

Tata Consultancy Services (TCS)

BUY

Robust deals; Good mid-term visibility

Summary

Despite ongoing macro uncertainty international business grew 0.6% QoQ, however, growth was impacted by regional markets & BSNL deal ramp down. Management is in unison with the street's expectation of short lived fickleness in macros and re-iterated FY26 to be better than FY25. This confidence is stemmed from strong deal bookings (12.2bn, +20% QoQ), no major project cancellations, scaling of Gen AI projects from Use cases and no cuts in discretionary spends. Having said that, the management witnessed some softness in retail, insurance, consumer & auto segments due to recent tariff wars. TCS being a market leader with their strong managed portfolio, Gen AI projects and workforce strength would continue to be the same. Any early improvement in demand environment would reflect in their topline. With the near term softness already reflected in the price, we upgrade our rating to BUY from HOLD by valuing the company at 24.8x FY27E with TP of Rs. 3,733, currently trading at 21.6x.

Key Highlights and Investment Rationale

- Revenue & Margin:** Robust deal bookings from last 2 quarters provides better medium term visibility. Management aspires to have margins in mid-20's through tighter utilization, pyramid rebalancing, automation and selective pricing.
- Deal TCV:** Order book TCV stood at \$ 12.2bn with 1.6x (book to bill ratio) in Q4 without a mega deal and management indicated a few mega deals in the pipeline and AI becoming the integral part of all the deals.
- Customer focus:** Clients focuses on AI infused deals in transformational projects, fraud detection solutions, innovative predictive AI solutions, technology modernization, large language models, etc. building solutions centered these areas would be the driving force for the growth ahead.

TP	Rs3,733			Key Stock Data	
CMP	Rs3,246			Bloomberg/Reuters	TCS IN/ TCS.BO
Potential upside/downside	15%			Sector	IT Services
Previous Rating	HOLD			Shares o/s (mn)	3,618
Price Performance (%)				Market cap. (Rs mn)	11,744,674
	-1m	-3m	-12m	3-m daily avg Trd value (Rs mn)	247.9
Absolute	(10.1)	(19.6)	(17.8)	52-week high / low	Rs4,586 / 3,060
Rel to Sensex	(9.5)	(14.7)	(16.6)	Sensex / Nifty	73,847 / 22,399
V/s Consensus				Shareholding Pattern (%)	
EPS (Rs)	FY26E	FY27E	Promoters	71.8	
IDBI Capital	145	150	FII	12.7	
Consensus	146	161	DII	10.2	
% difference	(2.6)	(11.7)	Public	5.3	

Year	FY23	FY24	FY25	FY26E	FY27E	(Rs mn)
Revenue	22,54,580	24,08,930	25,53,240	26,69,388	28,20,691	
Change (yoY, %)	18	7	6	5	6	
EBITDA	5,92,600	6,33,370	6,74,070	7,18,866	7,41,901	
Change (yoY, %)	12	7	6	7	3	
EBITDA Margin(%)	26.3	26.3	26.4	26.9	26.3	
Adj.PAT	4,21,470	4,59,427	4,85,530	5,23,278	5,42,897	
EPS (Rs)	115	126	134	145	150	
Change (yoY, %)	10.0	9.4	6.5	8	4	
PE(x)	28	26	24	22	22	
Dividend Yield (%)	3.5	3.7	3.7	4	4	
EV/EBITDA (x)	19.2	18.0	16.7	15.4	14.8	
RoE (%)	46.9	50.8	52.4	51	48	
RoCE (%)	56.5	60.2	62	59	56	

Source: IDBI Capital Research

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Other Key Concall Highlights

- Revenue for the quarter dipped by 1% in \$terms & -0.8% in CC terms QoQ at \$7,465mn. The growth was impacted due to BSNL deal ramp down. However, despite a challenging macro international markets grew by 0.6% QoQ which was impacted by regional markets.
- Segment wise BFSI was up 2.5 % YoY; Manufacturing was down 2.9% YoY; Energy, Resources & Utilities was up 4.6 % YoY; Regional Markets & Others segment was up 22.5% YoY; Technology & Services was up 1.1 % YoY; Consumer Business was down 0.2% YoY; Life Sciences & Healthcare was down 5.6% YoY and Communication & Media was down 9.8% YoY. Geographically, India posted strong growth of 33.0% YoY in CC terms while North America declined by 1.9% YoY.
- EBIT margin for the quarter stood at 24.2%, a dip of 30bps impacted by higher SG&A. The escalation was due to promotion-linked wage actions (100bps) and stepped-up marketing spends (60bps) which was partially offset by improvement in operating leverage and FX tailwinds.
- Order book TCV for the quarter stood at \$12.2 Bn (+19.6% QoQ/ -7.6% YoY) without any mega deals; North America TCV at \$6.8 Bn; BFSI TCV at \$4.0 Bn, Consumer Business TCV at \$1.7 Bn for Q4 with Book-to-bill ratio of 1.6x. Overall pipeline of AI, GenAI engagements was higher than the last few quarters, and the company saw a significant increase in dealings across AI for IT and AI for business. TCS is also not seeing deflationary impact due to AI.
- Management expects near term demand outlook to be muted due to ongoing macro uncertainties which is reflecting in delayed decision cycle and pushing budgets to cost take outs. Traction in BFSI is seen in tech modernization, cost optimization, vendor consolidation, regulatory spend, legacy modernization. Softness in consumer, retail, auto (downturn in EV, weak demand), insurance (clients reducing operational costs & opting for vendor consolidation) etc is seen in the near term due to tariff wars. Client IT budgets have remained flat, reflecting cautious optimism amid geopolitical uncertainties and fluctuating inflation. Enterprises are now funding incremental technology upgrades through savings generated from optimization and rationalization efforts.
- Workforce for the quarter stood at 6,07,979 with attrition at 13.3% v/s 13% last quarter. Management stated fresher's hiring to be in the same levels as FY25 at ~42000 for FY26.

Exhibit 1: Financial snapshot

(Rs mn)

Year-end: March	Q4FY25	Q3FY25	QoQ (%)	Q4FY24	YoY (%)
Revenues (US\$ mn)	7,465	7,539	(1.0)	7,363	1.4
Revenues	6,44,790	6,39,730	0.8	6,12,370	5.3
COGS	3,83,890	3,80,610	0.9	3,51,187	9.3
Gross profit	2,60,900	2,59,120	0.7	2,61,183	(0.1)
SG&A	91,100	88,790	2.6	89,890	1.3
EBITDA	1,69,800	1,70,330	(0.3)	1,71,293	(0.9)
Depreciation & amortization	13,790	13,770	0.1	12,460	10.7
EBIT	1,56,010	1,56,560	(0.4)	1,58,833	(1.8)
Other income	8,010	10,090	(20.6)	9,570	(16.3)
PBT	1,64,020	1,66,650	(1.6)	1,68,403	(2.6)
Tax	41,090	42,220	(2.7)	43,470	(5.5)
Minority interest	690	640	7.8	680	1.5
Net profit	1,22,930	1,24,430	(1.2)	1,24,933	(1.6)
Adjusted Net profit	1,22,930	1,24,430	(1.2)	1,24,933	(1.6)
Diluted EPS (Rs)	33.8	34.2	(1.3)	34.3	(1.7)
<hr/>					
As % of net revenue					
Gross profit	40.5	40.5		42.7	
SG&A	14.1	13.9		14.7	
EBITDA	26.3	26.6		28.0	
EBIT	24.2	24.5		25.9	
Net profit	19.1	19.5		20.4	
Tax rate	25.1	25.3		25.8	

Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. estimates

Year to March	Q4FY25	Q4FY25E	Variance (%)
Revenue (US\$ mn)	7,465	7,451	0.2
Revenue (Rs mn)	6,44,790	6,46,011	(0.19)
EBIT (Rs mn)	1,56,010	1,60,020	(2.5)
EBIT margin (%)	24.2%	24.8%	-58 bps
PAT (Rs mn)	1,24,340	1,26,360	(1.6)
PAT margin (%)	19.3%	19.6%	-28 bps
EPS (Rs)	33.8	35.1	(3.8)

Source: Company; IDBI Capital Research

Exhibit 3: Earnings Revision

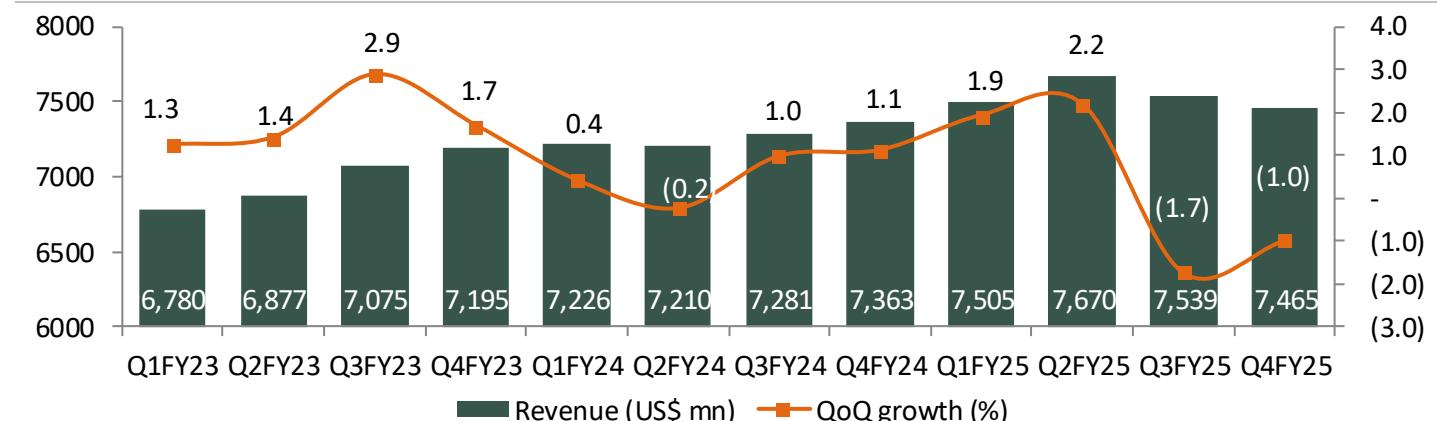
Year-end: March	FY26E			FY27E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (US\$ mn)	31,221	31882	(2.1)	32,991	34532	(4.5)
Revenue (Rs bn)	26,69,388	2690829	(0.8)	28,20,691	29,21,448	(3.4)
EBIT margin (%)	24.1%	24.80%	-74 bps	24.5%	25.20%	-69 bps
EPS (Rs/sh)	138.5	144.0	(3.8)	151.8	158.4	(4.2)

Source: Company; IDBI Capital Research

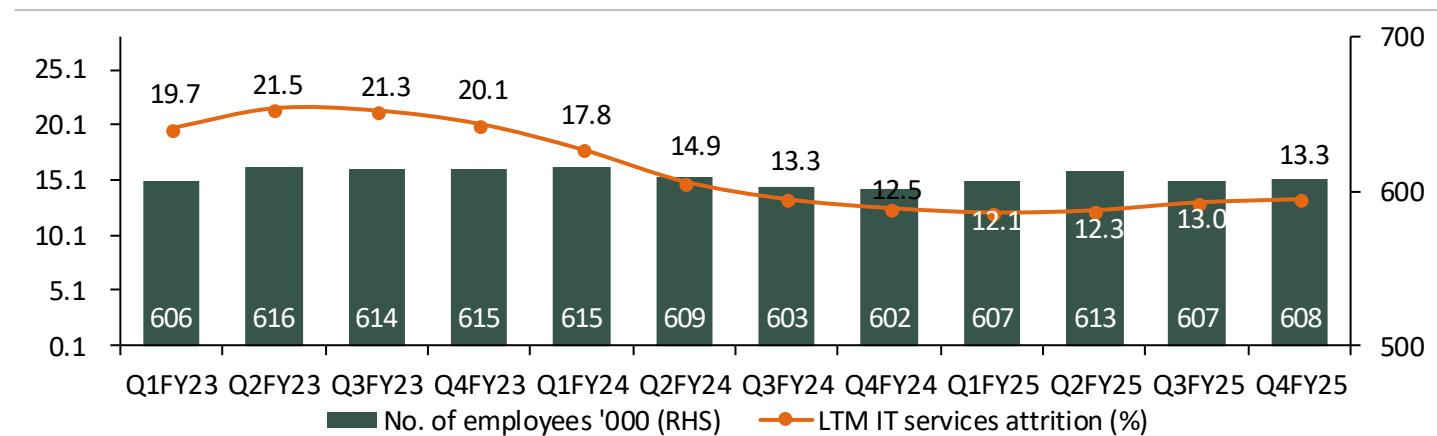
Exhibit 4: QoQ increase in number of clients across all sizes

No. of large clients	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25
USD1m+	1,241	1,268	1,272	1,288	1,294	1,310	1,307	1,309	1,332
USD5m+	665	677	688	693	693	697	710	722	723
USD10m+	461	468	483	480	487	486	491	497	493
USD20m+	291	296	292	299	301	300	298	294	298
USD50m+	133	137	137	137	139	140	136	134	130
USD100m+	60	60	61	61	62	63	66	64	64

Source: Company; IDBI Capital Research

Exhibit 5: Q4FY25 revenue growth was below with consensus estimates


Source: Company; IDBI Capital Research

Exhibit 6: Employees and IT services attrition trend


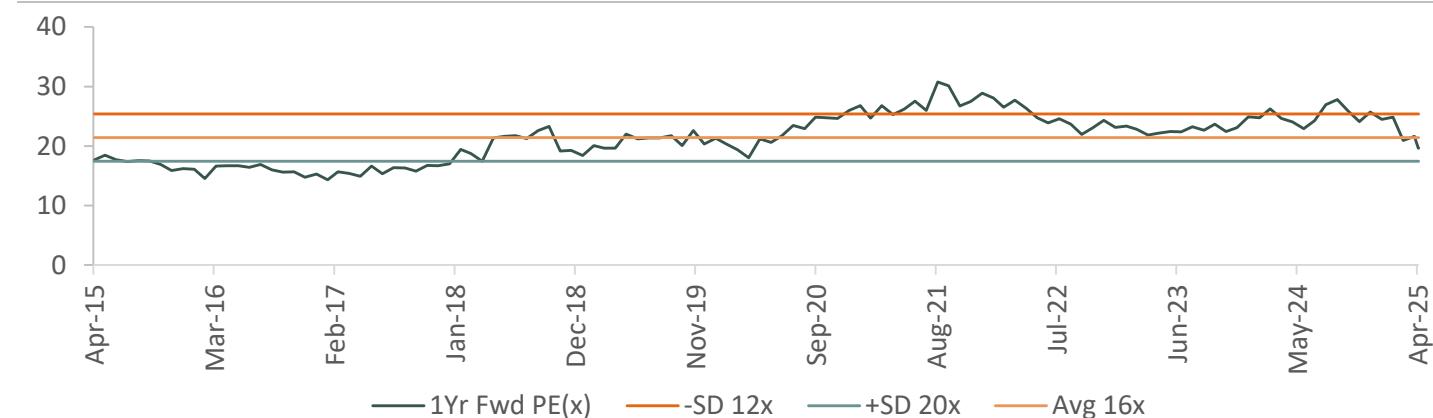
Source: Company; IDBI Capital Research

Exhibit 7: Revenue growth across various segments (%)

	% of revenue (%)	YoY in CC (%)
Total revenue		2.5%
by geography		
North America	48.2%	-1.9%
Latin America	1.8%	4.3%
UK	16.8%	1.2%
Continental Europe	14.3%	1.4%
India	8.4%	33.0%
Asia Pacific	8.1%	6.5%
MEA	2.4%	13.2%
by vertical		
BFSI	30.9%	2.5%
Retail & CPG	15.3%	-0.2%
Communication & Media	5.9%	-9.8%
Manufacturing	8.5%	-2.9%
Life Sciences & Healthcare	10.4%	-5.6%
Technology & Services	8.1%	1.1%
Regional Markets & Others	15.2%	22.5%

Source: Company; IDBI Capital Research

Exhibit 8: One-year forward PER trend



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Net sales	19,17,540	22,54,580	24,08,930	25,53,240	26,69,388	28,20,691
<i>Change (yoY, %)</i>	16.8	18	7	6	5	6
Operating expenses	(13,86,970)	(16,61,980)	(17,75,560)	(18,79,170)	(19,50,523)	(20,78,790)
EBITDA	5,30,570	5,92,600	6,33,370	6,74,070	7,18,866	7,41,901
<i>Change (yoY, %)</i>	14.0	12	7	6	7	3
<i>Margin (%)</i>	27.7	26.3	26.3	26.4	26.9	26.3
Depreciation	(46,040)	(50,230)	(49,493)	(52,420)	(54,579)	(57,179)
EBIT	4,84,530	5,42,370	5,83,877	6,21,650	6,64,286	6,84,721
Interest paid	(7,840)	(7,790)	(7,780)	(7,960)	(4,000)	(4,000)
Other income	40,180	34,490	44,220	39,620	29,336	39,315
Pre-tax profit	5,16,870	5,69,070	6,20,310	6,53,310	6,89,623	7,20,037
Tax	(1,32,380)	(1,46,040)	(1,58,980)	(1,65,340)	(1,63,584)	(1,74,380)
<i>Effective tax rate (%)</i>	25.6	25.7	25.6	25.3	23.7	24.2
Minority Interest	(1,220.0)	(1,560.0)	(1,910.0)	(2,440.0)	(2,760.0)	(2,760.0)
Net profit	3,83,270	4,21,470	4,59,420	4,85,530	5,23,278	5,42,897
Exceptional items	-	-	(7)	-	-	-
Adjusted net profit	3,83,270	4,21,470	4,59,427	4,85,530	5,23,278	5,42,897
<i>Change (yoY, %)</i>	15.4	10	9	6	8	4
EPS	104.7	115.2	126.0	134.1	144.6	150.0
DPS	43.0	115.0	119.1	121.0	122.0	122.0
<i>Dividend Payout (%)</i>	41.1	99.9	94.6	90	84	81

Balance Sheet							(Rs mn)
Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E	
Shareholders' funds	8,91,390	9,04,240	9,04,890	9,47,560	10,29,198	11,30,455	
Share capital	3,660	3,660	3,620	3,620	3,620	3,620	3,620
Reserves & surplus	8,87,730	9,00,580	9,01,270	9,43,940	10,25,578	11,26,835	
Total Debt	-	-	-	-	-	-	-
Other liabilities	52,720	55,260	59,600	74,740	84,647	82,177	
Curr Liab & prov	4,26,880	4,36,120	4,57,670	5,28,060	5,38,306	5,68,817	
Current liabilities	2,88,690	2,93,210	2,89,890	3,41,850	3,43,625	3,63,102	
Provisions	1,38,190	1,42,910	1,67,780	1,86,210	1,94,681	2,05,715	
Total liabilities	4,79,600	4,91,380	5,17,270	6,02,800	6,22,952	6,50,994	
Total equity & liabilities	13,78,060	14,03,440	14,30,460	15,60,510	16,65,060	17,97,120	
Net fixed assets	1,48,670	1,41,890	1,32,820	1,53,240	85,921	48,742	
Investments	2,230	2,660	2,810	2,750	2,750	2,750	
Other non-curr assets	1,38,950	1,50,980	1,63,540	1,72,870	1,81,222	1,91,494	
Current assets	10,88,210	11,07,910	11,31,290	12,31,650	13,95,167	15,54,134	
Inventories	200	280	280	210	210	210	
Sundry Debtors	4,20,100	5,03,020	5,37,200	5,91,750	5,95,283	6,29,024	
Cash and Bank	4,98,730	4,92,480	4,64,700	4,88,940	6,55,257	7,72,296	
Loans and advances	67,560	14,980	4,930	340	5,463	5,773	
Total assets	13,78,060	14,03,440	14,30,460	15,60,510	16,65,060	17,97,120	

Cash Flow Statement							(Rs mn)
Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E	
Pre-tax profit	5,16,870	5,69,070	6,20,310	6,53,310	6,89,623	7,20,037	
Depreciation	23,130	30,220	28,330	52,420	54,579	57,179	
Tax paid	(1,31,920)	(1,40,010)	(1,58,090)	(1,67,060)	(1,73,678)	(1,76,849)	
Chg in working capital	75,920	(21,180)	(2,580)	20,500	1,589	(3,539)	
Other operating activities	(1,97,021)	1,230	(36,093)	(23,439)	(2,779)	(28,620)	
Cash flow from operations (a)	2,86,979	4,39,330	4,51,877	5,35,731	5,69,335	5,68,208	
Capital expenditure	(28,660)	(23,440)	(19,260)	(72,840)	12,740	(20,000)	
Chg in investments	(100)	(430)	(150)	60	-	-	
Other investing activities	-	-	-	-	-	-	
Cash flow from investing (b)	(28,760)	(23,870)	(19,410)	(72,780)	12,740	(20,000)	
Equity raised/(repaid)	(39)	-	(24,417)	-	-	-	
Debt raised/(repaid)	-	-	-	-	-	-	
Dividend (incl. tax)	(1,57,380)	(4,20,900)	(4,34,400)	(4,38,020)	(4,41,640)	(4,41,640)	
Chg in minorities	(900)	(810)	(1,430)	(590)	-	-	
Other financing activities	-	-	-	-	-	-	
Cash flow from financing (c)	(1,58,319)	(4,21,710)	(4,60,247)	(4,38,610)	(4,41,640)	(4,41,640)	
Net chg in cash (a+b+c)	99,900	(6,250)	(27,780)	24,341	1,40,435	1,06,568	

Financial Ratios

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Book Value (Rs)	243.5	247	248	262	284	312
<i>Adj EPS (Rs)</i>	<i>104.7</i>	<i>115.2</i>	<i>126.0</i>	<i>134.1</i>	<i>144.6</i>	<i>150.0</i>
<i>Adj EPS growth (%)</i>	<i>16.6</i>	<i>10</i>	<i>9</i>	<i>6</i>	<i>8</i>	<i>4</i>
<i>EBITDA margin (%)</i>	<i>27.7</i>	<i>26.3</i>	<i>26.3</i>	<i>26.4</i>	<i>26.9</i>	<i>26.3</i>
<i>Pre-tax margin (%)</i>	<i>27.0</i>	<i>25.2</i>	<i>25.8</i>	<i>25.6</i>	<i>25.8</i>	<i>25.5</i>
<i>Net Debt/Equity (x)</i>	<i>-0.6</i>	<i>-0.5</i>	<i>-0.5</i>	<i>-0.5</i>	<i>-0.6</i>	<i>-0.7</i>
<i>ROCE (%)</i>	<i>51.8</i>	<i>57</i>	<i>60</i>	<i>62</i>	<i>59.0</i>	<i>55.7</i>
<i>ROE (%)</i>	<i>43.7</i>	<i>47</i>	<i>51</i>	<i>52</i>	<i>50.8</i>	<i>48.0</i>
DuPont Analysis						
Asset turnover (x)	1.4	1.6	1.7	1.7	1.6	1.6
Leverage factor (x)	1.5	1.5	1.6	1.6	1.6	1.6
<i>Net margin (%)</i>	<i>20.0</i>	<i>18.7</i>	<i>19.1</i>	<i>19.0</i>	<i>19.6</i>	<i>19.2</i>
Working Capital & Liquidity ratio						
Inventory days	0	0	0	0	0	0
Receivable days	80	81	81	85	81	81
Payable days	21	23	21	27	25	24

Valuations

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
PER (x)	31	28	26	24	22	22
Price/Book value (x)	13.3	13.1	13.1	12.4	11.4	10.4
EV/Net sales (x)	6	5	5	4	4	4
EV/EBITDA (x)	21	19	18	17	15	15
<i>Dividend Yield (%)</i>	<i>1.3</i>	<i>3.5</i>	<i>3.7</i>	<i>3.7</i>	<i>3.8</i>	<i>3.8</i>

Source: Company; IDBI Capital Research

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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