



# TATA CONSULTANCY SERVICES

## Re-iterating stance

India Equity Research | IT



We attended Tata Consultancy Services' (TCS) analyst meet on December 17. The company firmly stands by the scenario it had envisaged at the beginning of FY13—H1FY13 will be stronger versus H2FY13. Going ahead, it admitted that though it is still unclear how FY14 will pan out, the company does not see any negative lead indicators as of now. TCS expects some delays in hi-tech and manufacturing verticals in a seasonally weak quarter and has also witnessed furloughs in the BFS segment. It expects margin to come off sequentially in Q3FY13 due to increase in manpower costs. We maintain 'HOLD' given limited upside from the current level.

### Revenue stable despite stiff challenges

TCS is facing furloughs in hi-tech and manufacturing verticals, which is in line with expectations. However, furloughs in the BFS vertical came as a surprise. While the telecom vertical and European geographies were weak, growth in rest of the verticals and geographies was stable. The company's aggression in hiring freshers continues, even though lateral hires have been little slower. While an additional holiday in the quarter will impact revenue growth slightly negatively, cross currency impact will be accretive.

### FY13E margin slightly under pressure, but 27% focus remains

Manpower addition and a lower volume growth (due to one less working day in the quarter) may lead to slight dip in Q3FY13 margin. TCS reiterated its focus to maintain FY13E margin at 27%. It is planning to update investors on FY14E during Q3FY13 result.

### Outlook & valuation: Excellent, but limited upside; maintain 'HOLD'

While TCS has been consistently posting robust results and has maintained stable outlook on demand, we believe current valuations of 16.1x FY14E earnings provide limited upside from the current level. Hence, we maintain our 'HOLD/Sector Performer' recommendation/rating with target price of INR1,350 (at 18x FY14E EPS).

#### Financials

Year to March	FY11	FY12	FY13E	FY14E
Revenues (INR mn)	373,245	488,940	622,326	699,010
Rev. growth (%)	24.3	31.0	27.3	12.3
EBITDA (INR mn)	111,984	144,179	178,087	196,414
Net profit (INR mn)	87,164	106,386	136,154	146,372
Shares outstanding (mn)	1,957	1,957	1,957	1,957
Diluted EPS (INR)	44.5	54.4	69.6	74.8
EPS growth (%)	26.8	22.1	28.0	7.5
Diluted P/E (x)	27.1	22.2	17.3	16.1
EV/EBITDA (x)	20.6	16.1	12.7	11.2
ROAE (%)	37.6	36.7	36.3	30.6

#### EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Low
Sector Relative to Market	Equalweight

#### MARKET DATA (R: TCS.BO, B: TCS IN)

CMP	: INR 1,206
Target Price	: INR 1,350
52-week range (INR)	: 1,438 / 1,046
Share in issue (mn)	: 1,957.2
M cap (INR bn/USD mn)	: 2,360 / 43,210
Avg. Daily Vol.BSE/NSE('000)	: 1,464.7

#### SHARE HOLDING PATTERN (%)

	Current	Q1FY13	Q4FY12
Promoters *	74.0	74.0	74.0
MF's, FI's & BK's	6.5	6.7	7.2
FII's	14.8	14.6	14.0
Others	4.7	4.7	4.8
* Promoters pledged share (% of share in issue)	:		NIL

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW IT Index
1 month	(6.2)	3.4	(4.0)
3 months	(12.0)	5.4	3.9
12 months	5.8	23.4	23.9

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December 18, 2012

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