

TCS- Playing on its strengths.

Once again, Strong show with better expectation for FY14E;

TCS Ltd beats the street with better numbers and management expects better day ahead. Company witnessed 2.2% Sales growth led by 3.4% growth on BFSI segment (contributes 43% of Sales) and 2.6% growth on Retail and Consumer Packaged goods (contributes 13% of Sales), while, Telecom, Media and Entertainment segment (contributes 12% of Sales) seen flat on sequential basis.

On geographical front, Company's sales contribution from the US and Europe were marginal down to 55.6% and 26.2% respectively. While, revenue contribution from RoW improved by 100 bps to 18.2% led by strong contribution by India compare to previous quarter. For FY13, Europe revenue picked up by 130bps to 26.6% and revenue from US was flat at 52.7%. While RoW decreased by 90bps to 17.4% compare to last year.

In US dollar terms, revenue was \$3040mn compared with USD 2948 mn in Q3. Net profit was at USD 663 mn, compared with USD 652 mn in Q3.

Volume and Pricing mix: Because of healthy demand environment in BFSI and Retail space, Company's volume growth was at 4.4% compare to 1.25 % (Q3FY13) and Pricing dipped by 2.1% against the pricing growth of 1.6% in Q3FY13.

Margin: TCS EBITDA Operating margin down by 90 basis points to 28.1% in the 4th quarter compared to 29% in previous quarter, Net margin flat at 22.1%.

EBIT margin down by 100bps to 26.3% (QoQ), Company's BFSI and Manufacturing segments margin flat 30%, and 26.3% (qoQ). While, Telecom, Media and Entertainment up by 140bps to 36%, and Retail and Consumer Packaged goods up by 50bps to 30.6% on sequential basis.

Headcount Metrics: At the end of 4QFY13, the total employee strength of the company was 276197 with a gross addition of 20098 employees that included 11420 trainees & 5630 laterals in India as well as 3048 employees in international locations. The net addition was 12559 employees. Attrition rate in IT Services fell further to 9.4% (LTM) and overall attrition, including BPO (10.57% LTM).

Utilization in Q4 improved to 82.02% from 81.7 % (excluding trainees) & 72.5% from 72.1 % (including trainees), sequentially.

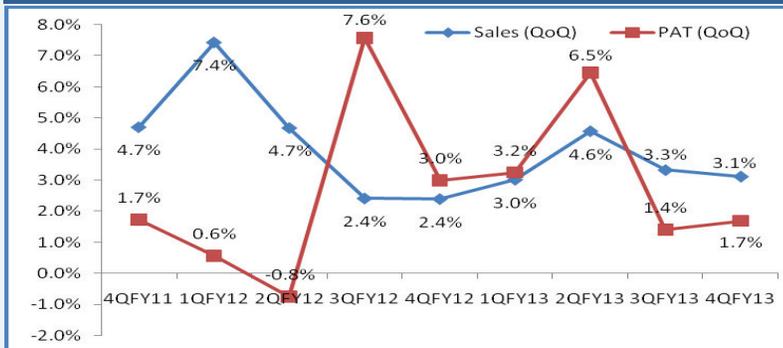
Management Guidance: (1)TCS, which does not provide detailed revenue forecasts, The company remains confident to clock better growth in FY14 than FY13 and aims to exceed upper end of industry body Nasscom's guidance at 12-14% in FY14.

(2) It will give wage hikes averaging about 7% this year to its employees in India, along with 100% variable pay. Salaries of employees in developing countries will go up 4-6%, while those located in developed countries will see hikes ranging 2-4%. The wage hike cycle will start April onwards.

(3)TCS will also hire 45,000 people this year and has already made 25,000 campus offers, and they will start joining from Q2 (second quarter) onwards.

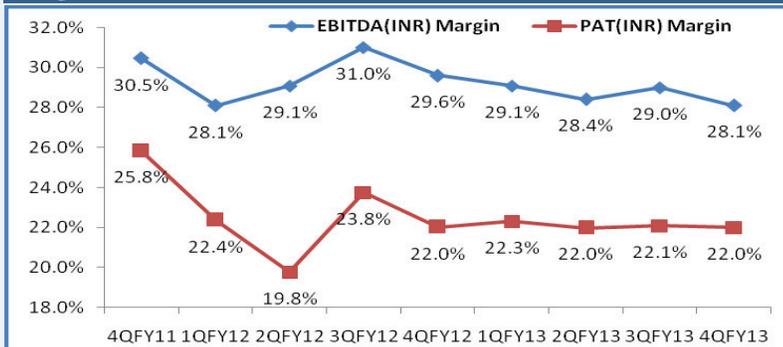
we advise that TCS now seem to be trading ahead of fundamentals; At a price of Rs 1451, it is trading at 18.8x 1 year forward PE, having comfortably crossed our erstwhile target of Rs 1485. We now have a HOLD rating on the stock and believe the margin for error is ever so small for TCS.

Sales Growth and PAT Growth(%)-USD term



(Source: Company/Eastwind)

Margin-%



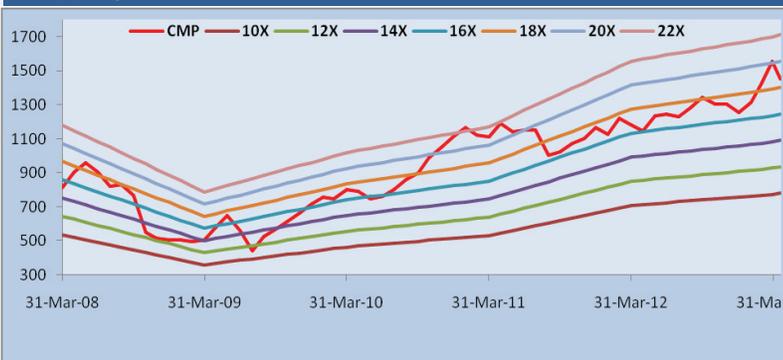
(Source: Company/Eastwind)

Volume and Pricing growth-%



(Source: Company/Eastwind)

P/E (x)-1 year forward



Source: Company/Eastwind