



TATA CONSULTANCY SERVICE

CMP: Rs.774

Industry: Information technology

Stock Info		BSE Group		Shareholding Pattern (As on 31 st Mar., 2010)	
Market Capital	Rs. 151614.5cr	BSE Code	A	Government	0%
Equity Capital	Rs. 195.7cr	NSE Symbol	532540	Domestic Institutions	7.8%
Avg Trading Vol.	216908 (Q'tly)	Bloomberg	TCS	Foreign	12.4%
52 WK High/Low	844/401	Reuters	TCS.IN	Promoters	74.1%
Face Value	Rs. 1	BSE Sensex	TCS.BO	Public & Others	4.9%
		NSE Nifty	17938		
			5386		

Margins expected to come under pressure

TCS posted a QoQ revenue growth of 1.17% per cent in the previous quarter of 4QFY10. What came as a major surprise was the sharp growth of 9.69 per cent in the bottom-line. A number of factors contributed to this growth. The growth in the top-line was backed mainly by a growth in volumes which went up by 4% QoQ and improvement in operating margins by 50 bps. The unexpected forex gain of Rs.65 cr also contributed to it.

The improvement in margins happened mainly because of better management of employee cost which is basically a factor of onsite-off-shore mix. The company has been continuously shifting work off-shore—as can be seen from the table below. A shift to off-shore though helps in bettering margins, the revenue earned however reduces.

(%)	Q4FY10	Q3FY10	Q2FY10
Onsite	51%	51.3%	51.1%
Offshore	43.6%	42.5%	42.7%

Further, the company's initiative to take higher proportion of Fixed price projects (FPP) as compared to Time & Material (T&M) over the quarters as indicated by the adjoining table will also provide support to its margins.

	Q4FY10	Q3FY10	Q2FY10	Q1FY10
T&M	51.3%	52%	52.8%	52.6%
FPP	48.7%	48%	47.2%	47.4%

However, in the current quarter i.e.Q1FY11, we expect margins to come under pressure by ~100bps as the company has started taking in new recruits which will bring in additional cost and also bring down the utilisation rate (which was 74.3% in Q4FY10). However, the depreciation of the rupee against the US dollar by ~3 per cent in 4Q provide some respite to the margins though cross-currency rates were unfavourable.

	30/6/2010	31/3/2010	%change
Re/ US\$	46.4099	44.9748	3.19%
Euro/US\$	0.8136	0.7396	10.01%
Pound/US\$	0.6686	0.6589	1.47%
AUD/US\$	1.1793	1.0908	8.11%

*negative indices indicates appreciation of the respective currency against USD

On the positive front, the overall deal pipe-line remained healthy for the company. The company also managed to win a number of major deals both in the domestic and on the international front. Moreover, the BFSI segment has

shown sharp signs of recovery and considering the fact, that BFSI contributes a majority of TCS's revenue (~42%), we can expect TCS to improve its top-line at a faster pace in the coming quarters.

Outlook

We expect TCS to register a top-line growth and bottom-line growth of around 4.1% and -2.3% respectively on a sequential basis in rupee terms. We expect TCS to post PAT of Rs.1953.5 cr in Q1FY11 which translates into an EPS of Rs.9.98 per share vis-à-vis Rs.10.22 that was posted in Q4.

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