

April 21, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs. 1,192	Rs1,275
EPS change FY12E/13E (%)	0.1/0.3
Target Price change (%)	2
Nifty	5,885
Sensex	19,602

Price Performance

(%)	1M	3M	6M	12M
Absolute	11	(0)	21	52
Rel. to Nifty	3	(3)	26	35

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	1,247/683
Market Cap (Rs bn/USD mn)	2,332/52,594
Daily Avg Volume (No of sh)	1944440
Daily Avg Turnover (US\$mn)	50.0

Shareholding Pattern (%)

	D'10	S'10	J'10
Promoters	74.1	74.0	74.1
FII/NRI	12.8	12.4	12.2
Institutions	7.9	8.1	8.0
Private Corp	0.7	0.6	0.7
Public	4.6	4.8	5.0

Source: Capitaline

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- In line rev at US\$ 2,244 mn (+4.6% QoQ) however solid QoQ flat margin show despite ~100 bps sequential onsite shift, strong net hiring at ~12k and ~200 bps drop in utilization
- Continental Europe (+11.4% QoQ), Manufacturing(+9% QoQ) post strong growth while BFSI(+3.3%QoQ) and Telecom (-3.3% QoQ) dragged revenue growth
- Decent results from TCS should soothe investor concerns after a near disaster at peer Infosys. Company lends confidence to demand visibility with a strong hiring outlook
- Tweak FY12/13E earnings marginally to Rs 51.3/61.7 (V/s Rs 51.3/61.5 earlier). Retain ACCUMULATE with an unchanged price target of Rs 1,275

In line show lends confidence to strong demand for the sector

After a near disaster at peer Infosys, TCS's in line March'11 quarter show should lend confidence to strong demand thesis for offshore Indian IT. While revenues came in exactly in line at US\$ 2,244 mn (+4.7% QoQ), we appreciate TCS's margin show (reported flat margins sequentially at 30.3%) despite (1) onsite shift (onsite % of revenues up by ~100 bps QoQ to 44.7%), (2) another quarter of strong net hiring (+11,700 in March'11, marking the 3rd successive quarter of strong hiring) and (3) ~200 bps QoQ decline in utilization to 75.1%. Co wide volume growth was ~2.9% QoQ with cross currency / pricing gains driving ~180 bps QoQ revenue increase. Profits at Rs 24 bn (+3.1% QoQ, +25% YoY) came in marginally higher than expectations driven by higher other income. While Manufacturing (+9% QoQ), Energy and Utilities (+9.4% QoQ), Healthcare (+6.7% QoQ) and retail (+7.5% QoQ) grew strongly, BFSI (+3.3% QoQ) and Telecom (-3.3% QoQ) were relatively soft. Amongst geographies, Continental Europe (+11.4% QoQ) and Asia Pac (+9.2% sequentially) reported strong performance.

Co's strong hiring outlook should lend confidence to demand strength

TCS's strong gross hiring targets of ~60k (co has already made campus offers of ~37k) on the back of an already strong hiring through FY11 in our view is an indication of strong demand visibility. Management indicated that it intends to give wage increments of 12-14% for offshore staff and 2-3% for onsite staff. Further the company indicated that demand was continuing to recover both in Europe (continental Europe grew by ~7% in constant currency with growth in UK expected to bounce going ahead) and in Telecom (however expects growth to be lower than co average in FY12 as was the case in FY11)

Tweak est. marginally, ACCUMULATE with an unchanged TP of Rs 1,275

TCS's in line results and positive demand commentary in our view should soothe investor nerves after the near disaster at peer Infosys. TCS has continued to deliver better than Infosys both on revenue growth as well as margin show (improving margins despite strong hiring, currency appreciation) which should sustain TCS's valuation premium to Infosys. Retain ACCUMULATE with an unchanged TP of Rs 1,275

Financials

Y/E March (in Rs mn)	Net Sales	EBITDA	EBITDA %	PAT	EPS (Rs)	ROE %	P/E (x)	EV/ EBITDA	P/B (x)
FY10	300,289	86,843	28.9	68,684	35.1	37.6	33.9	26.3	11.1
FY11	373,245	111,893	30.0	82,597	42.2	35.8	28.2	20.3	9.2
FY12E	461,282	135,970	29.5	100,386	51.3	36.3	23.2	16.5	7.7
FY13E	552,858	160,163	29.0	120,769	61.7	35.9	19.3	13.8	6.3

Quarterly performance

Rs mn	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	FY 11	FY 10	YoY (%)
Revenue	77,365	82,172	92,864	96,634	101,575	31.3	5.1	373,245	300,289	24.3
Operating Expenditure	54,200	58,085	64,970	67,460	70,837	30.7	5.0	261,352	213,446	22.4
Cost of revenues	39,936	44,222	49,870	51,776	53,893	34.9	4.1	199,761	157,200	27.1
as % of sales	51.6	53.8	53.7	53.6	53.1			53.5	52.3	
SG&A expenses	14,264	13,863	15,100	15,684	16,944	18.8	8.0	61,591	56,246	9.5
as % of sales	18.4	16.9	16.3	16.2	16.7			16.5	18.7	
EBITDA	23,165	24,087	27,894	29,174	30,738	32.7	5.4	111,893	86,843	28.8
Depreciation	1,924	1,781	1,886	2,041	2,282	18.6	11.8	7,990	7,291	9.6
EBIT	21,241	22,306	26,008	27,133	28,456	34.0	4.9	103,903	79,552	30.6
Other Income	1,627	831	337	1,817	2,264	39.1	24.6	5,248	2,245	
PBT	22,868	23,137	26,345	28,950	30,720	34.3	6.1	109,151	81,797	33.4
Total Tax	3,284	4,423	4,992	5,385	6,404	95.0	18.9	21,204	12,089	75.4
Adjusted PAT	19,584	18,714	21,353	23,565	24,316	24.2	3.2	87,947	69,708	26.2
(Profit)/loss from JV's/Ass/MI	-320	-269	-288	-262	-299			-1,118	-1,024	
APAT after MI	19,264	18,445	21,065	23,303	24,017	24.7	3.1	86,829	68,684	26.4
Extra ordinary items	0	0	0	0	0			0		
Reported PAT	19,264	18,445	21,065	23,303	24,017	24.7	3.1	86,829	68,684	26.4
Reported EPS	9.8	9.4	10.8	11.9	12.3	24.7	3.1	44.4	35.1	26.4

Margins (%)						(bps)	(bps)			
EBIDTA	29.9	29.3	30.0	30.2	30.3	31.9	7.1	30.0	28.9	105.9
EBIT	27.5	27.1	28.0	28.1	28.0	55.9	-6.3	27.8	26.5	134.6
EBT	29.6	28.2	28.4	30.0	30.2	68.5	28.6	29.2	27.2	200.4
PAT	24.9	22.4	22.7	24.1	23.6	-125.6	-47.0	23.3	22.9	39.1
Effective Tax rate	14.4	19.1	18.9	18.6	20.8	648.6	224.5	19.4	14.8	464.7

Source: Company, Emkay Research

TCS has continued to deliver ahead of Infosys over the past several quarters

	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
Rev gwth(YoY)(US\$ mn)							
Infosys	-5.1	5.2	15.6	21.0	29.6	28.7	23.6
TCS	-2.3	10.2	17.7	21.2	30.3	31.1	33.1
EBITDA gwth(YoY)							
Infosys	7.7	0.4	6.9	4.9	19.8	15.9	14.9
TCS	17.3	16.7	23.0	22.8	30.7	28.4	32.7
Profits gwth (YoY)							
Infosys	7.5	-3.5	0.2	-2.6	12.8	12.4	15.9
TCS	28.6	32.9	46.9	21.3	29.7	29.6	24.7

Source: Companies, Emkay Research

(All fig in Rs mn except EPS)	FY12E			FY13E		
	Old	New	% chg	Old	New	% chg
Revenues(US\$ mn)	10,224	10,251	0.3%	12,198	12,286	0.7%
Revenues	460,077	461,282	0.3%	548,926	552,858	0.7%
EBITDA	133,740	135,970	1.7%	156,310	160,163	2.5%
Net profits	100,317	100,386	0.1%	120,357	120,769	0.3%
EPS	51.3	51.3	0.1%	61.5	61.7	0.3%

Tweak FY12E/13E earnings up marginally to Rs 51.3 and Rs 61.7

Operating metrics performance at a glance

	Q4 FY11 (% contri to revenues)	Growth	
		% QoQ	% YoY
Revenues by Geography			
Americas	53.4%	4.5%	31.6%
UK	15.5%	1.4%	35.7%
Continental Europe and Asia Pac grew strongly during the quarter	Europe	11.4%	31.8%
India	8.8%	0.1%	31.6%
Asia Pac	7.2%	9.2%	71.1%
Ibero America	3.2%	8.0%	-3.2%
MEA	2.0%	4.7%	40.1%
Revenue breakup by Domain			
BFSI	44.0%	3.3%	31.9%
Manufacturing	7.5%	9.0%	28.0%
Telecom	11.0%	-3.2%	20.0%
While Manufacturing and retail reported good performance, BFSI and Telecom were relatively soft	Life Sciences & Healthcare	6.7%	35.7%
retail & Distribution	11.2%	7.6%	36.8%
Transportation	3.9%	20.1%	62.2%
Energy & Utilities	4.6%	9.4%	104.1%
Media and Entertainment	2.3%	4.7%	70.1%
Hi Tech	5.4%	13.1%	56.3%
Others	4.8%	8.3%	8.3%
Revenues Breakup by Service Line			
App Development & Maintenance	46.1%	7.2%	28.9%
Business Intelligence	4.9%	-3.2%	20.8%
Engg. & Industrial Solns	4.8%	4.7%	33.1%
Infra Services	9.1%	-9.3%	45.9%
Enterprise Solns	10.8%	17.7%	42.3%
Global Consulting	2.1%	-4.4%	11.8%
Asset Leveraged solns	3.6%	-5.8%	19.8%
Assurance Services	7.0%	3.2%	60.6%
BPO	11.6%	6.5%	34.3%
Revenues by Delivery			
Onsite	44.7%	7.6%	36.5%
Offshore	50.3%	2.9%	31.3%
Client Concentration			
Top client	7.4%	1.1%	20.2%
Top 5 clients	21.4%	2.8%	30.7%
Top 10 clients	29.6%	3.4%	30.5%
Non Top 10 client revenues	99.7%	5.9%	34.3%
Total Employees	198,614	6.3%	23.8%
Revenues by Contract Type		(bps)	(bps)
T & M	50.5%	20.0	(80.0)
Fixed Price	49.5%	(20.0)	120.0
Utilisation(ex trainees), %	82.40%	(1.4)	0.6
Utilisation(including trainees),%	75.10%	(2.0)	0.8

Financials

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Net Sales	300,289	373,245	461,282	552,858
Growth (%)	8	24	24	20
Total Expenditure	(213,446)	(261,352)	(325,312)	(392,695)
Growth (%)	3	22	24	21
EBIDTA	86,843	111,893	135,970	160,163
Growth (%)	21	29	22	18
EBIDTA %	28.9	30.0	29.5	29.0
Other Income	684	1,016	7,200	10,500
Depreciation	(7,291)	(7,990)	(9,525)	(10,198)
EBIT	80,236	104,919	133,645	160,465
Interest	1,561	-	-	-
EBT	81,797	104,919	133,645	160,465
Tax	(12,089)	(21,204)	(32,075)	(38,512)
EAT	68,684	82,597	100,386	120,769
Growth (%)	33	20	22	20
EAT (%)	22.9	22.1	21.8	21.8

Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Equity share capital	1,957	1,957	1,957	1,957
Reserves & surplus	208,427	251,432	300,466	369,884
Minority Interest	4,056	4,633	4,633	4,633
Networth	214,439	258,023	307,057	376,474
Secured Loans	2,383	2,500	2,500	2,500
Unsecured Loans	34	40	40	40
Loan Funds	2,418	2,540	2,540	2,540
Total Liabilities	216,857	260,564	309,598	379,015
Goodwill	32,415	32,425	32,425	32,425
Gross Block	71,301	89,925	111,925	131,925
Less: Depreciation	29,594	37,584	47,109	57,307
Net block	74,121	84,765	97,240	107,042
Capital WIP	-	-	-	-
Investment	37,816	50,714	50,714	50,714
Current Assets	162,608	197,099	253,900	334,859
Inventories	178	228	-	-
Sundry debtors	70,109	95,479	109,949	131,777
Cash & bank balance	10,249	15,078	39,056	77,364
Loans & advances	22,488	57,474	72,036	86,337
Other current assets	59,584	28,840	32,858	39,382
Current Liab & Prov	57,689	72,014	92,256	113,601
Current liabilities	50,962	61,337	79,618	99,969
Provisions	6,727	10,678	12,638	13,632
Net current assets	104,919	125,085	161,643	221,258
Misc exps	-	-	-	-
Deferred Tax	-	-	-	-
Total Assets	216,857	260,563	309,597	379,014

Cash Flow

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Net Profit after Tax	68,684	82,597	100,386	120,769
Add : Depreciation	7,291	7,990	9,525	10,198
Add : Misc exp w/off				
Net changes in WC	1,613	(14,326)	(20,242)	(21,345)
Operational Cash Flows	47,535	76,368	98,514	110,844
Capital expenditure	(9,773)	(18,634)	(22,000)	(20,000)
Investments	(20,545)	(12,897)	-	-
Investing Cash Flows	(30,319)	(31,531)	(22,000)	(20,000)
Borrowings	(4,496)	123	-	-
dividend paid	(45,801)	(45,798)	(50,358)	(50,358)
Issue of shares	(1,015)	578	-	-
Share Premium	44	-	-	-
Financing Cash Flows	(41,002)	(46,612)	(52,536)	(52,536)
changes in cash	(23,787)	(1,774)	23,978	38,308
Opening balance	13,441	10,249	15,078	39,056
Closing balance	10,249	15,078	39,056	77,364

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
EPS (Rs)	35.1	42.2	51.3	61.7
CEPS (Rs)	38.8	46.3	56.2	66.9
Book Value Per Share (Rs)	107.0	129.0	154.0	189.5
Dividend Per Share (Rs)	20.0	20.0	22.0	22.0
Valuations Ratios (x)				
PER	33.9	28.2	23.2	19.3
P/CEPS	30.7	25.7	21.2	17.8
P/BV	11.1	9.2	7.7	6.3
EV/EBIDTA	26.3	20.3	16.5	13.8
EV/Sales	7.6	6.1	4.9	4.0
M-Cap/sales	7.8	6.2	5.0	4.2
Profitability Ratios (%)				
RoCE	41.4	43.5	44.4	43.6
RoNW	37.6	35.8	36.3	35.9
EBITDA Margin	28.9	30.0	29.5	29.0
EBIT Margins	26.5	27.8	27.4	27.1
Net Profit Margin	22.9	22.1	21.8	21.8

Recommendation History: Tata Consultancy Services - TCS IN

Date	Reports	Reco	CMP	Target
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
16/07/2010	TCS Q1FY11 Result Update	Accumulate	780	890

Recent Research Reports

Date	Reports	Reco	CMP	Target
20/04/2011	HCL Technologies Q3FY11 Result Update	Hold	523	540
20/04/2011	Everonn Education Company Update	Not Rated	681	NA
15/04/2011	Infosys Q4FY11 Result Update	Accumulate	2,989	3,250
06/04/2011	eClerx Company Update	Accumulate	685	740

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