

Tata Consultancy Services Limited (TCS)

April 11, 2025 | CMP: INR 3,247 | Target Price: INR 3,950

Expected Share Price Return: 21.6% | Dividend Yield: 1.7% | Expected Total Return: 23.3%

BUY

| | |
|---------------------|---|
| Change in Estimates | ✓ |
| Target Price Change | ✓ |
| Recommendation | ✗ |

| | |
|----------------------|-----------------------|
| Company Info | |
| BB Code | TCS IN EQUITY |
| Face Value (INR) | 1.0 |
| 52 W High/Low (INR) | 4,586/3,060 |
| Mkt Cap (Bn) | INR 11,744.6/ \$136.5 |
| Shares o/s (Mn) | 3,618.1 |
| 3M Avg. Daily Volume | 26,64,301 |

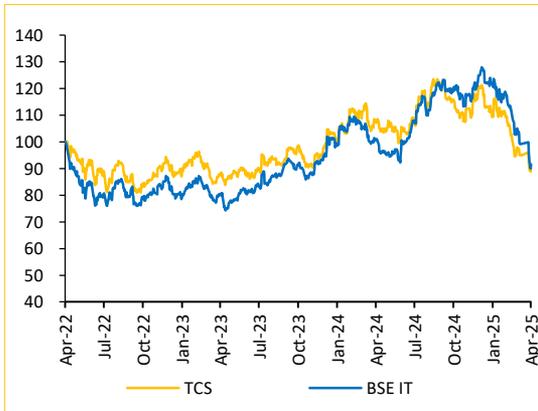
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|----------------------------|------------|------------|-----------------|------------|------------|-----------------|
| Change in Estimates | | | | | | |
| | FY26E | | | FY27E | | |
| INR Bn | New | Old | Dev. (%) | New | Old | Dev. (%) |
| Revenues | 2,713.4 | 2,821.9 | (3.8) | 3,013.5 | 3,182.6 | (5.3) |
| GPM (%) | 34.0 | 34.2 | (2) bps | 34.5 | 34.8 | (28) bps |
| EBIT | 669.8 | 705.3 | (5.0) | 761.3 | 815.1 | (6.6) |
| EBITM % | 24.7 | 25.0 | (31) bps | 25.3 | 25.6 | (35) bps |
| EPS | 145.1 | 153.1 | (5.2) | 164.6 | 176.5 | (6.7) |

| | | | |
|----------------------------|----------------|----------------|---------------|
| Actual vs Consensus | | | |
| INR Bn | Q4FY25A | BB Est. | Dev. % |
| Revenue | 644.8 | 648.4 | (0.6) |
| EBIT | 156.0 | 161.4 | (3.3) |
| EBITM % | 24.2 | 24.8 | (60) Bps |
| PAT | 122.2 | 127.4 | (4.1) |

| | | | | | |
|-----------------------|-------------|-------------|--------------|--------------|--------------|
| Key Financials | | | | | |
| INR Bn | FY23 | FY24 | FY25E | FY26E | FY27E |
| Revenue | 2,254.6 | 2,408.9 | 2,553.2 | 2,713.4 | 3,013.5 |
| YoY (%) | 17.6 | 6.8 | 6.0 | 6.3 | 11.1 |
| EBIT | 542.4 | 583.5 | 621.7 | 669.8 | 761.3 |
| EBITM % | 24.1 | 24.2 | 24.3 | 24.7 | 25.3 |
| Adj PAT | 421.5 | 459.1 | 485.5 | 524.9 | 595.5 |
| EPS | 115 | 126 | 134 | 145 | 165 |
| ROE % | 46.6 | 50.7 | 51.2 | 53.2 | 57.7 |
| ROCE % | 54.6 | 58.6 | 58.9 | 61.0 | 66.5 |
| PE(x) | 28.2 | 25.8 | 24.2 | 22.4 | 19.7 |

| | | | |
|---------------------------------|---------------|---------------|---------------|
| Shareholding Pattern (%) | | | |
| | Dec-24 | Sep-24 | Jun-24 |
| Promoters | 71.77 | 71.77 | 71.77 |
| FIIIs | 12.35 | 12.66 | 12.68 |
| DIIIs | 11.00 | 10.86 | 10.86 |
| Public | 4.88 | 4.72 | 4.69 |

| | | | |
|---------------------------------|-----------|-----------|-----------|
| Relative Performance (%) | | | |
| YTD | 3Y | 2Y | 1Y |
| BSE IT | 10.1 | 23.1 | -4.3 |
| TCS | -1.8 | 2.9 | -14.9 |



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TCS misses Q4FY25 estimates by narrow margins.

- Revenue for Q4FY25 came at INR 644.8Bn up 5.3% YoY and 0.8% QoQ (vs Consensus est. at INR 648.4Bn).
- EBIT for Q4FY25 came at INR 156.0Bn, down 2.0% YoY and 0.4% QoQ (vs Consensus est. at INR 161.4Bn). EBIT margin was down 180bps YoY and 28bps QoQ to 24.2% (vs Consensus est. at 24.8%).
- PAT for Q4FY25 came at INR 122.2Bn, down 1.7% YoY and 1.3% QoQ (vs Consensus est. at INR 127.4Bn).

TCS secures USD 12.2Bn in Q4FY25, may face revenue conversion challenges:

In Q4FY25, TCS reported a strong TCV of USD 12.2Bn, its second-highest ever, achieved without any mega deals. This broad-based growth was led by North America (USD 6.8Bn), BFSI (USD 4Bn), and the consumer business (USD 1.7Bn). TCS remains optimistic about FY26 being better than FY25, despite macroeconomic uncertainties. However, **we expect that risks persist around converting TCV into sustained revenue, as global economic volatility has caused delays in decision-making and heightened scrutiny on discretionary spending.** Sectors like Insurance, Retail, Healthcare, and Auto are seeing pronounced caution. While the FY25 TCV pipeline remains strong at USD 39.4Bn, ongoing uncertainty could delay execution. The deal mix and average tenure remain stable, with AI and GenAI emerging as major growth drivers across IT and business applications. Despite positive momentum and a strong pipeline, the timing of revenue realization may be impacted if economic headwinds continue, posing a risk to near-term growth.

EBITM target unchanged at 26% to 28%; Wage hike decisions expected later in FY26:

TCS saw a contraction in its EBIT margin, which stood at 24.2% in Q4FY25 and 24.3% for FY25. This was due to factors such as wage hikes, promotions, and investments in infrastructure and capabilities. While the long-term margin target remains 26% to 28%, **we anticipate that headwinds like economic uncertainty and the absence of currency benefits may affect margins.** However, efficiency gains from growth and improved productivity, along with the winding down of the BSNL contract, should support margin improvement in FY26. The attrition rate remained elevated at 13.3%. However, management believes that this should not be a cause for concern. Additionally, TCS added 625 employees in Q4, bringing the total headcount to 607,979 by the end of FY25. The company will continue hiring, especially in digital skills and AI, with wage hike decisions expected later in FY26, depending on market conditions.

View & Valuation: TCS has surpassed a topline of INR 30Bn and continues to report industry-leading margins. Despite this, there are mixed signals surrounding the company's future performance. While FY26 performance is expected to be better than FY25, ongoing macroeconomic challenges may introduce delays in client decision-making and discretionary spending, which could impact topline growth. Considering these factors, we expect Revenue/ EBIT/ PAT to grow at a CAGR of 7.2%/ 10.7%/ 10.8%, respectively, over FY25-FY27E and maintain our rating to 'BUY' with a downward revised target price of INR3,950, which implies a PE multiple of 24x (maintained) based on the FY27E EPS of 164.6.

| TCS Ltd. | Q4 FY25 | Q4 FY24 | YoY (%) | Q3 FY25 | QoQ (%) |
|-----------------------|----------|----------|-----------|----------|----------|
| Revenues (USD Mn) | 7,465 | 7,363 | 1.4 | 7,539 | (1.0) |
| Revenues (INR Mn) | 6,44,790 | 6,12,370 | 5.3 | 6,39,730 | 0.8 |
| Employee Cost | 4,25,810 | 3,96,750 | 7.3 | 4,24,440 | 0.3 |
| Gross Profit (INR Mn) | 2,18,980 | 2,15,620 | 1.6 | 2,15,290 | 1.7 |
| Gross Margin (%) | 34.0 | 35.2 | (125) bps | 33.7 | 31 bps |
| Other costs | 49,180 | 43,980 | 11.8 | 44,960 | 9.4 |
| Depreciation | 13,790 | 12,460 | 10.7 | 13,760 | 0.2 |
| EBIT (INR Mn) | 1,56,010 | 1,59,180 | (2.0) | 1,56,570 | (0.4) |
| EBIT Margin (%) | 24.2 | 26.0 | (180) bps | 24.5 | (28) bps |
| Other income | 10,280 | 11,570 | (11.1) | 12,430 | (17.3) |
| Interest | 2,270 | 2,260 | 0.4 | 2,340 | (3.0) |
| PBT | 1,64,020 | 1,68,490 | (2.7) | 1,66,660 | (1.6) |
| Tax | 41,090 | 43,470 | (5.5) | 42,220 | (2.7) |
| Adj. PAT (INR Mn) | 1,22,240 | 1,24,340 | (1.7) | 1,23,800 | (1.3) |
| Basic EPS (INR) | 33.79 | 34.37 | (1.7) | 34.22 | (1.3) |

Source: Company, CEBPL

Management Call - Highlights

- Q4FY25 saw sequential growth in most major markets: North America and the UK up 0.2%, and Europe up 1.2%. Asia-Pacific and MEA also grew, while India declined 13.2%. YoY in CC, North America dropped 1.9%, UK grew 1.2%, Europe 1.4%, India surged 33%, MEA grew 13.2%, LATAM 4.3%, and APAC 6.4%.
- TCS announced the appointment of Ms. Aarthi Subramanian as President and COO and Mr. Mangesh Sathe as Chief Strategy Officer, aiming to strengthen leadership bandwidth to drive growth in new technologies and consulting.
- Q4FY25 operating margin declined 30bps sequentially to 24.2%, mainly due to a 100bps headwind from promotions and 60bps from strategic marketing, partially offset by a 40bps gain from currency movements. Improved operating leverage and revenue mix also helped mitigate the impact.
- TCS is seeing clients increasingly prioritize cost optimization programs in response to the current uncertain environment. This trend is creating opportunities for TCS in areas like technology transformation, vendor consolidation, and automation. TCS also intends to leverage this environment for its own cost optimization efforts
- The ramp-down of the BSNL deal is nearing completion and is expected to end in Q1FY26.
- TCS is witnessing significant traction for AI and GenAI services and solutions across industries, with over 580 AI for business engagements delivered or in progress in Q4.
- In life sciences, TCS ADD platform is actively working on GenAI POCs across literature search and insights, patient insights, safety case processing, and medical monitoring, with pharma companies investing in AI use cases to improve trial productivity, reduce time for drug research and development, and design personalized treatments.
- The TCS OmniStore, an AI-powered universal commerce suite, had two deal wins and three go-lives during the quarter, indicating some level of demand for digital commerce solutions.
- Ignio has introduced Code Accelerator, an advanced GenAI powered tool designed to automate code generation and transformation, significantly reducing time to value for customers.

Sequential Operating Performance

| | Q3FY24 | Q4FY24 | Q1FY25 | Q2FY25 | Q3FY25 | Q4FY25 |
|-------------------------|----------|----------|----------|----------|----------|----------|
| Income Statement | | | | | | |
| Revenues (USD Mn) | 7,281 | 7,363 | 7,505 | 7,670 | 7,539 | 7,465 |
| Revenues (INR Mn) | 6,05,830 | 6,12,370 | 6,26,130 | 6,42,590 | 6,39,730 | 6,44,790 |
| Gross Profit (INR Mn) | 2,07,170 | 2,15,620 | 2,13,800 | 2,13,860 | 2,15,290 | 2,18,980 |
| Gross Margin (%) | 34.2 | 35.2 | 34.1 | 33.3 | 33.7 | 34.0 |
| EBIT (INR Mn) | 1,41,970 | 1,59,180 | 1,54,420 | 1,54,650 | 1,56,570 | 1,56,010 |
| EBIT Margin (%) | 23.4 | 26.0 | 24.7 | 24.1 | 24.5 | 24.2 |
| PAT (INR Mn) | 1,10,580 | 1,24,340 | 1,20,400 | 1,19,090 | 1,23,800 | 1,22,240 |
| Basic EPS (INR) | 30.3 | 34.4 | 33.3 | 32.9 | 34.2 | 33.8 |

Operating Metrics

| | Q3FY24 | Q4FY24 | Q1FY25 | Q2FY25 | Q3FY25 | Q4FY25 |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Revenue – Geography (%) | | | | | | |
| Americas | 52.7 | 52.0 | 51.4 | 49.4 | 49.6 | 50.0 |
| Europe | 31.4 | 31.4 | 31.3 | 31.6 | 30.5 | 31.1 |
| India | 6.1 | 6.7 | 7.5 | 8.9 | 9.8 | 8.4 |
| Asia Pacific | 7.8 | 7.8 | 7.8 | 8.0 | 7.8 | 8.1 |
| MEA | 2.0 | 2.1 | 2.0 | 2.1 | 2.3 | 2.4 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Clients Buckets

| | Q3FY24 | Q4FY24 | Q1FY25 | Q2FY25 | Q3FY25 | Q4FY25 |
|--------------------|--------|--------|--------|--------|--------|--------|
| USD 1 mn clients | 1,288 | 1,294 | 1,310 | 1,307 | 1,309 | 1,332 |
| USD 5 mn clients | 693 | 693 | 697 | 710 | 722 | 723 |
| USD 10 mn clients | 480 | 487 | 486 | 491 | 497 | 493 |
| USD 20 mn clients | 299 | 301 | 300 | 298 | 294 | 298 |
| USD 50 mn clients | 137 | 139 | 140 | 136 | 134 | 130 |
| USD 100 mn clients | 61 | 62 | 63 | 66 | 64 | 64 |

Revenue – Industry (%)

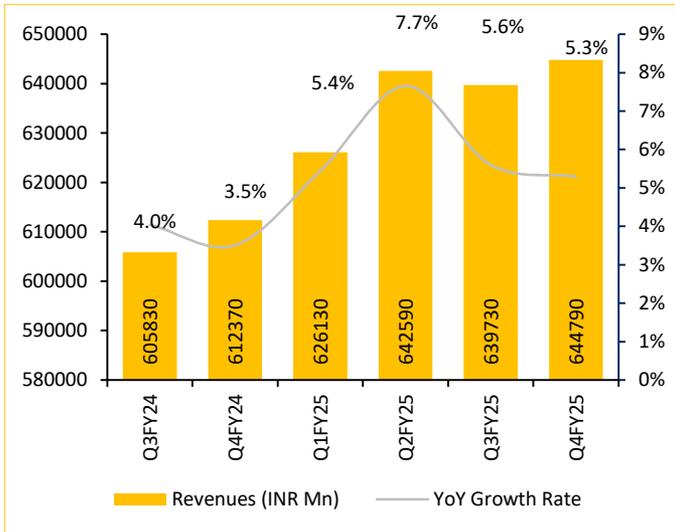
| | Q3FY24 | Q4FY24 | Q1FY25 | Q2FY25 | Q3FY25 | Q4FY25 |
|---------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| BFSI | 31.7 | 31.3 | 30.9 | 30.8 | 30.5 | 31.2 |
| Retail & CPG | 15.7 | 15.7 | 15.4 | 15.1 | 15.3 | 15.3 |
| Communication & Media | 6.7 | 6.6 | 6.2 | 5.9 | 5.8 | 5.8 |
| Manufacturing | 8.6 | 8.8 | 8.8 | 8.6 | 8.4 | 8.4 |
| Life Science & Healthcare | 10.9 | 10.9 | 11.0 | 10.4 | 10.1 | 10.1 |
| Energy & Utilities | 5.7 | 5.6 | 5.6 | 5.7 | 5.6 | 5.7 |
| Technology & Services | 8.4 | 8.2 | 8.1 | 8.0 | 8.0 | 8.1 |
| Regional Markets & Others | 12.3 | 12.9 | 14.0 | 15.5 | 16.3 | 15.4 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Employee Metrics

| | Q3FY24 | Q4FY24 | Q1FY25 | Q2FY25 | Q3FY25 | Q4FY25 |
|------------------|----------|----------|----------|----------|----------|----------|
| Total Headcount | 6,03,305 | 6,01,546 | 6,06,998 | 6,12,724 | 6,07,354 | 6,07,979 |
| Attrition Rate % | 13.3 | 12.5 | 12.1 | 12.3 | 13.0 | 13.3 |

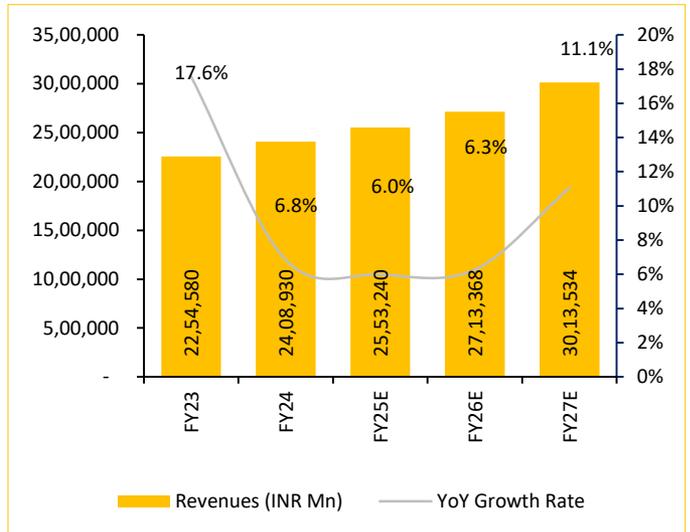
Source: Company, CEBPL

Revenue sees marginal sequential improvement



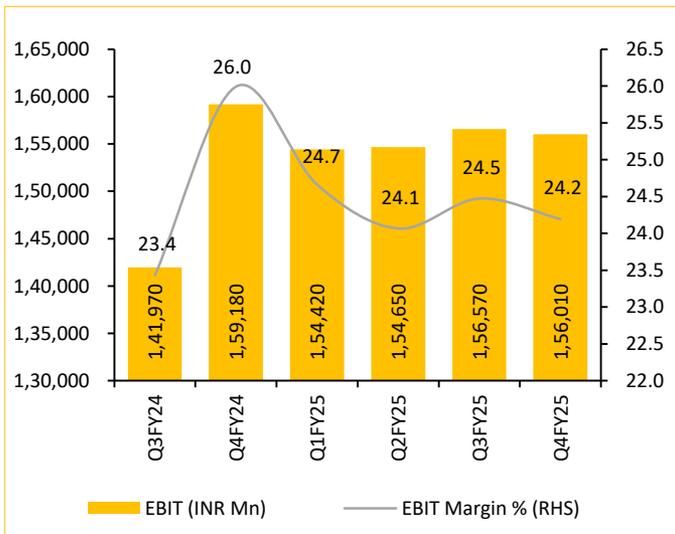
Source: Company, CEBPL

Revenue expected to grow at 7.2% CAGR over FY25-27E



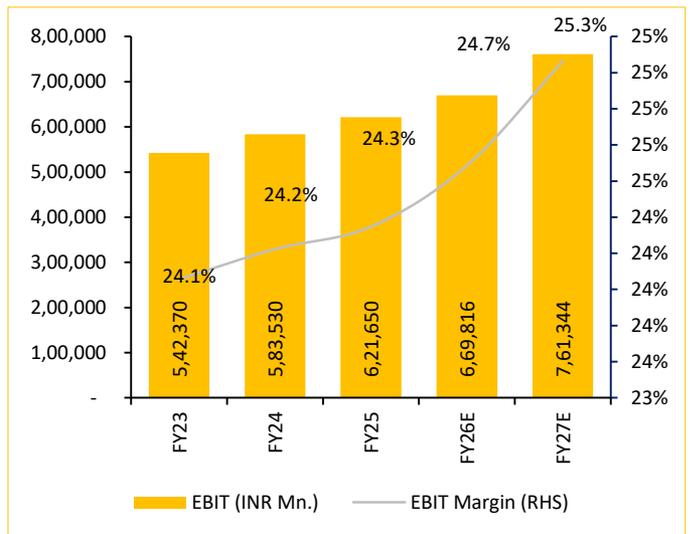
Source: Company, CEBPL

EBIT margins declined due to wage hikes and investments



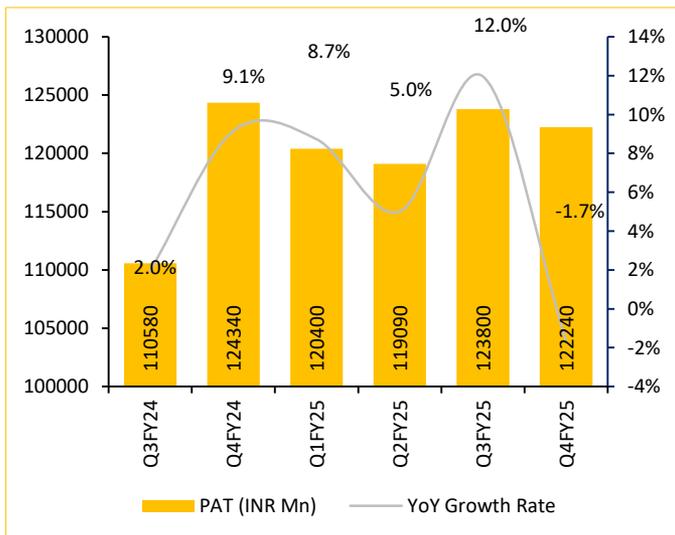
Source: Company, CEBPL

EBIT expected to grow at 10.7% CAGR over FY25-27E



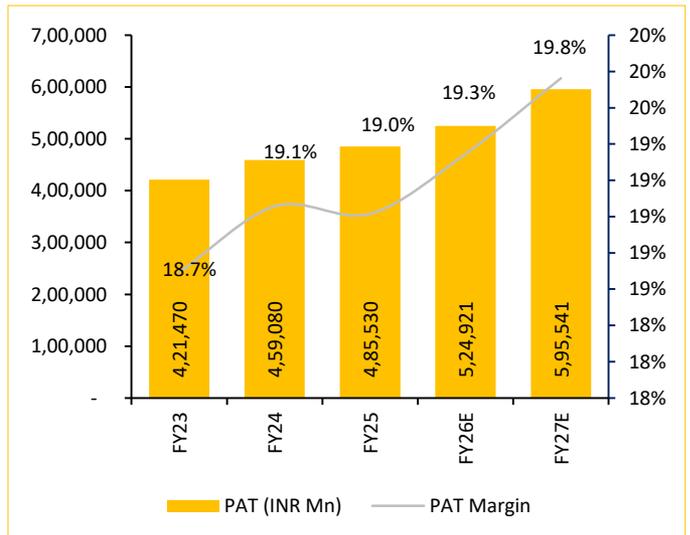
Source: Company, CEBPL

PAT remained flattish



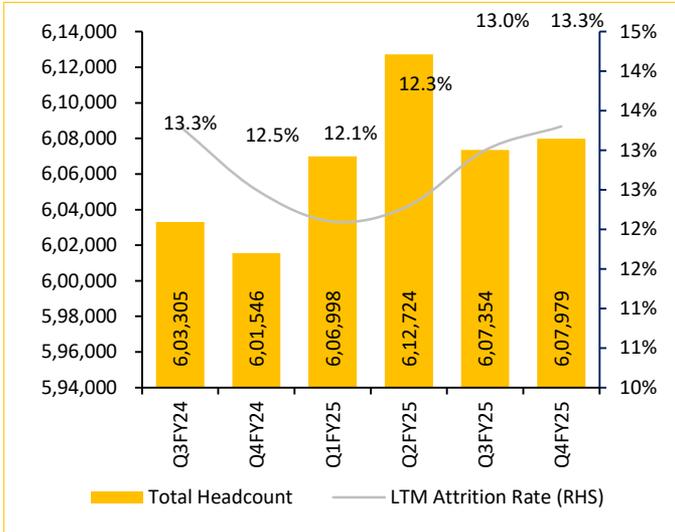
Source: Company, CEBPL

PAT expected to grow at 10.8% CAGR over FY25-27E



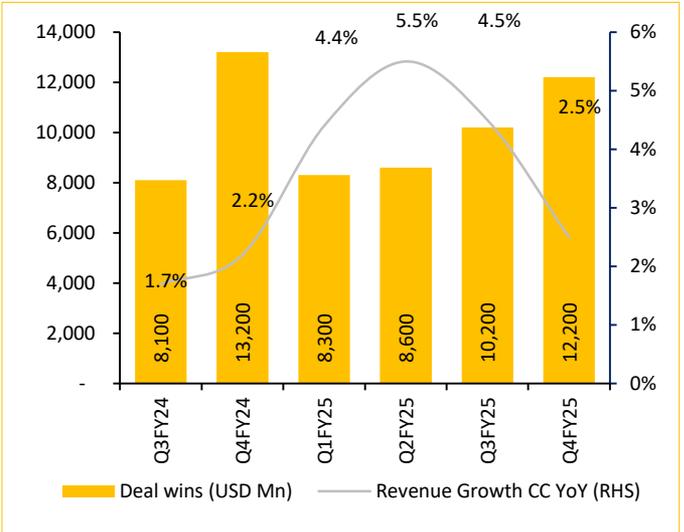
Source: Company, CEBPL

Attrition rate remained elevated at 13.3%



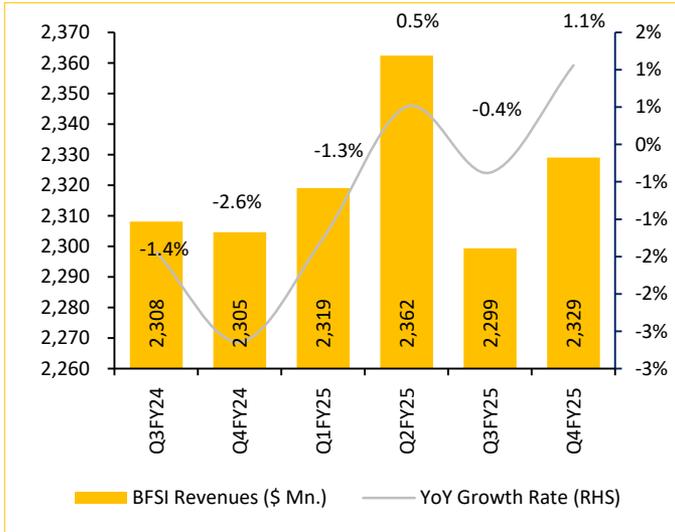
Source: Company, CEBPL

TCV at USD 12.2Bn; second highest ever



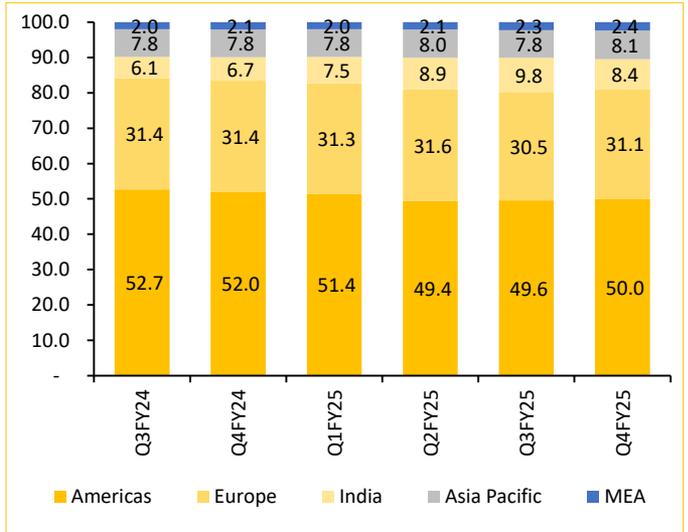
Source: Company, CEBPL

BFSI picked up despite macro economic challenges

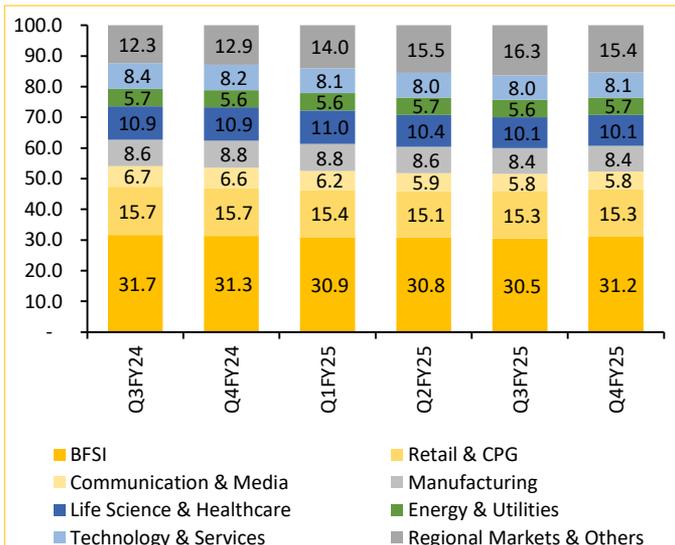


Source: Company, CEBPL

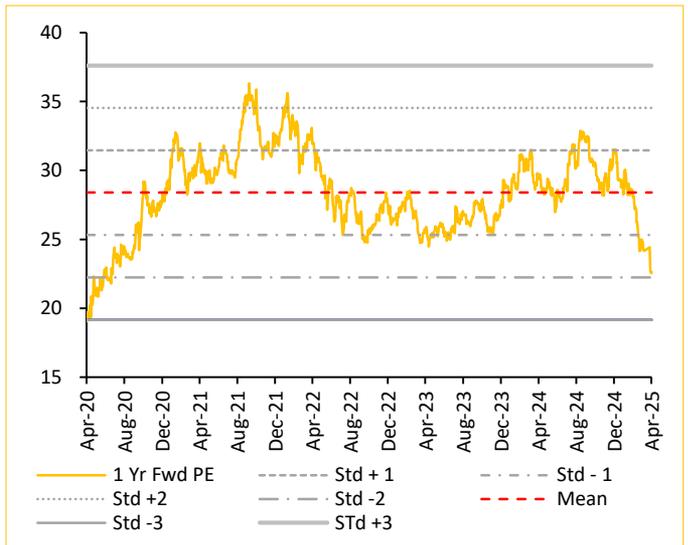
US revenue mix to maintain majority share



Growth was led by BFSI vertical in Q4



1 Year Forward PE Band



Source: Company, CEBPL

*All figures are in INR Million

Income statement (Consolidated in INR Mn)

| Particular | FY23 | FY24 | FY25E | FY26E | FY27E |
|------------------|-----------|-----------|-----------|-----------|-----------|
| Revenue (USD Mn) | 27,927 | 29,080 | 30,179 | 31,351 | 34,691 |
| Revenue | 22,54,580 | 24,08,930 | 25,53,240 | 27,13,368 | 30,13,534 |
| Gross profit | 7,47,200 | 8,12,390 | 8,61,930 | 9,22,785 | 10,39,507 |
| EBITDA | 5,92,600 | 6,33,370 | 6,74,070 | 7,22,695 | 8,16,312 |
| Depreciation | 50,230 | 49,840 | 52,420 | 52,879 | 54,967 |
| EBIT | 5,42,370 | 5,83,530 | 6,21,650 | 6,69,816 | 7,61,344 |
| Other income | 34,490 | 44,220 | 39,620 | 48,841 | 53,103 |
| Interest expense | 7,790 | 7,780 | 7,960 | 10,360 | 11,359 |
| PBT | 5,69,070 | 6,19,970 | 6,53,310 | 7,08,297 | 8,03,088 |
| Adjusted PAT | 4,21,470 | 4,59,080 | 4,85,530 | 5,24,921 | 5,95,541 |
| EPS | 115 | 126 | 134 | 145 | 165 |

| Ratio Analysis | FY23 | FY24 | FY25E | FY26E | FY27E |
|--------------------------|--------|--------|--------|--------|--------|
| Growth Ratios (%) | | | | | |
| Revenues | 17.6 | 6.8 | 6.0 | 6.3 | 11.1 |
| Gross Profit | 13.9 | 8.7 | 6.1 | 7.1 | 12.6 |
| EBITDA | 11.7 | 6.9 | 6.4 | 7.2 | 13.0 |
| EBIT | 11.9 | 7.6 | 6.5 | 7.7 | 13.7 |
| Margin Ratios (%) | | | | | |
| Gross Profit Margin | 33.1 | 33.7 | 33.8 | 34.0 | 34.5 |
| EBITDA Margin | 26.3 | 26.3 | 26.4 | 26.6 | 27.1 |
| EBIT Margin | 24.1 | 24.2 | 24.3 | 24.7 | 25.3 |
| Profitability (%) | | | | | |
| ROE | 46.6 | 50.7 | 51.2 | 53.2 | 57.7 |
| ROIC | 41.1 | 44.3 | 44.7 | 46.2 | 50.4 |
| ROCE | 54.6 | 58.6 | 58.9 | 61.0 | 66.5 |
| Valuation | | | | | |
| OCF / Net profit (%) | 99.2 | 96.2 | 100.2 | 109.7 | 98.3 |
| BVPS (x) | 244.45 | 244.63 | 256.16 | 266.83 | 279.02 |
| Free Cash flow yield(%) | 4.4 | 4.6 | 5.1 | 5.9 | 6.2 |

Source: Company, CEBPL

Balance sheet (Consolidated in INR Mn)

| Particular | FY23 | FY24 | FY25E | FY26E | FY27E |
|---------------------------------------|------------------|------------------|------------------|------------------|------------------|
| Tangible fixed assets | 1,14,640 | 1,09,400 | 1,25,240 | 1,27,745 | 1,30,300 |
| Goodwill & intangible assets | 1,02,850 | 1,02,280 | 1,20,750 | 1,22,793 | 1,24,877 |
| Investments | 3,71,630 | 3,17,620 | 3,09,640 | 3,25,397 | 3,41,983 |
| Cash & Cash equivalents | 1,10,320 | 1,32,860 | 1,54,630 | 1,98,386 | 2,12,498 |
| Other non-current assets | 1,13,660 | 1,20,160 | 1,17,440 | 1,24,896 | 1,35,457 |
| Other current assets | 6,23,410 | 6,82,170 | 7,68,590 | 7,49,165 | 7,61,312 |
| Total assets | 14,36,510 | 14,64,490 | 15,96,290 | 16,48,382 | 17,06,427 |
| Shareholder's funds | 9,04,240 | 9,04,890 | 9,47,560 | 9,87,014 | 10,32,119 |
| Minority interest | 7,820 | 8,300 | 10,150 | 10,150 | 10,150 |
| Borrowings | - | - | - | - | - |
| Lease liabilities | 76,880 | 80,210 | 93,920 | 96,265 | 98,679 |
| Other non-current liabilities | 26,840 | 25,100 | 30,190 | 30,494 | 30,804 |
| Other current liabilities | 4,20,730 | 4,45,990 | 5,14,470 | 5,24,459 | 5,34,674 |
| Total equity & liabilities | 14,36,510 | 14,64,490 | 15,96,290 | 16,48,382 | 17,06,427 |

| Cash Flows (INR Mn) | FY23 | FY24 | FY25E | FY26E | FY27E |
|----------------------------|------------|------------|------------|------------|------------|
| Cash Flows From Operations | 4,19,650 | 4,43,380 | 4,89,080 | 5,78,869 | 5,87,983 |
| Cash Flows From Investing | 390 | 60,260 | (23,180) | (32,476) | (30,590) |
| Cash Flows From Financing | (4,78,960) | (4,85,360) | (4,74,660) | (4,98,586) | (5,48,022) |

| DuPont Analysis (INR Mn) | FY23 | FY24 | FY25E | FY26E | FY27E |
|--------------------------|-------|-------|-------|-------|-------|
| ROE | 46.6% | 50.7% | 51.2% | 53.2% | 57.7% |
| Net Profit Margin | 18.7% | 19.1% | 19.0% | 19.3% | 19.8% |
| Asset Turnover | 1.6 | 1.6 | 1.6 | 1.6 | 1.8 |
| Financial Leverage | 1.6 | 1.6 | 1.7 | 1.7 | 1.7 |
| DuPont Analysis | 46.6% | 50.7% | 51.2% | 53.2% | 57.7% |

Historical share price chart: Tata Consultancy Services Limited



| Date | Rating | Target Price |
|------------------|--------|--------------|
| April 11, 2025 | BUY | 3,950 |
| March 05, 2025 | BUY | 4,236 |
| October 11, 2024 | BUY | 4,664 |
| July 12, 2024 | BUY | 4,225 |
| April 13, 2024 | BUY | 4,495 |
| March 18, 2024 | BUY | 4,065 |
| January 12, 2024 | ADD | 4,065 |
| October 11, 2024 | ADD | 4,040 |

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CHOICE RATING DISTRIBUTION & METHODOLOGY

Large Cap*

| | |
|--------|--|
| BUY | The security is expected to generate upside of 15% or more over the next 12 months |
| ADD | The security is expected to show upside returns from 5% to less than 15% over the next 12 months |
| REDUCE | The security is expected to show upside or downside returns by 5% to -5% over the next 12 months |
| SELL | The security is expected to show downside of 5% or more over the next 12 months |

Mid & Small Cap*

| | |
|--------|---|
| BUY | The security is expected to generate upside of 20% or more over the next 12 months |
| ADD | The security is expected to show upside returns from 5% to less than 20% over the next 12 months |
| REDUCE | The security is expected to show upside or downside returns by 5% to -10% over the next 12 months |
| SELL | The security is expected to show downside of 10% or more over the next 12 months |

Other Ratings

| | |
|-------------------|--|
| NOT RATED (NR) | The stock has no recommendation from the Analyst |
| UNDER REVIEW (UR) | The stock is under review by the Analyst and rating may change |

Sector View

| | |
|--------------|---|
| POSITIVE (P) | Fundamentals of the sector look attractive over the next 12 months |
| NEUTRAL (N) | Fundamentals of the sector are expected to be stable over the next 12 months |
| CAUTIOUS (C) | Fundamentals of the sector are expected to be challenging over the next 12 months |

*Large Cap: More Than INR 20,000Cr Market Cap
 *Mid & Small Cap: Less Than INR 20,000Cr Market Cap

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