

TATA CONSULTANCY SERVICES LTD

Result Update

CMP	2278
Target Price	2450
Previous Target Price	2850
Upside	8%
Change from Previous	-

Market Data

BSE Code	532540
NSE Symbol	TCS
52wk Range H/L	2,810/2,316
Mkt Capital (Rs Cr)	481,375
Av. Volume	5,03,368
Nifty	7762

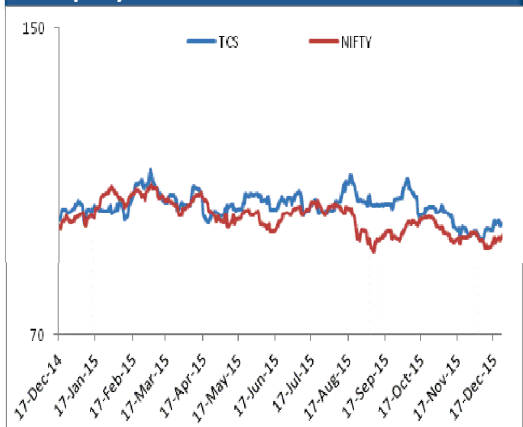
Stock Performance

	1Month	3 Month	1Year
Absolute	1.19	-4.2	-3.8
Rel.to Nifty	1.0	-3.3	-3.7

Share Holding Pattern-%

	2QFY16	1QFY16	4QFY15
Promoters	73.9	73.9	73.9
FII	12.7	14.4	17.0
DII	8.9	7.3	4.7
Others	4.5	4.5	4.5

Company Vs NIFTY



View & Valuation

Tata Consultancy Services' (TCS) Q3FY16 reported disappointing revenue at USD4,145mn (Down 0.3% QoQ) due to decline in revenue in Japan , India, & Dilligenta business . Domestic business was down by 6.7% QoQ due to CC impact and Chennai flood. Diligenta growth will remain challenging in 4QFY16 but company hopes it will stable in FY17. Muted revenue growth in India, Japan and in dilligenta leads us cut our EPS growth assumption of TCS in FY16 and FY17. Therefore we downgrade our rating on TCS from BUY to Neutral view with TP at Rs.2450/share.

Q3FY16_Result Update

TCS reported weak revenue earning in Q3FY16. Revenue growth was Rs 27364 Crore which is 0.5%QoQ in constant currency and in dollar term revenue declined by 0.3% QoQ to \$4145 mn. EBIT margin grew 50bps QoQ to 26.6% . This was impacted by decrease in employee utilization due to Chennai flood, Continuous weakness in Japan, absence of discretionary spend in retail , Decline in diligenta. Realization increased by 0.1% QoQ. PAT was Rs611 Crore , 0.9% QoQ. The Utilization (excluding trainees) in 3QFY16 was 84.9% Vs 86% in the previous quarter.

Client metrics

Client metrics for the company continued to remain healthy with the company adding one client in the US\$100mn+revenue bracket, and 2 clients in the US\$20-50mn revenue bracket , 7 client in the US\$ 20-10mn revenue bracket and 9 client in the US\$5 mn. TCS added 382 accounts to the \$1 million bucket during FY10-15. In terms of order booking, the company witnessed 30% higher order intake in this period.

Hiring and employee metrics

TCS hired employee in Q3FY16 around 22,100 with total overall headcount around 344,691. The management has reiterated that it would extend 45,000 offers in campus hiring for FY2017. IT expects conversion (offer acceptance) rate to be steady at 72-73%.

Financials	2012	2013	2014	2015	2016E
Sales	1500	2239	2694	2990	1939
EBITDA	217	336	378	324	164
Net Profit	145	199	249	237	70
EBIDTA%	14.4%	15.0%	14.0%	10.9%	8.5%
NPM%	9.7%	8.9%	9.2%	7.9%	3.6%

(Source: Company/Eastwind)

DEAL :

Company signed nine large deals during this quarter. Of these, three were in Banking, and one each in Insurance, Manufacturing, Retail, Telecom, Utilities and Transportation. In terms of geography, three each in North America and Europe, one in UK and two in Latin America. Moreover, TCS BaNCS had wins good deal in Asia and South Africa, while Ignio had four additional wins.

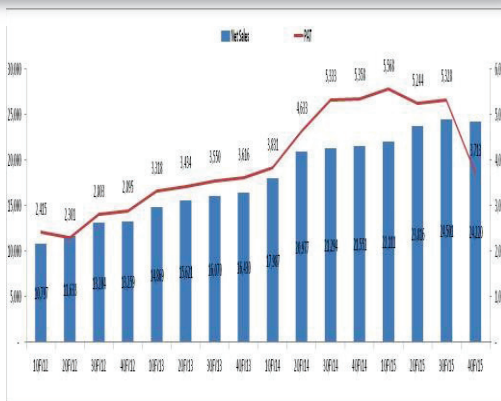
Operating highlights :

TCS's Q3FY16 international revenue grew by 1.1% QoQ in Constant currency . Among Geography, Latin America led 13.3% QoQ CC growth , UK was down -0.7% QoQ CC due to weakness in the insurance vertical. India business was declined by -6.7% QoQ & MEA was declined -5.8% revenue. Among verticals , Life Sciences & Healthcare was quite good & grew by 4.1% QoQ CC, Other Verticals like manufacturing , Hi-Tech , Travel & Hospitality and medical and entertainment grew by 2% QoQ in CC. BFSI delivered 0.7% QoQ growth in sequentially basic. BFSI's headwind insurance verticals of Diligenta may be decline in next quarter and it will stable in FY17.

Key takeaways from Conference call

- > Japan and India were the two problem areas for TCS pulling down overall quarterly performance. Japan was impacted by integration issues and delay in deals getting finalised. Expects it will be at least another couple of quarters before the business there stabilises.
- > Digital contributes to 13.7% of total revenues. It is expected to grow very rapidly. The order book is still dominated by multi-year deals in traditional areas, and there has been no significant change in the cumulative duration of the order book.
- > Diligenta will remain growth-challenged in 4QFY16; Company hopes it will stable in FY17
- > No negative commentary on CY16 IT budgets.
- > Attrition has hopefully reversed .

Net Sales & PAT Growth:



Financials Snap Shot

INCOME STATEMENT					RATIOS				
	FY13	FY14	FY15	FY16E		FY13	FY14	FY15	FY16E
Revenue (Net of Excise Duty)	62989	81809	94648	108678	EPS	71.1	97.8	101.4	115.4
Other Income	1178	1637	3230	2954	Book Value	197.5	251.2	258.5	330.7
Total Revenue	64168	83446	97878	111632	DPS	25.7	37.4	92.4	43.2
COGS	0	0	0	0	Payout (incl. Div. Tax.)	36%	38%	91%	37%
GPM	0	0	0	0	Valuation(x)				
Other Expenses	20910	26797	31466	0	P/E	22.2	21.8	25.2	24.7
EBITDA	18040	25153	24482	28634	Price / Book Value	8.0	8.5	9.9	9.0
EBITDA Margin (%)	29%	31%	26%	26%	Dividend Yield (%)	1.63%	1.76%	3.62%	2.00%
Depreciation	1080	1349	1799	1808	Profitability Ratios				
EBIT	16960	23804	22683	26825	RoE	36%	39%	39%	35%
Interest	48	39	104	17	RoCE	44%	48%	45%	41%
PBT	18090	25402	25809	29762	Turnover Ratios				
Tax	4014	6070	6239	7048	Asset Turnover (x)	1.2	1.2	1.3	1.2
Tax Rate (%)	22%	24%	24%	24%	Debtors (No. of Days)	99.9	99.2	93.6	95.0
Reported PAT	13917	19164	19852	22600	Inventory (No. of Days)	12.3	6.8	6.2	5.4
Dividend Paid	5038	7333	18104	8462	Creditors (No. of Days)	24.7	24.7	34.1	30.0
No. of Shares	196	196	196	196	Net Debt/Equity (x)	0.00	0.00	0.00	0.00
Souce: Eastwind/Company					Souce: Eastwind/Company				

BALANCE SHEET					0				
	FY13	FY14	FY15	FY16E		FY13	FY14	FY15	FY16E
Share Capital	296	48999	196	196	OP/(Loss) before Tax	18090	25402	26298	29648
Reserves	38350	48999	50439	64578	Depreciation	1080	1349	1309	1808
Net Worth	38646	49195	50635	64774	Direct Taxes Paid	(4822)	(7044)	(7482)	(7048)
Long term Debt	131	127	114	114	Operating profit before work	18203	25246	26103	31570
Short term Debt	80	127	186	217	CF from Op. Activity	11615	14751	19369	16974
Deferred Tax	235	309	343	343	Purchase of Non Current inv	(28739)	(82613)	(67296)	0
Total Capital Employed	38777	49322	50749	64888	Capital expenditure on fixed	(2638)	(3126)	(2949)	(2614)
Net Fixed Assets	8142	10444	12311	13118	CF from Inv. Activity	(6086)	(9667)	(1701)	(2614)
Capital WIP	1895	3168	2766	2000	Interest Paid	(48)	(38)	(105)	0
Debtors	14096	18230	20438	28286	Divd Paid (incl Tax)	(5703)	(5480)	(17020)	(8462)
Cash & Bank Balances	6769	14442	18556	27700	CF from Fin. Activity	(5729)	(5673)	(17168)	(8462)
Trade payables	4270	5536	8831	8932	Inc/(Dec) in Cash	(200)	(589)	500	5898
Total Provisions	4582	6772	7953	7953	Add: Opening Balance	1993	1841	1468	18556
Net Current Assets	19814	27354	28680	45487	Closing Balance	1841	1468	1862	24454
Total Assets	52168	67138	73661	92076	Earmarked balances with bai	16	26	313	0
Souce: Eastwind/Company					Cash and cash balance at the	6769	14441.84	18556.04	24453.546
					Souce: Eastwind/Company				