



Tata Consultancy Services Ltd Q3FY26



Tata Consultancy Services Ltd.

Steady revenue growth, resilient margins amid cautious demand environment

CMP* INR 3,240	Target INR 3,600	Potential Upside 11.1%	Market Cap (INR Mn) INR 11,722,320	Recommendation ACCUMULATE	Sector Internet Software & Services
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Result Highlights

Revenue Performance : TCS reported revenue from operations of INR 670,870 mn, registering 2.0% QoQ growth and 4.9% YoY growth. The topline was in line with our estimates, reflecting steady execution amid a mixed demand environment. Sequential growth was supported by continued deal ramp-ups and stable performance across key verticals, partially offset by softer discretionary spending in select segments.

Profitability and Margins : EBITDA increased by 1.6% QoQ and 7.3% YoY to INR 182,690 mn, while EBITDA margin moderated marginally by 9 bps QoQ to 27.2%, reflecting higher operating expenses. EBIT grew 2.0% QoQ and 7.9% YoY to INR 168,890 mn, with EBIT margin remaining stable at 25.2%. Adj. Net profit rose by 6.3% QoQ and 13.5% YoY to INR 140,480 mn, aided by lower tax outgo and higher other income, translating into a net margin of 16.0%.

Deal Momentum : Order inflows remained healthy with a Total Contract Value (TCV) of USD 9.3 bn, though lower sequentially due to deal timing and cautious discretionary spending. Management highlighted accelerating adoption of AI-led transformation programs across cloud, cybersecurity, digital engineering, and enterprise platforms. Investments in TCS Cognix™, AI.Cloud, and Gemini Enterprise integrations continued to support large, long-duration deal wins and strengthen pipeline visibility.

Segmental and Geographic Trends : BFSI remained the largest vertical, contributing ~30.5% of revenue, with +1.6% YoY CC growth. Manufacturing accounted for ~8.4% of revenue, growing +1.7% YoY CC, while Technology & Services contributed ~8.0%, with +1.7% YoY CC growth. Regionally, the Americas (approximately 49.6% of revenue) delivered marginal sequential improvement, while Europe (approximately 30.5%) remained relatively subdued. The diversified portfolio continued to cushion volatility across sectors and regions.

Headcount and Attrition : TCS closed the quarter with a workforce of 582,163, with a marginal sequential decline, reflecting calibrated hiring amid demand normalization and productivity initiatives. LTM attrition increased to ~13.3%, indicating continued industry-wide normalization trends.

Outlook and Valuation:

TCS reported a stable operational performance in Q3FY26, although reported profitability was impacted by exceptional items. The medium-term outlook remains cautiously constructive, with deal momentum sustaining (Q3 TCV of USD 9.3bn) and management continuing to pivot the business towards AI-led services, reflected in annualised AI services revenue of USD 1.8bn (+17.3% QoQ in constant currency). However, near-term growth is likely to remain measured given persistent demand unevenness across geographies and verticals, notwithstanding a gradual improvement in spending on AI, cloud, data and cybersecurity.

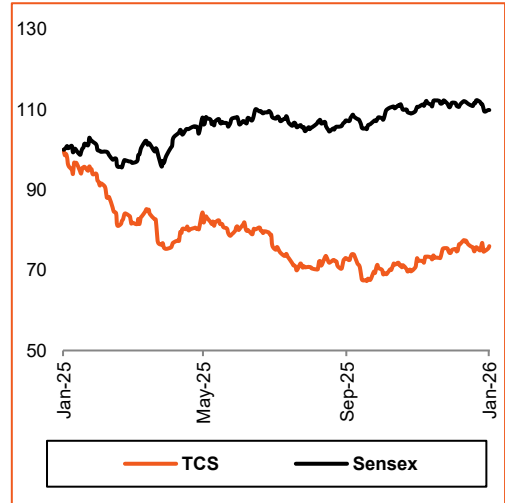
We estimate revenue and earnings CAGR of 5.2% and 7.2%, respectively, over FY25–FY27E. The stock currently trades at 21.0x FY27E earnings. We value TCS at 22x Dec'27E EPS and accordingly revise our rating from "BUY" to "ACCUMULATE".

KEY FINANCIALS

INR Mn	FY24	FY25	FY26E	FY27E	FY28E
Revenue	24,08,930	25,53,240	26,45,257	28,28,054	30,12,653
EBIT	5,93,110	6,21,650	6,73,944	7,14,633	7,70,997
EBIT Margin	24.6%	24.3%	25.5%	25.3%	25.6%
PAT	4,78,240	4,85,530	5,43,703	5,58,475	6,02,248
EPS	131.1	134.2	150.3	154.4	166.5

Source: Company, DevenChoksey Research

SHARE PRICE PERFORMANCE



MARKET DATA

Shares outs (Mn)	3,618
Mkt Cap (INR Mn)	11,722,320
52 Wk H/L (INR)	4,323/2,867

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

SHARE HOLDING PATTERN (%)

Particulars (%)	Sept-25	Jun-25	Mar-25
Promoters	71.8	71.8	71.8
FIIIs	10.3	11.5	12.0
DIIIs	12.6	12.0	11.5
Others	5.3	4.7	4.7
Total	100.0	100.0	100.0

5.2%

Revenue CAGR
between FY25-27E

7.2%

Adj. PAT CAGR
between FY25-27E

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Key Concall Highlights:

Overview and Management Commentary

- TCS reported a continuation of growth momentum from Q2 FY26 despite seasonality and furlough impacts. Revenue for the quarter stood at INR 670,870 mn, reflecting 2% QoQ growth in reported currency, 0.8% in constant currency, and 4.9% YoY. International revenue grew 0.4% sequentially. Growth was led by Consumer Business Group, Energy, Resources & Utilities (ERU), Life Sciences & Healthcare, and Communications, Media & Information Services.
- Europe continued to perform well, while North America remained broadly flat. Regional markets and public services showed resilience. Most client segments improved on a last-twelve-month basis. The company added two clients with revenue above USD 100 mn, eight above USD 20 mn, and 23 above USD 1 mn.
- Total contract value (TCV) for the quarter was USD 9.3 bn, including USD 3.8 bn from BFSI, USD 1.4 bn from Consumer Business, and USD 4.9 bn from North America. One mega deal was signed in North America and one in BFSI.
- AI services remained a key growth driver, with annualized AI revenue reaching USD 1.8 bn, growing 17.3% QoQ in constant currency. Management reiterated its ambition to become a leading AI-powered technology services company and expressed confidence in calendar year 2026 driven by deal momentum and AI-led demand.

Financial Performance Highlights

- Revenue was INR 670,870 mn. Operating margin was stable at 25.2%, excluding one-offs. Productivity and operational efficiencies contributed 80 bps, and favorable currency added 20 bps. These were offset by wage hikes (-50 bps) and investments in brand building and partnerships (-50 bps).
- Adj. Net profit margin stood at 21%, with earnings growing 13.5% YoY. Accounts receivable were 76 days. Operating cash flow was USD 1.6 bn, representing 130.4% of net income. Free cash flow was USD 1.4 bn, and invested funds were USD 7.1 bn.
- Exceptional items included severance costs, legal provisions, and wage code-related impacts. The Board recommended an interim dividend of INR 11 per share and a special dividend of INR 46 per share. Capital allocation policy remains focused on returning substantial free cash flow while investing in strategic growth.

AI / Technology / Strategic Initiatives

- TCS continues to execute its five-pillar AI strategy spanning infrastructure, platforms, services, workforce transformation, and ecosystem partnerships. Internal transformation under the “TCS² AI” program focused on democratizing AI access, scaling internal adoption, and upskilling employees. AI-powered hiring, onboarding, learning platforms, and hackathons were expanded, generating over 15 patentable solutions.
- Service lines are being redefined through a structured “Human + AI” autonomy model, from AI-assisted operations to fully agentic enterprises. Client deployments delivered measurable outcomes, including 2x deployment frequency, 30% faster time-to-market, 50% shorter incident resolution cycles, and 40% higher operational efficiency in select engagements.

Major New Initiatives or Capex Programs

- TCS announced a USD 1 bn partnership with a global alternative asset manager to support gigawatt-scale data center infrastructure development, focused on modular, AI-enabled hosting, predictive operations, and security.
- The company also announced the acquisition of Coastal Cloud in the US to strengthen Salesforce and AI consulting, adding over 500 professionals and 3,400 certifications. The acquisition is pending regulatory approval.

Business Segment and Market Commentary

- BFSI delivered USD 3.8 bn in TCV, up USD 600 mn QoQ, driven by modernization, cloud, and AI programs. Clients remained cautious on discretionary spend but continued investing in resilience, compliance, fraud prevention, and customer experience. Insurance clients accelerated AI in underwriting and quality assurance.
- Consumer Business grew sequentially, led by retail, travel, and hospitality. Life sciences and healthcare saw strong growth driven by AI in drug discovery, diagnostics, digital health, and automation.
- Manufacturing grew marginally, while automotive remained weak. Semiconductor demand was moderate, led by AI hardware. Technology and software were impacted by workforce restructuring and regulatory uncertainty.
- ERU saw strong growth driven by renewable energy, electrification, and digital platforms. Public services and enterprise demand in India, APAC, and MEA remained strong.

Workforce and Culture

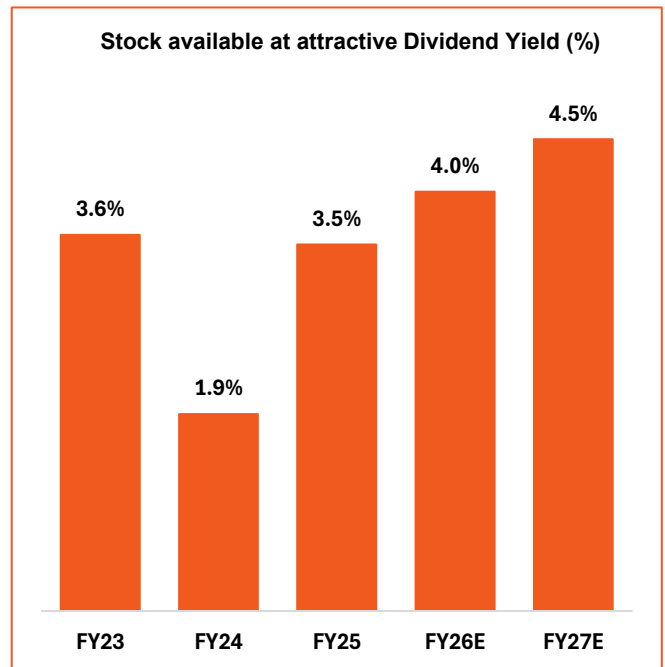
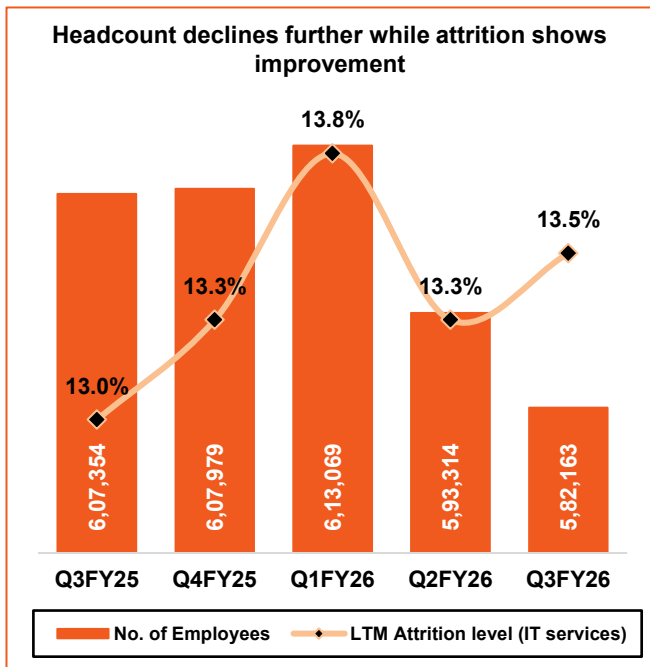
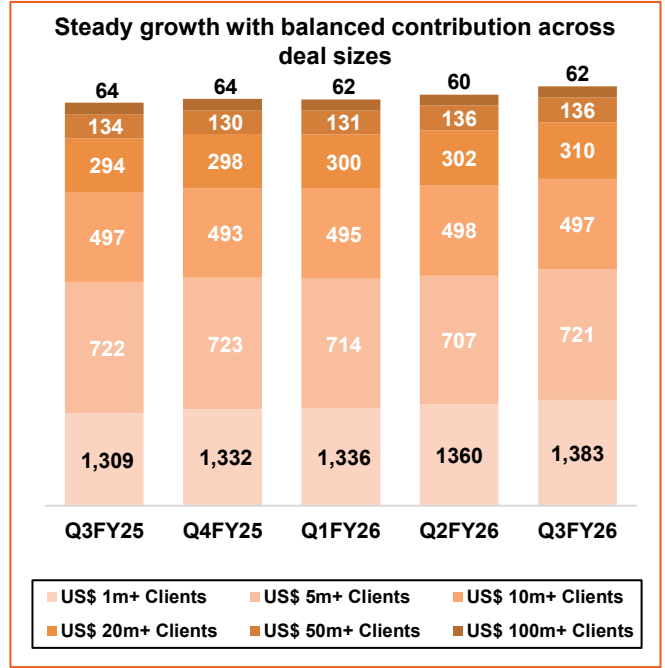
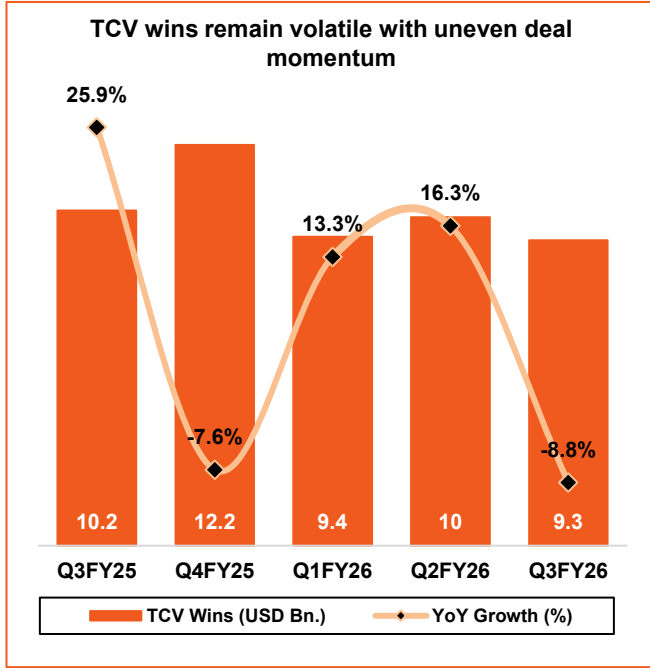
- Headcount stood at 582,163, with 35.1% women representation. LTM attrition was 13.5%, up 20 bps QoQ.
- Employees completed 51.2 mn learning hours and acquired 3.8 mn competencies YTD. Over 217,000 employees now have higher-order AI skills, a threefold YoY increase.

Outlook

- Management noted improving demand trends in Q2 and Q3, particularly for short-cycle, ROI-driven AI projects. While discretionary spending remains cautious in some markets, management expressed confidence in CY26 driven by AI adoption, rapid-build momentum, and a strong deal pipeline. Long-term strategy remains focused on scaling AI, deepening partnerships, and transforming service delivery for an AI-first enterprise model.

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Story in Charts



Source: Company, DevenChoksey Research

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RESULT SNAPSHOT

Particulars (Mn)	Q3FY26	Q2FY26	Q3FY25	QoQ	YoY
Revenue from Operations	6,70,870	6,57,990	6,39,730	2.0%	4.9%
Direct Expense	3,86,230	3,86,650	3,80,610	(0.1%)	1.5%
Other Expenses	1,01,950	91,560	88,790	11.3%	14.8%
Total Expenses	4,88,180	4,78,210	4,69,400	2.1%	4.0%
EBITDA	1,82,690	1,79,780	1,70,330	1.6%	7.3%
EBITDA Margin (%)	27.2%	27.3%	26.6%	-9 bps	61 bps
Depreciation Expense	13,800	14,130	13,760	(2.3%)	0.3%
EBIT	1,68,890	1,65,650	1,56,570	2.0%	7.9%
EBIT Margin (%)	25.2%	25.2%	24.5%	0bps	70bps
Finance costs	5,380	2,290	2,340	134.9%	129.9%
Exceptional Item	33,910	11,350	0	NA	NA
Other Income	11,180	8,670	12,430	29.0%	(10.1%)
Pretax Income	1,40,780	1,60,680	1,66,660	(12.4%)	(15.5%)
Tax expense	33,580	39,370	42,220	(14.7%)	(20.5%)
Net profit	1,07,200	1,21,310	1,24,440	(11.6%)	(13.9%)
Minority Interest	630	560	640	12.5%	(1.6%)
Adj. PAT after non-controlling interest	1,40,480	1,32,100	1,23,800	6.3%	13.5%
Adj. Net Profit Margin (%)	20.9%	20.1%	19.4%	86 bps	159 bps
Adj. Diluted EPS (INR)	38.8	36.5	34.2	6.3%	13.5%

Source: Company, DevenChoksey Research

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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

Particulars (INR Mn)	FY25	FY26E	FY27E	FY28E
Revenue	25,53,240	26,45,257	28,28,054	30,12,653
Direct Costs	15,19,050	15,37,699	16,64,316	17,65,958
SG&A Expense	3,60,120	3,78,205	3,92,932	4,18,393
EBITDA	6,74,070	7,29,353	7,70,806	8,28,302
Depreciation	52,420	55,409	56,173	57,305
EBIT	6,21,650	6,73,944	7,14,633	7,70,997
Other income, net	39,620	46,450	42,000	44,000
Finance costs	7,960	11,720	8,800	8,800
Pre-tax Income	6,53,310	7,08,674	7,47,833	8,06,197
Income tax expense	1,65,340	1,62,591	1,86,958	2,01,549
Net profit Before MI	4,87,970	5,46,083	5,60,875	6,04,648
Minority Interest	2,440	2,380	2,400	2,400
Net profit After MI	4,85,530	5,43,703	5,58,475	6,02,248
Diluted EPS (INR)	134.2	150.3	154.4	166.5
Shares in Million	3,618	3,618	3,618	3,618

Exhibit 3: Cash Flow Statement

Particulars (INR Mn)	FY25	FY26E	FY27E	FY28E
CCFO	4,89,080	5,43,118	5,54,662	5,95,784
CFFI	(23,180)	(24,565)	(39,561)	(41,253)
CFFF	(4,74,380)	(5,30,949)	(5,40,659)	(5,80,458)
Net Inc/Dec in cash equivalents	(6,740)	(12,397)	(25,558)	(25,927)
Closing cash	83,420	71,023	45,465	19,538

Exhibit 4: Key Ratios

Key Ratio	FY25	FY26E	FY27E	FY28E
EBIT Margin (%)	24.3%	25.5%	25.3%	25.6%
Tax rate (%)	25.3%	22.9%	25.0%	25.0%
Net Profit Margin (%)	19.1%	20.6%	19.8%	20.1%
RoE (%)	52.4%	51.9%	56.7%	59.4%
RoCE (%)	44.9%	48.1%	48.4%	50.8%
P/E	24.3	21.6	21.0	19.5

Exhibit 2: Balance Sheet

INR Millions	FY25	FY26E	FY27E	FY27E
Equity				
Equity Capital	3,620	3,620	3,620	3,620
Other Equity	9,43,940	9,68,414	9,95,030	10,25,620
Non controlling interest	10,150	12,530	14,930	17,330
Total Equity	9,57,710	9,84,564	10,13,580	10,46,570
Non-Current Liabilities				
Borrowings	78,380	78,380	78,380	78,380
Other Financial Liabilities	5,180	5,180	5,180	5,180
Other Non-current Liabilities	25,010	25,010	25,010	25,010
Total Non-Current Liabilities	1,08,570	1,08,570	1,08,570	1,08,570
Current Liabilities				
Borrowings	15,540	15,540	15,540	15,540
Trade Paybles	1,39,090	1,41,337	1,51,764	1,61,141
Other Financial Liabilities	85,420	85,420	85,420	85,420
Other current liabilities	2,89,960	2,91,558	2,94,647	2,97,425
Total Current Liabilities	5,30,010	5,33,855	5,47,371	5,59,526
Total Liabilities	15,96,290	16,26,989	16,69,521	17,14,666
Non-Current Assets				
Property Plants and Equipments	1,09,780	1,07,276	1,07,664	1,10,613
Right of use of Assets	92,750	92,750	92,750	92,750
Goodwill	18,600	18,600	18,600	18,600
Intangible Assets	9,400	9,400	9,400	9,400
Other current assets	1,35,650	1,35,650	1,35,650	1,35,650
Total Non-Current Assets	3,66,180	3,63,676	3,64,064	3,67,013
Current Assets				
Investments	3,06,890	3,25,000	3,50,000	3,75,000
Trade Receivables	5,01,420	5,27,606	5,64,065	6,00,884
Cash and Bank	1,45,570	1,33,173	1,07,615	81,688
Other current assets	2,76,230	2,77,533	2,83,777	2,90,081
Total Current Assets	12,30,110	12,63,313	13,05,457	13,47,653
Total Assets	15,96,290	16,26,989	16,69,521	17,14,666

Tata Consultancy Services Ltd.

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Date	CMP (INR)	TP (INR)	Recommendation
13-Jan-26	3,240	3,600	ACCUMULATE
10-Oct-25	3,062	3,615	BUY
11-Jul-25	3,382	4,067	BUY
11-Apr-25	3,247	4,144	BUY
10-Jan-25	4,266	4,631	ACCUMULATE
10-Oct-24	4,227	4,587	ACCUMULATE

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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