



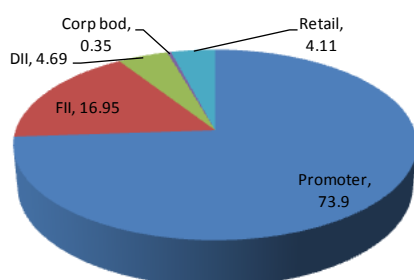
BUY

BSE Code	532540
NSE Code	TCS
Bloomberg Code	TCS:IN
Current Price	2485
Target Price	2789
Mcap ₹ bn	4864
Mcap US\$ bn	78
52 wk H/L	2834/2000
Face Value	1
2 wk avg vol (000)	1580

Financial Snapshot

₹ Mn	FY15	FY16E	FY17E
Net sales	3,60,732	4,17,284	4,82,214
% ch	15.7	15.4	15.4
EBIDTA	3,03,395	3,49,663	4,00,108
%ch	13.3	15.2	14.4
PAT	2,00,597	2,50,188	2,82,676
%ch	3.6	25.0	13.1
EPS	101.4	126.8	143.4
BV	258.7	338.7	429.4
P/E	24.5	19.6	17.3
EV/EBIDTA	15.4	13.0	11.1
ROE	39.2	37.4	33.4
ROCE	56.0	49.6	44.8

Shareholding pattern



Sameer Dalal
91-22-4213444
Sameer@natverlal.com

Sherwin Fernandes
91-22-42134421
Sherwin.fernandes@natverlal.com

Revenues surpass NASSCOM estimates amid weak quarter

TCS posted dollar revenues at \$3.9bn which was marginally lower by 0.8% sequentially while full year revenues were up by 15.7% which was ahead of the NASSCOM guidance. The rupee revenue declined by 1.1% mainly on the back of a weak currency and lower sales in dollar terms compared to the prior quarter. The operating margins for the quarter came in at 28.5% excluding the special bonus which was given to the employees as with the completion of the 10th anniversary since listing, this event is a non-recurrent in nature and would not affect profits going forward. Profit before exceptional items have shown a positive increase by 4.9% this can be mainly attributed to the higher other income during the quarter which includes a Forex gain of ₹6629mn. TCS has begun the next quarter with 9 deal wins spread across geographies and services. The management has not provided any guidance for FY16E but is optimistic of outdoing the NASSCOM estimates of 12-14% going ahead.

Revenues decline expected to reverse: During the quarter the company faced a few challenges which include currency headwinds causing lower dollar revenue coupled with weakness in the in energy and telecom vertical and negative growth from the diligent business. All of these together caused a revenue decline of only 1.1% sequentially and with these now being factored in we believe that with a couple of deal wins and the expected higher client budget towards digital technologies will enable it to revive the revenues and profitability going ahead.

Pipeline remains robust: TCS has announced 9 deal wins for the next quarter and robust pipeline adding 4 clients in the \$100mn band and 3 clients in the \$50mn band. Mining trends have been strong as lower end of the clients band of \$1mn have seen an addition of 27 clients during the quarter. The management expects client budgets to increase gradually which will eventually add to the overall growth of business. The management reiterated that there is significant momentum building around the digital technology there by powering revenue growth in its digital business. The revenues from the digital investments would not be substantial and would take time before they add to a larger share in the revenue pie.

Client contri	Q3 FY14	Q4 FY15	Q1 FY15	Q2 FY15	Q3 FY15	Q4 FY15
US\$ 1m+	711	714	724	743	764	791
US\$ 5m+	333	354	359	367	387	389
US\$ 10m+	224	231	244	247	249	261
US\$ 20m+	129	136	144	153	159	162
US\$ 50m+	55	53	58	62	65	68
US\$ 100m+	22	24	24	24	25	29
Total Additon		38	41	43	53	51

Source: NSSPL Research / TCS

EBIDTA margins flat: EBIDTA margins have for the quarter has come in at 28.5% which has been on account of a decline in its employee utilization rate which was 85.4% vs 86.7% (excluding trainees) and 81.5% vs 82.1% (including trainees) sequentially. After 9 quarters from Q3FY13 to Q3FY15, It had witnessed its first decline to its utilization levels impacting its overall margins. We have been mentioning for the past few quarters it could be challenging to increase utilizations further as they are already very healthy. We believe they would be able to maintain them around these levels which would be good enough to keep margins healthy as well.

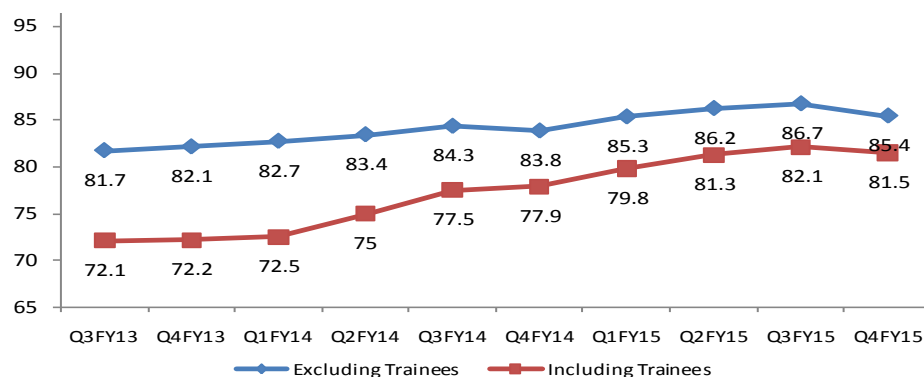


Vertical performance: The BFSI vertical has de-grown by 0.9% QoQ despite the weakness lingering around diligenta insurance business and the softness in this segment continues be a drag on the BFSI vertical. The diligenta business will continue its decline in the growth in couple of quarters as stated by the management. 4 deals wins have come from BFSI, 2 from retail and on each in telecom, lifesciences and media. The management had stated that growth from the energy and utilities will continues to softness due to the pressures witnessed in the oil prices and does not anticipate recovery to be quick, while it also expects the telecom vertical to have subdued performance given the weakness prevalent in the sector. The weakness in the ENU and Telecom vertical has been worse than anticipated by the management, posting negative growth of 10.2% and 8.9% sequentially.

IP Revenue %	Q3 FY14	Q4 FY14	Q1 FY15	Q2 FY15	Q3 FY15	Q4 FY15	QoQ ` Growth
BFSI	42.7	42.9	41.7	40.4	40.5	40.6	-0.9
Telecom	9.6	9.3	9.4	8.9	8.9	8.1	-10.2
Retail & Distributic	13.8	13.5	13.8	13.5	13.4	13.6	0.5
Manufacturing	8.8	8.6	8.6	10.1	10.1	10.2	0.7
Hi-tech	5.3	5.3	5.5	5.7	5.9	6.0	0.1
Life science & Heal	5.9	6.1	6.3	6.3	6.4	6.7	1.9
Travel & Hospitalit	3.5	3.5	3.6	3.5	3.5	3.4	-4.0
Energy & Utility	3.8	3.8	3.9	4.3	4.2	3.9	-8.9
Media & Entertainr	2.3	2.6	2.7	2.7	2.7	2.7	-0.7
Others	4.3	4.4	4.5	4.6	4.4	4.8	9.2
Total	100	100	100	100	100	100	-1.1

Source: NSSPL Research / TCS

Human resource: On the human resource front, there was a total gross addition of 14395 and 1031 net additions to employees taking the total employee count to 3,19,656 vs 318625 on a consolidated basis at the end of Q4FY15. The utilization rate (excluding trainees) was at 85.4%, which has been lower compared to the prior quarter of 86.7%, and including trainee was 81.1 vs 82.1% of the previous quarter. Attrition has increased to 14.9% the highest in a while which could be a cause of concern.



Source: NSSPL Research / TCS

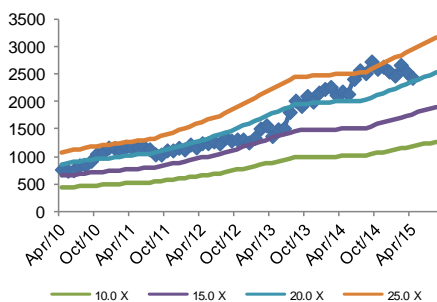
Profitability growth would be higher: TCS has given a special bonus to employees on the 10th anniversary of it being a listed entity, this has had a negative impact to profitability. If we adjust for this one time event profitability would have been higher coming in at ₹57,484mn taking its growth to 7% on the QoQ basis. We believe that profitability will improve albeit at a lower rate going forward as income from its cash holding will see declines as interest rates keep moving down.

Valuations:

At the current price TCS is trading at a P/E multiple of 19.6x & 17.3x, a P/BV of 7.3x & 5.8 x and an EV/EBITDA of 13x & 11.1x for FY16E & FY17E respectively.

TCS continues to be a market leader in the IT space in India and will maintain its leadership in market share. With recovery improving in Europe and America in many sectors specially the BFSI we believe the growth momentum to return to higher levels during the second half of the financial year. Even during the difficult times with major impact of cross currency losses TCS has been able to post relatively strong numbers. If Adjusted for the one time bonuses to employees TCS would have registered a good growth in profitability. Based on these factors we would believe TCS would be able to maintain its premium valuation to the rest of the sector. Further we have seen a time based and price based correction in TCS and hence feels there is now a good upside over the next 9 months. We maintain our valuation multiple of 22x 9month forward which would be justified. If we look at the forward P/E multiple chart attached along we see the valuations largely range between 20x to 25x based on market sentiments. Based on this we revise our target price of ₹2788 over the next 9 months implying an upside of 12% from the current levels and maintain our "BUY" recommendation on the stock.

Forward P/E



Financials

Profit & Loss

In ₹ million	FY14	FY15	FY16E	FY17E
Net sales	818,094	946,484	1,091,831	1,259,686
YoY (%)	29.9	15.7	15.4	15.4
Total expenses	566,566	675,388	778,459	897,910
EBIDTA	251,528	271,096	313,372	361,776
YoY (%)	39.4	7.8	15.6	15.4
EBIDTA (%) of total sale	30.7	28.6	28.7	28.7
Other income	16,367	32,299	36,290	38,332
PBIT	267,895	303,395	349,663	400,108
Depre/ Amor	13,492	17,987	19,634	22,539
PBIT	254,404	285,408	330,028	377,569
Interest	385	1,042	834	667
Profit bef Exp items	254,019	284,367	329,195	376,902
Exp Items	0	21,382	0	0
Profit after Exp Items	254,019	262,985	329,195	376,902
(-) Tax	60,700	62,388	79,007	94,225
Tax/ PBT	23.9	21.9	24.0	25.0
PAT	193,319	200,597	250,188	282,676
Minority interest	1,680	2,075	2,075	2,075
Net Profit	191,639	198,522	248,113	280,601
YoY (%)	37.7	3.6	25.0	13.1

Cash Flow

In ₹ million	FY14	FY15	FY16E	FY17E
Net profit	191,639	198,522	248,113	280,601
Depn and w/o	13,492	17,987	19,634	22,539
Deferred tax	271	0	0	0
Change in wrkg cap	3,614	31,225	(18,795)	(16,201)
Other income	(16,367)	(32,299)	(36,290)	(38,332)
Operating cash flow	192,648	215,434	212,662	248,608
Other income	16,367	32,299	36,290	38,332
Capex	(31,685)	(33,956)	(27,664)	(27,664)
Investments	(22,678)	9,179	(284,286)	(143,076)
Investing cash flow	(37,996)	7,522	(275,659)	(132,408)
Dividend	(70,630)	(180,904)	(91,597)	(103,047)
Equity	0	0	0	0
Debt	434	455	0	0
Financing cash flow	(70,197)	(180,449)	(91,597)	(103,047)
Others	(7,729)	(1,366)	(2)	0
Net change in cash	76,727	41,142	(154,596)	13,153

Balance Sheet

In ₹ million	FY14	FY15	FY16E	FY17E
Equity capital	1,959	1,959	1,957	1,957
Reserves	489,989	504,389	660,905	838,459
Net worth	491,948	506,348	662,862	840,417
Total borrowings	2,544	2,998	2,998	2,998
Non current Liabilities	11,287	11,229	11,378	11,534
Current Liabilities	155,432	201,327	229,235	259,909
Minority interest	7,080	11,278	11,278	11,278
Total liabilities	668,290	733,179	917,751	1,126,136
Net block	72,756	95,450	103,479	108,604
CWIP	31,685	27,664	27,664	27,664
Investments	34,337	16,618	281,692	401,692
Deferred tax	1,113	2,510	2,510	2,510
Current assets	417,392	473,204	365,311	425,340
Goodwill	22,688	20,932	20,932	20,932
Non current assets	88,319	96,802	116,163	139,395
Total assets	668,290	733,179	917,751	1,126,136

Key Ratios

	FY14	FY15	FY16E	FY17E
EPS (Rs)	97.8	101.4	126.8	143.4
CEPS (Rs)	104.7	110.6	136.8	154.9
Book value (Rs)	251.2	258.7	338.7	429.4
DPS (Rs)	32.0	79.0	40.0	45.0
Debt-equity (x)	1.3	1.5	1.5	1.5
ROCE	51.4	56.0	49.6	44.8
ROE	39.0	39.2	37.4	33.4
Valuations				
PE (x)	25.4	24.5	19.6	17.3
Cash PE (x)	23.7	22.5	18.2	16.0
Price/book value (x)	9.9	9.6	7.3	5.8
Dividend yield	1.3	3.2	1.6	1.8
Market cap/sales	5.9	5.1	4.5	3.9
EV/sales (x)	5.8	4.9	4.2	3.5
EV/EBDITA (x)	17.6	15.4	13.0	11.1

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