



## Beat on Margins Front; Growth Momentum Continues

Est. Vs. Actual for Q2FY26: Revenue – **INLINE** ; EBIT Margin – **BEAT** ; PAT – **MISS**

### Change in Estimates YoY post Q2FY26:

**FY26E/FY27E:** Revenue: 0.1%/1.4%; EBIT: 1.5%/4.6%, PAT: -3.2%/4.5%

### Recommendation Rationale

- **Muted Demand Continues:** The broader economic environment continues to remain challenging, with clients keeping tight control over discretionary budgets. Therefore, there is a clear preference for vendor consolidation and cost take-out deals among clients. However, the company's rapid execution and deep relationship with clients will lead to sequential growth.
- **Deal Wins/Pipeline:** The company reported a deal TCV of \$10Bn, up 6.4% QoQ and 16.3% YoY, including a mega deal win from TRIB insurance. The new BSNL advance purchase order is expected to start from the next quarter.
- **AI Adoption:** TCS aims to become the world's largest AI-led technology services company, led by five pillars of growth, such as driving an AI-first culture, refining services, reskilling the current workforce through learning paths, developing innovative cross-industry solutions, and expanding the AI ecosystem through M&A (recent acquisition of ListEngage) and venturing into new businesses.

**Sector Outlook:** Cautiously optimistic

**Company Outlook & Guidance:** TCS sees strong focus from enterprises on scaling AI adoption across applications, workflows, and data platforms. The company anticipates the international market to perform better in FY26 than in FY25. With a strong deal pipeline across business verticals, new partnerships, and higher adoption for new-age technologies, we believe the growth momentum will remain intact for the subsequent quarters.

**Current Valuation:** 22x FY27E P/E

**Current TP:** 3,460/share

**Recommendation:** We recommend a **BUY** rating on the stock.

## Financial performance

In Q2FY26, Tata Consultancy Services reported revenue of Rs 65,799 Cr vs Rs 64,259 Cr, up 2.4% YoY and 3.7% QoQ. EBIT stood at Rs 16,565 Cr vs Rs 15,463 Cr, up 7.1% YoY and 6.8% QoQ. The company reported an exceptional item, i.e, restructuring expenses (provisioned for employee severance) during the quarter. Thus, Net Income fell by 5.4% QoQ to Rs 12,131 Cr in Q2FY26. In CC terms, revenue grew marginally by 0.8% QoQ while it fell by 3.3% YoY, primarily due to the ramp-down in the BSNL project and geopolitical uncertainties that led to demand contraction. International revenue grew by 0.6% QoQ. The board recommended an interim dividend of Rs 11/share.

## Valuation & Recommendation

The management sees green shoots in international markets in FY26 and expects it to be better than FY25. We are constructive on the long-term outlook of the company and expect the ongoing gradual recovery to continue further. We value the company at 22x of FY27EPS and revise our target from HOLD to BUY rating on the stock, with a target price of Rs 3,460/share, implying an upside of 13% from the CMP.

## Key Financials (Consolidated)

(Rs Cr)	Q2FY26	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	65,799	3.7	2.4	65,682	0.2
EBIT	16,565	6.8	7.1	15,928	4.0
EBIT Margin	25.2	72bps	111bps	24.3	3.8
Net Profit	12,131	(5.4)	1.5	12,874	(5.8)
EPS (Rs)	33.5	(5.4)	(8.0)	35.6	(5.8)

Source: Company, Axis Research

(CMP as of 9<sup>th</sup> Oct 2025)

CMP (Rs)	3,060
Upside /Downside (%)	13%
High/Low (Rs)	4,592/2,867
Market cap (Cr)	11,07,878
Avg. daily vol. (6m)Shrs.	2,903
No. of shares (Cr)	362

## Shareholding (%)

	Dec-24	Mar-25	Jun-25
Promoter	71.8	71.8	71.8
FII's	12.7	12.0	11.5
MFs/UTI	4.3	5.0	5.1
Banks/FIs	0.0	0.0	0.0
Others	11.2	11.2	11.6

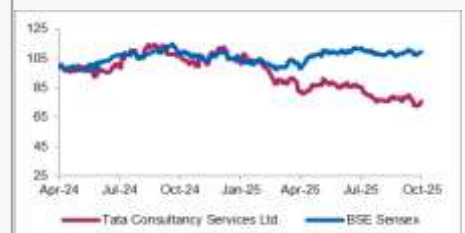
## Financial & Valuations

Y/E Mar (Rs Cr)	FY25	FY26E	FY27E
Net Sales	2,55,324	2,61,324	2,81,703
EBIT	62,165	65,303	73,276
Net Profit	48,553	50,686	56,326
EPS (Rs)	135.5	144.6	157.2
PER (x)	22.8	21.9	19.7
P/BV (x)	11.7	11.0	10.1
EV/EBITDA (x)	16.3	15.5	13.7
ROE (%)	52.4	51.8	53.6

## Change in Estimates (%)

Y/E Mar	FY26E	FY27E
Sales	0.1%	1.4%
EBIT	1.5%	4.6%
PAT	-3.2%	4.5%

## Relative performance



Source: AceEquity, Axis Securities

## Results Gallery

### Q1FY26

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## Outlook

From a long-term perspective, TCS has developed a resilient business model backed by multiple long-term contracts with leading global brands. The company has also built strong capabilities across domains, positioning it well to capture incremental market share in the evolving digital landscape. However, near-term growth prospects remain constrained by prevailing macroeconomic uncertainties in major economies, which continue to weigh on client spending. Despite this, discretionary IT spending is expected to recover gradually as adoption of newer technologies accelerates, supporting TCS's growth trajectory over the medium to long term.

## Key highlights

- In CC terms, India witnessed a de-growth of 33.3% YoY, followed by Continental Europe, which fell by 3% YoY, and the UK declined by 1.9% YoY, North America, which declined marginally by 0.1% YoY. However, the MEA market saw a growth of 12.7% YoY, while Asia Pacific and Latin America reported decent growth of 2% and 1.8% YoY, respectively.
- On the segmental front, BFSI was up by just 1% YoY; Manufacturing declined by 1.1% YoY; Energy, Resources & Utilities remained flat YoY; the Regional Markets & Others segment fell by 18.1% YoY; Technology & Services increased by 2.8% YoY; Consumer Business fell by 2.9% YoY; Life Sciences & Healthcare was down 2.2% YoY; and Communication & Media also declined by 5.1% YoY.
- EBIT margin for the quarter stood at 25.2%, an increase of 72 bps QoQ, led by operational efficiencies, despite a wage hike in the quarter. Also, TCV increased by 16% YoY, including a mega deal with TRIB insurance.
- TCS aims to become the world's largest AI-led technology services company, led by five pillars of growth, such as driving an AI-first culture, refining services, reskilling the current workforce through learning paths, developing innovative cross-industry solutions, and expanding the AI ecosystem through M&A (recent acquisition of ListEngage) and venturing into new businesses.
- Over the years, the company has significantly lowered its dependence on the H-1B visa program by localizing its workforce in the United States. As per the company, only about 500 associates have traveled to the US on H-1B visas. The company states that its business model is capable of adapting to clients' requirement quickly and to any changes in immigration policy.
- TCS is creating a new subsidiary to build a sovereign AI data center in India with a capacity of up to 1 gigawatt to capture the massive unmet demand for data center capacity in India. This capacity will build over 5-7 years. The capex will be around \$1 bn for every 150 megawatts, total outlay over \$6.4 bn, which will be funded through a mix of debt and equity. This enables to provision of passive infrastructure to hyperscalers, deep tech companies, the Indian government, and enterprises.
- The company has laid off 1% of its workforce, primarily at the mid and senior levels, due to a skill and capability mismatch. Headcount stood at 5,98,314 as on Q2FY26. However, 50,000 new hirings are planned in Tier-1 & Tier-2 Indian cities in the next few years.
- The recent cyberattacks impacted some of its clients, causing project start delays. However, the company's own systems were not compromised. The recovery efforts are now complete, and delayed projects are expected to resume in the coming quarters.
- The broader economic environment remains challenging, with clients keeping tight control over discretionary budgets. Therefore, vendor consolidation continues to be more preferred among clients, where TCS believes its AI-infused solutions will continue to win. The company remains committed to its aspirational operating margin band of 26-28%.

## Key Risks to our Estimates and TP

- The demand environment is uncertain because of the potential threat of recession from the world's largest economies.
- The rising subcontracting cost and cross-currency headwinds may impact operating margins negatively.

## Change in Estimates

	New		Old		% Change	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Sales	2,61,324	2,81,703	2,61,012	2,77,896	0.1%	1.4%
EBIT	65,303	73,276	64,347	70,035	1.5%	4.6%
PAT	49,551	56,326	51,188	53,918	-3.2%	4.5%

Source: Company, Axis Securities

## Results Review

(Rs Cr)

Y/E March	Q2FY26	Q1FY26	QoQ (%)	Q2FY25	YoY (%)
<b>Net sales</b>	<b>65,799</b>	<b>63,437</b>	<b>3.7</b>	<b>64,259</b>	<b>2.4</b>
Total Expenditure	47,821	46,562	2.7	47,529	0.6
<b>EBITDA</b>	<b>17,978</b>	<b>16,875</b>	<b>6.5</b>	<b>16,730</b>	<b>7.5</b>
<i>EBITDA margin (%)</i>	<i>27.3</i>	<i>26.6</i>	<i>72bps</i>	<i>26.0</i>	<i>129bps</i>
Depreciation	1,413	1,361	3.8	1,267	11.5
<b>EBIT</b>	<b>16,565</b>	<b>15,514</b>	<b>6.8</b>	<b>15,463</b>	<b>7.1</b>
<i>EBIT margin (%)</i>	<i>25.2</i>	<i>24.5</i>	<i>72bps</i>	<i>24.1</i>	<i>111bps</i>
Interest cost	229	195	17.4	162	41.4
Other income	867	1,660	(47.8)	729	18.9
Exceptional item	1,135	0	NA	0	NA
<b>PBT</b>	<b>16,068</b>	<b>16,979</b>	<b>(5.4)</b>	<b>16,030</b>	<b>0.2</b>
Tax	3,937	4,160	(5.4)	4,077	(3.4)
<b>Profit after tax</b>	<b>12,131</b>	<b>12,819</b>	<b>(5.4)</b>	<b>11,953</b>	<b>1.5</b>
<b>Reported EPS</b>	<b>33.5</b>	<b>35.4</b>	<b>(5.4)</b>	<b>32.7</b>	<b>2.6</b>
<b>Adj. PAT</b>	<b>10,996</b>	<b>12,819</b>	<b>(14.2)</b>	<b>11,953</b>	<b>(8.0)</b>
<b>Adj. EPS</b>	<b>30.4</b>	<b>35.4</b>	<b>(14.2)</b>	<b>32.7</b>	<b>(7.0)</b>

Source: Company, Axis Securities

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25	FY26E	FY27E
<b>Net sales</b>	<b>2,25,458</b>	<b>2,40,893</b>	<b>2,55,324</b>	<b>2,61,324</b>	<b>2,81,703</b>
Change(yoy,%)	17.58	6.85	5.99	2.35	7.80
Operating expenses	1,66,198	1,76,597	1,87,917	1,90,342	2,02,230
EBITDA	59,260	64,296	67,407	70,983	79,473
Change (yoy,%)	11.7	8.5	4.8	5.3	12.0
Margin (%)	26.3	26.7	26.4	27.2	28.2
Depreciation	5,023	4,984	5,242	5,680	6,197
<b>EBIT</b>	<b>54,237</b>	<b>59,312</b>	<b>62,165</b>	<b>65,303</b>	<b>73,276</b>
Interest paid	779	778	796	840	869
Other income	2,245	2,261	2,363	1,875	2,676
<b>Pre-tax profit</b>	<b>56,907</b>	<b>61,998</b>	<b>65,331</b>	<b>67,704</b>	<b>75,466</b>
<b>Tax</b>	<b>14,604</b>	<b>15,898</b>	<b>16,534</b>	<b>16,761</b>	<b>18,867</b>
Effective tax rate (%)	26	26	25	25	25
Minority Interest	(156)	(191)	(244)	-257	-274
<b>Net profit</b>	<b>42,147</b>	<b>45,909</b>	<b>48,553</b>	<b>49,551</b>	<b>56,326</b>
Exceptional items	-	(958)	-	(1,135)	-
<b>Adjusted net profit</b>	<b>42,147</b>	<b>46,867</b>	<b>48,553</b>	<b>50,686</b>	<b>56,326</b>
Change(yoy,%)	10.0	11.2	3.6	4.4	11.1
<b>Adj.EPS</b>	<b>116</b>	<b>130</b>	<b>136</b>	<b>145</b>	<b>157</b>
Dividend per sh	115	73	126	120	130
Dividend Payout (%)	100	58	96	88	85

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Share capital	366	362	362	362	362
Reserves & surplus	90,058	90,127	94,394	1,00,694	1,08,935
Shareholders funds	90,424	90,489	94,756	1,01,056	1,09,297
Total Debt	6,203	6,516	7,838	7,838	7,838
Other liabilities	2,684	2,510	3,019	3,019	3,019
<b>Curr Liab &amp; prov</b>	<b>43,558</b>	<b>46,104</b>	<b>53,001</b>	<b>53,610</b>	<b>54,742</b>
Current liabilities	43,213	45,964	52,821	53,430	54,562
Provisions	345	140	180	180	180
Total liabilities	52,445	55,130	63,858	64,467	65,599
<b>Total equity &amp; liabilities</b>	<b>1,43,651</b>	<b>1,46,449</b>	<b>1,59,629</b>	<b>1,66,538</b>	<b>1,75,911</b>
Net fixed assets	10,230	9,376	10,978	11,354	11,787
Investments	266	281	275	275	275
Other non-curr assets	22,885	23,808	25,365	25,340	25,340
<b>Current assets</b>	<b>1,10,270</b>	<b>1,12,984</b>	<b>1,23,011</b>	<b>1,29,568</b>	<b>1,38,509</b>
Inventories	-	-	-	0	0
Sundry Debtors	49,954	53,577	59,046	60,976	59,428
Cash & Liquid	11,032	13,286	15,463	20,091	30,579
Other Curr Assets	49,284	46,121	48,502	48,502	48,502
<b>Total assets</b>	<b>1,43,651</b>	<b>1,46,449</b>	<b>1,59,629</b>	<b>1,66,538</b>	<b>1,75,911</b>

Source: Company, Axis Securities

**Cash Flow**
**(Rs Cr)**

Y/E March	FY23	FY24	FY25	FY26E	FY27E
<b>Pre tax</b>	42,147	45,909	48,553	50,686	56,326
Depreciation	5,023	4,984	5,242	5,680	6,197
Chg in working capital	(7,942)	2,086	(953)	(1,321)	2,680
Other operating activities	2,353	2,298	2,076	3,279	4,007
<b>Cash flow from operations (a)</b>	<b>36,558</b>	<b>50,293</b>	<b>49,676</b>	<b>52,644</b>	<b>63,013</b>
Capital expenditure	(2,044)	(1,509)	(6,844)	(500)	(600)
Chg in investments	67	197	(51)	25	-
Other investing activities	2,661	3,287	2,462	4,376	3,060
<b>Cash flow from investing (b)</b>	<b>684</b>	<b>1,975</b>	<b>(4,433)</b>	<b>3,901</b>	<b>2,460</b>
Equity raised/(repaid)	-	(4)	-	-	-
Debt raised/(repaid)	(430)	139	1,831	-	-
Dividend (incl. tax)	(42,266)	(26,674)	(46,642)	(44,386)	(48,085)
Chg in minorities	75	48	185	-	-
Other financing activities	(1,810)	(23,523)	1,560	(7,531)	(6,899)
<b>Cash flow from financing (c)</b>	<b>(44,431)</b>	<b>(50,014)</b>	<b>(43,066)</b>	<b>(51,917)</b>	<b>(54,984)</b>
Net chg in cash (a+b+c)	(7,189)	2,254	2,177	4,628	10,488
Opening cash balance	18,221	11,032	13,286	15,463	20,091
Closing cash balance	11,032	13,286	15,463	20,091	30,579

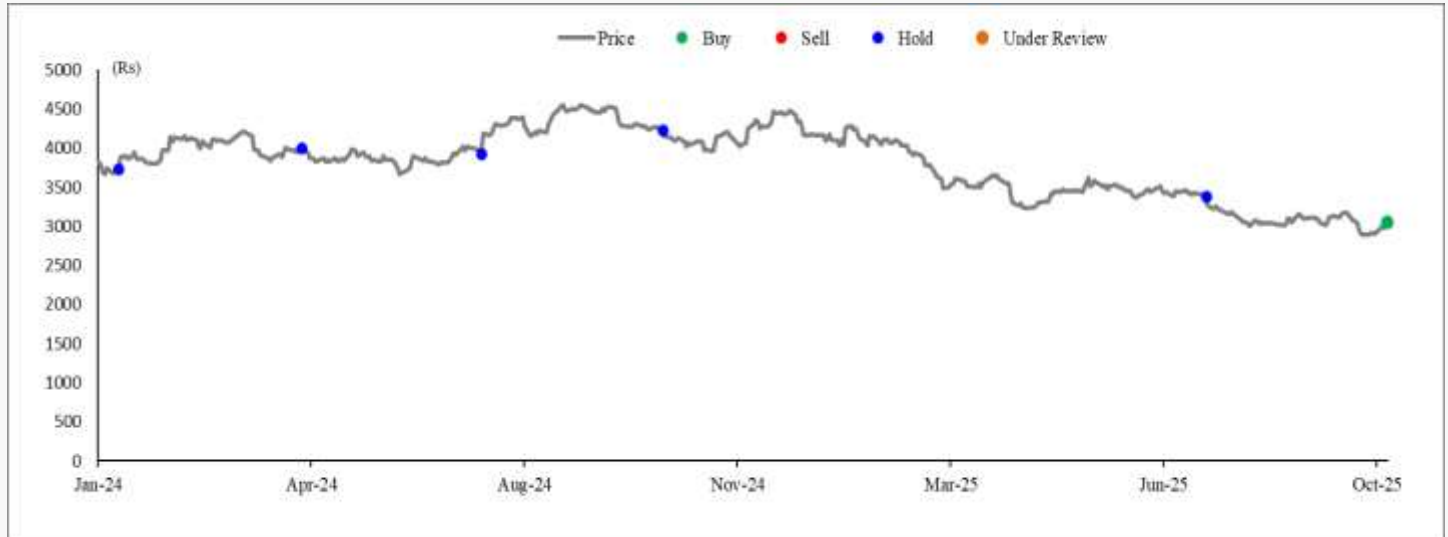
Source: Company, Axis Securities

**Ratio Analysis**
**(%)**

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Book Value (Rs)	247	248	262	279	302
Adj EPS (Rs)	116	130	136	145	157
Adj EPS growth (%)	26.8	28.3	27.6	26.0	26.7
EBITDA margin (%)	26.3	26.7	26.4	27.2	28.2
Pre-tax margin (%)	25.2	25.7	25.6	25.9	26.8
Debt/Equity (x)	0.07	0.07	0.08	0.08	0.07
ROCE (%)	43	47	48	47	49
ROE (%)	47	51	52	52	54
<b>Financial leverage ratios</b>					
Debt / Equity (x)	0.1	0.1	0.1	0.1	0.1
Interest Coverage (x)	69.6	76.2	78.1	77.7	84.3
Interest / Debt (%)	0.1	0.1	0.1	0.1	0.1
<b>Working Capital &amp; Liquidity Ratio</b>					
Inventory days	0	0	0	0	0
Receivable days	80	80	84	84	84
Payable days	17	15	20	20	20
<b>Valuation ratio</b>					
PER (x)	26.6	24.3	22.8	21.9	19.7
Adjusted PER (x)	26.4	23.6	22.6	21.2	19.5
P/BV (x)	12.4	12.3	11.7	11.0	10.1
EV/EBITDA (x)	18.8	17.3	16.3	15.5	13.7
Market Cap. / Sales (x)	5.0	4.6	4.3	4.3	4.0

Source: Company, Axis Securities

## Tata Consultancy Services Price Chart and Recommendation History



Date	Reco	TP	Research
11-Jan-24	HOLD	4,075	Result Update
15-Apr-24	HOLD	4,250	Result Update
12-Jul-24	HOLD	4,250	Result Update
11-Oct-24	HOLD	4,560	Result Update
11-Jul-25	HOLD	3,625	Result Update
10-Oct-25	BUY	3,460	Result Update

Source: Axis Securities Research

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BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
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