

HOLD

TP: Rs 2,979 | ▼ 3%

TATA CONSULTANCY SERVICES

| IT Services

| 10 October 2025

2Q broadly inline. High AI Datacenter capex raises eyebrows

- Return dilutive datacenter capex aligned to national goal of data localisation. Key for gaining large India govt projects, in our view
- Demand conditions remain unchanged. TCV broadly in line. Maintains view that FY26 international revenue growth will be better than in FY25
- Valuation on 5-year basis looks cheap. Accounts for significant growth deceleration. DC capex and M&A additional concerns. Maintain HOLD

2QFY26 broadly in line. Core business outlook remains unchanged.: Revenue growth of 0.8% QoQ fell a tad short of our estimate of 1.5% as the new BSNL business did not kick in as much as we anticipated. EBIT margin at 25.2% (excluding restructuring hit) was much higher than the 24.3% that we estimated. It had a large +80bps from currency QoQ. Growth QoQ was largely broad based and TCV of US\$10bn was booked. Demand conditions were indicated to be similar to where they were 3 months back with continued pressure on discretionary spending and focus on vendor consolidation and cost take out.

AI data center (DC) investment decision overshadows core business: In a negatively surprising move, TCS has decided to invest in a 1GW AI Datacenter in India over a 5–7-year time frame. Indicated capex of ~US\$6-7bn. This is going to be significantly return dilutive (AI DC biz likely generates ROE in teens compared to core business ROE of ~50%). Combined with a more proactive M&A strategy (from a 100% focus on organic growth) this will lower FCF available for distribution to shareholders in the next 5-7 years. These moves may evoke mixed reactions from investors, in our view, and may adversely impact multiples.

AI DC capex seems aligned to national priorities and may help in its India business: Unlike peers, TCS has plans of building a substantial India business through participation in marquee government and private sector programs. We believe AI data center aligns with Indian government goals of data localization (especially in the current geopolitical context and goals of self-reliance) and may help TCS score points when it bids for large Indian projects. We believe complex Indian projects helps TCS hone skills which it later takes globally.

Tweak estimates, maintain target PE multiple at 19x and Hold Rating: While on a 5-year historical basis the stock looks cheap, growth has materially slowed to low single digits. Besides, the new capital-intensive avatar of TCS (for both AI DC capex and M&A) is return dilutive and may not be liked by part of the investor community.

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Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	TCS IN/Rs 3,062
Market cap	US\$ 124.8bn
Free float	28%
3M ADV	US\$ 102.0mn
52wk high/low	Rs 4,495/Rs 2,867
Promoter/FPI/DII	72%/11%/12%

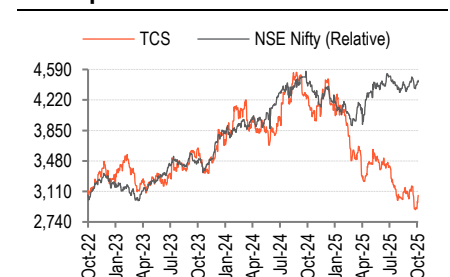
Source: NSE | Price as of 9 Oct 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	2,553,240	2,632,300	2,843,583
EBITDA (Rs mn)	674,070	702,657	767,574
Adj. net profit (Rs mn)	485,530	513,029	546,188
Adj. EPS (Rs)	134.2	141.8	151.0
Consensus EPS (Rs)	134.2	141.3	151.4
Adj. ROAE (%)	51.9	51.1	51.1
Adj. P/E (x)	22.8	21.6	20.3
EV/EBITDA (x)	16.6	15.9	14.6
Adj. EPS growth (%)	4.2	5.7	6.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Key Points from the quarter and the earnings call

- Revenue stood at US\$7,466mn, up 0.8% QoQ and down 3.3% YoY in CC terms. This was against our estimate of 1.5% QoQ CC growth. We were expecting a larger BSNL element to the revenue in the quarter.
- International revenue grew 0.6% QoQ in CC terms
- QoQ CC Revenue Growth (%) was quite broad based: BFSI: 1.1; Consumer Business: -1.0; Life Sciences & Healthcare: 3.4; Manufacturing: 1.6; Technology and Services: 1.8; Communication and Media: 0.8; Energy, Resources and Utilities: 0.6; Regional Markets & Others: -1.1. Sharp pickup in growth in life sciences and healthcare has come as a +ve surprise.
- 2Q EBIT margin stood at 23.5% (against our estimate of 24.3%) , declining 101 bps QoQ. Excluding one-time severance provision, EBIT margin stood at 25.2%. An improvement of 70bps QoQ.
 - Currency impact supported margins by 80 bps
 - Wage increments for 80% of workforce combined with additional quarterly variable allowances negatively impacted margins by 70 bps which was offset by 40 bps from pyramid rebalancing and 20 bps from operating efficiency gains
 - CapEx investments continued in infrastructure
- Ongoing effort to return to aspirational margin band of 26%–28%
 - While wage hikes and increased investments will impact costs in the coming quarters, margin expansion is expected to continue, supported by better growth in H2
- Net income margin was 18.4%, declining 176 bps QoQ and 18 bps YoY. Ex restructuring cost (one-off) the net margin was 19.6%.
- Industry-leading margins attributed to ability to absorb market fluctuations and competitive pressures
- TCV stood at US\$10 bn: BFSI TCV was US\$3.2 bn, Consumer business TCV was US\$1.8 bn, North America TCV was US\$4.3 bn
 - TCV grew 6.5% QoQ and 16% YoY
- Headcount stood at 593,314 (down by 19,755 QoQ) and voluntary LTM attrition was 13.3% in IT Services. This is after letting go of 6000 people through the course of a restructuring exercise.
 - TCS stated that it doesn't have a fixed target for further reductions but will continue to manage releases, particularly among mid- and senior-level employees who may not find suitable roles despite investments in learning and development
- Quarterly variable allowance in 2Q was higher than previous quarter

- H1B dependency significantly reduced; Just ~500 associates seem to have traveled to the US on H1B during 1HFY26
- Rs11.35bn provided in 2QFY26 for severance-related costs
- Pan-India expansion plan underway targeting 50,000 additional seats across Tier 1 and Tier 2 cities in coming years
- Demand Environment commentary
 - IT services spend remains steady with no significant change expected in the near term
 - Lingering macroeconomic uncertainties remain a key challenge
 - Customers maintaining tight control over discretionary budgets
 - Clients consolidating vendors
 - Based on 2Q revenue growth, TCV, and strong demand pipeline, FY26 international revenue growth expected to be better than in FY25
- IT services industry undergoing rapid change due to GenAI, evolving operating models, and shifting client expectations. Future-ready talent model identified as a core component of strategic transformation.
 - Localized talent model perfected in Latin America and expanded across US, UK, and Europe
 - 1% of workforce released, mainly at mid and senior levels, due to skill and capability mismatch. Impacted employees provided with benefits, counseling, outplacement support, and severance above industry standards
 - Involuntary attrition also occurred as part of performance and bench policies
- Five strategic pillars defined for transformation (Objective is to become the world's largest AI-led technology services company)
 1. Raise the power of AI through internal transformation, building and scaling AI solutions for connected intelligence
 - Focuses on scaling AI transformation initiatives. Scaling AI for customers involves embedding AI across industry value chains, enterprise platforms, and solutions
 2. Redefine services through human plus AI services model, with dedicated AI and services transformation unit
 - Focuses on building AI-first solutions by applying AI to internal functions including finance, HR, legal, and IT operations
 3. Build future-ready talent model by investing in skills, embracing new ways of working and local hiring in operating markets

- Focuses on building an AI-first culture by democratizing access to AI learning tools and environments for employees. ~160,000 associates now possess higher-order AI skills
- 4. Make AI real for clients by redesigning business value chains and developing cross-industry AI solutions
- 5. Expand AI ecosystem through deeper partnerships, increased M&A activity, and foray into new business ventures
 - Partnerships established with deep tech firms, hyperscalers, and niche startups and expansion into agencies to broaden AI ecosystem participation
- Announced acquisition of ListEngage and with deep capabilities in Salesforce. It is among the first acquisitions made by TCS in recent years and led to a spend of US\$72.8mn excluding management incentives and costs. The acquisition will come into effect immediately.
- Through this strategic investment, TCS adds over 100 experienced professionals with over 400 Salesforce certifications to its Enterprise Solutions unit in the United States. The acquisition reflects TCS' renewed emphasis on inorganic growth, supporting its strategic priorities in high-potential areas such as AI, Cloud, Cybersecurity, Digital Engineering and Enterprise Solutions. Suggesting that more such deals are probably likely in the future.
- Established in 2018, ListEngage is a US based Salesforce summit partner which helps in digital marketing transformation of clients through Salesforce platforms like marketing cloud, data cloud and Agentforce and AI advisory services. Last 3 years turnover (USD million): FY22: 15.6 , FY23: 21.6, FY24: 24.3
- Cybersecurity update provided
 - Recent cyber incidents involved some TCS clients experiencing business disruptions. No compromise or impact to TCS systems or other TCS customers in these incidents; Customer-managed investigations ongoing
 - The incident caused minor delays in project starts but had no major revenue or margin impact. The issue has been resolved now, with all sales and manufacturing systems restored early this week, allowing paused projects to resume soon
- Board approved creation of TCS subsidiary to build a sovereign AI data center with capacity of up to 1 gigawatt
- AI-related CapEx for the planned 1-gigawatt data center will be executed in phases over a 5–7-year period
 - Estimated cost for every 150 megawatts of capacity is ~US\$1 bn
 - CapEx funding will be a combination of equity and debt. Financial partners will be brought in to contribute to the equity portion of the investment

- The term “sovereign cloud” refers to the infrastructure being fully located in India, with all data and compute hosted within Indian borders
 - Target clientele for the sovereign AI data center includes pure-play AI providers, deep tech companies, and hyperscalers. Indian government and Indian enterprises also expected to be key customers of the sovereign cloud infrastructure
 - First revenue is expected in 18–24 months
 - Operating model will be based on a co-location model
 - TCS is entering the data center space to expand its AI ecosystem presence and strengthen partnerships with hyperscalers and deep tech firms. The move is driven by India’s growing unmet data center demand, projected to increase nearly 10x in 5-6 years
 - The new data center subsidiary will function as an independent business unit with dedicated management and a separate team outside TCS. While operated separately, it will have strategic adjacencies with TCS, leveraging partnerships with hyperscalers and complementing existing service offerings as a natural extension
 - The new data center business is expected to have a lower ROE compared to its core business due to its capital-intensive nature. However, TCS’s overall ROE is projected to remain strong and market benchmark
- While AI will bring productivity gains and enable new types of projects, the overall scope and size of client engagements are expected to increase. Both clients and TCS will benefit from improved efficiency and delivery through AI adoption
 - While initial productivity improvements range from single digits, 10-15%, there is potential to reach 20-25% as AI adoption deepens and autonomy increases.
 - The delivery model is expected to progressively shift from effort-based to outcome-based billing, with early commitments already underway with select customers
 - The situation with project deferrals and pauses has improved, leading to better revenue conversion and positive growth expectations
 - Regarding furloughs in 3Q, the company expects them to be similar in duration to last year, based on current demand outlook
 - The company confirmed an increased focus on acquisitions after a long gap, actively exploring more opportunities going forward

We have an underweight stance on Indian IT services.

We reinitiated coverage on the Indian IT Services with an Underweight stance through a report on 1 January 2025 (**Slow is the (new/old) normal**), and reiterated that view with an update on 12th March 2025 (**FY26 unlikely to be better than FY25**). We also put out a recent update (**Uncertainty stays and 'eating the tariff' may impact even FY27**) where we indicate the tariff decisions of 7 July 2025 on 14 countries, post the 90-day pause, prolongs the current phase of uncertainty.

Consequently, we see Tier-1 growth to remain at low single digit level for FY26 and 'eating the tariff' may lead to adverse impact on FY27

While both earnings and PE multiples have corrected since 1 Jan 2025, we believe the industry's structural organic revenue growth from here on will be lower than the ~7% CAGR seen during FY15-FY20, possibly ~5% CAGR over FY25-FY30 in constant currency (CC) terms.

Multiple speed breakers post FY25 drive our Underweight stance

Trump policies raise uncertainty: The tariffs, the higher fiscal deficit from the 'one big, beautiful bill' (OBBA), the crackdown on illegal and legal immigration (the latter through the major new hurdles put in for H1-B visas), etc all point to uncertainty in the coming days which may delay decision making

Higher for longer interest rate environment: Lately, based on inflation prints and fears of a higher fiscal deficit, US 10-year yields have remained firm. There are fears that sustained high interest rates could reduce IT outsourcing demand, particularly in sectors like BFSI and Telecom, and dampen US demand in areas like housing, autos and retail.

Covid-induced pull forward of demand requires a multi-year unwind. We think there were excesses during the compressed transformation phase which are yet to be fully unwound.

Gen AI and GCCs are going to disrupt growth: We also believe that AI/Gen AI will lead to compression of revenue for the industry in the next 24-36 months as companies self-cannibalize to hold on to their existing clients. We also believe that the rapid growth of the GCCs is a threat to outsourcing. While there seems to be collaboration between the outsourcers and their clients in setting up these GCCs, there will be growth discontinuity when the business is insourced at some point.

Massive hyper scaler AI capex should accentuate re-alignment in IT spend:

Software players, including hyper scalers, are increasing capex on AI-related data centres. This will drive higher pricing, forcing enterprises to allocate more IT spend to cloud/SaaS and move it away from the those who have lower bargaining power – the global IT services players.

Higher competition: Indian Tier-1 companies now face higher competition from Accenture, Tier-2 players, and Cognizant, likely slowing their growth compared to FY15-

FY20. This is besides the fact that by FY25, Tier-1 revenue has reached US\$ 85bn, double that in FY15. Due to the higher base now, growth may not be as rapid.

How we are valuing companies: We are using PE methodology and using TCS as our industry benchmark. The target PE used for TCS now is 19x, which is the average PE multiple of TCS over the last 10 years less 1SD. Through our choice of the benchmark Target PE multiple, we seek to capture the probability of downside risks to consensus EPS expectations for FY27.

Tier- 2 valuation reflects growth gap with Tier-1

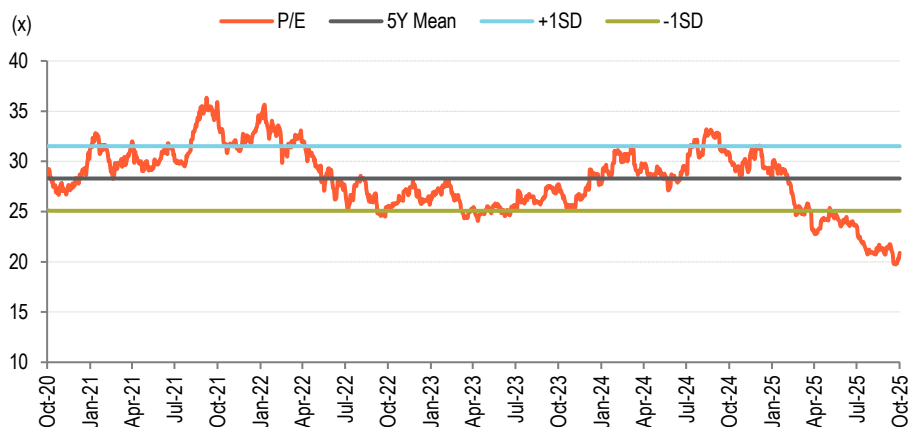
The Tier-2 set have been taking away market share from the Tier-1 set due to better execution and due to their smaller size. And unlike in the past cycles, they have performed better than the Tier-1 largely due to better management teams.

However, the current PE premium to Tier-1s is excessive as we believe that to deliver on the high consensus revenue growth expectations, they may be taking on more cost take-out projects which are likely to impact their margins adversely.

Fig 1 – Quarterly results: Comparison of actuals with estimates

Y/E Mar (Rsmn)	2QFY25	1QFY26	2QFY26	YoY(%)	QoQ (%)	2QFY26E	Deviation (%)
Net Sales (USD mn)	7,670	7,421	7,466	(2.7)	0.6	7,574	(1.4)
Net Sales	642,590	634,370	657,990	2.4	3.7	658,158	(0.0)
Software Expenses	397,200	386,120	397,580	0.1	3.0	399,750	(0.5)
% of Sales	61.8	60.9	60.4			60.7	
Gross Margin	245,390	248,250	260,410	6.1	4.9	258,408	0.8
% of Sales	38.2	39.1	39.6			39.3	
Operating Expenses	90,740	93,110	106,110	16.9	14.0	98,287	8.0
% of Sales	14.1	14.7	16.1			14.9	
EBIT	154,650	155,140	154,300	(0.2)	(0.5)	160,121	(3.6)
EBIT Margin (%)	24.1	24.5	23.5			24.3	
Other Income	5,670	14,650	6,380	12.5	(56.5)	9,774	(34.7)
PBT	160,320	169,790	160,680	0.2	(5.4)	169,895	(5.4)
Provision for Tax	40,770	41,600	39,370	(3.4)	(5.4)	42,474	(7.3)
Effective Tax Rate	25.4	24.5	24.5			25.0	
Minority share in Profit / Loss	460	590	560	21.7	(5.1)	590	(5.1)
Reported PAT	119,090	127,600	120,750	1.4	(5.4)	126,831	(4.8)
PAT Adjusted	119,090	127,600	120,750	1.4	(5.4)	126,831	(4.8)
NPM (%)	18.5	20.1	18.4			19.3	

Source: Company, BOBCAPS Research. Note: EBIT margin here includes the impact of the restructuring cost, excluding it the EBIT margin is 25.2%

Fig 2 – 5 Year PE trend

Source: Bloomberg, BOBCAPS Research

Fig 3 – Revised Estimates

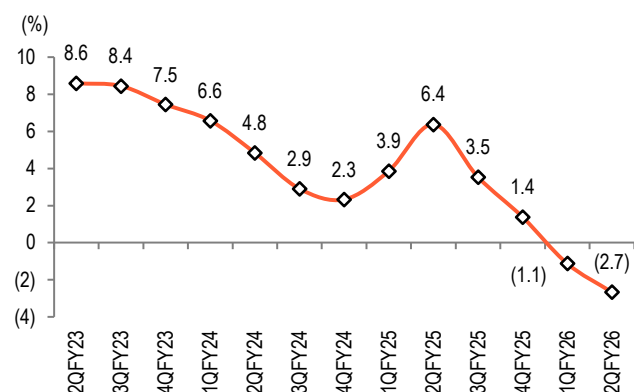
Change in estimates	New			Old			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
INR/USD	87.3	89.3	91.1	87.0	89.3	91.1	0.4	-	-
USD Revenue (USD mn)	30,157	31,858	33,264	30,529	31,880	33,287	(1.2)	(0.1)	(0.1)
USD Revenue Growth (%)	(0.1)	5.6	4.4	1.2	4.4	4.4			
Revenue (Rsbn)	2,632	2,844	3,029	2,656	2,846	3,031	(0.9)	(0.1)	(0.1)
EBIT (Rsbn)	645	697	755	646	701	752	(0.2)	(0.5)	0.4
EBIT Margin (%)	24.5	24.5	24.9	24.3	24.6	24.8			
PAT (Rsbn)	513	546	588	514	550	590	(0.3)	(0.7)	(0.3)
FDEPS (Rs)	141.8	151.0	162.6	142.2	152.1	163.1	(0.3)	(0.7)	(0.3)

Source: BOBCAPS Research

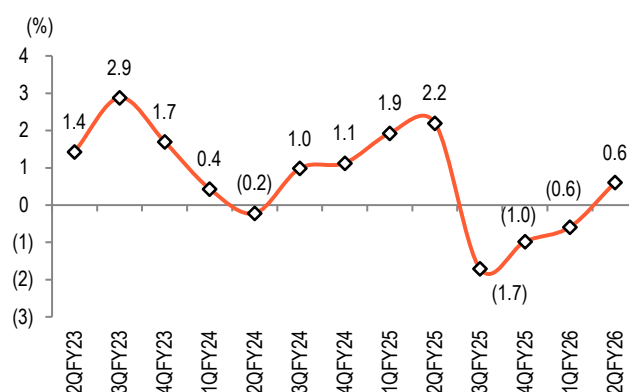
Fig 4 – P&L at a glance

(YE March)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Average INR/USD	54.5	60.8	61.2	65.6	67.1	64.5	70.1	71.0	74.1	74.6	80.7	82.8	84.6	87.3	89.3	91.1
Net Sales (USD mn)	11,569	13,443	15,454	16,544	17,575	19,089	20,913	22,032	22,174	25,707	27,927	29,080	30,179	30,157	31,858	33,264
-Growth (%)	15.7	16.2	15.0	7.1	6.2	8.6	9.6	5.4	0.6	15.9	8.6	4.1	3.8	(0.1)	5.6	4.4
Net Sales	630	818	946	1,086	1,180	1,231	1,465	1,569	1,642	1,918	2,255	2,409	2,553	2,632	2,844	3,029
-Growth (%)	28.8	29.9		14.8	8.6	4.4	19.0	7.2	4.6	16.8	17.6	6.8	6.0	3.1	8.0	6.5
Cost of Sales & Services	339	431	525	609	669	713	852	923	971	1,146	1,363	1,436	1,560	1,607	1,763	1,873
Gross Margin	291	387	421	477	511	518	613	646	670	771	892	973	993	1,025	1,080	1,156
% of sales	46.2	47.4	44.5	43.9	43.3	42.1	41.9	41.2	40.8	40.2	39.6	40.4	38.9	39.0	38.0	38.2
SG&A	121	149	167	190	208	213	239	260	246	287	350	380	372	381	383	401
% of sales	19.2	18.3	17.6	17.4	17.6	17.3	16.3	16.6	15.0	15.0	15.5	15.8	14.6	14.5	13.5	13.2
EBIT	170	238	254	288	303	305	375	386	425	485	542	593	622	645	697	755
EBIT Margin (%)	27.0	29.1	26.9	26.5	25.7	24.8	25.6	24.6	25.9	25.3	24.1	24.6	24.3	24.5	24.5	24.9
Other income (net)	10	15	31	31	42	36	41	37	25	32	27	37	32	42	39	37
PBT	180	254	286	318	345	341	416	422	450	517	569	630	653	687	736	793
-PBT margin (%)	28.6	31.0	30.2	29.3	29.3	27.7	28.4	26.9	27.4	27.0	25.2	26.2	25.6	26.1	25.9	26.2
Provision for tax	40	61	67	75	82	82	100	98	115	132	146	163	165	172	188	202
Effective tax rate (%)	22.4	23.9	23.3	23.6	23.6	24.1	24.1	23.2	25.5	25.6	25.7	25.8	25.3	25.0	25.5	25.5
Minority Interest	2	2	2	1	1	1	1	1	1	1	2	2	2	2	2	2
Net profit	138	191	217	242	263	258	315	323	334	383	421	466	486	513	546	588
-Growth (%)	29.9	38.2	13.5	11.6	8.6	(1.8)	21.9	2.8	3.2	14.8	10.0	10.5	4.2	5.7	6.5	7.7
-Net profit margin (%)	22.0	23.4	22.9	22.3	22.3	21.0	21.5	20.6	20.3	20.0	18.7	19.3	19.0	19.5	19.2	19.4

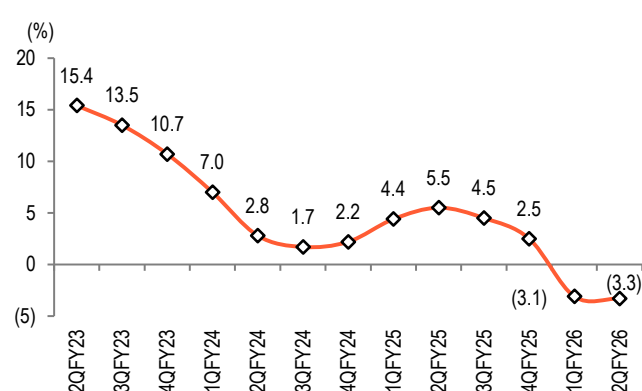
Source: Company, BOBCAPS Research

Fig 5 – US\$ revenue growth rate (YoY)

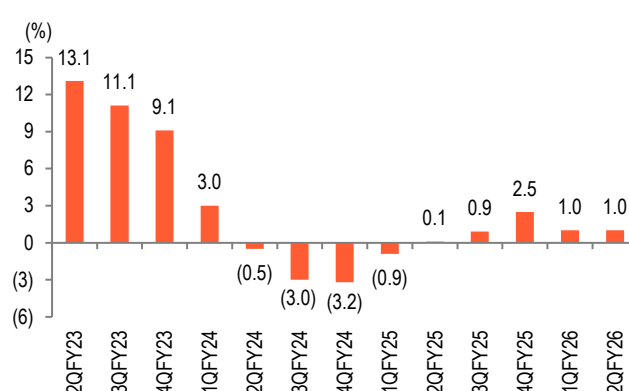
Source: Company, BOBCAPS Research

Fig 6 – US\$ revenue growth rate (QoQ)

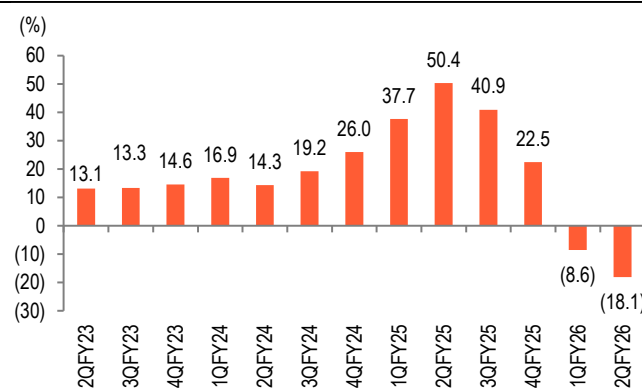
Source: Company, BOBCAPS Research

Fig 7 – CC Revenue Growth (YoY)

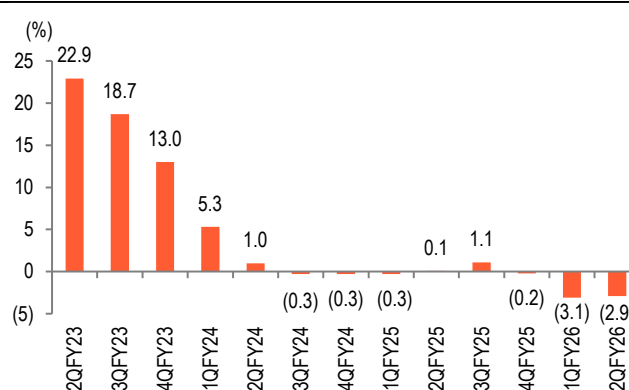
Source: Company, BOBCAPS Research

Fig 8 – CC BFSI Vertical Growth (YoY)

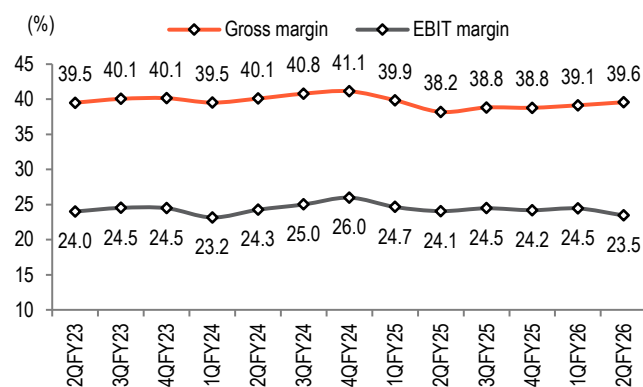
Source: Company, BOBCAPS Research

Fig 9 – CC Regional Market and Others Vertical Growth (YoY)

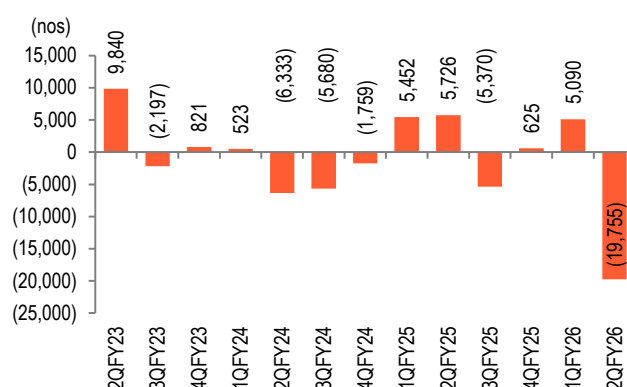
Source: Company, BOBCAPS Research

Fig 10 – CC Retail and CPG Vertical Growth (YoY)

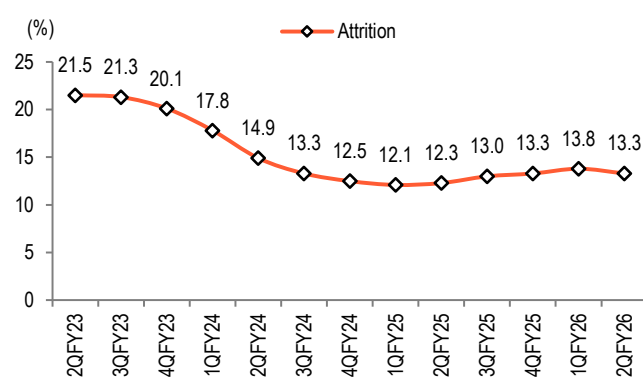
Source: Company, BOBCAPS Research

Fig 11 – Gross and EBIT margin trend

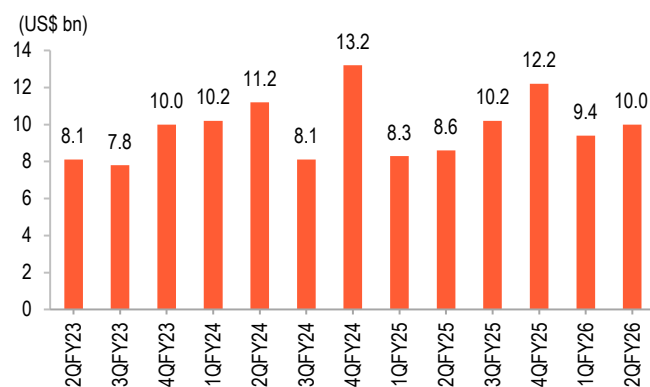
Source: Company, BOBCAPS Research.

Fig 12 – Net employee addition (QoQ)

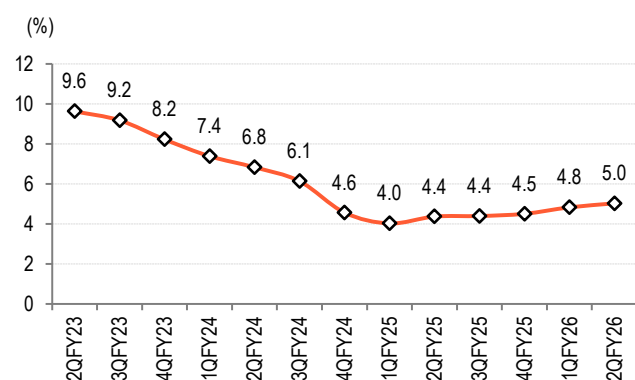
Source: Company, BOBCAPS Research

Fig 13 – LTM Attrition rate

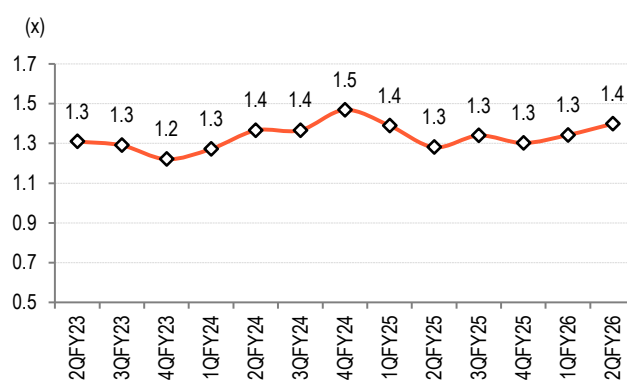
Source: Company, BOBCAPS Research

Fig 14 – Order book TCV picture

Source: Company, BOBCAPS Research

Fig 15 – Subcontractor charges (% of revenue)

Source: Company, BOBCAPS Research

Fig 16 – TTM Book/ Bill Ratio

Source: Company, BOBCAPS Research

Fig 17 – Quarterly Snapshot

Year to 31 March	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26
INR/USD	80.4	82.3	82.2	82.2	82.8	83.2	83.2	83.4	83.8	84.9	86.4	85.5	88.1
Revenue (in USDbn)	6.9	7.1	7.2	7.2	7.2	7.3	7.4	7.5	7.7	7.5390	7.4650	7.4210	7.4660
(Rsbn)													
Revenue	553.1	582.3	591.6	593.8	596.9	605.8	612.4	626.1	642.6	639.7	644.8	634.4	658.0
Gross margin	218.5	233.2	237.5	234.7	239.3	247.1	251.9	249.5	245.4	248.3	250.1	248.3	260.4
EBIT	132.8	142.8	144.9	137.6	144.8	151.6	159.2	154.4	154.7	156.6	156.0	155.1	154.3
Other income	8.2	3.6	9.0	12.3	8.5	7.2	9.3	7.9	5.7	10.1	8.0	14.7	6.4
PBT	141.0	146.4	153.9	149.9	153.3	158.7	168.5	162.3	160.3	166.7	164.0	169.8	160.7
Tax	36.3	37.6	39.6	38.7	39.5	41.0	43.5	41.3	40.8	42.2	41.1	41.6	39.4
PAT	104.3	108.5	113.9	110.7	113.4	117.4	124.3	120.4	119.1	123.8	122.2	127.6	120.8
Number of shares	3,659	3,659	3,658	3,660	3,659	3,610	3,618	3,618	3,618	3,618	3,618	3,618	3,618
EPS	28.5	29.6	31.1	30.3	31.0	32.5	34.4	33.3	32.9	34.2	33.8	35.3	33.4
YoY Growth													
USD Revenue	8.6	8.4	7.5	6.6	4.8	2.9	2.3	3.9	6.4	3.5	1.4	(1.1)	(2.7)
INR Revenues	18.0	19.1	16.9	12.6	7.9	4.0	3.5	5.4	7.7	5.6	5.3	1.3	2.4
Gross profit	15.3	19.3	17.0	15.8	9.5	6.0	6.1	6.3	2.5	0.5	(0.7)	(0.5)	6.1
EBIT	10.7	16.7	14.7	12.9	9.1	6.1	9.9	12.3	6.8	3.3	(2.0)	0.5	(0.2)
Net profit	8.4	11.0	14.8	16.8	8.7	8.2	9.1	8.7	5.0	5.5	(1.7)	6.0	1.4
QoQ Growth													
USD Revenues	1.4	2.9	1.70	0.43	(0.22)	1.0	1.1	1.93	2.20	(1.71)	(0.98)	(0.59)	0.6
INR Revenues	4.8	5.3	1.6	0.4	0.5	1.5	1.1	2.2	2.6	(0.4)	0.8	(1.6)	3.7
EBIT	9.0	7.6	1.4	(5.1)	5.3	4.6	5.0	(3.0)	0.1	1.2	(0.4)	(0.6)	(0.5)
Net profit	10.1	4.0	5.0	(2.8)	2.4	3.5	6.0	(3.2)	(1.1)	4.0	(1.3)	4.4	(5.4)
Margins (%)													
Gross margin	39.5	40.1	40.1	39.5	40.1	40.8	41.1	39.9	38.2	38.8	38.8	39.1	39.6
EBIT	24.0	24.5	24.5	23.2	24.3	25.0	26.0	24.7	24.1	24.5	24.2	24.5	23.5
PAT	18.9	18.6	19.3	18.6	19.0	19.4	20.3	19.2	18.5	19.4	19.0	20.1	18.4
SGA	15.5	15.5	15.7	16.4	15.8	15.8	15.1	15.2	14.1	14.3	14.6	14.7	16.1

Source: Company, BOBCAPS Research

Fig 18 – Key Metrics

	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26
P and L (Rs mn)													
Revenue	553,090	582,290	591,620	593,810	596,920	605,830	612,370	626,130	642,590	639,730	644,790	634,370	657,990
EBITDA	132,790	142,840	144,880	137,550	144,830	151,550	159,180	154,420	154,650	156,570	156,010	155,140	154,300
PAT	104,310	108,460	113,920	110,740	113,420	117,350	124,340	120,400	119,090	123,800	122,240	127,600	120,750
Vertical Mix (%)													
BFSI	33.6	33.1	32.9	32.5	32.6	31.7	31.3	30.9	30.8	30.5	31.2	32.0	32.2
Manufacturing	8.2	8.2	8.2	8.3	8.6	8.7	8.8	8.8	8.6	8.4	8.4	8.7	8.8
Communication and Media	7.3	7.2	7.1	7.0	6.9	6.7	6.6	6.2	5.9	5.8	5.8	5.8	5.9
Life Sciences	10.7	10.8	10.9	11.0	10.9	10.9	10.9	11.0	10.4	10.1	10.1	10.2	10.5
Retail & Distribution	16.1	16.0	16.0	16.1	15.9	15.7	15.7	15.4	15.1	15.3	15.3	15.6	15.3
Hi-Tech	9.1	9.0	8.9	8.7	8.6	8.4	8.2	8.1	8.0	8.0	8.1	8.4	8.5
Energy And Utility	5.0	5.2	5.4	5.5	5.6	5.7	5.6	5.6	5.7	5.6	5.7	5.9	5.9
Others	10.0	10.5	10.6	10.9	10.9	12.2	12.9	14.0	15.5	16.3	15.4	13.4	12.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Geographic Mix (%)													
North America	54.3	53.7	52.4	52.0	51.7	50.6	50.0	49.5	47.6	47.7	48.2	48.7	48.8
UK	14.5	14.9	15.7	16.4	16.5	16.4	16.8	16.9	17.0	16.6	16.8	18.0	17.5
Europe	14.5	14.8	15.1	14.9	14.9	15.0	14.6	14.4	14.6	13.9	14.3	15.0	15.3
India	5.1	5.1	5.0	4.9	4.9	6.1	6.7	7.5	8.9	9.8	8.4	5.8	5.8
APAC	8.0	7.9	8.0	7.8	7.8	7.8	7.8	7.8	8.0	7.8	8.1	8.4	8.3
Ibero America	1.7	1.8	1.8	2.0	2.0	2.1	2.0	1.9	1.8	1.9	1.8	1.9	1.9
MEA	1.9	1.8	2.0	2.0	2.2	2.0	2.1	2.0	2.1	2.3	2.4	2.2	2.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Number of Client													
\$100mn +	59	59	60	60	61	61	62	63	66	64	64	62	60
\$50mn +	124	130	133	137	137	137	139	140	136	134	130	131	136
Employee Number	616,171	613,974	614,795	615,318	608,985	603,305	601,546	606,998	612,724	607,354	607,979	613,069	593,314
Net Addition	9,840	(2,197)	821	523	(6,333)	(5,680)	(1,759)	5,452	5,726	(5,370)	625	5,090	(19,755)
Attrition (%)	21.5	21.3	20.1	17.8	14.9	13.3	12.5	12.1	12.3	13.0	13.3	13.8	13.3
Net Employee Growth (YoY%)	17	10	4	1	(1)	(2)	(2)	(1)	1	1	1	1	(3)
P&L (USD mn)													
Revenue	6,877	7,075	7,195	7,226	7,210	7,281	7,363	7,505	7,670	7,539	7,465	7,421	7,466
EBIT	1,652	1,736	1,761	1,674	1,749	1,821	1,915	1,850	1,846	1,845	1,807	1,815	1,750
PAT	1,299	1,318	1,385	1,347	1,370	1,410	1,497	1,441	1,421	1,459	1,418	1,493	1,370
Per Capita (Annualised) (USD)													
Revenue	44,643	46,093	46,812	46,974	47,357	48,274	48,961	49,457	50,071	49,651	49,114	48,419	50,334
EBIT	10,721	11,311	11,456	10,880	11,488	12,072	12,732	12,190	12,051	12,148	11,891	11,842	11,798
PAT	8,430	8,588	9,009	8,755	8,999	9,347	9,953	9,495	9,276	9,606	9,332	9,741	9,236
Direct and Opex cost per capita	33,922	34,782	35,357	36,094	35,869	36,202	36,228	37,266	38,021	37,503	37,222	36,577	38,536

Source: Company, BOBCAPS Research

Fig 19 – QoQ and YoY growth of various parameters

(in US\$)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26
QoQ Growth (%)													
Revenue	1.4	2.9	1.7	0.4	-0.2	1.0	1.1	1.9	2.2	-1.7	-1.0	-0.6	0.6
Geographical Data													
Americas	3.5	1.7	(0.8)	(0.3)	(0.8)	(1.2)	(0.1)	0.9	(1.7)	(1.5)	0.1	0.4	0.8
UK	(1.3)	5.7	7.2	4.9	0.4	0.4	3.6	2.5	2.8	(4.0)	0.2	6.5	(2.2)
Europe	(3.2)	5.0	3.8	(0.9)	(0.2)	1.7	(1.6)	0.5	3.6	(6.4)	1.9	4.3	2.6
India	7.8	2.9	(0.3)	(1.6)	(0.2)	25.7	11.1	14.1	21.3	8.2	(15.1)	(31.4)	0.6
APAC	(2.2)	1.6	3.0	(2.1)	(0.2)	1.0	1.1	1.9	4.8	(4.2)	2.8	3.1	(0.6)
Ibero America	(4.2)	8.9	1.7	11.6	(0.2)	6.0	(3.7)	(3.2)	(3.2)	3.8	(6.2)	4.9	0.6
MEA	7.1	(2.5)	13.0	0.4	9.8	(8.2)	6.2	(2.9)	7.3	7.7	3.3	(8.9)	9.8
Verticals													
BFSI	6.2	1.3	1.1	(0.8)	0.1	(1.8)	(0.1)	0.6	1.9	(2.7)	1.3	2.0	1.2
Manufacturing	(16.0)	2.9	1.7	1.7	3.4	2.2	2.3	1.9	(0.1)	(4.0)	(1.0)	3.0	1.8
Communication and Media	8.9	1.5	0.3	(1.0)	(1.6)	(1.9)	(0.4)	(4.2)	(2.7)	(3.4)	(1.0)	(0.6)	2.3
Life Science & Healthcare	7.5	3.8	2.6	1.4	(1.1)	1.0	1.1	2.9	(3.4)	(4.5)	(1.0)	0.4	3.6
Retail and distribution	2.7	2.2	1.7	1.1	(1.5)	(0.3)	1.1	(0.0)	0.2	(0.4)	(1.0)	1.4	(1.3)
Hi-Tech (Now Technology Services)	4.9	1.7	0.6	(1.8)	(1.4)	(1.4)	(1.3)	0.7	0.9	(1.7)	0.3	3.1	1.8
Energy and Utilities	0.0	7.0	5.6	2.3	1.6	2.8	(0.6)	1.9	4.0	(3.4)	0.8	2.9	0.6
Regional Market & Others	(38.2)	8.0	2.7	3.3	(0.2)	13.0	6.9	10.6	13.1	3.4	(6.4)	(13.5)	(3.1)
YoY Growth (%)													
Revenue	8.6	8.4	7.5	6.6	4.8	2.9	2.3	3.9	6.4	3.5	1.4	(1.1)	(2.7)
Geographical Data													
Americas	17.2	14.9	9.1	4.2	(0.2)	(3.0)	(2.4)	(1.1)	(2.1)	(2.4)	(2.3)	(2.7)	(0.2)
UK	(2.2)	3.6	8.1	17.3	19.3	13.3	9.5	7.0	9.6	4.8	1.4	5.3	0.2
Europe	(1.0)	0.3	4.7	4.5	7.7	4.3	(1.1)	0.4	4.2	(4.0)	(0.7)	3.0	2.0
India	8.6	0.6	5.3	8.8	0.7	23.1	37.1	59.0	93.2	66.3	27.1	(23.5)	(36.6)
APAC	(3.5)	(0.4)	1.1	0.2	2.2	1.6	(0.2)	3.9	9.1	3.5	5.3	6.5	1.0
Ibero America	15.4	14.8	13.8	18.4	23.3	20.1	13.7	(1.3)	(4.3)	(6.3)	(8.8)	(1.1)	2.7
MEA	3.2	2.7	7.5	18.4	21.4	14.3	7.5	3.9	1.5	19.1	15.9	8.8	11.2
Verticals													
BFSI	12.6	11.8	10.8	7.9	1.7	(1.4)	(2.6)	(1.3)	0.5	(0.4)	1.1	2.4	1.8
Manufacturing	(10.1)	(10.2)	(11.9)	(10.6)	10.0	9.2	9.8	10.1	6.4	(0.0)	(3.2)	(2.2)	(0.4)
Communication and Media	22.0	20.1	13.9	9.7	(0.9)	(4.2)	(4.9)	(8.0)	(9.0)	(10.4)	(10.9)	(7.5)	(2.7)
Life Science & Healthcare	16.2	18.3	17.1	16.1	6.8	3.9	2.3	3.9	1.5	(4.1)	(6.1)	(8.3)	(1.7)
Retail and distribution	16.6	14.9	11.6	7.9	3.5	1.0	0.4	(0.7)	1.0	0.9	(1.2)	0.2	(1.4)
Hi-Tech	12.3	12.2	9.9	5.4	(0.9)	(3.9)	(5.7)	(3.3)	(1.0)	(1.4)	0.1	2.5	3.4
Energy and Utilities	0.0	0.0	0.0	0.0	17.4	12.8	6.1	5.7	8.3	1.7	3.2	4.2	0.8
Regional Market & Others	(37.6)	(36.0)	(34.2)	(29.2)	14.3	19.6	24.5	33.4	51.3	38.3	21.0	(5.4)	(19.0)

Source: Company, BOBCAPS Research

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Total revenue	2,408,930	2,553,240	2,632,300	2,843,583	3,028,885
EBITDA	642,950	674,070	702,657	767,574	841,296
Depreciation	49,840	52,420	57,676	70,167	86,007
EBIT	593,110	621,650	644,981	697,407	755,290
Net interest inc./(exp.)	(7,780)	(7,960)	(8,820)	(9,160)	(9,160)
Other inc./(exp.)	45,050	39,620	51,085	47,899	46,508
Exceptional items	0	0	0	0	0
EBT	630,380	653,310	687,247	736,145	792,637
Income taxes	162,620	165,340	171,948	187,717	202,122
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	1,910	2,440	2,270	2,240	2,240
Reported net profit	465,850	485,530	513,029	546,188	588,275
Adjustments	0	0	0	0	0
Adjusted net profit	465,850	485,530	513,029	546,188	588,275

Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Accounts payables	99,810	139,090	146,547	158,291	167,348
Other current liabilities	344,780	373,580	398,006	418,281	433,917
Provisions	1,400	1,800	2,030	2,030	2,030
Debt funds	0	0	0	0	0
Other liabilities	105,310	124,110	143,082	145,787	147,874
Equity capital	3,620	3,620	3,620	3,620	3,620
Reserves & surplus	909,570	954,090	1,046,222	1,085,878	1,167,620
Shareholders' fund	913,190	957,710	1,049,842	1,089,498	1,171,240
Total liab. and equities	1,464,490	1,596,290	1,739,506	1,813,887	1,922,409
Cash and cash eq.	132,860	154,630	96,816	135,519	154,449
Accounts receivables	537,200	591,750	654,245	706,675	747,109
Inventories	280	280	260	260	260
Other current assets	148,930	180,670	185,575	198,148	207,843
Investments	314,810	306,890	388,290	318,290	318,290
Net fixed assets	109,400	125,240	141,935	178,173	214,213
CWIP	0	0	0	0	0
Intangible assets	23,420	28,000	25,710	25,710	25,710
Deferred tax assets, net	34,030	35,780	39,265	42,412	44,838
Other assets	163,560	173,120	207,409	208,700	209,696
Total assets	1,464,490	1,596,360	1,739,506	1,813,887	1,922,409

Cash Flows

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Cash flow from operations	486,970	551,930	541,404	593,041	658,909
Capital expenditures	(44,600)	(68,260)	(74,371)	(106,406)	(122,047)
Change in investments	54,010	7,980	(80,980)	70,000	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	9,410	(60,280)	(155,351)	(36,406)	(122,047)
Equities issued/Others	(207,400)	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(7,780)	(7,960)	(8,820)	(9,160)	(9,160)
Dividends paid	(318,888)	(549,334)	(444,699)	(610,371)	(610,371)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(534,068)	(557,294)	(453,519)	(619,531)	(619,531)
Chg in cash & cash eq.	22,540	21,770	(57,466)	39,104	19,331
Closing cash & cash eq.	132,860	154,630	97,164	135,920	154,850

Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
Reported EPS	128.8	134.2	141.8	151.0	162.6
Adjusted EPS	128.8	134.2	141.8	151.0	162.6
Dividend per share	73.2	126.0	102.0	140.0	140.0
Book value per share	252.4	264.7	290.2	301.1	323.7

Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
EV/Sales	4.6	4.4	4.3	3.9	3.7
EV/EBITDA	17.4	16.6	15.9	14.6	13.3
Adjusted P/E	23.8	22.8	21.6	20.3	18.8
P/BV	12.1	11.6	10.6	10.2	9.5

DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Tax burden (Net profit/PBT)	73.9	74.3	74.6	74.2	74.2
Interest burden (PBT/EBIT)	106.3	105.1	106.6	105.6	104.9
EBIT margin (EBIT/Revenue)	24.6	24.3	24.5	24.5	24.9
Asset turnover (Rev./Avg TA)	166.1	166.8	157.8	160.0	162.1
Leverage (Avg TA/Avg Equity)	1.6	1.6	1.6	1.6	1.6
Adjusted ROAE	51.0	50.7	48.9	50.1	50.2

Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
YoY growth (%)					
Revenue	6.8	6.0	3.1	8.0	6.5
EBITDA	8.5	4.8	4.2	9.2	9.6
Adjusted EPS	11.8	4.2	5.7	6.5	7.7
Profitability & Return ratios (%)					
EBITDA margin	26.7	26.4	26.7	27.0	27.8
EBIT margin	24.6	24.3	24.5	24.5	24.9
Adjusted profit margin	19.3	19.0	19.5	19.2	19.4
Adjusted ROAE	51.0	51.9	51.1	51.1	52.0
ROCE	33.6	33.8	32.5	32.7	33.8

Working capital days (days)

Receivables	81	85	91	91	90
Inventory	NA	NA	NA	NA	NA
Payables	15	20	20	20	20

Ratios (x)

Gross asset turnover	22.0	20.4	18.5	16.0	14.1
Current ratio	1.8	1.8	1.7	1.8	1.8
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

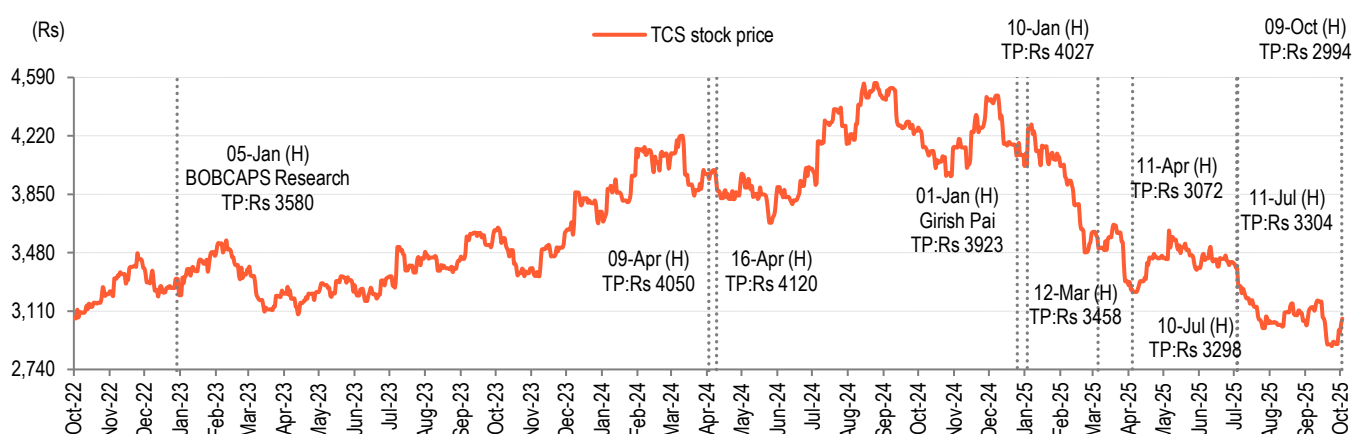
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): TATA CONSULTANCY SERVICES (TCS IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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