

17 October 2011

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TCS reported revenue growth of 4.7%QoQ to USD2,525mn, lower than expectation, with a volume growth of 6.25%QoQ and billing rate decline of 0.95%. PAT was Rs24.39bn, below expectation. The pace has slowed down and the stock has not corrected. We downgrade the stock to HOLD rating.

Revenue and PAT below street expectation – Revenue grew 7.7%QoQ to Rs116.3bn (Consensus Rs117.16bn). EBIT margin improved 94bpsQoQ to 27.1% largely due to rupee depreciation. Other income was lower and higher tax rate led to lower than expected growth in PAT to Rs24.39bn (2.5%QoQ). EPS was Rs12.5 (Consensus Rs12.9, PINCe Rs13.4).

Discretionary services up; ADM muted – Enterprise Solutions grew 7.6%QoQ, Global consulting grew 23.7%QoQ and Assurance Services grew 9%QoQ. ADM was muted with 1.3%QoQ, BPO grew 4.7%QoQ and IMS grew 5.8%QoQ.

Europe grew strongly; LatAm and India muted – Europe grew 6.3%QoQ, North America grew 5.7%QoQ while LatAm grew just 1.3%QoQ. India revenue declined 6.6%QoQ.

BFSI steady, Energy & Utilities shines, Telecom declines – BFSI grew 5.2%QoQ, Retail & distribution grew 9.2%QoQ, manufacturing grew 7.4%QoQ but telecom declines 4.3%QoQ.

Smaller clients grew faster; attrition dips

Growth came from smaller clients as non top-10 clients grew 5.6%QoQ compared to 2.5%QoQ growth of top 10 clients. Gross addition of 20,349 employees; attrition rate dips 110bpsQoQ to 13.7% and utilisation increased 20bpsQoQ to 76.4%.

Outlook and recommendation

TCS has missed streets' expectation at the profitability front at the operating margin level and at the PAT level in Q2FY12. The management maintained the hiring guidance for FY12 with emphasis on positive signals from clients. However, the pricing declined and going ahead management expects stable pricing with seasonally weak Q3. We revise our earnings estimates upwards due to change in currency estimates (average INR/USD rate of 47 and 46.5 for FY12 and FY13). We do not see substantial upside in the stock from current levels. **Downgrade to 'HOLD' recommendation with a revised target price of Rs1,145 (earlier Rs1,100) based on 19x FY13E earnings.**

QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Mar-11	Jun-11	Sep-11
Net sales	101,575	107,970	116,335
YoY Gr.(%)	31.3	31.4	25.3
Op.Profit	28,757	28,261	31,543
OPM(%)	28.3	26.2	27.1
Adj.Net Profit	23,809	23,803	24,390
YoY Gr. (%)	23.3	27.7	14.7

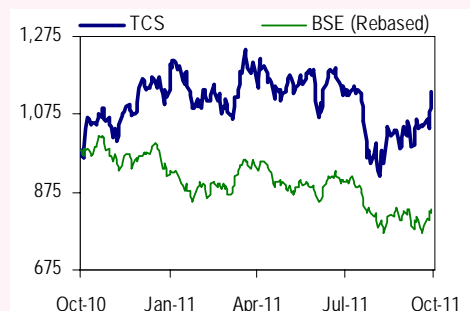
STOCK DATA

Market cap	Rs2,192bn
Book Value per share	Rs131
Shares O/S (F.V. Rs1)	1,957mn
Free Float	30%
Avg Trade Value (6 months)	Rs2,160mn
52 week High/Low	1,247/903
Bloomberg Code	TCS IN
Reuters Code	TCS.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	8.9	(0.4)	14.2
Relative	8.4	8.2	35.3

RELATIVE PERFORMANCE



KEY FINANCIALS (Rs mn)

	FY09	FY10	FY11	FY12E	FY13E
Net Sales	278,128	300,289	373,245	482,399	572,722
YoY Gr.(%)	21.7	8.0	24.3	29.2	18.7
Op. Profit	66,014	79,591	104,769	132,304	148,524
Op. Marg.(%)	23.7	26.5	28.1	27.4	25.9
Adj. Net Profit	51,708	68,728	87,164	106,302	117,919
YoY Gr.(%)	3.0	32.9	26.8	22.0	10.9

KEY RATIOS

Dil. EPS (Rs)	26.4	35.1	44.5	54.3	60.2
ROCE (%)	40.0	35.8	39.1	39.3	35.1
RoE (%)	32.3	32.6	34.5	33.2	29.0
PER (x)	42.4	31.9	25.1	20.6	18.6
EV/ Net Sales (x)	8.0	7.3	5.9	4.5	3.6
EV/EBDITA (x)	30.3	25.4	19.7	15.2	13.0

Exhibit 1 - Quarterly performance

(Rs mn, except EPS)	Q2FY11	Q1FY12	PINCe(Q2FY12)	CONSENSUS	Q2FY12	QoQ	YoY	PINC vs Actual
Consolidated Sales (USDmn)	2,004	2,412	2,557	2,558	2,525	4.7%	26.0%	-1.2%
Consolidated Sales	92,864	107,970	117,098	117,165	116,335	7.7%	25.3%	-0.7%
Operating Profit (EBIT)	26,115	28,261	32,904	32,197	31,543	11.6%	20.8%	-4.1%
EBIT margin	28.1%	26.2%	28.1%	27.5%	27.1%	94 bps	-101 bps	-99 bps
PBT	26,558	31,147	34,404	33,702	32,540	4.5%	22.5%	-5.4%
PBT margin	28.6%	28.8%	29.4%	28.8%	28.0%	-88 bps	-63 bps	-141 bps
Tax	5,001	7,063	7,913	-	7,913	12.0%	58.2%	0.0%
tax rate	18.8%	22.7%	23.0%	-	24.3%	164 bps	549 bps	132 bps
PAT	21,262	23,803	26,241	25,122	24,390	2.5%	14.7%	-7.1%
PAT Margin	22.9%	22.0%	22.4%	21.4%	21.0%	-108 bps	-193 bps	-144 bps
EPS (Rs)	10.9	12.2	13.4	12.9	12.5	2.5%	14.7%	-7.1%

Source: PINC Research, Bloomberg, Company

Exhibit 2 - BFSI grew 5.2%QoQ; Energy & Utilities surges 18.5%QoQ

Revenue By Verticals (USD mn)	Q2FY11	Q1FY12	Q2FY12	QoQ	YoY
BFSI	882	1,044	1,098	5.2%	24.6%
Telecom	257	282	270	-4.3%	5.3%
Manufacturing	148	183	197	7.4%	32.8%
Retail & Distribution	218	280	306	9.2%	39.9%
Hi tech	92	140	149	6.5%	61.6%
Life Sciences & Healthcare	102	125	134	6.7%	30.9%
Transportation	64	89	96	7.5%	49.6%
Energy & Utilities	86	92	109	18.5%	26.0%
Media & Entertainment	40	53	53	-0.1%	32.3%
Others	114	123	114	-7.6%	-0.5%
% of Total					
BFSI	44.0%	43.3%	43.5%	20 bps	-50 bps
Telecom	12.8%	11.7%	10.7%	-100 bps	-210 bps
Manufacturing	7.4%	7.6%	7.8%	20 bps	40 bps
Retail & Distribution	10.9%	11.6%	12.1%	50 bps	120 bps
Hi Tech	4.6%	5.8%	5.9%	10 bps	130 bps
Life Sciences & Healthcare	5.1%	5.2%	5.3%	10 bps	20 bps
Transportation	3.2%	3.7%	3.8%	10 bps	60 bps
Energy & Utilities	4.3%	3.8%	4.3%	50 bps	0 bps
Media & Entertainment	2.0%	2.2%	2.1%	-10 bps	10 bps
Others	5.7%	5.1%	4.5%	-60 bps	-120 bps

Source: PINC Research, Company

Retail & Distribution grew 9.2%QoQ...

Telecom continues to be under pressure...

Exhibit 3 - Europe outperforms with 6.3%QoQ growth

Revenue By Geography (USD mn)	Q2FY11	Q1FY12	Q2FY12	QoQ	YoY
America	1,154	1,351	1,424	5.4%	23.4%
North America	1,076	1,276	1,348	5.7%	25.3%
Ibero America	78	75	76	1.3%	-3.1%
Europe	489	608	646	6.3%	32.2%
UK	307	369	397	6.1%	27.6%
Continental Europe	182	239	255	6.8%	39.8%
India	198	224	210	-6.6%	5.6%
Asia Pacific	124	176	189	7.6%	52.4%
MEA	38	53	56	4.7%	45.9%
% of Total					
America	57.6%	56.0%	56.4%	40 bps	-120 bps
North America	53.7%	52.9%	53.4%	50 bps	-30 bps
Ibero America	3.9%	3.1%	3.0%	-10 bps	-90 bps
Europe	24.4%	25.2%	25.6%	40 bps	120 bps
UK	15.3%	15.3%	15.5%	20 bps	20 bps
Continental Europe	9.1%	9.9%	10.1%	20 bps	100 bps
India	9.9%	9.3%	8.3%	-100 bps	-160 bps
Asia Pacific	6.2%	7.3%	7.5%	20 bps	130 bps
MEA	1.9%	2.2%	2.2%	0 bps	30 bps

Source: PINC Research, Company

Exhibit 4 - Consulting surges 23.5%QoQ; Asset Leverage Solutions grew 16.3%QoQ

By Service Line (USD mn)	Q2FY11	Q1FY12	Q2FY12	QoQ	YoY
IT Solutions & Services	1,389	1,669	1,720	3.0%	23.8%
Application Development & Maint.	938	1,114	1,129	1.3%	20.3%
Business Intelligence	112	118	119	0.4%	5.7%
Enterprise Solutions	206	260	280	7.6%	35.8%
Assurance Services	132	176	192	9.0%	45.1%
Engineering & Industrial Services	98	111	121	9.2%	23.4%
Infrastructure Services	188	229	242	5.8%	28.7%
Global Consulting	42	53	66	23.7%	56.0%
Asset Leverage Solutions	68	87	101	16.3%	48.2%
Business Process Outsourcing	218	263	275	4.7%	26.0%
% of Total Revenue					
IT Solutions & Services	69.3%	69.2%	68.1%	-110 bps	-120 bps
Application Development & Maint.	46.8%	46.2%	44.7%	-150 bps	-210 bps
Business Intelligence	5.6%	4.9%	4.7%	-20 bps	-90 bps
Enterprise Solutions	10.3%	10.8%	11.1%	30 bps	80 bps
Assurance Services	6.6%	7.3%	7.6%	30 bps	100 bps
Engineering & Industrial Services	4.9%	4.6%	4.8%	20 bps	-10 bps
Infrastructure Services	9.4%	9.5%	9.6%	10 bps	20 bps
Global Consulting	2.1%	2.2%	2.6%	40 bps	50 bps
Asset Leverage Solutions	3.4%	3.6%	4.0%	40 bps	60 bps
Business Process Outsourcing	10.9%	10.9%	10.9%	0 bps	0 bps

Source: PINC Research, Company

India revenue declines 6.6%QoQ...

ADM feels the pressure with 1.3%QoQ growth; Business Intelligence grew 0.4%QoQ...

Exhibit 5 - Onsite revenue grew 5.6%QoQ

Revenue Delivery Location	Q2FY11	Q1FY12	Q2FY12	QoQ	YoY
Offshore	51%	50.6%	50.9%	30 bps	-20 bps
Onsite	44%	44.8%	45.2%	40 bps	130 bps
GDC/RDC	5%	4.6%	3.9%	-70 bps	-110 bps

Revenue (USD mn)

Offshore	1,024	1,220	1,285	5.3%	25.5%
Onsite	880	1,081	1,141	5.6%	29.7%
GDC/RDC	100	111	98	-11.2%	-1.7%

Source: PINC Research, Company

Exhibit 6 - FPP revenue declines 1.4%QoQ

Contract Type Analysis	Q2FY11	Q1FY12	Q2FY12	QoQ	YoY
Time & Material	51.0%	50.3%	53.2%	290 bps	220 bps
Fixed Price & Time	49.0%	49.7%	46.8%	-290 bps	-220 bps

Contract Type Revenue (USD mn)

Time & Material	1,022	1,213	1,343	10.7%	31.4%
Fixed Price & Time	982	1,199	1,182	-1.4%	20.3%

Source: PINC Research, Company

Exhibit 7 - Top client and top-5 clients grew just 1.7%QoQ and 1.1%QoQ, respectively

Client Contribution	Q2FY11	Q1FY12	Q2FY12	QoQ	YoY
as % of Revenue					
Top 1 Client	8.0%	7.1%	6.9%	-20 bps	-110 bps
Top 5 Clients	22.1%	20.7%	20.0%	-70 bps	-210 bps
Top 10 Clients	30.1%	28.9%	28.3%	-60 bps	-180 bps
Top 2-5 Clients	14.1%	13.6%	13.1%	-50 bps	-100 bps
Top 6-10 Clients	8.0%	8.2%	8.3%	10 bps	30 bps
Non Top 5 Clients	77.9%	79.3%	80.0%	70 bps	210 bps
Non Top 10 Clients	69.9%	71.1%	71.7%	60 bps	180 bps

Revenue (USD mn)

Top 1 Client	160	171	174	1.7%	8.7%
Top 5 Clients	443	499	505	1.1%	14.0%
Top 10 Clients	603	697	715	2.5%	18.5%
Top 2-5 Clients	283	328	331	0.8%	17.1%
Top 6-10 Clients	160	198	210	6.0%	30.7%
Non Top 5 Clients	1,561	1,913	2020	5.6%	29.4%
Non Top 10 Clients	1,401	1,715	1810	5.6%	29.2%

Source: PINC Research, Company

Smaller clients grew faster...

Exhibit 8 - 20% increase in USD100mn+ category clients

	Q2FY11	Q1FY12	Q2FY12	QoQ	YoY
US\$ 1mn clients	420	473	495	4.7%	17.9%
US\$ 5mn clients	192	219	230	5.0%	19.8%
US\$ 10mn clients	131	148	155	4.7%	18.3%
US\$ 20mn clients	66	91	94	3.3%	42.4%
US\$ 50mn clients	25	33	36	9.1%	44.0%
US\$ 100mn clients	8	10	12	20.0%	50.0%

Source: PINC Research, Company

Exhibit 9 - Strong new client addition (35)

	Q2FY11	Q1FY12	Q2FY12	QoQ	YoY
Active Clients	936	959	1010	5.3%	7.9%
New Clients Added	30	24	35	45.8%	16.7%
Repeat Business Revenue	98.3%	99.8%	99.3%	-50 bps	100 bps
New Business Revenue	1.7%	0.2%	0.7%	50 bps	-100 bps

Source: PINC Research, Company

Exhibit 10 - Attrition dips 110bpsQoQ to 13.7%

	Q2FY11	Q1FY12	Q2FY12	QoQ	YoY
Headcount					
Including Indian Subsidiaries	174,417	202,190	214,770	6.2%	23.1%
Gross Addition	19,293	11,988	20,349	69.7%	5.5%
Net Addition	10,717	3,576	12,580	251.8%	17.4%
Attrition rate	14.1%	14.8%	13.7%	-110 bps	-40 bps
Offshore Utilisation (Incl Trainees)	77.7%	76.2%	76.4%	20 bps	-130 bps
Offshore Utilisation (Excl Trainees)	83.8%	83.2%	83.1%	-10 bps	-70 bps

Source: PINC Research, Company

Utilisation maintained at high levels; management expects to operate within high levels...

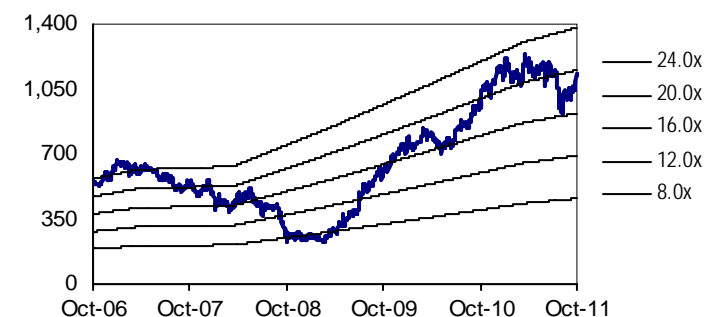
Income Statement					
Year ended 31 Mar (Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Net sales	278,128	300,289	373,245	482,399	572,722
<i>growth (%)</i>	21.7	8.0	24.3	29.2	18.7
Gross profit	123,708	138,661	168,949	218,578	252,392
Other operating charges	50,324	51,862	56,964	76,698	92,103
EBITDA	73,384	86,799	111,985	141,880	160,289
<i>growth (%)</i>	25.5	18.3	29.0	26.7	13.0
Depreciation	7,370	7,208	7,216	9,576	11,765
Other income	(4,149)	2,781	5,324	8,774	10,620
EBIT	66,014	79,591	104,769	132,304	148,524
Interest paid	535	536	0	0	0
PBT (before E/o items)	61,330	81,835	110,093	141,078	159,145
Tax provision	9,011	12,088	21,739	33,577	39,786
E/o Income / (loss)	611	1,019	1,190	1,199	1,439
Net profit	52,319	69,747	88,354	107,502	119,358
Adjusted net profit	51,708	68,728	87,164	106,302	117,919
<i>growth (%)</i>	3.0	32.9	26.8	22.0	10.9
Diluted EPS (Rs)	26.4	35.1	44.5	54.3	60.2
<i>Diluted EPS Growth (%)</i>	3.0	32.9	26.8	22.0	10.9

Cash Flow Statement					
Year ended 31 Mar (Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Pre-tax profit					
Depreciation					
Total tax paid					
Chg in working capital					
Other operating activities					
Cash flow from oper. (a)	51,415	74,869	69,148	91,322	118,801
Capital expenditure	(11,156)	(10,104)	(17,407)	(19,296)	(21,477)
Chg in investments	(26,446)	(19,126)	20,843	0	0
Other investing activities	617	(25,930)	(22,100)	0	0
Cash flow from inv. (b)	(36,985)	(55,161)	(18,663)	(19,296)	(21,477)
Free cash flow (a+b)	14,430	19,708	50,485	72,026	97,324
Equity raised/(repaid)	39	54	0	0	0
Debt raised/(repaid)	(379)	(3,960)	(310)	0	0
Chg in Minorities int.	0	0	0	0	0
Dividend (incl. tax)	(16,124)	(19,594)	(45,832)	(32,294)	(32,294)
Other financing activities	0	0	1	2	2
Cash flow from fin. (c)	(16,464)	(23,500)	(46,141)	(32,292)	(32,292)
Net chg in cash (a+b+c)	(2,034)	(3,792)	4,343	39,733	65,032

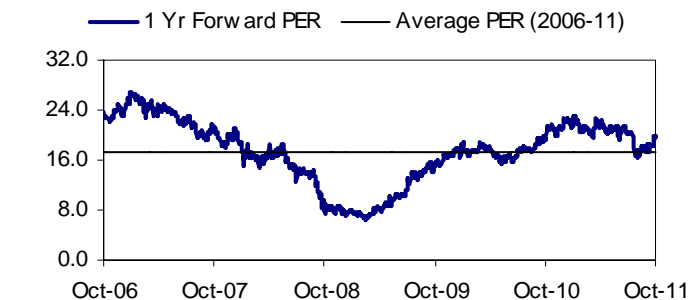
Balance Sheet					
Year ended 31 Mar (Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Equity capital	26,351	21,156	21,149	21,149	21,149
Reserves & surplus	131,182	189,686	232,895	300,777	387,274
Shareholders' funds	157,533	210,842	254,044	321,925	408,422
Minorities interests	3,098	2,204	3,147	3,147	3,147
Total Debt	4,505	6,297	5,425	5,680	5,948
Capital Employed	165,136	219,344	262,616	330,752	417,517
Net fixed assets	99,834	87,020	132,425	137,617	148,149
Cash & Cash Eq.	13,440	10,250	15,539	53,623	118,653
Net other Current Assets	34,592	37,479	58,378	82,935	93,818
Investments	17,271	74,347	50,193	50,193	50,193
Net Deferred Tax Assets	0	10,248	6,081	6,385	6,704
Total assets	165,137	219,344	262,616	330,753	417,517

Key ratios					
Year ended 31 Mar	FY09	FY10	FY11	FY12E	FY13E
OPM (%)	23.7	26.5	28.1	27.4	25.9
Net margin (%)	18.6	22.9	23.4	22.0	20.6
Dividend yield (%)	1.5	0.9	2.1	1.5	1.5
Net debt/Equity (x)	(0.0)	(0.0)	(0.1)	(0.2)	(0.3)
Net Working Capital (days)	45	46	57	63	60
Asset turnover (x)	1.2	1.1	1.1	1.2	1.1
ROCE (%)	40.0	35.8	39.1	39.3	35.1
RoE (%)	32.3	32.6	34.5	33.2	29.0
EV/Net sales (x)	8.0	7.3	5.9	4.5	3.6
EV/EBITDA (x)	30.3	25.4	19.7	15.2	13.0
PER (x)	42.4	31.9	25.1	20.6	18.6
Price/Book (x)	13.7	10.3	8.5	6.7	5.3

P/E Band



Avg PER



T E A M

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