

TCS

₹ 1584

*The Macro Soft of India***Accumulate**

Mar 08, 2013

Company Background

Established in 1968, Tata Consultancy Services (TCS), a member of the Tata Group is considered as the largest IT services firm in Asia based on its record of outstanding service, collaborative partnerships, innovation and corporate responsibility. TCS Ltd. is an Indian IT services, business solutions and outsourcing company headquartered in Mumbai, India. The service is delivered through its unique Global Network Delivery Model™ (GNDM), recognized as the benchmark of excellence in software development. TCS has over 2,26,751 of the world's best-trained consultants in 42 countries. It has generated a net profit of 110 bn for FY 2012. It is the largest provider of information technology in Asia and 2nd largest provider of business process outsourcing services in India.

Key Highlights

- ➔ TCS won 7 large deals during Q3FY13 among which 2 are in BFSI and 1 each in Telecom, Transportation, Retail, Healthcare and Government. Out of these 4 deals are in USA. This implies that largest market for Indian IT is reviving.
- ➔ TCS hired 17200 people in Q3FY13 and it would be completing the full year fresher hiring target without any deferment. Even for FY14, management targeted 25000 hirings and already gave 24000 offers which shows the immense confidence on the medium term growth prospect. Attrition came down by 30bps sequentially to 11.20% and IT attrition touched a historical low of 9.8%.
- ➔ TCS won a multi-million, multi-year contract from Home Office, a department of the UK government to manage the technology needs and support services of the newly formed Disclosure and Barring Service. TCS will provide end-to-end process, technology & operations support for an initial period of 5 years.
- ➔ TCS announced that its new software development campus at Rajarhat will be functional by the end of the FY 2015. The 40 acre campus will house over 16,500 seats and is being constructed with an investment of ~Rs 13500 mn.
- ➔ TCS is collaborating with SAP AG on development of the SAP® Retail Execution mobile app version 3.0. The collaboration is based primarily on TCS' extensive experience in consumer packaged goods (CPG) industry implementation projects and mobile application product development.

Key Financials

Year Ended 31 st	Mar 10	Mar 11	Mar 12
Revenue (INR mn)	234,548.2	299,308.5	420,364.3
Rev. growth (%)	2.89	27.61	40.45
EBITDA (INR mn)	71,606.4	91,574.0	144,530.2
Net profit (INR mn)	56,185.1	75,699.9	109,759.8
Shares outstanding (mn)	1,957.2	1,957.2	1,957.2
EPS (INR)	28.7	38.7	56.1
EPS growth (%)	(40.18)	34.73	44.99
P/E (x)	27.2	30.6	20.8
RONW (%)	39.5	43.8	49.4
ROCE (%)	39.2	43.5	49.0

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Info Codes

Reuters	: TCS.BO
Bloomberg	: TCS@IN
NSE	: TCS
BSE	: 532540

Market Data

52 Wk Range (₹)	: 1598 / 1047
Shares in Issue (mn)	: 1957.2
Mkt. Cap (₹ bn)	: 3100.53
BSE 2 Wk Avg Vol	: 131000

Share Holding Pattern (%)

Promoters	: 73.96
DII's	: 06.45
FII's	: 14.96
Others	: 04.63

Investment Theme

TCS is expected to maintain its industry leading growth backed by its strong order pipeline and recent big deal wins. TCS management indicated that FY14 would be a better year for TCS as well as Indian IT as TCS has better clarity on the client's spending intention; decision delays are getting over and annuity deals are coming back to market. Digital Spend, Analytics & Big data are also picking up. Europe is expected to perform better in coming years, as clients are moving towards the offshore model to lower cost. Management also indicated early signs of improvement in discretionary spend as companies worldwide are targeting more efficiency to get better growth and higher margin. Based on the recent pick up in the large deal market & continuous growth momentum maintained by TCS, we expect that the company surplus scenario is likely to continue.

Running Many of the Fortune 500

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 10	Mar 11	% Chg	Mar 12	% Chg
Total Sales + Excise	230472.8	292770.2	27.03	388604.2	32.73
Other Income	4051.2	5583.4	37.82	31762.6	468.88
Change in Stocks	(13.8)	(8.7)	(36.96)	(2.6)	(70.11)
Raw Material Con.	237.5	177.5	(25.26)	118.0	(33.52)
Employee Exp.	118619.8	148894.5	25.52	197370.1	32.56
Indirect Taxes	408.4	430.2	5.34	602.1	39.96
Other Exp.	43638.1	57268.7	31.24	77743.8	35.75
Operating Exp.	162917.6	206779.6	26.92	275836.6	33.40
Operating Profit	67555.2	85990.6	27.29	112767.6	31.14
Total Interest	2210.2	730.5	(66.95)	4492.2	514.95
Gross Profit	69396.2	90843.5	30.91	140038.0	54.15
Net Dep.	5552.6	4784.2	(13.84)	6024.8	25.93
Total Taxation	7658.5	10359.4	35.27	24253.4	134.12
Net Profit/Loss	56185.1	75699.9	34.73	109759.8	44.99

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 09	Mar 10	Mar 11	Mar 12
SOURCES OF FUNDS	134,873.4	151,523.9	196,206.4	249,608.3
Equity Share capital	978.6	1,957.2	1,957.2	1,957.2
Share Application Money	0.5	0.3	0.3	0.0
Preference Share Capital	1,000.0	1,000.0	1,000.0	1,000.0
Reserves & Surplus	132,483.9	148,209.0	192,837.7	245,609.1
Long Term Loans	389.2	357.4	411.2	1,042.0
Short Term Loans	21.2	0.0	0.0	0.0
USES OF FUNDS	134,873.4	151,523.9	196,206.4	249,608.3
Gross Block	43,592.4	48,712.1	60,301.6	72,820.2
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	16,901.6	21,106.9	26,079.8	32,184.0
Net Block	26,690.8	27,605.2	34,221.8	40,636.2
Capital Work in Progress	6,851.3	9,407.2	10,728.6	13,998.2
Investments	59,360.3	78,933.9	57,954.9	56,885.9
Current Assets	93,204.0	111,660.5	159,356.9	232,678.7
Less : Current Liabilities	51,233.0	76,082.9	66,055.8	94,590.7
Total Net Current Assets	41,971.0	35,577.6	93,301.1	138,088.0
Misc. Expenses not written	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	7.0	34.4	10.8	10.8
Mkt Val. Quoted Investments	16,618.3	31,652.2	16,151.1	15,439.4
Contingent Liabilities	29,250.9	33,015.0	39,488.9	65,458.8
Dividend (%)	1400	2000	1400	2500

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 12	Jun 12	Sep 12	Dec 12
Net Sales	101,709.10	114,106.50	119,255.60	123,669.50
Cost Of Sales	71,306.90	79,588.00	83,503.50	86,955.80
Operating Profit	30,402.20	34,518.50	35,752.10	36,713.70
Recurring Income	2,434.60	1,692.60	11,486.90	4,554.00
Adjusted PBDIT	32,836.80	36,211.10	47,239.00	41,267.70
Financial Expenses	24.30	42.60	132.90	38.10
Depreciation	1,842.20	1,817.90	1,969.30	2,020.20
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	30,970.30	34,350.60	45,136.80	39,209.40
Tax Charges	5,386.90	6,374.70	7,909.20	7,038.30
Adjusted PAT	25,583.40	27,975.90	37,227.60	32,171.10
Non Recurring Items	0.00	0.00	0.00	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	25,583.40	27,975.90	37,227.60	32,171.10

52 Week Index Relative Percentage Appreciation



TCS vs SENSEX vs IT vs Teck

Points to poider

- TCS has been designated as a Leader in Capital Markets BPO in the Everest Group report “A PEAK into the Leaders, Major Contenders and Emerging Players of the Capital Markets BPO.” Among the attributes that earned TCS the prominent position are its scale, scope of offering and its strong technology capability characterized by the TCS BaNCs suite of platforms for capital markets, a platformbased trade reconciliation solution, and its TRAPEZE set of tools.
- TCS announced that Forrester Research Inc has named its flagship brand TCS BaNCs as a leader among a select group of global core banking software platforms. In its 62-criteria evaluation of global banking platform vendors, the research firm identified the eight most significant software providers.
- TCS had won the prestigious “Supply Chain Project of the Year” at the Hermes Retail Weekly UK Supply Chain Awards 2012. TCS won the award along with The Co-operative Group for implementing “Store Merchandise and Replenishment System”, a major transformation program for The Co-operative Group’s food business, a key grocery player in the UK.
- TCS has won the IT Services Marketing Association (IT SMA) Diamond Award in the Transforming the Marketing Organization category. TCS’ European entry, highlighting its global Big 4 brand presence campaign, was recognized as best in class for the industry.
- TCS announced that AGL, one of Australia’s leading integrated renewable energy companies, and TCS have jointly won the SAP Award of Excellence for Best Run Value Realization for “Project Spectrum,” a major initiative to transform AGL’s billing processes and services. AGL selected TCS as its IT services partner for Project Spectrum, a major transformation program started in 2010 to implement the SAP Industry Specific Utility (IS-U) Billing Solution..

In a Nutshell

TCS is the largest IT services company in India. It employs over 263,000 people and provides IT and BPO services to over 1,000 global clients. It is one of the preferred IT vendors for most Fortune 500/Global 1,000 companies. TCS Ltd. is the largest software company in Asia, having a wide range of offerings and catering to industries like banking and financial services, manufacturing, telecom, and retail. TCS was ranked as the 4th most valuable brand in global IT services by Brand Finance. It was named 'Largest Systems Integrator' by CMAI Association of India. Genworth Financial, Inc. has named the company as its Strategic Supplier of the Year. It also won the prestigious 'Microsoft IT – Supplier Innovator of the Year' award. TCS' ability to deliver high-quality services and solutions is unmatched. It is the world's first organization to achieve an enterprise-wide Maturity Level 5 on both CMMI® and P-CMM®, using the most rigorous assessment methodology - SCAMPISM. Additionally, TCS' Integrated Quality Management System (iQMS™) integrates process, people and technology maturity through various established frameworks and practices including IEEE, ISO 9001:2000, CMMI, SW-CMM, P-CMM and 6-Sigma. The company was rated by the CRF Institute as the Top ICT Employer of the year in the Netherlands. The award underlines the high quality of TCS' human resource practices, focusing on personal growth and development of its employees worldwide. The company has been rated the highest (5 stars) in the industry for the categories related to Training and Development, Career Possibilities, Organization Culture and Innovation. Looking at the growth TCS has achieved in last few years, we remain positive on the company.

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Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate 10% to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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