



## Seasonally weak Quarter

<b>CMP:</b>	<b>Rs.2,532</b>
<b>Target Price:</b>	<b>Rs.2,522</b>
<b>Recommendation:</b>	<b>NEUTRAL</b>

### Stock Info

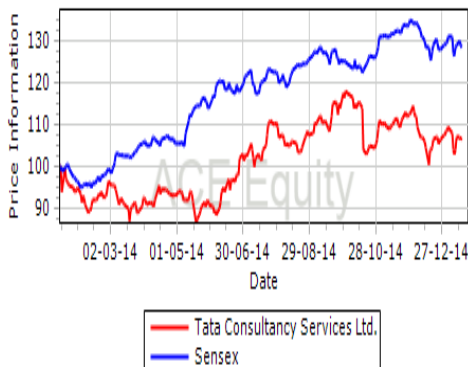
BSE Group	A
BSE Code	532540
NSE Symbol	TCS
Bloomberg	TCS.IN
Reuters	TCS.BO
BSE Sensex	28,121
NSE Nifty	8,515

### Market Info

Market Capital	Rs.4,95,999cr
Equity Capital	Rs.195.9cr
Avg. Trading Vol.	12,79,420
52 Wk High/ Low	2834/2000
Face Value	Rs.1

### Shareholding Pattern (%) (Dec 2014)

Promoters	73.9
Domestic Institutions	4.7
Foreign Institutions	16.8
Public & Others	4.6



16<sup>th</sup> January, 2015

### ■ Dollar Revenues grew by 0.05% QoQ and 14.3% YoY:

TCS has delivered muted set of numbers with a top line growing marginally by 0.05% qoq at \$3,931 mn. Rupee revenues increased by 2.9% qoq to Rs 24,501cr, due to depreciation of all major currencies against USD. Utilization level (ex-trainees) is at 86.7%. Net addition during the quarter was 4,868 employees. No. of US\$100 million+ Client increased by 1, No. of US\$50 million+ client increased by 3 and No. of US\$5 million+ client increased by 20.

Revenue growth was led by strong realization growth of 2.3% QoQ but the volume growth was muted at 0.4% QoQ as there were more holidays during the quarter.

### ■ Segmental share remains fairly stable:

Revenue mix among verticals more or less remained constant with BFSI and Retail & Distribution segments contributing 40.5% and 13.4% to top line. Manufacturing segment's share in total revenues was at 10.1%. Major geographical share remained more or less stable with share of North America, UK, Continental Europe was at 51.9%, 16.1%, and 11.7% respectively.

### ■ Operating profits increased by 3.7%:

Company has recorded an operating profit of Rs 6,586cr; up 3.7% qoq, this is in spite of many holidays during the quarter. EBIT margin during the quarter stood at 26.88%. PAT reported during the quarter is Rs. 5328cr.

### ■ Concall Update:

- Company has planned for 35,000 campus offers for FY16. So far in FY15 company has already visited ~420 campuses and made 32,000 offers.
- Company is quite positive with the deals getting closed and the pipeline being stronger across the market like U.S., U.K., Europe, Latin America and India, company expects to increase client base.
- Revenue of Diligenta, US based a subsidiary of TCS, declined during last two quarters and it may continue for few more quarters.
- Technology business is at the cusp of tremendous opportunities and the rate at which these technologies are changing are so rapid, customers need to adopt these technologies to invent themselves for the future, this will provide huge opportunities for the company.
- Board have declared a third interim dividend of Rs 5.

### ■ Outlook:

We believe TCS will improve its performance with consistent clients wins and improving global scenario from next quarter onwards. we have valued stock at P/E(x) of 20x to its FY16E earnings and have arrived at fair value of Rs 2,522 per share. At CMP Rs 2,532 stock trades at 20.1 (x) its FY16E earnings. We have 'Neutral' rating on the stock.

### ■ Financials:

Y/E March (Rs. In Crore)	FY13	FY14	FY15E	FY16E
Net Revenue	62989	81809	94498	103819
Growth %	29%	30%	16%	10%
EBIDTA	18040	25153	27620	32919
EBIDTA Margin	29%	31%	29%	32%
Net Profit	13917	19164	21669	24699
Growth %	34%	38%	13%	14%
EPS	71	98	111	126
P/E	35.6	25.9	22.9	20.1
ROE	36.0	39.0	41.3	37.0

Source: Company data, Arihant Research

## Quarterly Results:

Particulars (Rs. Cr)	Q3FY15	Q2FY15	QoQ%	Q3FY14	YoY%
Information technology and consultancy services	23936	23360	2.5%	20912	14.5%
Sale of equipment and software licences	566	457	23.8%	382	48.3%
<b>Total Income</b>	<b>24501</b>	<b>23816</b>	<b>2.9%</b>	<b>21294</b>	<b>15.1%</b>
Employee costs	9336	9056	3.1%	7704	21.2%
Gross Margin	15165	14760	2.7%	13590	11.6%
Gross Margin%	62%	62%		64%	
Other Expenses	8117	7960	2.0%	6903	17.6%
EBIDTA	7048	6800	3.6%	6687	5.4%
<b>EBIDTA Margin</b>	<b>28.8%</b>	<b>28.6%</b>		<b>31.4%</b>	
<b>Depreciation</b>	<b>462</b>	<b>449</b>	<b>2.8%</b>	<b>349</b>	<b>32.2%</b>
EBIT	6586	6351	3.7%	6337	3.9%
EBIT Margin	26.9%	26.7%		29.8%	
Interest	18	66	-73.0%	7	155.0%
Other Income	644	663	-2.8%	683	-5.7%
PBT	7212	6947	3.8%	7014	2.8%
<b>Tax Paid</b>	<b>1824</b>	<b>1635</b>		<b>1636</b>	
Effective tax rate%	25.3%	23.5%		23.3%	
Minority interest	61	68		44	
Share of loss of associates	0.0	0.0		0.0	
<b>Net profit</b>	<b>5328</b>	<b>5244</b>	<b>1.6%</b>	<b>5333</b>	<b>-0.1%</b>
<b>EPS</b>	<b>27.2</b>	<b>26.8</b>		<b>27.2</b>	

Source: Company data, Arian Research

### Profit and Loss statement

Particulars (Rs. In Crore)	FY13	FY14	FY15E	FY16E
Information technologyservices	61223	80140	92657	101819
Sale of equipment and software licences	1766	1670	1841	2000
<b>Total</b>	<b>62989</b>	<b>81809</b>	<b>94498</b>	<b>103819</b>
Employee costs	24040	29860	35924	39300
Operation and other expenses	20910	26797	30953	31600
Total Operating Expenses	44950	56657	66878	70900
<b>EBIDTA</b>	<b>18040</b>	<b>25153</b>	<b>27620</b>	<b>32919</b>
EBIDTA Margin	29%	31%	29%	32%
Depreciation	1080	1349	1774	1880
EBIT	16960	23804	25847	31039
Interest	48	39	108	60
Other Income	1178	1637	2444	1400
<b>PBT</b>	<b>18090</b>	<b>25402</b>	<b>28182</b>	<b>32379</b>
Tax	4394	6070	6792	7500
Minority Interest & other	158	168	211	180
<b>PAT</b>	<b>13917</b>	<b>19164</b>	<b>21669</b>	<b>24699</b>
Growth (%)	34%	38%	13%	14%
<b>EPS</b>	<b>71.1</b>	<b>97.8</b>	<b>110.6</b>	<b>126.1</b>

### Cash Flow Statement

Particulars (Rs. In Crore)	FY13	FY14	FY15E	FY16E
<b>Profit before taxes</b>	18090	25402	28182	32379
Add:- Depreciation	1080	1349	1774	1880
Change in Working Capital	-1767	-3451	-2130	-2138
Cash generated from operations	16437	21795	28105	31942
Taxes paid	-4822	-7044	-6792	-7500
Net cash flow from operating activities	11615	14751	21313	24442
Purchase of fixed assets	-2638	-3126	-2608	-2411
Others	-3448	-6541	-1281	-965
Net cash flow from investing activities	-6086	-9667	-3889	-3375
Proceeds long term borrowings	2	0	1	1
Dividend paid, including dividend tax	-5703	-5480	-18334	-10425
<b>Other</b>	-26	-193	1	1
Net cash used in financing activities	-5729	-5673	-18332	-10423
<b>Net Cash Flow</b>	<b>-200</b>	<b>-589</b>	<b>-909</b>	<b>10643</b>
Opening Cash balance	6969	15031	14442	13533
<b>Closing Cash balance</b>	<b>6769</b>	<b>14442</b>	<b>13533</b>	<b>24176</b>

### Balance Sheet

Particulars (Rs. In Crore)	FY13	FY14	FY15E	FY16E
Shareholder's funds				
Share Capital	296	196	196	196
Reserves & Surplus	38350	48999	52334	66609
<b>Total</b>	<b>38646</b>	<b>49195</b>	<b>52530</b>	<b>66805</b>
Minority Interest	695	708	708	708
Total Non Current Liabilities	1083	1565	1566	1707
Total Current Liabilities	11843	15670	17556	18410
<b>Total Liabilities</b>	<b>52267</b>	<b>67138</b>	<b>72360</b>	<b>87631</b>
Net Block	6247	7276	8203	8540
Capital Work-in-Progress	1895	3168	3500	3800
Goodwill on consolidation	3582	2269	2269	2269
Total Non Current Assets	20691	24240	26382	27991
Cash and bank balance	6769	14442	13533	24176
Total Current Assets	31577	42898	46005	59640
<b>Total Assets</b>	<b>52267</b>	<b>67138</b>	<b>72387</b>	<b>87631</b>

### Key Ratios

Particulars	FY13	FY14	FY15E	FY16E
EPS	71.1	97.8	110.6	126.1
Book Value	197.5	251.4	268.4	341.3
DPS	22	32	80	46
Payout %	31	33	72	36
Dividend Yield %	1.4	1.5	3.2	1.8
P/E	35.6	25.9	22.9	20.1
EBIDTA Margin	29%	31%	29%	32%
PBT Margin	29%	31%	30%	31%
PAT Margin	23%	24%	23%	24%
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	2.67	2.74	2.62	3.24
ROE	36.0	39.0	41.3	37.0
ROCE	43.9	48.4	49.2	46.5

## Arihant Research Desk

E. research@arihantcapital.com

T. 022-42254830

### Head Office

#1011, Solitaire Corporate park ,

Building No. 10, 1<sup>st</sup> Floor,

Andheri Ghatkopar Link Road

Chakala, Andheri (E).

Mumbai – 400093

Tel: (91-22) 42254800

Fax: (91-22) 42254880

### Registered Office

Arihant House

E-5 Ratlam Kothi

Indore - 452003, (M.P.)

Tel: (91-731) 3016100

Fax: (91-731) 3016199

### Stock Rating Scale

	<b>Absolute Return</b>
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

#### Disclaimer:

This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

## ARIHANT capital markets ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,

Andheri Ghatkopar Link Road Chakala, Andheri (E)

Tel. 022-42254800 Fax. 022-42254880

[www.arihantcapital.com](http://www.arihantcapital.com)