

HOLD

TP: Rs 2,015 | ▼ 3%

**TATA CONSULTANCY
SERVICES**

| IT Services

| 09 October 2026

Growth versus margin is currently in favor of former

- Revenue broadly in line, international business grew. Margin came in a bit weak. Commentary indicates focus on growth
- Adding Porsche IT from 4Q and lowering margin in 2H. TCS is for the time being stepping away from high(est) margins to drive growth
- We stay cautious on demand outlook. Raise rating to a HOLD from Sell due to price correction

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International business carries the quarter, domestic slips: All international markets grew sequentially in CC terms: North America: 0.4%, Latin America: 4.3%, UK: 3.5%, Continental Europe: 0.4%, Asia Pacific: 2.0%, MEA: 0.4%. India declined 10.3%. India's decline was attributed to a project deferral. The deferred projects are expected to be delivered in subsequent quarters once reinstated. The BSNL deal can cushion regional markets for the next couple of quarters, though volatility will persist

Management sounds constructive on the medium term, demand environment unchanged: The demand environment is unchanged QoQ, and discretionary programs without near-term value remain under scrutiny. North America is expected to recover, and Consumer to improve in 3Q on seasonality. 3Q furlough is expected to be like previous years. Management said win rates improved. Management expressed medium-term confidence on the back of TCV, pipeline and client conversations. We stay cautious

AI at 10% of revenue and margin-accretive, but deflation still runs alongside: Annualized AI revenue of US\$3.1bn (~20% growth QoQ) has crossed 10% of overall revenue, at margins significantly above the company average. AI revenue is growing across every vertical, with BFSI, Manufacturing and Life Sciences & Healthcare leading on growth rate. Client spending is moving from AI infrastructure towards business outcomes, says TCS. Management said AI deflation is not over yet, as productivity gains are still reducing revenue, but modernization work and vendor consolidation are bringing in new business that helps offset it

Raise to HOLD: Broadly keep FY28/FY29 EPS estimates unchanged and continue to value TCS at a target PE of 12.7x Sep 2028 EPS (10% discount to the FY15-FY20 Tier 1 mean minus 2SD). We upgrade to a Hold from Sell largely on the back of stock correction in recent weeks. We think it will struggle for growth due to its large legacy book. Unless it decides to step away from its 26-28% aspirational margins. This quarter's move by TCS on margin could lead to struggle for market share to intensify amongst incumbents, which is likely to lower margins for all.

Key changes

Target	Rating
▲	▲

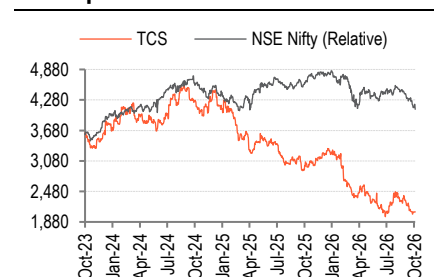
Ticker/Price	TCS IN/Rs 2,076
Market cap	US\$ 79.1bn
Free float	28%
3M ADV	US\$ 84.5mn
52wk high/low	Rs 3,350/Rs 1,977
Promoter/FPI/DII	72%/9%/13%

Source: NSE | Price as of 8 Oct 2026

Key financials

Y/E 31 Mar	FY26A	FY27E	FY28E
Total revenue (Rs mn)	2,670,210	2,929,543	3,051,408
EBITDA (Rs mn)	723,980	749,313	771,714
Adj. net profit (Rs mn)	526,491	553,994	565,470
Adj. EPS (Rs)	145.5	151.7	156.3
Consensus EPS (Rs)	145.5	154.3	160.7
Adj. ROAE (%)	51.6	46.9	42.1
Adj. P/E (x)	14.3	13.7	13.3
EV/EBITDA (x)	10.6	10.2	10.0
Adj. EPS growth (%)	8.4	4.3	3.0

Source: Company, Bloomberg, BOBCAPS Research |

Stock performance

Source: NSE



Key Points from the quarter and the earnings call

- Revenue stood at US\$7,642mn, growing 0.5% QoQ (a bit better than our estimate of flat growth) and 2.8% YoY, in CC terms
 - Vertical Growth (QoQ CC terms) was quite broad based: BFSI: 2.5%, Consumer Business: -0.7%, Life Sciences & Healthcare: 0.3%, Manufacturing: 3.1%, Technology & Services: 3.1%, Communication & Media: 0.1%, Energy, Resources and Utilities: -0.5%, Regional Markets & Others: -5.8%
 - Geographic Growth (QoQ CC terms): North America: 0.4%, Latin America: 4.3%, UK: 3.5%, Continental Europe: 0.4%, Asia Pacific: 2.0%, India: -10.3%, MEA: 0.4%
 - International revenue grew 1.2% QoQ in CC terms, with all international markets growing sequentially. Momentum in international business is expected to continue, with confidence in sustained growth momentum on a medium-term basis based on TCV, pipeline and ongoing client conversations.
- Annualized AI revenue at US\$ 3.1 bn, crossing 10% of overall revenue. AI revenues are generating margins significantly higher than the company average
- EBIT Margin stood at 24.0% (slightly below our estimate of 24.3%), flat QoQ and declining 120 bps YoY. Normally TCS after taking a salary hike in 1Q starts improving its margins beginning 2Q and typically ends with a higher number by 4Q.
- Investments for growth continue to be prioritized
 - Investments were made in strategic partnerships, M&A related initiatives and hiring talent, as future capacity is built. A higher bench and increased hiring of subcontractors were carried out to meet near-term skills and delivery requirements. TCS was also hinting that this is also partly driven by the tighter Visa regime. These headwinds were partly mitigated during the quarter by currency gains and operating leverage
- Long-term margin aspiration of 26–28% remains unchanged. Near-term investments for growth will continue to be prioritized, with margin improvement supported by optimization of subcontracting costs, productivity and utilization, as investments start delivering benefits is what TCS says.
- Since Advanced AI services revenue is delivering much better margins than the legacy business (this was highlighted by some MNC players in the recent past) we suspect that there are significant price and margin pressured in the core business that is 90%.
- Demand environment has not materially changed since last quarter (as was indicated by Accenture recently), with discretionary programs without near term value remaining under scrutiny
- TCV stood at US\$ 9.6bn (excluding the Porsche and Best Buy deals), growing 1% QoQ and declining 4% YoY
- Workforce strength: 598,056 (net addition: 4,258); LTM Attrition (IT Services): 13.3%

- Partnership with Porsche and the proposed acquisition of MHP, subject to regulatory approvals, strengthen the position in AI powered mobility and engineering. We are assuming that the deal closes by December end 2026 and are incorporating it in the 4Q estimates (annualized addition of 2% of revenue, see details of deal below) with lower margins.
- Management said that the biggest opportunity lies in helping clients translate AI advancements into business outcomes. Clients are keen to invest productivity benefits from AI into enterprise transformation initiatives that make the organization future ready
- AI revenues crossed US\$3.1 bn on an annualized basis this quarter (up ~20% QoQ) and formed 10% of revenue. Three distinct demand patterns are being seen, namely AI native solutions with business outcomes, AI led transformation of enterprise systems and autonomous GBS. Enterprises are also prioritizing modernization of legacy data estates and building AI ready data foundations
- Cybersecurity is another area being prioritized by enterprises globally
- Cash conversion stood at 102.2% of net income
- Segmental Commentary:
 - BFSI was the strongest vertical. Growth was broad based across banking, capital markets and insurance and strong momentum in the UK, Europe and Asia Pacific
 - Manufacturing: Demand improved around factory automation, engineering productivity, product lifecycle modernization, supply chain resilience, predictive maintenance and industrial AI
 - Technology services grew 3.1% QoQ and 4.8% YoY, driven by enterprise software, technology, product engineering, cloud modernization and digital transformation
 - Consumer business declined 0.7% QoQ and 1% YoY, with retail and consumer products remaining sensitive to inflation, energy cost and selective consumer spending
 - Travel, transportation and hospitality demand remains resilient, but discretionary spending is affected by cost pressure
 - Life sciences and healthcare: Stable demand supported by long-term priorities in compliance, clinical and research platforms, data modernization, AI enabled drug discovery, patient engagement, revenue cycle modernization and cybersecurity
 - Communications & media was broadly flat, with growth in media, publishing and digital platforms offset by continued pressure in the telecom vertical
 - Energy, Resources and Utilities: Investments in grid modernization, resilience, cybersecurity, asset optimization and AI enabled operations remain relevant

- Investments are focused on five key areas, the first being strengthening the portfolio through targeted capability acquisitions. Second area is a stronger partnership ecosystem with frontier AI companies, hyperscalers, the semiconductor ecosystem, Tier 1 industrial suppliers and enterprise software providers. Third area is accelerating investments in high growth service areas, including sales, solutioning, service transformation, new offerings and business model across the 'five big bets', with specific focus on AI and data. Fourth area is talent and capability creation at scale, covering learning and development as well as hiring of niche talent. Fifth area is creation of new growth engines, including expansion into adjacencies such as data center services, increased offerings for GCCs and the mid-market segment, and a stronger presence in ServiceNow, public services and sovereign cloud
- Management believes clients are moving toward a new phase of enterprise AI adoption, with opportunity shifting from isolated use cases to redesigned value chains, governed agentic systems, AI ready infrastructure and human AI operating models
- Higher subcontractor costs, spread across India and overseas, were driven by near-term skill gaps, capacity investments and the changing nature of delivery, with some impact from visa constraints. The increase was the key driver of gross margin pressure, while subcontractor costs remain an opportunity for margin optimization. Third-party pass-through costs remained broadly flattish
- Partnership costs are primarily captured under subcontractor/project expenses
- India revenue declined during the quarter due to a project deferral
- AI is seen as a net new driver of new opportunities. AI is becoming pervasive within organizations and is playing a role in every transformation a company embarks on, whether enterprise transformation, business operations transformation or agentic transformation
- BSNL deal can provide a cushion for the next couple of quarters, though regional markets will remain volatile
- Furlough in 3Q is expected to be very similar to previous years, with no major change
- Investments have been prioritized over the past two quarters, with focus on growth while maintaining margin discipline
- Trend of clients asking for applications with LLMs underneath, to allow flexibility to switch between models and optimize token cost, is playing out
- Agent control planes are being built on the agent layer, and an applicable model harness is being built on the model and data layer so that customers can use SLM, LLM or open-source open weight models based on need, criticality and application
- Strong success was seen in agent control plane this quarter
- AI revenue is growing across every vertical

- BFSI, Manufacturing and Life Sciences and Healthcare are the top three verticals leading in AI growth rate
- Consumer, Technology, and Energy, Resources and Utilities are following closely with very active adoption
- Margin trajectory is broadly attributable to higher subcontracting expenses and investments, with no pricing pressure seen broadly. Some front loading of productivity benefits could happen, though better pricing is being seen on AI revenues. Revenue per employee shows a slight reduction, not a significant one. Pricing is broadly stable at an overall portfolio level
- Clients are increasingly moving beyond AI infrastructure spending toward leveraging AI for business outcomes, with rising volumes and recurrence of projects around enterprise system transformation, autonomous GBS, AI-led technology modernization and modernization of data estates. Management expects this trend to continue. There is growing interest in leveraging AI for business outcomes and optimizing token costs.
- Employee expenses declined QoQ (~0.6% QoQ) in absolute terms despite as an increase in the employee base in the current quarter, reflecting the combined impact of workforce mix, location mix, skill composition and hiring patterns. Lower performance-linked payouts, due to performance against internal targets, contributed to the decline in employee expenses
- Capacity creation on the bench is being driven by expectations of improving and broadening demand, particularly for new-age skills
- Data center capacity creation will be planned in line with customer contracts. Once a contract is secured, capacity is expected to take around 18–24 months before revenue contribution begins. So, we do not see any capital commitment from TCS as of now. Besides we think this initiative will partly be determined by the board room battle that is on at TATA sons.
- North America growth is expected to recover, with TCV and client discussions remaining positive. Management expects medium-term growth to return across industry segments.
- Consumer is expected to improve next quarter, supported by seasonality, with 3Q being an important quarter; medium-term outlook remains positive
- Investment in partnerships and capacity is expected to continue, with some benefits coming through with a lag

Acquisition of Porsche's IT arm MHP – details

- TCS on 24 August 2026 announced a €320mn (US\$373mn) acquisition deal with Germany-based Porsche AG for 100% of its automotive and industrial-consulting arm, MHP. The move also includes a five-year outsourcing deal between the two companies worth €1.25bn. This will be totally net new business for TCS.
- The deal is expected to close in 3-4 months. The consulting firm which has expertise in the areas of digital consulting, digital transformation advisory, S/4HANA (SAP) transformation, and software-defined vehicles, reported a turnover of €742mn in CY2025 and employs ~4,500.
- It is expected to position TCS as a strategic consulting and technology partner for Porsche and the broader European automotive and industrial customers.
- **Business done by Porsche with MHP, contributed ~40% of MHP's revenue in CY2025 is what was indicated in a media interview.**
- TCS will establish a dedicated AI Mobility Centre of Excellence for Porsche to embed AI across intelligent manufacturing and operations, engineering, and customer experience.
- This is TCS' third acquisition in the 12 months, the other two being the US\$700mn buy of US-based multi-cloud consultancy Coastal Cloud and US\$72.8mn purchase of digital-marketing and IT-consulting firm ListEngage.
- The acquisition will strengthen TCS' presence in Germany, Romania, the UK, the US, India, and Mexico and among European automotive and industrial customers. It provides TCS access to many industrial clients to whom it can cross-sell and up-sell.
- Porsche is part of the Volkswagen group, which is under pressure to cut costs and faces pressure from Chinese competitors, tariffs and EV costs.
- The firm sold stakes in sports car makers Bugatti and Rimac earlier this year and scrapped three subsidiaries including its battery unit Cellforce and e-bike business
- The positives of this deal:
 - Adds ~US\$290mn revenue on an annual run rate basis (assuming it is straight line) from Porsche. Which is about 1% of its current revenue. This net new revenue will offset the deflation that is likely being felt in the larger part of its revenue base.
 - Besides Porsche, if the other customers of MHP are also going to be serviced by TCS (assuming it retains them), we believe this deal can add ~2% to the turnover of TCS on an annualised basis.
 - The valuation the deal it is being done at 0.43x CY2025 revenue likely factors in the very low margins that it is currently at.
 - MHP has its consulting footprint beyond automotive into Aerospace, Defense, Logistics & Transportation, and the Public Sector. This is where TCS can potentially find upside.

- There could be some IP in MHP that TCS can leverage, which has not been revealed as yet.
- TCS is not new to high end Auto, as it has been a IT partner for JLR for a very long period of time – another premium auto customer from Europe, though a sister company in the Tata Group.
- The negatives:
 - The automotive industry in Europe is going through a tough phase due to heightened competition from Chinese players not only in China (which is/was one of its key markets in the past) but also on home ground. This is especially so in EVs.
 - The European economy is not exactly in good shape and hence the European/German auto industry has had a tough time domestically.
 - MHP reported turnover of €742mn in CY2025, €830mn in CY2024 and €828mn in CY2023. It seems to have been impacted by the larger downturn in the financials of Porsche. In 2025, Porsche group revenue fell by 9.5% to €36.27 billion, and its operating profit declined by ~93% to just €413 million. Global vehicle deliveries dropped by 10.1% due to weak demand in key markets like China.
- From a near term perspective, the five-year engagement is expected to be margin-dilutive to the tune of 50-60 basis points for TCS in the next four to six quarters, TCS CEO is quoted by the media. MHP does not have any offshore component. That is a very big lever if TCS can exercise it. We are not sure the fine print in the deal with regard to how labour is dealt with.

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 our view with updates on 12th March 2025 (**FY26 unlikely to be better than FY25**), 10th July 2025 (**Uncertainty stays and 'eating the tariff' may impact even FY27**) and 12 January 2026 (**A fourth slow year?**).

While both earnings and PE multiples have corrected since 1 Jan 2025, the industry's structural organic revenue growth from here on will be much lower vs ~7% CAGR seen during FY15-FY20; possibly ~2-3% CAGR over FY25-FY30 in constant currency (CC) terms.

We believe the release of advanced AI models will cause significant disruption to the industry rendering the sector to be a 'value trap'. We wrote about this in our 17 February 2026 report (**Existential threat, value trap or Temporary blip**) and through our 6 April 2026 report (**Narrative of FY27 being modestly better, set for its first test**).and the 9 July 2026 one (**'Show me the growth' phase will keep valuations compressed**)

Lately we have been worried about global macro which we believe will impact growth. See our 16 September 2026 note (**Macro will weigh down as much as AI near term**)

Multiple speed breakers drive our Underweight stance

Gen AI and GCCs are going to disrupt growth: We believe that AI/Gen AI will lead to compression of revenue for the industry in the next 12-24 months, as companies self-cannibalize to hold on to their existing clients. Rapid growth of the GCCs is a threat to outsourcing. While there seems to be collaboration between 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 ones with lower bargaining power – 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 vs FY15-FY20. This is besides the fact that by FY26, Tier-1 revenue has reached US\$ 85bn, double that in FY15 (6.5% CAGR). Due to the higher base now, growth may not be as rapid. In AI reinvention services we see a new set of competitors come in the forms of AI deployment companies from Anthropic, Open AI, Microsoft, Google etc. While professional services companies of software players did not make much of an impact in the past, we believe the situation could be different this time. With the requirement of a large army of offshore bodies being taken away by AI models, we believe players with high technical skills and deep domain and workflow expertise will become competitors. We will have several players from other industries as well senior management

personnel from current incumbents to step out and startup companies and compete with the incumbents.

How we are valuing companies: We are using PE methodology. However, we are moving away from the earlier stance that we had taken of using TCS as our industry benchmark.

Considering the underperformance of TCS in terms of growth in FY26 and the likelihood of that repeating in the foreseeable future we have decided to shift from using TCS as the benchmark and move to Tier-1 PE multiple based valuation. That too using the valuation seen in the FY15-FY20 timeframe when the Tier-1 USD revenue CAGR was ~7% in organic terms. Our analysis indicates that Tier-1 (consisting of TCS, Infosys, HCLT, Wipro and Tech Mahindra) were collectively trading at mean multiple of 17.6x forward EPS with an SD of 1.7. We are using 14.1x as the benchmark multiple for the basis of valuation which is mean multiple of Tier-1 companies during this period less 2SD. We have been giving subjective premium/discount to this benchmark target PE to arrive at target PE multiples for the rest of our coverage

Our target PE multiples are lower than those used by consensus/competitors. Through our choice of the benchmark target PE multiple, we seek to capture the mortality and relevance risk that players face in this era of advanced AI models.

Tier- 2 valuation reflects growth gap with Tier-1

Tier-2 set has been taking away market share from the Tier-1 set, due to better execution as well as their smaller size. And, unlike previous cycles, they have performed better than the Tier-1 set, largely on better management teams.

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

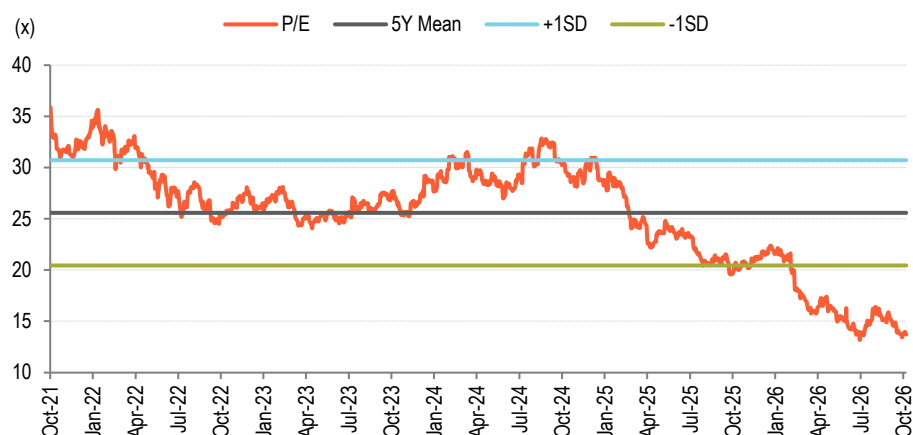
We believe the recent large acquisitions done by the prominent Tier-2 companies like Persistent Systems and Coforge are return dilutive and may pose execution challenges. They also seem to be funded partly or fully through stock dilution.

Also, some of the Tier-2s have been underperforming on the growth front, being discretionary project-oriented businesses struggling to pivot to a cost-take-out-driven demand environment.

Fig 1 – Quarterly results: Comparison of actuals with estimates

Y/E Mar (Rsmn)	2QFY26	1QFY27	2QFY27	YoY (%)	QoQ (%)	2QFY27E	Deviation (%)
Net Sales (USD mn)	7,466	7,624	7,642	2.4	0.2	7,609	0.4
Net Sales	657,990	722,750	731,880	11.2	1.3	722,451	1.3
Software Expenses	397,580	436,510	444,700	11.9	1.9	433,459	2.6
% of Sales	60.4	60.4	60.8			60.0	
Gross Margin	260,410	286,240	287,180	10.3	0.3	288,992	(0.6)
% of Sales	39.6	39.6	39.2			40.0	
Operating Expenses	94,760	113,070	111,650	17.8	(1.3)	113,630	(1.7)
% of Sales	14.4	15.6	15.3			15.7	
EBIT	165,650	173,170	175,530	6.0	1.4	175,363	0.1
EBIT Margin (%)	25.2	24.0	24.0			24.3	
Other Income	(4,970)	12,950	10,850	(318.3)	(16.2)	7,145	51.9
PBT	160,680	186,120	186,380	16.0	0.1	182,508	2.1
Provision for Tax	39,370	46,920	47,040	19.5	0.3	46,009	2.2
Effective Tax Rate	24.5	25.2	25.2			25.2	
Minority share in Profit / Loss	560	710	500	(10.7)	(29.6)	710	(29.6)
PAT Adjusted	129,319	133,490	138,840	7.4	4.0	135,788	2.2
Margin (%)	19.7	18.5	19.0			18.8	
Less: One-off Items	(8,569)	5,000.0	-				
Reported PAT	120,750	138,490	138,840	15.0	0.3	135,788	2.2
Margin (%)	18.4	19.2	19.0			18.8	

Source: Company, BOBCAPS Research

Fig 2 – 5 Year PE trend

Source: Bloomberg, BOBCAPS Research

Fig 3 – Revised Estimates

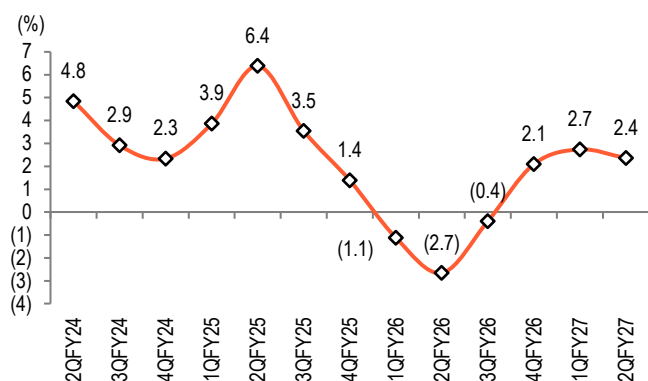
TCS	New			Old			Change (%)		
Change in estimates	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E
INR/USD	95.7	97.4	98.4	95.1	96.1	97.1	0.7	1.4	1.3
USD Revenue (USD mn)	30,530	31,336	31,968	30,324	30,722	31,341	0.7	2.0	2.0
USD Revenue Growth (%)	1.7	2.6	2.0	1.0	1.3	2.0			
Revenue (Rs bn)	2,930	3,051	3,145	2,884	2,952	3,043	1.6	3.4	3.4
EBIT (Rs bn)	700	718	736	701	719	737	(0.1)	(0.0)	(0.2)
EBIT Margin (%)	23.9	23.5	23.4	24.3	24.3	24.2			
PAT (Rs bn)	554	565	584	548	561	580	1.2	0.7	0.6
FDEPS (Rs)	151.7	156.3	161.3	150.0	155.2	160.3	1.2	0.7	0.6

Source: BOBCAPS Research

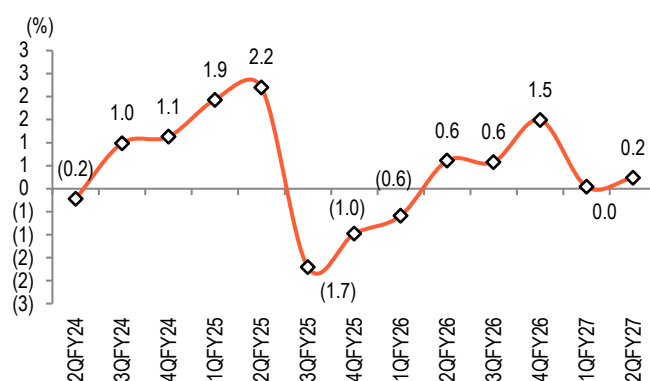
Fig 4 – P&L at a glance

(YE March) Rs bn	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Average INR/USD	67.1	64.5	70.1	71.0	74.1	74.6	80.7	82.8	84.6	88.9	95.7	97.4	98.4
Net Sales (USD mn)	17,575	19,089	20,913	22,032	22,174	25,707	27,927	29,080	30,179	30,017	30,530	31,336	31,968
-Growth (%)	6.2	8.6	9.6	5.4	0.6	15.9	8.6	4.1	3.8	(0.5)	1.7	2.6	2.0
Net Sales	1,180	1,231	1,465	1,569	1,642	1,918	2,255	2,409	2,553	2,670	2,930	3,051	3,145
-Growth (%)	8.6	4.4	19.0	7.2	4.6	16.8	17.6	6.8	6.0	4.6	9.7	4.2	3.1
Cost of Sales & Services	669	713	852	923	971	1,146	1,363	1,436	1,560	1,600	1,780	1,873	1,942
Gross Margin	511	518	613	646	670	771	892	973	993	1,070	1,150	1,179	1,203
% of sales	43.3	42.1	41.9	41.2	40.8	40.2	39.6	40.4	38.9	40.1	39.3	38.6	38.3
SG& A	208	213	239	260	246	287	350	380	372	402	450	460	468
% of sales	17.6	17.3	16.3	16.6	15.0	15.0	15.5	15.8	14.6	15.1	15.4	15.1	14.9
EBIT	303	305	375	386	425	485	542	593	622	668	700	718	736
EBIT Margin (%)	25.7	24.8	25.6	24.6	25.9	25.3	24.1	24.6	24.3	25.0	23.9	23.5	23.4
Other income (net)	42	36	41	37	25	32	27	37	32	(14)	44	41	48
PBT	345	341	416	422	450	517	569	630	653	655	744	759	783
-PBT margin (%)	29.3	27.7	28.4	26.9	27.4	27.0	25.2	26.2	25.6	24.5	25.4	24.9	24.9
Provision for tax	82	82	100	98	115	132	146	163	165	160	188	192	198
Effective tax rate (%)	23.6	24.1	24.1	23.2	25.5	25.6	25.7	25.8	25.3	24.5	25.2	25.2	25.2
Minority Interest	1	1	1	1	1	1	2	2	2	2	2	2	2
Adj Net profit	263	258	315	323	334	383	421	466	486	526	554	565	584
-Growth (%)	8.6	(1.8)	21.9	2.8	3.2	14.8	10.0	10.5	4.2	1.4	12.6	2.1	3.2
-Net profit margin (%)	22.3	21.0	21.5	20.6	20.3	20.0	18.7	19.3	19.0	19.7	18.9	18.5	18.6

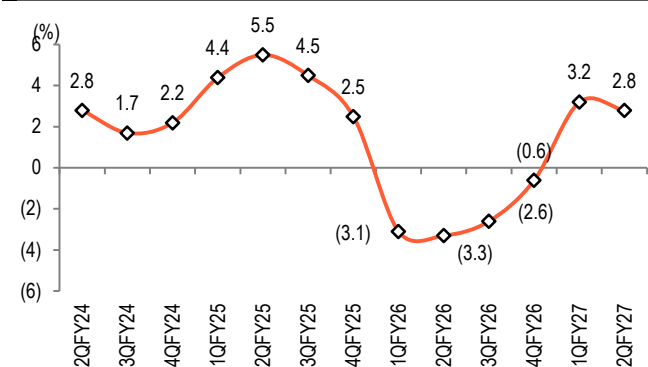
Source: Company, BOBCAPS Research

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

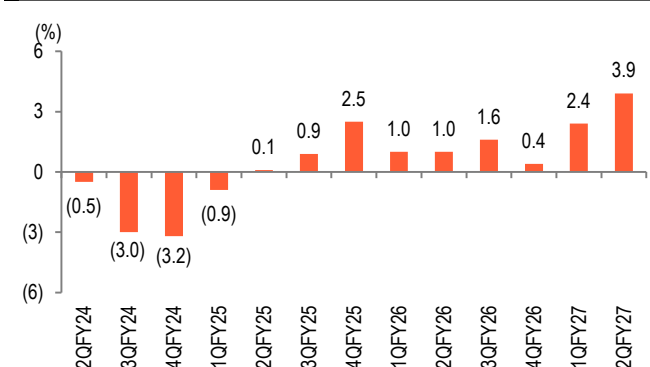
Source: Company, BOBCAPS Research

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

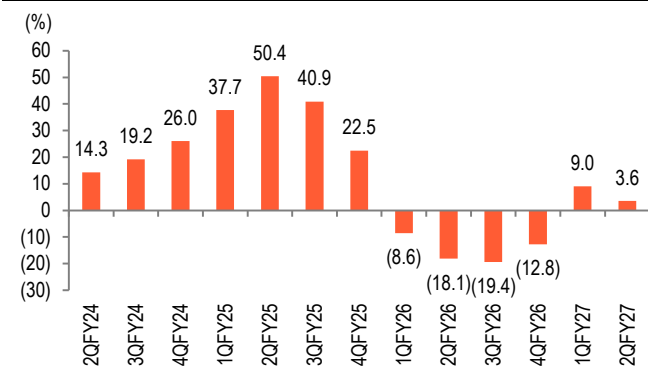
Source: Company, BOBCAPS Research

Fig 7 – CC Revenue Growth (YoY)

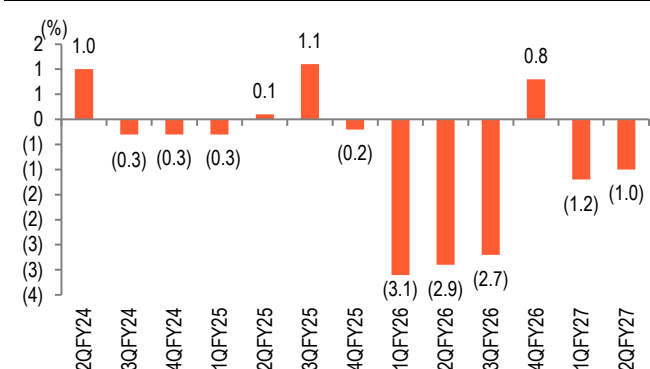
Source: Company, BOBCAPS Research

Fig 8 – CC BFSI Vertical Growth (YoY)

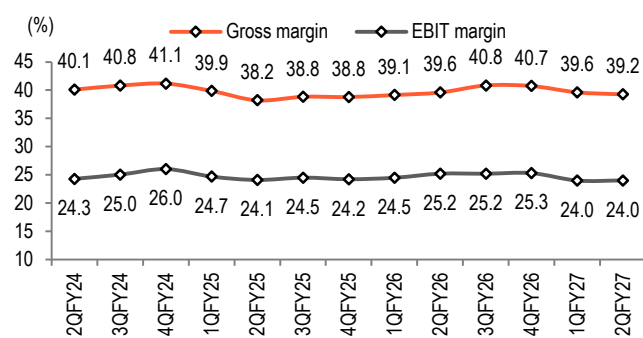
Source: Company, BOBCAPS Research

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

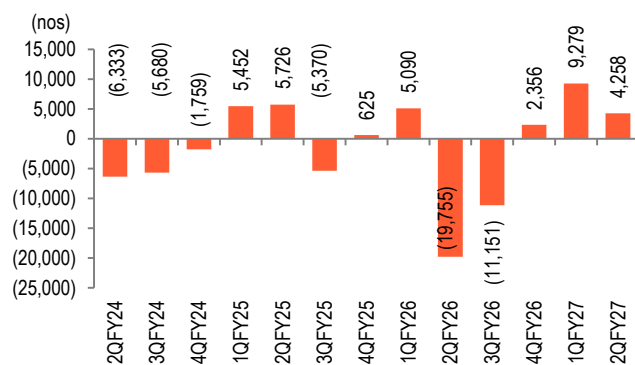
Source: Company, BOBCAPS Research

Fig 10 – CC Consumer Business Vertical Growth (YoY)

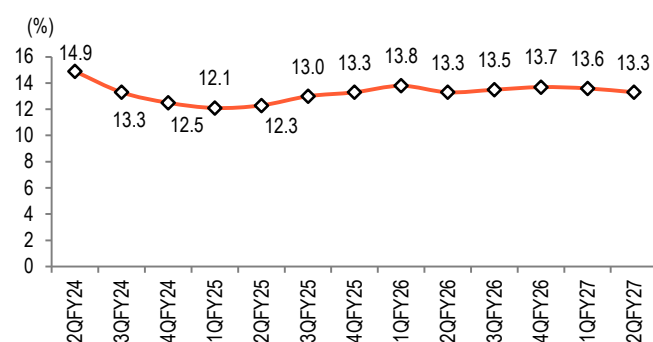
Source: Company, BOBCAPS Research

Fig 11 – Gross and EBIT margin trend

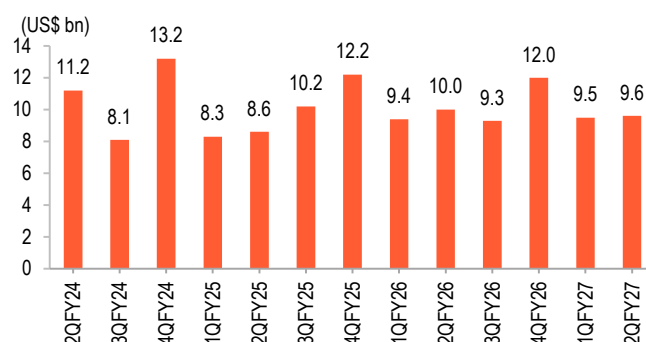
Source: Company, BOBCAPS Research.

Fig 12 – Net employee addition (QoQ)

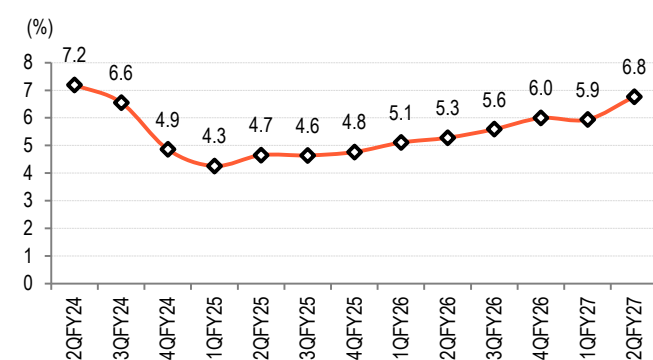
Source: Company, BOBCAPS Research

Fig 13 – LTM Attrition rate

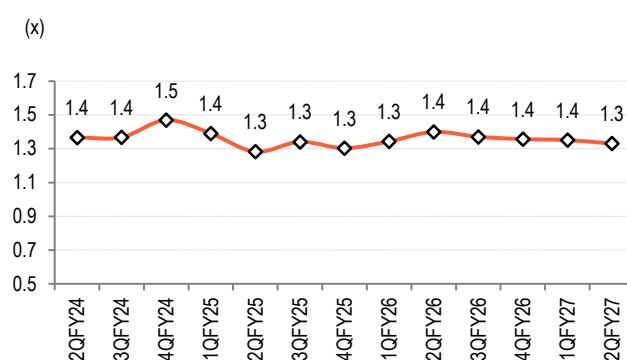
Source: Company, BOBCAPS Research

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	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	4QFY26	1QFY27	2QFY27
INR/USD	82.8	83.2	83.2	83.4	83.8	84.9	86.4	85.5	88.1	89.3	92.8	94.7	95.0
Revenue (in USDbn)	7.2	7.3	7.4	7.5	7.7	7.5	7.5	7.4	7.5	7.5	7.6	7.6	7.6
(Rs bn)													
Revenue	596.9	605.8	612.4	626.1	642.6	639.7	644.8	634.4	658.0	670.9	707.0	722.8	731.9
Gross margin	239.3	247.1	251.9	249.5	245.4	248.3	250.1	248.3	260.4	273.8	287.8	286.2	287.2
EBIT	144.8	151.6	159.2	154.4	154.7	156.6	156.0	155.1	165.7	168.9	178.7	173.2	175.5
Other income	8.5	7.2	9.3	7.9	5.7	10.1	8.0	14.7	(5.0)	(28.1)	4.9	13.0	10.9
PBT	153.3	158.7	168.5	162.3	160.3	166.7	164.0	169.8	160.7	140.8	183.6	186.1	186.4
Tax	39.5	41.0	43.5	41.3	40.8	42.2	41.1	41.6	39.4	33.6	45.8	46.9	47.0
PAT	113.4	117.4	124.3	120.4	119.1	123.8	122.2	127.6	120.8	106.6	137.2	138.5	138.8
EPS	31.0	32.5	34.4	33.3	32.9	34.2	33.8	35.3	33.4	29.5	37.9	38.3	38.4
YoY Growth													
USD Revenue	4.8	2.9	2.3	3.9	6.4	3.5	1.4	(1.1)	(2.7)	(0.4)	2.1	2.7	2.4
INR Revenues	7.9	4.0	3.5	5.4	7.7	5.6	5.3	1.3	2.4	4.9	9.6	13.9	11.2
Gross profit	9.5	6.0	6.1	6.3	2.5	0.5	(0.7)	(0.5)	6.1	10.3	15.1	15.3	10.3
EBIT	9.1	6.1	9.9	12.3	6.8	3.3	(2.0)	0.5	7.1	7.9	14.5	11.6	6.0
Net profit	8.7	8.2	9.1	8.7	5.0	5.5	(1.7)	6.0	1.4	(13.9)	12.2	8.5	15.0
QoQ Growth													
USD Revenues	(0.22)	1.0	1.1	1.93	2.20	(1.71)	(0.98)	(0.59)	0.61	0.58	1.49	0.0	0.2
INR Revenues	0.5	1.5	1.1	2.2	2.6	(0.4)	0.8	(1.6)	3.7	2.0	5.4	2.2	1.3
EBIT	5.3	4.6	5.0	(3.0)	0.1	1.2	(0.4)	(0.6)	6.8	2.0	5.8	(3.1)	1.4
Net profit	2.4	3.5	6.0	(3.2)	(1.1)	4.0	(1.3)	4.4	(5.4)	(11.7)	28.7	1.0	0.3
Margins (%)													
Gross margin	40.1	40.8	41.1	39.9	38.2	38.8	38.8	39.1	39.6	40.8	40.7	39.6	39.2
EBIT	24.3	25.0	26.0	24.7	24.1	24.5	24.2	24.5	25.2	25.2	25.3	24.0	24.0
PAT	19.0	19.4	20.3	19.2	18.5	19.4	19.0	20.1	18.4	15.9	19.4	19.2	19.0
SGA	15.8	15.8	15.1	15.2	14.1	14.3	14.6	14.7	14.4	15.6	15.4	15.6	15.3

Source: Company, BOBCAPS Research

Fig 18 – Key Metrics

	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	4QFY26	1QFY27	2QFY27
P and L (Rs mn)													
Revenue	596,920	605,830	612,370	626,130	642,590	639,730	644,790	634,370	657,990	670,870	706,980	722,750	731,880
EBITDA	144,830	151,550	159,180	154,420	154,650	156,570	156,010	155,140	165,650	168,890	178,700	173,170	175,530
PAT	113,420	117,350	124,340	120,400	119,090	123,800	122,240	127,600	120,750	106,570	137,180	138,490	138,840
Vertical Mix (%)													
BFSI	32.6	31.7	31.3	30.9	30.8	30.5	31.2	32.0	32.2	31.9	31.6	32.1	32.8
Manufacturing	8.6	8.7	8.8	8.8	8.6	8.4	8.4	8.7	8.8	8.8	8.8	8.7	9.0
Communication and Media	6.9	6.7	6.6	6.2	5.9	5.8	5.8	5.8	5.9	5.9	5.8	5.8	5.8
Life Sciences	10.9	10.9	10.9	11.0	10.4	10.1	10.1	10.2	10.5	10.5	10.4	10.3	10.3
Consumer Business	15.9	15.7	15.7	15.4	15.1	15.3	15.3	15.6	15.3	15.4	15.7	15.0	14.9
Technology and Services	8.6	8.4	8.2	8.1	8.0	8.0	8.1	8.4	8.5	8.4	8.4	8.5	8.6
Energy, Resources and Utilities	5.6	5.7	5.6	5.6	5.7	5.6	5.7	5.9	5.9	6.0	6.3	6.3	6.2
Others	10.9	12.2	12.9	14.0	15.5	16.3	15.4	13.4	12.9	13.1	13.0	13.3	12.4
Geographic Mix (%)													
North America	51.7	50.6	50.0	49.5	47.6	47.7	48.2	48.7	48.8	48.5	48.5	48.3	48.3
UK	16.5	16.4	16.8	16.9	17.0	16.6	16.8	18.0	17.5	16.9	17.2	17.2	17.8
Europe	14.9	15.0	14.6	14.4	14.6	13.9	14.3	15.0	15.3	15.6	15.6	15.4	15.2
India	4.9	6.1	6.7	7.5	8.9	9.8	8.4	5.8	5.8	6.1	6.0	6.2	5.5
APAC	7.8	7.8	7.8	7.8	8.0	7.8	8.1	8.4	8.3	8.3	8.3	8.4	8.6
Ibero America	2.0	2.1	2.0	1.9	1.8	1.9	1.8	1.9	1.9	2.0	1.9	2.0	2.1
MEA	2.2	2.0	2.1	2.0	2.1	2.3	2.4	2.2	2.4	2.6	2.5	2.5	2.5
Number of Client													
\$100mn +	61	61	62	63	66	64	64	62	60	62	66	66	65
\$50mn +	137	137	139	140	136	134	130	131	136	136	139	139	137
Employee Number	608,985	603,305	601,546	606,998	612,724	607,354	607,979	613,069	593,314	582,163	584,519	593,798	598,056
Net Addition	(6,333)	(5,680)	(1,759)	5,452	5,726	(5,370)	625	5,090	(19,755)	(11,151)	2,356	9,279	4,258
Attrition (%)	14.9	13.3	12.5	12.1	12.3	13.0	13.3	13.8	13.3	13.5	13.7	13.6	13.3
Net Employee Growth (YoY%)	(1.2)	(1.7)	(2.2)	(1.4)	0.6	0.7	1.1	1.0	(3.2)	(4.1)	(3.9)	(3.1)	0.8
P&L (USD mn)													
Revenue	7,210	7,281	7,363	7,505	7,670	7,539	7,465	7,421	7,466	7,509	7,621	7,624	7,642
EBIT	1,749	1,821	1,915	1,850	1,846	1,845	1,807	1,815	1,750	1,511	1,927	1,826	1,833
PAT	1,370	1,410	1,497	1,441	1,421	1,459	1,418	1,493	1,370	1,194	1,479	1,460	1,450
Per Capita (Annualised) (USD)													
Revenue	47,357	48,274	48,961	49,457	50,071	49,651	49,114	48,419	50,334	51,594	52,152	51,358	51,112
EBIT	11,488	12,072	12,732	12,190	12,051	12,148	11,891	11,842	11,798	10,382	13,187	12,300	12,260
PAT	8,999	9,347	9,953	9,495	9,276	9,606	9,332	9,741	9,236	8,204	10,121	9,835	9,698
Direct and Opex cost per capita	35,869	36,202	36,228	37,266	38,021	37,503	37,222	36,577	38,536	41,212	38,965	39,057	38,853

Source: Company, BOBCAPS Research

Fig 19 – QoQ and YoY growth of various parameters

(in US\$)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	4QFY26	1QFY27	2QFY27
QoQ Growth (%)													
Revenue	(0.2)	1.0	1.1	1.9	2.2	(1.7)	(1.0)	(0.6)	0.6	0.6	1.5	0.0	0.2
Geographical Data													
Americas	(0.8)	(1.2)	(0.1)	0.9	(1.7)	(1.5)	0.1	0.4	0.8	(0.0)	1.5	(0.4)	0.2
UK	0.4	0.4	3.6	2.5	2.8	(4.0)	0.2	6.5	(2.2)	(2.9)	3.3	0.0	3.7
Europe	(0.2)	1.7	(1.6)	0.5	3.6	(6.4)	1.9	4.3	2.6	2.5	1.5	(1.2)	(1.1)
India	(0.2)	25.7	11.1	14.1	21.3	8.2	(15.1)	(31.4)	0.6	5.8	(0.2)	3.4	(11.1)
APAC	(0.2)	1.0	1.1	1.9	4.8	(4.2)	2.8	3.1	(0.6)	0.6	1.5	1.2	2.6
Ibero America	(0.2)	6.0	(3.7)	(3.2)	(3.2)	3.8	(6.2)	4.9	0.6	5.9	(3.6)	5.3	5.2
MEA	9.8	(8.2)	6.2	(2.9)	7.3	7.7	3.3	(8.9)	9.8	9.0	(2.4)	0.0	0.2
Verticals													
BFSI	0.1	(1.8)	(0.1)	0.6	1.9	(2.7)	1.3	2.0	1.2	(0.4)	0.5	1.6	2.4
Manufacturing	3.4	2.2	2.3	1.9	(0.1)	(4.0)	(1.0)	3.0	1.8	0.6	1.5	(1.1)	3.7
Communication and Media	(1.6)	(1.9)	(0.4)	(4.2)	(2.7)	(3.4)	(1.0)	(0.6)	2.3	0.6	(0.2)	0.0	0.2
Life Science & Healthcare	(1.1)	1.0	1.1	2.9	(3.4)	(4.5)	(1.0)	0.4	3.6	0.6	0.5	(0.9)	0.2
Consumer Business	(1.5)	(0.3)	1.1	(0.0)	0.2	(0.4)	(1.0)	1.4	(1.3)	1.2	3.5	(4.4)	(0.4)
Technology and Services	(1.4)	(1.4)	(1.3)	0.7	0.9	(1.7)	0.3	3.1	1.8	(0.6)	1.5	1.2	1.4
Energy, Resources and Utilities	1.6	2.8	(0.6)	1.9	4.0	(3.4)	0.8	2.9	0.6	2.3	6.6	0.0	(1.4)
Regional Market & Others	(0.2)	13.0	6.9	10.6	13.1	3.4	(6.4)	(13.5)	(3.1)	2.1	0.7	2.3	(6.5)
YoY Growth (%)													
Revenue	4.8	2.9	2.3	3.9	6.4	3.5	1.4	(1.1)	(2.7)	(0.4)	2.1	2.7	2.4
Geographical Data													
Americas	(0.2)	(3.0)	(2.4)	(1.1)	(2.1)	(2.4)	(2.3)	(2.7)	(0.2)	1.3	2.7	1.9	1.3
UK	19.3	13.3	9.5	7.0	9.6	4.8	1.4	5.3	0.2	1.4	4.5	(1.8)	4.1
Europe	7.7	4.3	(1.1)	0.4	4.2	(4.0)	(0.7)	3.0	2.0	11.8	11.4	5.5	1.7
India	0.7	23.1	37.1	59.0	93.2	66.3	27.1	(23.5)	(36.6)	(38.0)	(27.1)	9.8	(2.9)
APAC	2.2	1.6	(0.2)	3.9	9.1	3.5	5.3	6.5	1.0	6.0	4.6	2.7	6.1
Ibero America	23.3	20.1	13.7	(1.3)	(4.3)	(6.3)	(8.8)	(1.1)	2.7	4.8	7.8	8.1	13.1
MEA	21.4	14.3	7.5	3.9	1.5	19.1	15.9	8.8	11.2	12.6	6.3	16.7	6.6
Verticals													
BFSI	1.7	(1.4)	(2.6)	(1.3)	0.5	(0.4)	1.1	2.4	1.8	4.2	3.4	3.1	4.3
Manufacturing	10.0	9.2	9.8	10.1	6.4	(0.0)	(3.2)	(2.2)	(0.4)	4.3	7.0	2.7	4.7
Communication and Media	(0.9)	(4.2)	(4.9)	(8.0)	(9.0)	(10.4)	(10.9)	(7.5)	(2.7)	1.3	2.1	2.7	0.6
Life Science & Healthcare	6.8	3.9	2.3	3.9	1.5	(4.1)	(6.1)	(8.3)	(1.7)	3.5	5.1	3.7	0.4
Consumer Business	3.5	1.0	0.4	(0.7)	1.0	0.9	(1.2)	0.2	(1.4)	0.3	4.8	(1.2)	(0.3)
Technology and Services	(0.9)	(3.9)	(5.7)	(3.3)	(1.0)	(1.4)	0.1	2.5	3.4	4.6	5.9	4.0	3.6
Energy, Resources and Utilities	17.4	12.8	6.1	5.7	8.3	1.7	3.2	4.2	0.8	6.7	12.8	9.7	7.6
Regional Market & Others	14.3	19.6	24.5	33.4	51.3	38.3	21.0	(5.4)	(19.0)	(20.0)	(13.8)	2.0	(1.6)

Source: Company, BOBCAPS Research

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Total revenue	2,553,240	2,670,210	2,929,543	3,051,408	3,144,863
EBITDA	674,070	723,980	749,313	771,714	792,755
Depreciation	52,420	55,600	49,561	53,336	57,168
EBIT	621,650	668,380	699,753	718,378	735,587
Net interest inc./(exp.)	(7,960)	(12,270)	(10,290)	(10,080)	(10,080)
Other inc./(exp.)	39,620	(1,240)	54,438	50,746	57,810
Exceptional items	0	0	0	0	0
EBT	653,310	654,870	743,901	759,044	783,317
Income taxes	165,340	160,330	187,697	191,573	197,699
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	2,440	2,440	2,210	2,000	2,000
Reported net profit	485,530	526,491	553,994	565,470	583,617
Adjustments	0	0	0	0	0
Adjusted net profit	485,530	526,491	553,994	565,470	583,617

Balance Sheet

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Accounts payables	139,090	148,080	154,751	160,295	165,198
Other current liabilities	373,580	428,980	409,221	418,471	426,652
Provisions	1,800	13,780	4,590	4,590	4,590
Debt funds	0	0	0	0	0
Other liabilities	124,110	147,890	147,003	148,039	148,955
Equity capital	3,620	3,620	3,620	3,620	3,620
Reserves & surplus	954,090	1,081,160	1,273,989	1,405,289	1,554,736
Shareholders' fund	957,710	1,084,780	1,277,609	1,408,909	1,558,356
Total liab. and equities	1,596,290	1,823,510	1,993,174	2,140,304	2,303,751
Cash and cash eq.	154,630	129,080	168,509	307,280	430,389
Accounts receivables	591,750	679,270	706,019	731,311	753,679
Inventories	280	290	280	280	280
Other current assets	180,670	215,020	203,386	208,898	213,773
Investments	306,890	337,700	405,820	405,820	405,820
Net fixed assets	125,240	136,970	148,265	159,307	170,349
CWIP	0	0	0	0	0
Intangible assets	28,000	92,630	92,870	92,870	92,870
Deferred tax assets, net	35,780	44,650	46,316	47,975	49,442
Other assets	173,120	187,900	185,902	186,564	187,150
Total assets	1,596,360	1,823,510	1,957,366	2,140,304	2,303,751

Cash Flows

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Cash flow from operations	551,930	533,910	585,167	613,591	637,569
Capital expenditures	(68,260)	(67,330)	(60,856)	(64,378)	(68,210)
Change in investments	7,980	(30,240)	(68,520)	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(60,280)	(97,570)	(129,376)	(64,378)	(68,210)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(7,960)	(12,270)	(10,290)	(10,080)	(10,080)
Dividends paid	(549,334)	(479,578)	(344,424)	(523,175)	(523,175)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(557,294)	(491,848)	(354,714)	(533,255)	(533,255)
Chg in cash & cash eq.	21,770	(25,760)	39,429	138,771	123,109
Closing cash & cash eq.	154,630	128,870	168,509	307,280	430,389

Per Share

Y/E 31 Mar (Rs)	FY25A	FY26A	FY27E	FY28E	FY29E
Reported EPS	134.2	145.5	151.7	156.3	161.3
Adjusted EPS	134.2	145.5	151.7	156.3	161.3
Dividend per share	126.0	110.0	79.0	120.0	120.0
Book value per share	264.7	299.8	353.1	389.4	430.7

Valuations Ratios

Y/E 31 Mar (x)	FY25A	FY26A	FY27E	FY28E	FY29E
EV/Sales	3.0	2.9	2.6	2.5	2.5
EV/EBITDA	11.4	10.6	10.2	10.0	9.9
Adjusted P/E	15.5	14.3	13.7	13.3	12.9
P/BV	7.8	6.9	5.9	5.3	4.8

DuPont Analysis

Y/E 31 Mar (%)	FY25A	FY26A	FY27E	FY28E	FY29E
Tax burden (Net profit/PBT)	74.3	75.1	74.5	74.5	0.0
Interest burden (PBT/EBIT)	105.1	98.0	106.3	105.7	0.0
EBIT margin (EBIT/Revenue)	24.3	25.0	23.9	23.5	0.0
Asset turnover (Rev./Avg TA)	166.8	156.2	155.0	148.9	0.0
Leverage (Avg TA/Avg Equity)	1.6	1.6	1.5	1.5	0.0
Adjusted ROAE	50.7	45.4	43.4	40.1	0.0

Ratio Analysis

Y/E 31 Mar	FY25A	FY26A	FY27E	FY28E	FY29E
YoY growth (%)					
Revenue	6.0	4.6	9.7	4.2	3.1
EBITDA	4.8	7.4	3.5	3.0	2.7
Adjusted EPS	4.7	8.4	4.3	3.0	3.2

Profitability & Return ratios (%)

EBITDA margin	26.4	27.1	25.6	25.3	25.2
EBIT margin	24.3	25.0	23.9	23.5	23.4
Adjusted profit margin	19.0	19.7	18.9	18.5	18.6
Adjusted ROAE	51.9	51.6	46.9	42.1	39.3
ROCE	33.8	33.1	30.5	28.8	27.3

Working capital days (days)

Receivables	85	93	88	87	87
Inventory	NA	NA	NA	NA	NA
Payables	20	20	19	19	19

Ratios (x)

Gross asset turnover	20.4	19.5	19.8	19.2	18.5
Current ratio	1.8	1.7	1.9	2.1	2.3
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	(0.2)	(0.1)	(0.1)	(0.2)	(0.3)

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

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BUY – Expected return >+15%

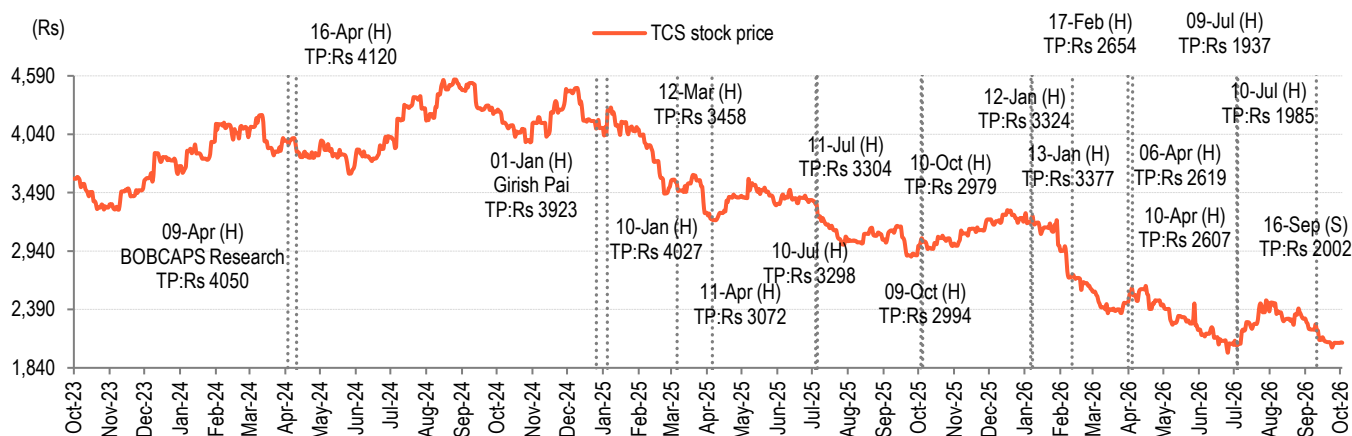
HOLD – Expected return from -6% to +15%

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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