

**TCS Ltd Result Synopsis****BUY****CMP: Rs.1050****Target: Rs. 1245**

**Earnings below expectations, Volume growth holds up, weak domestic growth
Management Confidence seems lower, remains 'watchful'**

TCS reported healthy 25.3% growth in Q212 net sales, driven by robust volume growth of 6.25% powered by excellent 9% growth in international business. Net sales stood at Rs.11633.5cr, up 7.7% QoQ which was largely inline with expectations. TCS continues to witness pricing pressures, with realizations declining 95bps during the quarter. The management attributed the fall in pricing to service mix compared to market mix which had hurt pricing in the Q112.

EBIT grew 23% YoY and 11.6%QoQ to Rs.3152cr which resulted in EBIT margins growing 94bpsQoQ to 27.10% provides comfort. Margin growth was driven by currency (+166bps), offshore shift (+4bps) while dragged by rate/productivity (-73), provisioning for bad and doubtful debts (+10bps), others (-13bps).

Staff expense grew 31% YoY. Gross additions stood at 20349 compared to 11988 on account of 10192 trainees joining the workforce. Despite the sharp trainee additions, TCS continues to witness high utilizations (76.4% compared to 70.2% seen in Infosys). Excl. trainees, utilizations remain high at 83.1% and management remains confident of maintaining utilizations at elevated levels.

Net profit stood at Rs.2439cr up 2.5% QoQ however below expectations of Rs.2460cr. Tax rate stood at 24.3% vs. 22.7% seen in Q112.

Dollar revenue growth however disappointed, growing mere 4.7% compared to 6% expected. The company witnessed currency headwind to revenues to tune of 50bps. Revenue growth in constant currency terms stood at 5.2%.

TCS added 35 clients during the quarter which is significantly lower than the 45 added by peer Infosys. The company won 10 large deals (\$100+) during the quarter with 2 each in Financial, Insurance and Telecom and 1 each in Retail, Energy & Utility and Pharma. TCS added 2 clients in the \$100mn + category while added 3 each in \$50mn and \$30mn categories.



Revenue Profile:

Revenue by service offering:

Application Development & maintenance service revenues which accounts for 44.7% of revenues underperformed, growing only 4.4% QoQ which is significantly below at 7.7% overall revenue growth. ADM revenue share has dipped significantly (150bpsQoQ) however management attributed it to higher traction in other service lines.

Enterprise solutions which accounts for 11.1% of revenues registered robust 9.9% QoQ growth. Assurance Services and Business Intelligence which account for 7.6% and 4.7% of revenues grew 12.2% & 3.6% on sequential basis.

Infrastructure Services continues to witness healthy traction with revenues growing 9.2 percent and thereby contribution to overall revenues consistently growing to 9.6% vs. 9.5% in Q112 and 9.4% in Q211. A Fortune 500 medical services company awarded TCS a large contract for its end-to end remote infrastructure services.

Business Process outsourcing (BPO) revenue share remained constant at 10.9% with revenues growing in line with overall revenues, 7.1%QoQ. Attrition levels declined to 24.25% compared to 25.49% (LTM) seen in Q112.

Engineering and Industrial Services, Global Consulting and Asset Leverage Solutions which account for 4.8%, 2.6%, 4% of revenues grew 13.8%, 26.9% and 20.1% on sequential basis.

SP Revenue (%)	Q212	Q112	QoQ
IT Solutions and Services			
App. Development and Maintainance	44.70%	46.20%	4.40%
Business Intelligence	4.70%	4.90%	3.60%
Enterprise Solutions	11.10%	10.80%	9.90%
Assurance Services	7.60%	7.30%	12.20%
Engineering & Industrial Services	4.80%	4.60%	13.80%
Infrastructure Services	9.60%	9.50%	9.20%
Global Consulting	2.60%	2.20%	26.90%
Asset Leverage Solutions	4.00%	3.60%	20.10%
Business Process Outsourcing	10.90%	10.90%	7.10%
Total	100.00%	100.00%	7.7%

Source: Company, Banham Research

Revenue by Industry

TCS reported robust growth across industry verticals except for Telecom which continues to remain a laggard. The company signed 10 large deals across verticals and remains confident of pipeline.

BFSI sector which is the biggest revenue contributor (43.5% of revenues), registered robust 8.6%QoQ growth and 24.4% YoY growth. The company won 4 large deals in the BFSI space. TCS maintained customers continue to remain focused on boosting efficiency, investments in payment solutions and compliance related initiatives.

Telecom revenues continue to remain a laggard, declining 1.7% QoQ. The company has won 2 large deals in telecom sector and management believes these customers would ramp up going forward. Revenue contribution has moved lower to 10.7% from 11.7% in Q112 and 12.8% in Q211.

Retail & Distribution revenues grew 12.2% QoQ and 39.3% YoY. TCS has added 1 client in the R&D space. Healthy traction is visible in digital consumer experience, real time analytics

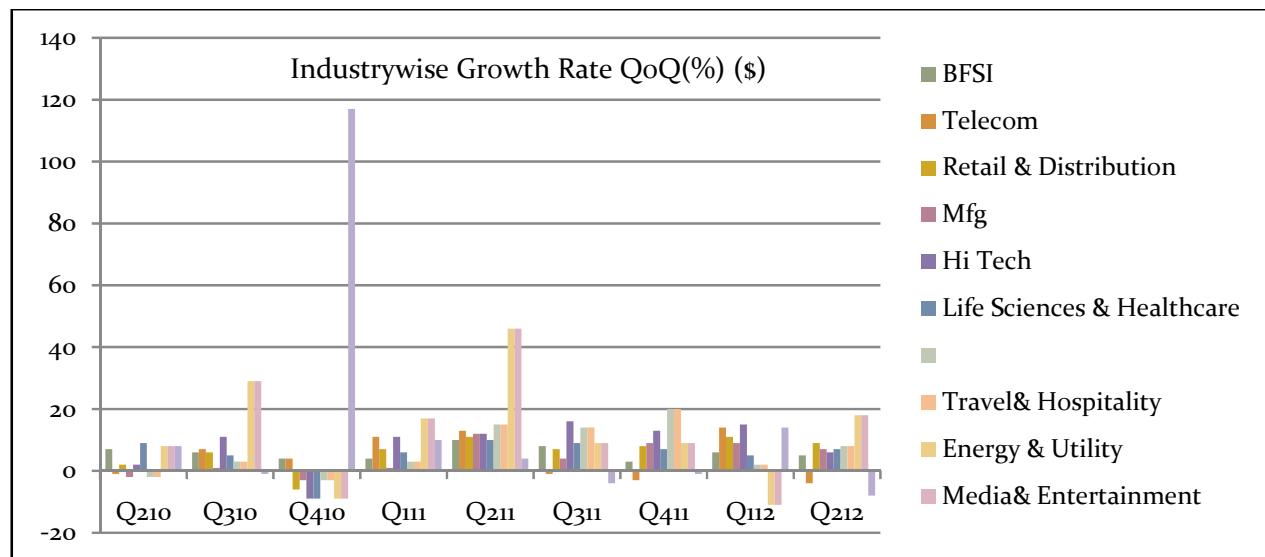
Hi Tech sector revenues registered robust growth of 9.5% QoQ growth. The company won 1 large deal from the sector during the quarter. Revenue share remained steady at 5.9%.Hi-tech revenues flow could be impacted in Q3112 on account of seasonal shutdowns (1-2weeks) expected to be seen in month of December.

Energy and Utilities witnessed high 20% QoQ growth due to base effect. Revenue contribution remained stable on YoY basis at 4.3% however was a steep mark-up versus 3.8% share seen in Q112. TCS secured 1 -\$100mn+ deal during the quarter.

Life Sciences & Healthcare which account for 5.3% of revenue witnessed robust traction, growing 9.1% on sequential basis.

IP Revenue (%)	Q212	Q112	QoQ	YoY
BFSI	43.50%	43.30%	8.60%	24.40%
Telecom	10.70%	11.70%	-1.70%	4.30%
Retail & Distribution	12.10%	11.60%	12.20%	39.30%
Manufacturing	7.80%	7.60%	10.30%	32.10%
Hi-Tech	5.90%	5.80%	9.50%	61.30%
Life Sciences & Healthcare	5.30%	5.20%	9.10%	29.80%
Travel & Hospitality	3.80%	3.70%	10.30%	49.10%
Energy & Utilities	4.30%	3.80%	20.00%	24.40%
Media & Entertainment	2.10%	2.20%	1.90%	33.90%
Others	4.50%	5.10%	-3.60%	-4.10%
Total	100%	100%	7.70%	25.30%

Source: Company, Banham Research



Source: Company, Banham Research

Revenues by Geography

Revenue mix geography-wise remained stable, with Americas contributing 56.4% of revenues. **North America** registered strong 8.8% QoQ growth. TCS signed 5 large deals from North America region. **Latin America** grew relatively slower at 2.8%QoQ. TCS said LATAM remains volatile however expects pick in quarters ahead. LATAM accounted for 1 large deal during the quarter.

Europe outperformed with UK revenues growing 10.3%QoQ and 9.3%QoQ. UK and Europe contributed 4 large (\$100mn+) deals. TCS remains cautious on the macro developments however has said there is disconnect between macro and corporate in the region and remains confident of spending for the current year to be on track.

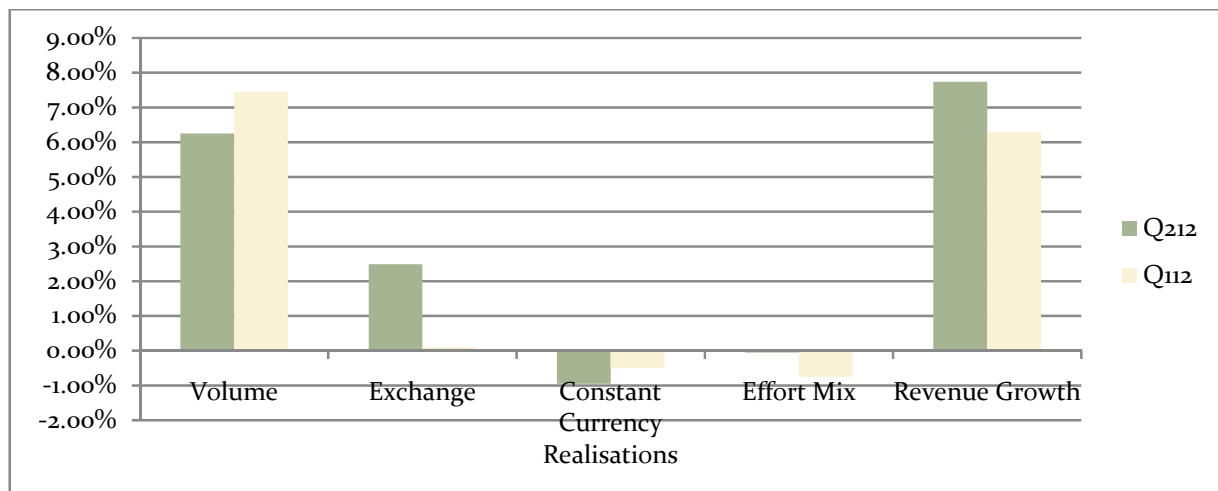
Domestic (India) business disappointed with 4.3QoQ decline in revenues. Asia Pacific and MEA region witnessed robust growth of 9.8%QoQ and 9.3%QoQ respectively.

Revenues by Project Type

Revenues mix witnessed a shift with Time and Material revenue share growing to 53.2% on account of higher steep ~290bpsQoQ decline in Fixed Price & Time contracts. TCS maintained said the fall in fixed contracts were mainly due to closure of earlier deals. The company expects the fixed share to remain ranged around 47-50% levels.

Pricing and Volume Growth

TCS registered healthy volume growth of 6.2% QOQ. However pricing pressure continued to be seen, with realizations declining 95bps vs. 50bps seen in Q112. The company attributed the fall in pricing to service mix compared to geographic mix in Q112, however expects pricing to remain stable from client perspective.



Source: Company, Banham Research

Client additions:

TCS added 35 new clients during the quarter compared to 24 client additions seen in Q112. Active clients grew to 1010 versus 959 in Q112. Revenue concentration remained largely stable, with top 10 clients contributing at 28.3% vs. 28.9% in Q112. Revenues from Top 5 clients continues to grow in absolute terms, however pace of growth could be lower or in line with overall revenue growth in quarters ahead.

Clients Contribution		
Revenue%	Q212	Q112
Top 1	6.9	7.1
Top 5	20	20.7
Top 10	28.3	28.9
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US \$1 mn	495	473
US \$5 mn	230	219
US \$10 mn	155	148
US \$20 mn	94	91
US \$50 mn	36	33
US \$100 mn	12	10

Source: Company, Banham Research

View:

TCS has continued to impress on the volume growth front which have been instrumental in powering revenue growth. However the management confidence on business outlook seems to have moved lower compared to Q112 and sees large uncertainty in global macros as major hangover for any decisive insights into positioning of clients budgets.

The company has witnessed robust growth across industry and healthy 3 large order wins over the last two quarters from the Telecom sector provides comfort. TCS remains positive on order pipeline as customers strive to achieve higher operational efficiency through re-engineering of application and transformation infrastructure.

The company remains confident of sustaining its utilization levels(82%+) and has maintained its gross addition target of 60,000 for the fiscal. Attrition levels have moved significantly lower to 13.7% compared to 14.8% seen in Q112. However maintaining margins, utilization levels as well as lowering attrition levels would be a test for management.

TCS believes there remains demand for services in the discretionary domain as clients seek to deliver higher customer experience, demand for real time analytics and decision making through big data technologies and innovation to meet evolving markets needs. Cloud services remain in favour as companies seek to boost footprint without dependence on creation of full fledged physical infrastructure. TCS is likely to focus on boosting contribution from non linear initiatives.

Overall a positive performance by TCS seen across industry, healthy client additions, improved margins, and robust volume growth. However there seems to be downward shift in confidence levels in management commentary, which has gained higher prominence, given the volatility in the global economy.

The stock is currently trading at 20.3x and 16.9x FY12e and FY13e earnings respectively and expected to trade at 20x FY13e EPS giving us our target price of Rs.1245. BUY.

Income	Q112	Q112	Q211	QoQ	YoY
Revenues	11634	10797	9286	7.75%	25.27%
COR	6372	6018	5111	5.88%	24.67%
Gross Margin	5262	4780	4176	10.09%	26.01%
SG&A	2108	1953	1564	7.89%	34.74%
Operating income	3154	2826	2612	11.61%	20.78%
Other Inc(expense)net	100	289	44	-65.45%	125.06%
PBT	3254	3115	2656	4.47%	22.52%
Tax	791	706	500	12.03%	58.23%
PAT	2463	2408	2156	2.25%	14.24%
MI	24	28	29	-15.66%	-19.39%
Net Income	2439	2380	2126	2.47%	14.71%

TCS P/L	FY09	FY10	FY11	FY12e	FY13e
Net sales	27813	30029	37325	47402	58305
y-o-y		8%	24%	27%	23%
Gross Profit	12374	13866	16895	21331	25946
y-o-y		12%	22%	26%	22%
Gross Margin	44.5%	46.2%	45.3%	45.0%	44.5%
EBITDA	7181	8680	11198	13984	16908
y-o-y		21%	29%	25%	21%
EBITDA Margin	25.8%	28.9%	30.0%	29.5%	29.0%
EBIT	6604	7959	10477	12751	15626
y-o-y		21%	32%	22%	23%
EBIT Margin	23.7%	26.5%	28.1%	26.9%	26.8%
PBT	6,137	8,185	11,009	13,337	16,270
Tax	901	1209	2174	3067	3905
Tax Rate	14.7%	14.8%	19.7%	23%	24%
PAT after MI	5175	6873	8716	10119	12185
y-o-y		33%	27%	16%	20%
EPS	26.4	35.1	44.5	51.7	62.3

Analyst:

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RATINGS

Buy	Accumulate	Neutral	Reduce	Sell
>15%	+5>15%	+5%/-5%	-5%<-15%	>-15%

Research:

Vikas Salunkhe	Technical	91 22 421 20 935
Swati Hotkar	Technical	91 22 421 20 938
Hedley Albuquerque	Fundamental	91 22 421 20 934

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