

TCS LTD: Tight execution..

Reported better numbers than Street Expectations;

TCS Ltd beats the street expectations with better numbers and Margin growth. Company reported 3% Sales growth led by 3% growth on BFSI segment (contributes 43% of Sales) and 3% growth on Manufacturing (contributes 13% of Sales), while, Telecom, Media and Entertainment segment (contributes 12% of Sales) contracted by 4% on sequential basis. On geographical front, Company's sales contribution from the US and RoW regions unchanged at 52.6% and 17.2%, Europe decreased by 60bps to 26.6% compare to previous quarter.

In US dollar terms, revenue was \$2948mn compared with USD 2853 mn in Q2. Net profit was at USD 652 mn, compared with USD 643 mn in Q2. Because of Furloughs and weak demand environment in Telecom space, Company's volume growth was at 1.25% compare to 4.95 % (Q2FY13) and Pricing growth at 1.6% against the unchanged pricing growth in Q2FY13.

On Horizontal Metrics, its IT solution and Services (contributes 65.2% of Sales) increased by 2.1%, Infrastructure Services (contributes 12% of Sales) registered a growth of 5.6%, and Business Process Outsourcing (contributes 12.4% of Sales) by 1.2% on QoQ basis.

TCS EBITDA Operating margin improved by 55 basis points to 27.3% in the third quarter compared to 26.75% in previous quarter, Net margin came in at 22.1%. Company's BFSI segment margin improved by 80 bps to 30.1%, Telecom, Media and Entertainment by 110bps to 34.6%, and Manufacturing inched up by 20bps to 26.5%. While, Retail and Consumer Packaged goods down by 100bps to 30.1% on sequential basis. PAT growth was up by 3.3% (QoQ).

Headcount Metrics: At the end of Q3, the total employee strength of the company was 263,637 with a gross addition of 17,145 employees that included 9,831 trainees & 5,072 laterals in India as well as 2,242 employees in international locations. The net addition was 9,561 employees. Attrition rate in IT Services fell further to 9.8% (LTM). Overall attrition, including BPO (22.3% LTM), was 11.2% (LTM). Utilization in Q3 was at 81.7 % (excluding trainees) & 72.1 % (including trainees).

Guidance: TCS, which does not provide detailed revenue forecasts, has maintained it expects to beat the industry's export revenue growth forecast set by the National Association of Software and Service Companies (NASSCOM). In November, NASSCOM said the sector was likely to meet the lower end of its revenue growth outlook of 11-14% for fy13E. Company is on the way to beat the NASSCOM guidance.

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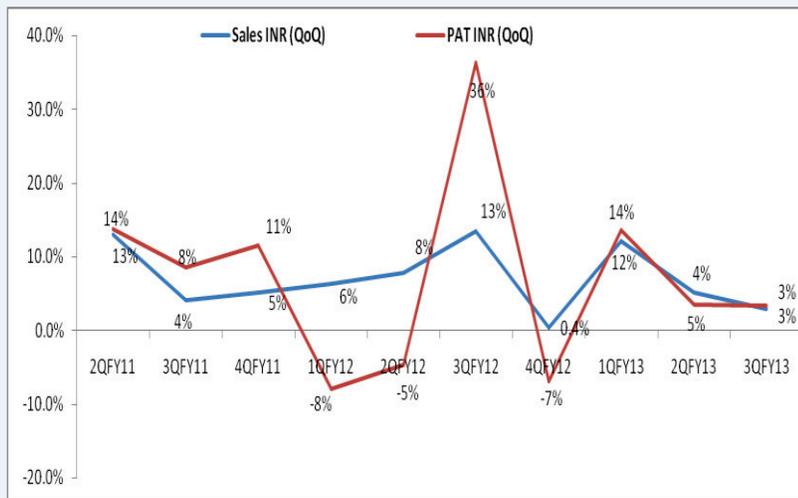


Figure: 1.1 (Source: Eastwind)

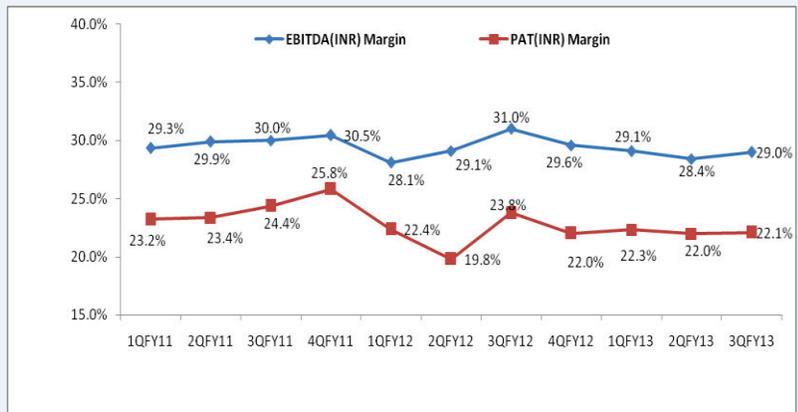


Figure: 1.2 (Source: Eastwind)

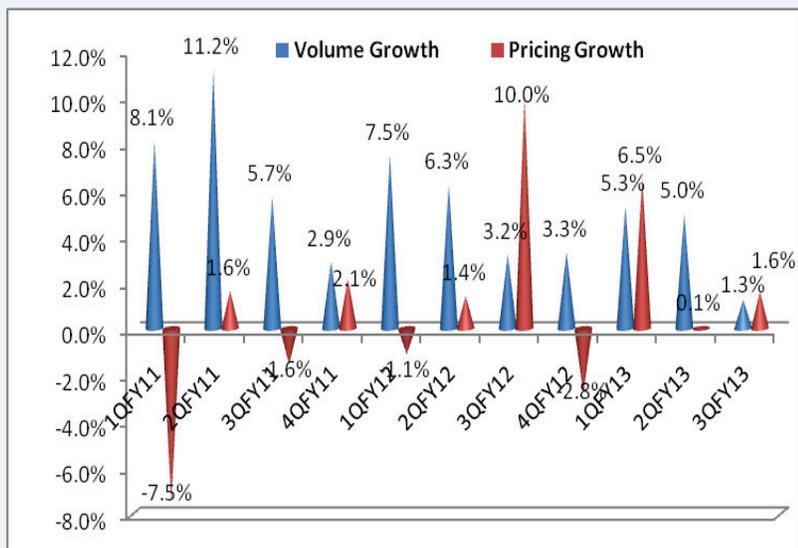


Figure: 1.3 (Source: Eastwind)

TCS LTD

Client Metrics: During the quarter, Company added 31 clients' v/s 41 clients (Q2FY13). Company added 2 clients in \$100mn+ clients' category, Top clients contribution decreased to 6.3% from 6.5%, top 5 clients' contribution to 18% from 18.4% and top 10 clients' contribution also decreased to 25.2% from 25.6% on (QoQ) basis. During the third quarter, TCS witnessed strong client additions in the \$20 Mn plus category and above and signed 7 large deals across verticals

Patent exposures: As of December 31, 2012, the company has applied for 1088 patents including 71 applied for during the quarter. Company has been granted 76 patents so far.

During the quarter, TCS signed a multi-year multi-million dollar deal with a North American healthcare company, a large service management deal with a global financial services company in the US. It won a contract from a financial institution in Asia to upgrade and maintain core systems and infrastructure and was selected by a US-based communications company for a multi-year back-office transaction processing deal, among others.

Recently TCS 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.

Comparative study on TCS and Infosys numbers (3QFY13):

(1) Infosys surprises the street with 5.7% sales growth with muted PAT growth, while TCS revealed better numbers with 3% of both Sales and PAT growth on sequential basis.

(2) On Margin fronts, TCS improved by 60bps to 29% led by upside on across the segments. While Infosys margin contracted by 60bps to 25.7% on QoQ basis and Margin contraction was seen on BFSI, Retail and Energy.

(3) With 1.8% of pricing growth, Infosys reported 1.5% volume growth during the quarter. TCS reported 1.6% volume growth with 1.25% sequentially.

(4) TCS added 2 clients in \$100mn plus category; witnessed strong client additions in the \$20 mn plus category, and added 31 new clients during the quarter. While Infosys added 1 client in \$100mn plus category, most of its clients were added in the \$20 mn below category. and added 51 clients.

(5) On guideline front, TCS is confident to beat the NASSCOM guidance of 11-14% of sales growth for FY13E and managements does not expect any upside risk despite of slow demand environment. Infosys guidance is still below the NASSCOM guidance, and management looks cautious for near term demand scenario.

View and Valuation: As per Con-Call on 14th Jan 2013, Management continues to guide for healthy revenue growth better than NASSCOM guidance of 11-14%, and expects to maintain margin at 27% for FY13E. Its superior results and growth guidance for FY13 have also for the time being put the industry slowdown issue to rest. At the CMP of 1334, the scrip is trading at 19.7x FY13E EPS.

TCS remains our favored pick with a price target of Rs 1475.

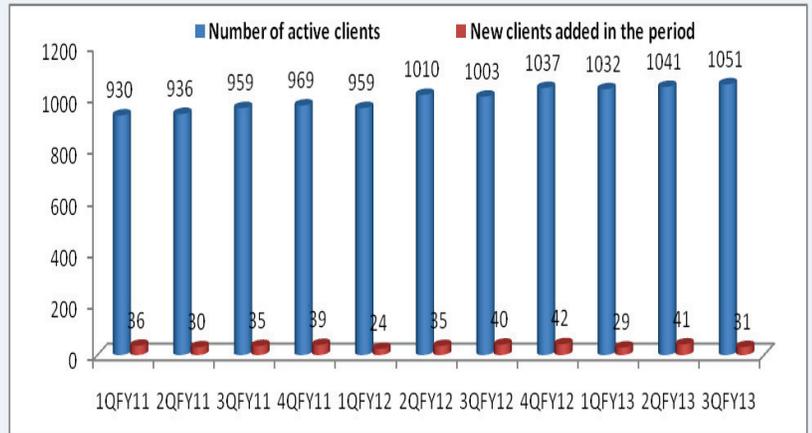


Figure: 1.4 (Source: Eastwind)

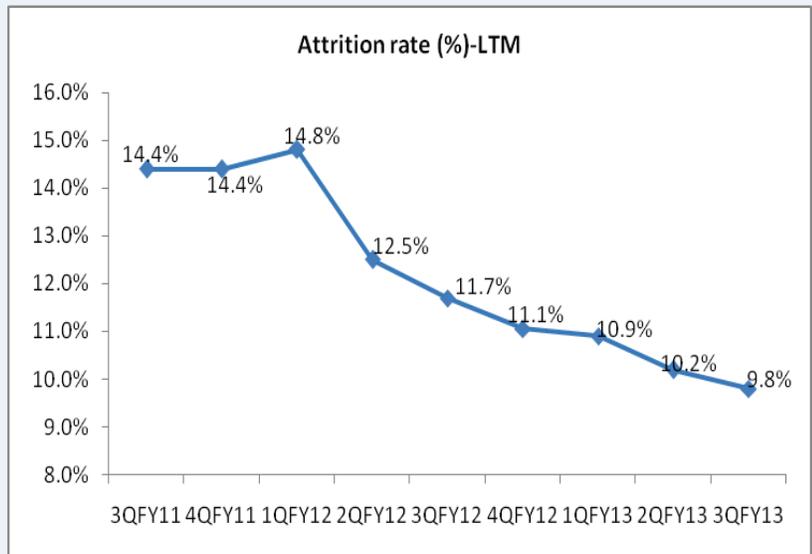


Figure: 1.5 (Source: Eastwind)

Comparative Study on TCS and Infosys Earnings (3Q FY13)		
Parameters	TCS	Infosys
Sales Growth (QoQ)	2.90%	5.70%
PAT Growth (QoQ)	3.30%	0.01%
EBITDA Margin	29%	25.70%
PAT Margin	22.09%	22.70%
Volume Growth	1.25%	1.50%
Pricing Growth	1.60%	1.80%
Clients Metrics		
Number of active clients	1051	776
New clients added	31	51
\$100mn plus clients	16	12
Headcount Metrics		
Total employees	263637	155629
Gross addition	17145	8390
Attrition rate	9.80%	15.10%
Valuation		
CMP	1334	2808
EPS-LTM	67.60	162.71
P/E-x	19.7	17.3
RoE-%	34.60%	24.90%

Table: 1.1 (Source: Eastwind)