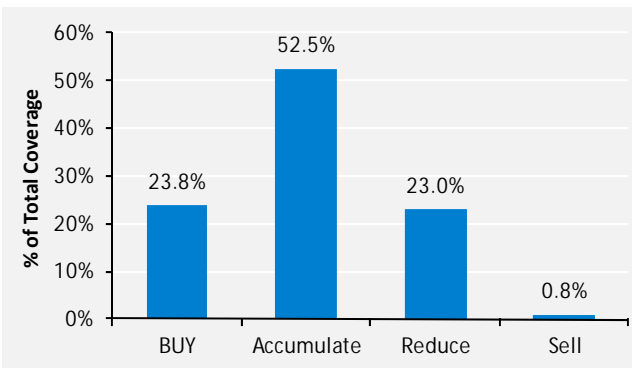
Y/e March	2011	2012	2013E	2014E
Volume (persons month)	1,588,419	1,968,865	2,283,883	2,603,627
Pricing (US\$ / Hr)	33.5	33.9	33.5	34.1
Currency (USDINR)	45.6	48.1	54.0	52.0
SW Devp. Cost (% of Sales)	54.7	54.1	56.9	56.8
SG&A (% of Sales)	15.3	16.4	14.6	15.0
Revenue (US\$ m)	8,186	10,171	11,657	13,555
EBITDA Margin Expansion/(Erosion) (bps)	110	(52)	(107)	(21)
Tax Rate (%)	19.0	22.8	21.0	21.0

Source: Company Data, PL Research.



Prabhudas Lilladher Pvt. Ltd.
 3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India
 Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.