TCS

Analyst Meet Update

NEUTRAL	
CMP	₹1,584
Target Price	-
Investment Period	12 Months

Stock Info	
Sector	IT
Market Cap (₹ cr)	236,009
Net debt (₹ cr)	(13,700)
Beta	0.6
52 Week High / Low	1,438/1047
Avg. Daily Volume	143,960
Face Value (₹)	1
BSE Sensex	19,244
Nifty	5,858
Reuters Code	TCS.BO
Bloomberg Code	TCS@IN

Shareholding Pattern (%)	
Promoters	74.0
MF / Banks / Indian FIs	6.5
FII / NRIs / OCBs	14.8
Indian Public / Others	4.7

Abs. (%)	3m	1yr	3yr
Sensex	3.8	24.2	13.9
TCS	(10.1)	5.5	66.9

Tata Consultancy Services (TCS) hosted an analyst briefing with Mr. Rajesh Gopinathan, CFO and Mr. Kedar Shirali, Head of Investor Relations. Following are the key takeaways:

To meet the guidance in constant currency (CC) terms for FY2013, above Nasscom's industry estimate: TCS is on track to meet its full-year plan shaped in April 2012. For 4QFY2013, the management indicated that USD revenue growth is expected to be similar to 3QFY2013 (3.3% qoq). Pricing is expected to remain stable and growth is expected to be driven by volumes in the quarter. We model in 3.2% qoq growth in 4QFY2013. As per our estimates, revenues in FY2013 should grow by 15.8% in CC, well above 13.8% in reported currency and above the upper end of the Nasscom's earlier guidance of 11-14%.

Operating margin expected to slip marginally: EBIT margin too, should meet the company's target of 27% for FY2013. We model 26.9% margin in 4QFY2013 (which implies 27.1% EBIT margin for FY2013), a decline of 25bp qoq on the back of one-time lawsuit settlement of US$29.75mn.

FY2014 to be better than FY2013: Management sounded confident of FY2014 being a better year than FY2013 as clients seem to have a better handle on the kind of projects they want to execute and have made plans to spend on IT considering all the challenges. Healthy pipeline, broad-based deal signings and upturn in discretionary spending, all these factors have collectively lend confidence to the company's outlook of FY2014 being a better year than FY2013. The overall pricing in the market is stable. Among geographies, US is seeing broad-based optimism. Better outlook in US is driven by some uptick in discretionary spending, where the demand is more project centric. Also, management expects that with the political environment improving, visa regime should get more benign. In Europe, while the broader economy remains weak, there is increasingly greater acceptance of the outsourcing model and nature of work is largely skewed towards traditional services.

Other key points: During 4QFY2013, if the currency remains range bound, TCS expects to see an estimated forex gain of ~₹75cr (vs. forex loss of ₹73cr in 3QFY2013) which would boost the reported net profit. The company has not taken a call on wage hikes yet. It will wait till the end of the quarter before finalizing the same. Overall, demand optimism remains intact with few pockets of weakness like telecom and hi-tech. The company expects BFSI to grow in line with the company average going ahead.

Valuation: TCS has executed well over the past many quarters and has outperformed the CNX IT by ~4% YTD and currently trades at 22.3x FY2013E and 20.3x FY2014E EPS (~20% premium to Infosys). After the sharp upmove YTD, we believe that TCS valuations are rich and build in a relatively strong operational performance. **Keeping that in notice, we maintain Neutral rating on the stock with target price being ₹1,525.**

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Exhibit 1: Key Financials (Consolidated)

Y/E March (₹ cr)	FY2010*	FY2011	FY2012	FY2013E	FY2014E
Net sales	**30,028**	**37,324**	**48,891**	**62,985**	**71,548**
% chg	*8.0*	*24.3*	*31.0*	*28.8*	*13.6*
Net profit	**6,873**	**8,715**	**10,636**	**13,883**	**15,276**
% chg	*32.9*	*26.8*	*22.0*	*30.5*	*10.0*
EBITDA (%)	28.9	30.0	29.5	28.8	28.5
EPS (₹)	**35.1**	**44.5**	**54.3**	**70.9**	**78.1**
P/E (x)	45.1	35.6	29.2	22.3	20.3
P/BV (x)	14.8	12.2	9.5	7.4	6.0
RoE (%)	32.8	34.3	32.7	33.0	29.5
RoCE (%)	28.8	32.0	32.8	32.2	29.8
EV/Sales (x)	10.0	8.1	6.1	4.7	4.1
EV/EBITDA (x)	34.8	27.0	20.8	16.3	14.3

*Source: Company, Angel Research; Note: * In US GAAP*

Exhibit 2: Recommendation summary

Company	Reco	CMP (₹)	Tgt. price (₹)	*Upside (%)*	FY2014E EBITDA (%)	FY2014E P/E (x)	FY2011-14E EPS CAGR (%)	FY2014E EV/Sales (x)	FY2014E RoE (%)
HCL Tech	Neutral	773	-	-	20.7	14.6	13.6	1.7	22.9
Hexaware	Buy	90	113	*25.1*	18.3	8.9	4.2	0.9	21.0
Infosys	Neutral	2,970	-	-	28.8	17.2	5.9	3.2	21.3
Infotech Enterprises	Accumulate	173	184	6.3	17.4	8.9	10.3	0.5	13.6
KPIT Cummins	Buy	109	134	22.9	15.2	8.5	16.9	0.7	20.5
Mahindra Satyam	Neutral	126	-	-	20.2	11.1	3.6	1.3	23.7
Mindtree	Neutral	881	-	-	19.3	10.2	17.4	1.0	21.7
Mphasis	Neutral	396	-	-	17.9	10.3	0.7	0.9	14.1
NIIT	Buy	24	30	23.5	10.9	3.9	(2.7)	0.1	14.1
Persistent	Neutral	576	-	-	24.1	10.7	15.1	1.2	18.0
TCS	**Neutral**	**1,584**	**-**	**-**	**28.5**	**20.3**	**12.8**	**4.1**	**29.5**
Tech Mahindra	Accumulate	1,109	1,205	8.6	19.6	10.0	7.9	1.9	22.3
Wipro	Neutral	445	-	-	19.4	16.1	6.8	1.9	17.9

Source: Company, Angel Research

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DISCLAIMER

Disclosure of Interest Statement	**TCS**
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	*Buy (> 15%)*	*Accumulate (5% to 15%)*	*Neutral (-5 to 5%)*
	Reduce (-5% to -15%)	Sell (< -15%)	

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