

## *Results exceed expectations... .. Valuation gap with Infosys to narrow*

### Q1FY11 revenues up by 6.4% Q-o-Q driven by volume traction

- TCS reported revenues of USD 1797mn for Q1FY11, up 6.4% Q-o-Q, driven by volume growth of 8.1% Q-o-Q. The revenue in rupee terms stood at Rs.82172mn, up 6.2% Q-o-Q and 14% Y-o-Y.
- EBIDTA margins for the quarter were at 29.3%, down by 90 bps on a Q-o-Q basis. In spite of currency headwinds and wage hike this quarter, the company was able to sustain margins within a narrow band on account of higher operational leverage, offshore mix and reversal of past provision for bad debts.
- PAT came at Rs.19060mn, down 4.7% QoQ and up 24% on a Y-o-Y basis.

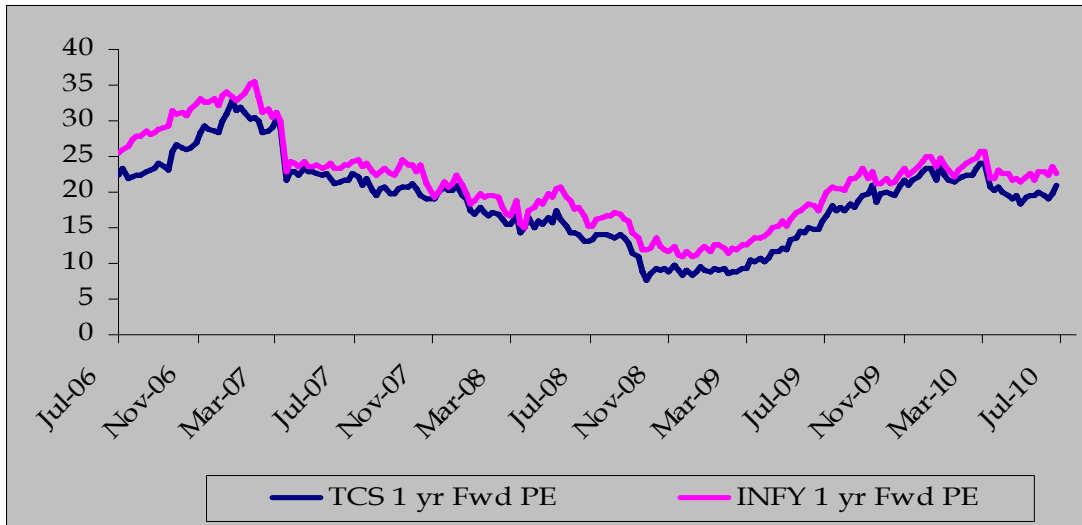
### Key takeaways from Management Conference call

- Revenues grew 6.2% in Re terms and 7.3% on constant currency largely driven by a volume growth of 8.1%
- Broad based growth was seen across segments and across geographies. On a constant currency basis BFSI grew 6.5%, Manufacturing 4%, Retail 9.6%. Growth was also seen in Europe with continental Europe growing 1.2% and UK growing 5.1%.
- Pricing impact on revenues was only a negative 32bps
- The company has raised its headcount addition plans to 40k from the current 30k, mainly on due to increased demand.
- Margins decline was only 36bps, largely helped by 139bps improvement in SG&A of which bad debt reversal contributed ~90bps. Wage inflation impacted the margins negatively by 215bps, which was mainly due to wage hikes. Wage inflation will continue into this quarter mainly due to upcoming promotions.
- Signed 10 large deals during the quarter, mostly in non BFSI verticals
- Total hedges outstanding were US\$455mn. Forex losses this quarter were Rs474mn.

## **Valuation**

At the current market price of Rs.800, the stock is trading at 20 and 17.7 times its estimated FY11 and FY12 Consensus EPS of Rs. 40 and Rs. 45, respectively. Historically, TCS has traded at an average 1 yr forward PE multiple of 18.8x compared to 21.5x of Infosys. With the strong quarterly results of TCS and with the EBITDA margin gap between the Companies narrowing, we expect the valuation gap with Infosys to close over the next few quarters. *We expect the stock to trade at Rs. 900 in the next 6-8 months valuing the Company at 20x its FY12 expected EPS of Rs. 45.*

<b>TCS Q1FY11 Consolidated Results</b>			
<b>(in Rs. Lakhs)</b>	<b>Q1FY11</b>	<b>Q1FY10</b>	<b>YoY Growth %</b>
Revenues	821728.0	720699.0	14.0%
Operating Expenses	580778.0	524224.0	10.8%
EBITDA	240950.0	196475.0	22.6%
Depreciation	16153.0	15800.0	2.2%
EBIT	224797.0	180675.0	24.4%
Other Income	9546.0	2555.0	273.6%
Interest Charges	268.0	371.0	-27.8%
PBT	234075.0	182859.0	28.0%
Taxes	40280.0	27731.0	45.3%
PAT	193795.0	155128.0	24.9%
Minority Interest	3158.0	1711.0	84.6%
Profit/Loss of Associates	30.0	23.0	30.4%
Consolidated Net Income	190607.0	153394.0	24.3%
Basic and Dilutes EPS	9.71	7.83	24.0%
<b>Margins</b>			
EBITDA %	29.3%	27.3%	
EBIT%	27.4%	25.1%	
Net Profit %	23.2%	21.3%	
Source: GSL Research			



**Research Analyst: Prashant Kamdar**

**E Mail Id:** <mailto:prashant.kamdar@guinessonline.net>

**Contact No.** 033-3001-5555, Extn.5509

**Disclaimer**

This Document has been prepared by the Research Team of Guinness Securities Ltd. and it is only meant for the use of the recipients only & it is strictly restricted for circulation without prior permission. Every care has been taken while preparing this document, however as the information contained herein is obtained from sources believed to be reliable hence we do not represent it, as accurate and it should not be relied upon as such. We do not take any responsibility for our research recommendation. Investors are advised to use their own judgment while taking any investment decision.

Registered Office: Suite No. C-1, Madhukunj, Laram Centre CHS Ltd., M.A. Road of S.V. Road, Opp. Andheri Railway Station, Andheri (West), Mumbai – 400 058 (w.e.f. 15<sup>th</sup> May, 2010)

Corporate Office: Guinness House. 18, Deshapriya Park Road, Kolkata-700 026. Ph: 3001-5555. Fax: 91 33 3001 5566.

Email: [research@guinessonline.net](mailto:research@guinessonline.net), Website: [www.16anna.com](http://www.16anna.com)