

Tata Consultancy Services

Growth momentum strengthens amid delay in margin recovery; Maintain Buy

Rating: **BUY**

Target Price (12-mnth): Rs.2,430

Share Price: Rs.2,076

TCS delivered an encouraging Q2FY27 performance beneath a modest +0.5% q/q and +2.8% y/y CC growth. International revenue accelerated to +1.2% q/q CC, supported by the UK (+3.5%), BFSI (+2.5%), and Manufacturing and Technology (+3.1% each), however, a sharp 10.3% decline in India following project deferrals. North America (+0.4%) remained subdued, while Consumer (-0.7%) remains exposed to selective discretionary spend. TCV remained healthy at \$9.6bn, excluding the Porsche (\$1.5bn; 5-yr) and Best Buy (GCC) engagements, with improving win rates supporting medium-term revenue visibility. Annualised AI revenue reached \$3.1bn (+19.2% q/q; ~10% mix), with TCS confirming materially higher margins than the company average, echoing a similar commentary by its global peer - Globant. EBIT margin remained flat at 24.0%, as a 30bps gross-margin contraction from higher subcontracting costs (+15.4% q/q; 6.8% of revenues) and project and strategic partnership expenses (+8.8%; 3.6%) was offset by lower SG&A intensity, aided by currency gains, operating leverage and lower variable pay; however, ~50bps potential impact of MHP dilution, seasonal furloughs and continued investments constrain near-term margin recovery. We remain cautiously optimistic, as broadening core-market growth (especially BFSI), increasing AI monetisation and strategic deal wins strengthen the medium-term view, although revenue conversion and margin recovery remain the key execution monitorables.

Core-market growth broadening: Growth was supported by BFSI, manufacturing and enterprise technology programmes rather than a broad recovery in discretionary spending. India's deferred projects are expected to return, although timing remains uncertain, while BSNL could cushion regional volatility. North America's subdued growth remains an important constraint.

AI monetisation deepens; incremental growth remains the key: TCS confirmed that AI revenue carries materially higher margins and benefits from better pricing. However, it acknowledged that productivity-led deflation in traditional services is not complete. Thus, its ability to offset legacy-service compression and accelerate consolidated growth remains to be demonstrated.

Margin recovery moves further out: TCS is investing ahead of demand through specialised hiring, a larger bench, subcontractors and ecosystem partnerships. However, the associated costs will weigh before revenue conversion, with MHP expected to add ~50bps of margin dilution depending on closure timing.

Outlook & Valuation: We have revised our FY27/28/29e USD revenue and EPS estimates by -0.1/0.5/0.5% and 0.3/0.3/0.6% with FY27-29e adj. EPS CAGR of 6.0%. At CMP, the stock trades at FY28/29e P/E of 12.7x/11.9x. We maintain Buy rating on TCS with a TP of Rs2,430, which implies ~17% upside from the CMP.

Key Risks: Persistent North American and Consumer weakness; AI-led productivity deflation outpacing incremental revenue; sustained subcontracting, partnership costs and MHP-related dilution delaying margin recovery.

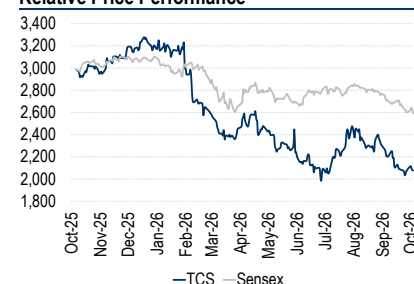
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Key Data	TCS IN / TCS.BO
52-week high / low	Rs3350 / 1977
Sensex / Nifty	71593 / 22232
Market cap	Rs7497bn
Shares outstanding	3618m

Shareholding Pattern (%)	Jun'26	Mar'26	Dec'25
Promoters	71.8	71.8	71.8
- of which, Pledged	-	-	-
Free float	28.2	28.2	28.2
- Foreign institutions	9.1	9.7	10.4
- Domestic institutions	13.4	13.3	12.8
- Public	5.7	5.1	5.0

Estimates Revision (%)	FY27e	FY28e	FY29e
Sales (\$)	-0.1	0.5	0.5
Adj. EBIT	-0.6	-0.6	-0.4
Adj. PAT	0.3	0.3	0.6

Relative Price Performance



Source: Bloomberg

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Quick Glance – Financial and Valuations (Consolidated)

Fig 1 – Income Statement (Rs m)

Y/E Mar	FY25	FY26	FY27e	FY28e	FY29e
Revenue (\$m)	30,179	30,017	30,757	31,988	32,949
Growth (%)	3.8	-0.5	2.5	4.0	3.0
Net revenue (Rs m)	25,53,240	26,70,210	29,49,427	31,33,114	32,92,254
Employee & Direct Costs	15,19,050	15,56,410	17,47,855	18,46,193	19,31,735
Gross Profit	10,34,190	11,13,800	11,98,845	12,70,749	13,35,294
Gross Margin %	40.5	41.7	40.6	40.6	40.6
SG&A	3,60,120	3,89,820	4,40,459	4,65,693	4,88,441
EBITDA	6,74,070	7,23,980	7,58,386	8,05,056	8,46,854
EBITDA margins (%)	26.4	27.1	25.7	25.7	25.7
- Depreciation	52,420	55,600	49,239	51,331	53,415
Other income	31,660	31,750	41,231	40,815	51,528
Interest Exp	-0	-0	-0	-0	-0
PBT	6,53,310	6,54,870	7,50,325	7,94,540	8,44,966
Effective tax rate (%)	25	24	25	25	25
+ Associates/(Minorities)	-2,440	-2,440	-2,210	-2,000	-2,000
Net Income	4,85,530	4,92,100	5,60,463	5,92,008	6,29,707
WANS	3,618	3,618	3,618	3,618	3,618
FDEPS (Rs/share)	134.2	136.0	154.9	163.6	174.0

Fig 3 – Cashflow Statement (Rs m)

Y/E Mar	FY25	FY26	FY27e	FY28e	FY29e
PBT	6,53,310	6,54,870	7,50,325	7,94,540	8,44,966
+ Non-cash items	53,270	62,610	49,239	51,331	53,415
Operating profit before WC	7,06,580	7,17,480	7,99,564	8,45,871	8,98,381
- Incr./(decr.) in WC	36,460	27,260	33,738	9,465	9,934
Others including taxes	-1,55,860	-1,43,840	-1,87,652	-2,00,532	-2,13,259
Operating cash-flow	5,14,260	5,46,380	5,78,174	6,35,874	6,75,188
- Capex (tang + Intang)	29,170	36,700	40,538	43,062	36,215
Free cash-flow	4,85,090	5,09,680	5,37,637	5,92,812	6,38,973
Acquisitions	-	-67,500	-36,534	-	-
- Div. (incl. buyback & taxes)	4,49,620	3,95,710	4,53,279	4,78,791	5,09,281
+ Equity raised	-	-	-	-	-
+ Debt raised	-	-	-	-	-
- Fin Investments	15,380	-39,050	-	-	-
- Misc. Items (CFI + CFF)	35,430	1,11,850	-	-	-
Net cash-flow	-15,340	-26,330	47,823	1,14,021	1,29,693

Source: Company, Anand Rathi Research

Fig 2 – Balance Sheet (Rs m)

Y/E Mar	FY25	FY26	FY27e	FY28e	FY29e
Share capital	3,620	3,620	3,620	3,620	3,620
Net worth	9,68,820	10,93,760	12,00,944	13,14,161	14,34,588
Total debt (incl. Pref)	-	-	-	-	-
Minority interest	10,150	12,380	14,590	16,590	18,590
DTL/(Asset)	-41,290	-46,610	-46,610	-46,610	-46,610
Capital employed	9,37,680	10,59,530	11,68,924	12,84,141	14,06,568
Net tangible assets	48,231	29,331	20,629	12,361	-4,840
Net Intangible assets	49,640	1,14,580	1,14,580	1,14,580	1,14,580
Goodwill					
CWIP (tang. & intang.)	1,73,839	2,22,739	2,22,739	2,22,739	2,22,739
Oth.Long-term Asset/Liab	-76,090	-1,07,100	-1,07,100	-1,07,100	-1,07,100
Investments (Financial)	3,46,210	3,91,300	3,91,300	3,91,300	3,91,300
Current Assets(ex. Cash)	7,52,840	8,70,920	9,55,107	10,06,007	10,57,105
Cash	1,62,660	1,36,330	1,84,153	2,98,174	4,27,867
Current Liabilities	5,19,650	5,98,570	6,49,019	6,90,454	7,31,618
Working capital	2,33,190	2,72,350	3,06,088	3,15,553	3,25,487
Capital deployed	9,37,680	10,59,530	11,68,924	12,84,141	14,06,568

Fig 4 – Ratio Analysis

Y/E Mar	FY25	FY26	FY27e	FY28e	FY29e
P/E (x)	15.5	14.3	13.4	12.7	11.9
EV/EBITDA (x)	10.3	9.6	9.1	8.6	8.2
EV/sales (x)	2.7	2.6	2.3	2.2	2.0
P/B (x)	7.8	6.9	6.3	5.7	5.2
RoE (%)	51.2	47.7	48.8	47.1	45.8
RoCE (%) - After tax	43.5	43.1	40.9	39.9	38.7
RoIC (%) - After tax	82.3	77.2	70.9	72.1	76.2
DPS (Rs per share)	126.0	110.0	125.3	132.3	140.8
Dividend yield (%)	6.1	5.3	6.0	6.4	6.8
Dividend payout (%) - Inc. DDT	135.1	80.9	80.9	80.9	80.9
Net debt/equity (x)	-0.5	-0.5	-0.5	-0.5	-0.6
Receivables (days)	85	93	92	91	91
Inventory (days)					
Payables (days)	20	20	21	22	23
CFO:PAT%	105	110	103	107	107

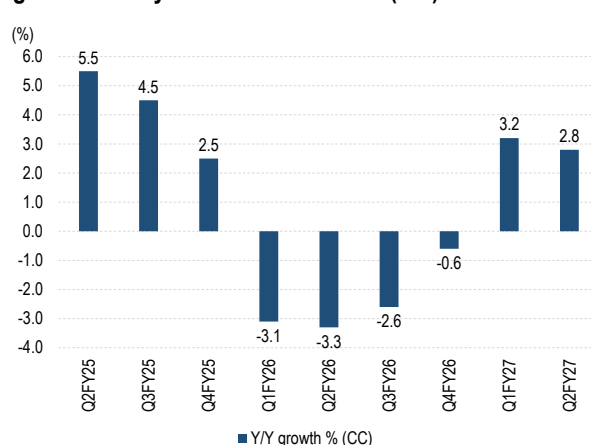
Source: Company, Anand Rathi Research

Fig 5 – Price Movement



Source: Bloomberg

Fig 6 – Quarterly CC Revenue Growth (Y/Y)



Source: Company

Earnings Concall – Key Takeaways

Quarterly Highlights

- Q2 revenue came in at \$7,652mn (+0.5% q/q & +2.8% y/y) in CC.
- TCV came in at with \$9.6bn (-4.0% y/y), excluding the Porsche and Best Buy deals
- EBIT margin came in at 24.0% (flat q/q), margin pressure was primarily driven by higher subcontractor costs and investments in strategic partnerships, M&A, talent and higher bench capacity. H2 margins will face headwinds from ~50 bps dilution from the MHP acquisition, along with normal Q3 furlough seasonality.
- Headcount stood at 598.1k (up 0.7% q/q; 4,258 net addition) with attrition coming in at 13.3% (down 30bps q/q). They onboarded 10k campus graduates during the quarter (14k in Q1).
- TCS declared an interim dividend of Rs12/share.

Demand Commentary

- **BFSI (32.8% revenue; +2.5% q/q CC Growth):** BFSI was the strongest large vertical and largest growth contributor, with broad-based momentum across banking, capital markets and insurance, particularly in the UK, Europe and APAC, driven by investments in AI, risk & regulatory modernization, cyber resilience, data platforms. BFSI is where AI revenue as a percentage of revenue grew fastest.
- **Consumer Business (14.9% revenue; -0.7% q/q CC growth):** Retail and consumer products remain sensitive to inflation, selective consumer spending, while travel, transportation and hospitality demand remains resilient despite cost pressures and sourcing changes; management expects Q3 to improve seasonally.
- **Life Sciences & Healthcare (10.3% revenue; +0.3% q/q CC Growth):** Life sciences and healthcare demand is supported by long-term compliance and clinical/research priorities, with key growth areas in data modernization, AI-led drug discovery, patient engagement, revenue-cycle modernization and cybersecurity.
- **Manufacturing (9.0% revenue; +3.1% q/q CC growth):** Manufacturing demand is improving across factory automation, engineering, supply-chain and industrial AI, while investments in AI-led vehicle engineering, smart manufacturing and physical AI are helping TCS win larger, more strategic programs.
- **Technology & Services (8.6% revenue; +3.1% q/q CC growth):** Technology, Software & Services growth was driven by enterprise software, technology products, engineering, cloud modernization and digital transformation, with increasing agentic AI adoption across traditional application and infrastructure portfolios.
- India revenue declined sequentially due to project deferrals, with management seeing no structural issue and expecting the work to return over the medium term. The deferrals were unrelated to hardware or pass-through expenses.

Commentary on GenAI

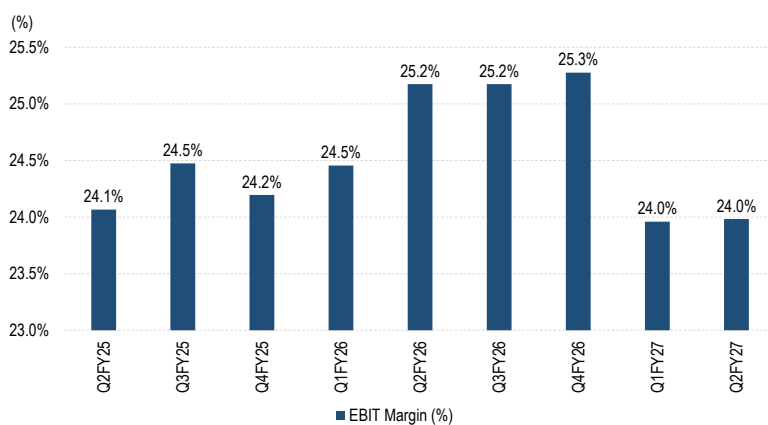
- Annualized AI services revenue increased to \$3.1bn (up 19.2% q/q, ~10% of revenue), where AI work carries much higher margins than the company average.
- TCS sees three demand patterns: AI-native solutions tied to business outcomes, AI-led transformation of enterprise systems such as ERP, and autonomous GBS. Data modernization runs underneath all three.
- Management cautioned that AI-related deflation has not fully played out, as productivity benefits can create deflation, but AI-led modernization and vendor consolidation are simultaneously creating incremental opportunities.
- Agentic AI is gaining traction, with strong demand for agentic control planes that address governance, security, cost management and the full agent lifecycle.
- AI-led productivity creates some deflation, but management sees this being offset by AI-led modernization and vendor consolidation opportunities, particularly in BFSI, Manufacturing and Life Sciences.

Quarterly Snapshot

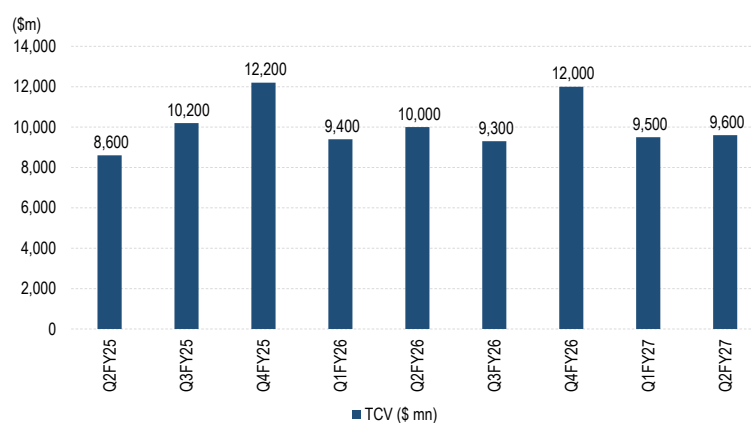
Fig 7 – Quarterly Performance (Rs m)

Y/E Mar	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26	Q1FY27	Q2FY27	Q/Q %	Y/Y %
Revenue (\$ m)	7,539	7,465	7,421	7,466	7,509	7,621	7,624	7,642	0.2%	2.4%
Growth Y/Y %	3.5%	1.4%	-1.1%	-2.7%	-0.4%	2.1%	2.7%	2.4%		
Revenue (Rs m)	6,39,730	6,44,790	6,34,370	6,57,990	6,70,870	7,06,980	7,22,750	7,31,880	1.3%	11.2%
Effec. exchange rate	84.9	86.4	85.5	88.1	89.3	92.8	94.8	95.8	1.0%	8.7%
TCV (\$ m)	10,200	12,200	9,400	10,000	9,300	12,000	9,500	9,600	1.1%	-4.0%
TCV (LTM)	40,300	39,300	40,400	41,800	40,900	40,700	40,800	40,400	-1.0%	-3.3%
TCV:Rev.	1.4	1.6	1.3	1.3	1.2	1.6	1.2	1.3		
Employees (EoP)	6,07,354	6,07,979	6,13,069	5,93,314	5,82,163	5,84,519	5,93,798	5,98,056	0.7%	0.8%
Rev. prod. (\$ '000/employee)	12.4	12.3	12.2	12.4	12.8	13.1	12.9	12.8	-0.9%	3.6%
CoR (excl. D&A)	(3,80,610)	(3,83,890)	(3,75,450)	(3,86,650)	(3,86,230)	(4,08,080)	(4,27,015)	(4,35,039)	1.9%	12.5%
As % of revenue	-59%	-60%	-59%	-59%	-58%	-58%	-59%	-59%	-36 bps	-68 bps
SG&A	(88,790)	(91,100)	(90,170)	(91,560)	(1,01,950)	(1,06,140)	(1,10,505)	(1,09,041)	-1.3%	19.1%
As % of revenue.	-14%	-14%	-14%	-14%	-15%	-15%	-15%	-15%	39 bps	-98 bps
EBITDA	1,70,330	1,69,800	1,68,750	1,79,780	1,82,690	1,92,760	1,85,230	1,87,800	1.4%	4.5%
EBITDA margins %	26.6%	26.3%	26.6%	27.3%	27.2%	27.3%	25.6%	25.7%	3 bps	-166 bps
EBIT	1,56,570	1,56,010	1,55,140	1,65,650	1,68,890	1,78,700	1,73,170	1,75,530	1.4%	6.0%
EBIT margins %	24.5%	24.2%	24.5%	25.2%	25.2%	25.3%	24.0%	24.0%	2 bps	-119 bps
Other income (excl. forex)	11,970	11,800	14,020	8,130	8,270	7,440	7,080	8,460	19.5%	4.1%
Non-recurring / Forex	(1,880)	(3,790)	630	(1,750)	(2,470)	(2,520)	5,870	2,390	-59.3%	-236.6%
PBT	1,66,660	1,64,020	1,69,790	1,60,680	1,40,780	1,83,620	1,79,440	1,86,380	3.9%	16.0%
PBT margins %	26.1%	25.4%	26.8%	24.4%	21.0%	26.0%	24.8%	25.5%	64 bps	105 bps
Taxes	(42,220)	(41,090)	(41,600)	(39,370)	(33,580)	(45,780)	(45,240)	(47,040)	4.0%	19.5%
ETR %	-25%	-25%	-25%	-25%	-24%	-25%	-25%	-25%	-3 bps	-74 bps
Associates / Minority	(640)	(690)	(590)	(560)	(630)	(660)	(710)	(500)	-29.6%	-10.7%
Net income	1,23,800	1,22,240	1,27,600	1,20,750	1,06,570	1,37,180	1,33,490	1,38,840	4.0%	15.0%
Net margins %	19.4%	19.0%	20.1%	18.4%	15.9%	19.4%	18.5%	19.0%	50 bps	62 bps
EPS (Rs)	34.2	33.8	35.3	35.7	37.1	37.9	36.9	38.4	4.0%	7.6%

Source: Company

Fig 8 – EBIT Margin (%)

Source: Company, Anand Rathi Research

Fig 9 – TCV (\$ m)

Source: Company, Anand Rathi Research

Outlook and Valuation

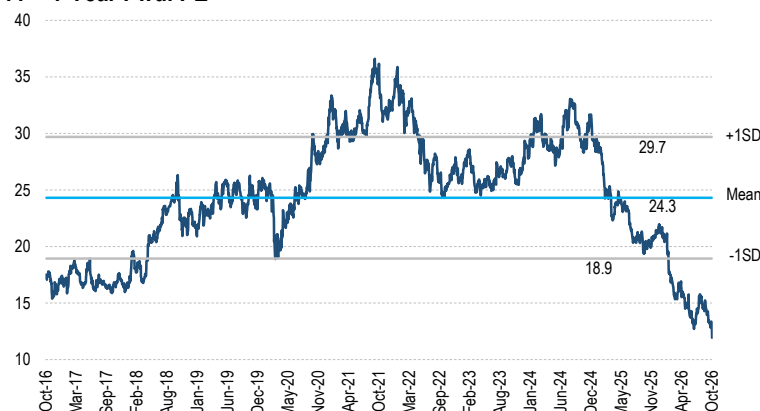
Fig 10 – Change in Estimates

(Rs m)	FY27e			FY28e			FY29e		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue (\$ m)	30,757	30,775	(0.1)	31,988	31,839	0.5	32,949	32,792	0.5
Revenue (Rs m)	29,49,427	29,39,558	0.3	31,33,114	31,02,368	1.0	32,92,254	32,59,643	1.0
EBITDA	7,58,386	7,62,741	(0.6)	8,05,056	8,09,426	(0.5)	8,46,854	8,49,710	(0.3)
EBITDA Margin (%)	25.7%	25.9%	-23 bps	25.7%	26.1%	-40 bps	25.7%	26.1%	-34 bps
EBIT	7,09,147	7,13,773	(0.6)	7,53,725	7,58,469	(0.6)	7,93,439	7,96,684	(0.4)
EBIT Margin (%)	24.0%	24.3%	-24 bps	24.1%	24.4%	-39 bps	24.1%	24.4%	-34 bps
PBT (Adj.)	7,50,325	7,48,771	0.2	7,94,540	7,93,309	0.2	8,44,966	8,40,669	0.5
Net PAT (Adj.)	5,60,463	5,58,823	0.3	5,92,008	5,90,462	0.3	6,29,707	6,25,881	0.6

Source: Anand Rath Research

We have revised our FY27/28/29e USD revenue and EPS estimates by -0.1/0.5/0.5% and 0.3/0.3/0.6% with FY27-29e adj. EPS CAGR of 6.0%. At CMP, the stock trades at FY28/29e P/E of 12.7x/11.9x. We maintain Buy rating on TCS with a TP of Rs2,430, which implies ~17% upside from the CMP.

Fig 11 – 1-Year Fwd. PE



Source: Bloomberg, Anand Rath Research

Key Risks

- Persistent North American and Consumer weakness.
- AI-led productivity deflation outpacing incremental revenue.
- Sustained subcontracting and partnership costs.
- MHP-related dilution delaying margin recovery.

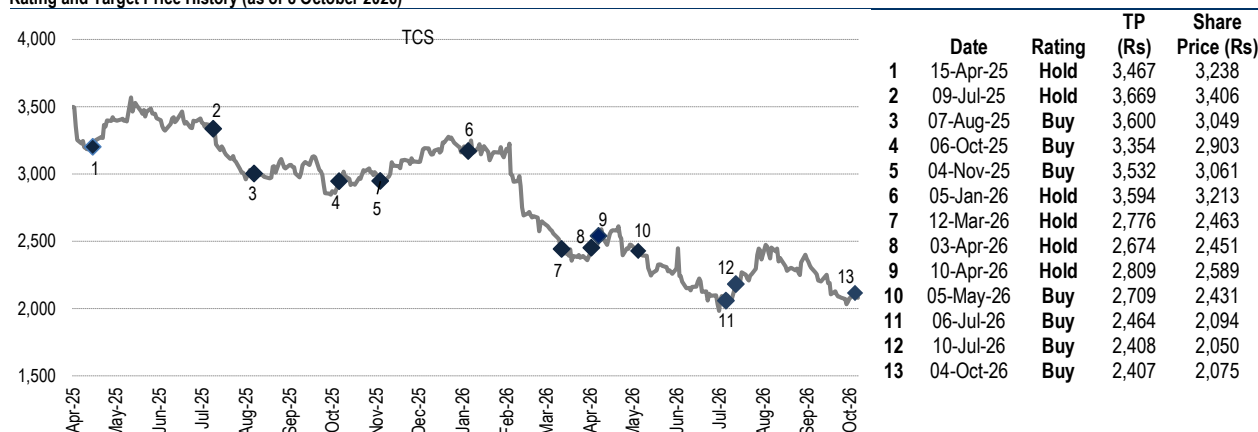
Appendix

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Rating and Target Price History (as of 8 October 2026)



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	Buy	Hold	Sell
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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