

TCS's operating performance missed expectations in Q2. Revenue grew 2.2% QoQ (1.1% CC) to USD7.67bn, in line with expectation. Although, revenue composition was weaker than expected with higher-than-estimated contribution from the BSNL deal, partly negated by softness in mature markets. EBITM declined by 60bps QoQ to 24.1% and missed expectations. Deal wins were steady at USD8.6bn (book-to-bill ~1.1x) and remained within the guided comfort range of USD7-9bn per quarter. Management highlighted some signs of demand improvement, notably in BFSI in North America; however, weak discretionary spending, client-specific challenges, slower decision-making, and client's cautious behavior amid macro uncertainties weighed on revenue growth. We cut earnings estimates by 1.2-2.4% for FY25-27 considering the Q2 miss. After ~5%/13% underperformance compared to Nifty IT index over 3M/6M, TCS's relative valuation is not demanding. Given the lack of any near-term trigger, we retain REDUCE with TP of Rs4,500/sh at 28x Sep-25E EPS.

TCS: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	2,254,580	2,408,930	2,563,067	2,748,594	2,975,235
EBITDA	592,600	633,370	687,937	758,046	821,470
Adj. PAT	421,470	459,080	496,189	551,325	602,426
Adj. EPS (Rs)	115.2	126.9	137.1	152.4	166.5
EBITDA margin (%)	26.3	26.3	26.8	27.6	27.6
EBITDA growth (%)	11.7	6.9	8.6	10.2	8.4
Adj. EPS growth (%)	10.0	10.2	8.1	11.1	9.3
RoE (%)	45.9	49.6	49.1	46.2	43.1
RoIC (%)	83.4	85.1	89.4	93.3	94.8
P/E (x)	36.7	33.3	30.8	27.7	25.4
EV/EBITDA (x)	25.4	23.5	21.5	19.3	17.6
P/B (x)	16.7	16.5	13.9	11.9	10.2
FCFF yield (%)	2.7	2.9	3.1	3.4	3.7

Source: Company, Emkay Research

Results Summary

Revenue grew 2.2% QoQ (1.1% CC) to USD7.67bn, in line with our estimate. Cost of equipment and software licenses increased USD128mn QoQ, partly reflecting ramp up of the BSNL deal. EBITM fell by 60bps QoQ to 24.1%, below our estimate of 24.8%, due to higher third-party expenses and continued investments in talent and infrastructure, partly negated by currency benefits and absence of one-off costs. Among geographies, India, MEA, and APAC led growth with 21.3%, 7.3%, and 4.8% QoQ, followed by UK and Continental Europe which grew 2.8% and 3.6%, whereas North America declined 1.7% (in USD terms). Growth was led by Regional Markets & Others, ERU, BFSI, Consumer, and Technology & Services which grew 13.1%, 4.0%, 1.9%, 0.2%, and 0.9% QoQ. Communications & Media, Manufacturing, and Life Science & Healthcare declined 2.7%, 0.1%, and 3.4% QoQ. **What we liked:** Signs of recovery in BFSI, steady deal intake. **What we did not like:** EBITM miss, muted revenue growth excl. regional markets.

Earnings Call KTAs

i) The demand environment remains cautious with clients prioritizing spend on initiatives oriented toward cost optimization, which offer immediate ROI. The management though is hopeful of some recovery in Q4, led by gradual easing of inflation and interest rates, and a good holiday season. ii) BFSI is seeing signs of improvement with growth in North America, Europe, and UK led by banking, insurance, and risk and compliance, while capital markets was a laggard. iii) Retail customers continue to follow a cautious approach owing to macro uncertainties. Consumer spending during the coming holiday season may lead to uptick in discretionary and overall tech spending. iv) Manufacturing is seeing some pressure in the short term as labor and supply-chain issues are weighing on demand. v) Life Sciences and Healthcare saw weakness in Q2 due to client-specific challenges also impacting growth in North America. vi) CME continues to face growth headwinds. Interest rate cuts may be a trigger for higher capex spending by clients. vii) There are over 600 AI/GenAI engagements (vs 275 in Q1) including 86 engagements moving to production in Q2 (vs 8 in Q1). viii) BSNL deal is expected to maintain similar levels for another quarter before tapering down. Management expects improvement in margin as third party expense for the BSNL project tapers down in coming quarters. It is aspiring for EBITM at 26-28% in the medium term and exit EBITM of 26% for Q4. ix) The management expects furlough impact in Q3 to be similar to last year.

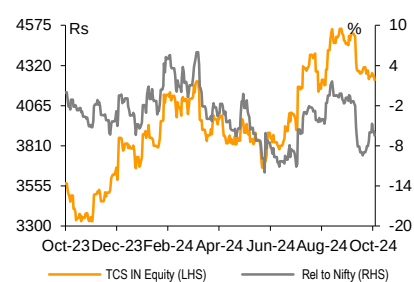
Target Price – 12M	Sep-25
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	6.4
CMP (10-Oct-24) (Rs)	4,227.4

Stock Data	Ticker
52-week High (Rs)	4,592
52-week Low (Rs)	3,296
Shares outstanding (mn)	3,618.1
Market-cap (Rs bn)	15,295
Market-cap (USD mn)	1,82,133
Net-debt, FY25E (Rs mn)	-5,37,715
ADTV-3M (mn shares)	3
ADTV-3M (Rs mn)	11,296.4
ADTV-3M (USD mn)	134.5
Free float (%)	28.0
Nifty-50	24,998
INR/USD	84.0
Shareholding, Jun-24	
Promoters (%)	71.8
FPIs/MFs (%)	12.4/11.1

Price Performance

(%)	1M	3M	12M
Absolute	(6.2)	8.1	17.0
Rel. to Nifty	(6.1)	5.2	(7.8)

1-Year share price trend (Rs)



Dipesh Mehta

dipeshkumar.mehta@emkayglobal.com
+91 22 6612 1253

Kevin Shah

kevin.shah@emkayglobal.com
+91 22 6612 1340

Pulkit Chawla

pulkit.chawla@emkayglobal.com
+91 22 6624 2458

Exhibit 1: Quarterly snapshot

Particular (Rs mn)	Q2 FY25	Q1 FY25	QoQ (%)	Q2 FY25	YoY (%)
Net sales (USD mn)	7,670	7,505	2.2	7,210	6.4
Net sales	6,42,590	6,26,130	2.6	5,96,920	7.7
Operating expenses	4,75,270	4,59,510		4,39,470	
EBITDA	1,67,320	1,66,620	0.4	1,57,450	6.3
- Margin (%)	26.0	26.6	-60.0	26.4	(30.0)
Depreciation	12,670	12,200		12,620	
EBIT	1,54,650	1,54,420	0.1	1,44,830	6.8
- Margin (%)	24.1	24.7	-60.0	24.3	-20.0
Other income	5,670	7,890		8,470	
Pre-tax profit	1,60,320	1,62,310	-1.2	1,53,300	4.6
Tax provided	40,770	41,260		39,500	
Profit after tax	1,19,550	1,21,050		1,13,800	5.1
Emkay - Net profit	1,19,550	1,21,050	-1.2	1,13,800	5.1
EPS (Rs)	32.9	33.3	-1.1	31.0	6.2

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates

(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue (USD mn)	7,670	7,670	7,663	0.0%	0.1%	Revenues were broadly in line with estimates.
Sales	6,42,590	6,42,755	6,41,725	0.0%	0.1%	
EBIT	1,54,650	1,59,403	1,59,148	-3.0%	-2.8%	EBITM missed expectations.
EBIT margin	24.1%	24.8%	24.8%	-70 bps	-70 bps	
PAT	1,19,550	1,25,029	1,24,495	-4.4%	-4.0%	Reported profit missed expectations due to margin miss and lower other income.

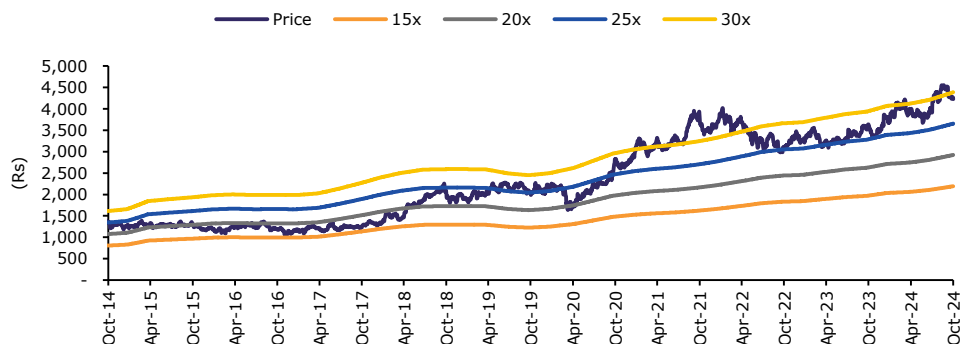
Source: Company, Bloomberg, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY25E			FY26E			FY27E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue (USD mn)	30,823	30,584	-0.8%	32,704	32,336	-1.1%	34,982	34,596	-1.1%
YoY growth (%)	6.0	5.2		6.1	5.7		7.0	7.0	
Revenue	25,83,332	25,63,067	-0.8%	27,79,846	27,48,594	-1.1%	30,08,448	29,75,235	-1.1%
EBIT	6,52,316	6,38,474	-2.1%	7,08,276	7,00,326	-1.1%	7,67,462	7,58,990	-1.1%
EBIT margins (%)	25.3	24.9		25.5	25.5		25.5	25.5	
Net profit	5,08,588	4,96,189	-2.4%	5,57,800	5,51,325	-1.2%	6,09,545	6,02,426	-1.2%
EPS (Rs)	140.6	137.1	-2.4%	154.2	152.4	-1.2%	168.5	166.5	-1.2%

Source: Company, Emkay Research

Exhibit 4: TCS – One-year forward P/E



Source: Company, Emkay Research

TCS: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	22,54,580	24,08,930	25,63,067	27,48,594	29,75,235
Revenue growth (%)	17.6	6.8	6.4	7.2	8.2
EBITDA	5,92,600	6,33,370	6,87,937	7,58,046	8,21,470
EBITDA growth (%)	11.7	6.9	8.6	10.2	8.4
Depreciation & Amortization	50,230	49,840	49,463	57,720	62,480
EBIT	5,42,370	5,83,530	6,38,474	7,00,326	7,58,990
EBIT growth (%)	11.9	7.6	9.4	9.7	8.4
Other operating income	0	0	0	0	0
Other income	34,490	44,220	37,619	50,993	61,183
Financial expense	7,790	7,780	7,350	8,000	8,000
PBT	5,69,070	6,19,970	6,68,744	7,43,319	8,12,173
Extraordinary items	0	0	0	0	0
Taxes	1,46,040	1,58,980	1,70,289	1,89,546	2,07,104
Minority interest	(1,560)	(1,910)	(2,266)	(2,447)	(2,643)
Income from JV/Associates	0	0	0	0	0
Reported PAT	4,21,470	4,59,080	4,96,189	5,51,325	6,02,426
PAT growth (%)	10.0	8.9	8.1	11.1	9.3
Adjusted PAT	4,21,470	4,59,080	4,96,189	5,51,325	6,02,426
Diluted EPS (Rs)	115.2	126.9	137.1	152.4	166.5
Diluted EPS growth (%)	10.0	10.2	8.1	11.1	9.3
DPS (Rs)	115.0	73.0	90.0	99.0	107.0
Dividend payout (%)	99.8	57.5	65.6	65.0	64.3
EBITDA margin (%)	26.3	26.3	26.8	27.6	27.6
EBIT margin (%)	24.1	24.2	24.9	25.5	25.5
Effective tax rate (%)	25.7	25.6	25.5	25.5	25.5
NOPLAT (pre-IndAS)	4,03,182	4,33,894	4,75,893	5,21,743	5,65,447
Shares outstanding (mn)	3,659.1	3,618.1	3,618.1	3,618.1	3,618.1

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	5,69,070	6,19,970	6,68,744	7,43,319	8,12,173
Others (non-cash items)	49,490	50,180	49,463	57,720	62,480
Taxes paid	(1,46,040)	(1,58,980)	(1,70,289)	(1,89,546)	(2,07,104)
Change in NWC	(43,870)	(75,940)	(23,152)	(33,388)	(40,454)
Operating cash flow	4,45,030	4,69,320	5,24,766	5,78,105	6,27,094
Capital expenditure	(30,610)	(26,470)	(49,463)	(58,720)	(63,480)
Acquisition of business	0	0	0	0	0
Interest & dividend income	30,930	38,220	33,609	44,593	54,783
Investing cash flow	(32,780)	27,340	(1,19,613)	(2,58,720)	(63,480)
Equity raised/(repaid)	(41,740)	(2,10,050)	0	0	0
Debt raised/(repaid)	0	0	0	0	0
Payment of lease liabilities	(15,150)	(16,140)	(360)	0	0
Interest paid	0	0	0	0	0
Dividend paid (incl tax)	(4,14,100)	(2,52,180)	(3,25,628)	(3,58,191)	(3,87,135)
Others	5,090	640	0	0	0
Financing cash flow	(4,65,900)	(4,77,730)	(3,25,988)	(3,58,191)	(3,87,135)
Net chg in Cash	(53,650)	18,930	79,165	(38,806)	1,76,479
OCF	4,45,030	4,69,320	5,24,766	5,78,105	6,27,094
Adj. OCF (w/o NWC chg.)	4,88,900	5,45,260	5,47,917	6,11,493	6,67,549
FCFF	4,14,420	4,42,850	4,75,303	5,19,385	5,63,614
FCFE	4,37,560	4,73,290	5,01,562	5,55,977	6,10,397
OCF/EBITDA (%)	75.1	74.1	76.3	76.3	76.3
FCFE/PAT (%)	103.8	103.1	101.1	100.8	101.3
FCFF/NOPLAT (%)	102.8	102.1	99.9	99.5	99.7

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	3,660	3,620	3,620	3,620	3,620
Reserves & Surplus	9,21,760	9,22,500	10,93,061	12,86,196	15,01,487
Net worth	9,25,420	9,26,120	10,96,681	12,89,816	15,05,107
Minority interests	7,820	8,300	10,566	13,012	15,655
Deferred tax liability (net)	(24,850)	(23,920)	(26,770)	(27,770)	(28,770)
Total debt	76,880	80,210	79,850	79,850	79,850
Total liabilities & equity	9,85,270	9,90,710	11,60,327	13,54,908	15,71,842
Net tangible fixed assets	1,15,950	1,12,240	1,12,240	1,13,240	1,14,240
Net intangible assets	8,670	5,100	5,100	5,100	5,100
Net ROU assets	75,600	78,860	78,860	78,860	78,860
Capital WIP	0	0	0	0	0
Goodwill	40,060	39,890	39,890	39,890	39,890
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	4,88,440	4,68,250	6,17,565	7,78,759	9,55,238
Current assets (ex-cash)	6,96,200	7,47,690	7,85,926	8,41,281	9,08,237
Current Liab. & Prov.	4,39,650	4,61,320	4,79,255	5,02,221	5,29,723
NWC (ex-cash)	2,56,550	2,86,370	3,06,672	3,39,059	3,78,514
Total assets	9,85,270	9,90,710	11,60,327	13,54,908	15,71,842
Net debt	(4,11,560)	(3,88,040)	(5,37,715)	(6,98,909)	(8,75,388)
Capital employed	9,85,270	9,90,710	11,60,327	13,54,908	15,71,842
Invested capital	4,96,830	5,22,460	5,42,762	5,76,149	6,16,604
BVPS (Rs)	252.9	256.0	303.1	356.5	416.0
Net Debt/Equity (x)	(0.4)	(0.4)	(0.5)	(0.5)	(0.6)
Net Debt/EBITDA (x)	(0.7)	(0.6)	(0.8)	(0.9)	(1.1)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	59.1	63.5	62.9	59.7	56.0

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	36.7	33.3	30.8	27.7	25.4
P/CE(x)	32.8	30.1	28.0	25.1	23.0
P/B (x)	16.7	16.5	13.9	11.9	10.2
EV/Sales (x)	6.7	6.2	5.8	5.3	4.8
EV/EBITDA (x)	25.4	23.5	21.5	19.3	17.6
EV/EBIT(x)	27.8	25.5	23.1	20.8	19.0
EV/IC (x)	30.3	28.5	27.2	25.3	23.4
FCFF yield (%)	2.7	2.9	3.1	3.4	3.7
FCFE yield (%)	2.8	3.1	3.3	3.6	4.0
Dividend yield (%)	2.7	1.7	2.1	2.3	2.5
DuPont-RoE split					
Net profit margin (%)	18.7	19.1	19.4	20.1	20.2
Total asset turnover (x)	2.3	2.4	2.4	2.2	2.0
Assets/Equity (x)	1.1	1.1	1.1	1.1	1.0
RoE (%)	45.9	49.6	49.1	46.2	43.1
DuPont-RoIC					
NOPLAT margin (%)	17.9	18.0	18.6	19.0	19.0
IC turnover (x)	4.7	4.7	4.8	4.9	5.0
RoIC (%)	83.4	85.1	89.4	93.3	94.8
Operating metrics					
Core NWC days	41.5	43.4	43.7	45.0	46.4
Total NWC days	41.5	43.4	43.7	45.0	46.4
Fixed asset turnover	9.2	10.1	10.9	11.6	12.5
Opex-to-revenue (%)	73.7	73.7	73.2	72.4	72.4

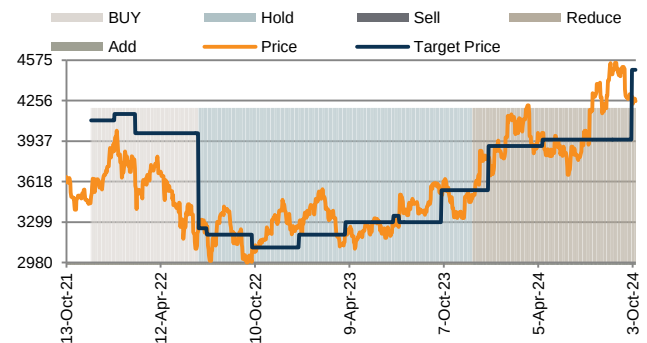
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
01-Oct-24	4,288	4,500	Reduce	Dipeshkumar Mehta
01-Jul-24	3,978	3,950	Reduce	Dipeshkumar Mehta
01-Jul-24	3,978	3,950	Reduce	Dipeshkumar Mehta
09-Jun-24	3,894	3,950	Reduce	Dipeshkumar Mehta
03-Jun-24	3,703	3,950	Reduce	Dipeshkumar Mehta
27-May-24	3,847	3,950	Reduce	Dipeshkumar Mehta
13-Apr-24	4,001	3,950	Reduce	Dipeshkumar Mehta
31-Mar-24	3,876	3,900	Reduce	Dipeshkumar Mehta
01-Mar-24	4,094	3,900	Reduce	Dipeshkumar Mehta
12-Jan-24	3,883	3,900	Reduce	Dipeshkumar Mehta
31-Dec-23	3,793	3,900	Reduce	Dipeshkumar Mehta
30-Nov-23	3,488	3,550	Reduce	Dipeshkumar Mehta
12-Oct-23	3,543	3,550	Hold	Dipeshkumar Mehta
02-Oct-23	3,529	3,550	Hold	Dipeshkumar Mehta
13-Jul-23	3,341	3,300	Hold	Dipeshkumar Mehta
02-Jul-23	3,302	3,350	Hold	Dipeshkumar Mehta
13-Apr-23	3,189	3,300	Hold	Dipeshkumar Mehta
01-Apr-23	3,206	3,300	Hold	Dipeshkumar Mehta
10-Jan-23	3,286	3,200	Hold	Dipeshkumar Mehta
02-Jan-23	3,261	3,200	Hold	Dipeshkumar Mehta
10-Oct-22	3,119	3,100	Hold	Dipeshkumar Mehta
04-Oct-22	3,091	3,100	Hold	Dipeshkumar Mehta
09-Jul-22	3,265	3,200	Hold	Dipeshkumar Mehta
23-Jun-22	3,309	3,250	Hold	Dipeshkumar Mehta
15-Jun-22	3,206	4,000	Buy	Dipeshkumar Mehta
12-Apr-22	3,691	4,000	Buy	Dipeshkumar Mehta
01-Apr-22	3,759	4,000	Buy	Dipeshkumar Mehta
22-Feb-22	3,586	4,000	Buy	Dipeshkumar Mehta
13-Jan-22	3,898	4,150	Buy	Dipeshkumar Mehta
01-Jan-22	3,738	4,100	Buy	Dipeshkumar Mehta
29-Nov-21	3,502	4,100	Buy	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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