



Investment Idea

Tata Consultancy Services Ltd.

September 01, 2025



Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
IT Consulting & Software	Rs 3114	Buy in Rs 3085-3145 band and add on dips in Rs 2775-2835 band	Rs 3423	Rs 3630	2-3 quarters

HDFC Scrip Code	TATCONEQNR
BSE Code	532540
NSE Code	TCS
Bloomberg	TCS IN
CMP Sept 01, 2025	3114
Equity Capital (Rs Cr)	361.8
Face Value (Rs)	1.0
Equity Share O/S (Cr)	361.8
Market Cap (Rs Cr)	1,126,691.5
Book Value (Rs)	261.9
Avg. 52 Wk Volumes	3,803,119
52 Week High	4586.0
52 Week Low	2992.0

Share holding Pattern % (June, 2025)	
Promoters	71.8
Institutions	23.4
Non Institutions	4.8
Total	100



* Refer at the end for explanation on Risk Ratings

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Our Take:

Tata Consultancy Services (TCS) is an IT services, consulting and business solutions organisation and partnering with many of the world's largest businesses in their transformational journeys for the last 50 years. It has a global presence across North America, Latin America, continental Europe, the United Kingdom (UK), India, Asia Pacific, West Asia and Africa, deep domain expertise in multiple industry verticals and a complete portfolio of IT, BPS, infrastructure, engineering and assurance services – grouped under consulting and service integration, digital transformation services, cognitive business operations, and products and platforms. TCS has over 613,000 of the world's best-trained consultants in 55 countries.

TCS' deal total contract value (TCV) stood at US\$ 9.4 bn in Q1FY26, vs. US\$ 12.2bn in Q4FY25 and US\$ 8.3 bn in Q1FY25, declined 23% QoQ and grew 13.2% YoY, indicating strong market share gains. However, the company has not experienced any slowdown in its large deals. The company highlighted that a strong deal TCV provides confidence in FY26 growth, and expects international business could be better than FY25.

TCS has strong domain expertise and contextual knowledge and has demonstrated its ability to structure and execute large-scale projects, globally. This has differentiated it in the marketplace, enabling it to continually gain market share over its competitors. TCS' significant organic investments in manpower training and developing capabilities, along with being at the forefront of adopting new-age technologies such as GenAI have given it a competitive edge, and helped it capture many transformational digital deals across the globe.

Valuation & Recommendation:

TCS's position as a leader in the IT services industry is well-established, with a strong brand, robust client relationships, and a comprehensive service portfolio. However, as the digital landscape evolves, TCS will need to maintain its competitive edge through continuous innovation, expanded product offerings, and strategic acquisitions. The company's ability to capitalise on growth areas like AI, cloud, and cybersecurity will be critical to sustaining its leadership.

By expanding its global footprint, investing in emerging technologies, and exploring partnerships, TCS can position itself as a forward-looking, resilient player ready to lead in a digital-first world. TCS's robust financial profile, characterised by healthy cash accrual generation, negative net debt position and robust liquidity profile, brings a positive view on the stock.

We believe the base case fair value of the stock is Rs 3423 (20.75x Sept'27E EPS) and the bull case fair value of the stock is Rs 3630 (22x Sept'27E EPS) over the next two to three quarters. Investors can buy in Rs 3085-3145 band and add further on dips in the Rs 2775-2835 band (17x Sept'27E EPS). At the LTP of Rs 3114, the stock is trading at 18.9x Sept'27E EPS.

Financial Summary:

Particulars (Rs Cr)	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)	FY24	FY25	FY26E	FY27E	FY28E
Total Operating Income	63437	62613	1.3	64479	-1.6	240893	255324	263790	287936	315562
EBITDA	16875	16662	1.3	16980	-0.6	64296	67407	70521	79154	86945
Depreciation	1361	1220	11.6	1379	-1.3	4985	5242	5276	5759	5996
Other Income	1660	962	72.6	1028	61.5	4422	3962	4759	4092	4396
Interest Cost	195	173	12.7	227	-14.1	778	796	897	935	935
Tax	4160	4126	0.8	4109	1.2	15898	16534	17453	19521	21524
APAT	12819	12105	5.9	12293	4.3	46635	48553	51417	56769	62596
Diluted EPS (Rs)	35.4	33.5	5.9	34.0	4.3	128.9	134.2	142.1	156.9	173.0
RoE-%						51.6	52.4	54.4	59.3	63.0
P/E (x)						24.2	23.2	21.9	19.8	18.0
EV/EBITDA (x)						16.8	16.0	15.3	13.7	12.5

(Source: Company, HDFC sec)

Q1FY26 Result Update

- TCS revenue was below expectations and net profit was above expectations in Q1FY26, reported a total contract value of US\$9.4 bn in the quarter with 13.2% YoY growth. The continued global macroeconomic and geopolitical uncertainties caused a demand contraction.
- Consolidated revenue was down 1.6% QoQ and grew 1.3% YoY to Rs 63,437 crore in Rupee terms in Q1FY26, and revenue in constant currency (CC) terms declined 3.1% YoY.
- EBIT was down 7.4% QoQ and up 0.5% YoY to Rs 15,514 crore, and EBIT margin ramped down 150bps QoQ and 20bps YoY to 24.5% in Q1FY26. Net Profit surged by 4.3% QoQ and 5.9% YoY to Rs 12,819 crore, and PAT margin ramped up by 110bps QoQ and 90bps YoY to 20.2% in Q1FY26.
- Among verticals, BFSI, which accounts for 32% of the company's revenue, maintained signs of recovery, grew by 1% YoY in CC terms, Energy Resources and Utilities grew 2.8% YoY, and technology services are increasing by 1.8%. However, consumer business was down by 3.1%, regional markets continued to fall 8.6% YoY in CC terms, Manufacturing was down by 4%, and communication and media declined by 9.6%.
- Among major markets, North America continued to slow down, 2.7% YoY CC decline and continental Europe de-grew by 3.1%, whereas the UK de-grew by 1.3% YoY in CC terms.
- TCS employee headcount stood at 613,069 as of June 30, 2025, on LTM basis, IT Services attrition rate stood at 13.8% in Q1FY26.

Key Updates

Diversified portfolio, extensive clientele with high repeat business

TCS offers a wide range of services, including consulting, software development, digital transformation, cloud computing, AI, and business process outsourcing. Based on industry classification, the company has five key verticals: (1) banking, financial services, and insurance (BFSI), (2) retail and consumer business, (3) communication, media, and technology, (4) manufacturing, and (5) other sectors. The last category includes life sciences and healthcare, technology and services, energy, resources and utilities, and others.

TCS has a large, diversified, and growing client base with meaningful incremental addition of clients in the above \$20 million, \$50-million and \$100-million buckets in FY25. The company delivers end-to-end solutions, providing a competitive edge as a one-stop shop for clients' digital transformation needs and builds long-term relationships. Its superior execution ability has resulted in high repeat business, thus providing stability to the revenue stream.

With operations in over 55 countries and a client base that includes numerous Fortune 500 companies, TCS has a strong international footprint. Its long-standing client relationships, including marquee names in sectors like banking and retail, ensure a steady flow of revenue.

Strong order inflow supported by winning large deals, reinventing offerings and exploring emerging technologies

TCS' deal total contract value (TCV) in Q1FY26 stood at US\$ 9.4 bn, vs. US\$ 12.2bn in Q4FY25 and US\$ 8.3 bn in Q1FY25, declined 23% QoQ and grew 13.2% YoY, indicating strong market share gains. North America TCV stood at \$4.4bn, BFSI at \$2.5bn, and Consumer Business Group at \$1.6bn. However, the company has not experienced any slowdown in its large deals. The quarter saw a healthy mix of cost optimisation and vendor consolidation programs, with all major markets recording sequential growth. Deal activity included a balanced mix of large, medium, and small deals.

The company highlighted that a strong deal TCV provides confidence in FY26 growth and expects international business to be better than in FY25, with the possibility of this improvement extending to the whole business if the uncertainty does not persist. However, the magnitude of the BSNL ramp-down, if it goes unreplaced, would mean FY26E on a full year could be a year of declining revenues. The company is experiencing increasing traction in AI and has not seen any deal cancellations in AI projects.

TCS plans to focus on winning large deals, reinventing its offerings, and exploring emerging technologies that can be provided to clients to aid in growth. The company is reviewing its utilisation and identifying non-strategic locations for consolidation.

Collaboration with NVIDIA to Design AI Native Solutions for the telecom sector, an opportunity to connect more clients ahead

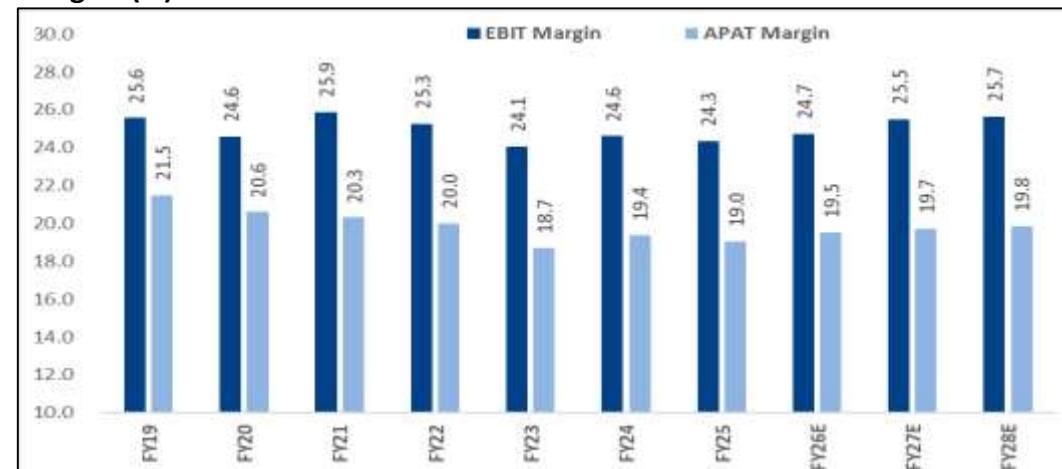
Telecom operators require solutions that provide real-time insights and support across various key business processes throughout the value chain. TCS is integrating NVIDIA AI Enterprise software to design, fine-tune and integrate telecom models into agentic AI workflows. These use cases leverage agentic AI blueprints to automate and transform processes. Furthermore, current network planning methods often fail to accurately predict performance issues, resulting in potential quality degradation and difficulties in meeting service-level agreements (SLAs) for radio access networks (RANs). To address challenges like these, TCS along with NVIDIA has designed AI applications that can accurately improve network planning for building efficient networks.

TCS is working with NVIDIA to design agentic AI solutions that improve telecom operations and network management. These include AI-accelerated NVIDIA tools to automate processes, including specialized AI models tailored for telecom needs (Large Telco Models or LTM), and advanced systems like digital twins to simulate and optimize network performance. TCS industry use-cases leverage NVIDIA accelerated computing with NVIDIA DGX™ Cloud, NVIDIA AI Enterprise, and includes NVIDIA NIM™ microservices, NVIDIA NeMo™, and NVIDIA Blueprints, all designed to make telecom operations and networks smarter and more efficient. The collaboration builds on TCS' deep domain expertise to launch industry specific solutions and capabilities that will help telecom operators adopt and benefit from artificial intelligence (AI) faster and at scale.

Margin stability led by operational efficiencies

TCS EBIT margin ramped down 150bps QoQ and 20bps YoY to 24.5% in Q1FY26, despite investments in capacity, lower third-party expenses, and currency gains, which supported the margins. Its EBIT margin stood at 24.3% in FY25 vs. 24.7% in FY24. TCS employee costs stood at 47.6% in Q1FY26 vs. 45.97% in Q1FY25; the company aims to optimise and reduce the costs.

Margins (%)



Wage hikes for FY26 are yet to be finalised. Besides, BSNL's ramp-down could most certainly be accompanied by lower third-party expenses. Taking the margin levers like cost rationalisation, favourable currency movement, increasing trend of utilisation, pyramid optimisation, and other operational efficiencies, the margin improvement could continue in FY26E and beyond. The company maintained its margin guidance in the 26–28% range. Some pressure could arise from reduced utilisation and a lack of currency tailwinds. The margin recovery is expected to start in Q2FY26E, driven by operational efficiency, SG&A leverage, and the ramp-up of large deals.

Strong fundamentals led by healthy debt protection metrics and liquidity

- TCS financial profile remains healthy, marked by stable earnings, sizeable network, and strong liquidity with large cash reserves, healthy capital structure, and coverage metrics.
- The company has achieved substantial and sustained growth in revenue and profit, with a revenue CAGR of ~14% and ~10% of PAT CAGR over the last decade. Revenue/EBIT/PAT increased 6.0%/4.6%/5.4% YoY in INR terms in FY25. Considering the expected acceleration in demand, we anticipate that the company will report revenue and PAT CAGRs of 7.3% and 9% over FY25 to FY28E.
- TCS' liquidity is superior, supported by consistent generation of strong cash flow from operations, healthy operating profitability, and low working capital intensity of the business. Additionally, the liquidity profile is strengthened by sizable free cash/bank balances, as well as other investments worth Rs 48,704 crore as of June 30, 2025.
- TCS has been consistently able to generate strong cash flow from operations supported by its healthy operating profitability and controlled working capital intensity. As of June 30, 2025, Net Cash from Operations is Rs 12,804 crore, i.e. 100.3% of Net Income.
- DSO days remain unchanged on YoY stood at 67 days in FY25. TCS's strong liquidity position is supported by robust cash levels, positive cash flow from operations, and a moderate capital expenditure requirement.
- TCS enjoys a healthy capital structure and zero debt status, which will continue to remain so due to no major debt-funded expansion plans over the medium term.
- TCS has always been generous in declaring dividends and offering buyback offers to the shareholders over the past two decades. The company has offers buyback offers five times over the last seven years. The company recommended dividend Rs 125 per share to the shareholders in FY25. TCS announced an interim dividend of Rs 11 per share, and July 16, 2025 was the record date. We expect dividend Rs 143/150 per share to shareholders for FY26E/FY27E, respectively.
- Because of cost rationalisation efforts, the company could see growth in profitability as well as better return ratios in the future. We expect RoE in the 54-59% band for FY26E to FY27E, respectively.

What could go wrong?

- Indian rupee appreciation against the USD/Euro, pricing pressure, retention of skilled headcounts, strict immigration norms and rise in visa costs are key concerns.
- A substantial portion of TCS's revenue comes from North America, particularly the United States. While this market has been lucrative,

such heavy reliance exposes TCS to risks from economic fluctuations, regulatory changes, and political tensions in the region.

- TCS's revenue model primarily relies on services, with limited offerings in proprietary software products compared to competitors like IBM and Microsoft. This services-heavy model, while highly profitable, may limit scalability
- TCS faces fierce competition from global IT giants like Accenture, IBM, and Infosys, as well as from niche startups offering specialised solutions. TCS could see pressure to maintain its market share by introducing new technologies and innovative services from its peers.
- Recent global macro uncertainty, coupled with inflation and geopolitical tensions, makes revenue growth uncertain, especially if clients choose to cut back on discretionary spending. Recessionary pressures can lead clients to reduce or postpone their IT budgets.
- TCS witnessed a significant revenue decline in a couple of subsidiaries, TCS E-Serve and TCS Technology Solutions GmbH, both driven by a sharp revenue decline in their respective top accounts.
- TCS continued deterioration in the employee pyramid, with the percentage of employees in the less-than-30-year age group at the lowest level over the past six years across most geographies.
- TCS planned to lay off nearly 2% of its workforce (12k employees) in FY26, which may lead to execution slippages in the near-term and higher attrition in the longer run for the firm, and reflects a weak demand environment for the sector. The move will mainly affect employees at middle and senior grades, whose deployment may not be feasible due to a skill gap.
- Any change in the contract nitty-gritty from large clients, like non-renewal of contracts or higher discounts due to aggressive competition intensity, can impact the sustainability and scalability of such clients.
- Higher than expected debt-funded capex or acquisition leading to deterioration in profitability and could impact cash generation.

Peer Comparison

Rs in Cr	Mkt Cap	Revenue			EBIT			PAT			RoE-%			P/E (x)		
		FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
TCS	1116071.46	2,63,790	2,87,936	3,15,562	65245	73395	80949	51417	56769	62596	54.4	59.3	63.0	21.9	19.8	18.0
Infosys	610526.26	172131	188012	204508	36363	40584	44611	28461	31745	35387	28.7	30.2	32.2	21.9	19.6	17.6
HCL Tech	394784	125361	137390	149122	22584	25804	28811	18327	20981	23561	25.9	28.4	29.8	21.7	18.9	16.9
Wipro	261465.02	90208	96159	102685	15348	16560	18017	13308	14305	15386	15.7	16.1	16.6	19.7	18.4	17.0

(Source: Company, HDFC sec)

Financials

Income Statement

(Rs Cr)	FY24	FY25	FY26E	FY27E	FY28E
Net Revenues	240893	255324	263790	287936	315562
Growth (%)	6.8	6.0	3.3	9.2	9.6
Operating Expenses	176597	187917	193269	208782	228618
EBITDA	64296	67407	70521	79154	86945
Growth (%)	8.5	4.8	4.6	12.2	9.8
EBITDA Margin (%)	26.7	26.4	26.7	27.5	27.6
Depreciation	4985	5242	5276	5759	5996
EBIT	59311	62165	65245	73395	80949
Other Income	4422	3962	4759	4092	4396
Interest expenses	778	796	897	935	935
PBT	62955	65331	69108	76552	84410
Tax	15898	16534	17453	19521	21524
RPAT	47057	48797	51655	57031	62885
APAT	46635	48553	51417	56769	62596
Growth (%)	10.6	4.1	5.9	10.4	10.3
EPS	128.9	134.2	142.1	156.9	173.0

Balance Sheet

As at March	FY24	FY25	FY26E	FY27E	FY28E
SOURCE OF FUNDS					
Share Capital	362	362	362	362	362
Reserves	90127	94394	94072	96570	101276
Shareholders' Funds	90489	94756	94434	96932	101638
Long Term Debt	0	0	0	0	0
Net Deferred Taxes	-2426	-2598	-2598	-2598	-2598
Long Term Provisions & Others	8049	9877	9877	9877	9877
Minority Interest	830	1015	1200	1462	1752
Total Source of Funds	96942	103050	102913	105673	110669
APPLICATION OF FUNDS					
Net Block & Goodwill	19604	23053	24086	25344	26837
CWIP	1564	1546	1546	1546	1546
Other Non-Current Assets	8767	8350	8351	8355	8359
Total Non Current Assets	29935	32949	33983	35245	36742
Inventories	0	0	0	0	0
Trade Receivables	44561	50233	47067	51367	56287
Cash & Equivalents	44937	46155	48687	44142	44162
Other Current Assets	23613	26714	27009	28065	29049
Total Current Assets	113111	123102	122764	123574	129498
Short-Term Borrowings	0	0	0	0	0
Trade Payables	9981	13909	14370	12622	13833
Other Current Liab & Provisions	36123	39092	39464	40525	41738
Total Current Liabilities	46104	53001	53834	53146	55571
Net Current Assets	67007	70101	68930	70428	73927
Total Application of Funds	96942	103050	102913	105673	110669

(Source: Company, HDFC sec)

Cash Flow Statement

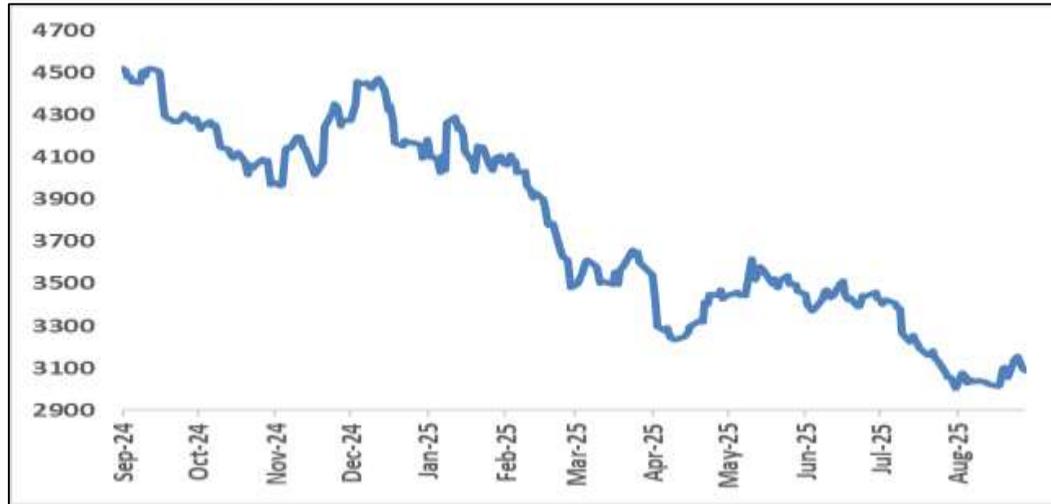
(Rs Cr)	FY24	FY25	FY26E	FY27E	FY28E
Reported PBT	62,955	65,331	69,108	76,552	84,410
Non-operating & EO items	-5,009	-2,548	-3,558	-3,052	-3,279
Interest Expenses	778	796	897	935	935
Depreciation	4,985	5,242	5,276	5,759	5,996
Working Capital Change	-6,882	-1,876	3,703	-6,044	-3,479
Tax Paid	-12,489	-16,534	-17,453	-19,521	-21,524
OPERATING CASH FLOW (a)	44,338	50,411	57,972	54,630	63,058
Capex	-2,674	-8,691	-6,309	-7,017	-7,488
Free Cash Flow	41,664	41,720	51,664	47,612	55,570
Investments	4	24	0	0	0
Non-operating income	5,009	2,959	3,557	3,048	3,275
INVESTING CASH FLOW (b)	2,339	-5,708	-2,752	-3,969	-4,213
Debt Issuance / (Repaid)	0	0	0	0	0
Interest Expenses	-778	-796	-897	-935	-935
FCFE	40,886	40,924	50,767	46,677	54,634
Share Capital Issuance	0	0	0	0	0
Dividend	-46,223	-45,226	-51,739	-54,271	-57,889
FINANCING CASH FLOW (c)	-47,001	-46,022	-52,635	-55,207	-58,825
NET CASH FLOW (a+b+c)	-324	-1,319	2,585	-4,546	20

Key Ratios

Particulars	FY24	FY25	FY26E	FY27E	FY28E
Profitability Ratio (%)					
EBITDA Margin	26.7	26.4	26.7	27.5	27.6
EBIT Margin	24.6	24.3	24.7	25.5	25.7
APAT Margin	19.4	19.0	19.5	19.7	19.8
RoE	51.6	52.4	54.4	59.3	63.0
RoCE	48.7	49.1	50.6	55.1	58.5
Solvency Ratio (x)					
Net Debt/EBITDA	-0.7	-0.7	-0.7	-0.6	-0.5
Net D/E	-0.5	-0.5	-0.5	-0.5	-0.4
Per Share Data (Rs)					
EPS	128.9	134.2	142.1	156.9	173.0
CEPS	142.7	148.7	156.7	172.8	189.6
BV	250.1	261.9	261.0	267.9	280.9
Dividend	73.0	125.0	143.0	150.0	160.0
Turnover Ratios (days)					
Debtor days	68	72	65	65	65
Inventory days	0	0	0	0	0
Creditors days	15	20	20	16	16
Valuation (x)					
P/E	24.2	23.2	21.9	19.8	18.0
P/BV	12.5	11.9	11.9	11.6	11.1
EV/EBITDA	16.8	16.0	15.3	13.7	12.5
EV / Revenues	4.5	4.2	4.1	3.8	3.4
Dividend Yield (%)	2.3	4.0	4.6	4.8	5.1

(Source: Company, HDFC sec)

One Year Price chart



(Source: Company, HDFC sec)

HDFC Sec Prime Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions.

These stocks

have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicalities of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Rating Criteria

Buy - > 15%+ return potential

Add - +5% to +15% return potential

Reduce - -10% to +5% return potential

Sell - >10% downside return potential

Disclosure:

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