

Tata Consultancy Services (TCS) BUY

AI-Led strategy to drive the growth momentum

Summary

TCS reported a 0.8% QoQ growth and 3.3% YoY decline in constant currency revenue driven by strong momentum across most verticals except Consumer Business and geographies excluding the UK. Operating margin expanded 70bps sequentially to 25.2% (excluding one-time severance), aided by currency tailwinds, utilization gains, and pyramid rebalancing, partially offset by wage hikes and ongoing AI investments. Net margin stood at 19.6%. TCS recorded its highest-ever quarterly TCV of USD 10bn (+16% YoY), with BFSI at USD 3.2bn and Consumer Business at USD 1.8bn. Management reiterated that FY26 international revenue growth will surpass FY25, supported by deal ramp-ups and robust demand in AI-led transformation, modernization, and cost-optimization programs. Despite macro uncertainty & tight discretionary budgets, TCS continues to benefit from vendor consolidation/strong participation in large-scale AI-led engagements. Investments in AI infrastructure (sovereign data center up to 1GW) and internal upskilling (160K AI-trained associates) reinforce its vision to become the world's largest AI-led technology services company. Despite weak macros/tariff-related & H1B issues, improving deal conversion/better utilization, we upgrade our rating to BUY, with a same TP of Rs. 3,733 (due to sharp correction in price), valuing at 24.9x FY27E EPS.

Key Highlights and Investment Rationale

- **Revenue & Margin:** Q2 margin expanded 70bps QoQ to 25.2% aided by currency gains, operational efficiency, and pyramid optimization, partly offset by wage hikes. Management targets mid-20s margin band through utilization, automation, and pricing discipline.
- **Customer focus:** TCS accelerated its five-pillar AI strategy, training 160k employees and integrating AI across delivery and platforms, strengthening positioning for long-term sustainable growth.

TP **Rs3,733**

CMP **Rs3,062**

Potential upside/downside **22%**

Previous Rating **HOLD**

Price Performance (%)

	-1m	-3m	-12m
Absolute	0.4	(9.5)	(28.0)
Rel to Sensex	(0.9)	(7.9)	(28.9)

V/s Consensus

EPS (Rs)	FY26E	FY27E
IDBI Capital	145	150
Consensus	142	151
% difference	2.2	(1.0)

Key Stock Data

Bloomberg/Reuters	TCS IN/ TCS.BO
Sector	IT Services
Shares o/s (mn)	3,618
Market cap. (Rs mn)	11,078,403
3-m daily avg Trd value (Rs mn)	247.9
52-week high / low	Rs4,494 / 2,868
Sensex / Nifty	82,172 / 25,182

Shareholding Pattern (%)

Promoters	71.8
FII	11.5
DII	11.2
Public	5.5

Financial snapshot

	(Rs mn)				
Year	FY23	FY24	FY25	FY26E	FY27E
Revenue	22,54,580	24,08,930	25,53,240	26,69,388	28,20,691
Change (yoy, %)	17.6	6.8	6.0	4.5	5.7
EBITDA	5,92,600	6,33,370	6,74,070	7,18,866	7,41,901
Change (yoy, %)	11.7	6.9	6.4	6.6	3.2
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)	115.2	126.0	134.1	144.6	150.0
Change (yoy, %)	10.0	9.4	6.5	7.8	3.7
PE(x)	26.6	24.3	22.8	21.2	20.9
Dividend Yield (%)	3.8	3.9	4.0	4.0	4.0
EV/EBITDA (x)	18.1	16.9	15.7	14.5	14.3
RoE (%)	46.9	50.8	52.4	50.8	48.0
RoCE (%)	56.5	60.2	62.0	59.0	55.7

Source: IDBI Capital Research

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Other Key Concall Highlights

- In Q2FY26, TCS reported revenue of INR 65,799 crore, up 3.7% QoQ and 2.4% YoY in reported terms, translating to 0.8% QoQ growth in constant currency (CC). The quarter saw broad-based recovery across all verticals except Consumer Business and all geographies except the UK, along with India/Emerging markets witnessed a strong momentum in Q2.
- The company recorded a total contract value (TCV) of USD 10 billion, its highest ever, up 16% YoY and 6.5% sequentially. BFSI contributed USD 3.2bn, Consumer Business Group USD 1.8bn, and North America USD 4.3bn. A key highlight was a mega deal win with TRIB Insurance, demonstrating TCS's strength in large-scale, AI-led transformation engagements. The deal pipeline remains healthy, with a strong mix of cost-optimization, modernization, and platform deals, giving management confidence that FY26 international revenue growth will outpace FY25.
- Operating margin improved 70bps sequentially to 25.2% (excluding one-time severance of INR 1,135 crore), supported by favourable currency (80bps benefit), operational efficiency(+20bps), and pyramid rebalancing (+40bps). Wage hikes for 80% of employees effective September 1st and variable pay impacted margins by ~70bps. Net margin stood at 19.6%, with EPS up 8.4% YoY. Free cash flow was USD 1.4bn (110% of net income) and DSO improved to 75 days. The Board declared a INR 11/share interim dividend.
- TCS advanced its five-pillar AI transformation strategy, emphasizing an AI-first culture, reimagined service lines, future-ready talent, client-centric AI solutions, and ecosystem partnerships. Over ~160K associates are now trained in advanced AI, while ~281K employees participated in a global AI hackathon. The company also announced a subsidiary to build a sovereign AI data center of up to 1GW capacity (150Megawatt would be around USD 1bn) phased over 5–7 years at an estimated USD 6–7bn investment, in collaboration with technology and finance partners.
- Headcount declined by ~20K QoQ to 5.98 lakh, as TCS optimized mid- and senior-level roles, balancing involuntary attrition and new hires. Despite macro uncertainty and cautious discretionary spending, management noted improved project ramp-ups, lower deferrals, and expects better growth in H2FY26. Attrition remained stable, and TCS continues expanding in Tier-2 Indian cities with plans to add 50K seats over the next few years.

Exhibit 1: Financial snapshot

(Rs mn)

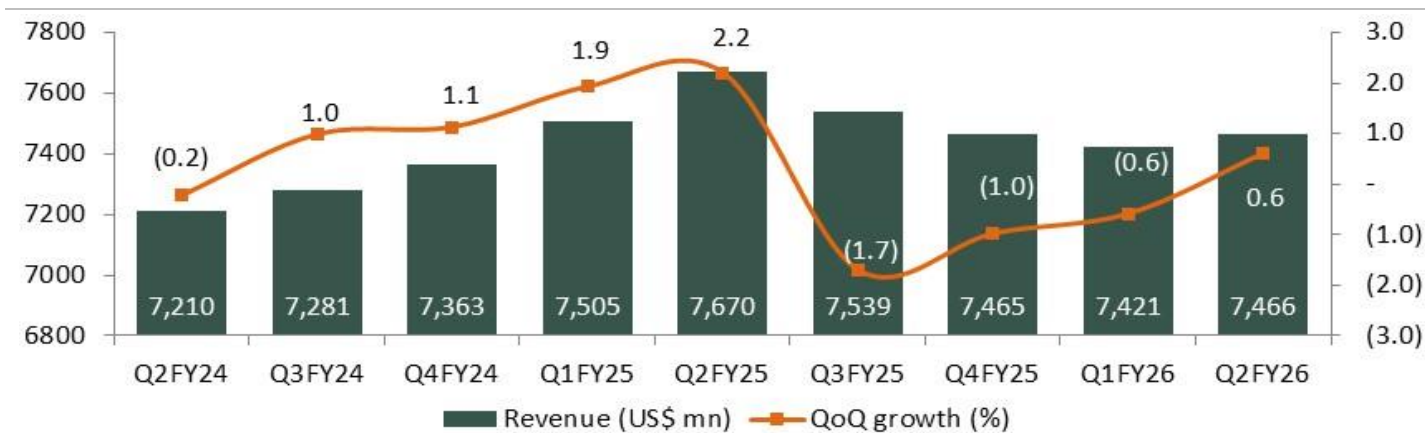
Year-end: March	Q2FY26	Q1FY26	QoQ (%)	Q2FY25	YoY (%)
Revenues (US\$ mn)	7,466	7,421	0.6	7,670	(2.7)
Revenues	6,57,990	6,34,370	3.7	6,42,590	2.4
COGS	3,86,650	3,75,450	3.0	3,87,340	(0.2)
Gross profit	2,71,340	2,58,920	4.8	2,55,250	6.3
SG&A	91,560	90,170	1.5	87,930	4.1
EBITDA	1,79,780	1,68,750	6.5	1,67,320	7.4
Depreciation & amortization	14,130	13,610	3.8	12,660	11.6
EBIT	1,65,650	1,55,140	6.8	1,54,660	7.1
Other income	6,380	14,650	(56.5)	5,670	12.5
PBT	1,72,030	1,69,790	1.3	1,60,330	7.3
Tax	42,430	41,600	2.0	40,770	4.1
Minority interest	560	590	(5.1)	460	21.7
Net profit	1,29,040	1,27,600	1.1	1,19,560	7.9
Basic EPS (Rs)	35.6	35.2	1.1	33.0	7.9
As % of net revenue					
Gross profit	41.2	40.8		39.7	
SG&A	13.9	14.2		13.7	
EBITDA	27.3	26.6		26.0	
EBIT	25.2	24.5		24.1	
Net profit	19.6	20.1		18.6	
Tax rate	24.7	24.5		25.4	

Source: Company; IDBI Capital Research

Exhibit 2: QoQ increase in number of clients

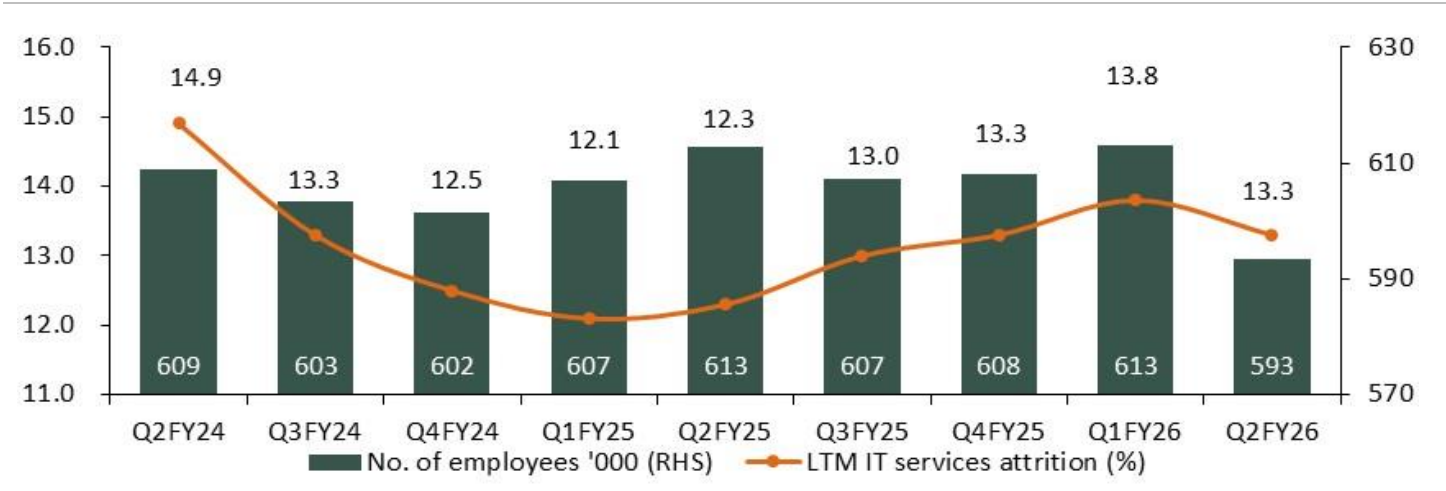
No. of large clients	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26
USD1m+	1,272	1,288	1,294	1,310	1,307	1,309	1,332	1,336	1,360
USD5m+	688	693	693	697	710	722	723	714	707
USD10m+	483	480	487	486	491	497	493	495	498
USD20m+	292	299	301	300	298	294	298	300	302
USD50m+	137	137	139	140	136	134	130	131	136
USD100m+	61	61	62	63	66	64	64	62	60

Source: Company; IDBI Capital Research

Exhibit 3: QoQ revenue growth turned positive after 3 quarters decline

Source: Company; IDBI Capital Research

Exhibit 4: Employees and IT services attrition trend



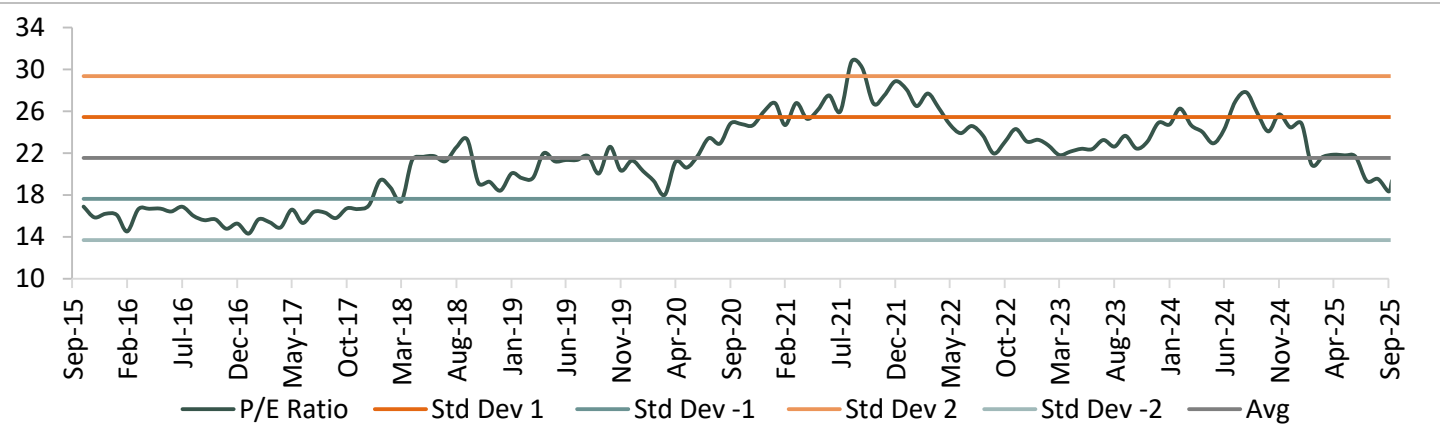
Source: Company; IDBI Capital Research

Exhibit 5: Revenue growth across various segments (%)

	% of revenue (%)	QoQ in CC (%)	YoY in CC (%)
Total revenue			
by geography			
North America	48.8%	0.8%	-10.0%
Latin America	1.9%	0.3%	1.8%
UK	17.5%	-1.4%	-1.9%
Continental Europe	15.3%	1.4%	-3.0%
India	5.8%	4.0%	-33.3%
Asia Pacific	8.3%	0.3%	2.0%
MEA	2.4%	5.9%	12.7%
by vertical			
BFSI	32.2%	1.1%	1.0%
Retail & CPG	15.3%	-1.0%	-2.9%
Communication & Media	5.9%	0.8%	-5.1%
Manufacturing	8.8%	1.6%	-1.1%
Energy & Utilities	5.9%	0.6%	0.2%
Life Sciences & Healthcare	10.5%	3.4%	-2.2%
Technology & Services	8.5%	1.8%	2.8%
Regional Markets & Others	12.9%	-1.1%	-18.1%

Source: Company; IDBI Capital Research

Exhibit 6: 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>	<i>16.8</i>	<i>17.6</i>	<i>6.8</i>	<i>6.0</i>	<i>4.5</i>	<i>5.7</i>
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>	<i>14.0</i>	<i>12</i>	<i>7</i>	<i>6</i>	<i>7</i>	<i>3</i>
<i>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>
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>	<i>25.6</i>	<i>25.7</i>	<i>25.6</i>	<i>25.3</i>	<i>23.7</i>	<i>24.2</i>
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>	<i>15.4</i>	<i>10</i>	<i>9</i>	<i>6</i>	<i>8</i>	<i>4</i>
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>	<i>41.1</i>	<i>99.9</i>	<i>94.6</i>	<i>90</i>	<i>84</i>	<i>81</i>

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
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
Adj EPS (Rs)	104.7	115.2	126.0	134.1	144.6	150.0
Adj EPS growth (%)	16.6	10.0	9.4	6.5	7.8	3.7
EBITDA margin (%)	27.7	26.3	26.3	26.4	26.9	26.3
Pre-tax margin (%)	27.0	25.2	25.8	25.6	25.8	25.5
Net Debt/Equity (x)	-0.6	-0.5	-0.5	-0.5	-0.6	-0.7
ROCE (%)	51.8	57	60	62	59.0	55.7
ROE (%)	43.7	47	51	52	50.8	48.0

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
Net margin (%)	20.0	18.7	19.1	19.0	19.6	19.2

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)	29.2	26.6	24.3	22.8	21.2	20.9
Price/Book value (x)	12.6	12.4	12.3	11.7	10.8	10.1
EV/Net sales (x)	5.6	4.8	4.4	4.1	3.9	3.8
EV/EBITDA (x)	20.2	18.1	16.9	15.7	14.5	14.3
Dividend Yield (%)	1.4	3.8	3.9	4.0	4.0	4.0

Source: Company; IDBI Capital Research

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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