TCS Ltd Result Synopsis

BUY

CMP: Rs.1076

Target: Rs. 1254

Earnings in line with street expectations, strong performance across board
Mgmt confidence continues to drift lower, delay in decision making seen in discretionary spend

TCS reported healthy 13.5% growth in Q312 net sales, partly driven by volume growth (3.2%), improved realizations and largely on account of rupee depreciation. Dollar revenue grew to $2586mn, up 2.4% QoQ (4.5%ccy) which was largely in-line with expectations. TCS however positively surprised with pricing improving 198bps during the quarter.

EBIT grew 41.4% YoY and 20.8%QoQ to Rs.3861.8cr which resulted in EBIT margins growing 213bpsQoQ to 29.2%. Margin growth was driven by currency (+282bps), shift to GDC (-10bps), rate productivity (-94), provisioning for bad debts (-10bps), others (+45bps).

Staff expense grew 9% QoQ (34%YoY) however as percentage of revenues, dipped to 49% vs. 52% in Q212. Gross additions stood at 18907 (net 11891) with lateral additions at 35.8%. Utilizations (Excl. trainees) declined 108bps QoQ to 82.02% vs. 83.1% however remains within the management comfort band of 82-84%. The company has offered 43600 campus offers in FY12 and these would be joining from June-July onwards. Management indicated that wage increases would likely be in single digit in the year ahead.

Net profit stood at Rs.2887cr up 18.4% QoQ in line with consensus estimates. EPS stood at Rs.14.75 vs. Rs.12.46 in Q212.

Dollar revenue growth slowed to 2.4% to $2586mn. The company witnessed cross currency impact of 2.1%. Revenue growth in constant currency terms stood at 4.5%.

TCS added 40 clients during the quarter which is significantly lower than the 49 added by peer Infosys. The company won 10 large deals during the quarter with 2 each in Retail & Banking, 1 each in Insurance, Manufacturing, Life sciences, Hi-tech, Utility. The company remains confident of deal pipeline however has seen significant slowdown in decision making in discretionary projects.

Revenue Profile:

Revenue by service offering:

Application Development & maintenance service revenues which accounts for 44% of revenues witnessed robust growth after underperforming in Q212, growing 11.7% QoQ however was much slower than the 13.5% overall revenue growth.

Enterprise solutions which account for 11.1% of revenues continue to witness strong traction growing 17.6% QoQ. Assurance Services and Business Intelligence which account for 7.6% and 4.4% of revenues grew 13.4% & 6.8% on sequential basis, respectively. We believe considering the discretionary nature of spend, Enterprise solutions, Business intelligence services could possibly slowdown, if global macros deteriorate.

Infrastructure Services continues to witness healthy traction with revenues growing 24.8 percent and thereby contribution to overall revenues consistently growing to 10.6% vs. 9.6% in Q212 and 10.5% in Q311.

Business Process outsourcing (BPO) revenue share remained constant at 10.8% with revenues growing in line with overall revenues, 13.1%QoQ. Attrition levels declined to 22.6% compared to 24.25% (LTM) seen in Q212.TCS won couple of deals in BPO segment and remains confident of deal pipeline.

Engineering and Industrial Services, Global Consulting and Asset Leverage Solutions which account for 4.6%, 2.8%, 3.8% of revenues grew 7.1%, 22.5% and 5.9% on sequential basis, respectively.

SP Revenue (%)	Q312	Q212	QoQ(%)
IT Solutions and Services			In $ terms
App. Development and Maintenance	44.0%	44.70%	0.8%
Business Intelligence	4.4%	4.70%	-4.1%
Enterprise Solutions	11.4%	11.10%	5.2%
Assurance Services	7.6%	7.60%	2.4%
Engineering & Industrial Services	4.6%	4.80%	-1.9%
Infrastructure Services	10.6%	9.60%	13.1%
Global Consulting	2.8%	2.60%	10.3%
Asset Leverage Solutions	3.8%	4.00%	-2.7%
Business Process Outsourcing	10.8%	10.90%	1.5%
Total	100.00%	100.00%	2.4%

Source: Company, Banhem Research

Revenue by Industry

TCS reported robust growth across industry verticals and is confident of the revival of telecom sector going ahead. The company signed 10 large deals across verticals and remains confident of pipeline.

BFSI sector which is the biggest revenue contributor (43.3% of revenues), registered robust 12.5%QoQ growth and 32.5% YoY growth. In dollar terms, BFSI grew 2%QoQ. The company won 2 large deals in the banking and 1 in insurance space.

Telecom revenues grew 6.9% QoQ compared to 1.7% decline seen in Q212. Revenue contribution has moved lower to 10.0% from 10.7% in Q212 and 11.9% in Q311. In USD terms, revenues continued to disappoint, declining 4.3%QoQ. The company won 1 large deal in the telecom space.

Retail & Distribution revenues grew 15.1% QoQ and 53.8% YoY. TCS has added 2 clients in the R&D space. In USD terms, the growth stood at 4.1% QoQ.

Manufacturing revenues grew 14.2% QoQ and 48.1%YoY. In USD terms, the growth was in line with overall revenue growth, at 2.4%QoQ. TCS won 1 large deal in manufacturing segment. TCS added 1 large deal in the manufacturing sector.

Hi Tech sector revenues registered robust growth of 13.5% QoQ growth. The company won 1 large deal from the sector during the quarter. Revenue share remained steady at 5.9%. In USD terms, revenue growth stood at 2.4%QoQ. The strong revenue growth is a positive considering the seasonal shutdowns seen during the quarter.

Energy and Utilities witnessed 10.5% QoQ growth. However in USD terms, revenues witnessed 2.3% decline on QoQ basis. Revenue contribution remained stable on sequential basis at 4.1%. TCS secured 1 deal during the quarter from the E&U.

Life Sciences & Healthcare which account for 5.3% of revenue witnessed robust traction, growing 14.8% on sequential basis. In USD terms, the revenues grew 2.4% QoQ, in line with overall growth. TCS secured 1 deal during the quarter.

IP Revenue (%)	Q312	Q212	QoQ	YoY
BFSI	43.3%	43.50%	2.0%	17.1%
Telecom	10.0%	10.70%	-4.3%	1.4%
Retail & Distribution	12.3%	12.10%	4.1%	36.1%
Manufacturing	7.8%	7.80%	2.4%	30.7%
Hi-Tech	5.9%	5.90%	2.4%	42.3%
Life Sciences & Healthcare	5.3%	5.3%	2.4%	22.9%
Travel & Hospitality	3.8%	3.80%	2.4%	34.8%
Energy & Utilities	4.1%	4.30%	-2.3%	12.4%
Media & Entertainment	2.2%	2.10%	7.3%	15.4%
Others	5.3%	4.50%	20.6%	25.3%
Total	**100%**	**100%**	2.4%	20.6%

Source: Company, Banhem Research

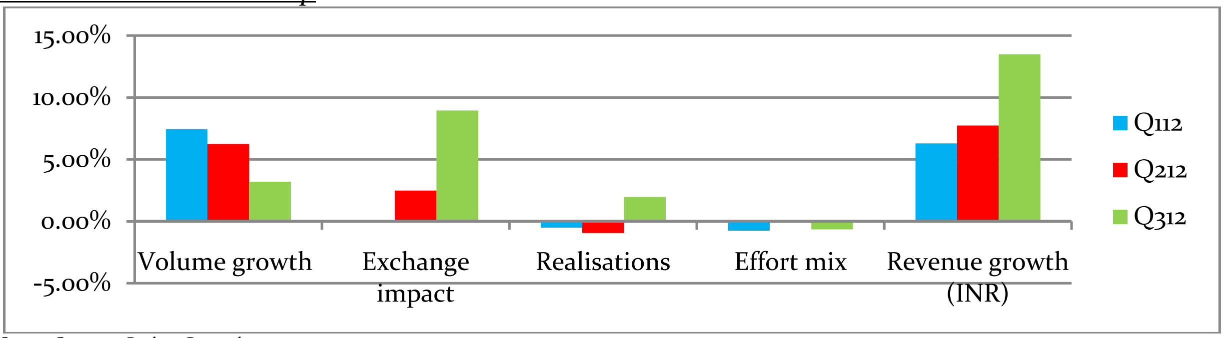
Revenues by Geography

Geography	Q3FY12	Q2FY12	QoQ(%)	Q3FY11	YoY(%)
Americas	**56.4**	**56.4**	**2.4**	**56.6**	**20**
North America	*53.3*	*53.4*	*2.2*	*53.5*	*20*
Latin America	*3.1*	*3*	*5.8*	*3.1*	*21*
Europe	**25.5**	**25.6**	**2.0**	**25.3**	**22**
UK	*15*	*15.5*	*-0.9*	*16*	*13*
Continental Europe	*10.5*	*10.1*	*6.5*	*9.3*	*36*
India	**8.4**	**8.3**	**3.6**	**9.2**	**10**
Asia Pacific	**7.6**	**7.5**	**3.8**	**6.9**	**33**
MEA	**2.1**	**2.2**	**-2.2**	**2**	**27**
Total	**100**	**100**	**2.4**	**100**	**21**

Revenues by Project Type

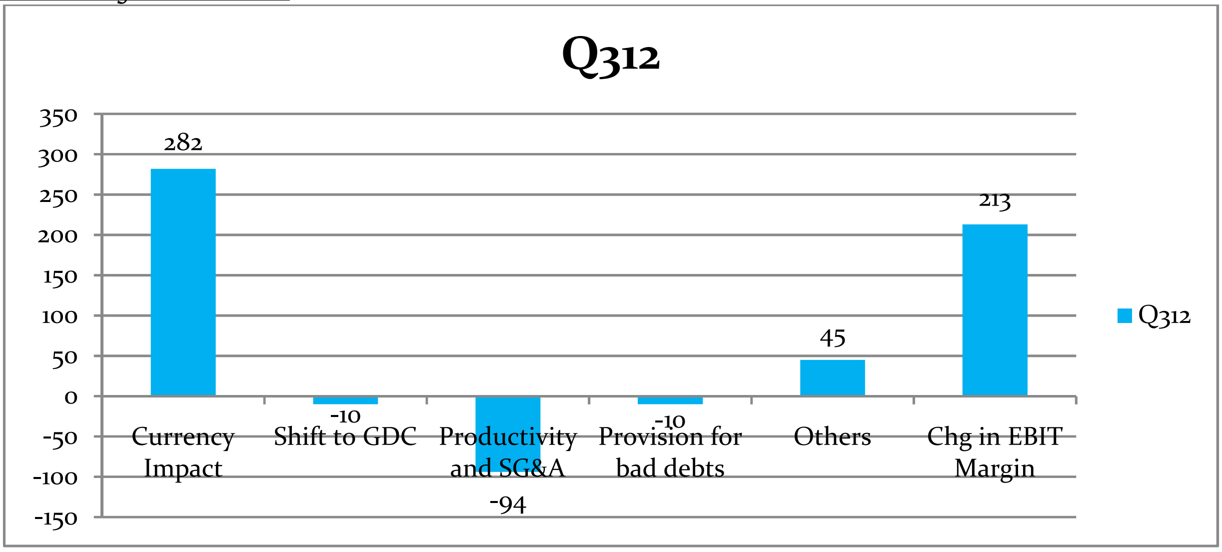
Revenue %	Q3FY12	Q2FY12
Onsite	45	45.2
GDC/RDC	4.5	3.9
Offshore	50.5	50.9
Contract Type	**Q3FY12**	**Q2FY12**
Time & Material	53.6	53.2
Fixed Price & Time	46.4	46.8

Revenue Growth Break-up



Source: Company, Banhem Research

EBIT Margin movement



Source: Company, Banhem Research

Client additions:

TCS added 40 new clients during the quarter compared to 35 client additions seen in Q212. Active clients declined to 1003 versus 1010 in Q212. Revenue concentration remained largely stable, with top 10 clients contributing at 27.7% vs. 28.3% in Q212. Revenue from top client grew 2.4% while top 10 clients revenue grew mere 0.2% large on account of 0.7% de-growth seen in top 2-5 client. Revenues from non-top 10 grew 3.3%QoQ.

Clients Contribution		
Revenue%	**Q312**	**Q212**
Top 1	6.9	6.9
Top 5	19.6	20
Top 10	27.7	28.3
US $1 mn	512	495
US $5 mn	235	230
US $10 mn	161	155
US $20 mn	95	94
US $50 mn	39	36
US $100 mn	14	12

Source: Company, Banhem Research

Utilisations	**Q312**	**Q212**
Excl. Trainees	82.02%	83.10%
Incl. Trainees	74.04%	76.40%

Source: Company, Banhem Research

View:

TCS performance during the quarter has been well rounded in terms of client additions, maintaining utilizations within comfort band, large order wins. However TCS has disappointed in terms of volume growth which is almost at par with Infosys. Management confidence has further deteriorated after showing early signs in Q212. We believe the sharp outperformance run in terms of volume growth and revenue growth over peer Infosys may be exhausted.

The robust client addition, across industries, services and geographies provides comfort. The management remains positive on the Telecom sector, and expects telecom to grow in the quarters ahead. TCS continues to see spend in regulatory areas in the B&FS space, in Retail through digital consumer, applications for mobiles and analytics. However overall, has also cautioned of healthy evidence of slow decision making in the discretionary spend areas, which is 20-25% of overall portfolio. TCS expects pricing environment to remain stable in the quarters ahead despite the sharp improvement in Q312.

The stock is currently trading at 16x FY13e earnings and expected to trade at 19xFY13e EPS giving us our target price of Rs.1254. BUY.

Income	Q312	Q212	Q311	QoQ	YoY
Revenues	13204	11634	9663	13.5%	36.6%
COR	6996	6372	5275	9.8%	32.6%
Gross Margin	6208	5262	4388	18.0%	41.5%
SG&A	2346	2108	1656	11.3%	41.6%
Operating income	3846	3154	2732	21.9%	40.8%
Other Inc	-92	100	182	PL	PL
PBT	3770	3254	2914	15.9%	29.4%
Tax	854	791	549	7.9%	55.5%
PAT	2916	2463	2365	18.4%	23.3%
MI	29	24	19	22.4%	53.4%
Net Income	2887	2439	2346	18.4%	23.1%

TCS P/L	FY10	FY11	FY12e	FY13e
Net sales	30029	37325	49245	58891
y-o-y	*8%*	*24%*	*32%*	*20%*
Gross Profit	13866	16895	22646	27090
y-o-y	*12%*	*22%*	*34%*	*20%*
Gross Margin	46.2%	45.3%	46.0%	46.0%
EBITDA	8680	11198	14774	17726
y-o-y	*21%*	*29%*	*32%*	*20%*
EBITDA Margin	28.9%	30.0%	30.0%	30.1%
EBIT	7959	10477	13870	16548
y-o-y	*21%*	*32%*	*32%*	*19%*
EBIT Margin	26.5%	28.1%	28.2%	26.8%
PBT	8,185	11,009	14,268	17,000
Tax	1209	2174	3282	3910
Tax Rate	14.8%	19.7%	23%	24%
PAT after MI	6873	8716	10836	12910
y-o-y	*33%*	*27%*	*24%*	*19%*
EPS	35.1	44.5	55.4	66.0

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RATINGS

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

Research:

Swati Hotkar	Technical	91 22 421 20 938
Avdhut Bagkar	Technical	91 22 421 20 926
Hedley Albuquerque	Fundamental	91 22 421 20 934