

TATA CONSULTANCY SERVICES LTD

TCS reported Q2FY13 results that were better than street expectation, with sales growth of 5% QoQ led by broad based growth across verticals, services & geographies. Among geographies, growth was driven by emerging economies. India grew the fastest (+10.5% QoQ), followed by Latin America and APAC (+7.7% and +7.4% respectively). Europe remained strong, with the UK growing 5.2% and Continental Europe was steady at 3.5%. North America grew 3.2% QoQ. PAT grew by 3.5% on Sequential basis, while its operating margin was dip 70 bps at 28.4% due to lower currency realizations.

On Dollar term, Company witnessed 4.6% sales growth and 6.5% PAT growth on a sequential basis (**Figure: 1.1**). While, EBITDA margin (**Figure: 1.2**) declined to 26.7% against the 27.5% (Q1FY13). During the Quarter, Company witnessed 4.95% volume growth with steady pricing growth against the 5.3% volume growth and 6.5% pricing growth on a sequential basis.

During the quarter, Company added 41 new clients (**Figure 1.3**) and won 11 large deals, including 6 in troubled areas of BFSI and telecom, and 2 discretionary deals. TCS has maintained the highest range of client concentration matrix from top client ,top 5 and top 10 client (higher than other Tier1 IT players), considering the current demand environment scenario, Company has more focused on below than \$20mn clients.

On headcount front, added 10531 net employees in the quarter, Metrics of company were impressive against the backdrop of pricing environment challenge. With healthy headcount, addition and attrition at 11.4% against 10.9% (Q1FY13) still lowest attrition in last 10 qtr. Given the current momentum, even its guidance of 25,000 campus offers will not be construed negatively, and the management indicated that the lower number dictates to increase utilization and plausibility of hiring fresh graduates' just-in-time given weaker campus hiring this year.

Recently Company has awarded a US\$2.2 bn TCV 15-year closed life policy administration contract with Friends Life, a leading UK-based insurance provider. Company has bagged another 5years contract from the UK Government. It is likely to be valued at 145 million pounds (approx 1300cr). The contract will be implemented immediately.

Supply side pressure, wage inflation and US economy slowdown are all key associated risk which could temper growth, while certainty of stronger demand than FY12, better utilization rate, healthy margin performance and continued cost efficiency are making growth visibility clearer. However, growth in 3QFY13 could be slightly impacted by a seasonal phenomenon.

Management continues to guide for healthy revenue growth better than NASCOM guidance of 11-14% for FY13E, which could be further aided by weak Rupee and stable demand momentum. Its superior results and growth guidance for FY13 have also for the time being put the industry slowdown issue to rest (in the wake of continued Infy's poor results). At the CMP of 1223, the scrip is trading at 17.3x FY13E EPS. TCS remains our favored pick with a price target of Rs 1475.

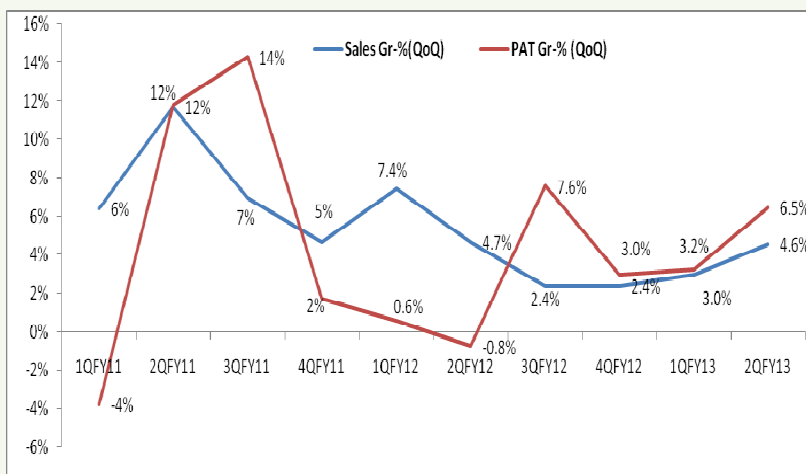


Figure: 1.1

(Source: Eastwind)

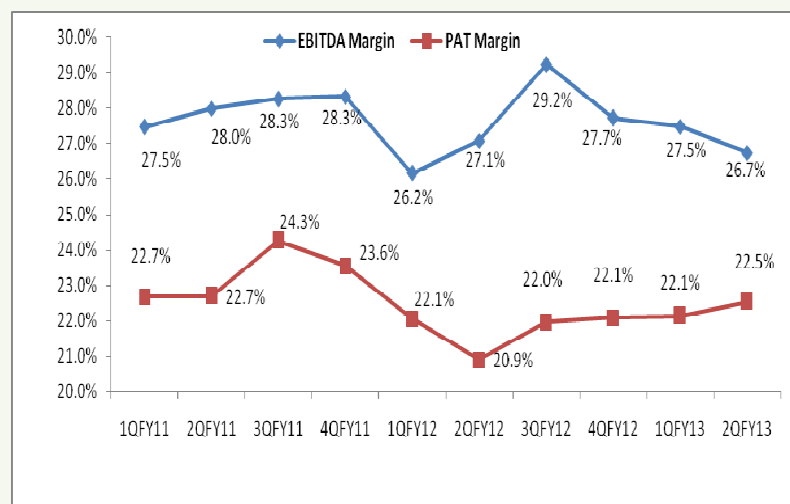


Figure: 1.2

(Source: Eastwind)

