

TATA CONSULTANCY SERVICES LIMITED

Balanced performance amid mixed demand trends

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Tata Consultancy Services Ltd (TCS) reported topline growth of +0.8% QoQ / -2.6% YoY CC, broadly in line with the historical trend of a seasonally weak Q3 due to furloughs and lower utilization. Performance was supported by international operations (+0.4% QoQ CC), primarily driven by strong growth in Latin America (+4.6% QoQ CC) and MEA (+3.2% QoQ CC). On the vertical front, Life Sciences & Healthcare (+0.9% QoQ CC) and CBG (+1.3% QoQ CC) maintained steady momentum, with CBG benefiting from strength in retail, travel, and hospitality across the Americas, Europe, and APA, notwithstanding continued softness in the UK. Manufacturing (+0.2% QoQ CC) posted marginal growth, as weakness in automotive was partially offset by improvement in other sub-segments. BFSI witnessed Q3 seasonality-led softness due to furloughs; however, management remains confident of a recovery, underpinned by healthy underlying deal traction.

The AI segment continues to gain strategic relevance as a medium-term growth driver, with annualized AI revenue reaching USD 1.8 bn (+17.3% QoQ CC), reflecting a transition from pilot-based initiatives to ROI-driven, scaled implementations, which supports sustained growth visibility over the coming years. Deal momentum remained strong at USD 9.3 bn, led by mega deal wins in the BFSI segment (USD 3.8 bn), providing near-term revenue visibility and supporting our expectation of a stronger Q4. That said, a broad-based demand recovery is yet to materialize, as growth remains concentrated in select verticals rather than a widespread pickup in discretionary spending.

With the impact of the labour code largely behind, international business trends remaining stable, and a USD 1 bn equity partnership with TPG for AI data center infrastructure enhancing future deal visibility, we remain confident in TCS's long-term fundamentals. Accordingly, we assign a BUY rating on TCS with a TP of ₹3,880, based on a valuation of 22x FY28E EPS.

Key Financials (₹ bn)	FY24	FY25	FY26E	FY27E	FY28E
Sales	2,409	2,553	2,635	2,815	3,059
EBIT Margin (%)	24.6	24.3	25.7	26.9	27.3
PAT	466	486	535	583	638
EPS (INR)	128	134	140	161	176
EPS Gr.(%)	10.9	5.1	4.4	15.0	9.5
BV/Sh.(INR)	254	268	277	288	299
RoE (%)	50.3	51.2	54.2	57.0	60.2
RoCE (%)	43.0	44.0	46.0	49.0	51.7
Payout (%)	57.1	93.9	80.0	80.0	80.0
P/E (x)	25.0	23.8	22.8	19.8	18.1
P/BV (x)	12.6	11.9	11.5	11.1	10.7
EV/EBITDA (x)	19.6	18.6	17.1	15.2	13.8
Div. Yield (%)	2.3	3.9	3.7	4.0	4.4

Source: Company, LKP Research

BUY

Current Market Price (₹)	3,193
12M Price Target (₹)	3,880
Potential Return (%)	22

Stock Data

Sector	: Information Technology
Face Value (₹)	: 1
Total MCap (₹ bn)	: 11,570
Free Float MCap (₹ bn)	: 3,256
52-Week High / Low (₹)	: 4,323 / 2,867
BSE Code / NSE Symbol	: 532540 / TCS
Bloomberg	: TCS IN
Sensex / Nifty	: 83,383 / 25,666

Shareholding Pattern

(%)	Sep-25	Jun-25	Mar-25	Dec-24
Promoter	71.77	71.77	71.77	71.77
FPIs	10.33	11.47	12.04	12.68
MFs	5.59	5.13	5.00	4.32
Insurance	6.20	6.03	5.75	5.83
Others	6.11	5.60	5.44	5.40

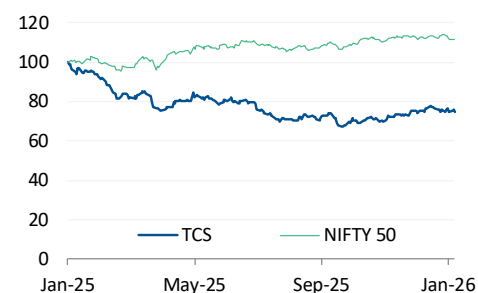
Source: BSE

Price Performance

(%)	1M	3M	6M	12M
TCS	-0.9	7.9	-0.9	-24.6
Nifty 50	-1.5	2.1	2.3	10.7

* To date / current date : January 14, 2026

TCS vs Nifty 50



EBIT margin steady at healthy levels

TCS reported a steady EBIT margin of 25.2% in Q3FY26, broadly in line with expectations, as operational efficiencies offset cost headwinds. Margin support came from productivity gains, pyramid optimization, and improved revenue per employee (+80 bps), along with a modest benefit from currency movements (+20 bps), which were largely offset by the full-quarter impact of wage hikes (-50 bps) and higher investments in brand building and partnerships (-50 bps). Reported PAT was affected by multiple one-offs, including restructuring costs, legal provisions, and a significant provision related to the implementation of the new India labour codes; excluding these exceptional items, margins remained stable on a sequential basis. Management indicated that the residual impact of the labour codes from Q4 onward is expected to be marginal (10–15 bps), reaffirmed its aspirational operating margin band of 26–28%, and highlighted that any further upside will be driven primarily by execution-led efficiencies rather than pricing, notwithstanding potential near-term pressure from the annual intervention cycle in Q4. The net headcount further declined by 11,521 employees to 582,163 (down 1.8% QoQ) in Q2FY26 and restructuring is expected to continue in Q4 as well with volatile demand in certain verticals.

Quarterly Financial Snapshot

YE Mar (₹ bn)	Q3FY26	Q3FY25	QoQ	Q3FY25	YoY
QoQ CC	0.8%	0.8%	-	0.0%	-
Revenue (USD mn)	7,509	7,466	0.6%	7,539	-0.4%
USD/INR	89.3	88.1	1.4%	84.9	5.3%
Sales	671	658	2.0%	640	4.9%
Gross Profit	274	260	5.2%	248	10.3%
GPM (%)	40.8%	39.6%	+120 bps	38.8%	+200 bps
EBIT	169	166	2.0%	157	7.9%
EBIT margin (%)	25.2%	25.2%	+0 bps	24.5%	+70 bps
APAT	134	129	4.1%	124	8.5%
EPS (₹)	37.1	35.7	4.1%	34.2	-

Source: Company, LKP Research

Outlook & Valuation

We expect TCS's near-term performance to be supported by healthy deal wins, improving execution in select verticals, and a rising contribution from AI-led engagements; however, given the gradual nature of a broad-based demand recovery, we estimate a moderate USD revenue CAGR of 3.3% over FY25–28E. Margin stability is likely to continue as wage headwinds and labour code-related impacts are largely absorbed, with any incremental upside driven by execution efficiencies rather than pricing. At present, the stock is trading at ~18x FY28E EPS, offering valuation comfort. Supported by stable international business trends, strong deal visibility, and confidence in long-term fundamentals, we maintain a BUY rating on TCS with a target price of ₹3,880, based on 22x FY28E EPS, which we believe fairly captures its steady growth outlook and margin resilience.

Revenue geography wise

Revenue (%)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26
North America	50.6	50.0	49.5	47.6	47.7	48.2	48.7	48.8	48.5
Latin America	2.1	2.0	1.9	1.8	1.9	1.8	1.9	1.9	2.0
UK	16.4	16.8	16.9	17.0	16.6	16.8	18.0	17.5	16.9
Continental Europe	15.0	14.6	14.4	14.6	13.9	14.3	15.0	15.3	15.6
India	6.1	6.7	7.5	8.9	9.8	8.4	5.8	5.8	6.1
Asia Pacific	7.8	7.8	7.8	8.0	7.8	8.1	8.4	8.3	8.3
MEA	2.0	2.1	2.0	2.1	2.3	2.4	2.2	2.4	2.6

Source: Company, LKP Research

Revenue vertical wise

Revenue (%)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26
BFSI	31.7	31.3	30.9	30.8	30.5	31.2	32.0	32.2	31.9
Consumer Business	15.7	15.7	15.4	15.1	15.3	15.3	15.6	15.3	15.4
Life Sciences & Healthcare	10.9	10.9	11.0	10.4	10.1	10.1	10.2	10.5	10.5
Technology & Services	8.4	8.2	8.1	8.0	8.0	8.1	8.4	8.5	8.4
Manufacturing	8.6	8.8	8.8	8.6	8.4	8.4	8.7	8.8	8.8
Communication & Media	6.7	6.6	6.2	5.9	5.8	5.8	5.8	5.9	5.9
Energy, Resources and Utilities	5.7	5.6	5.6	5.7	5.6	5.7	5.9	5.9	6.0
Regional Markets & Others	12.3	12.9	14.0	15.5	16.3	15.4	13.4	12.9	13.1

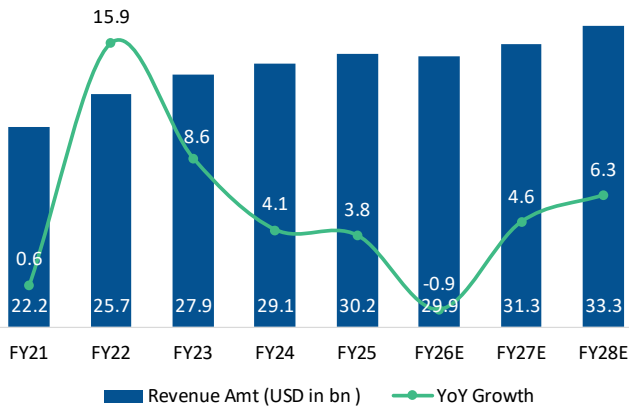
Source: Company, LKP Research

Revenue buckets

Clients	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26
Mn \$ clients	1,288	1,294	1,310	1,307	1,309	1,332	1,336	1,360	1,383
5 mn \$ clients	693	693	697	710	722	723	714	707	721
10 mn \$ clients	480	487	486	491	497	493	495	498	497
20 mn \$ clients	299	301	300	298	294	298	300	302	310
50 mn \$ clients	137	139	140	136	134	130	131	136	136
100 mn \$ clients	61	62	63	66	64	64	62	60	62

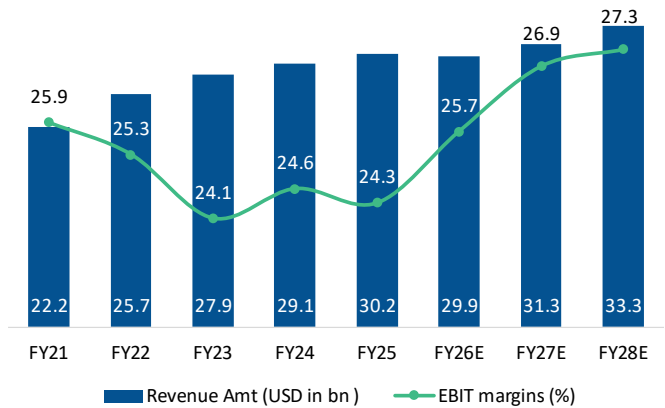
Source: Company, LKP Research

Revenue & Growth



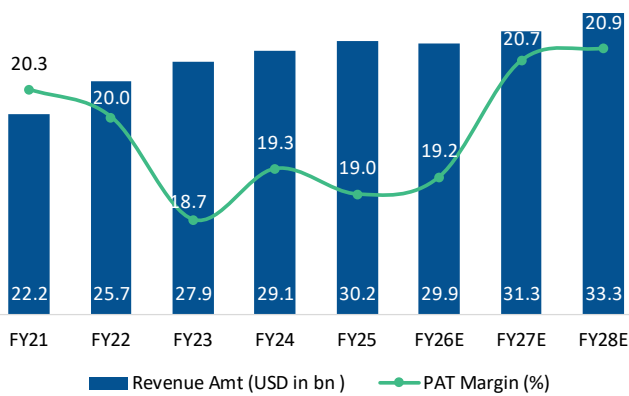
Source: Company, LKP Research

Revenue Vs EBIT margin



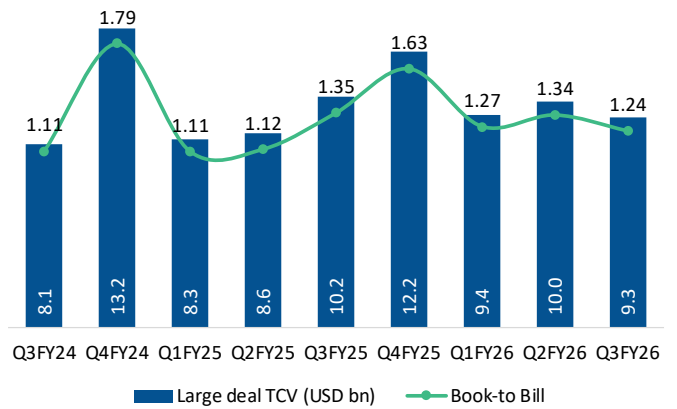
Source: Company, LKP Research

Revenue Vs PAT margin



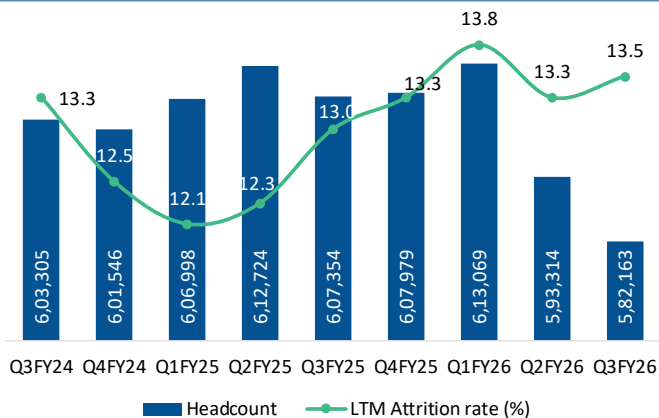
Source: Company, LKP Research

Deal momentum going strong



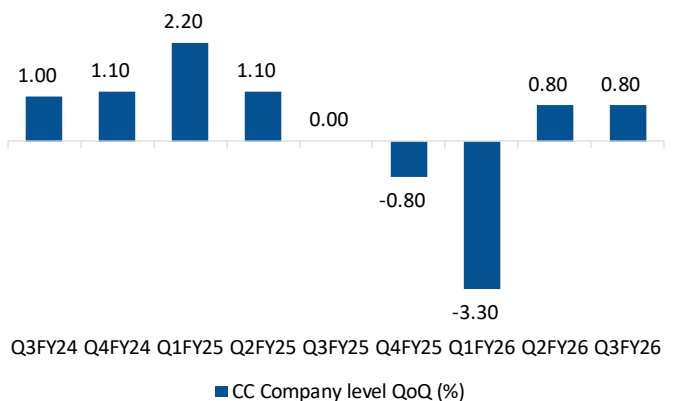
Source: Company, LKP Research

Headcount reducing amid restructuring



Source: Company, LKP Research

CC revenue growth



Source: Company, LKP Research

Q3FY26 – Earnings Call Highlights

1. Demand Environment & Revenue Mix

- Gradual demand improvement from 2Q continued into 3Q, with AI and Data-led engagements gaining traction across verticals.
- BFSI and Hi-tech remained resilient after adjusting for furlough impacts.
- Revenue growth driven by AI & Data, Enterprise Solutions, IoT & Digital Engineering, and Cybersecurity.
- International revenue up 0.4% QoQ CC; Europe performed better, North America remained flattish, with management noting faster, ROI-driven decision-making.

2. Vertical & Regional Performance

- Life Sciences & Healthcare: Strong momentum supported by regulatory shifts, security requirements, and scaled AI adoption.
- BFSI: Expected to return to sustained growth, supported by large deal wins, modernization, payments transformation, and simplified architectures.
- Manufacturing: Marginal growth; Energy, Resources & Utilities benefited from decarbonization-linked investments.
- Regional growth led by regional markets (+4.6% QoQ CC), driven by enterprise demand in India and public sector activity across India, APAC, and EMEA.

3. AI Momentum & Strategic Initiatives

- Annualized AI revenue reached USD 1.8 bn (+17.3% QoQ CC), reflecting a shift from pilots to ROI-led scaled deployments.
- AI revenue includes business transformation and data programs; internal productivity tools excluded.
- Structured AI roadmap progressing, including human+AI autonomy framework and AI labs in India for sector-specific incubation.
- USD 1bn TPG partnership for AI data center infrastructure strengthens long-term positioning; revenue expected post ~18-month build-out.

4. Deal Wins & Order Book

- TCV: USD 9.3 bn in Q3FY26, including multiple large deals and a mega deal in North America.
- FY26 TCV expected to close at USD 38–39 bn, one of the strongest levels historically.
- BFSI contributed USD 3.8 bn, highlighting strong vertical confidence and near-term revenue visibility.

5. One-offs, Workforce Actions & Near-term Headwinds

- One-off labor code provisions of ~₹21.3bn, mostly for gratuity and unearned leave; normalized impact 10–15 bps expected next quarter.
- Workforce restructuring continues to align skills to AI-first delivery; ~217,000 employees now trained in advanced AI.
- The net headcount further declined by 11,521 employees to 582,163 (down 1.8% QoQ) in Q2FY26. Attrition (LTM) increased by 20bp QoQ to 13.5%.
- Near-term risks: macro uncertainty, Q4 annual intervention cycle, and ongoing strategic investments.

6. Capital Allocation & Shareholder Returns

- Strong cash generation enabled interim dividend of ₹11/share and special dividend of ₹46/share.

Income Statement

(₹ bn)	FY24	FY25	FY26E	FY27E	FY28E
Sales	2,409	2,553	2,635	2,815	3,059
Change (%)	6.8	6.0	3.2	6.8	8.7
Software Develop. Exp.	1,436	1,560	1,567	1,646	1,777
SGA expenses	380	372	391	411	448
EBIT	593	622	677	759	834
% of Net Sales	24.6	24.3	25.7	26.9	27.3
Interest	0	0	0	0	0
Other Income, Net	37	32	37	31	31
PBT	630	653	714	790	865
Tax	163	165	177	204	224
Rate (%)	25.8	25.3	24.8	25.9	25.9
Minority Interest	2	2	2	2	3
Adjusted PAT	466	486	535	583	638
Extraordinary Items	0	0	28	0	0
Reported PAT	466	486	507	583	638
Change (%)	10.5	4.2	4.4	15.0	9.5

Source: Company, LKP Research

Key Ratios

YE Mar	FY24	FY25	FY26E	FY27E	FY28E
Basic (₹)					
EPS	127.7	134.2	140.1	161.1	176.4
Cash EPS	127.7	134.2	140.1	161.1	176.4
Book Value	254.0	267.8	277.2	287.5	298.8
DPS	73.0	126.0	118.2	128.8	141.1
Payout %	57.1	93.9	80.0	80.0	80.0
Valuation (x)					
P/E	25.0	23.8	22.8	19.8	18.1
Cash P/E	25.0	23.8	22.8	19.8	18.1
EV/EBITDA	19.6	18.6	17.1	15.2	13.8
EV/Sales	4.8	4.5	4.4	4.1	3.8
Price/Book Value	12.6	11.9	11.5	11.1	10.7
Dividend Yield (%)	2.3	3.9	3.7	4.0	4.4
Profitability Ratios (%)					
RoE	50.3	51.2	54.2	57.0	60.2
RoCE	43.0	44.0	46.0	49.0	51.7
Turnover Ratios					
Debtors (Days)	81	84	86	86	84
Fixed Asset Turnover (x)	10.2	9.4	10.4	11.9	14.0

Source: Company, LKP Research

Balance Sheet

(₹ bn)	FY24	FY25	FY26E	FY27E	FY28E
Share Capital	4	4	4	4	4
Reserves	923	965	999	1,037	1,078
Net Worth	926	969	1,003	1,040	1,081
Capital Employed	1,025	1,088	1,125	1,170	1,221
Net Block	236	272	254	236	219
Investments & Other Assets	120	116	113	113	115
Curr. Assets	1,130	1,230	1,291	1,399	1,514
Debtors	536	590	618	660	708
Cash & Bank Balance	90	83	142	207	254
Investments	315	307	307	307	307
Other Current Assets	189	249	224	225	245
Current Liab. & Prov	461	530	533	578	626
Net Current Assets	669	700	758	821	887
Application of Funds	1,025	1,088	1,125	1,170	1,221

Source: Company, LKP Research

Cash Flow

(₹ bn)	FY24	FY25	FY26E	FY27E	FY28E
CF from Operations	545	551	593	645	702
Cash for Working Capital	-76	-36	7	9	-11
Net Operating CF	469	514	600	654	692
Net Purchase of FA	-22	-30	-41	-43	-47
Free Cash Flow	447	484	559	610	645
Net Purchase of Invest.	50	-27	0	0	0
Net Cash from Invest.	27	-57	-41	-43	-47
Proceeds from Equity	0	0	0	0	0
Others	-17	-16	0	0	0
Dividend Payments	-252	-450	-500	-545	-597
Buyback of shares	-210	0	0	0	0
Cash Flow from Fin.	-478	-466	-500	-545	-597
Net Cash Flow	18	-8	59	65	47
Effect of forex on cash flow	1	2	0	0	0
Opening Cash Bal.	71	90	83	142	207
Add: Net Cash	19	-7	59	65	47
Closing Cash Bal.	90	83	142	207	254

Source: Company, LKP Research

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