

January 18, 2012

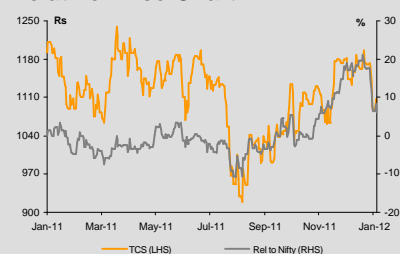
<b>Reco</b>	<b>Previous Reco</b>
Hold	Hold
<b>CMP</b>	<b>Target Price</b>
Rs1,105	Rs1,075
EPS change FY12E/13E (%)	(2)/(2.4)
Target Price change (%)	(1.8)
Nifty	4,967
Sensex	16,466

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	(1)	(3)	(3)
Rel. to Nifty	(10)	2	10	10

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)	2,161/42,451
Daily Avg Volume (No of sh)	1604671
Daily Avg Turnover (US\$m)	35.3

### Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	74.1	74.1	74.1
FII/NRI	12.8	12.8	12.6
Institutions	8.1	8.1	8.1
Private Corp	0.4	0.4	0.6
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

- Dec'11 results tad misses est with rev at US\$ 2.6 bn (+2.4% QoQ, +4.5% in c.c terms), Mgns up by ~190 bps QoQ(V/s est +240 bps). Inline profits aided by lower forex losses/ taxes
- Op metrics weak with vol growth at 3.2% ( Infy +3.1% QoQ). Top 5/10 clients flat sequentially while top client rev grow by ~2.3% QoQ. Headcount addition strong at ~12k during the qtr
- We cut our rev est.( model in 14.2%/16% YoY US\$ growth V/s 16/17% earlier) driving a 3.4/4.2% cut in our FY13/14E earnings to Rs 63.2/71 (V/s Rs 65.4/74 earlier)
- Dec'11 qtr marks the 2<sup>nd</sup> qtr of op performance convergence with Infy. We see risks to TCS's premium valuation multiples. HOLD with TP cut to Rs 1,075 (V/s Rs 1,110 earlier)

### Op performance fails to live to expectations

Dec'11 qtr marks the 2<sup>nd</sup> qtr wherein TCS has delivered in line /lower than peer Infy after the stupendous performance that has continued to surprise the street over several quarters in a row (**note that TCS added similar incremental revenues as peer Infosys for the 1<sup>st</sup> time in 7 quarters**). While revenues at US\$ 2,586 mn (+2.4% QoQ, +4.5% QoQ in constant currency terms) missed modest expectations (3% QoQ US\$ revenue growth) margins improved by ~190 bps sequentially buoyed by weak currency. Vol growth cooled to 3.2% QoQ after the scorching pace in recent quarters(V/s 3.1% for peer Infy) with Equipment and S/w license sales ( up 27% QoQ) aiding revenue growth. Profits at Rs 28.9 bn (+18.4% QoQ) met estimates aided by lower than estimated forex losses and lower taxes (22.6% V/s Emkay est of 24%). Headcount addition was decent at ~12k taking the total headcount to 226,751. Revenue performance was tepid across top clients with top 5/10 clients flat QoQ. **Financial services revenue growth was the lowest since March'10 qtr, reflecting rampup challenges in some of the top financial services clients in our view.**

### Weak macro finally catches up with management commentary

TCS management has remained confident of the demand environment until now (despite cautious outlook by peer Infosys over recent history). However the weak macro environment has finally caught up the management commentary with co now indicating that (1) deal pipelines are intact however clients taking longer to take decisions, (2) delay in project starts impacting discretionary spending, and (3) getting price increases is difficult in the current environment (' we expect pricing to be stable in a narrow band') . Company indicated that it has given campus offers to ~43.5k graduates for FY13 and plans to make a gross hiring of ~15k during March'12 qtr.

### Cut FY13/14E EPS by ~3.4/4.2%, HOLD, TP lowered to Rs 1,075

We cut rating on TCS to HOLD citing heightened investor expectations in August'11 and TCS's performance in both Sep'11 and Dec'11 qtrs has missed relatively modest expectations. We moderate revenue estimates (model in 14%/16% US\$ revenue growth for FY13/14 V/s 16%/17% earlier) driving a 3.4%/4.2% cut in earnings to Rs 63.2/71. Dec'11 qtr marks the 2<sup>nd</sup> successive quarter of convergence in operating performance to Infosys after a streak of superior performance through several quarters and we see that trend continue. Retain HOLD with a revised TP of Rs 1,075 (V/s Rs 1,110 earlier)

Y/E March (in Rs mn)	Net Sales	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	26.3	10.9
FY11	373,245	111,987	30.0	87,166	44.5	37.6	20.3	9.1
FY12E	494,948	148,509	30.0	106,023	54.2	38.5	15.3	7.7
FY13E	575,439	167,650	29.1	123,727	63.2	38.3	13.4	6.6

## Quarterly performance

Rs mn	Q2FY11	Q3FY11	Q4 FY11	Q1 FY12	Q2 FY12	Q3FY12	YoY (%)	QoQ (%)	YTD 12	YTD 11	YoY (%)
<b>Revenues (US\$ Mn)</b>	<b>2,004</b>	<b>2,144</b>	<b>2,244</b>	<b>2,412</b>	<b>2,525</b>	<b>2,586</b>	<b>20.6</b>	<b>2.4</b>	<b>7,523</b>	<b>5,942</b>	<b>26.6</b>
<b>Revenue (INR Mn)</b>	<b>92,864</b>	<b>96,634</b>	<b>101,575</b>	<b>107,971</b>	<b>116,335</b>	<b>132,041</b>	<b>36.6</b>	<b>13.5</b>	<b>356,347</b>	<b>271,670</b>	<b>31.2</b>
<b>Operating Expenditure</b>	<b>65,091</b>	<b>67,456</b>	<b>70,693</b>	<b>77,660</b>	<b>82,506</b>	<b>91,119</b>	<b>35.1</b>	<b>10.4</b>	<b>251,285</b>	<b>190,565</b>	<b>31.9</b>
Cost of revenues	49,956	51,500	53,784	58,791	62,141	68,604	33.2	10.4	189,536	145,585	30.2
as % of sales	53.8	53.3	53.0	54.5	53.4	52.0			53.2	53.6	
SG&A expenses	15,135	15,956	16,909	18,869	20,365	22,515	41.1	10.6	61,749	44,980	37.3
as % of sales	16.3	16.5	16.6	17.5	17.5	17.1			17.3	16.6	
<b>EBITDA</b>	<b>27,773</b>	<b>29,178</b>	<b>30,882</b>	<b>30,311</b>	<b>33,829</b>	<b>40,922</b>	<b>40.3</b>	<b>21.0</b>	<b>105,062</b>	<b>81,105</b>	<b>29.5</b>
Depreciation	1,660	1,856	2,123	2,049	2,286	2,303	24.1	0.7	6,638	5,091	30.4
<b>EBIT</b>	<b>26,113</b>	<b>27,322</b>	<b>28,759</b>	<b>28,262</b>	<b>31,543</b>	<b>38,619</b>	<b>41.3</b>	<b>22.4</b>	<b>98,424</b>	<b>76,014</b>	<b>29.5</b>
Other Income	443	1,822	2,239	2,886	997	(920)	(150.5)	(192.3)	2,963	3,084	
<b>PBT</b>	<b>26,556</b>	<b>29,144</b>	<b>30,998</b>	<b>31,148</b>	<b>32,540</b>	<b>37,699</b>	<b>29.4</b>	<b>15.9</b>	<b>101,386</b>	<b>79,098</b>	<b>28.2</b>
Total Tax	5,001	5,491	6,772	7,063	7,913	8,538	55.5	7.9	23,514	14,967	57.1
<b>Adjusted PAT</b>	<b>21,555</b>	<b>23,653</b>	<b>24,226</b>	<b>24,085</b>	<b>24,627</b>	<b>29,160</b>	<b>23.3</b>	<b>18.4</b>	<b>77,872</b>	<b>64,131</b>	<b>21.4</b>
(Profit)/loss from JV's/Ass/MI	-295	-189	-415	-281	-237	-294			-812	-776	
<b>APAT after MI</b>	<b>21,260</b>	<b>23,464</b>	<b>23,811</b>	<b>23,804</b>	<b>24,390</b>	<b>28,866</b>	<b>23.0</b>	<b>18.4</b>	<b>77,060</b>	<b>63,355</b>	<b>21.6</b>
Extra ordinary items	0	0	0	0	0	0			0	0	
<b>Reported PAT</b>	<b>21,260</b>	<b>23,464</b>	<b>23,811</b>	<b>23,804</b>	<b>24,390</b>	<b>28,866</b>	<b>23.0</b>	<b>18.4</b>	<b>77,060</b>	<b>63,355</b>	<b>21.6</b>
<b>Reported EPS</b>	<b>10.9</b>	<b>12.0</b>	<b>12.2</b>	<b>12.2</b>	<b>12.5</b>	<b>14.7</b>	<b>23.0</b>	<b>18.4</b>	<b>39.4</b>	<b>32.4</b>	<b>21.6</b>

Margins (%)							(bps)	(bps)				(bps)
EBIDTA	29.9	30.2	30.4	28.1	29.1	31.0	80	191	29.5	29.9		(37)
EBIT	28.1	28.3	28.3	26.2	27.1	29.2	97	213	27.6	28.0		(36)
EBT	28.6	30.2	30.5	28.8	28.0	28.6	(161)	58	28.5	29.1		(66)
PAT	22.9	24.3	23.4	22.0	21.0	21.9	(242)	90	21.6	23.3		(170)
Effective Tax rate	18.8	18.8	21.8	22.7	24.3	22.6	381	(167)	23.2	18.9		427

Source: Company, Emkay Research

	Sep'10	Dec'10	March'11	June'11	Sep'11	Dec'11
Rev gwth(YoY)(US\$ mn)						
Infosys	29.6	28.7	23.6	23.0	16.7	13.9
TCS	30.3	31.1	33.1	34.4	20.6	20.6
EBITDA gwth(YoY)						
Infosys	19.8	15.9	14.9	10.9	8.9	32.7
TCS	30.7	28.4	32.7	25.8	21.3	40.3
Profits gwth (YoY)						
Infosys	12.8	12.4	15.9	15.6	9.9	33.2
TCS	29.7	29.6	24.7	27.8	14.7	23.0

Source: Companies, Emkay Research

(All fig in Rs mn except EPS)	FY12E			FY13E			FY14E		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenues(US\$ mn)	10,219	10,188	-0.3%	11,844	11,635	-1.8%	13,871	13,483	-2.8%
Revenues	496,374	494,948	-0.3%	585,749	575,439	-1.8%	665,814	647,200	-2.8%
EBITDA	150,128	148,509	-1.1%	173,456	167,650	-3.3%	192,858	184,816	-4.2%
EBITDA mgns, %	30.2	30.0		29.6	29.1		29.0	28.6	
Net profits	106,616	106,023	-0.6%	128,082	123,727	-3.4%	144,918	138,807	-4.2%
EPS	54.5	54.2	-0.6%	65.4	63.2	-3.4%	74.0	70.9	-4.2%

We cut our below consensus earnings estimates by ~3.4%/4.2% respectively

## Operating metrics performance at a glance

	Q3FY12 (% Contri to Rev)	% QoQ	% YoY	
<b>Revenues by Geography</b>				
<i>Continental Europe and Latin America stood out on growth across geographies</i>	Americas	53.3	2.2	20.2
	UK	15.0	-0.9	13.1
	Europe	10.5	6.5	36.2
	India	8.4	3.6	10.1
	Asia Pac	7.6	3.8	32.9
	Ibero America	3.1	5.8	20.6
	MEA	2.1	-2.2	26.6
<b>Revenue breakup by Domain</b>				
<i>Financial services growth was the slowest since March'10 qtr</i>	BFSI	43.3	1.9	17.1
	Manufacturing	7.8	2.4	30.7
	Telecom	10.0	-4.3	1.4
	Life Sciences & Healthcare	5.3	2.4	22.9
	retail & Distribution	12.3	4.1	36.1
	Transportation	3.8	2.4	34.8
	Energy & Utilities	4.1	-2.3	12.4
	Media and Entertainment	2.2	7.3	15.4
	Hi Tech	5.9	2.4	42.3
	Others	5.3	27.2	25.3
<b>Revenues Breakup by Service Line</b>				
<i>IMS revenue growth strong at ~13% QoQ</i>	App Development & Maintenance	44.0	0.8	17.9
	Business Intelligence	4.4	-4.1	0.1
	Engg. & Industrial Solns	4.6	-1.9	15.6
	Infra Services	10.6	13.1	21.8
	Enterprise Solns	11.4	5.2	43.2
	Global Consulting	2.8	10.3	46.8
	Asset Leveraged solns	3.8	-2.7	14.6
	Assurance Services	7.6	2.4	29.1
	BPO	10.8	1.5	14.3
	<b>Client Concentration</b>			
<i>Top 5/10 clients were flat sequentially with non top 10 clients growing by ~3.2% QoQ</i>	Top client, %	6.9	2.3	9.0
	Top 5 clients, %	19.6	0.3	8.9
	Top 10 clients, %	27.7	0.1	12.0
<b>Revenues by Delivery (%)</b>				
	Q2 FY12	Q1 FY12	Q2 FY11	
Onsite	45.0	45.2	43.7	
Offshore	50.5	50.9	51.4	
GDC	4.5	3.9	4.9	
<b>Revenues by Contract Type (%)</b>				
T & M	53.6	53.2	50.3	
Fixed Price	46.4	46.8	49.7	
<b>Attrition(LTM), %</b>				
	12.8	13.7	14.4	

## Financials

## Income Statement

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
<b>Net Sales</b>	300,289	373,245	494,948	575,439
Growth (%)	8	24	33	16
<b>Total Expenditure</b>	(213,446)	(261,258)	(346,439)	(407,789)
Growth (%)	3	22	33	18
<b>EBIDTA</b>	86,843	111,987	148,509	167,650
Growth (%)	21	29	33	13
<b>EBIDTA %</b>	28.9	30.0	30.0	29.1
Other Income	3,816	5,323	483	8,820
Depreciation	(7,291)	(7,214)	(8,985)	(9,900)
<b>EBIT</b>	<b>83,368</b>	<b>110,096</b>	<b>140,007</b>	<b>166,570</b>
Interest	-	-	-	-
<b>EBT</b>	<b>83,368</b>	<b>110,096</b>	<b>140,007</b>	<b>166,570</b>
Tax	(12,089)	(21,739)	(32,783)	(41,642)
<b>EAT</b>	<b>70,255</b>	<b>87,166</b>	<b>106,023</b>	<b>123,727</b>
Growth (%)	33	24	22	17
EAT (%)	23.4	23.4	21.4	21.5

## Cash Flow

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Net Profit after Tax	70,255	87,166	106,023	123,727
Add : Depreciation	7,291	7,214	8,985	9,900
Add : Misc exp w/off				
<b>Net changes in WC</b>	<b>176</b>	<b>(1,603)</b>	<b>(25,559)</b>	<b>(18,843)</b>
<b>Operational Cash Flows</b>	<b>20,881</b>	<b>108,874</b>	<b>94,510</b>	<b>120,527</b>
<b>Capital expenditure</b>	<b>(6,705)</b>	<b>(20,255)</b>	<b>(23,107)</b>	<b>(23,000)</b>
Investments	-	(39,365)	(2,190)	-
<b>Investing Cash Flows</b>	<b>(6,705)</b>	<b>(59,621)</b>	<b>(25,298)</b>	<b>(23,000)</b>
<b>Borrowings</b>	-	-	-	-
dividend paid	(45,795)	(32,056)	(62,018)	(72,374)
Issue of shares	4,216	(4,209)	-	-
Share Premium	44	-	-	-
<b>Financing Cash Flows</b>	<b>(70,249)</b>	<b>(38,535)</b>	<b>(63,562)</b>	<b>(73,574)</b>
changes in cash	<b>(56,073)</b>	<b>10,718</b>	<b>5,651</b>	<b>23,952</b>
Opening balance	<b>26,981</b>	<b>10,249</b>	<b>15,539</b>	<b>20,713</b>
<b>Closing balance</b>	<b>10,249</b>	<b>15,539</b>	<b>20,713</b>	<b>44,666</b>

## 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	295,092	346,445
Minority Interest	3,768	3,147	3,274	3,274
<b>Networth</b>	<b>214,172</b>	<b>257,191</b>	<b>300,323</b>	<b>351,676</b>
Secured Loans	2,307	3,824	3,955	3,955
Unsecured Loans	111	39	40	40
<b>Loan Funds</b>	<b>2,418</b>	<b>3,862</b>	<b>3,995</b>	<b>3,995</b>
<b>DEFERRED TAX LIABILITY</b>	-	<b>5,604</b>	<b>6,220</b>	<b>6,220</b>
<b>Total Liabilities</b>	<b>216,590</b>	<b>266,657</b>	<b>310,538</b>	<b>361,891</b>
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	45,794	55,694
<b>Net block</b>	<b>74,121</b>	<b>85,787</b>	<b>99,855</b>	<b>112,955</b>
<b>Capital WIP</b>	-	-	-	-
<b>Investment</b>	<b>37,839</b>	<b>77,205</b>	<b>79,395</b>	<b>79,395</b>
<b>Current Assets</b>	<b>164,252</b>	<b>153,207</b>	<b>205,132</b>	<b>262,229</b>
Inventories	178	-	-	-
Sundry debtors	70,109	95,505	124,754	145,042
Cash & bank balance	10,249	15,539	20,713	44,666
Loans & advances	21,089	27,121	37,969	44,143
Other current assets	62,628	15,042	21,696	28,378
<b>Current Liab &amp; Prov</b>	<b>59,623</b>	<b>61,226</b>	<b>86,785</b>	<b>105,628</b>
Current liabilities	54,210	59,663	84,073	102,475
Provisions	5,413	1,563	2,712	3,153
<b>Net current assets</b>	<b>104,629</b>	<b>91,981</b>	<b>118,347</b>	<b>156,601</b>
<b>Misc exps</b>	-	-	-	-
<b>Deferred Tax</b>	-	<b>11,684</b>	<b>12,941</b>	<b>12,941</b>
<b>Total Assets</b>	<b>216,590</b>	<b>266,657</b>	<b>310,538</b>	<b>361,891</b>

## Key ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
EPS (Rs)	35.9	44.5	54.2	63.2
CEPS (Rs)	39.6	48.2	58.8	68.3
Book Value Per Share (Rs)	107.5	129.3	151.8	178.0
Dividend Per Share (Rs)	20.0	14.0	27.1	31.6
<b>Valuations Ratios (x)</b>				
PER	32.6	26.3	21.6	18.5
P/CEPS	28.3	23.2	19.1	16.4
P/BV	10.9	9.1	7.7	6.6
EV/EBIDTA	26.3	20.3	15.3	13.4
EV/Sales	7.6	6.1	4.6	3.9
M-Cap/sales	7.3	5.9	4.4	3.8
<b>Profitability Ratios (%)</b>				
RoCE	42.4	44.0	49.1	47.5
RoNW	38.2	37.6	38.5	38.3
EBITDA Margin	28.9	30.0	30.0	29.1
EBIT Margins	26.5	28.1	28.2	27.4
Net Profit Margin	23.4	23.4	21.4	21.5

**Recommendation History: Tata Consultancy Services - TCS IN**

Date	Reports	Reco	CMP	Target
18/10/2011	<a href="#">TCS Q2FY12 Result Update</a>	Hold	1,120	1,060
15/07/2011	<a href="#">TCS Q1FY12 Result Update</a>	Accumulate	1,125	1,300
21/04/2011	<a href="#">TCS Q4FY11 Result Update</a>	Accumulate	1,192	1,275
18/01/2011	<a href="#">TCS Q3FY11 Result Update</a>	Accumulate	1,139	1,275

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
12/01/2012	<a href="#">Infosys Q3FY12 Result Update</a>	Accumulate	2,589	2,850
03/01/2012	<a href="#">IT Services Sector Update</a>			
12/12/2011	<a href="#">Mphasis Company Update</a>	Reduce	326	325
01/12/2011	<a href="#">Mphasis Oct'11 Result Update</a>	Reduce	325	325

**Emkay Global Financial Services Ltd.**

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: [www.emkayglobal.com](http://www.emkayglobal.com)

**DISCLAIMER:** Emkay Global Financial Services Limited and its affiliates are a full-service, brokerage, investment banking, investment management, and financing group. We along with our affiliates are participants in virtually all securities trading markets in India. Our research professionals provide important input into our investment banking and other business selection processes. Investors may assume that Emkay Global Financial Services Limited and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may participate in the solicitation of such business. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Emkay Global Financial Services Limited or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to Emkay. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of Emkay. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of Emkay or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.