TCS

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	3,062
12 month price target (INR)	3,650
52 Week High/Low	4,424/2,867
Market cap (INR bn/USD bn)	11,077/124.8
Free float (%)	23.2
Avg. daily value traded (INR mn)	9,505.5

SHAREHOLDING PATTERN

	Sep-24	Jun-24	Mar-24
Promoter	71.77%	71.77%	71.77%
FII	12.01%	12.04%	12.68%
DII	11.47%	11.56%	10.91%
Pledge	0%	0%	0.28%

FINANCIALS

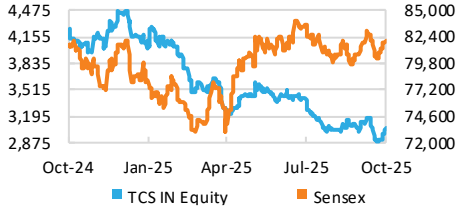
(INR bn)

Year to March	FY25A	FY26E	FY27E	FY28E
Revenue	2,553	2,609	2,747	2,927
EBITDA	674	709	765	814
Adjusted profit	486	509	554	594
Diluted EPS (INR)	134.1	140.6	153.1	164.1
EPS growth (%)	3.6	4.9	8.9	7.2
RoAE (%)	51.2	51.7	53.6	53.9
P/E (x)	22.8	21.8	20.0	18.6
EV/EBITDA (x)	16.5	15.7	14.6	13.7
Dividend yield (%)	4.1	3.8	4.4	4.7

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY26E	FY27E	FY26E	FY27E
Rev (USD mn)	29,843	31,218	-1.5%	-4.2%
EBIT	652	703	-0.1%	-2.4%
Adjusted profit	509	554	-1.9%	-2.2%
Diluted EPS (INR)	140.6	153.1	-1.9%	-2.2%

PRICE PERFORMANCE



Decent results; capital allocation in focus

TCS posted decent Q2FY26 results. Revenue grew +0.8% CC QoQ (-3.3% CC YoY), exceeding our/Street's estimate of +0.2%/+0.4% CC QoQ. Adjusted EBIT margin expanded 70bp QoQ to 25.2%, excluding one-off expense, above our estimate. PAT was INR129bn, in line with estimates. TCV was solid at USD10bn (+6.4% QoQ/+16% YoY).

While TCS posted a decent quarter (on low expectations), its decision to invest in an AI data centre takes it to an interesting crossroad. We are tweaking FY26E/27E EPS by -2%/-2% on slightly lower growth. We are rolling forward the valuation to 23x (from 25x) average of FY27–28E PE on slightly weaker growth outlook. Retain 'BUY' with a TP of INR3,650 (earlier INR3,950) on attractive valuation and dividend yield.

Decent Q2 revenue growth; strong deal-wins

Revenue grew +0.8% CC QoQ to USD7,466mn driven by the International business (+0.6% CC QoQ) while India grew +4% CC QoQ. Revenue was also boosted by higher third-party revenue: ~71% of incremental revenue. EBIT margin expanded 70bp QoQ to 25.2%, excluding one-off restructuring expenses (INR11.3bn). Wage hike (rolled out to 80% of employees) impacted margin by 70bp, partially offset by pyramid optimisation (+40bp), operating efficiency (+20bp) and FX benefit (+80bp). Deal-wins were strong at USD10bn (+6.5% QoQ/+16.3% YoY) and pipeline remains healthy. Management anticipates FY26 international revenue growth to be better than FY25's based on client conversations, TCV growth and deal pipeline.

Looking to set up 1GW AI data centre

TCS has announced its intent to set up a passive sovereign colocation AI datacentre in India, of capacity up to 1GW. It will entail an outlay of ~USD6bn over five–seven years, which it intends to fund through part-debt and part-equity partnerships. It is looking at annuity stream of revenue from pure-play AI players, deeptech, hyperscalers, private and government enterprises in India. The decision places TCS at an interesting crossroad, where it will be deploying significant capital, in high-growth but lower RoCE business, than its own. While this might not appear to be the best avenue to deploy capital, we view the decision as a balanced one, as it explores growth opportunities in the tech-ecosystem, with manageable capital commitment (for TCS's balance sheet size) and decent returns profile (though lower than its own).

Volatility likely in near term; medium to long-term thesis intact

TCS has corrected sharply (-25% CYTD) and is now trading at a valuation of 20x FY27E—in line with its historical multiple. While we expect near-term volatility to persist, the stock appears highly attractive from a medium to long-term perspective.

Financials

Year to March	Q2FY26	Q2FY25	% Change	Q1FY26	% Change
Net Revenue	6,57,990	6,42,590	2.4	6,34,370	3.7
EBITDA	1,79,780	1,67,320	7.4	1,68,750	6.5
Adjusted Profit	1,20,750	1,19,090	1.4	1,27,599	(5.4)
Diluted EPS (INR)	33.4	32.9	1.4	35.2	(5.4)

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Financial Statements

Income Statement (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Total operating income	25,53,240	26,08,523	27,47,220	29,27,316
Cost of revenues	15,19,050	15,29,044	16,09,595	17,28,300
Gross Profit	10,34,190	10,79,479	11,37,625	11,99,016
SG&A	3,60,120	3,70,487	3,72,968	3,84,805
EBITDA	6,74,070	7,08,992	7,64,657	8,14,211
Depreciation	52,420	57,018	61,184	60,864
EBIT	6,21,650	6,51,974	7,03,472	7,53,347
Add: Other income	31,660	27,632	38,713	41,795
Profit before tax	6,53,310	6,79,606	7,42,185	7,95,142
Prov for tax	1,65,340	1,68,254	1,85,546	1,98,785
Less: Other adj	0	0	0	0
Reported profit	4,85,530	5,09,081	5,54,399	5,94,116
Less: Excp.item (net)	0	0	0	0
Adjusted profit	4,85,530	5,09,081	5,54,399	5,94,116
Diluted shares o/s	3,620	3,620	3,620	3,620
Adjusted diluted EPS	134.1	140.6	153.1	164.1
DPS (INR)	126.0	117.0	135.0	145.0
Tax rate (%)	25.3	24.8	25.0	25.0

Balance Sheet (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Share capital	3,620	3,620	3,620	3,620
Reserves	9,65,200	9,98,622	10,64,321	11,33,538
Shareholders funds	9,68,820	10,02,242	10,67,941	11,37,158
Minority interest	10,150	11,580	13,820	16,060
Borrowings	0	0	0	0
Trade payables	5,35,190	5,14,314	5,44,652	5,85,668
Other liabs & prov	0	0	0	0
Total liabilities	16,17,550	16,27,404	17,31,612	18,51,880
Net block	1,78,960	1,82,042	1,76,858	1,71,994
Intangible assets	0	0	0	0
Capital WIP	0	0	0	0
Total fixed assets	1,78,960	1,82,042	1,76,858	1,71,994
Non current inv	3,09,640	3,50,620	3,90,620	4,30,620
Cash/cash equivalent	83,420	59,938	66,732	71,433
Sundry debtors	5,02,330	5,07,672	5,38,007	5,77,872
Loans & advances	0	0	0	0
Other assets	3,38,760	3,48,118	3,68,919	3,96,255
Total assets	16,17,550	16,27,404	17,31,612	18,51,880

Important Ratios (%)

Year to March	FY25A	FY26E	FY27E	FY28E
Employees cost	57.0	58.6	57.6	57.3
Other cost	16.6	14.2	14.6	14.9
Depreciation (% of rev)	2.0	2.2	2.2	2.1
EBIT margin (%)	24.3	25.0	25.6	25.7
Net profit margin (%)	19.0	19.5	20.2	20.3
Revenue growth (% YoY)	6.0	2.2	5.3	6.6
EBIT growth (% YoY)	4.8	4.9	7.9	7.1
Adj. profit growth (%)	3.6	4.9	8.9	7.2

Free Cash Flow (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Reported profit	4,85,530	5,09,081	5,54,399	5,94,116
Add: Depreciation	52,420	57,018	61,184	60,864
Interest (net of tax)	0	0	0	0
Others	2,440	2,270	2,240	2,240
Less: Changes in WC	(37,540)	(14,273)	(26,329)	(31,619)
Operating cash flow	5,02,850	5,54,097	5,91,494	6,25,601
Less: Capex	(74,150)	(60,100)	(56,000)	(56,000)
Free cash flow	4,28,700	4,93,997	5,35,494	5,69,601

Assumptions (%)

Year to March	FY25A	FY26E	FY27E	FY28E
GDP (YoY %)	6.0	6.2	6.2	6.2
Repo rate (%)	6.0	5.0	5.0	5.0
USD/INR (average)	84.4	87.4	88.0	88.0
USD revenue (USD mn)	30,179.0	29,843.4	31,218.4	33,265.0
YoY growth (%)	3.8	(1.1)	4.6	6.6
CC YoY growth (%)	4.2	(1.6)	4.6	6.6
Tax rate as % of PBT	25.3	24.8	25.0	25.0
Capex (INR mn)	74,150.0	60,100.0	56,000.0	56,000.0

Key Ratios

Year to March	FY25A	FY26E	FY27E	FY28E
RoE (%)	51.2	51.7	53.6	53.9
RoCE (%)	51.0	51.3	53.1	53.4
Div Payout Ratio(%)	62	59	54	51
Working cap/Sales (%)	12.0	13.1	13.2	13.3
Receivable days	68	71	69	70
Asset Turnover Ratio	0.8	0.8	0.8	0.8
Current Ratio	1.7	1.8	1.8	1.8
Net debt/equity (x)	(0.1)	(0.1)	(0.1)	(0.1)

Valuation Metrics

Year to March	FY25A	FY26E	FY27E	FY28E
Diluted P/E (x)	22.8	21.8	20.0	18.6
Price/BV (x)	11.4	11.1	10.4	9.7
EV/EBITDA (x)	16.5	15.7	14.6	13.7
Dividend yield (%)	4.1	3.8	4.4	4.7

Valuation Drivers

Year to March	FY25A	FY26E	FY27E	FY28E
EPS growth (%)	3.6	4.9	8.9	7.2
RoE (%)	51.2	51.7	53.6	53.9
EBITDA growth (%)	4.8	5.2	7.9	6.5
Payout ratio (%)	61.8	58.9	54.1	50.5

Source: Company and Nuvama estimates

Q2FY26 conference call highlights

- **Revenue:** Revenue grew 0.8% QoQ in CC. International revenue grew 0.6% QoQ in CC. All verticals, except Consumer, returned to growth this quarter and all geographies grew sequentially, except Europe.
- **Deal-wins:** TCV came in at USD10bn, growth of +6.5% QoQ/+16% YoY. BFSI TCV was at USD3.2bn and consumer business group contributed USD1.8bn. North America TCV was USD4.3bn. Pipeline remain healthy with a mix of cost-takeout and transformation deals.
- **Margin** came in at 25.2% (up 50bp QoQ), excluding one-off restructuring expenses. Wage hike for 80% of employee - impacted margin by 70bps, was more than offset by 80bps fx tailwind, 40bps benefit from rebalancing of pyramid and 20bps from operating leverage. Management continue to work to get back to 26-28% margin range.
- **AI initiatives under TCS^{ai}:** Focusing on employee training, TCS now has 150k associates with higher-level AI skill. Leadership and sales team have gone through AI training.
- TCS will become largest AI-led Tech company as they go through transformation. Its investments are focused on five pillars: 1) AI-first culture, build AI solutions, and scale AI for connected intelligence. 2) Redefining all services in a human plus AI services model. 3) Building future ready talent model. 4) Making AI real for client. 5) Building AI-focused partnership
- **Employee** headcount stood at 593k, a decline of 20k QoQ. Attrition stood at 13.3% LTM. Only 500 associates travelled to the US on H1B.
- **Acquisition:** TCS is making efforts to enhance its capabilities – In Q2, announced acquisition of ListEngage – leader in marketing tech and sales force.
- **New Data centre initiative:** Management is seeing very strong traction in Sovereign cloud. TCS has set up a new subsidiary to build Sovereign data centres. Management expects to achieve 1GW capacity in 5–6 years, capex requirement is ~USD1bn for 150MW capacity. This initiative will include equity and debt component, and TCS plans to bring onboard equity investor in this initiative. Expect revenue to start in 18-24 months. Do not expect the data center initiative to be margin-dilutive and RoE of TCS will continue to be industry benchmark.
- **Outlook:** Management expects FY26 international revenue growth to be better than last year. India and emerging market continue to show strong momentum. Margin should inch close to 26% in H2FY26. Number of project deferrals has reduced compared to last quarter, should lead to better deal-wins to revenue conversion going forward. Furlough expected to be similar as last year's in Q3.

Exhibit 1: Financial snapshot (INR mn)

Year to March	Q2FY26	Q2FY26	% Change	Q2FY25	% Change	FY25	FY26E	FY27E
USD Revenue mn	7,466	7,421	0.6	7,670	(2.7)	30,179	29,843	31,218
Total revenues	657,990	634,370	3.7	642,590	2.4	2,553,240	2,608,523	2,747,220
Cost of revenues	386,650	375,450	3.0	387,340	(0.2)	1,519,050	1,529,044	1,609,595
Gross profit	271,340	258,920	4.8	255,250	6.3	1,034,190	1,079,479	1,137,625
SG&A	91,560	90,170	1.5	87,930	4.1	360,120	370,487	372,968
EBITDA	179,780	168,750	6.5	167,320	7.4	674,070	708,992	764,657
Depreciation & amortization	14,130	13,610	3.8	12,670	11.5	52,420	57,018	61,184
EBIT	165,650	155,140	6.8	154,650	7.1	621,650	651,974	703,472
Other income	(4,970)	14,650	(133.9)	5,670	(187.7)	31,660	27,632	38,713
PBT	160,680	169,790	(5.4)	160,320	0.2	653,310	679,606	742,185
Tax	39,370	41,600	(5.4)	40,770	(3.4)	165,340	168,254	185,546
Minority interest	560	590	(5.1)	460	21.7	2440	2270	2240
Reported profit	120,750	127,600	(5.4)	119,090	1.4	485,530	509,082	554,399
Adjusted profit	120,750	127,600	(5.4)	119,090	1.4	485,530	509,082	554,399
Diluted shares (mn)	3,620	3,620	0.0	3,620	0.0	3,620	3,620	3,620
EPS (INR) diluted	33.4	35.2	(5.4)	32.9	1.4	134.1	140.6	153.1
as % of net revenues								
Gross profit	41.2	40.8		39.7		40.5	41.4	41.4
SG&A	13.9	14.2		13.7		14.1	14.2	13.6
EBITDA	27.3	26.6		26.0		26.4	27.2	27.8
Adjusted profit	18.4	20.1		18.5		19.0	19.5	20.2
Reported profit	18.4	20.1		18.5		19.0	19.5	20.2
Tax rate	24.5	24.5		25.4		25.3	24.8	25.0

Source: Company, Nuvama Research

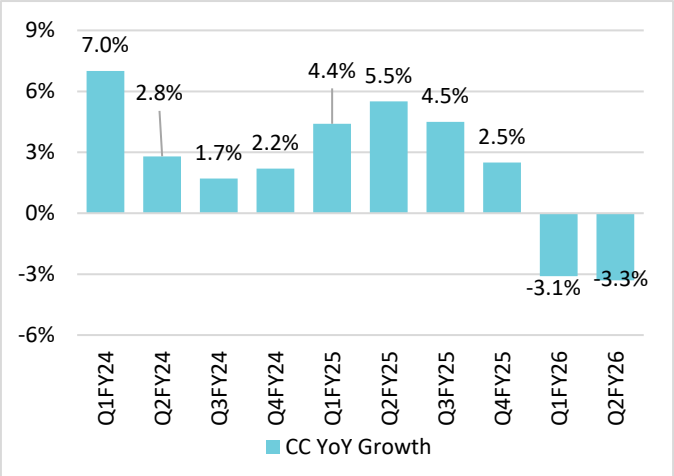
Exhibit 2: Revenue growth (QoQ) by vertical and geography

Segmental QoQ growth %	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26
Verticals										
BFSI	-0.8%	0.1%	-1.8%	-0.1%	0.6%	1.9%	-2.7%	1.3%	2.0%	1.2%
Retail & CPG	1.1%	-1.5%	-0.3%	1.1%	0.0%	0.2%	-0.4%	-1.0%	1.4%	-1.3%
Communication & Media	-1.0%	-1.6%	-1.9%	-0.4%	-4.2%	-2.7%	-3.4%	-1.0%	-0.6%	2.3%
Manufacturing	1.7%	2.2%	2.2%	3.5%	1.9%	-0.1%	-4.0%	-1.0%	3.0%	1.8%
Lifesciences & Healthcare	1.4%	-1.1%	1.0%	1.1%	2.9%	-3.4%	-4.5%	-1.0%	0.4%	3.6%
Energy and Utilities	2.3%	1.6%	2.8%	-0.6%	1.9%	4.0%	-3.4%	0.8%	2.9%	0.6%
Technology & Services	-1.8%	-1.4%	-1.4%	-1.3%	0.7%	0.9%	-1.7%	0.3%	3.1%	1.8%
Regional Markets and Others	3.3%	0.7%	12.9%	6.1%	10.6%	13.1%	3.4%	-6.4%	-13.5%	-3.1%
Geography										
North America	-0.3%	-0.8%	-1.2%	-0.1%	0.9%	-1.7%	-1.5%	0.1%	0.4%	0.8%
Latin America	11.6%	-0.2%	6.0%	-3.7%	-3.2%	-3.2%	3.8%	-6.2%	4.9%	0.6%
UK	4.9%	0.4%	0.4%	3.6%	2.5%	2.8%	-4.0%	0.2%	6.5%	-2.2%
Continental Europe	-0.9%	-0.2%	1.7%	-1.6%	0.5%	3.6%	-6.4%	1.9%	4.3%	2.6%
India	-1.6%	-0.2%	25.7%	11.1%	14.1%	21.3%	8.2%	-15.1%	-31.4%	0.6%
APAC	-2.1%	-0.2%	1.0%	1.1%	1.9%	4.8%	-4.2%	2.8%	3.1%	-0.6%
MEA	0.4%	9.8%	-8.2%	6.2%	-2.9%	7.3%	7.7%	3.3%	-8.9%	9.8%

Source: Company, Nuvama Research

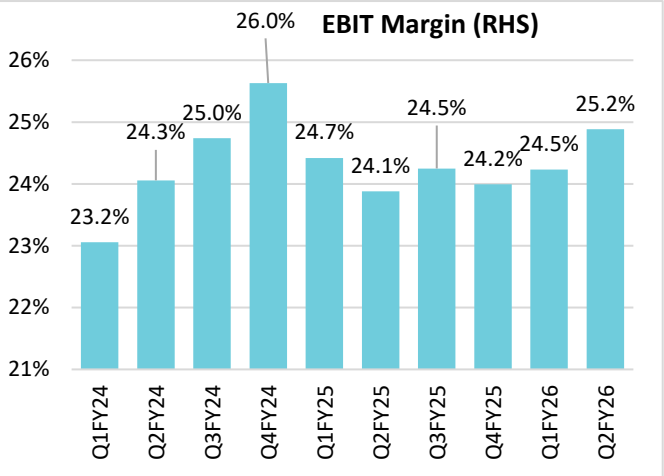
Key charts

Exhibit 3: Revenue growth in CC YoY terms



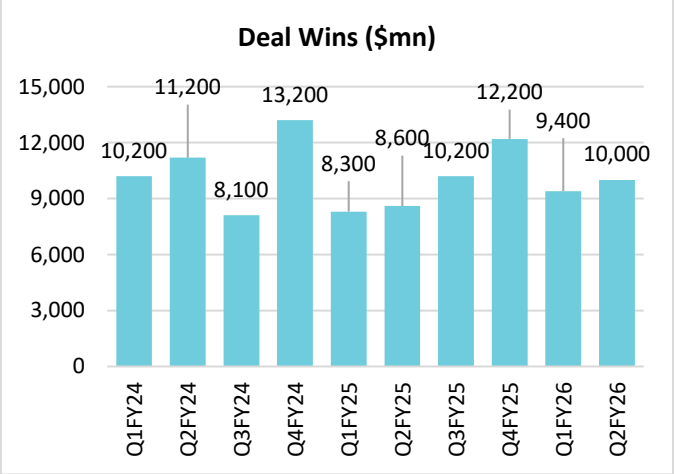
Source: Company, Nuvama Research

Exhibit 4: EBIT margins



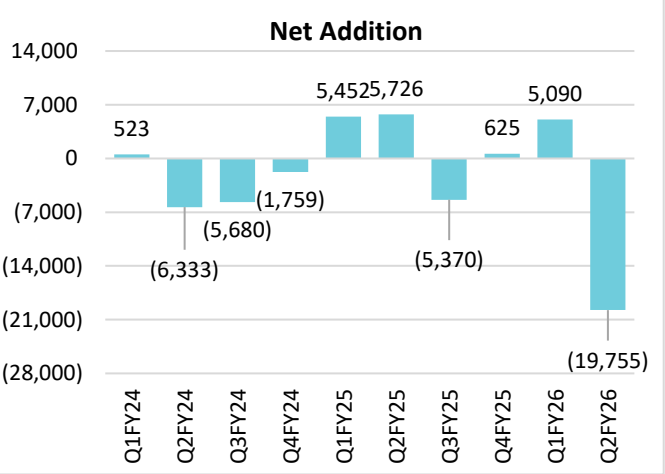
Source: Company, Nuvama Research

Exhibit 5: Deal-wins (TCV, USD mn)



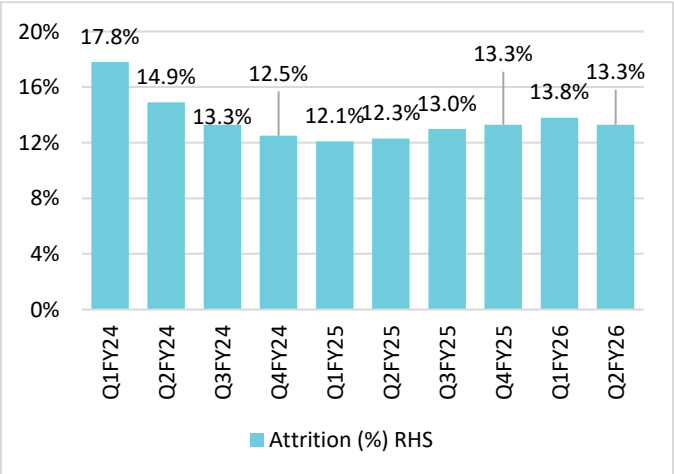
Source: Company, Nuvama Research

Exhibit 6: Net headcount



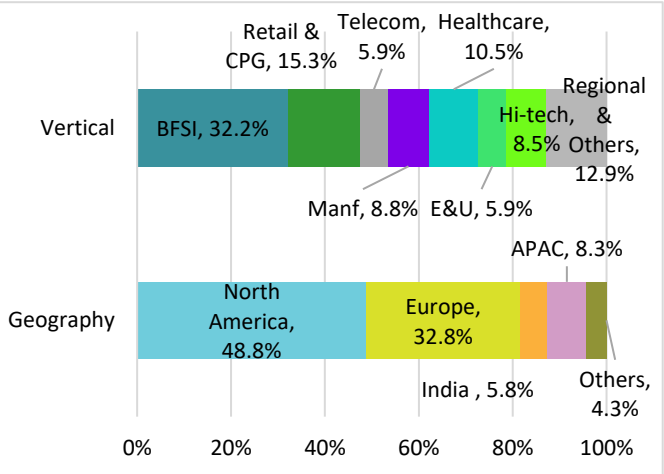
Source: Company, Nuvama Research

Exhibit 7: Attrition



Source: Company, Nuvama Research

Exhibit 8: Revenue breakdown by vertical and geography



Source: Company, Nuvama Research

Company Description

Established in 1968, TCS is one of India's largest and oldest IT companies. It caters to a range of industries such as BFSI, manufacturing, telecommunications, retail, and transportation.

With a presence in 50-plus countries, TCS boasts a large and diversified client base. The company offers a consulting-led and cognitive-powered integrated portfolio of business, technology and engineering services and solutions. It has been partnering with many of the world’s largest businesses in their transformation journeys for over 50 years.

Investment Theme

As India's largest and oldest IT services firm, TCS is well positioned to benefit from growing demand for offshore IT services. Given its greater experience than peers in implementing large, complex, and mission-critical projects, the company is a serious contender for large deals.

Moreover, it has a global presence, deep domain expertise in various industries and offerings in digital transformation services, cloud, cognitive business operations, etc. A portfolio of turnkey services offerings, traction in emerging markets, ability to roll up, improving sales and marketing prowess, and willingness to take multiple big bets (different go-to-market models) are among the key drivers that should help TCS sustain its hi-growth trajectory in the long-run.

Key Risks

The key risks to our investment theme include: i) recession in the US, the overriding market for Indian IT services, and a prolonged slowdown in Europe; ii) sharp cross-currency movements and the INR’s appreciation against the USD, the EUR and the GBP; iii) pricing pressure; and iv) attrition and retention dynamics.

Additional Data

Management

CEO	K Krithivasan
CFO	Samir Seksaria
COO	G Subramaniam
Other	
Auditor	B S R & Co. LLp

Holdings – Top 10*

	% Holding		% Holding
Tata Sons	71.74	Blackrock Inc	1.01
Life Insurance	5.01	HDFC AMC	0.47
SBI Funds Manag	1.22	UTI Asset Manag	0.47
Vanguard group	1.20	FMR LLC	0.40
ICICI Prudentia	1.09	Nippon Life Ind	0.39

**Latest public data*

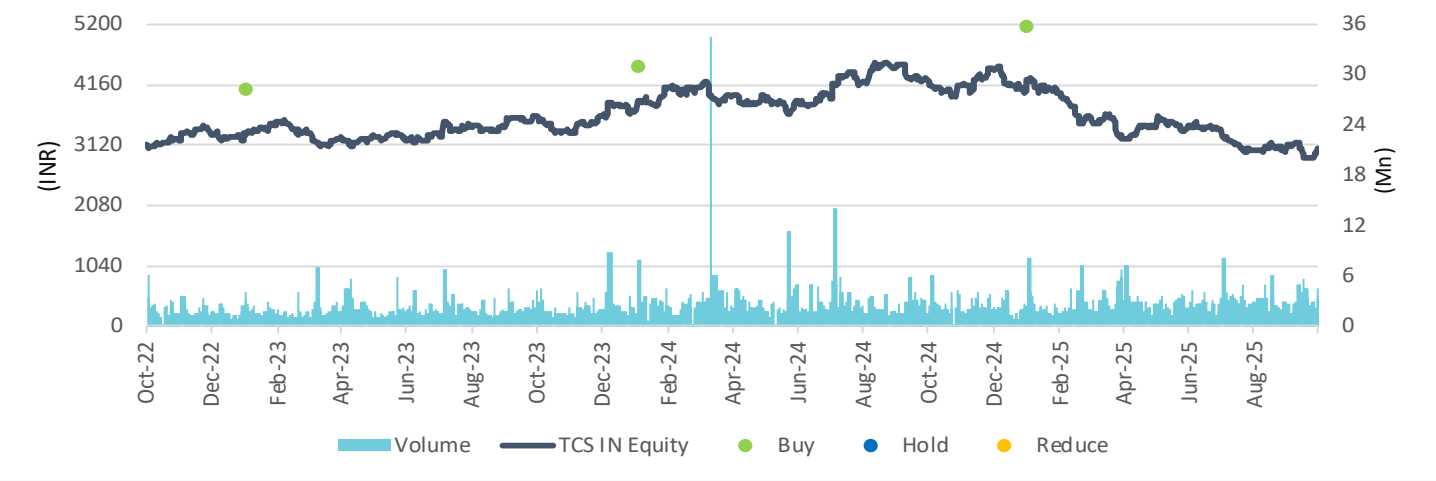
Recent Company Research

Date	Title	Price	Reco
10-Jul-25	Headline numbers weak, underlying decent; *Result Update*	3,382	Buy
10-Apr-25	Mild miss; outlook soft; valuation attra; *Result Update*	3,246	Buy
09-Jan-25	Strong commentary; tell-tale signs of re; *Result Update*	4,038	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
01-Oct-25	IT	Stable quarter amid high uncertainty ; *Sector Update*
25-Sep-25	IT	Accenture: Decent results and guidance; *Sector Update*
21-Sep-25	IT	Higher H-1B visa fee: A knock, not a kno; *Sector Update*

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	202
Hold	<15% and >-5%	69
Reduce	<-5%	37

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