

Tata Consultancy Services

Revenue & Margin beat; 1GW data center foray

Deal conversion led to revenue growth; Currency tailwinds help margins

Broad based revenue growth – FY26 to grow faster than FY25 on CC bases requiring H2FY26 to significantly accelerate: TCS sees positive sequential revenue growth momentum in Q2 across verticals (except Consumer) and geographies (except UK) driven by similar demand environment but better conversion of deals. Discretionary demand remains elusive with incumbents such as TCS gaining from large vendor consolidation exercises. Management reiterated that FY26 will grow faster than FY25 (0.7% CC) on a CC basis for its international business.

Margins surprised on the upside – EBIT margins expanded ~70bps QoQ to 25.2% (consensus 24.6%): TCS saw 70bps QoQ improvement & beat on consensus (25.2% vs 24.6%) in EBIT margins led by 40bps tailwind from pyramid correction and 20bps from operation efficiency despite 70bps headwinds from wage hikes; INR depreciation contributed to the rest. We expect margins to remain strong as only 1% of the planned 2% restructuring has been executed yet although data center investments may weigh.

AI investments and a 1GW data-centre push – 5-15% productivity already coming in; New subsidiary in India to establish 1GW data center over 5-7 years: TCS has taken both internal and external steps to become “World’s largest AI Technology Services” company. Internal steps involve new appointments, training, hackathons and establishing AI office for IP creation & partnerships. External steps involve AI labs in clients to reap share benefits of AI. Currently 5-15% productivity benefits are being shared amongst it and its clients with renewed investments to reach 20% plus.

TCS is setting up an Indian subsidiary to enter the data-centre business, serving hyperscalers, deep-tech clients, enterprises, and the government. The venture, adjacent to its sovereign cloud work, targets 1GW capacity over 5–7 years with ~150MW added annually. Each 150MW phase (~\$1bn capex) will be funded via equity, debt, and partners. Initially offering passive infrastructure while clients bring compute and storage, the business will be ROE-dilutive but not margin-dilutive, with first revenues expected in 12–18 months.

Return of mega deals – Mega deals may support revenues even through deal tenure shortens: Deal pipeline contains healthy mix of cost-takeout and transformation deals which bodes positive for coming quarters due to faster conversion in the later. Deal dynamics is interesting as smaller & quicker to implement deals (such as GenAI POCs, small transformation deals) are increasing in number while mega deals return to the foray providing an overall revenue support.

Long term ROE dilution – We cut our target multiple to 25x from 26.5 expecting ROE dilution: We expect improved momentum in revenue growth in H2 based on FY26 being better than FY25 on a CC basis. We have increased our FY26 margin estimates by 10bps as ramp-up of PO from BSNL (~100bps headwinds per qtr. from 3QFY26 to 2QFY27)) might counter tailwinds from restructuring and operating leverage. We cut out target multiple to 25x from 26.5X before to reflect reduced ROE with data center foray, to arrive at TP of Rs. 3,662.

Result at a glance

Rsm	2Q25	1Q26	2Q26	QoQ	YoY	Consensus	Diff.
Revenue growth in CC				0.8%	-3.3%		
Revenues	642,590	634,370	657,990	3.7%	2.4%	652,677	0.8%
EBIT	154,650	155,140	165,650	6.8%	7.1%	160,388	3.3%
Ebit margin	24.1%	24.5%	25.2%	72bps	111bps	24.6%	60bps
Other Income	5,670	14,650	6,380	-56.5%	12.5%		
Net profit	119,090	127,600	129,040	1.1%	8.4%	125,599	2.7%
EPS (Rs)	32.9	35.3	35.7	1.1%	8.4%	34.8	2.6%

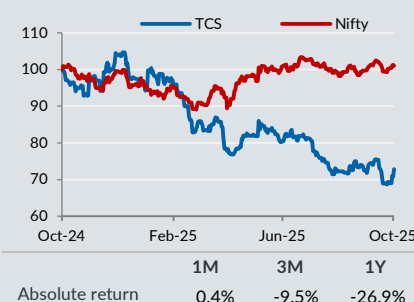
Source: Bloomberg, YES Sec

Recommendation	: BUY
Current Price	: Rs 3062
Target Price	: Rs 3662
Potential Return	: +21%

Stock data (as on October 09, 2025)

Nifty	25,182
52 Week h/l (Rs)	4424 / 2867
Market cap (Rs/USD mn)	10952680 / 123352
Outstanding Shares (mn)	3,618
6m Avg t/o (Rs mn):	8,682
Div yield (%):	4.0
Bloomberg code:	TCS IN
NSE code:	TCS

Stock performance



Shareholding pattern (As of Jun'25 end)

Promoter	71.8%
FII+DII	23.5%
Others	4.8%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	3,662	3,900

Financial Summary

(Rs mn)	FY25	FY26E	FY27E
Net Revenue	2,553,240	2,667,227	2,919,170
YoY Growth	6.0%	4.5%	9.4%
EBITDA	674,070	709,769	761,668
EBITDA (%)	26.4	26.6	26.1
EBIT	621,650	652,504	698,980
EBIT (%)	24.3	24.5	23.9
PAT	485,530	480,154	497,457
YoY Growth	5.8	-1.1	3.6
ROE	51.5	56.5	57.3
EPS	134.2	132.7	137.5
P/E	22.8	21.5	20.4

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ANALYST VIEW & INVESTMENT THESIS

We remain positive on TCS over the next 12 months, driven by broad-based recovery in revenue growth, accelerating deal conversions, and resilient margins despite wage and investment headwinds. The company's disciplined execution, strong order book, and full-service offerings will help it sail through tough demand environment. We expect H2FY26 (0.5% YoY in CC) to be better than H1 (-3.2% YoY in CC) based on better conversion and increasing transformation deals in the pipeline along with margin tailwinds (24.5% in FY26 vs 24.3% in FY25) from the ongoing restructuring despite ramp-up in PO from BSNL.

Over a 3-year horizon, we remain constructive on TCS as it leverages its proven strengths in large-scale project execution, systems integration, and ecosystem partnerships to expand into adjacencies like data centres and sovereign cloud. The 1GW data-centre foray, built in collaboration with hyperscalers and governments, underscores TCS's intent to capture the infrastructure layer of the AI economy while reinforcing long-term annuity revenues. Coupled with its deep enterprise relationships, AI-first delivery model, and disciplined capital allocation, we see TCS evolving into a more diversified, infrastructure-plus-services technology leader with sustained earnings compounding potential.

CONCALL SUMMARY

1) Overall demand environment & revenue growth

- Management described demand as steady but still impacted by macro uncertainty; clients are conserving discretionary spend and controlling budgets.
- Despite this, TCS sees robust sales momentum and a healthy pipeline — management expects FY26 international revenue growth to be better than FY25 (in constant currency).
- Trend in client behaviour: continued vendor consolidation (favouring large, integrated partners) and growing interest in AI-led transformation and rapid-build engagements.
- Shorter/rapid-build AI projects and modernization wins are increasing in number, but no structural return of broad-based discretionary spend yet.
- Revenue conversion: management said some deals/projects had delayed starts (e.g., due to a client cyber incident) which restrained additional conversion this quarter — but overall conversion and pipeline health were cited as improved vs Q1.

2) Sectoral & geographical performance:

- Sectoral: all verticals except Consumer Business Group (CBG) returned to sequential growth. BFSI remains a key growth vertical (noted strong traction). Management referenced large insurance mega-deal as proof point.
- Geographies: all geos except UK (due to cybersecurity incident, ramp-up likely in weeks) returned to sequential growth. India and emerging markets showed particularly strong momentum. North America remains an important market. Europe improved vs prior quarter.

4) Margins & cashflow

- Margin headwinds: wage hikes (increment rolled out to ~80% of workforce) and higher quarterly variable payouts 70 bps on margins in the quarter.

- Margin tailwinds: currency benefit, pyramid rebalancing (~40 bps) and operating efficiencies (~20 bps).
- Restructuring of ~1% of mid/senior level employees is completed and will continue throughout FY26 till the target of 2% is met. Management hopes to reach aspirational range of 26-28% with all these measures.

5) Data-centre / sovereign cloud foray (major strategic callout)

- Board approved creation of a new TCS subsidiary to build data centre / server capacity up to 1 GW (described as “Sovereign Secure Cloud” / India-focused).
- CapEx scale & phasing: target 1 GW over ~5–7 years; management said ~\$1bn per 150MW as a rule of thumb. Management expects a mix of equity + debt + financial partners (i.e., TCS will bring in partners). They emphasized this will be phased (not front-loaded).
- Expected go-to-market / customers: hyperscalers, deep-tech AI providers, Indian enterprises and government (sovereign/local data residency use cases). Management positioned the asset as co-location (passive data-centre play) initially; not a pure managed-services SaaS play, but adjacencies with TCS services expected.
- Timing: first revenues ~18–24 months after start; phasing uniform but flexible depending on demand. Return profile: data centres are capital intensive (lower ROE vs TCS core) but management expects the overall TCS ROE remains “market benchmarked”.

6) Deal wins & sales momentum

- TCV metrics showed sequential and YoY growth (TCV +6.5% QoQ, +16% YoY). North America was a major contributor to TCV (\$4.3bn).
- Mix: management said healthy mix of cost-optimization, transformation, services and platform deals; increasing number of rapid-build AI projects (smaller, quicker wins) plus multi-year transformation contracts.

7) AI strategy & transformation (core strategic narrative)

- TCS articulated a clear, multi-pillar plan to become the “world’s largest AI-led technology services company”:
 1. **Internal AI transformation** (“TCS to the power of AI”) – democratization of AI tools, AI training, AI-first culture.
 2. **AI solutions / productization** – building AI for industry value chains, enterprise functions, learning copilots, internal AI use cases.
 3. **Reimagining service lines** under a human + AI delivery model and 5-scale autonomy blueprint.
 4. **Future-ready talent model** – personalized AI learning, local hiring, acquisitions of talent, and releases of ~1% workforce where skill mismatch exists. Management claims ~160,000 associates with higher-order AI skills and ~10,000 leaders through AI Dojo. Huge hackathon metrics: ~281,000 participants, ~0.5m submissions.
 5. **Ecosystem / M&A / infrastructure** – partnerships with hyperscalers, product companies, and acquisition activity (recent announced acquisition in martech/Salesforce area cited).
- Productivity expectations: management referenced initial productivity gains in application dev/support (5-15% today, evolving to higher numbers as adoption increases). Also sees AI enabling new kinds of projects (e.g., modernization) that grow wallet share.

10) Capital allocation & M&A

- Management is actively exploring acquisitions (like recent martech/Salesforce acquisitions) – M&A intensity is rising relative to prior decade with coming in of new CSO. Any large acquisition would be discussed openly with investors with respect to payout policy.

All geographies except UK return to positive sequential growth

US\$m	2Q25	1Q26	2Q26	As a % of revenue	QoQ	YoY	CC YoY	CC QoQ
North America	3,651	3,614	3,643	48.8%	0.8%	-0.2%	-0.1%	0.8%
Latin America	138	141	142	1.9%	0.6%	2.7%	1.8%	0.3%
UK	1,304	1,336	1,307	17.5%	-2.2%	0.2%	-1.9%	-1.4%
Continental Europe	1,120	1,113	1,142	15.3%	2.6%	2.0%	-3.0%	1.4%
India	683	430	433	5.8%	0.6%	-36.6%	-33.3%	4.0%
Asia Pacific	614	623	620	8.3%	-0.6%	1.0%	2.0%	0.3%
MEA	161	163	179	2.4%	9.8%	11.2%	12.7%	5.9%
TOTAL	7,670	7,421	7,466	100.0%	0.6%	-2.7%	-3.3%	0.8%

Source: Company, YES Sec

BFSI and Tech Services Lead Growth; Consumer remains weak

US\$m	2Q25	1Q26	2Q26	As a % of revenue	QoQ	YoY	CC YoY	CC QoQ
BFSI	2,362	2,375	2,404	32.2%	1.2%	1.8%	1.0%	1.1%
Consumer Business	1,158	1,158	1,142	15.3%	-1.3%	-1.4%	-2.9%	-1.0%
Life Sciences & Healthcare	798	757	784	10.5%	3.6%	-1.7%	-2.2%	3.4%
Technology & Services	614	623	635	8.5%	1.8%	3.4%	2.8%	1.8%
Manufacturing	660	646	657	8.8%	1.8%	-0.4%	-1.1%	1.6%
Communication & Media	453	430	440	5.9%	2.3%	-2.7%	-5.1%	0.8%
Energy, Resources and Utilities	437	438	440	5.9%	0.6%	0.8%	0.2%	0.6%
Regional Markets & Others	1,189	994	963	12.9%	-3.1%	-19.0%	-18.1%	-1.1%
TOTAL	7,670	7,421	7,466	100.0%	0.6%	-2.7%	-3.3%	0.8%

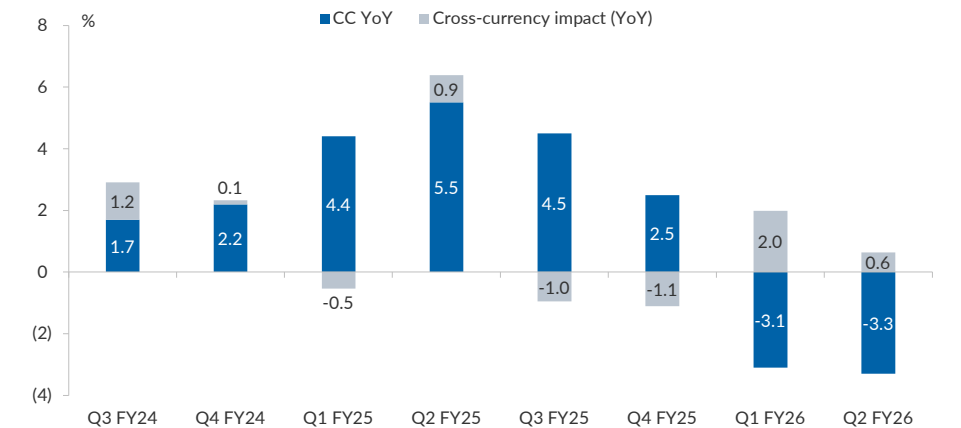
Source: Company, YES Sec

Valuation Summary

Valuation Metric	FY25E
Q5-Q8 EPS (Rs)	146.5
Target Multiple	25x
Target price (Rs)	3,662
Rating	BUY

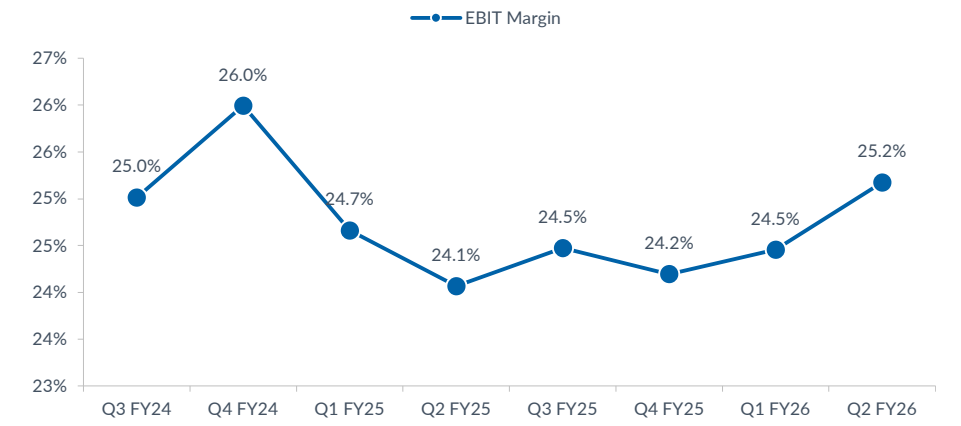
Charts of the Quarter

Exhibit 1: CC Growth Trend and Currency Impact (YoY)



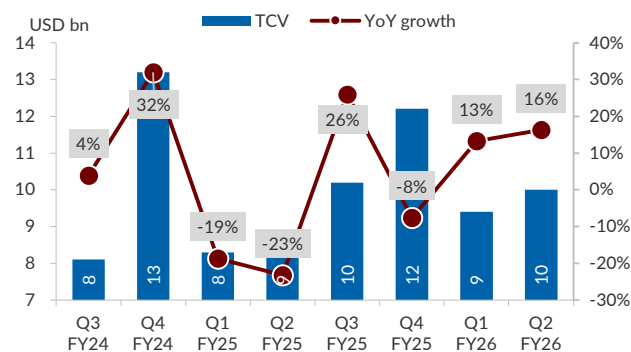
Source: Company, YES Sec

Exhibit 2: EBIT Margin trend



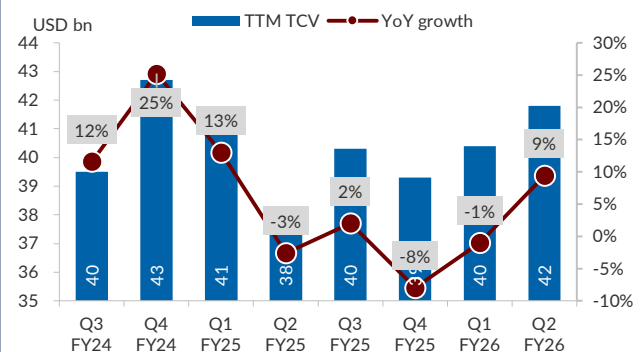
Source: Company, YES Sec

Exhibit 3:



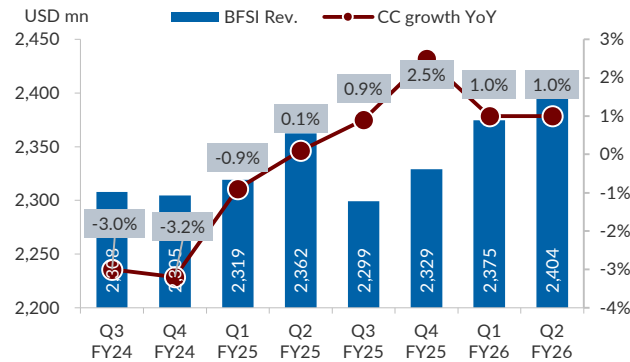
Source: Company, YES Sec

Exhibit 4:



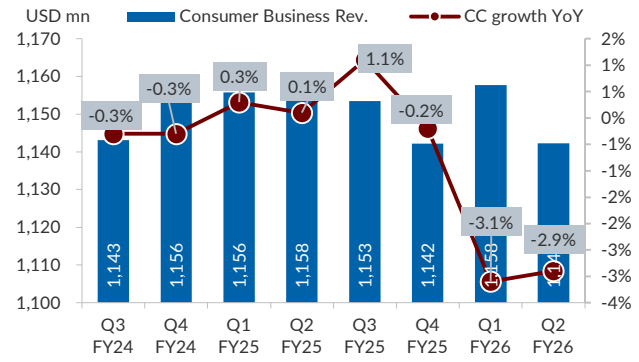
Source: Company, YES Sec

Exhibit 5: BFSI- soft growth continues



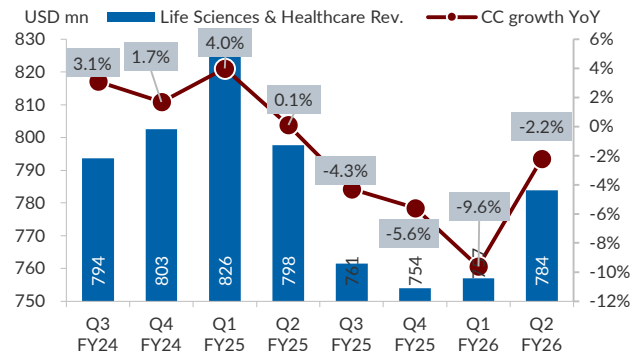
Source: Company, YES Sec

Exhibit 6: Consumer Business- growth remains under pressure



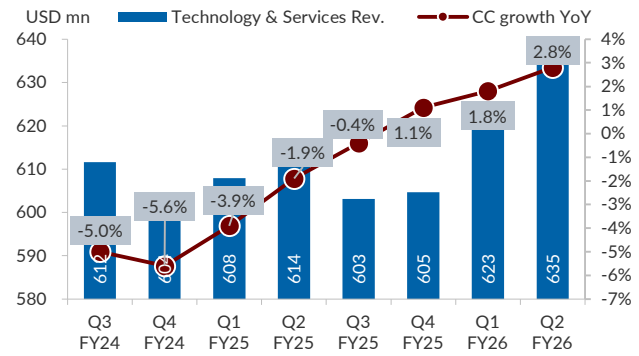
Source: Company, YES Sec

Exhibit 7: LS&H- decline moderates after sharp drop



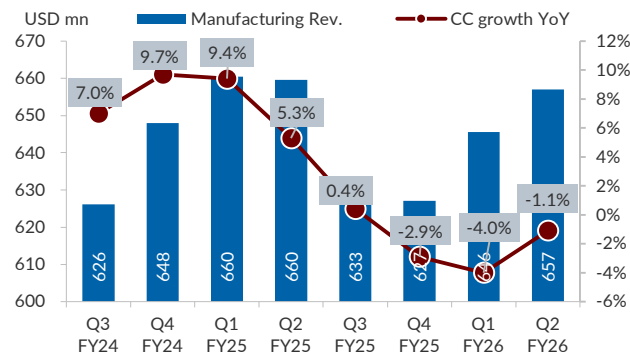
Source: Company, YES Sec

Exhibit 8: Technology & Services- growth improves



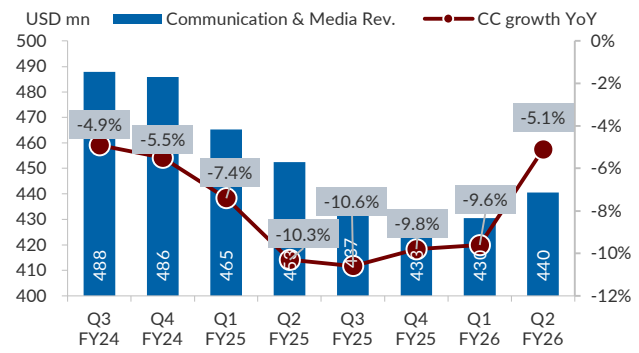
Source: Company, YES Sec

Exhibit 9: Manufacturing- stabilization amid slowing YoY growth



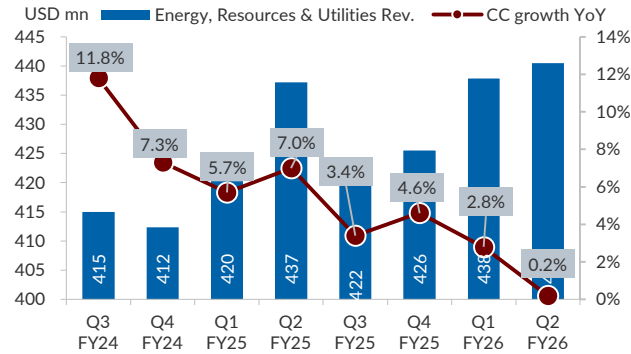
Source: Company, YES Sec

Exhibit 10: Comm. & Media- under pressure



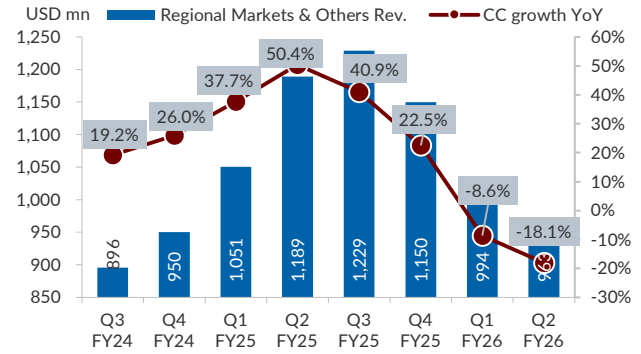
Source: Company, YES Sec

Exhibit 11: Energy & Utilities- growth moderates



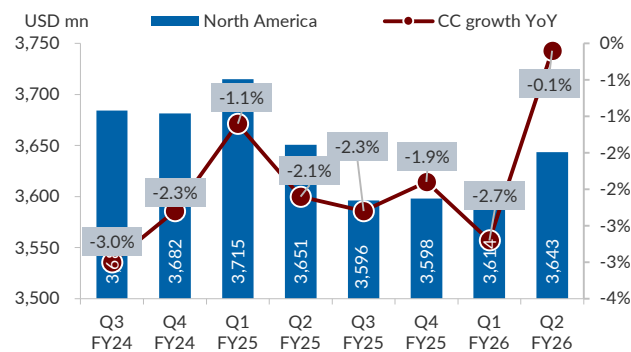
Source: Company, YES Sec

Exhibit 12: Regional Markets- growth reverses



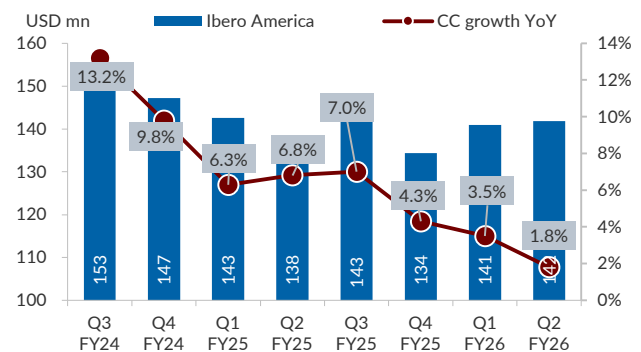
Source: Company, YES Sec

Exhibit 13: N America - sluggish growth continues



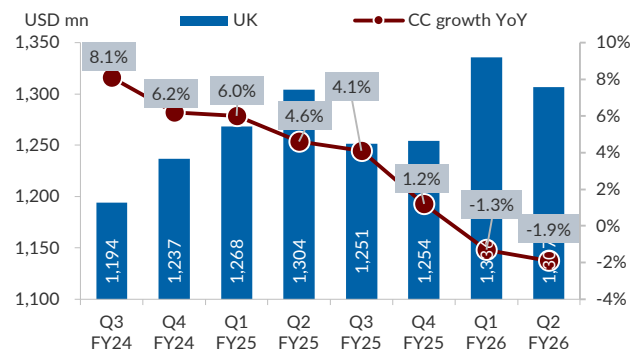
Source: Company, YES Sec

Exhibit 14: Ibero America-



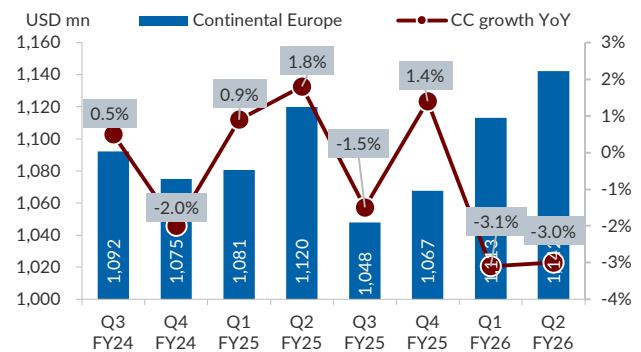
Source: Company, YES Sec

Exhibit 15: UK-



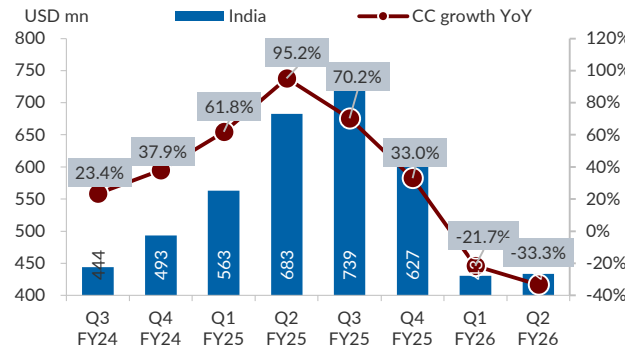
Source: Company, YES Sec

Exhibit 16: Europe-



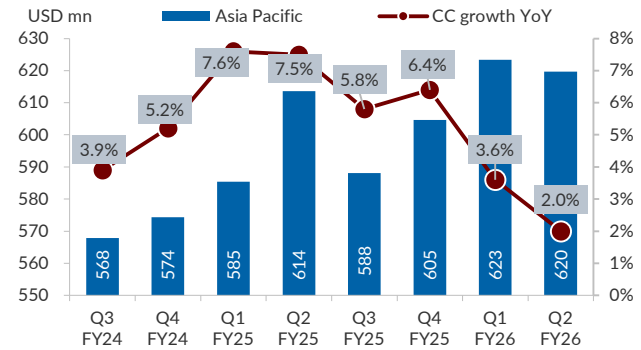
Source: Company, YES Sec

Exhibit 17: India- growth declines



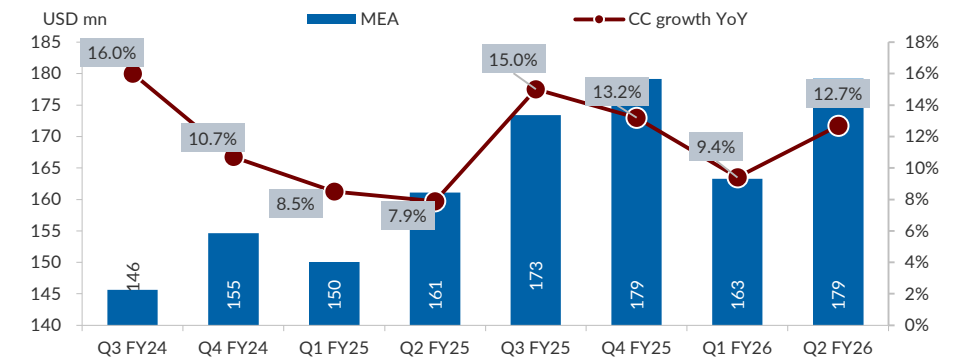
Source: Company, YES Sec

Exhibit 18: Asia Pacific-



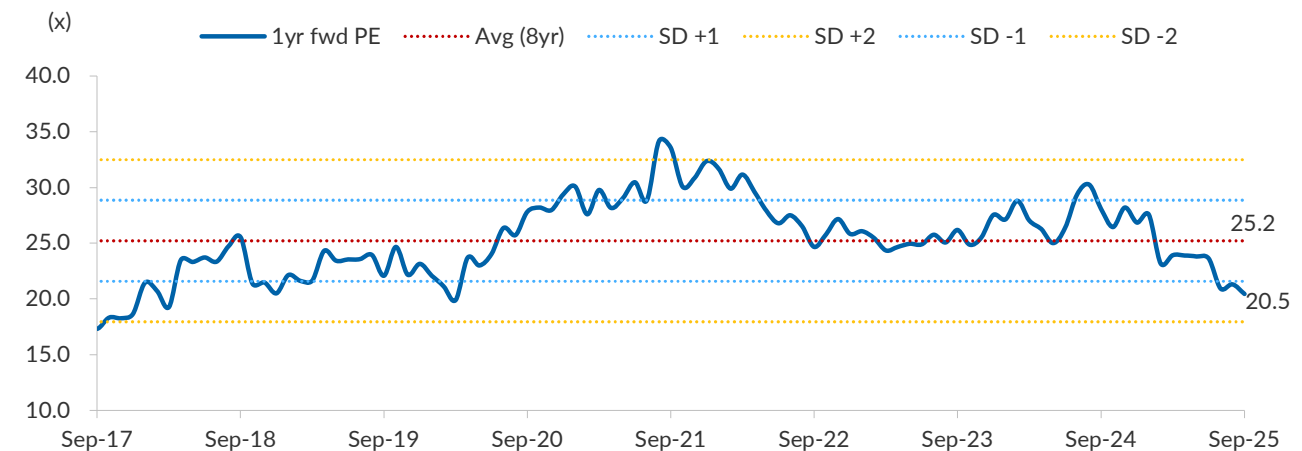
Source: Company, YES Sec

Exhibit 19:



Source: Company, YES Sec

Exhibit 20: 1-year forward P/E (x) chart



Source: Company, YES Sec

FINANCIALS

Exhibit 21: Quarterly Snapshot

Particulars (Rs. Mn)	2QFY25	1QFY26	2QFY26	YoY (%)	QoQ (%)
Con. Revenues (USD mn)	7,670	7,421	7,466	-2.7	0.6
% CC growth				-3.3	0.8
Exchange rate (INR/USD)	84	85	88	5.2	3.1
Con. Revenues (Rs mn)	642,590	634,370	657,990	2.4	3.7
Costs of revenues	387,340	375,450	386,650	-0.2	3.0
Gross Profit	255,250	258,920	271,340	6.3	4.8
Gross margin	39.7	40.8	41.2	151.6bps	42.2bps
SG&A costs	87,930	90,170	91,560	4.1	1.5
EBITDA	167,320	168,750	179,780	7.4	6.5
EBITDA margin	26.0	26.6	27.3	128.4bps	72.1bps
D&A Expense	12,670	13,610	14,130	11.5	3.8
EBIT	154,650	155,140	165,650	7.1	6.8
EBIT margin	24.1	24.5	25.2	110.8bps	71.9bps
Other Income	5,670	14,650	6,380	12.5	-56.5
Profit before tax	160,320	169,790	172,030	7.3	1.3
Tax	40,770	41,600	42,430	4.1	2.0
Minority Interest	460	590	560	21.7	-5.1
Net PAT	119,090	127,600	129,040	8.4	1.1
PAT margin	18.5	20.1	19.6	107.8bps	-50.3bps
EPS (Rs)	32.9	35.3	32.5	-1.2	-7.8

Source: Company, YES Sec

Exhibit 22: Income Statement

Income statement (Rs mn)	FY22	FY23	FY24	FY25	FY26E	FY27E
Con. Revenues(USD mn)	25,707	27,927	29,080	30,179	30,377	32,503
% growth	15.9	8.6	4.1	3.8	0.7	7.0
Exchange rate (INR/USD)	75	81	83	85	88	90
Con. Revenues (Rs mn)	1,917,540	2,254,580	2,408,930	2,553,240	2,667,227	2,919,170
% growth	16.8	17.6	6.8	6.0	4.5	9.4
Costs of revenues	1,110,530	1,324,480	1,397,750	1,519,050	1,559,398	1,698,183
Gross Profit	807,010	930,100	1,011,180	1,034,190	1,107,828	1,220,987
Gross margin	42.1	41.3	42.0	40.5	41.5	41.8
SG&A costs	276,440	337,500	368,230	360,120	398,059	459,319
EBITDA	530,570	592,600	642,950	674,070	709,769	761,668
EBITDA margin	27.7	26.3	26.7	26.4	26.6	26.1
% growth (bps)	6.0	-138.5	40.6	-29.0	21.0	-51.9
D&A Expense	46,040	50,230	49,840	52,420	57,265	62,688
EBIT	484,530	542,370	593,110	621,650	652,504	698,980
EBIT margin	25.3	24.1	24.6	24.3	24.5	23.9
% growth (bps)	13.5	-121.2	56.5	-27.4	11.6	-51.9

Income statement (Rs mn)	FY22	FY23	FY24	FY25	FY26E	FY27E
Other Income	32,340	26,700	36,440	31,660	32,692	24,577
Profit before tax	516,870	569,070	629,550	653,310	685,196	723,557
Tax	132,380	146,040	161,790	165,340	168,721	178,460
Minority Interest	1,220	1,560	1,910	2,440	2,270	2,240
One off items	-	-	6,770	-	34,050	45,400
Net PAT	383,270	421,470	459,080	485,530	480,154	497,457
PAT margin	20.0	18.7	19.1	19.0	18.0	17.0
EPS (Rs)	104.7	115.2	125.9	134.2	132.7	137.5
% growth	20.8	10.0	9.3	6.6	-1.1	3.6

Source: Company, YES Sec

Exhibit 23: Balance Sheet

Balance sheet (Rs mn)	FY22	FY23	FY24	FY25	FY26E	FY27E
Equity Capital	3,660	3,660	3,620	3,620	3,620	3,620
Reserves & surplus	810,490	775,940	729,260	916,830	803,867	986,550
Accumulated other income/loss	98,440	145,820	193,240	48,370	53,290	53,290
Minority interests	7,070	7,820	8,300	10,150	11,580	13,820
Total equity	912,590	933,240	934,420	978,970	860,777	1,043,460
Current liabilities						
Accounts payable	80,450	105,150	99,810	139,090	147,455	161,383
Unearned and deferred revenues	36,350	38,430	36,400	40,280	36,237	39,660
Other current liabilities	306,710	292,000	324,830	350,640	388,531	425,231
Accrued expenses and other current liabilities	213,000	-	-	-	-	-
Lease liabilities	14,500	-	-	-	-	-
Short-term borrowings	-	-	-	-	-	-
Income tax payable	79,210	-	-	-	-	-
Total current liabilities	423,510	435,580	461,040	530,010	572,223	626,274
Long-term debt	-	-	-	-	-	-
Preference shares with Tata Sons Ltd.	-	-	-	-	-	-
Lease liabilities	63,680	62,030	65,160	78,380	91,920	91,920
Other non-current liabilities	29,490	26,840	25,100	30,190	32,820	32,820
Total liabilities	523,750	524,450	551,300	638,580	708,543	764,834
Total equity and liabilities	1,436,340	1,457,690	1,485,720	1,617,550	1,569,320	1,808,295
Current assets						
Cash & equivalents	482,570	472,440	442,960	452,460	288,578	437,823
Accounts receivable -Billed	342,190	410,490	444,340	501,420	560,816	613,790
Unbilled revenues	122,100	147,360	91,430	89,040	94,418	103,337
Other current assets	139,950	74,560	151,110	187,190	188,350	206,141
Total current assets	1,086,810	1,104,850	1,129,840	1,230,110	1,132,162	1,361,091

Accounts receivable -Billed	-	1,490	1,270	910	1,232	1,348
Unbilled revenues	-	1,990	160	380	1,832	2,005
Investments	2,230	2,660	2,810	2,750	2,330	2,330
Intangibles	11,010	8,670	5,100	9,400	5,390	5,390
Goodwill	39,350	40,060	39,890	40,240	42,080	42,080
Property & equipment, Net	120,800	115,950	112,240	129,320	144,444	154,200
Lease assets	76,360	75,600	78,860	92,750	106,920	106,920
Other non-current assets	99,780	106,420	115,550	111,690	132,930	132,930
Total non- current assets	349,530	352,840	355,880	387,440	437,158	447,203
Total assets	1,436,340	1,457,690	1,485,720	1,617,550	1,569,320	1,808,295

Source: Company, YES Sec

Exhibit 24: Cash Flow

Cash flow statement (Rs mn)	FY22	FY23	FY24	FY25	FY26E	FY27E
PBT	384,490	423,030	460,990	487,970	516,474	545,097
Depreciation and amortisation expense	46,040	50,220	49,850	52,420	57,265	62,688
Others	132,240	145,310	159,310	166,190	168,721	178,460
Operating profit before WC changes	562,770	618,560	670,150	706,580	742,460	786,245
Changes in WC	(26,460)	(43,870)	(75,940)	(36,460)	(36,460)	(36,460)
Cash generated from operations	536,310	574,690	594,210	670,120	706,000	749,785
Net taxes paid	(114,860)	(129,660)	(124,890)	(155,860)	(159,047)	(168,228)
Cash flow from operations	421,450	445,030	469,320	514,260	546,953	581,557
Capex (Net)	(29,490)	(28,500)	(26,200)	(74,229)	(74,229)	(72,444)
Other investing activities	(8,440)	(4,280)	53,540	28,099	-	-
Cash flow from investing activities	(37,930)	(32,780)	27,340	(46,130)	(74,229)	(72,444)
Buyback/ issuance of shares	(180,180)	(41,740)	(170,000)	-	-	-
Dividend paid	(133,750)	(414,100)	(252,180)	(539,095)	(539,095)	(604,221)
other financing activities	(14,900)	(15,150)	(16,600)	-	-	-
Cash from financing activities	(328,830)	(470,990)	(438,780)	(539,095)	(539,095)	(604,221)
Change in cash balance	54,690	(58,740)	57,880	(70,965)	(66,371)	(95,108)
Opening cash balance	68,580	124,880	71,230	90,160	83,420	17,049
Exchange difference on translation of foreign currency C&CE	1,590	5,090	640	1,740	-	-
Closing cash balance	124,860	71,230	129,750	20,935	17,049	(78,059)

Source: Company, YES Sec

Exhibit 25: Ratios

Ratios (%)	FY22	FY23	FY24	FY25	FY26E	FY27E
Per share numbers (Rs)						
Reported earnings	104.7	115.2	127.7	134.2	142.1	150.0

Dividend	43.0	48.0	55.0	60.0	74.0	87.0
Book Value	249.4	252.9	254.0	267.8	237.9	288.4
Valuations (x)						
P/E	29.2	26.6	24.0	22.8	21.5	20.4
EV / EBITDA	20.0	17.9	16.5	15.8	15.2	14.0
EV/Sales	5.5	4.7	4.4	4.2	4.0	3.6
Profitability Ratios						
Gross margin	42.1	41.3	42.0	40.5	41.4	41.5
EBITDA margin	27.7	26.3	26.7	26.4	27.0	26.9
PAT margin	20.0	18.7	19.1	19.0	19.7	19.0
Return Ratios						
ROCE (pre-tax)	70.0	69.6	69.2	78.5	76.0	80.7
RONW	27.8	29.2	31.8	31.4	32.4	32.3
ROE	42.8	46.0	50.5	51.5	56.5	57.3
Turnover ratios						
Debtors days	61.2	60.9	64.8	67.6	72.7	73.4
Cash Conversion Ratios						
OCF/EBITDA	79.4	75.1	73.0	76.3	77.1	76.4
FCF/PAT	102.3	98.8	96.5	90.6	96.8	100.3

Source: Company, YES Sec

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