



Tata Consultancy Services Ltd

Q2FY25



Tata Consultancy Services Ltd.

Earnings Fall Slightly Short, But FY26E Outlook Remains Strong

CMP*	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 4,146	INR 4,587	10.6%	INR 15,000,591	ACCUMULATE	Internet Software & Services

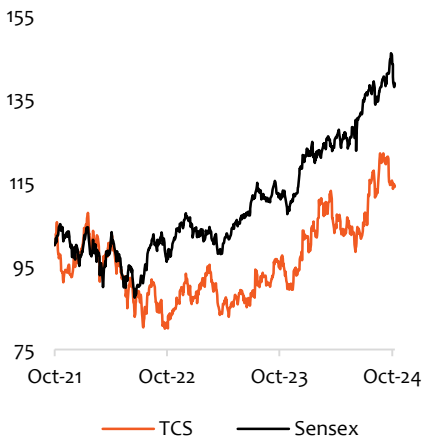
Result Highlights

- TCS's Q2FY25 revenue aligned with our estimates, but earnings fell short of expectations. Revenue grew to INR 642,590 Mn (+7.7% YoY/+2.6% QoQ), driven by strong performance in the India, Asia-Pacific, and Europe regions.
- EBIT came in at INR 154,650 Mn (+6.8% YoY / +0.1% QoQ), broadly aligned with our estimates (-1.7%); EBIT margin contracted by 20bps YoY (-63bps QoQ) to 24.1%, on account of higher third-party expenses due to large transformational project
- PAT stood at INR 119,550 Mn (+5.1% YoY, -1.2% QoQ), missing our estimates by 2.8%; PAT margin stood at 18.6% reflecting a compression of 73bps YoY (-46bps QoQ).
- We reaffirm our FY26E EPS of INR 158.2 and P/E multiple of 29.0x, reflecting our confidence in TCS's capacity to achieve robust revenue growth, supported by expectations of increased discretionary spending resulting from interest rate cuts. Consequently, we uphold our Target Price (TP) of INR 4,587 and retain the "ACCUMULATE" rating.**

MARKET DATA

Shares outs (Mn)	3,618
Mkt Cap (INR Mn)	15,000,591
52 Wk H/L (INR)	4,586/3,313
Volume Avg (3m K)	2,520
Face Value (INR)	1
Bloomberg Code	TCS IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	81,381
NIFTY	24,964

KEY FINANCIALS

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Revenue	2,254,580	2,408,930	2,573,897	2,838,698	3,074,946
EBIT	542,370	593,110	643,174	735,998	795,905
PAT	421,470	459,080	499,528	572,454	620,410
OPM (%)	24.1%	24.6%	25.0%	25.9%	25.9%
NPM (%)	18.7%	19.1%	19.4%	20.2%	20.2%

Source: Company, KRChoksey Research

Revenue growth led by Europe & India ; Subdued deal activity and Ramp-up in BSNL deal

- TCS reported a 5.5% YoY CC growth in revenue for Q2FY25, driven by decent growth in UK (+4.6% YoY), Europe (+1.8% YoY) and it was further supported by the India region (+95.2% YoY CC), led by the ramp in BSNL deal.
- The Asia-Pacific and MEA grew by 7.5% and 7.9% YoY, respectively., while North America region declined by 2.1% YoY CC.
- TCS reported a subdued deal TCV for the quarter at USD 8.6bn, down 23.2% YoY (+3.6% QoQ). This drop is primarily due to delays in decision-making for deal closures and the absence of a mega-deal.
- The book-to-bill ratio stood at 1.1x, with TCS considering a range of 1.1x to 1.2x sufficient to maintain growth momentum.
- BFSI TCV has improved sequentially growing 7.4% but declined marginally by 3.3% YoY to USD 2.9 Bn. This suggests that while the BFSI segment may have reached its lowest point, the recovery is expected to be slower and more gradual than originally anticipated.

Near-term challenges in Manufacturing, Life Sciences & Healthcare, and Consumer business verticals

- In terms of domain, BFSI remained flat, demonstrating 0.1% YoY CC growth.
- In the manufacturing vertical, TCS reported a 5.3% YoY CC growth. Management has expressed concerns over the manufacturing sector, citing labor and supply-side constraints, which could create pressure in the near term.
- The Life Sciences & Healthcare and communications verticals remained flat (+0.1% YoY CC) due to client-specific issues.
- The consumer business saw marginal growth of 0.1% YoY in constant currency, as demand remained soft, impacted by cautious discretionary spending.

SHARE HOLDING PATTERN (%)

Particulars (%)	Jun-24	Mar-24	Dec-23
Promoters	71.8	71.8	72.4
FIIIs	12.4	12.7	12.5
DIIIs	11.0	10.6	10.0
Others	4.9	4.9	5.1
Total	100.0	100.0	100.0

*Based on the Today's closing
Note: All the market data is as of previous closing

8.6%

Revenue CAGR between FY24 and FY26E

11.7%

Adj. PAT CAGR between FY24 and FY26E

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Key Concall Highlights:

Clientele:

- The company has added 5 new clients in the USD 100+ Mn bracket, taking the total to 66.
- TCS added 6 clients in the USD 20+ Mn band and 8 more clients in the USD 10+ Mn band, taking the count to 298 and 491, respectively.

Margin Performance

- Margin decline was mainly due to higher third-party expenses linked to a large transformational project.
- Segmental margins were affected by large projects, with a few segments showing positive movement.

BFSI Trends:

- There is a noticeable growth in banking, while capital markets have been weaker. Insurance and regulations, particularly in risk and compliance, are also showing growth. Overall, BFSI in North America is performing well.
- The management acknowledged that challenges in the non-BFSI segments are more pronounced in North America, contributing to slower growth in that region.
- Europe region mirrored similar trends, with the banking and insurance sectors performing well. However, capital markets in the U.K. are facing challenges, which seem to be more client-specific than indicative of a broader trend.
- Management expresses optimism about the sustainability of growth in banking and insurance in the upcoming quarters.

AI and Automation Trends

- Growing interest in Generative AI is boosting discussions on traditional AI and automation.
- Clients are investing in data insights and AI tools to enhance customer behavior understanding and marketing strategies.
- Significant investments in AI and Generative AI have surged over the past two years.
- There's increasing interest in applying Generative AI throughout the software development life cycle, including legacy migration.

Cloud Strategy and Product Development

- Investments in cloud-based checkout solutions indicate a commitment to agility.
- TCS has implemented a modular, fully automated cloud-based system, integrating around 40 applications for end-to-end processes.
- Development of a cloud-native modular platform is underway, embedding Generative AI across the software development life cycle.

Capital Allocation

- The capital allocation policy focuses on returning surplus cash flow to shareholders.
- The Board has proposed an interim dividend of INR 10 per share.
- Future decisions on buybacks or special dividends will consider stakeholder feedback.

Employee Headcount

- The company added 5,726 associates in Q2FY25, similar to the previous quarter, and is on track for planned special onboarding. However, the attrition rate was 12.3%, as TCS added 5,726 employees, marking the second consecutive quarter of net additions, with a total of 11,178 new hires in H1FY25.
- Recruitment for special international hires for FY26E has begun.

Macro Environment

- Though the stability in the macro environment is fostering initial confidence, the risks associated with US economic slowdown and geo-political concerns are not adding sufficient confidence for sustained growth trajectory over the near term.
- No significant decline in demand has been noted, while deal durations have increased slightly.
- The current short-term freeze on discretionary spending is viewed as a response to market uncertainty, which is expected to ease in the medium term.

Valuation and view:

TCS Q2FY25 revenue came in line with our estimates; however, earnings were below expectations. The management highlighted the challenges in manufacturing, Life & Sciences, and consumer business in the near term but expects improved discretionary spending and capital investment with inflation easing out. The BFSI segment saw a recovery, with BFSI North America and BFSI Europe showing decent growth. **However, we expect that revenue and earnings in Q3FY25E will moderate due to delays in deal closure, weak seasonality, and client-specific challenges.** However, we strongly believe technology spending is likely to pick up due to recent interest rate cuts and improvements in macroeconomic conditions. **There are early signs of improvement in the BFSI sector, and the management has highlighted that the pipeline in the BFSI vertical remains strong. Accordingly, we reaffirm our FY26E EPS of INR 158.2 and P/E multiple of 29.0x. Consequently, we retain our target price of INR 4,587 and reiterate our "ACCUMULATE" rating on the shares of TCS.**

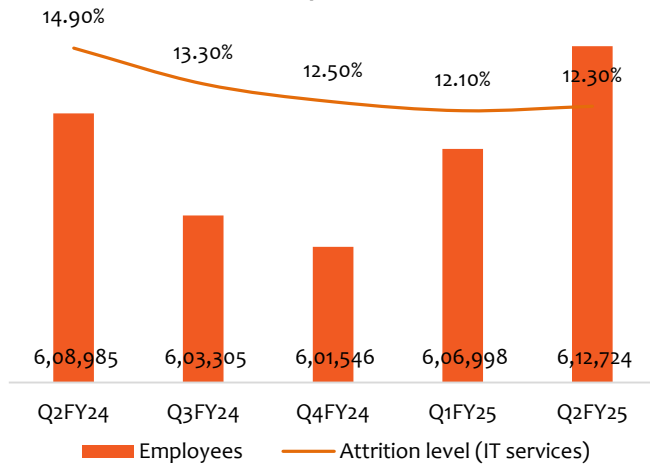
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RESULT SNAPSHOT

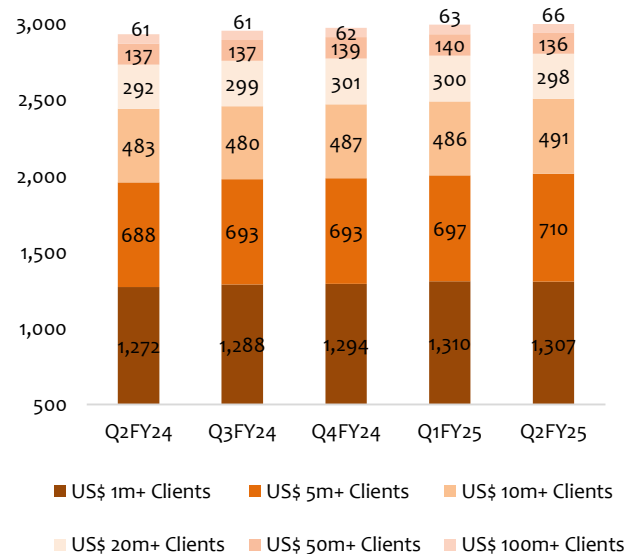
Particulars (Mn)	Q2FY25	Q1FY25	Q2FY24	QoQ	YoY
Revenue from Operations	642,590	626,130	596,920	2.6%	7.7%
Employee benefit expenses	366,540	364,160	351,230		
Cost of equipment and software licenses	32,300	21,510	4,620		
Other Expenses	76,440	73,840	83,610		
Total Expenses	475,280	459,510	439,460		
EBITDA	167,310	166,620	157,460	0.4%	6.3%
EBITDA Margin (%)	26.0%	26.6%	26.4%	(57bps)	(34bps)
Depreciation Expense	12,660	12,200	12,630		
EBIT	154,650	154,420	144,830	0.1%	6.8%
EBIT Margin (%)	24.1%	24.7%	24.3%	(63bps)	(20bps)
Finance costs	1,620	1,730	1,590		
Exceptional Item	0	0	0		
Other Income	7,290	9,620	10,060		
Pretax Income	160,320	162,310	153,300	(1.2%)	4.6%
Tax expense	40,770	41,260	39,500		
Net profit	119,550	121,050	113,800	(1.2%)	5.1%
Net Profit Margin (%)	18.6%	19.3%	19.1%	(73bps)	(46bps)
Diluted EPS (INR)	32.9	33.3	31.0		

Source: Company, KRChoksey Research

TCS increased its employee base for 2nd consecutive quarter



Increasing deals in higher bands



Source: Company, KRChoksey Research

Tata Consultancy Services Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Revenue	2,254,580	2,408,930	2,573,897	2,838,698	3,074,946
Employee Cost	1,275,220	1,401,310	1,500,157	1,655,318	1,800,512
Other Cost	386,770	364,660	386,815	401,081	430,492
EBITDA	592,590	642,960	686,925	782,300	843,941
Depreciation	50,220	49,850	43,750	46,302	48,037
EBIT	542,370	593,110	643,174	735,998	795,905
Other income	34,490	44,220	33,989	37,593	42,389
Finance costs	7,790	7,780	6,590	7,612	8,373
Pre-tax Income	569,070	629,550	670,573	765,978	829,920
Income tax expense	146,040	168,560	169,016	191,495	207,480
PAT before MI	423,030	460,990	501,558	574,484	622,440
Minority Interest	1,560	1,910	2,030	2,030	2,030
PAT after MI	421,470	459,080	499,528	572,454	620,410
Diluted EPS (INR)	115.2	125.9	138.1	158.2	171.5
Shares in Million	3,659	3,647	3,618	3,618	3,618

Exhibit 3: Cash Flow Statement

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
FFFO	419,650	443,380	389,656	542,684	596,543
CFFI	390	60,260	-62,019	-64,730	-70,061
CFFF	-478,780	-485,360	-301,671	-414,063	-522,984
Net Inc/Dec in	-53,650	18,930	25,966	63,891	3,498
Closing Cash	71,230	90,160	116,126	180,018	183,515

Exhibit 4: Key Ratios

Key Ratios	FY23	FY24	FY25E	FY26E	FY27E
EBIT Margin (%)	24.1%	24.6%	25.0%	25.9%	25.9%
Tax rate (%)	25.7%	26.8%	25.2%	25.0%	25.0%
NPM (%)	18.8%	19.1%	19.5%	20.2%	20.2%
RoE (%)	47.8%	50.8%	49.7%	48.3%	47.2%
RoCE (%)	40.7%	44.2%	43.5%	42.8%	42.0%
EPS (INR per share)	115.2	125.9	138.1	158.2	171.5

Exhibit 2: Balance Sheet

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Equity					
Equity Capital	3,660	3,620	3,620	3,620	3,620
Other Equity	900,580	901,270	1,101,081	1,261,368	1,360,634
Non controlling interest	7,820	8,300	10,330	12,360	14,390
Total Equity	912,060	913,190	1,115,031	1,277,348	1,378,644
Non-Current Liabilities					
Borrowings	62,030	65,160	63,205	61,309	59,470
Other Financial Liabilities	10,030	4,820	10,682	11,781	12,761
Other Non-current Liabilities	16,810	20,280	19,499	20,488	21,455
Total Non-Current Liabilities	88,870	90,260	93,386	93,578	93,685
Current Liabilities					
Borrowings	14,850	15,050	14,929	16,464	17,835
Trade Paybles	105,150	99,810	97,958	106,753	115,817
Other Financial Liabilities	90,680	83,620	96,573	106,508	115,372
Other current liabilities	224,900	262,560	251,146	279,510	299,386
Total Current Liabilities	435,580	461,040	460,605	509,235	548,410
Total Liabilities	1,436,510	1,464,490	1,669,022	1,880,161	2,020,739
Non-Current Assets					
Property Plants and Equipments	102,300	93,760	109,209	128,197	150,884
Right of use of Assets	75,600	78,860	78,088	77,236	76,314
Goodwill	18,580	18,320	18,320	18,320	18,320
Intangible Assets	8,670	5,100	8,670	8,670	8,670
Other current assets	128,660	138,610	133,982	143,710	152,516
Total Non-Current Assets	333,810	334,650	348,269	376,134	406,704
Current Assets					
Investments	368,970	314,810	418,516	461,572	499,986
Trade Receivables	410,490	444,340	492,275	542,920	588,104
Cash and Bank	110,320	132,860	158,826	222,718	226,215
Other current assets	212,920	237,830	251,136	276,817	299,729
Total Current Assets	1,102,700	1,129,840	1,320,753	1,504,028	1,614,035
Total Assets	1,436,510	1,464,490	1,669,022	1,880,161	2,020,739

Source: Company, KRChoksey Research

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TCS Ltd.			
Date	CMP (INR)	TP (INR)	Recommendation
11-Oct-24	4,146	4,587	ACCUMULATE
13-Jul-24	4,184	4,587	ACCUMULATE
16-Apr-24	3,941	4,194	ACCUMULATE
15-Jan-24	3,902	4,151	ACCUMULATE
17-Oct-23	3,524	3,888	ACCUMULATE
14-Jul-23	3,354	3,888	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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