

January 14, 2013

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Rating	Accumulate
Price	Rs1,335
Target Price	Rs1,400
Implied Upside	4.9%
Sensex	19,906
Nifty	6,024

(Prices as on January 14, 2013)
Trading data

Market Cap. (Rs bn)	2,611.9
Shares o/s (m)	1,957.2
3M Avg. Daily value (Rs m)	1588.7

Major shareholders

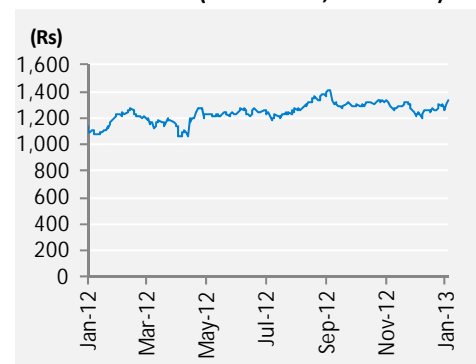
Promoters	73.96%
Foreign	14.83%
Domestic Inst.	6.49%
Public & Other	4.72%

Stock Performance

(%)	1M	6M	12M
Absolute	7.4	6.8	23.7
Relative	4.3	(8.8)	0.5

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2014	80.4	76.6	5.0
2015	89.1	85.8	3.9

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


Source: Bloomberg

Tata Consultancy Services (TCS) reported Q3FY13 results which were largely in line with PLe/Consensus expectation. Revenue was touch ahead, whereas margin was stronger than expectation. The management retained their positive tone, but valuation leaves limited room for upside. We retain our **'Accumulate'** rating.

- Touch ahead of expectation:** TCS reported Q3FY13 results touch ahead of PLe/consensus expectation. Revenue grew by 2.9% QoQ to Rs160.7bn (PLe: Rs160.14bn; Cons: Rs159.05bn) and 3.3% QoQ in USD terms, led by better-than-expected realization growth of 1.3% QoQ (PLe: 0%). EBIT margins expanded by 51bps (PLe: -40bps, Cons: -30bps) to 27.3%. EPS grew by 0.3% QoQ to Rs18.15 (PLe: Rs17.60, Cons: Rs17.36).
- Fresher hiring – Does it indicate growth moderation ahead?** TCS retained its fresher hiring guidance of ~25k for FY14. The guidance 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). The company was confident of hiring from off campus and improving business-mix. **However, we see moderation in hiring as an early indication of weaker growth for FY14.**
- Margin levers stretched:** The company has done a great job in expanding EBIT margin for Q3FY13. However, EBIT margin eased off by ~200bps over the last three quarters despite ~6.6% currency depreciation. We continue to see margin headwinds for the company as freshers come on board, project starts to ramp-up (increase in onsite) and there is an increase in subcontracting costs. The management is confident of retaining margin using improved productivity, higher realization, increasing utilization and tight cost management.
- Valuation & Recommendation – Retain 'Accumulate' with TP of Rs1,400:** The current valuation factors in strong performance by TCS. We see revenue momentum to decelerate and margin to remain under pressure in FY14 as peers turns aggressive for growth. We tweak our model; but, retain our target price at Rs1,400, 17x FY14E earnings estimate.

Key financials (Y/e March)	2012	2013E	2014E	2015E
Revenues (Rs m)	488,938	630,260	706,442	790,150
Growth (%)	31.0	28.9	12.1	11.8
EBITDA (Rs m)	144,176	181,727	204,021	221,268
PAT (Rs m)	106,441	139,737	157,337	174,480
EPS (Rs)	54.4	71.4	80.4	89.1
Growth (%)	16.5	31.3	12.6	10.9
Net DPS (Rs)	19.8	25.0	28.0	29.0

Profitability & Valuation	2012	2013E	2014E	2015E
EBITDA margin (%)	29.5	28.8	28.9	28.0
RoE (%)	36.7	37.6	33.5	30.0
RoCE (%)	35.1	37.7	34.0	29.1
EV / sales (x)	5.2	4.0	3.5	3.0
EV / EBITDA (x)	17.7	13.9	12.1	10.9
PE (x)	24.5	18.7	16.6	15.0
P / BV (x)	8.0	6.3	5.0	4.1
Net dividend yield (%)	1.5	1.9	2.1	2.2

Source: Company Data; PL Research

Exhibit 1: Q3FY13 Result Overview - Another quarter of in-line operational performance

	Q3FY13	Q2FY13	QoQ	Q3FY12	YoY	PLe	Cons.	PL v/s Act
Consolidated Sales (USD m)	2,948	2,853	3.3%	2,586	14.0%	2,930.0	na	0.6%
Consolidated Sales (Rs m)	160,699.1	156,208	2.9%	132,040	21.7%	160,139	159,053	0.3%
Operating Profit (Rs m)	43,809.3	41,789	4.8%	38,618	13.4%	42,197	42,156	3.8%
<i>OPM</i>	<i>27.3%</i>	<i>26.8%</i>	<i>51 bps</i>	<i>29.2%</i>	<i>-199 bps</i>	<i>26.4%</i>	<i>26.5%</i>	<i>91 bps</i>
PBT	45,942.3	44,892	2.3%	37,698	21.9%	45,699	42,027	0.5%
PAT (Rs m)	35,518.0	35,396	0.3%	28,866	23.0%	34,437	34,031	3.1%
<i>PAT Margin</i>	<i>22.1%</i>	<i>22.7%</i>	<i>-56 bps</i>	<i>21.9%</i>	<i>24 bps</i>	<i>21.5%</i>	<i>21.4%</i>	<i>60 bps</i>
EPS (Rs)	18.15	18.08	0.3%	14.75	23.0%	17.60	17.36	3.1%

Source: Company Data, Bloomberg, PL Research

Exhibit 2: Margin Drivers (QoQ)

Currency	3bps
Rate Productivity	+82bps
SG&A efficiency	-50bps
Offshore Shift	+16bp
Total	+51bp

Source: Company Data, PL Research

Exhibit 3: Growth Drivers (QoQ)

Volume Growth	+1.25%
Realization	+1.3%
Currency	+0.24%
Onsite Shift	+0.09%
Total	+2.88%

Source: Company Data, PL Research

Conference call highlights

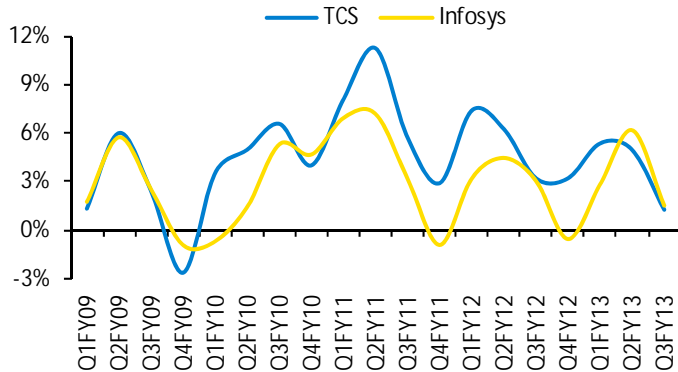
1) Other income 1.33% of revenue: (Q2FY13: 1.99%) **2)** 7 large deals: 2 BFS, 1 Telecoms, 1 Retails, 1 Healthcare, 1 Government and 1 Utilities/ 4 US, 1 Europe, 1 LatAm, 1 APAC **3)** No delay in budget **4)** Pricing environment stable **5)** Discretionary spend environment seen improving **6)** Continues to expect utilization in 81-83% range **7)** Already made 24k campus offers for FY14 **8)** Hedges: \$2.9bn (@cc Rs52/\$) **9)** DSO: 79 days (Q2FY13: 81)

Exhibit 4: Revising our estimates for FY13 & FY14 upwards

	NEW		OLD		REVISION	
	FY13	FY14	FY13	FY14	FY13	FY14
Revenue	630,260	706,442	629,709	705,828	0.1%	0.1%
EBIT	170,864	190,984	168,699	188,486	1.3%	1.3%
<i>EBIT Margin</i>	<i>27.1%</i>	<i>27.0%</i>	<i>26.8%</i>	<i>26.7%</i>	<i>32 bps</i>	<i>33 bps</i>
EPS	71.40	80.39	70.45	79.31	1.3%	1.4%
Target Multiple	17		17		0.0%	
Target Price	1,400		1,400		0%	

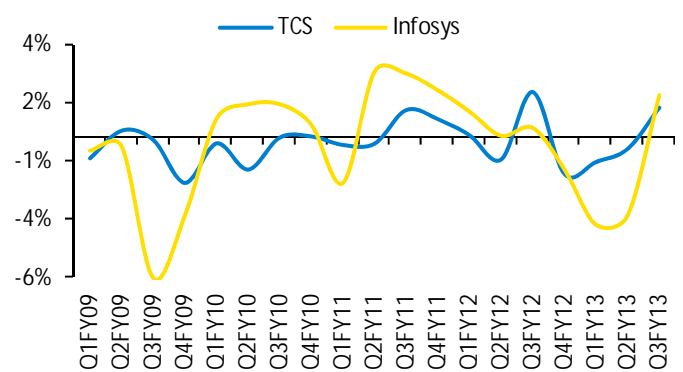
Source: Company Data, PL Research

Exhibit 5: Volume gr. for Infosys picking after long underperformance



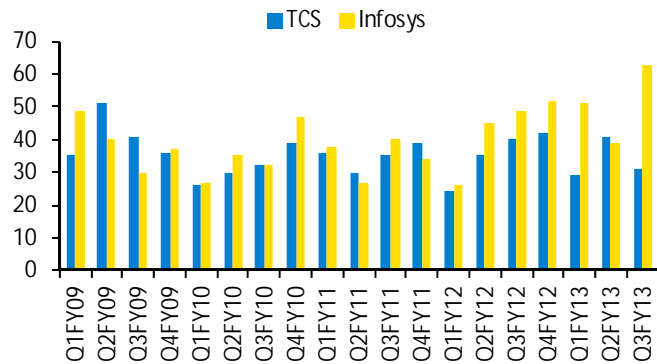
Source: Company Data, PL Research

Exhibit 6: Realization improvement at Infosys better than TCS



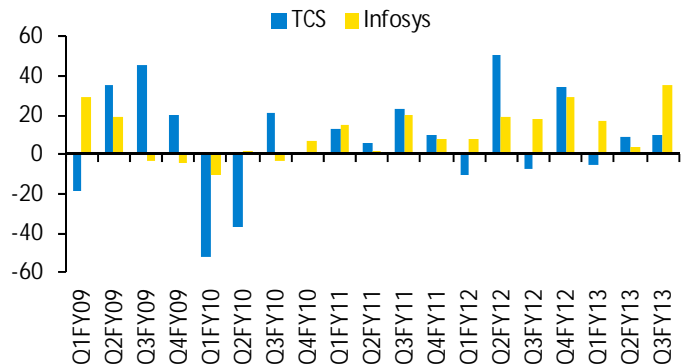
Source: Company Data, PL Research

Exhibit 7: New Client Addition: Infosys inching forward



Source: Company Data, PL Research

Exhibit 8: Net New Client Addition: Infosys leading the chart



Source: Company Data, PL Research

Exhibit 9: Steady growth across geographies except India that continues to be lumpy

Revenue By Geography (USD m)	Q3FY13	Q2FY13	QoQ	Q3FY12	YoY
America	1,657	1,603	3.3%	1,459	13.6%
North America	1,551	1,506	2.9%	1,378	12.5%
Ibero America	106	97	9.4%	80	32.4%
Europe	784	759	3.3%	659	18.9%
UK	516	488	5.7%	388	33.0%
Continental Europe	268	271	-1.0%	272	-1.2%
India	224	214	4.7%	217	3.1%
Asia Pacific	221	217	2.0%	197	12.5%
MEA	62	60	3.3%	54	14.0%
% of Total					
America	56.2%	56.2%	0 bps	56.4%	-20 bps
North America	52.6%	52.8%	-20 bps	53.3%	-70 bps
Ibero America	3.6%	3.4%	20 bps	3.1%	50 bps
Europe	26.6%	26.6%	0 bps	25.5%	110 bps
UK	17.5%	17.1%	40 bps	15.0%	250 bps
Continental Europe	9.1%	9.5%	-40 bps	10.5%	-140 bps
India	7.6%	7.5%	10 bps	8.4%	-80 bps
Asia Pacific	7.5%	7.6%	-10 bps	7.6%	-10 bps
MEA	2.1%	2.1%	0 bps	2.1%	0 bps

Source: Company Data, PL Research

Exhibit 10: No material change in FPP over last 6 quarters

Contract Type Analysis (USD m)	Q3FY13	Q2FY13	QoQ	Q3FY12	YoY
Time & Material	52.7%	53.2%	-50 bps	53.6%	-90 bps
Fixed Price & Project	47.3%	46.8%	50 bps	46.4%	90 bps
% of Revenue					
Time & Material	1,554	1,518	2.4%	1,386	12.1%
Fixed Price & Project	1,394	1,335	4.4%	1,200	16.2%

Source: Company Data, PL Research

Exhibit 11: Net client addition steady, but weaker than Infosys

	Q3FY13	Q2FY13	QoQ	Q3FY12	YoY
Active Clients	1051	1041	1.0%	1003	4.8%
New Clients Added	31	41	-24.4%	40	-22.5%
Repeat Business Revenue	98.4%	99.0%	-60 bps	98.3%	10 bps
New Business Revenue	1.6%	1.0%	60 bps	1.7%	-10 bps

Source: Company Data, PL Research

Exhibit 12: Manufacturing and Energy & Utilities strong

Revenue By Verticals (USD m)	Q3FY13	Q2FY13	QoQ	Q3FY12	YoY
BFSI	1,268	1,221	3.8%	1,120	13.2%
Telecom	280	294	-4.7%	259	8.3%
Retail & Distribution	395	382	3.3%	318	24.2%
Manufacturing	251	234	7.1%	202	24.2%
Life Sciences & Healthcare	153	148	3.3%	137	11.8%
Hi-tech	171	168	1.6%	153	12.1%
Transportation	106	103	3.3%	98	8.0%
Energy & Utilities	112	103	9.1%	106	5.7%
Media & Entertainment	62	63	-1.4%	57	8.8%
Others	150	137	9.8%	137	9.7%
% of Total					
BFSI	43.0%	42.8%	20 bps	43.3%	-30 bps
Telecom	9.5%	10.3%	-80 bps	10.0%	-50 bps
Retail & Distribution	13.4%	13.4%	0 bps	12.3%	110 bps
Manufacturing	8.5%	8.2%	30 bps	7.8%	70 bps
Life Sciences & Healthcare	5.2%	5.2%	0 bps	5.3%	-10 bps
Hi-Tech	5.8%	5.9%	-10 bps	5.9%	-10 bps
Transportation	3.6%	3.6%	0 bps	3.8%	-20 bps
Energy & Utilities	3.8%	3.6%	20 bps	4.1%	-30 bps
Media & Entertainment	2.1%	2.2%	-10 bps	2.2%	-10 bps
Others	5.1%	4.8%	30 bps	5.3%	-20 bps

Source: Company Data, PL Research

Exhibit 13: Onsite offshore mix remained largely stable with minor downtick in onsite

Revenue Delivery Location (USD m)	Q3FY13	Q2FY13	QoQ	Q3FY12	YoY
Offshore	49.4%	49.1%	30 bps	50.5%	-110 bps
Onsite	45.6%	45.8%	-20 bps	45.0%	60 bps
GDC/RDC	5.0%	5.1%	-10 bps	4.5%	50 bps
% of Revenue					
Offshore	1,456	1,401	4.0%	1,306	11.5%
Onsite	1,344	1,307	2.9%	1,164	15.5%
GDC/RDC	147	146	1.3%	116	26.7%

Source: Company Data, PL Research

Exhibit 14: Growth coming from all the clients bucket although weaker from top10 clients

Total Revenue (USD m)	Q3FY13	Q2FY13	QoQ	Q3FY12	YoY
Top 1 Client	186	185	0.2%	178	4.1%
Top 2-5 Clients	531	525	1.1%	507	4.7%
Top 5 Clients	345	340	1.6%	328	5.0%
Top 6-10 Clients	743	730	1.7%	716	3.7%
Top 10 Clients	212	205	3.3%	209	1.3%
Non Top 10 Clients	2,205	2,123	3.9%	1,870	17.9%
as % of Revenue					
Top 1 Client	6.3%	6.5%	-20 bps	6.9%	-60 bps
Top 5 Clients	18.0%	18.4%	-40 bps	19.6%	-160 bps
Top 10 Clients	25.2%	25.6%	-40 bps	27.7%	-250 bps
Non-Top 10 Clients	74.8%	74.4%	40 bps	72.3%	250 bps
USD 1m clients	551	538	2.4%	512	7.6%
USD 5m clients	273	269	1.5%	235	16.2%
USD 10m clients	185	182	1.6%	161	14.9%
USD 20m clients	114	108	5.6%	95	20.0%
USD 50m clients	47	45	4.4%	39	20.5%
USD 100m clients	16	14	14.3%	14	14.3%

Source: Company Data, PL Research

Exhibit 15: FY14 fresher hiring guidance retained at 25k

Headcount	Q3FY13	Q2FY13	QoQ	Q3FY12	YoY
Including Indian Subsidiaries	263,637	254,076	3.8%	226,751	16.3%
Gross Addition (India)	9,831	18,654	-47.3%	18,907	-48.0%
Laterals (India)	5,072	5,764	-12.0%	6,763	-25.0%
Net Addition	9,561	10,531	-9.2%	11,981	-20.2%
Attrition rate	9.8%	10.2%	-40 bps	11.7%	-190 bps
Offshore Utilisation (Incl. Trainees)	72.1%	72.8%	-70 bps	74.0%	-194 bps
Offshore Utilisation (Excl. Trainees)	81.7%	81.6%	10 bps	82.0%	-32 bps

Source: Company Data, PL Research

Exhibit 16: Steady growth across the service line

By Service Line (USD m)	Q3FY13	Q2FY13	QoQ	Q3FY12	YoY
IT Solutions & Services	1,922	1,874	2.5%	1,743	10.3%
Application Dev & Maint.	1,250	1,230	1.7%	1,138	9.9%
Enterprise Solutions	445	425	4.7%	409	8.9%
Assurance Services	227	220	3.3%	197	15.5%
Engineering & Industrial Services	139	131	5.6%	119	16.5%
Infrastructure Services	345	325	6.0%	274	25.8%
Global Consulting	94	86	10.2%	72	30.3%
Asset Leverage Solutions	83	77	7.2%	98	-16.0%
Business Process Outsourcing	366	359	1.7%	279	30.9%
% of Total Revenue					
IT Solutions & Services	65.2%	65.7%	-50 bps	67.4%	-220 bps
Application Dev & Maint.	42.4%	43.1%	-70 bps	44.0%	-160 bps
Enterprise Solutions	15.1%	14.9%	20 bps	15.8%	-70 bps
Assurance Services	7.7%	7.7%	0 bps	7.6%	10 bps
Engineering & Industrial Services	4.7%	4.6%	10 bps	4.6%	10 bps
Infrastructure Services	11.7%	11.4%	30 bps	10.6%	110 bps
Global Consulting	3.2%	3.0%	20 bps	2.8%	40 bps
Asset Leverage Solutions	2.8%	2.7%	10 bps	3.8%	-100 bps
Business Process Outsourcing	12.4%	12.6%	-20 bps	10.8%	160 bps

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2012	2013E	2014E	2015E
Net Revenue	488,938	630,260	706,442	790,150
Raw Material Expenses	264,580	345,538	389,430	445,419
Gross Profit	224,358	284,722	317,012	344,732
Employee Cost	—	—	—	—
Other Expenses	80,182	102,994	112,991	123,464
EBITDA	144,176	181,727	204,021	221,268
Depr. & Amortization	9,035	10,863	13,037	14,787
Net Interest	—	(9,206)	(12,012)	(17,058)
Other Income	4,041	10,756	13,780	19,193
Profit before Tax	139,181	181,620	204,764	225,674
Total Tax	31,688	40,683	46,072	49,648
Profit after Tax	107,493	140,937	158,692	176,026
Ex-Od items / Min. Int.	(1,052)	(1,200)	(1,355)	(1,545)
Adj. PAT	106,441	139,737	157,337	174,480
Avg. Shares O/S (m)	1,957.2	1,957.2	1,957.2	1,957.2
EPS (Rs.)	54.4	71.4	80.4	89.1

Cash Flow Abstract (Rs m)

Y/e March	2012	2013E	2014E	2015E
C/F from Operations	75,440	104,952	132,593	161,105
C/F from Investing	(29,498)	(26,471)	(29,671)	(31,606)
C/F from Financing	(1,602)	(48,930)	(54,802)	(56,759)
Inc. / Dec. in Cash	44,341	29,551	48,121	72,740
Opening Cash	15,538	59,878	89,430	137,551
Closing Cash	59,878	89,430	137,551	210,291
FCFF	57,921	77,282	101,567	127,953
FCFE	58,694	77,282	101,567	127,953

Key Financial Metrics

Y/e March	2012	2013E	2014E	2015E
Growth				
Revenue (%)	31.0	28.9	12.1	11.8
EBITDA (%)	28.7	26.0	12.3	8.5
PAT (%)	16.5	31.3	12.6	10.9
EPS (%)	16.5	31.3	12.6	10.9
Profitability				
EBITDA Margin (%)	29.5	28.8	28.9	28.0
PAT Margin (%)	21.8	22.2	22.3	22.1
RoCE (%)	35.1	37.7	34.0	29.1
RoE (%)	36.7	37.6	33.5	30.0
Balance Sheet				
Net Debt : Equity	(0.2)	(0.2)	(0.3)	(0.3)
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	24.5	18.7	16.6	15.0
P / B (x)	8.0	6.3	5.0	4.1
EV / EBITDA (x)	17.7	13.9	12.1	10.9
EV / Sales (x)	5.2	4.0	3.5	3.0
Earnings Quality				
Eff. Tax Rate	22.8	22.4	22.5	22.0
Other Inc / PBT	2.9	5.9	6.7	8.5
Eff. Depr. Rate (%)	8.5	8.2	8.0	7.6
FCFE / PAT	55.1	55.3	64.6	73.3

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2012	2013E	2014E	2015E
Shareholder's Funds	325,233	417,240	521,131	640,398
Total Debt	1,154	1,154	1,154	1,154
Other Liabilities	16,428	16,428	16,428	16,428
Total Liabilities	342,815	434,822	538,713	657,979
Net Fixed Assets	64,548	80,156	96,790	113,609
Goodwill	34,929	34,929	34,929	34,929
Investments	14,781	14,781	14,781	14,781
Net Current Assets	153,217	229,616	316,873	419,321
<i>Cash & Equivalents</i>	<i>59,879</i>	<i>89,430</i>	<i>137,551</i>	<i>210,291</i>
<i>Other Current Assets</i>	<i>162,514</i>	<i>216,049</i>	<i>252,186</i>	<i>292,416</i>
<i>Current Liabilities</i>	<i>69,175</i>	<i>75,862</i>	<i>72,864</i>	<i>83,386</i>
Other Assets	75,340	75,340	75,340	75,340
Total Assets	342,815	434,822	538,713	657,979

Quarterly Financials (Rs m)

Y/e March	Q3FY12	Q4FY12	Q2FY13	Q3FY13
Net Revenue	132,040	132,594	156,208	160,699
EBITDA	40,921	39,116	44,404	46,540
<i>% of revenue</i>	<i>31.0</i>	<i>29.5</i>	<i>28.4</i>	<i>29.0</i>
Depr. & Amortization	2,303	2,397	2,615	2,731
Net Interest	—	—	(2,264)	(2,806)
Other Income	(920)	1,078	3,103	2,133
Profit before Tax	37,698	37,796	44,892	45,942
Total Tax	8,538	8,174	9,443	10,025
Profit after Tax	28,866	29,382	35,396	35,518
Adj. PAT	28,866	29,382	35,396	35,518

Key Operating Metrics

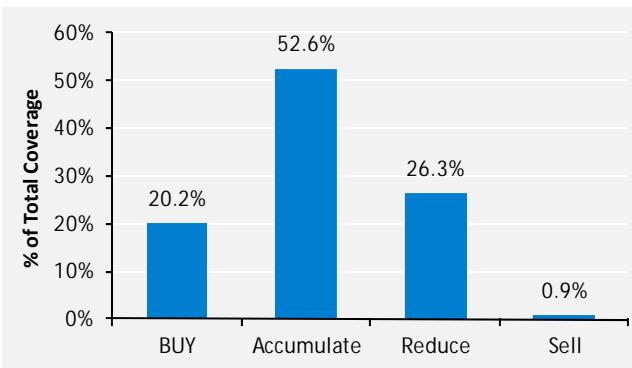
Y/e March	2012	2013E	2014E	2015E
Volume (persons month)	1,968,865	2,238,599	2,529,617	2,883,763
Pricing (US\$ / Hr)	33.9	33.9	34.6	34.6
Currency (USDINR)	48.1	54.5	53.0	52.0
SW Devp. Cost (% of Sales)	54.1	54.8	55.1	56.4
SG&A (% of Sales)	16.4	16.3	16.0	15.6
Revenue (US\$ m)	10,171	11,564	13,329	15,195
EBITDA Margin Expansion/(Erosion) (bps)	(52)	(65)	5	(42)
Tax Rate (%)	22.8	22.4	22.5	22.0

Source: Company Data, PL Research.



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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

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