

Uncertainty Persists; Decent Deal Wins

Est. Vs. Actual for Q1FY26: Revenue – **INLINE** ; EBIT Margin – **MISS** ; PAT – **BEAT**

Recommendation Rationale

- **Macro headwinds uncertainty:** In Q1FY26, the company experienced delays in decision-making and project initiations, particularly for discretionary investments, due to prevailing macro headwinds. Global operations were impacted by U.S. tariffs, economic uncertainty, and persistent supply chain disruptions. Additionally, cost pressures on customers resulted in the deferral of several projects.
- **Deal wins/pipeline:** The company reported a deal TCV of \$9.4Bn, down 22.95% QoQ but up 13.2% YoY. The new BSNL order received in May'25 is currently in an advanced stage, and execution will start after receipt of circle-wise purchase orders.
- **Client focus:** Industry enterprises are prioritising cost optimisation, vendor consolidation, and efficiency-led technology transformation. Discretionary spending remains under pressure and is expected to continue for the upcoming quarter.

Sector Outlook: Cautiously optimistic

Company Outlook & Guidance: TCS sees strong focus from enterprises on scaling AI adoption across applications, workflows, and data platforms. The company anticipates the international market to perform better in FY26 than in FY25.

Current Valuation: 24x FY27E P/E

Current TP: 3,625/share

Recommendation: With a strong deal pipeline across business verticals, new partnerships, and higher adoption for new-age technologies, we believe TCS will gradually begin recovery from H2FY26. Hence, we resume our coverage with a **HOLD** rating on the stock.

Financial performance

In Q1FY26, Tata Consultancy Services reported revenue of Rs 63,437 Cr vs Rs 62,613 Cr, up 1.3% YoY but down 1.6% QoQ. EBIT stood at Rs 15,514 Cr vs Rs 15,444 Cr, up 0.5% YoY but down 0.6% QoQ. Net Income came in at Rs 12,819 Cr vs Rs 12,105 Cr, up 5.9% YoY and 4.3% QoQ, driven by higher other income and lower tax expenses. However, in CC terms, revenue declined by 3.1% YoY, primarily due to the ramp-down in the BSNL project and geopolitical uncertainties that led to demand contraction. Attrition levels increased by 50 bps to 13.8% vs 13.3% QoQ. The board recommended an interim dividend of Rs 11/share.

Valuation & Recommendation

The management sees green shoots in international markets in FY26 and expects it to be better than FY25. We are constructive on the long-term outlook of the company and expect a gradual recovery from H2FY26 onwards. Therefore, we resume over coverage with a **HOLD** rating on the **stock** and assign a 24x P/E multiple to its FY27E earnings to arrive at a TP of Rs 3,625/share, implying an upside of 7% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q1FY26	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	63,437	(1.6)	1.3	64,301	(1.3)
EBIT	15,514	(0.6)	0.5	15,947	(2.7)
EBIT Margin	24.5	26bps	-21bps	24.8	(1.4)
Net Profit	12,819	4.3	5.9	12,352	3.8
EPS (Rs)	35.4	4.3	5.9	33.6	5.5

Source: Company, Axis Research

(CMP as of 10th July 2025)

CMP (Rs)	3,395
Upside /Downside (%)	7%
High/Low (Rs)	4,592/3,056
Market cap (Cr)	12,26,694
Avg. daily vol. (6m)Shrs.	2,689
No. of shares (Cr)	362

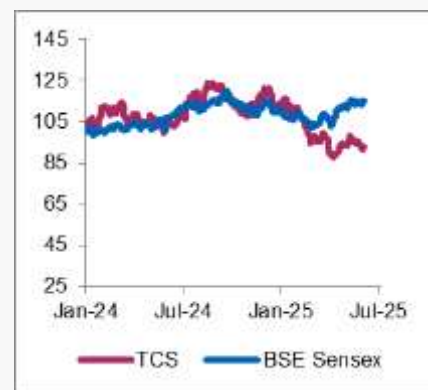
Shareholding (%)

	Sep-24	Dec-24	Mar-25
Promoter	71.8	71.8	71.8
FII's	12.7	12.7	12.0
MFs/UTI	4.3	4.3	5.0
Banks/FIs	0.0	0.0	0.0
Others	11.3	11.2	11.2

Financial & Valuations

Y/E Mar (Rs Cr)	FY25	FY26E	FY27E
Net Sales	2,55,324	2,58,465	2,76,527
EBIT	62,165	64,140	69,690
Net Profit	48,553	50,611	53,648
EPS (Rs)	135.5	141.3	149.8
PER (x)	25.2	24.2	22.8
P/BV (x)	12.9	12.1	11.5
EV/EBITDA (x)	18.0	17.5	16.0
ROE (%)	52.4	51.7	51.7

Relative performance



Source: AceEquity, Axis Securities

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Outlook

From a long-term perspective, we believe TCS has built a resilient business model by securing multiple long-term contracts with the world's leading brands. It has also established robust capabilities that will enable it to gain market share moving ahead. However, prevailing uncertainties in large economies continue to pose short-term headwinds to the company's growth prospects. Nonetheless, we believe discretionary spending will gradually increase with newer technologies moving forward.

Key highlights

- In CC terms, India witnessed a de-growth of 21.7% YoY, followed by Continental Europe, which fell by 3.1% YoY, and North America, which declined by 2.7% YoY. However, the MEA market saw a growth of 9.4% YoY, while Asia Pacific and Latin America reported decent growth of 3.6% and 3.5% YoY, respectively.
- On the segmental front, BFSI was up by just 1% YoY; Manufacturing declined by 4% YoY; Energy, Resources & Utilities grew by 2.8% YoY; the Regional Markets & Others segment fell by 8.6% YoY; Technology & Services increased by 1.8% YoY; Consumer Business declined by 3.1% YoY; Life Sciences & Healthcare was down 9.6% YoY; and Communication & Media also declined by 9.6% YoY.
- EBIT margin for the quarter stood at 24.5%, a dip of 21 bps YoY, driven by continued investments in workforce and capacity to support long-term growth and future demand.
- During the quarter, TCS partnered with several enterprises, including a leading consumer electronics retailer, to drive GenAI enablement at scale, reimagining business processes. The company also collaborated with IBM to advance quantum algorithms and application development through its role in the Quantum Valley Tech Park in India. Additional partnerships included a large Canadian bank for enterprise data transformation and management, and Jazeera Airways, Kuwait's leading low-cost carrier, for digital transformation initiatives.
- The order book TCV for the quarter stood at \$9.4 Bn (-22.9% QoQ / +3.2% YoY); North America TCV was \$4.4 Bn; BFSI TCV was \$2.5 Bn; and Consumer Business TCV stood at \$1.6 Bn, with a book-to-bill ratio of 1.3x.
- The deal pipeline remains strong and well-diversified across verticals and geographies, with healthy deal closures in Q1. Key wins included operating model transformation, vendor consolidation, AI-powered intelligent automation, and SAP S/4HANA-based transformation deals.
- The company saw delays in a few orders and project executions; however, management confirmed these were largely factored into Q1FY26. Headcount stood at 613,069, with attrition at 13.8% vs 13.3% in the previous quarter and a net addition of over 5,000 employees.
- Demand contraction was evident in major verticals during the quarter. Management highlighted that ongoing economic uncertainty is prompting caution among BFSI clients in America regarding tech investments, with discretionary spending expected to remain under pressure in the next quarter as well.
- Post tariff clarity, the company expects the international market to perform better in FY26 than in FY25, supported by improved order booking and increased customer enquiries.

Key Risks to our Estimates and TP

- The demand environment is uncertain because of the potential threat of recession from the world's largest economies.
- The rising subcontracting cost and cross-currency headwinds may impact operating margins negatively.

Results Review
(Rs Cr)

Y/E March	Q1FY26	Q4FY25	QoQ (%)	Q1 FY25	YoY (%)
Net sales	63,437	64,479	(1.6)	62,613	1.3
Total Expenditure	46,562	47,499	(2.0)	45,949	1.3
EBITDA	16,875	16,980	(0.6)	16,664	1.3
<i>EBITDA margin (%)</i>	26.6%	26.3%	27bps	26.6%	-1bps
Depreciation	1,361	1,379	(1.3)	1,220	11.6
EBIT	15,514	15,601	(0.6)	15,444	0.5
<i>EBIT margin (%)</i>	24.5%	24.2%	26bps	24.7%	-21bps
Interest cost	195	227	(14.1)	173	12.7
Other income	1,660	1,028	61.5	962	72.6
Exceptional item	-	-	NA	-2	NA
PBT	16,979	16,402	3.5	16,231	4.6
Tax	4,160	4,109	1.2	4,126	0.8
Profit after tax	12,819	12,293	4.3	12,105	5.9
Reported EPS	35.4	34.0	4.3	33	7.1
Adj. PAT	12,819	12,293	4.3	12,107	5.9
Adj. EPS	35.4	34.0	4.3	33.1	7.1

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Net sales	2,25,458	2,40,893	2,55,324	2,58,465	2,76,527
Change(yoy,%)	17.58	6.85	5.99	1.23	6.99
Operating expenses	1,66,198	1,76,597	1,87,917	1,88,674	2,00,754
EBITDA	59,260	64,296	67,407	69,791	75,774
Change (yoy,%)	11.7	8.5	4.8	3.5	8.6
Margin (%)	26.3	26.7	26.4	27.0	27.4
Depreciation	5,023	4,984	5,242	5,652	6,084
EBIT	54,237	59,312	62,165	64,140	69,690
Interest paid	779	778	796	819	869
Other income	2,245	2,261	2,363	2,473	2,627
Pre-tax profit	56,907	61,998	65,331	67,711	71,896
Tax	14,604	15,898	16,534	16,843	17,974
Effective tax rate (%)	26	26	25	25	25
Minority Interest	(156)	(191)	(244)	(257)	(274)
Net profit	42,147	45,909	48,553	50,611	53,648
Exceptional items	-	(958)	-	-	-
Adjusted net profit	42,147	46,867	48,553	50,611	53,648
Change(yoy,%)	10.0	11.2	3.6	4.2	6.0
Adj.EPS	116	130	136	141	150
Dividend per sh	115	73	126	120	130
Dividend Payout (%)	100	58	96	88	90

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Share capital	366	362	362	362	362
Reserves & surplus	90,058	90,127	94,394	1,00,619	1,06,182
Shareholders funds	90,424	90,489	94,756	1,00,981	1,06,544
Total Debt	6,203	6,516	7,838	7,838	7,838
Other liabilities	2,684	2,510	3,019	3,019	3,019
Curr Liab & prov	43,558	46,104	53,001	53,451	54,455
Current liabilities	43,213	45,964	52,821	53,271	54,275
Provisions	345	140	180	180	180
Total liabilities	52,445	55,130	63,858	64,308	65,312
Total equity & liabilities	1,43,651	1,46,449	1,59,629	1,66,304	1,72,871
Net fixed assets	10,230	9,376	10,978	11,354	11,688
Investments	266	281	275	275	275
Other non-curr assets	22,885	23,808	25,365	25,340	25,340
Current assets	1,10,270	1,12,984	1,23,011	1,29,335	1,35,568
Inventories	-	-	-	-	-
Sundry Debtors	49,954	53,577	59,046	60,309	58,336
Cash & Liquid	11,032	13,286	15,463	20,524	28,731
Other Curr Assets	49,284	46,121	48,502	48,502	48,502
Total assets	1,43,651	1,46,449	1,59,629	1,66,304	1,72,871

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Pre tax	42,147	45,909	48,553	50,611	53,648
Depreciation	5,023	4,984	5,242	5,652	6,084
Chg in working capital	(7,942)	2,086	(953)	(812)	2,976
Other operating activities	2,353	2,298	2,076	2,080	3,877
Cash flow from operations (a)	36,558	50,293	49,676	51,879	60,502
Capital expenditure	(2,044)	(1,509)	(6,844)	(500)	(500)
Chg in investments	67	197	(51)	25	-
Other investing activities	2,661	3,287	2,462	4,390	3,075
Cash flow from investing (b)	684	1,975	(4,433)	3,915	2,575
Equity raised/(repaid)	-	(4)	-	-	-
Debt raised/(repaid)	(430)	139	1,831	-	-
Dividend (incl. tax)	(42,266)	(26,674)	(46,642)	(44,386)	(48,085)
Chg in minorities	75	48	185	-	-
Other financing activities	(1,810)	(23,523)	1,560	(6,347)	(6,786)
Cash flow from financing (c)	(44,431)	(50,014)	(43,066)	(50,733)	(54,871)
Net chg in cash (a+b+c)	(7,189)	2,254	2,177	5,061	8,206
Opening cash balance	18,221	11,032	13,286	15,463	20,524
Closing cash balance	11,032	13,286	15,463	20,524	28,731

Source: Company, Axis Securities

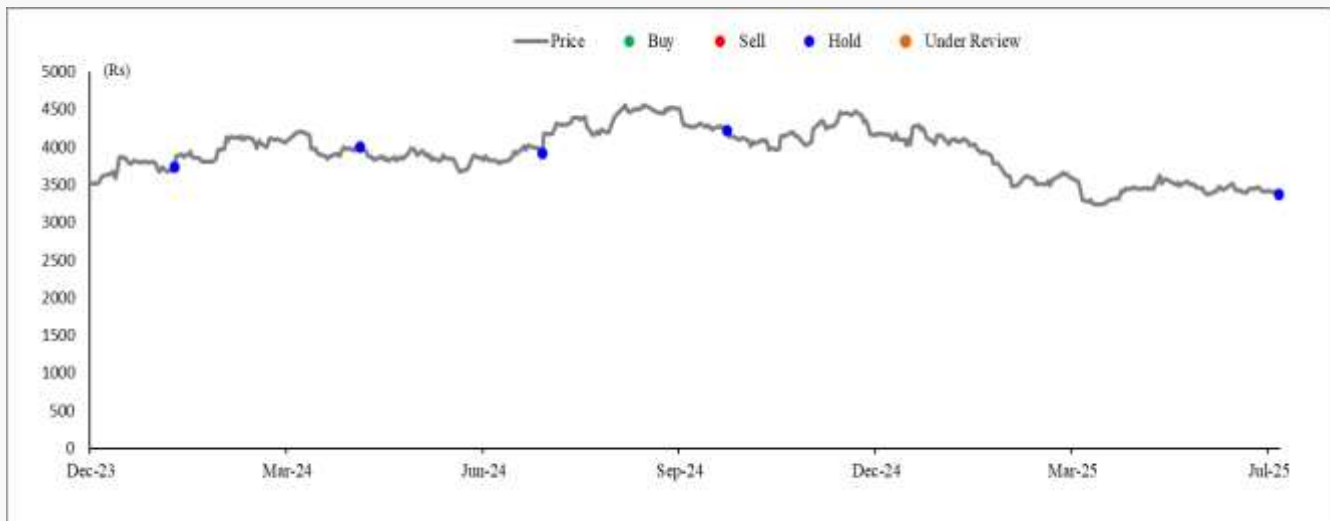
Ratio Analysis

(%)

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Book Value (Rs)	247	248	262	279	294
Adj EPS (Rs)	116	130	136	141	150
Adj EPS growth (%)	26.8	28.3	27.6	26.2	26.6
EBITDA margin (%)	26.3	26.7	26.4	27.0	27.4
Pre-tax margin (%)	25.2	25.7	25.6	26.2	26.0
Debt/Equity (x)	0.07	0.07	0.08	0.08	0.07
ROCE (%)	43	47	48	47	47
ROE (%)	47	51	52	52	52
Financial leverage ratios					
Debt / Equity (x)	0.1	0.1	0.1	0.1	0.1
Interest Coverage (x)	69.6	76.2	78.1	78.3	80.2
Interest / Debt (%)	0.1	0.1	0.1	0.1	0.1
Working Capital & Liquidity ratio					
Inventory days	0	0	0	0	0
Receivable days	80	80	84	84	84
Payable days	17	15	20	20	20
Valuation ratio					
PER (x)	29.4	26.9	25.2	24.2	22.8
Adjusted PER (x)	29.1	26.1	25.0	23.9	22.6
P/BV (x)	13.7	13.6	12.9	12.1	11.5
EV/EBITDA (x)	20.8	19.1	18.0	17.5	16.0
Market Cap. / Sales (x)	5.5	5.1	4.8	4.8	4.5

Source: Company, Axis Securities

Tata Consultancy Services Price Chart and Recommendation History



Date	Reco	TP	Research
11-Jan-24	HOLD	4,075	Result Update
15-Apr-24	HOLD	4,250	Result Update
12-Jul-24	HOLD	4,250	Result Update
11-Oct-24	HOLD	4,560	Result Update
11-Jul-25	HOLD	3,625	Result Update

Source: Axis Securities Research

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