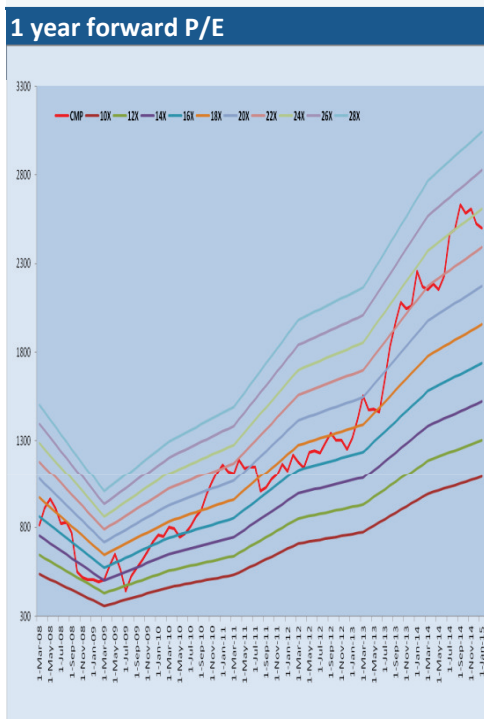


Results update	Buy
CMP	2532
Target Price	2760
Previous Target Price	2860
Upside	9%
Change from Previous	-3%

Market Data	
BSE Code	532540
NSE Symbol	TCS
52wk Range H/L	2834/2000
Mkt Capital (Rs Crores)	495930
Average Daily Volume	1011877
Nifty	8514

Stock Performance	1M	1yr	YTD
Absolute	7.2	8.8	90
Rel. to Nifty	3.6	-19.5	52.5

Share Holding Pattern-%	Current	2QFY15	1QFY14
Promoters	73.9	73.9	73.9
FII	16.81	16.84	16.54
DII	4.73	4.80	5.06
Others	4.56	4.46	4.47



Reported almost inline set of number with healthy pricing growth, Optimistic on order pipeline and expecting for demand pick up.

TCS registered inline set of number as per the street expectation with seasonality and favorable pricing. Revenue was almost unchanged(QoQ) in USD term and 2.5% in Cross Currency and 2.9% in INR term led by 2.3% (QoQ) pricing and 0.4%(QoQ) volume growth. This is the lowest sequential growth in the 3rd qtr in 4 years. In INR term PAT grew by 2.9%(QoQ)roughly in line with expectation.

We continue to believe that TCS will be industry-leading performer in growth sense than other peers. Hence, we are maintaining 16.1% revenue growth in dollar term for FY15E (in line than previous year growth) because of healthy demand environment in US and increasing outsourcing from Europe, while NASSCOM expects 13-15% for the Industry. We continue to be positive on demand prospect for TCS for FY16E and onward.

▪ **Flattish Margin:** During the quarter, EBIT inched up by 20bps(QoQ) to 26.9% on improved realizations. Management very is confident to maintain EBIT margin at a range of 26-28% ahead. YoY decline in margins is because of acquisition of IT Frontier Corporation, investments in new deals and possible pricing pressure.

▪ **Healthy pricing and stable volume growth:** The pricing growth of 2.3%(QoQ) was largely better than other peers and what the company has delivered over the 9 previous quarters. The consistently high volume and pricing growth over the past several quarters reflects the company's ability to mine deeper into existing accounts as well as win new large deals. The management is not seeing any pricing pressure from any space or geographies across the quarters going forward.

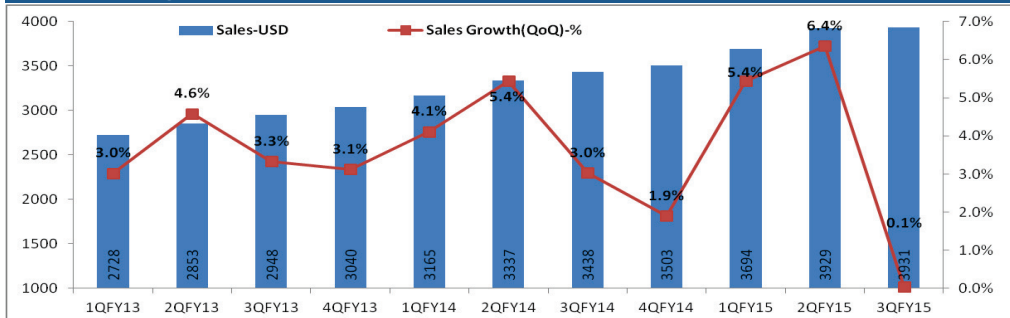
▪ **Strong growth across segments:** Among verticals Retail, Insurance and Energy and Utilities were weak. Outlook remains weak for Energy & Utilities and Insurance in the coming quarters, while Retail should recover. However, growth was broad based and impacted by cross currency factor during the quarter.

▪ **Growth across the geographies:** Among growth markets, North America, and India registered strong growth. Decline in Europe and APAC was because of cross currency movements; Dlligenta (insurance platform acquired by TCS) drove weakness in UK. We expect further headwinds further 2-3quarters.

View and Valuation: We continue to remain positive on demand outlook and margin profile, the management expects for robust deal pipeline going forward and expects to materialize its emerging space like Digital as well as Cloud, Mobility, Analytics and Big data. Based on initial discussions with customers and growth recovery on US and Europe market. **We expect its revenues from digital to grow sequentially and expect it to be a major growth driver in FY16E and beyond. Higher cross currency impact leads to cut revenue by 3% for FY16E. At a price of Rs 2533, it is trading at 20.1x FY16E earnings, We maintain "BUY" view on the stock with target price of Rs 2760(revised from Rs2860).**

Financials	Rs, Crore				
	3QFY15	2QFY15	(QoQ)-%	3QFY14	(YoY)-%
Revenue	24501.14	23816.5	2.9	21294	15.1
EBITDA	7048.01	6800.4	3.6	6686.76	5.4
PAT	5327.55	5244.3	1.6	5333.43	-0.1
EBITDA Margin	28.8%	28.6%	20bps	31.4%	(260bps)
PAT Margin	21.7%	22.0%	(30bps)	25.0%	(330bps)

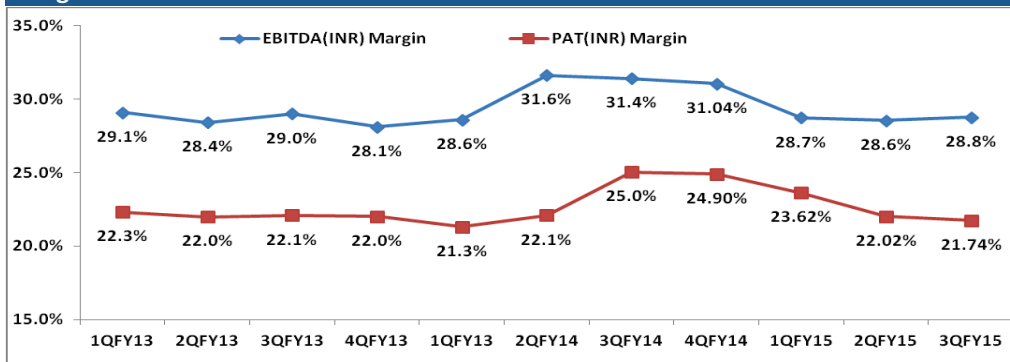
Revenue and growth in USD term-(QoQ)



(Source: Company/Eastwind)

The Company remains optimistic on better outlook for the US with large opportunities in BFS space for FY16E. We expect better revenue growth than its peers like Infy, Wipro and HCL Tech, in FY15E.

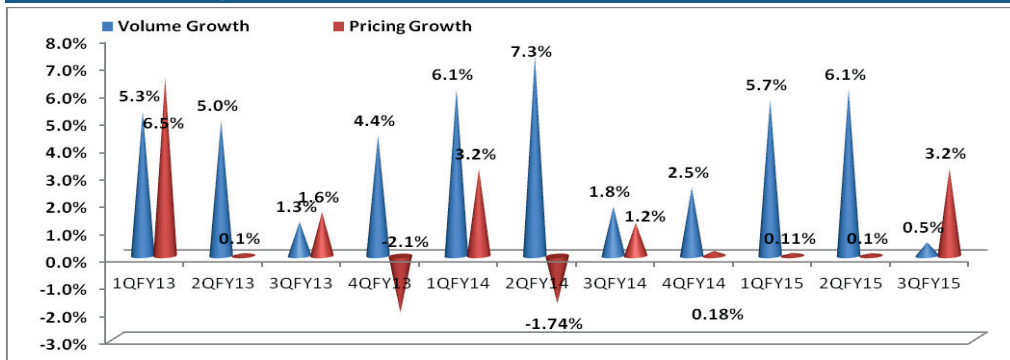
Margin-%



(Source: Company/Eastwind)

The outlook on margins, it indicated that is comfortable in the current level and EBIT margin will be in the range of 26-28% range going forward.

Volume and Pricing Growth (QoQ)-%



(Source: Company/Eastwind)

The volumes were strong across the board during the quarter. The pricing is expected to be stable overall but expects variability across the quarters going forward. The volume growth could be improve further because of better demand environment across all geographies and space.

Key Facts from Conference Call:

- (1) US is in a strong position this year v/s last year. Trend in Digital is significantly positive. Latin America and India – two segments which were weak in recent quarters, are looking up from here.
- (2) Japan is doing well and the Company expects to make the strong client base count going forward.
- (3) The outlook on margins, it indicated that is comfortable in the current level and will be in the range of 26-28% range going forward.
- (4) The company is looking to add another 35,000 employees in FY16E, already. Involuntary attrition for the year would be about 1% and that about 2,600 people.
- (5) All retailers are committed to going Digital. It a big bet for them to compete with online players. The growth in the segment should improve going forward.

Attrition at 13.4%, a media storm – all time high Utilizations at 86.7% : The Company's retention rate of employees was among the highest in the industry. So far, the company has added 52728 employees out of guided 55,000 employees this year. Involuntary attrition for the year would be about 1% and that about 2,600 people had been sacked in the 9MFY15E.

Sound clients metrics: TCS wins 7 deal span across verticals and geographies (North America, UK and Latin America). 4 deals were in BFSI and one each in healthcare, CPG and travel and transportation.

Financials

Rs, Cr	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E
Net Sales-USD	6339.0	8187.0	10171.0	11569.0	13443.3	15603.1	17869.1
Net Sales	30029.0	37325.1	48894.3	62989.5	81809.4	95178.9	108108.1
Employee Cost	10879.6	13850.5	18571.9	24040.0	29860.0	36453.5	41081.1
Overseas business expenses	4570.1	5497.7	6800.5	8701.9	11636.4	13420.2	15405.4
Services rendered by business associates and others	1262.0	1743.7	2391.3	3763.7	4938.4	6329.4	7027.0
Operation and other expenses	4622.8	5054.3	6694.8	8443.9	10221.8	11421.5	13243.2
Total Expenses	21334.4	26146.2	34458.5	44949.6	56656.6	67624.6	76756.7
EBITDA	8694.6	11178.9	14435.8	18040.0	25152.8	27554.3	31351.3
Depreciation	601.8	686.2	860.9	1016.3	1311.5	1792.2	1863.2
Amortisation	59.1	49.1	57.1	63.7	37.6	40.8	40.8
Other Income	272.0	604.0	428.2	1178.2	1636.7	2855.4	2973.0
Extra Ordinary Items	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	8033.7	10443.6	13517.9	16960.1	23841.3	25762.1	29488.2
Interest Cost	16.1	26.5	22.2	48.5	38.5	70.9	53.2
PBT	8289.6	11021.2	13923.8	18089.8	25439.5	28546.6	32408.0
Tax	1197.0	1830.8	3399.9	4014.0	6070.0	6851.2	7777.9
PAT	7092.7	9190.3	10524.0	14075.7	19369.5	21695.4	24630.1
PAT ((Reported PAT))	7000.6	9068.6	10414.0	13917.4	19369.5	21695.4	24630.1
Growth-%							
Sales-USD		29.2%	24.2%	13.7%	16.2%	16.1%	14.5%
Sales	8.0%	24.3%	31.0%	28.8%	29.9%	16.3%	13.6%
EBITDA	21.3%	28.6%	29.1%	25.0%	39.4%	9.5%	13.8%
PAT	31.8%	29.6%	14.5%	33.7%	37.6%	12.0%	13.5%
Margin -%							
EBITDA	29.0%	30.0%	29.5%	28.6%	30.7%	29.0%	29.0%
EBIT	26.8%	28.0%	27.6%	26.9%	29.1%	27.1%	27.3%
PAT	23.6%	24.6%	21.5%	22.3%	23.7%	22.8%	22.8%
Expenses on Sales-%							
Employee Cost	36.2%	37.1%	38.0%	38.2%	36.5%	38.3%	38.0%
Overseas business expenses	15.2%	14.7%	13.9%	13.8%	14.2%	14.1%	14.3%
Services rendered by business associates and others	4.2%	4.7%	4.9%	6.0%	6.0%	6.7%	6.5%
Operation and other expenses	15.4%	13.5%	13.7%	13.4%	12.5%	12.0%	12.3%
Tax rate	14.4%	16.6%	24.4%	22.2%	23.9%	24.0%	24.0%
Valuation							
CMP	780.8	1182.5	1322.0	1563.0	2041.0	2532.0	2532.0
No of Share	195.7	195.7	195.7	196.0	196.0	196.0	196.0
NW	18466.7	24504.8	29579.2	38645.7	49194.8	61951.6	76434.1
EPS	36.2	47.0	53.8	71.8	98.8	110.7	125.7
BVPS	94.4	125.2	151.1	197.2	251.0	316.1	390.0
RoE-%	38.4%	37.5%	35.6%	36.4%	39.4%	35.0%	32.2%
Dividen Payout ratio	28.1%	50.8%	37.5%	41.2%	41.2%	41.2%	41.2%
P/BV	8.3	9.4	8.7	7.9	8.1	8.0	6.5
P/E	21.5	25.2	24.6	21.8	20.7	22.9	20.1

(Source: Company/Eastwind)