TCS Result Synopsis

Accumulate

CMP: Rs.1171

Target: Rs. 1340

TCS reports robust Q412 performance, demand outlook positive
Delays in discretionary spend seen easing, BFSI expected to remain flat.

TCS reported revenue growth in line with expectations, at Rs.13259cr up 0.4%QoQ while net profits comfortably beat expectations at Rs.2932.4cr, growing 1.6% sequentially. TCS witnessed healthy growth in volumes (+3.3%) while realizations declined 97bps. The management is confident of the strong performance sustaining in the Q113 on account of positive momentum in client spend being seen across revenue bands as well as with delays in discretionary spend easing. In USD terms, revenues rose 2.4% to $2648mn while in constant currency terms stood at 2.3%.

EBIT margin contraction was more severe for TCS vis-à-vis peer Infosys, declining 155bpsQoQ to 27.7% on account of headwinds in form of SG&A (-120bps) and currency impact (-71bps) while productivity gains(+36bps) partly offset the contraction. EBIT declined 4.9% to Rs.3672cr which could be symptomatic of higher investments required to sustain revenue growth while adverse forex movement exacerbated the pressure.

Volume robust however realizations decline, demand outlook positive

TCS witnessed robust improvement in volumes (+3.3%) which is a strong positive; however weaker realizations hurt revenue growth. The management remains confident of the momentum sustaining in the quarter ahead and expects spending to gather steam going forward. TCS is confident of growing at a faster pace than industry body NASSCOMs projections of 11-14% growth for FY13.

Client Additions lags peers, but improves QoQ

TCS witnessed improvement in client additions at 42 compared to 40 seen in Q312 but continued to lag peers Infosys, HCL Tech which recorded 52 additions each. TCS won 6 large deals across verticals. Revenue growth from top client (+0.9%) as well as top ten (+0.2) were flat while non top client grew 3.2%QoQ supporting overall revenue growth.

Utilizations decline, Attrition declines, Wage hikes up to 8%

TCS witnessed moderation in utilizations, excluding trainees was at 80.6% vs. 82.02% while including training it declined to 71.26% vs. 74.04% in Q312. Attrition level declined to 12.2% vs.12.8%.The company targets to hire 50,000 employees and maintain utilizations between 80-82% mark. TCS has announced wage hikes of 8% for domestic employees while hikes ranging between 2-4% and 6-8% for employees in developed and developing markets. The wage hike decision is expected to weigh on margins in Q1FY13 but would be useful in keeping attrition at low levels as well as attract talent from peers going ahead.

Revenue Profile:

Revenue by service offering:

Application Development & maintenance service revenues which accounts for 44.4% of revenues grew 1.4% which helped overall revenue growth to stay in positive territory. The growth in ADM comes on the back of the healthy 11.7% growth seen in Q312.

Enterprise solutions which account for 11% of revenues recorded a decline of 3.1%QoQ due to base effect. Assurance Services and Business Intelligence which account for 7.3% and 4.2% of revenues declined 2.8% & 3.8% on sequential basis, respectively. Discretionary spend after starting off on a nervous note picked up in the latter half of the quarter. The management expects the momentum to continue in the June quarter (Q1FY13)

Infrastructure Services reported a revenue decline of 2.3%QoQ on the back of robust 24.8%QoQ seen in Q312. Management remains confident of the segment and expects traction to sustain in the quarters ahead.

Business Process outsourcing (BPO) revenue share remained grew to 11.5% with revenues outperforming overall revenues, 6.5%QoQ. Attrition levels declined to 21.64% compared to 22.6% (LTM) seen in Q212.

Engineering and Industrial Services, Global Consulting and Asset Leverage Solutions which account for 4.6%, 2.7%, 3.9% of revenues grew 0.5%, -3% and 4% on sequential basis, respectively.

SP Revenue (%)	Q412	Q312	QoQ (%)
IT Solutions and Services			In $ terms
App. Development and Maintenance	44.4%	44.0%	3.3%
Business Intelligence	4.2%	4.4%	-2.3%
Enterprise Solutions	11.0%	11.4%	-1.2%
Assurance Services	7.3%	7.6%	-1.6%
Engineering & Industrial Services	4.6%	4.6%	2.4%
Infrastructure Services	10.4%	10.6%	0.5%
Global Consulting	2.7%	2.8%	-1.3%
Asset Leverage Solutions	3.9%	3.8%	5.1%
Business Process Outsourcing	11.5%	10.8%	9.0%
Total	100.00%	100.00%	2.4%

Source: Company, Banhem Research

Revenue by Industry

TCS reported decent growth across industry verticals and the telecom sector performance improved as envisaged by management. The company signed 6 large deals across verticals and remains confident of pipeline.

BFSI sector which is the biggest revenue contributor (42.2% of revenues), registered de-growth of 2%QoQ. In dollar terms, BFSI was flat, down 0.2%QoQ. The company won 3 large deals in the segment with 1 each in NA, Europe and Asia pacific.

Telecom revenues were flat down 0.3% QoQ after the 6.9% surge seen in Q312. Revenue contribution remains constant at 10%. In USD terms telecom revenues grew 2.4%QoQ.

Retail & Distribution revenues grew 2.4% QoQ. In USD terms, the growth stood at 4.1% QoQ.

Manufacturing revenues grew 1.6% QoQ. In USD terms, mfg grew faster than overall revenues at 3.7% QoQ.

Hi Tech sector revenues registered robust growth of 1.7% QoQ growth. Revenue share remained steady at 6%. In USD terms, revenue growth stood at 4.1%QoQ.

Energy and Utilities witnessed sharp de-growth of 8.1% QoQ growth. In USD terms, revenues witnessed 5.1% decline on QoQ basis. Revenue contribution declined on sequential basis at 3.8% compared to 4.1% in Q312.

Life Sciences & Healthcare which account for 5.3% of revenue were flat, growing 0.3% on sequential basis. In USD terms, the revenues grew 2.4% QoQ, in line with overall growth.

IP Revenue (%)	Q412	Q312	QoQ
			In $ terms
BFSI	42.2%	43.3%	-0.2%
Telecom	10.0%	10.0%	2.4%
Retail & Distribution	12.5%	12.3%	4.1%
Manufacturing	7.9%	7.8%	3.7%
Hi-Tech	6.0%	5.9%	4.1%
Life Sciences & Healthcare	5.3%	5.3%	2.4%
Travel & Hospitality	3.7%	3.8%	-0.3%
Energy & Utilities	3.8%	4.1%	-5.1%
Media & Entertainment	2.2%	2.2%	2.4%
Others	6.4%	5.3%	23.6%
Total	**100%**	**100%**	**2.4%**

Source: Company, Banhem Research

Geography (%)	Q4FY12	Q3FY12	QoQ (%)
Americas	**56.7**	**56.4**	**2.9**
North America	*53.6*	*53.3*	*3.0*
Latin America	*3.1*	*3.1*	*2.4*
Europe	**25.0**	**25.5**	**0.4**
UK	*15.2*	*15*	*3.8*
Continental Europe	*9.8*	*10.5*	*-4.4*
India	**8.5**	**8.4**	**3.6**
Asia Pacific	**7.7**	**7.6**	**3.7**
MEA	**2.1**	**2.1**	**2.4**
Total	**100**	**100**	**2.4**

Revenue	Q4FY12	Q3FY12
Onsite	45.2%	45%
GDC/RDC	4.5%	4.5%
Offshore	50.3%	50.5%

Contract Type	Q4FY12	Q3FY12
Time & Material	53.0%	53.6%
Fixed Price & Time	47.0%	46.4%

Revenue (%)	Q412	Q312	QoQ
Top 1	6.8%	6.9%	0.9%
Top5	19.2%	19.6%	0.3%
Top 10	27.1%	27.7%	0.2%
Non Top 10	72.9%	72.3%	3.2%

No. of clients	Q412	Q312	FY12	FY11
US $1 mn	522	512	522	458
US $5 mn	245	235	245	208
US $10 mn	170	161	170	143
US $20 mn	99	95	99	81
US $50mn	43	39	43	27
US $100mn	14	14	14	8

Employees	Q412	Q312	Q212	Q112	Q411
Gross Added	19156	18907	20349	11988	19324
Net Added	11832	11981	12580	3576	11700
Attrition*(LTM)	11.05%	11.7%	12.51%	13.56%	13.13%

*IT services

Source: Company, Banhem Research

View

TCS has witnessed a revival in business confidence and is confident of a sustaining the strong growth momentum into FY13. The company expects the year to be in-line with historical pattern, with H1FY being stronger than H2FY. Given the revival in client spend and delays in discretionary spend expected to ease going forward, TCS is convinced of its ability to grow ahead of NASSCOMs projection of 11-14% growth.

TCS has witnessed strong performance across verticals, geographies and won deal across the board. This has revived confidence for the management which looked nervous at the start of the fourth quarter. The ability to deliver healthy volume growth, high utilizations vs. peers and retain talent provides of a lot of assurance on sustainability of the performance. The reversal to outperformance on revenue and volume front vs. Infosys has certainly proved the sluggishness seen in Q312 was a blip on its outperformance journey.

TCS has managed to add fewer clients during the quarter vs. peers but for the full year has managed to add 6 clients in the $100+ category compared to only 3 by Infosys. This possibly is a reflection of the aggressiveness of the management as well as the nature of demand playing out.

The company has however not been able to scale up its non linear revenues. In Q412, non-linear revenues declined 9%YoY. Non linear growth accounts for 3% of revenues compared 6% for Infosys. TCS aims to achieve 10% of incremental revenues from its products and platforms solutions.

TCS margins are expected to be under pressure on account of visa costs and wage hikes to be seen during the first quarter. The wage hikes announced is a positive move by the company as it's expected to keep attrition levels at comfortable levels, which currently stands at 12.2%. The company targets to hire 50,000 employees and maintain utilizations between 80-82% mark.

We expect TCS to report revenue and PAT growth of 18% and 17% respectively over FY12-14e on CAGR basis. TCS is currently trading at 15.8xFY14e EPS and have a multiple of 18x FY14e EPS giving us our target price of Rs.1340.

Income(Rs.cr)	Q412	Q312	Q411	QoQ	YoY
Revenues	13259	13204	10158	0.4%	30.5%
COR	7073	6996	5521	1.1%	28.1%
Gross Margin	6187	6208	4637	-0.3%	33.4%
SG&A	2515	2346	1760	7.2%	42.9%
Operating income	3672	3862	2877	-4.9%	27.7%
OPM (%)	*27.7%*	*29.2%*	*28.3%*	*(155)bps*	*(63)bps*
Other Inc	108	-92	227	PL	-52.6
PBT	3780	3770	3104	0.3%	21.8%
Tax	817	854	669	-4.3%	22.1%
PAT	2962	2916	2434	1.6%	21.7%
MI	30	29	41	1.4%	-28.0%
Net Income	2932	2887	2393	1.6%	22.6%

Income($mn)	Q412	Q312	Q411	QoQ	YoY
Revenues	2648	2586	2245	2.4%	18%
COR	1413	1370	1220	3.1%	16%
Gross Margin	1235	1216	1025	1.6%	20%
SG&A	502	460	389	9.1%	29%
Operating income	733	756	636	-3.0%	15%
OPM (%)	*27.7%*	*29.2%*	*28.3%*	*(155)bps*	*(63)bps*
Other Inc	22	-18	50	NA	-56%
PBT	755	738	686	2.3%	10%
Tax	165	164	148	0.6%	11%
PAT	590	574	538	2.8%	10%
MI	5	6	9	-16.7%	-44%
Net Income	585	568	529	3.0%	11%

EBIT Margin Drivers		**Revenue Growth Drivers**	
Currency	-71bps	Volume Growth	+3.26%
SG&A	-120bps	Currency	-1.87%
Rate productivity	+36bps	Pricing	-0.97%
Chg in EBIT Margin	**-155bps**	**Revenue Growth**	**+0.42%**

All figures in Rs.cr

Profit & Loss	FY11	FY12	FY13e	FY14e
Net Sales	**32325**	**48894**	**58992**	**67746**
YoY	*24%*	*31%*	*21%*	*15%*
Gross Profit	16895	22436	27136	31163
EBITDA	10707	13837	16223	18969
YoY	*23%*	*29%*	*17%*	*17%*
EBITDA Mgn (%)	28.7%	28.3%	27.5%	28.0%
EBIT	10480	13514	15987	18495
YoY	*32%*	*29%*	*18%*	*16%*
EBIT Mgn (%)	28.1%	27.6%	27.1%	27.3%
PBT	11014	13918	16476	19028
PAT	8848	10749	12687	14651
PAT after MI	8728	10638	12576	14540
YoY	*27%*	*22%*	*18%*	*16%*
EPS	44.6	54.4	64.3	74.3

Balance Sheet	Mar-11	Mar-12	Mar-13e	Mar-14e
Assets				
Net Block	5200	6455	7875	9844
Goodwill	3406	3493	3633	3814
Investments	1839	1478	1922	2210
Cash & Cash Equivalents	1554	1984	2616	3029
Other Assets	20632	27790	34508	42767
Total Assets	**32631**	**41199**	**50554**	**61664**
Liabilities				
Equity	196	196	196	196
Shareholder Funds	25416	32523	40949	50885
Borrowings	75	127	127	127
Other Liabilities	7140	8549	9478	10652
Total Liabilities	**32631**	**41199**	**50554**	**61664**

Cash Flow	Mar-11	Mar-12	Mar-13e	Mar-14e
Cash flow from Operations	6904	7544	9393	10563
Cash Flow from Investment	-1785	-2950	-4610	-5547
Cash flow from Financing	-4619	-4153	-4150	-4604
Net chg in Cash	500	441	633	413
Opening cash	1025	1554	1984	2616
Closing Cash	1554	1984	2616	3029

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RATINGS

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

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