Tata Consultancy Services (TCS)

CMP: ₹ 3,263 | Target: ₹ 3,650 (12%) | Target Period: 12 months | **HOLD**

July 11, 2025

Soft quarter; Near term uncertainty to weigh…

About the stock: Tata Consultancy Services (TCS) is one of the leading IT service providers with a presence in BFSI, communication, manufacturing, retail & hi tech.

Q1FY26 Performance: TCS reported revenue of US$ 7,421 mn, down 0.6% QoQ & 1.1% YoY (down 3.3% QoQ CC/3.1% YoY CC) – ex-BSNL revenues declined 0.5% QoQ CC (BSNL deal ramp down contracted revenues by ~2.8% QoQ CC). EBIT margin at 24.5%, was up 30 bps QoQ supported by savings in third party cost, currency benefits. PAT for the quarter stood at ₹12,760 crore, up 6% YoY, aided by higher other income due to one-off interest on income tax refunds.

Investment Rationale

- **Weak revenue print; near term uncertainty to weigh:** TCS reported a soft quarter with revenue impacted by the BSNL deal ramp down (-2.8% QoQ CC), project deferrals, reduced scopes, and elongated decision cycles. While management remains optimistic of delivering improved international revenue trajectory in FY26 vs FY25 on the back of pent-up demand for technology transitions once market clarity emerges, near-term visibility remains muted with growth recovery timing being uncertain & hinging on macro clarity and back filling of BSNL revenues. **We expect dollar revenue to grow by 1% and 5.9% in FY26E and FY27E implying a CAGR of ~3.4% over FY25-FY27E.**
- **Margin trajectory to be a function of demand scenario:** The company indicated that current investments remain focused on capability building and across the AI ecosystem, including infrastructure, data platform solutions, AI agents, and business applications due to increased traction for GenAI/Agentic AI services & solutions **as clients shift their focus from exploratory & use case-based approach to a ROI led scaling of AI.** Near term margin headwinds persist, amid weak demand and uncertainty over wage hike. **Nonetheless, the EBIT margin aspiration of 26–28% remains intact for the medium term, with utilization, productivity, & pyramid being the key levers. We have baked in EBIT margins of 24.8%/ 25.4% in FY26E/FY27E vs. 24.3% in FY25.**
- **Healthy TCV; timely execution key for revenue realization:** TCV was steady at US$ 9.4 bn (ex-BSNL APO), in line with 4 quarter average, and was largely driven by cost optimization deals. Notably, deal pipeline is strong and diversified across verticals & geographies. However, delayed conversions and muted client spending is likely to weigh on growth in near term. **Management expects a better Q2 performance, assuming no further delays in revenue conversion.**

Rating and Target Price

- Despite near term uncertainty, management remains constructive on the medium-term outlook, backed by a strong deal pipeline, growing AI opportunities and an anticipated recovery in international markets.
- **We turn neutral, assigning a HOLD rating (vs. BUY, earlier) with a TP of ₹3,650 (vs ₹3,750 earlier); valuing it at unchanged multiple of 24x FY27E EPS.**

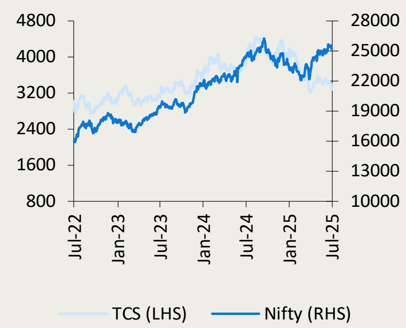
Particulars

Particular	Amount
Market Cap (₹ Crore)	11,83,740
Total Debt (₹ Crore)	9,392
Cash & equiv. (₹ Crore)	39,031
EV (₹ Crore)	11,54,101
52 week H/L	4592/ 3056
Equity capital (₹ Crore)	362
Face value	1.0

Shareholding pattern

	Jun-24	Sep-24	Dec-24	Mar-25
Promoters	71.8	71.8	71.8	71.8
FII	12.4	12.7	12.7	12.0
DII	11.1	10.9	10.9	11.6
Others	4.8	4.7	4.6	4.6

Price Chart



Key risks

- Prolonged macro and geopolitical uncertainties;
- Inability to backfill BSNL deal revenue loss post completion

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Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

₹ crore	FY23	FY24	FY25	5 year CAGR (FY20-25)	FY26E	FY27E	2 year CAGR (FY25-27E)
Net Sales	2,25,458	2,40,893	2,55,324	10.2	2,61,683	2,80,634	4.8
EBITDA	59,260	63,337	67,407	9.9	70,337	77,034	6.9
EBITDA Margins (%)	26.3	26.3	26.4		26.9	27.5	
Net Profit	42,147	45,908	48,553	8.5	50,951	55,020	6.5
EPS (₹)	115.2	125.9	134.2		140.8	152.1	
P/E	28.4	25.8	24.4		23.2	21.5	
RoNW (%)	46.6	50.7	51.2		50.6	50.9	
RoCE (%)	56.0	60.9	60.4		59.5	60.3	

Source: Company, ICICI Direct Research

Performance highlights and outlook

- **Revenue performance**: TCS in Q1 reported revenue of US$ 7,421 mn, down 0.6% QoQ & 1.1% YoY (down 3.3% QoQ/3.1% YoY in CC terms) – ex-BSNL revenues declined 0.5% QoQ CC (BSNL deal ramp down contracted the revenues by around 2.8% QoQ CC). In rupee terms the revenue stood at ₹63,437 crore, down 1.6% QoQ & up 1.3% YoY. **Revenue growth in Q1 was impacted by intensified trends of project deferrals, reduced scopes, and extended decision-making cycles, leading to weaker-than-expected revenue realization.**

- **Geography performance**: Geography wise YoY in CC terms growth was led by MEA (2.2% of the mix) and APAC (8.4% of the mix) which grew by 9.4% and 3.6% while India (5.8% of the mix), Continental Europe (15% of mix), North America (49% of the mix) and UK (18% of the mix) declined by 21.7%, 3.1%, 2.7% and 1.3% respectively.

- **Segment performance:** Segment wise the growth was driven by ER&U (5.9% of the mix), Tech & Services (8.4% of the mix) and BFSI (32% of the mix) and which grew by 2.8%, 1.8% and 1% respectively. Whereas Communication & Media (5.8% of the mix), LFS & Healthcare (10.2% of the mix), Regional markets & Others (13.4% of the mix), Manufacturing (8.7% of the mix) and Consumer (15.6% of the mix) declined by 9.6%, 9.6%, 8.6%, 4% and 3.1% respectively.

  - **BFSI:** Demand in the US and UK remains stable, particularly in banking and financial services, while clients in Europe are adopting a more cautious stance. In insurance, softness continues in the US, though management views this as temporary, citing substantial unmet demand.

  - **LFS & Healthcare:** Pharma players are facing pricing pressures, while healthcare payers focus on cost optimization amid rising medical expenses. Consumers continue to prioritize affordability. The MedTech space is also under pressure, with supply chains pushed to lower costs.

  - **Consumer:** Among the most impacted sectors this quarter, Consumer saw delays in funding, project execution, and milestone completion, driven by broader industry headwinds.

  - **ER&U:** The segment witnessed muted activity, with reduced capex and spend due to policy changes and geopolitical uncertainty.

  - **Manufacturing:** While the auto vertical faced significant challenges amid global industry pressures, the broader manufacturing segment recorded marginal growth, per management commentary.

- **Margin performance**: The company's EBIT margin came at 24.5%, up ~30 bps QoQ, supported by savings in third party cost and currency benefits, despite capacity build-up & continued investments. PAT came in at ₹12,760 crore, up 6% YoY, aided by higher other income due to one-off interest income on income tax refunds ex of which PAT saw a muted 1% YoY expansion. PAT margin stood at 20.1%, up ~110 bps QoQ.

- TCV: TCV, excluding the BSNL advance purchase order (APO), stood at US$9.4 bn (down 23% QoQ/ up 13% YoY) in line with 4 quarter average of US$9.8 bn, with BFSI, Retail & North America reporting TCV of US$2.5 bn, US$1.6 bn & US$4.4 bn respectively.**While deal TCV has been strong for last three quarters, revenue growth in markets (ex-India) has been flat (-0.7% YoY) during the same period due to re-scoping, delay in ramp-ups and elongation in deal tenure.**

- **Demand Outlook:** The management commentary on improved international revenue trajectory in FY26 vs FY25 on the back of pent-up demand for technology transitions once market clarity emerges is encouraging. However, near-term visibility remains muted with growth recovery timing being uncertain and hinging on macro clarity.

Management expects outlook to improve post-July with policy stability. If there are no further delays, Q2 will be better than Q1.

- **AI/GenAI Outlook**: On the AI front, **increased traction is seen for AI/GenAI and Agentic AI engagements in the areas of industry/domain specific solutions and modernisation as clients shift their focus from exploratory and use case-based approach to a ROI led scaling of AI**. TCS WisdomNext and Sovereign cloud see good traction across industries and markets. Moreover, **TCS is investing across the AI ecosystem**. Notably, customer spend is clustering around three big themes (a)AI-led business transformation, (b)AI-enabled SDLC/IT operations, and (c)data platform modernization that supports agentic AI. **TCS has over 114,000 people with higher order AI skills.**

- **Attrition and employee addition:** The total headcount for the quarter stood at 6,13,069 employees, a net addition of 5090 employees QOQ. The attrition for the quarter stood at 13.8%, up 50 bps QoQ and tad bit above the comfort range of 11-13%. The company shall recalibrate its hiring based on the demand outlook and will decide on wage hike for FY26 based on the macro environment.

- **Dividend:** The company has declared in interim dividend of ₹11 per share.

Exhibit 1: Quarter Performance

	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)	Comments
Revenue (US$ mn)	7,421	7,505	-1.1	7,465	-0.6	In CC terms revenue declined by 3.3% QoQ and by 3.1% YoY
Revenue (₹ crore)	63,437	62,613	1.3	64,479	-1.6	Segment wise the growth was driven by ER&U (5.9% of the mix), Tech & Services (8.4% of the mix) and BFSI (32% of the mix) and which grew by 2.8%, 1.8% and 1% respectively.
Employee expenses	37,545	36,721	2.2	38,389	-2.2	
Gross Margin	25,892	25,892	0.0	26,090	-0.8	
Gross margin (%)	40.8	41.4	-54 bps	40.5	35 bps	
SG&A expenses	9,017	9,230	-2.3	9,110	-1.0	
EBITDA	16,875	16,662	1.3	16,980	-0.6	
EBITDA Margin (%)	26.6	26.6	-1 bps	26.3	27 bps	
Depreciation	1,361	1,220	11.6	1,379	-1.3	
EBIT	15,514	15,442	0.5	15,601	-0.6	
EBIT Margin (%)	24.5	24.7	-21 bps	24.2	26 bps	The EBIT margin uptick of ~30 bps QoQ, was supported by savings in third party cost and currency benefits, despite capacity build-up & continued investments.
Other income (less interest)	1,465	789	85.7	801	82.9	
PBT	16,979	16,231	4.6	15,444	9.9	
Tax paid	4,160	4,126	0.8	4,109	1.2	
Reported PAT	12,760	12,040	6.0	12,224	4.4	
Adjusted PAT	12,760	12,040	6.0	12,224	4.4	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Total operating Income	**2,40,893**	**2,55,324**	**2,61,683**	**2,80,634**
Growth (%)	6.8	6.0	2.5	7.2
COGS (employee expenses)	1,39,775	1,51,905	1,54,510	1,64,171
S,G&A expenses	37,781	36,012	36,836	39,429
Total Operating Expenditure	1,77,556	1,87,917	1,91,347	2,03,600
EBITDA	**63,337**	**67,407**	**70,337**	**77,034**
Growth (%)	6.9	6.4	4.3	9.5
Depreciation	4,984	5,242	5,524	5,753
Other Income less interest	3,644	3,166	3,533	2,721
PBT	61,997	65,331	68,346	74,002
Total Tax	15,898	16,534	17,156	18,723
Minority Interest	191	244	239	260
PAT	**45,908**	**48,553**	**50,951**	**55,020**
Growth (%)	8.9	5.8	4.9	8.0
EPS (₹)	**126**	**134**	**141**	**152**
PAT	45,908	48,553	50,951	55,020
EPS - Reported (₹)	125.9	134.2	140.8	152.1

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Profit before Tax	61,997	65,331	68,346	74,002
Add: Depreciation	4,985	5,242	5,524	5,753
(Inc)/dec in Current Assets	(6,793)	(8,511)	(2,092)	(6,233)
Inc/(dec) in CL and Provisions	(89)	5,152	1,820	4,031
Taxes paid	(12,489)	(15,586)	(17,156)	(18,723)
CF from operating activities	**44,338**	**48,908**	**52,909**	**56,109**
(Inc)/dec in Investments	5,657	(416)	(2,569)	(499)
(Inc)/dec in Fixed Assets	(2,647)	(4,972)	(2,905)	(3,115)
Others	3,016	3,070	3,533	2,721
CF from investing activities	**6,026**	**(2,318)**	**(1,940)**	**(893)**
Inc/(dec) in loan funds	(1,614)	(1,664)	-	-
Dividend paid & dividend tax	(25,137)	(44,864)	(45,004)	(47,695)
Others	(21,785)	(910)	-	-
CF from financing activities	**(48,536)**	**(47,438)**	**(45,004)**	**(47,695)**
Net Cash flow	1,828	(848)	5,965	7,522
Exchange difference	65	174	-	-
Opening Cash	7,123	9,016	8,342	14,307
Closing cash and Bank	**9,016**	**8,342**	**14,307**	**21,829**

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Liabilities				
Equity Capital	**362**	**362**	**362**	**362**
Reserve and Surplus	**90,127**	**94,394**	**1,00,341**	**1,07,666**
Share Premium	0	0	0	0
Total Shareholders funds	90,489	94,756	1,00,703	1,08,028
Total debt	**8,021**	**9,392**	**9,431**	**9,546**
Other liabilities & Provisions	1,533	2,039	2,538	2,636
Deferred tax liability(net)	977	980	980	980
Minority Interest / Others	830	1,015	1,254	1,514
Total Liabilities	**1,01,850**	**1,08,182**	**1,14,906**	**1,22,704**
Assets				
Net assets & CWIP	19,336	22,739	20,120	17,482
Goodwill	1,832	1,860	1,860	1,860
Other non current assets	12,297	12,019	14,588	15,087
Debtors	44,434	50,142	51,391	55,112
Loans and Advances	642	266	273	292
Other Current Assets	27,411	33,572	34,408	36,900
Current Investments	31,481	30,689	30,689	30,689
Cash	9,016	8,342	14,307	21,829
Trade Payable	9,981	13,909	14,255	15,288
OCL & Provisions	34,618	37,538	38,473	41,259
Application of Funds	**1,01,850**	**1,08,182**	**1,14,906**	**1,22,704**

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
Per share data				
Adjusted EPS (Diluted)	125.9	134.2	140.8	152.1
BV per share	250.0	261.8	278.2	298.4
DPS	73.0	120.0	124.4	131.8
Cash Per Share	24.9	23.0	39.5	60.3
Operating Ratios (%)				
EBIT margins	24.2	24.3	24.8	25.4
PBT Margins	25.7	25.6	26.1	26.4
PAT Margin	19.1	19.0	19.5	19.6
Debtor days	67	72	72	72
Creditor days	15	20	20	20
Return Ratios (%)				
RoE	50.7	51.2	50.6	50.9
RoCE	60.9	60.4	59.5	60.3
RoIC	95.1	89.9	92.7	101.6
Valuation Ratios (x)				
P/E	25.7	24.3	23.2	21.5
EV / Net Sales	4.8	4.5	4.4	4.1
Market Cap / Sales	4.9	4.6	4.5	4.2
Solvency Ratios				
Debt / EBITDA	0.1	0.1	0.1	0.1
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	1.6	1.6	1.6	1.6
Quick Ratio	1.6	1.6	1.6	1.6

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%

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