

Results update	Buy
CMP	2216
Target Price	2510
Previous Target Price	2360
Upside	13%
Change from Previous	6%

Market Data	
BSE Code	532540
NSE Symbol	TCS
52wk Range H/L	2384/1300
Mkt Capital (Rs Crores)	433985
Average Daily Volume	1011877
Nifty	6262

Stock Performance	1M	1yr	YTD
Absolute	9.8	64.4	67.2
Rel. to Nifty	8.1	60.1	57.1

Share Holding Pattern-%	Current	2QFY14	1QFY14
Promoters	73.9	73.96	73.96
FII	16.33	16.09	15.67
DII	5.26	5.58	5.90
Others	4.51	4.37	4.47



Street stunned with inline set of number, management is confident to see better growth in near future;

TCS witnessed inline set of numbers with 1.5%(QoQ)of consolidated sales growth led by 1.8% volume growth and1.2% pricing growth. This volume growth dampened because of holidays and furlough effects. PAT grew by 15.1% (QoQ).

We continue to believe that TCS will be star performer in growth sense than other peers. Hence, we are maintaining 18% revenue growth in dollar term for FY14E because of improved demand environment, while NASSCOM expects 12-14% for the Industry. We continue to be positive on demand prospect for TCS.

In US dollar terms, revenue was \$3438mn compared with USD 3337 mn in Q2FY14. Net profit was at USD 858 mn, compared with USD 748 mn in Q2FY14.

▪ **Steady Margin growth:** On margin front, EBITDA down by 20bps and EBIT 30bps on QoQ basis to 31.4% and 29.8%, during the quarter. The company attributed this fall to reinvestment of gains from margin into the business. Management is very confident to maintain EBITDA margin at a range of 26-28% ahead.

▪ **Lower volume and stable pricing growth:** The volume growth of 1.8% was lower than expectations and what the company has been delivering over the last few quarters. The company attributed this fall to de-growth in India business. The third quarter is generally slow due to holidays, and furloughs. The pricing is expected to be stable overall but expects variability across the quarters going forward.

▪ **Strong growth across segments:** On segmental front, Manufacturing grew by 6.1% (QoQ), and Telecom (including media and entertainment) by 5.1% (QoQ), while, BFSI and Retail (including consumer-packaged goods) reported strong below 1% growth, sequentially. Even, the telecom sector posted excellent quarter than before but still wait to change view on the sector.

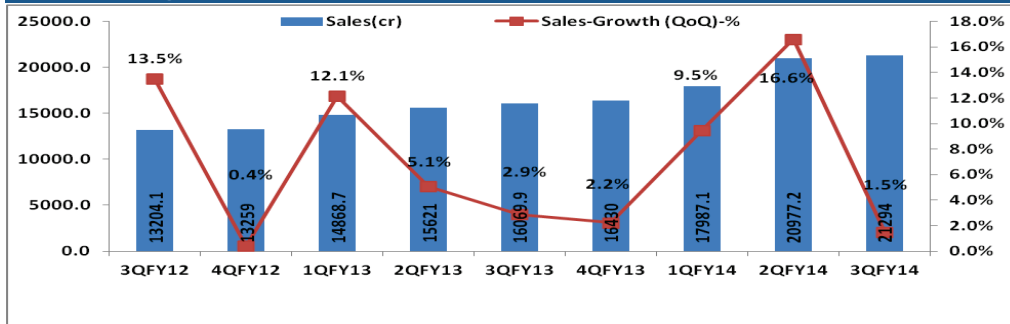
▪ **Growth across the geographies:** Among growth markets, Latin America, APAC and MEA registered strong growth. India business suffered from volatility and declined sequentially. Further, US grew by 2.6%, Europe by 2.6% and RoW by 7.1% QoQ. USA contributes 55%, Europe 29.1% and RoW 15.9% of its revenue.

View and Valuation: We continue to remain positive on demand outlook and margin profile, the management expects for robust deal pipeline going forward and also expects to materialize its emerging space like Digital as well as Cloud, Mobility, Analytics and Big data. Based on initial discussions with customers, Management believes for stronger 2014 than 2013. We continue to be positive on demand environment and company's strength of efficient deal execution. We advise that TCS now seem to be trading ahead of fundamentals; At a price of Rs 2216, it is trading at 20.3x FY15E earnings, We maintain" BUY" view on the stock and we revised our target price from Rs 2360 to Rs 2510.

Financials	3QFY14	2QFY14	(QoQ)-%	3QFY13	(YoY)-%
Revenue	21294	20977.2	1.5	16069.93	32.5
EBITDA	6686.76	6633.0	0.8	4660.49	43.5
PAT	5333.43	4633.3	15.1	3549.61	50.3
EBITDA Margin	31.4%	31.6%	(20bps)	29.0%	240bps
PAT Margin	25.0%	22.1%	290bps	22.1%	290bps

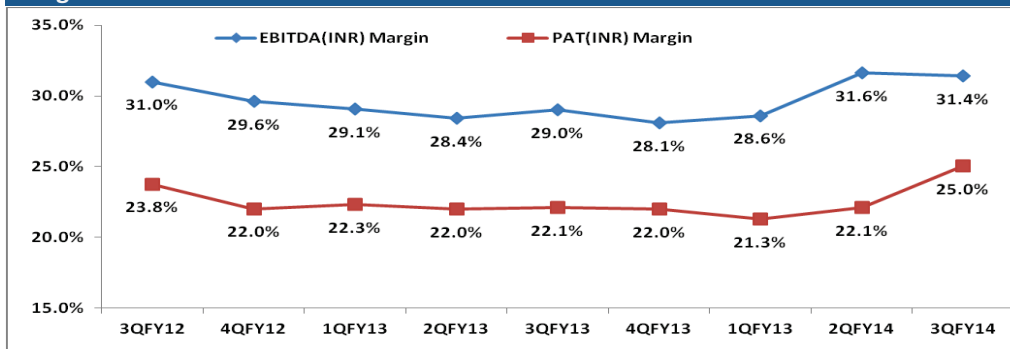
(Source: Company/Eastwind)

Revenue and growth in INR term-(QoQ)



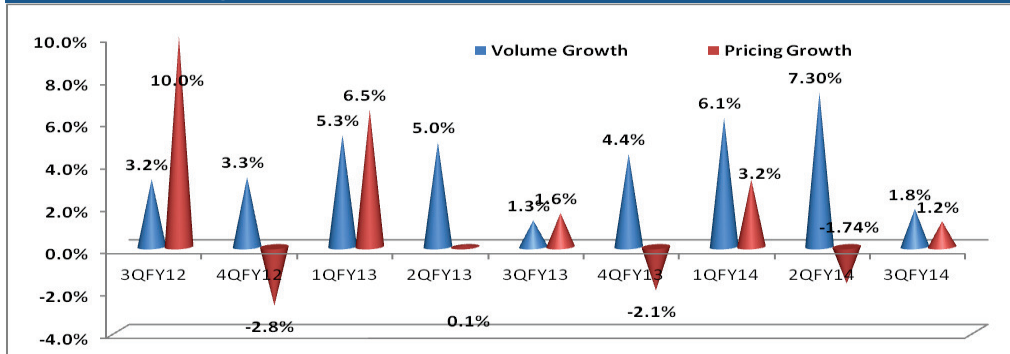
(Source: Company/Eastwind)

Margin-%



(Source: Company/Eastwind)

Volume and Pricing Growth (QoQ)-%



(Source: Company/Eastwind)

Key Facts from Conference Call (attended on 16th Jan,2014):

- (1)TCS, which does not provide detailed revenue forecasts, The Company remains confident to clock better growth in FY14 than FY13 and aims to exceed upper end of industry body NASSCOM's guidance at 12-14% in FY14. And continued to reiterate its stand that FY15 will be a better year than FY14.
- (2) The management stated that pricing would be stable for next 12 months. Realization seeing minor fluctuations, but
- (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 has maintained hiring target of 55,000 gross employees for FY14,
- (5) Demand environment from Domestic market for next 2Qtrs will be adversely impacted because of fortcong general election.

The Company remains confident to clock better growth in FY14 than FY13 and aims to exceed upper end of industry body NASSCOM's guidance at 12-14% in FY14. We expect better revenue growth than its peer like Infy

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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 geogrpahies and space.

Attrition is low in the Industry – Expects to improve Utilizations to 85% and beyond:: At the end of 3QFY14, TCS continued its uptick in hiring and upped the numbers to 55,000 from its earlier stated 50,000. This is reflective of the demand environment. The utilization rate (excluding trainees) was at 84.3% and that including trainees was 77.5 %. The attrition rate in IT was at 10.3 %, while BPS attrition fell to 13.4 %. The attrition rate (LTM) was stable at 10.9% including BPS.

Sound clients metrics: TCS sees a robust demand pipeline across markets and a unique opportunity to strategically partner and participate with clients. TCS' USD added total 8 large clients(net).

Financials

Rs, Cr	FY10	FY11	FY12	FY13	FY14E	FY15E
Net Sales-USD	6339.0	8187.0	10171.0	11569.0	13660.8	16393.8
Net Sales	30029.0	37325.1	48894.3	62989.5	81964.9	97543.1
Employee Cost	10879.6	13850.5	18571.9	24040.0	30327.0	36578.7
Overseas business expenses	4570.1	5497.7	6800.5	8701.9	11680.0	14143.7
Services rendered by business associates and others	1262.0	1743.7	2391.3	3763.7	4917.9	6340.3
Operation and other expenses	4622.8	5054.3	6694.8	8443.9	10655.4	12680.6
Total Expenses	21334.4	26146.2	34458.5	44949.6	57580.4	69743.3
EBITDA	8694.6	11178.9	14435.8	18040.0	24384.6	27799.8
Depreciation	601.8	686.2	860.9	1016.3	1282.9	1526.7
Amortisation	59.1	49.1	57.1	63.7	57.5	76.7
Other Income	272.0	604.0	428.2	1178.2	1434.4	1950.9
EBIT	8033.7	10443.6	13517.9	16960.1	23101.7	26273.1
Interest Cost	16.1	26.5	22.2	48.5	35.9	33.8
PBT	8289.6	11021.2	13923.8	18089.8	24500.2	28190.2
Tax	1197.0	1830.8	3399.9	4014.0	5880.0	6765.6
PAT	7092.7	9190.3	10524.0	14075.7	18620.2	21424.5
PAT ((Reported PAT))	7000.6	9068.6	10414.0	13917.4	18620.2	21424.5
Growth-%						
Sales-USD		29.2%	24.2%	13.7%	18.1%	20.0%
Sales	8.0%	24.3%	31.0%	28.8%	30.1%	19.0%
EBITDA	21.3%	28.6%	29.1%	25.0%	35.2%	14.0%
PAT	31.8%	29.6%	14.5%	33.7%	32.3%	15.1%
Margin -%						
EBITDA	29.0%	30.0%	29.5%	28.6%	29.8%	28.5%
EBIT	26.8%	28.0%	27.6%	26.9%	28.2%	26.9%
PAT	23.6%	24.6%	21.5%	22.3%	22.7%	22.0%
Expenses on Sales-%						
Employee Cost	36.2%	37.1%	38.0%	38.2%	37.0%	37.5%
Overseas business expenses	15.2%	14.7%	13.9%	13.8%	14.3%	14.5%
Services rendered by business associates and others	4.2%	4.7%	4.9%	6.0%	6.0%	6.5%
Operation and other expenses	15.4%	13.5%	13.7%	13.4%	13.0%	13.0%
Tax rate	14.4%	16.6%	24.4%	22.2%	24.0%	24.0%
Valuation						
CMP	780.8	1182.5	1322.0	1563.0	2216.0	2216.0
No of Share	195.7	195.7	195.7	196.0	196.0	196.0
NW	18466.7	24504.8	29579.2	38645.7	49594.4	62192.0
EPS	36.2	47.0	53.8	71.8	95.0	109.3
BVPS	94.4	125.2	151.1	197.2	253.0	317.3
RoE-%	38.4%	37.5%	35.6%	36.4%	37.5%	34.4%
Dividen Payout ratio	28.1%	50.8%	37.5%	41.2%	41.2%	41.2%
P/BV	8.3	9.4	8.7	7.9	8.8	7.0
P/E	21.5	25.2	24.6	21.8	23.3	20.3

(Source: Company/Eastwind)